

LPP S.A. Capital Group
Interim condensed financial statement for Q1 FY06
in thousands of PLN (PLN '000)

LPP S.A. Group
Interim condensed financial statement for Q1 FY06

Gdańsk
May 2006

1. Selected consolidated financial data

Selected consolidated financial data	Q1 FY06	Q1 FY05	Q1 FY06	Q1 FY05
	01/01/2006-	01/01/2005-	01/01/2006-	01/01/2005-
	31/03/2006	31/03/2005	31/03/2006	31/03/2005
	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	152,640	144,918	39,692	36,091
Operating profit (loss)	-14,494	5,536	-3,769	1,379
Profit (loss) before tax	-13,802	4,026	-3,589	1,003
Net profit (loss)	-13,424	2,302	-3,491	573
Net cash flow from operations	-467	7,186	-121	1,790
Net cash flow from investments	-11,248	-21,037	-2,925	-5,239
Net cash flow from financial activity	-5,765	7,651	-1,499	1,905
Total net cash flow	-17,480	-6,200	-4,545	-1,544

Selected consolidated financial data	Q1 FY06	Q1 FY05	Q1 FY06	Q1 FY05
	01/01/2006-	01/01/2005-	01/01/2006-	01/01/2005-
	31/03/2006	31/03/2005	31/03/2006	31/03/2005
	in PLN '000		in EUR '000	
Total assets	428,941	375,469	108,987	91,943
Long-term payables	15,247	4,600	3,874	1,126
Short-term payables	194,415	176,719	49,398	43,274
Equity	218,803	193,237	55,594	47,319
Share capital	3,407	3,407	866	834
Number of shares	1,703,500	1,703,500	1,703,500	1,703,500
Profit (loss) per ordinary share (EPS) (in PLN/EURO)	-7.88	1.35	-2.05	0.34
Book value per share – BVPS (in PLN/EURO)	128.44	113.44	32.64	27.78

1. Consolidated balance sheet

Balance sheet	as at the end of:		
	Q1 FY06 31/03/2006	Q1 FY05 31/03/2005	previous quarter 31/12/2005
ASSETS			
Fixed assets	199,648	155,118	195,431
1. Tangible fixed assets (PP&E)	178,741	134,048	175,138
2. Intangible assets	14,617	14,041	14,436
3. Long-term investments	844	958	876
4. Long-term receivables	256	261	187
5. Deferred income tax assets	4,940	4,415	4,356
6. Long-term prepaid expenses	250	1,395	438
Current assets	229,293	220,351	239,305
1. Inventories	170,560	173,831	171,566
2. Trade and other receivables	45,769	35,120	37,653
3. Short-term prepaid expenses	2,901	2,033	2,604
3. Short-term investments	177	75	116
5. Cash and cash equivalents	9,886	9,292	27,366
	,		
TOTAL assets	428,941	375,469	434,736

LIABILITIES

Equity	218,803	193,237	232,450
1. Share capital	3,407	3,407	3,407
2. Reserve capital	200,368	151,285	200,368
3. Other reserves	83	1	1
4. Retained profit/accumulated loss brought forward from previous years	28,094	36,183	-11,851
5. Net profit/loss of the reporting period	-13,424	2,302	40,053
6. Revaluation reserve	0	48	0
7. Foreign exchange differences (conversion of related parties)	275	11	472
Long-term payables	15,247	4,600	15,058
1. Bank credits and loans	11,000	2,036	11,000
2. Provisions	304	302	287
3. Deferred income tax provision	3,914	2,219	3,733
4. Other long-term payables	29	43	38
Short-term payables	194,415	176,719	186,216
1. Trade and other payables	70,452	94,618	56,134
2. Bank credits and loans	122,400	80,926	126,562
3. Income tax	29	199	2,451
4. Provisions	1,094	547	928
5. Special funds	440	429	141
Accruals and deferred income	476	913	1,012
TOTAL liabilities	428,941	375,469	434,736
Book value	218,803	193,237	232,450
Number of shares	1,703,500	1,703,500	1,703,500
Book value per share – BVPS (in PLN)	128	113.44	136.45

2. Consolidated profit and loss account

Profit and loss account	Q1 FY06	Q1 FY05
	01/01/2006- 31/03/2006	01/01/2005-31/03/2005
Revenues from sales	152,640	144,918
Selling costs	79,416	71,374
Profit/loss on sales before tax	73,224	73,544
Other operating revenues	998	1,366
Costs of sales	75,148	58,336
General administrative expenses	11,428	9,497
Other operating expenses	2,140	1,541
Operating profit/loss	-14,494	5,536
Financial revenues	2,421	307
Financial expenses	1,729	1,817
Profit/loss before tax	-13,802	4,026
Taxes	-378	1,724
Net profit/loss	-13,424	2,302
<hr/>		
<i>Weighted average number of ordinary shares</i>	<i>1,703,500</i>	<i>1,703,500</i>
Profit (loss) per ordinary share (EPS) (in PLN)	-7.88	1.35

Profit per share (EPS) for each period is calculated by dividing net profit for the period by weighted average number of shares in this period.

