

Capital Group LPP S.A.
Interim condensed financial statement for Q2 FY 2006
In PLN '000

LPP S.A. Group
Interim condensed financial statement for Q2 FY06

Gdańsk
August 2006

1. Selected consolidated financial data

Selected financial data	01/01/2006-	01/01/2005-	01/01/2006-	01/01/2005-
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	324,730	304,903	83,260	74,722
Operating profit (loss)	-10,755	26,467	-2,758	6,486
Profit (loss) before tax	-8,049	21,882	-2,064	5,363
Net profit (loss)	-7,676	16,162	-1,968	3,961
Net cash flow from operations	15,548	15,021	3,986	3,681
Net cash flow from investments	-26,613	-42,540	-6,823	-10,425
Net cash flow from financial activity	-1,447	24,369	-371	5,972
Total net cash flow	-12,512	-3,150	-3,208	-772

Selected financial data	01/01/2006-	01/01/2005-	01/01/2006-	01/01/2005-
	30/06/2006	30/06/2005	30/06/2006	30/06/2005
	in PLN '000		in EUR '000	
Total assets	447,849	380,927	110,760	94,287
Long-term payables	15,374	5,164	3,802	1,278
Short-term payables	207,880	167,763	51,412	41,524
Equity	224,059	207,342	55,414	51,321
Share capital	3,407	3,407	843	843
Number of shares	1,703,500	1,703,500	1,703,500	1,703,500
Profit (loss) per ordinary share (EPS) (in PLN/EURO)	-4.51	9.49	-1.17	2.36
Book value per share – BVPS (in PLN/EURO)	131.53	121.72	33.42	29.81

2. Consolidated balance sheet

BALANCE SHEET	as at the end of:		
	Q2 FY06 30/06/2006	Q2 FY05 30/06/2005	previous quarter 31/12/2005
ASSETS			
Fixed assets	<i>206,205</i>	<i>165,100</i>	<i>195,431</i>
1. Tangible fixed assets (PP&E)	184,728	145,155	175,138
2. Intangible assets	14,684	14,319	14,436
3. Investments	881	927	876
4. Receivables	255	199	187
5. Deferred income tax assets	5,569	3,758	4,356
6. Prepaid expenses	88	742	438
Current assets	<i>241,644</i>	<i>215,827</i>	<i>239,305</i>
1. Inventories	173,663	171,508	171,566
2. Trade and other receivables	50,277	29,213	37,653
3. Prepaid expenses	2,728	2,671	2,604
3. Investments	122	93	116
5. Cash and cash equivalents	14,854	12,342	27,366
TOTAL assets	<i>447,849</i>	<i>380,927</i>	<i>434,736</i>

LIABILITIES

Equity	224,059	207,342	232,450
1. Share capital	3,407	3,407	3,407
2. Reserve capital	232,265	199,319	200,368
3. Other reserves	83	1	1
4. Retained profit/accumulated loss brought forward from previous years	-3,803	-11,851	-11,851
5. Net profit/loss of the reporting period	-7,676	16,162	40,053
6. Revaluation reserve	0	0	0
7. Foreign exchange differences (conversion of related parties)	217	304	472
Long-term payables	15,374	5,164	15,058
1. Bank credits and loans	11,000	1,711	11,000
2. Provisions	325	290	287
3. Deferred income tax provision	4,027	3,128	3,733
4. Other long-term payables	22	35	38
Short-term payables	207,880	167,763	186,216
1. Trade and other payables	77,929	65,579	56,134
2. Bank credits and loans	128,407	99,991	126,562
3. Income tax	29	956	2,451
4. Provisions	1,194	915	928
5. Special funds	321	322	141
Accruals and deferred income	536	658	1,012
TOTAL liabilities	447,849	380,927	434,736
Book value	224,059	207,342	232,450
<i>Number of shares</i>	1,703,500	1,703,500	1,703,500
Book value per share – BVPS (in PLN)	131.53	121.72	136.45

