Notes to the extended consolidated quarterly report
for Q1 FY04

1. Description of the Capital Group LPP Spółka Akcyjna (LPP S.A.)

The Capital Group LPP S.A. is comprised of 18 Polish companies and 7 foreign companies:

No.	Company name	Date of control take-over
1.	G&M Sp. z o.o. Gdańsk	26.09.2001
2.	M&G Sp. z o.o. Gdańsk	26.09.2001
3.	AKME Sp. z o.o. Gdańsk	26.09.2001
4.	TORA Sp. z o.o. Gdańsk	26.09.2001
5.	P&G Sp. z o.o. Gdańsk	26.09.2001
6.	SL&DP Sp. z o.o. Gdańsk	26.09.2001
7.	DP&SL Sp. z o.o. Gdańsk	26.09.2001
8.	IL&DL Sp. z o.o. Gdańsk	26.09.2001
9.	PL&GM Sp. z o.o. Gdańsk	26.09.2001
10.	GM&PL Sp. z o.o. Gdańsk	26.09.2001
11.	AMA Sp. z o.o. Gdańsk	28.05.2002
12.	LIMA Sp. z o.o. Gdańsk	22.07.2002
13.	LUMA Sp. z o.o. Gdańsk	05.11.2002
14.	KAMA Sp. z o.o. Gdańsk	29.10.2002
15.	KUMA Sp. z o.o. Gdańsk	05.11.2002
16.	AMUL Sp. z o.o. Gdańsk	29.10.2002
17.	AMUK Sp. z o.o. Gdańsk	15.05.2003
18.	AMUR Sp. z o.o. Gdańsk	09.05.2003
19.	LPP Retail Estonia OU	29.04.2002
20.	LPP Czech Republic s.r.o.	16.09.2002
21.	LPP Hungary Kft	18.10.2002
22.	LPP Retail Latvia Ltd	30.09.2002
23.	UAB LPP	27.01.2003
24.	LPP Ukraina	23.07.2003
25.	RE Trading Zamknięta Spółka Akcyjna (closed joint-stock company)	12.02.2004

LPP S.A. holds direct control in its subsidiaries – 100% share in capital and 100% of the total number of votes held.

The consolidated quarterly report of the Capital Group LPP S.A. was drawn up for the first time ever for Q1 FY04, therefore this report for Q2 FY04 does not include comparative data for the corresponding period in FY03.

Data presented in the report for Q2 FY04 include individual results of LPP S.A. for the said period and results of the consolidated companies listed below as at 30th June 2004.

1. LPP Retail Estonia OU;
2. LPP Czech Republic s.r.o.;

3. LPP Hungary Kft;
4. LPP Retail Latvia Ltd;
5. UAB LPP;
6. LPP Ukraina AT.
7. ZAO Re Trading

Pursuant to Art. 58 section 1 item 1 of the Accounting Act of 29th September 1994 (uniform text: Journal of Law Dz.U. from 2002, no. 76, item 694), Polish subsidiaries of LPP S.A. have not been consolidated, as their financial data is immaterial for the Company as regards its obligations specified in Art. 4 section 1 of the Accounting Act.

2. Accounting principles employed for the preparation of this consolidated report, including the financial statement; information on changes in accounting principles employed.

The consolidated financial statement of the Capital Group has been drawn up based on financial statements of its subsidiaries, employing the same methods of valuation and principles of financial statements preparation as the holding company.
The consolidated financial statement of the Capital Group which is composed of subsidiaries headquartered outside of the Republic of Poland and preparing their financial statements abroad includes relevant data presented in balance sheets of these subsidiaries and expressed in the local currency of their respective countries, converted into PLN based on the following principles:

- individual items under assets and liabilities presented in the balance sheet (with the exception of shareholders' equity) are converted based on the average exchange rate published by the National Bank of Poland for this particular currency as at the balance sheet date;
- individual items in the profit and loss account are converted based on the exchange rate calculated as an arithmetic average of the exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- individual items in the cash flow statement (with the exception of net profit) are converted based on the average exchange rate published by the National Bank of Poland for this particular currency as at the balance sheet date;
- company shareholders' equity includes the following separate items:
  - share capital
  - other shareholders' equity;
  - profit (loss) from previous years;
  - net financial result;
  - FX rate discrepancies, including especially FX rate discrepancies resulting from different methods of conversion of net financial result and balance sheet into PLN.