3. Statement of changes in shareholders' equity

	Share capital	Reserve capital	Other reserves	Retained profit/accumulated loss brought forward from previous years	Net profit/loss of the reporting period	Revaluation reserve	Foreign exchange differences (conversion of related parties)	TOTAL equity
As at 1 January 2005	3,407	151,236	1	36,184	0	0	-9	190,819
- corrections of errors from previous years				48				48
As at 1 January 2005 (corrected)	3,407	151,236	1	36,232	0	0	-9	190,867
Foreign exchange differences after conversion of related parties							20	20
Measurement of long-term investments						48		48
Distribution of FY04 profit		49		-49				0
Net profit for Q1 FY05					2,302			2,302
As at 31 March 2005	3,407	151,285	1	36,183	2,302	48	11	193,237
as at 1 January 2006	3,407	200,368	1	28,202	0	0	472	232,450
- corrections of errors from previous years				-26				-26
As at 1 January 2006 (corrected)	3,407	200,368	1	28,176	0	0	472	232,424
Foreign exchange differences after conversion of related parties							-197	-197
Distribution of retained earnings from previous years			82	-82				0
Net loss for Q1 FY06					-13,424			-13,424
As at 31 March 2006	3,407	200,368	83	28,094	-13,424	0	275	218,803

4. Consolidated cash flow statement

Cash flow statement	Q1 FY06	Q1 FY05
	01/01/2006- 31/03/2006	01/01/2005- 31/03/2005
I. Net profit (loss)	-13,424	2,302
II. Total adjustments	12,957	4,884
1. Amortisation and depreciation	9,526	6,214
2. Foreign exchange (gains) losses	-16	559
3. Interest and share in profits (dividends)	1,371	884
4. (Profit) loss from investments	98	229
5. Income tax paid	-4,445	-6,876
6. Income tax charged to result before tax	-378	1,724
7. Change in provisions	169	-238
8. Change in inventories	1,413	-41,764
9. Change in receivables	-8,171	-10,230
10. Change in short-term payables, excluding credits and loans	14,185	54,292
11. Change in prepaid expenses, accruals and deferred income	-630	181
12. Other adjustments	-165	-91
III. Net cash flow from operations (I+/-II)	-467	7 186
B) Cash flow from investments		
I. Inflows	194	217
1. Sale of intangible assets and tangible fixed assets	99	176
2. From financial assets, including:	4	26
a) in related parties	0	0
- sale of financial assets		
b) in other entities	4	26
- sale of financial assets		
- repayment of long-term loans granted		22
- interest	4	4
3. Other inflows from investments	91	15

II. Outflows	11,442	21,254
1. Acquisition of intangible assets and tangible fixed assets	11,396	21,085
2. On financial assets, including:	46	76
a) in related parties	0	76
- acquisition of financial assets		76
b) in other entities	46	0
- acquisition of financial assets	46	
3. Other outflows on investments		93
III. Net cash flow from investments (I-II)	-11,248	-21,037
C. Cash flow from financial activity		
I. Inflows	1,617	9,716
1. Credits and loans	1,552	9,281
2. Other financial inflows	65	435
II. Outflows	7,382	2,065
1. Repayment of credits and loans	5,870	696
2. Payments related to finance lease agreements		12
3. Interest	1,512	1,159
4. Other financial outflows		198
III. Net cash flow from financial activity (I-II)	-5,765	7,651
D. Total net cash flow (A.III+/-B.III+/-C.III)	-17,480	-6,200
E. Total cash flow balance, including:	-17,480	-6,200
- change in cash – foreign exchange differences	139	4
F. Opening cash balance	27,366	15,492
G. Closing cash balance (F+/-D), including:	9,886	9,292
- restricted cash	101	139