3. Consolidated profit and loss account

Profit and loss account	YTD		YTD	
	current year 01/01/2006- 30/06/2006	Q2 FY06 01/04/2006- 30/06/2006	previous year 01/01/2005- 30/06/2005	Q2 FY05 01/04/2005- 30/06/2005
Revenues from sales	324,730	172,090	304,903	159,985
Selling costs	154,903	75,487	134,829	63,455
Profit/loss on sales before tax	169,827	96,603	170,074	96,530
Other operating revenues	2,217	1,219	2,186	820
Costs of sales	155,607	80,459	123,276	64,940
General administrative expenses	22,665	11,237	19,007	9,510
Other operating expenses	4,527	2,387	3,510	1,969
Operating profit/loss	-10,755	3,739	26,467	20,931
Financial revenues	6,285	3,864	529	222
Financial expenses	3,579	1,850	5,114	3,297
Profit/loss before tax	-8,049	5,753	21,882	17,856
Taxes	-373	5	5,720	3,996
Net profit/loss	-7,676	5,748	16,162	13,860
Weighted, average, number, of, ordinary, shares	1,703,500	1,703,500	1,703,500	1,703,500
Profit (loss) per ordinary share (EPS) (in PLN)	(4.51)	3.37	9.49	8.14

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.

4. 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 of 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 after adjustments	3,407	151,236	1	36,232	0	0	-9	190,867
Foreign exchange differences after conversion of related parties							313	313
Measurement of long-term investments						0		0
Distribution of FY04 profit		48,083		-48,083				0
Net profit for 2 quarters FY05					16,162			16,162
As at 30 June 2005	3,407	199,319	1	-11,851	16,162	0	304	207,342
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 after adjustments	3,407	200,368	1	28,176	0	0	472	232,424
Foreign exchange differences after conversion of related parties							-689	-689
Distribution of retained earnings from previous years		31,897	82	-31,979				0
Net loss for 2 quarters FY06					-7,676			-7,676
As at 30 June 2006	3,407	232,265	83	-3,803	-7,676	0	-217	224,059

5. Consolidated cash flow statement

Cash flow statement	YTD	Q2	YTD	Q2
	01/01/2006- 30/06/2006	01/04/2006- 30/06/2006	01/01/2005- 30/06/2005	01/04/2005- 30/06/2005
A. Cash flow from operations – indirect method				
I. Net profit (loss)	-7,676	5,748	16,162	13,860
II. Total adjustments	23,224	10,267	-1,141	-6,025
1. Amortisation and depreciation	19,648	10,122	13,551	7,337
2. Foreign exchange (gains) losses	-130	-114	1,163	604
3. Interest and share in profits (dividends)	1,581	210	2,213	1,329
4. (Profit) loss from investments	264	166	244	15
5. Income tax paid	-7,191	-2,746	-8,761	-1,885
6. Income tax charged to result before tax	-373	5	5,721	3,997
7. Change in provisions	255	86	288	526
8. Change in inventories	-1,156	-2,569	-39,528	2,236
9. Change in receivables	-12,648	-4,477	-4,393	5,837
10. Change in short-term payables, excluding credits and loans	23,279	9,094	28,827	-25,465
11. Change in prepaid expenses, accruals and deferred income	-148	482	-100	-281
12. Other adjustments	-157	8	-366	-275
III. Net cash flow from operations (I+/-II)	15,548	16,015	15,021	7,835
B. Cash flow from investments				
I. Inflows	1,502	1,308	292	75
1. Sale of intangible assets and tangible fixed assets (PP&E)	249	150	233	57
2. From financial assets, including:	1,179	1,158	58	17
a) in related parties	1,136	1,136	0	0
- dividends and share in profits	1,136	1,136	0	0
b) in other entities	43	22	58	17
- repayment of long-term loans granted			23	1
- interest	7	3	6	2
- repayment of short-term loans granted	36	19	29	14
3. Other inflows from investments	74	0	1	1