Pursuant to accounting principles employed by the Capital Group LPP S.A. as at the balance sheet date, assets and liabilities have been valued as follows:

- fixed assets and intangible assets - at cost less depreciation and impairment write-downs.

Depreciation write-offs are made on the straight-line basis and the depreciation period is set pursuant to the Accounting Act of 29th September 1994.

For accounting purposes, limits adopted by the Company are equal to fiscal limits for one-off depreciation of fixed assets and exclusion of tangible fixed assets from fixed assets.
Foreign companies have also adopted this principle; however, in this case adopted limits are in line with their local regulations.

Adoption of this method was approved as discrepancies between limits adopted in individual countries are immaterial.
If the value of an asset is not in excess of the limit, the following options for recording the asset have been adopted depending on the type of this asset:

- fixed asset is recorded in the fixed assets register and subject to one-off depreciation in the month when the asset was put into use

or

- the asset is recorded in the off-balance sheet register of low-cost assets and written off on purchase (allocated to cost of consumption of materials recorded in the month of purchase).

Pursuant to the adopted accounting policy, in justified cases the Management Board may decide to adopt straight-line depreciation of low-cost assets if all the following circumstances occur simultaneously:

- if a large number fixed assets is purchased at the same time and their unit price is not in excess of the limit, but their total value is material,
- if these assets are a part of a larger set of interconnected units, and their purchase is related to an investment programme to be implemented at least over the period of normative depreciation specified for this particular group of fixed assets in tax regulations,
- if these fixed assets are high availability (HA) assets.

Detailed principles of recording and depreciation of amounts increasing the initial value of fixed assets have not changed in relation to those described in notes to the individual annual financial statement of LPP S.A. for FY03.

Valuation and amortisation write-offs of intangible assets are based on the same principles as those adopted for fixed assets described above, with the exception that there is no such notion as the upgrade of intangible assets.
In Q2 FY04, LPP S.A. completed a process of implementation of the integrated software supporting the management of inventory and sales, and the central module of this software was put into operation.
The amortisation period adopted for this integrated software is 7 years.
As a result, previously adopted periods of useful life of software (created as elements of integrated systems but put into use in earlier periods) were reviewed.
It was concluded that after all modules were put into operation, the useful life of this software – now elements of the system software – was also extended to a considerable extent.
Annual amortisation rate adopted for this software is the same as the rate adopted for the entire integrated system (14.3%).
As a result, the company adjusted the amortisation of computer software made since the beginning of the fiscal year/
Following the change of the annual amortisation rate (from 50% to 14.3%), amortisation adjustment was carried out:

- for the period between 1st January 2004 and 31st March 2004 – in the amount of PLN 342,511.97
- for the period between 1st January 2004 and 30th June 2004 – in the amount of PLN 320,141

Following the acquisition of 100% stake in the company Hungary LPP KFT by LPP S.A. on 18th October 2002 and the resulting discrepancy between the acquisition price and fair value of net assets of Hungary LPP KFT, positive goodwill was determined in the process of financial data consolidation.

As a result, fair value of net assets of the Hungarian company is considered to be equal to their book value based on the balance sheet drawn up by the said company as at 31st October 2002.

Considering that:
- the Accounting Act (Art. 44b item 10) sets forth the maximum period of amortisation of the company's positive goodwill of 5 years,
- acquisition of the Hungarian company took place in 2002,
- determined positive goodwill is immaterial in relation to balance sheet amounts,

the decision was taken to write off the total goodwill (one-off amortisation) and transfer it to the profit from previous years. As a result, profit from previous years was down by PLN 98,000.

All other foreign subsidiaries were established by LPP S.A. in 2002-2003, and goodwill related to the consolidation of their data results only from the determination of share purchase price at the level of their share capital, increased by additional costs of their establishment.
Therefore, their goodwill was written off (one-off amortisation). As a result, profit from previous years presented in the financial statement was down by additional PLN 14,000.

- fixed assets in progress – valued in the total amount of costs directly related to their acquisition or manufacturing, less impairment write-downs.

- long-term investments include:

- shares in subsidiaries – valued at cost less impairment write-downs.
- long-term loans granted – valued at adjusted purchase price estimated based on effective interest rate.

Long-term investments include investments due or payable in the period over 12 months as at the balance sheet date.