5. Selected financial data – individual statement

Selected financial data	Q1 FY06	Q1 FY05	Q1 FY06	Q1 FY05
	01/01/2006- 31/03/2006 in PLN '000	01/01/2005 31/03/2005	01/01/2006- 31/03/2006 in EUR '000	01/01/2005 31/03/2005
Net revenues from sales of products, goods and materials	139,988	141,650	36,402	35,278
Operating profit (loss)	-11,328	10,459	-2,946	2,605
Profit (loss) before tax	-12,410	9,935	-3,227	2,474
Net profit (loss)	-11,620	7,918	-3,022	1,972
Net cash flow from operations	2,472	5,129	643	1,277
Net cash flow from investments	-11,092	-18,563	-2,884	-4,623
Net cash flow from financial activity	-7,332	7,806	-1,907	1,944
Total net cash flow	-15,952	-5,628	-4,148	-1,402

Selected financial data	Q1 FY06	Q1 FY05	Q1 FY06	Q1 FY05
	01/01/2006- 31/03/2006	01/01/2005 31/03/2005	01/01/2006- 31/03/2006	01/01/2005 31/03/2005
Total assets	417,646	382,424	106,117	93,646
Long-term payables	15,030	4,548	3,819	1,114
Short-term payables	178,668	166,819	45,397	40,850
Equity	223,479	210,144	56,783	51,459
Share capital	3,407	3,407	866	834
Number of shares	1,703,500	1,703,500	1,703,500	1,703,500
Profit (loss) per ordinary share (EPS) (in PLN/EURO)	-6.82	4.65	-1.77	1.16
Book value per share – BVPS (in PLN/EURO)	131.19	123.36	33.33	30.21
Dividend per share – declared or paid (in PLN/EURO)				-

6. Balance sheet

Balance sheet	as at the end of:		
	Q1 FY06 31/03/2006	Q1 FY05 31/03/2005	previous year 31/12/2005
ASSETS			
Fixed assets	165,206	141,503	160,477
1. Tangible fixed assets (PP&E)	129,796	104,863	130,527
2. Intangible assets	14,272	13,739	14,106
3. Long-term investments	14,140	17,947	9,636
4. Long-term receivables	256	191	187
5. Deferred income tax assets	6,492	3,368	5,583
6. Long-term prepaid expenses	250	1,395	438
Current assets	252,440	240,921	261,242
1. Inventories	153,385	159,851	155,016
2. Trade and other receivables	91,785	71,380	83,080
3. Short-term prepaid expenses	2,621	1,780	2,319
3. Short-term investments	261	2,228	487
5. Cash and cash equivalents	4,388	5,682	20,340
TOTAL assets	417,646	382,424	421,719

LIABILITIES

Equity	223,479	210,144	235,126
1. Share capital	3,407	3,407	3,407
2. Reserve capital	200,256	151,172	200,256
3. Retained profit/accumulated loss brought forward from previous years	31,436	47,599	-434
4. Net profit/loss of the reporting period	-11,620	7,918	31,897
5. Revaluation reserve		48	
Long-term payables	15,030	4,548	14,894
1. Bank credits and loans	11,000	2,036	11,000
2. Provisions	304	247	287
3. Deferred income tax provision	3,726	2,265	3,607
Short-term payables	178,668	166,819	170,697
1. Trade and other payables	61,253	89,089	45,436
2. Bank credits and loans	116,528	76,682	122,433
3. Income tax	0	233	2,393
4. Provisions	447	386	294
5. Special funds	440	429	141
Accruals and deferred income	469	913	1,002
TOTAL liabilities	417,646	382,424	421,719
Book value	223,479	210,144	235,126
Number of shares	1,703,500,	1,703,500,	1,703,500,
Book value per share – BVPS (in PLN)	131.19	123.36	138.03

7. Profit and loss account

Profit and loss account	Q1 FY06	Q1 FY05
	01/01/2006- 31/03/2006	01/01/2005-31/03/2005
Revenues from sales	139,988	141,650
Selling costs	79,652	75,108
Profit/loss on sales before tax	60,336	66,542
Other operating revenues	876	1,342
Costs of sales	58,158	48,334
General administrative expenses	8,803	7,795
Other operating expenses	5,579	1,296
Operating profit/loss	-11,328	10,459
Financial revenues	1,164	627
Financial expenses	2,246	1,151
Profit/loss before tax	-12,410	9,935
Taxes	-790	2,017
Net profit/ loss	-11,620	7,918
Weighted average number of ordinary shares	1,703,500	1,703,500
Profit (loss) per ordinary share (EPS) (in PLN)	-6.82	4.65

Profit per share (EPS) for each period is calculated by dividing net profit for the period by weighted average number of shares in this period.