II. Outflows	28,115	16,673	42,832	21,578
1. Acquisition of intangible assets and tangible fixed assets (PP&E)	28,068	16,672	42,650	21,565
2. On financial assets, including:	46	0	76	0
a) in related parties	0	0	76	0
- acquisition of shares, additional paid-in capital			76	0
b) in other entities	46	0	0	0
- acquisition of financial assets	46	0		0
3. Other outflows on investments	1	1	106	13
III. Net cash flow from investments (I-II)	-26,613	-15,365	-42,540	-21,503
C. Cash flow from financial activity				
I. Inflows	3,109	5,882	28,114	18,796
1. Borrowings (credits and loans)	3,050	5,882	28,076	18,795
2. Other financial inflows	59	0	38	1
II. Outflows	4,556	1,564	3,745	2,078
1. Repayment of credits and loans	1,486	0	789	93
2. Payments related to finance lease agreements			24	12
3. Interest	3,048	1,536	2,550	1,391
4. Other financial outflows	22	28	382	582
III. Net cash flow from financial activity (I-II)	-1,447	4,318	24,369	16,718
D. Total net cash flow (A.III+/-B.III+/-C.III)	-12,512	4,968	-3,150	3,050
E. Total cash flow balance, including:	-12,512	4,968	-3,150	3,050
- change in cash – foreign exchange differences	-182	-43	-342	-346
F. Opening cash balance	27,366	9,886	15,492	9,292
G. Closing cash balance (F+/-D), including:	14,854	14,854	12,342	12,342
- restricted cash	258	157	262	123

6. Selected financial data – individual statement

Selected financial data	Q2 FY06	Q2 FY05	Q2 FY06	Q2 FY05
	01/01/2006- 30/06/2006 in PLN '000	01/01/2005 30/06/2005	01/01/2006- 30/06/2006 in EUR '000	01/01/2005 30/06/2005
Net revenues from sales of products, goods and materials	300,156	285,761	76,959	70,031
Operating profit (loss)	-2,593	31,720	-665	7,774
Profit (loss) before tax	-5,710	30,201	-1,464	7,401
Net profit (loss)	-4,607	24,347	-1,181	5,967
Net cash flow from operations	15,496	6,379	3,973	1,563
Net cash flow from investments	-23,434	-33,192	-6,008	-8,134
Net cash flow from financial activity	-2,373	24,815	-608	6,081
Total net cash flow	-10,311	-1,998	-2,644	-490

Selected financial data	Q2 FY06	Q2 FY05	Q2 FY06	Q2 FY05
	01/01/2006- 30/06/2006 in PLN '000	01/01/2005 30/06/2005	01/01/2006- 30/06/2006 in EUR '000	01/01/2005 30/06/2005
Total assets	438,890	390,328	108,545	96,613
Long-term payables	15,225	5,098	3,765	1,262
Short-term payables	192,645	158,056	47,644	39,122
Equity	230,492	226,525	57,005	56,069
Share capital	3,407	3,407	843	843
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)				

7. Balance sheet

Balance sheet	as at the end of:		
	Q2 FY06 30/06/2006	Q2 FY05 30/06/2005	previous year 31/12/2005
ASSETS			
Fixed assets	<i>169,470</i>	<i>148,302</i>	<i>160,477</i>
1. Tangible fixed assets (PP&E)	127,582	112,340	130,527
2. Intangible assets	14,312	14,000	14,106
3. Investments	19,762	18,281	9,636
4. Receivables	255	192	187
5. Deferred income tax assets	7,471	2,747	5,583
6. Prepaid expenses	88	742	438
Current assets	<i>269,420</i>	<i>242,026</i>	<i>261,242</i>
1. Inventories	151,299	159,455	155,016
2. Trade and other receivables	105,356	70,219	83,080
3. Prepaid expenses	2,496	2,446	2,319
3. Investments	240	594	487
5. Cash and cash equivalents	10,029	9,312	20,340
TOTAL assets	438,890	390,328	421,719