- long-term prepaid expenses include:
- deferred income tax assets – re-valued as at each balance sheet date
- other prepaid expenses include costs of share capital enlargement to be settled over one year following the balance sheet date, as well as costs of outlays on intangible assets incurred before these assets are put into use.

Presentation of outlays on intangible assets incurred before these assets are put into use is different from previous method of presentation adopted by the company.
In previous financial statements, these outlays were presented as an element of "short-term prepaid expenses"; to ensure comparability of data, presentation of data for the comparative period was adjusted.

As a result of the adjustment of comparative data presentation, the following amounts were presented under "Long-term prepaid expenses: Other prepaid expenses"
instead of under "Short-term prepaid expenses and accrued liabilities":
- as at 31st March 2003 – PLN 799k
- as at 30th June 2003 – PLN 4,477k
- as at 31st March 2004 – PLN 5,143k

- inventory – valued at cost not higher that its net selling price as at the balance sheet date.

Inventory includes:
- trading commodities,
- materials for processing issued to external customers,

- consumables related to maintenance and development of computer network,
- advertising materials.

Trading commodities in local warehouses are recorded by quantity and value and valued as follows:
- imported goods – based on their purchase costs, costs of transport abroad and cost of transport in Poland up to the first unloading point in Poland, as well as based on customs duties; currency rate specified in customs documents is used for the conversion of value expressed in foreign currency,
- goods purchased in Poland - at purchase price, and purchase-related costs are charged directly into the costs of business operations.

Value of trading commodities issued is based on weighted average prices. This method has not been used by three foreign subsidiaries (these are still using the FIFO method, but are preparing to adopt the valuation method based on weighted average prices as of 1st January 2005). In addition, the FIFO method is still used by LPP S.A. for the valuation of trading commodities other than goods marketed in the network of Reserved and Cropp brand stores.

Having analysed the impact of change in the method of valuation of goods issued by LPP S.A. and situation of each of the foreign companies, i.e.:
- low turnover of foreign subsidiaries (compared to the holding company),
- mostly single deliveries of individual types of products (which means that the total stock of one type of product is delivered at uniform price),

it must be concluded that adoption of a different method of valuation of goods issued by these subsidiaries (in comparison with the holding company) has minor influence on the consolidated financial result.

Trading commodities in bonded warehouses are valued based on their purchase cost, as well as costs of transport abroad and cost of transport in Poland up to the first unloading point in Poland.
The value of goods issued from bonded warehouses (to local warehouses or sold directly abroad) is established based on detailed identification of goods on the basis of separate lots accepted at bonded warehouses.

Trading goods in transit are valued at purchase costs and costs of transport abroad and in Poland determined as the balance sheet date. For the valuation of imported goods in transit, the average exchange rate published by the National Bank of Poland as at the balance sheet date is adopted (in the case of foreign companies - average exchange rate published by respective central banks as at the balance sheet date).

Following the amendment of the Accounting Act, in 2004 the company adopts the average exchange rate published by the National Bank of Poland as at the balance sheet date for the balance sheet valuation of assets and liabilities expressed in foreign currencies, not purchase or selling rates adopted by the company bank (as previously).

Based on the analysis carried out it was concluded that if current principles had been adopted before, gross financial result for comparative periods would change as follows:
- gross financial profit for the period between 1st January 2003 and 31st March 2003 would be up by in PLN 310.4k
- gross financial profit for the period between 1st January 2003 and 30th June 2003 would be up by in PLN 641.3k
- gross financial profit for the period between 1st April 2003 and 30th June 2003 (Q2) would be up by in PLN 330.9k

- gross financial profit for the period between 1^{st} January 2003 and 31^{st} December 2003 would be up by in PLN 615.6k
- gross financial profit for the period between 1^{st} July 2003 and 31^{st} December 2003 (H2) would be up by in PLN 25.7k

The value of shareholders' equity would change accordingly – up by these amounts less deferred income tax.

Inventory whose trading and useful value is impaired is written-down. Inventory revaluation write-downs are charged into other operating expenses.

- receivables – are valued in the amount due, in accordance with principle of prudence. The balance of receivables expressed in foreign currencies is valued as at the balance sheet date based on the average exchange rate set by the central bank in the respective country.

Receivables are re-valued as at the balance sheet date taking into consideration the probability of their repayment, based on the principle of prudence.

