

LPP S.A. Group
Interim condensed financial statement for Q4 FY 2006
In PLN '000

LPP S.A. Group
Interim condensed financial statement for Q4 FY06

Gdańsk
February 2007

1. Selected consolidated financial data

Selected financial data	01/01/2006- 31/12/2006	01/01/2005- 31/12/2005	01/01/2006- 31/12/2006	01/01/2005- 31/12/2005
	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	815,136	685,851	209,057	170,470
Operating profit (loss)	51,512	58,789	13,211	14,612
Gross profit (loss)	50,181	52,105	12,870	12,951
Net profit (loss)	40,818	40,053	10,469	9,955
Net cash flow from operations	75,941	47,562	19,477	11,822
Net cash flow from investments	-62,250	-93,879	-15,965	-23,334
Net cash flow from financial activity	-10,508	58,191	-2,695	14,464
Total net cash flow	3,183	11,874	816	2,951

Selected financial data	31/12/2006	31/12/2005	31/12/2006	31/12/2005
	in PLN '000		in EUR '000	
Total assets	535,086	434,736	139,665	112,632
Long-term payables	15,739	15,058	4,108	3,901
Short-term payables	244,807	186,216	63,898	48,245
Equity	273,103	232,450	71,284	60,223
Share capital	3,407	3,407	889	883
Number of shares	1,703,500	1,703,500	1,703,500	1,703,500
Profit (loss) per ordinary share (EPS) (in PLN/EURO)	23.96	23.51	6.23	5.86
Book value per share – BVPS (in PLN/EURO)	160.32	136.45	40.73	33.41

2. Consolidated balance sheet

Balance sheet	as at the end of:	
ASSETS	Q4 2006 31/12/2006	Q4 2005 31/12/2005
Fixed assets (long-term)	217,245	195,431
1. Tangible fixed assets (PP&E)	193,575	175,138
2. Intangible assets	13,478	14,436
3. Investments	903	876
4. Receivables	250	187
5. Deferred income tax assets	9,011	4,356
6. Prepaid expenses	28	438
Current assets (short-term)	317,841	239,305
1. Inventories	232,571	171,566
2. Trade and other receivables	49,690	37,653
3. Prepaid expenses	3,361	2,604
4. Investments	1,670	116
5. Cash and cash equivalents	30,549	27,366
TOTAL assets	535,086	434,736

LIABILITIES		
Equity	273,103	232,450
1. Share capital	3,407	3,407
2. Reserve capital	232,265	200,368
3. Other reserves	83	1
4. Retained profit/accumulated loss brought forward from previous years	-3,803	-11,851
5. Net profit/loss of the reporting period	40,818	40,053
6. Revaluation reserve	0	0
7. Foreign exchange differences (conversion of related parties)	333	472
Long-term payables	15,739	15,058
1. Bank credits and loans	11,000	11,000
2. Provisions	364	287
3. Deferred income tax provision	4,366	3,733
4. Other long-term payables	9	38
Short-term payables	244,807	186,216
1. Trade and other payables	116,869	56,134
2. Bank credits and loans	124,139	126,562
3. Income tax	2,238	2,451
4. Provisions	1,354	928
5. Special funds	207	141
Accruals and deferred income	1,437	1,012
TOTAL liabilities	535,086	434,736
Book value	273,103	232,450
<i>Number of shares</i>	1,703,500	1,703,500
Book value per share – BVPS (in PLN)	160	136.45

3. Consolidated Profit and Loss Account

Profit and loss account	YTD	Q4 2006	YTD	Q4 2005
	Current year		Previous year	
	01/01/2006- 31/12/2006	01/10/2006- 31/12/2006	01/01/2005- 31/12/2005	01/10/2005- 31/12/2005
REVENUES FROM SALES	815,136	287,116	685,851	212,566
Selling costs	366,253	113,483	311,624	97,230
Gross profit/loss on sales	448,883	173,633	374,227	115,336
Other operating revenues	4,585	1,457	6,029	2,796
Costs of sales	343,440	103,372	273,937	81,383
General administrative expenses	48,132	12,947	39,549	10,462
Other operating expenses	10,384	3,728	7,981	2,672
Operating profit (loss)	51,512	55,043	58,789	23,615
Financial revenues	6,462	168	691	44
Financial expenses	7,793	2,394	7,375	2,578
Gross profit/loss	50,181	52,817	52,105	21,081
Taxes	9,363	8,218	12,052	4,365
Net profit/ loss	40,818	44,599	40,053	16,716
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)	23.96	26.18	23.51	9.81