LIABILITIES

Equity	230,492	226,525	235,126
1. Share capital	3,407	3,407	3,407
2. Reserve capital	232,153	199,205	200,256
3. Retained profit/accumulated loss brought forward from previous years	-461	-434	-434
4. Net profit/loss of the reporting period	-4,607	24,347	31,897
5. Revaluation reserve	0	0	
Long-term payables	15,225	5,098	14,894
1. Bank credits and loans	11,000	1,711	11,000
2. Provisions	325	290	287
3. Deferred income tax provision	3,900	3,097	3,607
Short-term payables	192,645	158,056	170,697
1. Trade and other payables	68,864	60,777	45,436
2. Bank credits and loans	122,987	95,812	122,433
3. Income tax	0	767	2,393
4. Provisions	473	378	294
5. Special funds	321	322	141
Prepaid expenses	528	649	1,002
TOTAL liabilities	438,890	390,328	421,719
Book value	230,492	226,525	235,126
Number of shares	1,703,500	1,703,500	1,703,500
Book value per share – BVPS (in PLN)	135.30	132.98	138.03

8. Profit and loss account

Profit and loss account	YTD	Q2 Fy06	YTD	Q2 FY05
	current year		previous year	
	01/01/2006- 30/06/2006	01/04/2006- 30/06/2006	01/01/2005- 30/06/2005	01/04/2005- 30/06/2005
Revenues from sales	300,156	160,168	285,761	144,111
Selling costs	159,882	80,230	136,917	61,809
Profit/loss on sales before tax	140,274	79,938	148,844	82,302
Other operating revenues	2,624	1,748	2,092	749
Costs of sales	119,066	60,908	101,301	52,967
General administrative expenses	17,162	8,359	15,200	7,405
Other operating expenses	9,263	3,684	2,715	1,419
Operating profit/loss	-2,593	8,735	31,720	21,260
Financial revenues	4,944	3,780	1,336	710
Financial expenses	8,061	5,815	2,855	1,704
Profit/loss before tax	-5,710	6,700	30,201	20,266
Taxes	-1,103	-313	5,854	3,837
Net profit/loss	-4,607	7,013	24,347	16,429
Weighted average number of ordinary shares	1,703,500	1,703,500	1,703,500	1,703,500
Profit (loss) per ordinary share (EPS) (in PLN)	(2.70)	4.12	14.29	9.64

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.

9. 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 after corrections	3,407	151,172	47,599	0	0	202,178
Distribution of FY04 profit		48,033	-48,033		0	0
Net profit for 2 quarters FY05				24,347		24,347
As at 30 June 2005	3,407	199,205	-434	24,347	0	226,525
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 after corrections	3,407	200,256	31,436	0	0	235,099
Distribution of FY05 profit		31,897	-31,897			0
Net loss for 2 quarters FY06				-4,607		-4,607
As at 30 June 2006	3,407	232,153	-461	-4,607	0	230,492

10. Cash flow statement

Cash flow statement	YTD	Q2 FY06	YTD	Q2 FY05
	01/01/2006- 30/062006	01/04/2006- 30/062006	01/01/2005- 30/06/2005	01/04/2005- 30/06/2005
A. Cash flow from operations – indirect method				
I. Net profit (loss)	-4,607	7,013	24,347	16,429
II. Total adjustments	20,103	6,010	-17,968	-15,179
1. Amortisation and depreciation	14,157	7,122	10,175	5,505
2. Foreign exchange (gains) losses	-202	-189	627	513
3. Interest and share in profits (dividends)	1,337	94	1,878	1,091
4. (Profit) loss from investments	3,758	3,040	172	-19
5. Income tax paid	-6,903	-2,675	-8,591	-1,851
6. Income tax charged to result before tax	-1,103	-313	5,853	3,836
7. Change in provisions	217	47	30	236
8. Change in inventories	3,712	2,086	-37,429	366
9. Change in receivables	-22,343	-13,569	-22,710	1,085
10. Change in short-term payables, excluding credits and loans	27,775	10,020	32,105	-25,653
11. Change in prepaid expenses, accruals and deferred income	-302	347	-78	-288
12. Other adjustments	0	0	0	0
III. Net cash flow from operations (I+/-II)	15,496	13,023	6,379	1,250
B. Cash flow from investments				
I. Inflows	1,690	1,600	3,111	2,925
1. Sale of intangible assets and tangible fixed assets (PP&E)	219	150	225	57
2. From financial assets, including:	1,471	1,450	2,885	2,867
a) in related parties	1,428	1,428	2,851	2,851
- repayment of short-term loans	157	157	1,599	1,599
- dividends	1,136	1,136	0	0
- interest	135	135	257	257
- repayment of long-term loans granted	0		995	995
b) in other entities	43	22	34	16
- repayment of short-term loans granted	36	18	29	14
- interest	7	4	5	2
3. Other inflows from investments	0	0	1	1
II. Outflows	25,124	13,941	36,303	17,554
1. Acquisition of intangible assets and tangible fixed assets	12,058	5,594	33,582	16,117