Receivables revaluation write-down is established based on the following principles:

- claimed receivables - in total amount due,
- minor receivables overdue over 6 months and due from a large and fragmented group of small customers - 30% of the debt,
- other receivables - on the basis of an individual analysis of the situation and risk assessment. The analysis must take into account whether the debtor has regularly settled overdue payables in the period subject to analysis and before the analysis was concluded, and whether the percentage of settled payments is considerable in comparison with the value of outstanding debt.

Revaluation write-downs for receivables due from subsidiaries are not established, except in cases when there is a risk that receivables due from subsidiaries will not be settled due to their liquidation. So far such revaluations have not been required.

- short-term investments – include assets which are payable, mature or marketable over the period of 12 months after the balance sheet date, as well as cash.

Valuation of short-term investments as at the balance sheet date is based on the following principles:

- short term loans granted – at adjusted purchase price estimated based on effective interest rate,
- local cash in hand – at nominal value.
- cash in foreign currencies – at average exchange rate of the national bank as at the balance sheet date.

Cash presented under assets in the balance sheet also includes interest on loans, deposits and cash in banks calculated based on the historical cost principle as at the balance sheet date.

- short-term prepaid expenses – include costs to be settled within one year after the balance sheet date, such as:

- property insurance premiums,
- prepaid subscriptions,
- prepaid services,
- costs of share capital enlargement – at nominal value.

- shareholders' equity – at nominal value.

- payables – are valued in the amount due. Payables expressed in foreign currencies are valued based on the average exchange rate set by the respective national bank as at the balance sheet date.

provisions – at justified value estimated in a reliable way.

Principles of consolidation

The method of full consolidation was employed.
Adjustments and exceptions adopted for consolidation:

- exclusion of stake in shareholders' equity of subsidiaries held by the holding company;
- exclusion of inter-company payables and receivables;
- exclusion of revenues and expenses related to the Capital Group inter-company sale and purchase transactions;
- adjustments for unrealised profits transferred to the Capital Group inventory;
- exclusion of interest on loans granted by the holding company to its subsidiaries (excluded form financial revenues and expenses);
- adjustments of the Capital Group financial result due to deferred income tax adjustment following the establishment of a provision for interest on loans;
- adjustment of the profit from previous years following the write-off of goodwill determined individually for each subsidiary.

3. Information on adjustments made in the consolidated financial statement due to provisions, deferred income tax assets and provisions (pursuant to the Accounting Act), and revaluation write-downs of assets.

3.1. The value of receivables and claims revaluation write-downs as at 30th June 2004 is presented in the consolidated financial statement in the amount of PLN 6,448,441.13.

Receivables revaluation write-downs as at 30th June 2004 include:

revaluation write-down of receivables and claimed receivables due from customers	PLN 4,680,007.09
revaluation write-down of the so-called doubtful receivables:	PLN 1,597,375.01
revaluation write-down of receivables due from employees and other:	PLN 112,443.45.
revaluation write-down of receivables under budget settlements:	PLN 58.615. 58

Changes in receivables revaluation write-downs between 1st January and 30th June 2004 were as follows:

as at 31st December 2003	PLN 6,216,452.70
write-downs made between 1st January and 30th June 2004	PLN 1,529,434.38
decrease in write-downs in previous years	PLN 1,065,297.01
decrease in write-downs in 2004	PLN 232,148.94
as at 31st December 2003	PLN 6, 448,441.13

3.2. The Capital Group's consolidated financial statement as at 30th June 2004 presents inventory adjusted by the revaluation write-down in the amount of PLN 606,388.33, pursuant to Art. 34 section 5 of the Accounting Act.

3.3. LPP S.A. Capital Group's consolidated balance sheet as at 30th June 2004 presents provisions for payables under liabilities in the amount of PLN 1,399,235.75. These provisions include:

- provision for retirement severance payments in the amount of: PLN 363,146.30.
- provision for deferred income tax in the amount of: PLN 1,036,089.45.

Income tax presented in the consolidated profit and loss account for the period between 1st January 2004 and 30th June 2004 amounts to PLN 3,058,789.72 and includes:

- current tax – PLN 2,518,898.81

and

- deferred tax – PLN 539,890.91.

Deferred tax includes:

- increase in the provision for deferred income tax – up by PLN 542,627.03;
- increase in the deferred income tax asset – up by PLN 2,736.12.