Profit per share (EPS) for each period is calculated by dividing net profit for the reporting period by the 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	Foreign exchange differences (conversion of related parties)	TOTAL equity
As at 1 January 2005	3,407	151,235	1	36,184	0	-8	190,819
- corrections of errors from previous years				48			48
As at 1 January 2005 (corrected)	3,407	151,235	1	36,232	0	-8	190,867
Foreign exchange differences after conversion of related parties						480	480
Cost of employee benefits – treasury shares		1,050					1,050
Distribution of FY 2004 profit		48,083		-48,083	40,053		40,053
Net profit for 4 quarters of FY05					40,053		40,053
As at 31 December 2005	3,407	200,368	1	-11,851	40,053	472	232,450
As at 1 January 2006	3,407	200,368	1	28,202	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	472	232,424
Foreign exchange differences after conversion of related parties						-139	-139
Distribution of retained earnings from previous years		31,897	82	-31,979			0
Net profit for 4 quarters of FY06					40,818		40,818
As at 31 December 2006	3,407	232,265	83	-3,803	40,818	333	273,103

5. Consolidated cash flow statement

Cash flow statement	YTD 01/01/2006- 31/12/2006	Q4 01/10/2006- 31/12/2006	YTD 01/01/2005- 31/12/2005	Q4 1/10/2005- 31/12/2005
A. Cash flow from operations – indirect method				
I. Gross profit (loss)	50,181	52,817	52,105	21,081
II. Total adjustments	25,760	-2,511	-4,543	13,995
1. Depreciation and amortisation	41,464	10,684	30,780	8,878
2. Foreign exchange (gains) losses	1,741	1,431	1,229	783
3. Interest and share in profits (dividends)	4,556	1,573	5,277	1,754
4. (Profit) loss from investments	903	450	636	22
5. Income tax paid	-13,530	-3,600	-13,727	-3,112
6. Change in provisions	515	473	144	14
7. Change in inventories	-61,784	-22,472	-40,077	26,686
8. Change in receivables	-11,578	7,798	-18,909	-8,028
9. Change in short-term payables, excluding credits and loans	65,101	1,772	29,981	-13,061
10. Change in prepaid expenses, accruals and deferred income	78	306	505	-458
11. Other adjustments	-1,706	-926	-382	517
III. Net cash flow from operations (I+/-II)	75,941	50,306	47,562	35,076
B. Cash flow from investments				
I. Inflows	1,908	92	1,239	924
1. Sale of intangible assets and tangible fixed assets	649	50	1,085	827
2. From financial assets, including:	1,259	42	152	96
a) in related parties	1,136	0	0	0
- dividends and share in profits	1,136	0	0	0
b) in other entities	123	42	152	96
- sale of financial assets			47	47
- repayment of long-term loans granted				
- repayment of short-term loans granted	105	38	91	44
- interest	18	4	14	5
3. Other inflows from investments		0	2	1