8. Statement of changes in shareholders' equity

	Share capital	Reserve capital	Retained profit/accumulated loss brought forward from previous years	Net profit/loss of the reporting period	Revaluation reserve	TOTAL equity
As at 1 January 2005	3,407	151,172	47,551		0	202,130
- corrections of errors from previous years			48			48
As at 1 January 2005 (corrected)	3,407	151,172	47,599	0	0	202,178
Measurement of long-term investments					48	48
Net profit for Q1 FY05				7,918		7,918
As at 31 March 2005	3,407	151,172	47,599	7,918	48	210,144
as at 1 January 2006	3,407	200,256	31,463			235,126
- corrections of errors from previous years			-27			-27
As at 1 January 2006 (corrected)	3,407	200,256	31,436	0	0	235,099
Net loss for Q1 FY06				-11,620		-11,620
As at 31 March 2006	3,407	200,256	31,436	-11,620	0	223,479

9. Cash flow statement

Cash flow statement	Q1 FY06	Q1 FY05
	01/01/2006- 31/03/2006	01/01/2005-31/03/2005
A. Cash flow from operations – indirect method		
I. Net profit (loss)	-11,620	7,918
II. Total adjustments	14,092	-2,789
1. Amortisation and depreciation	7,035	4,670
2. Foreign exchange (gains) losses	-13	114
3. Interest and share in profits (dividends)	1,242	787
4. (Profit) loss from investments	718	191
5. Income tax paid	-4,229	-6,740
6. Income tax charged to result before tax	-790	2,017
7. Change in provisions	170	-206
8. Change in inventories	1,626	-37,795
9. Change in receivables	-8,774	-23,796
10. Change in short-term payables, excluding credits and loans	17,755	57,759
11. Change in prepaid expenses, accruals and deferred income	-648	210
12. Other adjustments	0	0
III. Net cash flow from operations (I+/-II)	2,472	5,129
B. Cash flow from investments		
I. Inflows	92	186
1. Sale of intangible assets and tangible fixed assets	69	168
2. From financial assets, including:	5	3
a) in related parties	1	0
- interest	1	
b) in other entities	4	3
- interest	4	3
3. Other inflows from investments	18	15

II. Outflows	11,184	18,749
1. Acquisition of intangible assets and tangible fixed assets	6,465	17,465
2. On financial assets, including:	4,719	556
a) in related parties	4,719	556
- financial assets acquired and short-term loans granted		75
- long-term loans granted	4,719	481
b) in other entities	0	0
3. Other outflows on investments		728
III. Net cash flow from investments (I-II)	-11,092	-18,563
C. Cash flow from financial activity		
I. Inflows	0	9,621
1. Credits and loans		9,621
2. Other financial inflows		
II. Outflows	7,332	1,815
1. Repayment of credits and loans	5,870	693
2. Interest	1,462	1,122
3. Other financial outflows	0	
III. Net cash flow from financial activity (I-II)	-7,332	7,806
D. Total net cash flow (A.III+/-B.III+/-C.III)	-15,952	-5,628
E. Total cash flow balance, including:	-15,952	-5,628
- change in cash – foreign exchange differences	28	32
F. Opening cash balance	20,340	11,310
G. Closing cash balance (F+/-D), including:	4,388	5,682
- restricted cash	101	139

Notes to the condensed consolidated financial statement for Q1 FY06

1. Description of LPP Capital Group

LPP Capital Group (CG) is composed of:

- LPP S.A. – parent company,
- 19 Polish subsidiaries,
- - 7 foreign subsidiaries.

There is no parent company of LPP S.A.

The complete list of Capital Group companies is presented below.