3.4. The consolidated profit and loss account as at 30th June 2004 presents an excess of positive FX rate discrepancies over negative FX rate discrepancies of PLN 2,802,405.22.

4. Achievements of the Issuer's Capital Group in the reporting period

Key achievements of LPP S.A. Capital Group in Q2 FY04:

1. Revenues from sales of the Capital Group totalled PLN 118.8 million. (PLN 223.2m in H1, up by approx. 32% than last year). Growth in the key distribution channel (Reserved) – 49%

2. Gross return on sales (profit margin) amounted to 55%, up by 5 percentage points vs. Q1 (52.7% in H1)

3. 20 Cropp stores were opened (11 brand stores and 9 franchised stores). Construction of 6 more brand stores is underway. Good feedback from the customers.

4. The number of stores abroad – increased from 3 to 25. Revenues from sales in the foreign sales network were up by 96% vs. the corresponding period of the previous year.

5. Total number of retail stores of the Capital Group LPP S.A. is over 110, and the total selling area of the retail network is nearly50 thousand square metres.

6. Implementation of the central module of Retek software was completed. The group now uses software ensuring effective management of inventory and retail sales within a large retail trade organisation.

5. Factors with significant impact on the consolidated financial results

Key factors with significant impact on the consolidated financial results are as follows:

1) development of the network of retail stores to increase revenues and profit margin,

2) relatively high exchange rates of Euro (in comparison with the corresponding period in the previous year) influencing the amount of rent of commercial premises – a major item under costs,

3) in July – rise in PLN rate against Euro rate - reverse of an unfavourable tendency,

4) early development phase of foreign companies - losses are generated (in total, PLN 4.3 million in H1); however, two foreign companies have generated profits,

5) increase in IT-related costs – new software,

6) costs related to the launch of new clothing Cropp brand,

7) intensified import of goods to be sold in H2 FY04,

8) termination of the "workplace for the disabled" status – material reduction of other operating revenues.

Presented below are revenues from sales generated by individual Capital Group companies and published in the consolidated financial statement (Group inter-company sales excluded):

Company	country	Q2 revenues in PLN '000	share %	Q2 revenues in PLN '000	share %
LPP S.A.	- Poland	105,597.2	89.,3	200,244.8	89.7
LPP Retail Estonia OU	- Estonia	2,944.7	2.5	4,889.5	2.2
LPP Retail Latvia Ltd.	- Latvia	1,641.0	1.4	3,278.6	1.5
LPP Retail Czech Republic s.r.o	- Czech Rep.	3,581.1	3,0	6,646.5	3.0
LPP Hungary Kft.	- Hungary	1,596.7	1.3	2,684.0	1.2
„UAB" LPP	- Lithuania	1,379.0	1.2	2,446.7	1.1
LPP Ukraina AT	- Ukraine	1,564.9	1.3	2,986.7	1.3
Total		118,304.6	100.0	223,176.8	100.0

Development of the network of Reserved brand stores abroad makes it possible for the company to increase revenues and develop the customer base. At the end of Q2, the Russian subsidiary set up in February completed its preparation to launch sales in the brand store in Moscow. Presented below is the number of stores by country as at the end of June 2004:

Company	country	number of brand stores
LPP S.A.	- Poland	71
LPP Retail Estonia OU	- Estonia	6
LPP Retail Latvia Ltd.	- Latvia	3
LPP Retail Czech Republic s.r.o	- Czech Rep.	7
LPP Hungary Kft.	- Hungary	3
„UAB" LPP	- Lithuania	2
LPP Ukraina AT	- Ukraine	3
ZAO RE Trading	- Russia	1
TOTAL		96

Presented below is the structure of sales by distribution channels:

	Q2 FY04	2 quarters FY04
1. Reserved brand stores	75%	76%
2. Hypermarkets	3%	3%
3. Sales to retail stores	6%	5%
4. Wholesale	4%	4%
5. Export	3%	5%
6. Promotional clothing	5%	5%
7. CROPP stores	4%	2%

6. Post-balance sheet events not presented in the financial statement with potential major impact on the future financial results of the Issuer's Capital Group.

None.

7. The Management Board's opinion on annual consolidated results forecasts to be achieved

The Management Board re-confirms the adopted financial objectives and forecasts.