(PP&E)				
2. On financial assets, including:	13,066	8,347	2,707	1,423
a) in related parties	13,066	8,347	2,707	1,423
- acquisition of shares and additional paid-in capital	2,513	2,513	1,498	1,423
- long-term loans granted	10,553	5,834	481	0
- short-term loans granted			728	
b) in other entities	0	0	0	0
- long-term loans granted	0	0		
3. Other outflows on investments			14	14
III. Net cash flow from investments (I-II)	-23,434	-12,341	-33,192	-14,629
C. Cash flow from financial activity				
I. Inflows	588	6,459	28,076	18,796
1. Borrowings (credits and loans)	588	6,459	28,076	18,796
2. Other financial inflows				
II. Outflows	2,961	1,500	3,261	1,787
1. Repayment of credits and loans	0	0	786	434
2. Interest	2,961	1,500	2,475	1,353
3. Other financial outflows	0	0		
III. Net cash flow from financial activity (I-II)	-2,373	4,959	24,815	17,009
D. Total net cash flow (A.III+/-B.III+/-C.III)	-10,311	5,641	-1,998	3,630
E. Total cash flow balance, including:	-10,311	5,641	-1,998	3,630
- change in cash – foreign exchange differences	-33	-60	24	-8
F. Opening cash balance	20,340	4,388	11,310	5,682
G. Closing cash balance (F+/-D), including:	10,029	10,029	9,312	9,312
- restricted cash	259	259	263	263

Notes to the condensed consolidated financial statement drawn up for Q2 FY06

1. Description of LPP Capital Group

LPP Capital Group (CG) is composed of:

- LPP S.A. – parent company,
- 19 Polish subsidiaries, and
- - 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 Closed Joint-Stock Company	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 30 June 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 represent 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 in relation 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 – 0.49%
- in the Capital Group's revenues from sales and financial revenues – 6.41%

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 revenues generated by the parent company only – 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 Q2 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 analysed 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 Q2 FY06 included:

1. Revenues from sales in Q2 FY06 totalled PLN 172.1 million, up by 8% compared to revenues generated in Q2 FY05 (PLN 160 m). In H1, revenues from sales of LPP S.A. Capital Group amounted to PLN 324.7 m and were up by 7% vs. the previous year (PLN 304.9 m).
2. Q2 FY06 operating profit totalled PLN 3.7 m, down by 82% compared to Q2 FY05 (PLN 20.9 m). YTD, LPP S.A. CG closed its 6-month period with the operating loss of PLN – 10.8 m (in FY05 the Group recorded operating profit of PLN 26.5 m).
3. Inventories were similar to those in the previous period, despite the considerable development of the sales network (32% increase in selling area).
4. Sales in Q2 FY06 totalled PLN 119.2 m in Reserved stores and PLN 29.2 m in CroppTown stores (compared to PLN 111.6 m and PLN 25.6 m respectively in Q2 FY05).
5. In Q2, new outlets were opened (about 5.5 thousand square meters), increasing the total selling area to approx. 104.5 thousand metres (220 outlets), of which 33.8 thousand square meters (64 outlets) abroad.