No.	Company name	Registered office	Date of taking control
1.	G&M Sp. z o.o.	Gdańsk, Poland	26.09.2001
2.	M&G Sp. z o.o.	Gdańsk, Poland	26.09.2001
3.	AKME Sp. z o.o.	Gdańsk, Poland	26.09.2001
4.	TORA Sp. z o.o.	Gdańsk, Poland	26.09.2001
5.	P&G Sp. z o.o.	Gdańsk, Poland	26.09.2001
6.	SL&DP Sp. z o.o.	Gdańsk, Poland	26.09.2001
7.	DP&SL Sp. z o.o.	Gdańsk, Poland	26.09.2001
8.	IL&DL Sp. z o.o.	Gdańsk, Poland	26.09.2001
9.	PL&GM Sp. z o.o.	Gdańsk, Poland	26.09.2001
10.	GM&PL Sp. z o.o.	Gdańsk, Poland	26.09.2001
11.	AMA Sp. z o.o.	Gdańsk, Poland	28.05.2002
12.	LIMA Sp. z o.o.	Gdańsk, Poland	22.07.2002
13.	LUMA Sp. z o.o.	Gdańsk, Poland	05.11.2002
14.	KAMA Sp. z o.o.	Gdańsk, Poland	29.10.2002
15.	KUMA Sp. z o.o.	Gdańsk, Poland	05.11.2002
16.	AMUL Sp. z o.o.	Gdańsk, Poland	29.10.2002
17.	AMUK Sp. z o.o.	Gdańsk, Poland	15.05.2003
18.	AMUR Sp. z o.o.	Gdańsk, Poland	09.05.2003
19.	MM&MR Sp. z o.o.	Gdańsk, Poland	09.03.2005
20.	LPP Retail Estonia OU	Tallinn, Estonia	29.04.2002
21.	LPP Czech Republic s.r.o.	Prague, Czech Rep.	16.09.2002
22.	LPP Hungary Kft	Budapest, Hungary	18.10.2002
23.	LPP Retail Latvia Ltd	Riga, Latvia	30.09.2002
24.	UAB LPP	Vilnius, Lithuania	27.01.2003
25.	LPP Ukraina	Peremyshlany, Ukraine	23.07.2003
26.	Re Trading Zamknięta Spółka Akcyjna	Moscow, Russia	12.02.2004

LPP S.A. holds direct control in its subsidiaries, i.e. 100% share in their capital and 100% of the total number of votes.

Consolidated financial statement of the Capital Group covering the period between 1 January and 31 March 2006 covers individual results of LPP S.A. and results of foreign subsidiaries listed below:

- LPP Retail Estonia OU
- LPP Czech Republic s.r.o.
- LPP Hungary Kft
- LPP Retail Latvia Ltd
- UAB LPP
- LPP Ukraina AT
- ZAO Re Trading.

Polish subsidiaries of LPP S.A. were not consolidated as their financial data is immaterial. This is in line with the Accounting Policy employed by the Group.

Under this policy, a subsidiary or associate is not consolidated if results disclosed in the financial statement of this entity are immaterial compared to data disclosed in the financial statement of the parent company. In particular, the balance sheet total, net revenues from sales of goods and services and financial transactions of the entity, which represented less than 10% of the balance sheet total and revenues of the parent company in the reporting period, shall be considered immaterial. The total amount of balance sheet totals and revenues of non-consolidated entities must not exceed this level, but related to corresponding amounts of the consolidated financial statement, based on the assumption that the statement covers all subsidiaries and associates with no exceptions.

Share of all non-consolidated Polish subsidiaries in consolidated results is as follows:

- in the Capital Group's balance sheet total – 0.70%
- in the Capital Group's revenues from sales and financial revenues – 6.68%

The fact that financial statements of these companies are not consolidated has no negative impact on true and fair presentation of the Capital Group's assets, financial standing and financial result.

LPP S.A. is a company involved in the design and distribution of clothing in Poland and in Central and Eastern Europe. Consolidated Capital Group companies are involved in the distribution of goods under the Reserved and Cropp brands outside Poland. Clothing is basically the only product sold by the CG companies.

The basic offer is supplemented by footwear, bags and accessories.

Designs of clothing are prepared in the design office located at the registered office of LPP S.A. in Gdańsk, and then sent to the purchasing department, which contracts the production of individual products in co-operation with production plants in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai.

The Capital Group also generates small revenues from sales of services (these include only revenues generated by the parent company – mainly know-how services related to management of brand stores by Polish contractors and lease of transport vehicles).

19 Polish subsidiaries are involved in the lease of real estate where Cropp Town and Reserved outlets are located.

2. Legal basis of the condensed consolidated financial statement and information on changes in adopted accounting principles

Report of LPP Capital Group for Q1 FY06 contains the condensed consolidated financial statement and selected explanations contained in these Notes, as well as the condensed individual financial statement of the parent company, as per IAS 34: Interim Financial Statements.

In all its material aspects, the accounting policy underlying this report is in line with the policy underlying the consolidated annual financial statement of LPP Capital Group for FY05 drawn up as per the International Financial Reporting Standards (IFRS).

The condensed consolidated financial statement should be read with the consolidated financial statement for the year ended on 31 December 2005.