8. Share capital

Shareholders holding over 5% of the total vote at the General Meeting of Shareholders of LPP S.A. as at the day of submission of the consolidated quarterly report:

Marek Piechocki
- number of shares: 281 428 shares
- number of votes: 981 428 votes
- share in share capital: 16.52%
- share in the total vote at the General Meeting of Shareholders: 31.62%

Jerzy Lubianiec
- number of shares: 279 327 shares
- number of votes: 979 327 votes
- share in share capital: 16.40%
- share in the total vote at the General Meeting of Shareholders: 31.56%

Grangefont Limited, headquartered in London, UK
- number of shares: 350 000 shares
- number of votes: 350 000 votes
- share in share capital: 20.55%
- share in the total vote at the General Meeting of Shareholders: 11.28%

Polish Enterprise Fund IV, L.P., headquartered in Jersey City, USA
- number of shares: 215 000 shares
- number of votes: 215 000 votes
- share in share capital: 12.62%
- share in the total vote at the General Meeting of Shareholders: 6.93%

After the date of submission of the quarterly report for Q1 FY04 (date of submission: 17th May 2004) there have been no changes in the ownership structure of major blocks of Issuer's shares. On 7th and 8th July 2004, one of the members of the Issuer's Management Board who had held 5,042 shares sold 1,347 shares and now holds 3,695 shares.

9. Information on legal proceedings

Within the Capital Group, only LPP S.A. is a party in legal proceedings – claiming receivables from its customers. The total amount claimed is under 10% of the Company shareholders' equity.

10. Related party transactions

Neither the Issuer nor its subsidiaries concluded any transaction with their related parties of value over EUR 500,000 other than included in their current operations in the reporting period.

11. Information on guarantees granted

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

12. Additional information relevant for the assessment of the Company's financial standing, assets, human resources, the Capital Group's financial result, and any changes thereof, as well as information relevant for the assessment of the probability of repayment of the Capital Group's payables.

The report presents basic information relevant for the assessment of the standing of the Issuer's Capital Group. According to the Management Board there are currently no threats regarding the settlement of the Capital Group's payables.

13. Factors likely to influence results generated by the Issuer's Capital Group in the next quarter (according to the Issuer)

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

1) continued process of development of the Reserved brand stores network – both in Poland and abroad (planned launch of over 10 new brand stores).
2) intensive development of Cropp Town stores (approx. 40 new Cropp Town stores to be opened by the end of the year)
3) exchange rate of PLN against USD and EURO.

14. Breach of Rule 9 of the Corporate Governance

The following persons did not participate in the General Meeting of Shareholders held on 29th June 2004, and did not notify the GM thereof: one member of the Management Board, two members of the Supervisory Board, and the certified auditor (contract with the certified auditor was terminated before the GM – see current report no. 30/2004). The member of the Management Board did not take part in the GM due to an unexpected family problem, and the absence of members of the Supervisory Board was due to a mistake - members of the SB arrived to take part in the Supervisory Board meeting and were convinced that the GM is to be held at a later time.

15. Information on principles adopted for the preparation of the consolidated financial statement of LPP S.A., as well as information on adjustments related to provisions, deferred income tax assets and provisions (pursuant to the Accounting Act), and revaluation write-downs of assets.

15.1. The consolidated financial statement of LPP S.A. for Q2 FY04 and for the corresponding period of FY03 has been drawn up on the basis of accounting principles currently in effect. Valuation of assets and liabilities and determination of the financial result have been based on the assumption that the Company remains a going concern in the foreseeable future.

One of the basic assumptions adopted while drawing up this report was the comparability of data included therein.
In particular, comparability had to be ensured by adopting uniform methods of:
- grouping of business operations,
- valuation of assets and liabilities,
- determination of financial result,
- preparation of the financial statement, i.e. presentation of data under relevant items in the balance sheet, profit and loss account, and cash flow statement.

The methods of assets and liabilities valuation have not changed in comparison to those described in more detail in the report for FY03, apart from the change in method of valuation of the Reserved and Cropp trading goods sold, introduced at the beginning of the current fiscal year, and the method of valuation of loans granted.

Until 31st December 2003, LPP S.A. used the FIFO method in relation to all goods issued from warehoused in Poland.
Following the purchase and introduction of a new integrated system of management of the Reserved and Cropp goods inventory, a change in the method of valuation of goods issued was required - from FIFO to the weighted average price method.
As of 1st January 2004, LPP S.A. has changed the method of valuation of the Reserved and Cropp trading goods issued. The FIFO method is still used for the valuation of other goods issued and sold by LPP S.A.; however, their importance for the Company's operations is gradually decreasing, and in some cases will be of no importance whatsoever.