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

The Group's results were determined mainly by continuing the sale of a collection which was not in line with the market's expectations. As a result, generated profits were considerably lower than in the corresponding period in the previous year. Although considerable improvement was recorded in Q2 FY06 (operating profit of PLN 3.7 m) vs. results generated in the previous quarter (operating loss of PLN 14.5 m), parameters of sales per one square meter of the selling area are still not satisfactory. Inventories of the unsuccessful collection must be sold at discount prices, which additionally reduces gross return on sales (ratio with direct impact on generated profits).

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):

data in PLN '000

Company name	Country	Revenues from sales in Q2 FY06	% of sales by country in Q2 FY06	Revenues from sales 01.01.- 30.06.2006	% of sales by country in the period 01.01 - 30.06
LPP S.A.	Poland	140,057.16	81.39%	265,305.01	81.70%
LPP Retail Estonia OU	Estonia	4,322.56	2.51%	8,035.99	2.47%
LPP Retail Latvia Ltd	Latvia	3,820.26	2.22%	7,427.67	2.29%
LPP Retail Czech Republic s.r.o.	Czech Rep.	7,904.16	4.59%	14,074.14	4.33%
LPP Hungary Kft.	Hungary	1,992.86	1.16%	4,048.73	1.25%
UAB"LPP"	Lithuania	4,951.41	2.88%	9,369.25	2.89%
LPP Ukraina AT	Ukraine	2,785.29	1.62%	6,172.07	1.90%
ZAO "Re Trading"	Russia	6,255.99	3.64%	10,297.31	3.17%
Total:		172,089.71	100.00%	324,730.19	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 the characteristic 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. In the second quarter, there are usually no major discounts in retail trading – as a result, revenues and profit margins were higher than in Q1.

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.

Under IAS 34: Interim Financial Statements, LPP CG is under no obligation to disclose its data broken down into segments in the current quarterly report.

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

None.

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

None.

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 10 August 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

Under IAS 10, events after the balance sheet date 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 Q2 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 Q2 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 30 June 2006, the total value of bank guarantees granted at the request and on the responsibility of LPP S.A. amounted to PLN 53,599.8 k, of which:

- a) guarantees granted to secure agreements concluded by LPP S.A. – PLN 6,861.9 k
- b) guarantees granted to secure agreements concluded by consolidated related parties – PLN 30,268.1 k
- c) guarantees granted to secure agreements concluded by non-consolidated related parties – PLN 16,215.1 k
- d) guarantees granted to secure agreements concluded by third parties – PLN 254.7 k

As at 30 June 2006, the total amount of all guarantees issued by the parent company totalled PLN 5,612 k and has changed by PLN 1,100 k vs. 31 March 2006.

14. Estimated future liabilities arising from retail lease agreements

Capital Group 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 arising from lease agreements, estimated as at 30 June 2006, are as follows:

- payables with the maturity date within 12 months from the balance sheet date	PLN
99,073.5 k	
- payables with the maturity date from 12 months to 5 years from the balance sheet date	PLN
266,247.0 k	
- payables with the maturity date over 5 years from the balance sheet date	PLN
81,897.1 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.

At the same time, the Management Board informs that this forecast was reconfirmed following a substantial improvement of results generated in the autumn-winter season. It is a difficult task, considering that the expected parameters of sales are lower than those generated in the past (with the exception of 2005, which was a very bad year for the Group). With high returns on sale (gross profit margins) achieved by the CG LPP S.A., the Group is able to generate high income despite the relatively low growth in revenues over the level required to cover operating expenses. In the period from September to December, the Group will sell products with a modified design, a lesson learned following the unsuccessful sales of part of the autumn-winter 2005 and spring-summer 2006 collections.

As the first reliable data on the market's reaction to the new collection will be available no sooner than by mid-November, no update of this forecast is planned by the Management Board of LPP S.A. by that time.