3. Achievements of LPP S.A. Capital Group in the reporting period

Key achievements of LPP S.A. Capital Group in Q1 FY06 included:

1. Revenues from sales in Q1 FY06 totalled PLN 152.6 million, up by 5.3% compared to revenues generated in Q1 FY05 (PLN 144.9 m).
2. Q1 operating loss totalled PLN 14.5 m. In the corresponding period of FY05, the Group generated operating profit of PLN 5.5 m. Net loss topped PLN 13.4 m in Q1 FY06, compared to net profit of PLN 2.3 m in Q1 FY05.
3. Inventories remained at the level similar to that of Q1 FY05, despite considerable development of network of chain stores, which is of particular importance considering difficulties in selling the collection which did not meet expectations of customers.
4. Sales in Q1 FY06 totalled PLN 109.5 m in Reserved stores and PLN 27.4 m in CroppTown stores (compared to PLN 105 m and PLN 22 m respectively in Q1 FY05).
5. New outlets were opened (about 4 thousand square meters), increasing the total selling area to approx. 99 thousand metres (211 stores), of which 30 thousand square metres (57 stores) abroad.

4. Factors and events, especially of extraordinary nature, with significant impact on the consolidated financial results

Key factors and events determining the Group's results included:

1. As in Q4 FY05, Reserved stores sold products from the collection which failed to meet expectations of the market. As Q1 covers at least two months with the lowest returns on sales before tax, additionally reduced by sales of the autumn and winter collection at discount prices, and fixed costs of the extensive sales network cannot be reduced, the Capital Group generated operating loss and net loss.
2. Intensive development of the sales network, especially in Russia where more than 20 new stores will be opened, requires a well-developed organisational structure to carry out this

task. Resulting costs plus costs of operation of recently opened stores have a negative impact on the Group's results long before forecast benefits can be generated.

Revenues from sales of products, goods and materials disclosed in the consolidated statement were generated by individual Capital Group companies in the following amounts (intercompany sales excluded):

in PLN '000

Company name	country	Revenues from sales in Q1 FY06	share in % (in the period from 01.01.2006 to 31.03.2006)
LPP S.A.	Poland	125,247.85	82.05%
LPP Retail Estonia OU	Estonia	3,713.43	2.43%
LPP Retail Latvia Ltd	Latvia	3,607.41	2.36%
LPP Retail Czech Republic s.r.o.	the Czech Republic	6,169.98	4.04%
LPP Hungary Kft.	Hungary	2,055.87	1.35%
UAB "LPP"	Lithuania	4,417.84	2.89%
LPP Ukraina AT	Ukraine	3,386.78	2.22%
ZAO "Re Trading"	Russia	4,041.32	2.65%
Total:		152,640.48	100.00%

5. Explanation of seasonal or cyclical nature of the Capital Group's operations in the reporting period

Seasonality in sales of clothing is a feature of the market as a whole. The first quarter of a calendar year covers two months (January and February) when the autumn and winter collection is sold at discount prices. As a result, profit margin (return on sales) before tax is lower than the average annual margin in the entire quarter.

6. Segment reporting – revenues and results per segments

The Capital Group is running only one type of business (one core segment). Two geographical segments have been identified: business within and outside the European Union. Division into geographical segments was based on the criterion of location of the Group's assets. Currently, parameters of business operations in the latter segment are immaterial (only 4.9% of revenues of LPP Capital Group were generated outside the European Union), and therefore amounts are not presented separately for each segment.

7. Issue, redemption and repayment of debt securities and equity securities

No debt or equity securities were issued, redeemed or repaid in the Capital Group.

8. Dividend paid (or declared), in total and per one share, broken down into ordinary shares and other shares

No dividend was paid or declared in the Capital Group.

9. Date of approval of the financial statement for publication

This financial statement was approved for publication by the Management Board of the parent company on 15 May 2006.

11. Events after the balance sheet date not presented in the financial statement with potential significant impact on the future financial results of LPP Capital Group

As per IAS 10, events after the balance sheet date (post-balance sheet events) include all events that occurred between the balance sheet date and the date when the financial statement is authorised for issue (i.e. approved for publication).

After the balance sheet date there were no events which could have any significant impact on the Capital Group's future financial results.

12. Effects of changes in the Capital Group's structure, including business combination (mergers), takeover or sale of Capital Group companies, long-term investments, as well as division, restructuring and discontinuation of business operations

In Q1 FY06 there were no changes in the Capital Group's structure, including business combination (mergers), takeover or sale of Capital Group companies, long-term investments, or division, restructuring and discontinuation of business operations.

13. Changes in contingent liabilities or contingent assets after end of the previous financial year

In Q1 FY06, LPP S.A. and its subsidiaries used bank guarantees to secure payment of rent for leased retail premises where brand stores are located.