To determine the impact of the change in the method of valuation of trading commodities on the balance sheet and profit and loss account, a detailed conversion of the value of the Reserved goods issued in Q4 FY03 based on the weighted average price method was made, and results were compared to the results of valuation based on the FIFO method.
Results of this analysis were as follows: the difference between the valuation of costs of sales based on the FIFO method and based on the weighted average price method amounted to PLN 12,731.33 in the entire period, which is an immaterial amount in comparison with the total costs of sales, representing under 0.04%.

The impact of the change in the method of valuation of the stock of Reserved goods, estimated based on the actual calculations as at 31st December 2003 is also immaterial – the difference in the value of inventory totalled PLN 17,361.03. (which represents a change under 0.023%).
In the financial statement as at 30th June 2004, valuation of loans granted to foreign companies was also changed. Currently, these loans are valued at adjusted purchase price estimated based on effective interest rate.

As these discrepancies (old and new method of valuation of loans) are immaterial, comparative data was not changed.
Based on the analysis carried out it was concluded that if the adjustment purchase price had been adopted for valuation of loans before, the financial result for comparative periods would be down by:

- as at 31st March 2004 – PLN 9.4k,
- as at 30th June 2004 – PLN 9.8k,
- as at 31st March 2003 – PLN 6.7k,

In 2004, the method of valuation regarding exchange rate of foreign currencies used in the balance sheet valuation of assets and liabilities expressed in foreign currencies also changed.
The impact of this change was described in Section 2 in the presentation of principles employed for the preparation of the financial report.

15.2.
a. The value of revaluation write-downs of receivables and claims presented in the individual financial statement as at 30th June 2004 totalled PLN 6,448,441.13.
Receivables revaluation write-downs as at 30th June 2004 include:

revaluation write-down of claimed receivables due from customers:	PLN 4,680,007.09
revaluation write-down of the so-called doubtful receivables:	PLN 1,597,375.01
revaluation write-down of receivables due from employees and other:	PLN 112,443.45
revaluation write-down of receivables due under budget settlements:	PLN 58,615.58

Changes in receivables revaluation write-downs between 1st January and 30th June 2004 were as follows:

as at 31st December 2003	PLN 6,216 452.70
write-downs made between 1st January and 30th June 2004	PLN 1,529,434.38
decrease in write-downs in previous years	PLN 1,065,297.01
decrease in write-downs in 2004	PLN 232,148.94
as at 30th June 2004	PLN 6,448,441.13

Pursuant to Art. 35b of the Accounting Act, receivables revaluation write-downs have been included into other operating expenses or financial expenses, respectively.
Decrease in revaluation write-downs was made due to the fact that receivables were subject to prescription or considered irrecoverable, or due to the fact that the reason for the revaluation write-down no longer exists (the payment was made). In the latter case, the write-down made earlier was included into other operating revenues or financial revenues.

b. In its individual financial statement as at 30th June 2004, LPP S.A. also presented inventory revaluation write-down, pursuant to Art. 34 section 5 of the Accounting Act.
Inventory revaluation write-down as at 30th June 2004 amounted to PLN 497,759.93 and was down by 66,157.60 in comparison with the balance as at 31st March 2003.

c. The Company's individual balance sheet as at 30th June 2004 presents provisions for payables under liabilities in the amount of PLN 1,287,579.24. These provisions include:

- provision for retirement severance payments in the amount of: PLN 290,608.95
- provision for deferred income tax in the amount of: PLN 996,970.29

Income tax presented in the individual profit and loss account for the period between 1st January and 30th June 2004 amounts to PLN 3,290,817.06 and includes:
- current tax – PLN 2,489,757.40
and
- deferred tax – PLN 801,059.66

Deferred tax includes:

- increase in the provision for deferred income tax – up by PLN 548,027.87;
- decrease in the deferred income tax asset – down by PLN 253,031.79.

d. In addition, the individual financial statement as at 30th June 2004 presents valuation of assets and liabilities expressed in foreign currencies.
The result of this valuation is the excess of positive FX rate discrepancies over negative FX rate discrepancies in the amount of PLN 2,552,008.55.