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 of the previous quarterly report

Shareholding structure of the parent company as at the date of submission of the quarterly report for Q2 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%

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	2,794*	2,794
Vice-President of the Management Board	2,071	2,071
Chairman of the Supervisory Board	276,338	976,338

* due to an accounting error, the amount given previously was 2,774

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

On 7 April 2006, the Company concluded a loan agreement with its subsidiary ZAO RE Trading for the total amount of EUR 2,000 k. The loan will be used to develop the network of Reserved and Cropp Town outlets in Russia.

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 30 June 2006 totalled PLN 546 k, of which PLN 540 k received by members of the Management Board and PLN 6 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 below 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 30 June 2006	payables as at 30 June 2006	revenues for the period January-June 2006	expenses for the period January-June 2006
1	Polish subsidiaries	0	1,202	48	21 229
	Total	0	1 202	48	21,229

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.)

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

1. customers' feedback regarding the new collection (autumn-winter 2006),
2. continuing investment process – in particular, further development of the Reserved and Cropp Town brand stores networks both in Poland and abroad (by the end of the year, the total selling area will be increased by approx. 18 thousand square meters),
3. exchange rate of PLN against USD and EURO.

24. Notes to the condensed consolidated financial statement

Note 24.1 – Tangible fixed assets (PP&E)

Wartość rzeczowych aktywów trwałych zaprezentowana w skonsolidowanym sprawozdaniu finansowym sporządzonym na dzień 30 czerwca 2006 roku, zawiera korektę o odpis aktualizujący, w wysokości 1 237 tys. zł.

The amount of payments on account of acquisition of tangible fixed assets as at 30 June 2006 was PLN 748 k.

Changes in amounts related to tangible fixed assets in the period from 1 January to 30 June 2006 were as follows:

	in PLN '000
As at 31 December 2005	175,138
Increase	46,975
Decrease	(21,369)
Foreign exchange differences	2,350
Amortisation and depreciation	(18,366)
As at 30 June 2006	184,728

Note 24.2 – Inventories

The amount of inventories presented in the consolidated financial statement drawn up as at 30 June 2006 includes a write-down of PLN 1.483 k.

Note 24.3 – Receivables

The amount of receivables presented in the consolidated financial statement drawn up as at 30 June 2006 includes an adjustment for a write-down of PLN 4.987 k.

This write-down includes:

revaluation write-down of receivables and claimed receivables from customers	PLN 3,759 k
revaluation write-down of the so-called doubtful receivables:	PLN 1,053 k
revaluation write-down of receivables from employees and other	PLN 175 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 June 2006	PLN 603 k
reduction of write-downs in previous years	PLN 869 k
reduction of write-downs made in the period 1 January – 30 June 2006	PLN 107 k
as at 30 June 2006	PLN 4,987 k

Note 24.4 – provisions

The amount of provisions presented in the consolidated financial statement drawn up as at 31 June 2006 totals PLN 5,546 k and includes:

- provision for retirement severance payments:	PLN 325 k
- provision for holiday leaves not taken:	PLN 1,194 k
- provision for deferred income tax:	PLN 4,027 k

Note 24.5 – Income tax

Income tax presented in the consolidated profit and loss account for the period between 1 January and 30 June 2006 amounts to PLN (373) k and includes:

- current tax	PLN 539 k
- deferred tax	PLN (912) k

Note 24.6 – Foreign exchange differences

The consolidated profit and loss account drawn up as at 31 June 2006 presents an excess of taxable foreign exchange differences over deductible foreign exchange differences of PLN 4,933 k.

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

Following the change in the method of estimation of the carrying amount of assets invested in foreign subsidiaries, introduced in 2005 and described in more detail in the last annual report, shares, additional paid-in capital, loans, and receivables presented under assets of the individual balance sheet were written down between January and June 2006; these write-downs totalled PLN 8,214 k and were also recognised under financial expenses and operating expenses in the individual profit and loss account.

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