As at 31 March 2006, the total value of bank guarantees granted at the request and on the responsibility of LPP S.A. amounted to PLN 52,764.6 k, of which:

- a) guarantees granted to secure lease agreements concluded by LPP S.A. – PLN 6,536.5 k
- b) guarantees granted to secure lease agreements concluded by consolidated related parties – PLN 30,072.0 k
- c) guarantees granted to secure lease agreements concluded by non-consolidated related parties – PLN 15,895.9 k
- d) guarantees granted to secure agreements concluded by third parties – PLN 260.1 k

As at 31 March 2006, the total amount of all guarantees issued by the parent company totalled PLN 4,512 k and has not changed compared to 31 December 2005.

14. Estimated future liabilities arising from retail lease agreements

Capital Companies are parties to retail lease agreements providing for the use of retail premises where Cropp and Reserved brand stores are located.

Total future minimum payments under lease agreements, estimated as at 31 March 2006, are as follows:

- payables with the maturity date within 12 months from the balance sheet date PLN 96,556.8 k
- payables with the maturity date from 12 months to 5 years from the balance sheet date
PLN 267,500.6 k
- payables with the maturity date over 5 years from the balance sheet date PLN 89,561.0 k

15. The Management Board's opinion on the feasibility of forecasts of annual consolidated results

The Management Board of LPP S.A. reconfirms the forecasts of annual consolidated results.

16. Shareholders holding at least 5% of votes at the General Meeting of Shareholders of LPP S.A. as at the date of submission of the quarterly report, directly or indirectly through subsidiaries, and changes in the structure of ownership of large blocks of LPP S.A. shares after the date of submission if the previous quarterly report

Shareholding structure of the parent company as at the date of submission of the quarterly report for Q1 FY06

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders	Share in the total vote at the General Meeting of Shareholders	Share in share capital
Marek Piechocki	281,876	981,876	31.64%	16.55%
Jerzy Lubianec	276,338	976,338	31.46%	16.22%
Grangefont Limited, headquartered in London, UK	350,000	350,000	11.28%	20.55%

Due to an accounting error, previous reports presented a wrong number of ordinary shares and votes held by Mr Jerzy Lubianiec (down by 299 votes).

17. Structure of ownership of LPP S.A. shares or rights to shares (options) held by members of the Issuer's Management Board and the Supervisory Board as at the date of submission of the quarterly report, including changes in the shareholding structure from the date of submission of the previous quarterly report, separately for each member of the Management Board and the Supervisory Board

Shareholder	Number of shares held	Number of votes at the General Meeting of Shareholders
President of the Management Board	281,876	981,876
Vice-President of the Management Board	5,684	5,684
Vice-President of the Management Board	4,055	4,055
Vice-President of the Management Board	2,744	2,744
Chairman of the Supervisory Board	276,338	976,338

In the reporting period, there were no changes in the ownership structure of LPP S.A. shares held by members of the Issuer's Board of Directors and the Supervisory Board.

18. Information on legal proceedings

In the Capital Group, only LPP S.A. is a party in legal proceedings, claiming the payment of receivables from its customers. The total amount claimed does not exceed 10% of the Company's equity.

19. Related-party transactions in excess of EURO 500.000 concluded by the Issuer

In Q1 FY06, LPP S.A. concluded two loan agreements for the total amount of EURO 3,200.0 k. For more details, see the table below:

Company	Loan amount	Agreement concluded on
ZAO RE Trading	EUR 1,200.0 k	2006-02-13
ZAO RE Trading	EUR 2,000.0 k	2006-04-07

20. Related-party transactions

20.1. Key management personnel

The Capital Group's key management personnel include members of the Management Board and Supervisory Board of LPP S.A.

The amount of short-term employee benefits received by the key management personnel in the period from 1 January to 31 March 2006 totalled PLN 273 k, of which PLN 270 k received by members of the Management Board and PLN 3 k by a member of the Supervisory Board for services other than work in the Supervisory Board.

20.2. Related-party transactions

In the reporting period, the Issuer did not enter into any related-party transactions related to assignment of rights and obligations.

Transactions between the parent company and its foreign subsidiaries were excluded from the consolidated financial statement and are not presented in the table.

Amounts presented in the table show only intercompany transactions between LPP S.A. and 19 Polish non-consolidated subsidiaries, and are presented from the point of view of the parent company.

Data in the table is in PLN '000

no.	related parties	receivables as at 31 March 2006	payables as at 31 March 2006	revenues for the period January- March 2006	expenses for the period January- March 2006
1	Polish subsidiaries	0	2,187	24	10,355
Total		0	2,187	24	10,355

Data presented as payables of LPP S.A. are receivables in related parties, and costs are equivalent to revenues of related parties.

All related-party transactions were concluded at arm's length. Revenues from Polish companies are generated from rental of offices where these companies run their businesses.

Expenses related to Polish subsidiaries are connected with lease of premises for Cropp Town and Reserved brand stores.

Payment terms adopted for subsidiaries are between 45 and 120 days.

21. Information on guarantees and sureties granted

In the reporting period, the Capital Group companies granted no sureties or guarantees for credits or loans of the total value equalling at least 10% of the Issuer's equity.

22. Additional information relevant for the assessment of the financial standing, assets, human resources, and financial result of LPP S.A. Capital Group, and any changes thereof, as well as information relevant for the assessment of Capital Group's repayment ability

The report presents basic information relevant for the assessment of the Capital Group's financial standing. According to the Management Board, there are currently no threats for the Capital Group's repayment ability.

23. Factors likely to influence results generated by LPP S.A. Capital Group in the next quarter or afterwards (according to LPP S.A.)

Basic factors likely to influence results generated in the nearest future are as follows:

- 1) modification of the Reserved product range (currently in progress), considering the above-mentioned factors related to sales of the Reserved collection and information presented in the report for the previous quarter. As the process of product design, manufacturing, and supply of products to stores takes a long time, the offer cannot be changed immediately. The summer collection was modified, but the most extensive changes were introduced in the autumn and

winter collection. Change of the collection is the single decisive factor determining financial results generated in the future reporting periods.

- 2) continuing development of the Reserved and Cropp Town brand stores network both in Poland and abroad (especially in Russia),
- 3) exchange rate of PLN against USD and EURO.

24. Notes to the condensed consolidated financial statement

24.1 Tangible fixed assets (PP&E)

The amount of tangible fixed assets presented in the consolidated financial statement drawn up as at 31 March 2006 includes an adjustment for a revaluation write-down totalling PLN 1,237 k.

The amount of payments on account of acquisition of tangible fixed assets as at 31 March 2006 was PLN 130 k.

Changes in amounts related to tangible fixed assets in the period from 1 January to 31 March 2006 were as follows:

	in PLN '000
As at 31 December 2005	175,138
Increase	15,118
Decrease	(3,175)
Foreign exchange differences	1,186
Amortisation and depreciation	(9,526)
As at 31 March 2006	178,741

24.2 Inventories

The amount of inventories presented in the consolidated financial statement drawn up as at 31 March 2006 includes a revaluation write-down totalling PLN 1,253 k.

24.3 Long-term receivables

The amount of receivables presented in the consolidated financial statement drawn up as at 31 March 2006 includes an adjustment for a revaluation write-down totalling PLN 5,298 k.

Revaluation write-down includes:

revaluation write-down of receivables and claimed receivables from customers	PLN 3,797 k
revaluation write-down of the so-called doubtful receivables:	PLN 1,289 k
revaluation write-down of receivables from employees and other	PLN 153 k
revaluation write-down of receivables related to budget settlements	PLN 59 k

Changes in receivables revaluation write-down in the reporting period were as follows:

as at 31 December 2005	PLN 5,360 k
write-downs made between 1 January and 31 March 2006	PLN 298 k
reduction of write-downs in previous years	PLN 345 k
reduction of write-downs in Q1 FY06	PLN 15 k
as at 31 March 2006	PLN 5,298 k

24.4 Provisions

The amount of provisions presented in the consolidated financial statement drawn up as at 31 March 2006 totals PLN 5,312 k and includes:

- | | |
|--|-------------|
| - provision for retirement severance payments: | PLN 304 k |
| - provision for holiday leaves not taken: | PLN 1,094 k |
| - provision for deferred income tax: | PLN 3,914 k |

24.5 Income tax

Income tax presented in the consolidated profit and loss account for the period between 1 January and 31 March 2006 amounts to PLN (378) k and includes:

- | | |
|----------------|-------------|
| - current tax | PLN 23 k |
| - deferred tax | PLN (401) k |

24.6 Foreign exchange differences

The consolidated profit and loss account drawn up as at 31 March 2006 presents an excess of taxable foreign exchange differences over deductible foreign exchange differences of PLN 2,300 k.

25. Additional information to the individual statement of LPP S.A.

Following the change in method of estimation of the carrying amount of assets invested in foreign subsidiaries, described in the last annual report, shares, loans, and receivables presented under assets of the individual balance sheet were written down in Q1 FY06; these write-downs totalled PLN 4,273k and were also recognised under financial expenses and operating expenses in the profit and loss account.

This change was recognised under relevant items of the individual statement of LPP S.A. and has no influence on amounts presented in the consolidated statement.