II. Outflows	64,158	19,455	95,118	39,144
1. Acquisition of intangible assets and tangible fixed assets	62,482	17,878	95,018	39,134
2. On financial assets, including:	1,676	1,577	86	10
a) in related parties	0	0	86	10
- acquisition of shares, additional paid-in capital			86	10
b) in other entities	1,676	1,577	0	0
- short-term loans granted	1,676	1,577		0
3. Other outflows on investments	0	0	14	0
III. Net cash flow from investments (I-II)	-62,250	-19,363	-93,879	-38,220
C. Cash flow from financial activity				
I. Inflows	8,767	0	67,862	22,620
1. Credits and loans	8,767	0	67,816	22,579
2. Other financial inflows	0	0	46	41
II. Outflows	19,275	18,651	9,671	4,102
1. Repayment of credits and loans	12,750	16,711	4,026	2,454
2. Payments related to finance lease agreements	58	58	40	4
3. Interest	6,467	1,882	5,255	1,644
4. Other financial outflows	0		350	0
III. Net cash flow from financial activity (I-II)	-10,508	-18,651	58,191	18,518
D. Total net cash flow (A.III+/-B.III+/-C.III)	3,183	12,292	11,874	15,374
E. Total cash flow balance, including:	3,183	12,292	11,874	15,374
- change in cash – foreign exchange differences	-1,722	-889	-1,442	-660
F. Opening cash balance	27,366	18,257	15,492	11,992
G. Closing cash balance (F+/-D), including:	30,549	30,549	27,366	27,366
- restricted cash	215	215	156	156

6. Selected financial data – individual statement

	01/01/2006- 31/12/2006	01/01/2005 31/12/2005	01/01/2006- 31/12/2006	01/01/2005 31/12/2005
	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	748,962	639,059	192,086	158,840
Operating profit (loss)	64,506	58,577	16,544	14,559
Gross profit (loss)	52,671	41,628	13,509	10,347
Net profit (loss)	42,732	31,897	10,959	7,928
Net cash flow from operations	58,201	20,138	14,927	5,005
Net cash flow from investments	-44,334	-69,792	-11,370	-17,347
Net cash flow from financial activity	-16,060	58,683	-4,119	14,586
Total net cash flow	-2,193	9,029	-562	2,244
	31/12/2006	31/12/2005	31/12/2006	31/12/2005
	in PLN '000		in EUR '000	
Total assets	512,516	421,719	133,774	109,259
Long-term payables	15,363	14,894	4,010	3,859
Short-term payables	217,912	170,697	56,878	44,224
Equity	277,831	235,126	72,518	60,917
Share capital	3,407	3,407	889	883
Number of shares	1,703,500	1,703,500	1,703,500	1,703,500
Profit (loss) per ordinary share (EPS) (in PLN/EURO)	25.08	18.72	6.43	4.65
Book value per share – BVPS (in PLN/EURO)	163.09	138.03	42.57	35.76
Dividend per share – declared or paid (in PLN/EURO)	-	-	-	-

7. Balance sheet

Balance sheet	as at the end of:	
	Q4 2006 31/12/2006	Q4 2005 31/12/2005
ASSETS		
Fixed assets (long-term)	170,483	160,477
1. Tangible fixed assets (PP&E)	122,447	130,527
2. Intangible assets	13,082	14,106
3. Investments	25,435	9,636
4. Receivables	250	187
5. Deferred income tax assets	9,241	5,583
6. Prepaid expenses	28	438
Current assets (short-term)	342,033	261,242
1. Inventories	195,387	155,016
2. Trade and other receivables	121,795	83,080
3. Prepaid expenses	3,038	2,319
4. Investments	3,666	487
5. Cash and cash equivalents	18,147	20,340
TOTAL assets	512,516	421,719

LIABILITIES		
Equity	277,831	235,126
1. Share capital	3,407	3,407
2. Reserve capital	232,153	200,256
3. Retained profit/accumulated loss brought forward from previous years	-461	-434
4. Net profit/loss of the reporting period	42,732	31,897
5. Revaluation reserve	0	0
Long-term payables	15,363	14,894
1. Bank credits and loans	11,000	11,000
2. Provisions	364	287
3. Deferred income tax provision	3,999	3,607
Short-term payables	217,912	170,697
1. Trade and other payables	102,555	45,436
2. Bank credits and loans	112,675	122,433
3. Income tax	2,062	2,393
4. Provisions	413	294
5. Special funds	207	141
Prepaid expenses	1,410	1,002
TOTAL liabilities	512,516	421,719
Book value	277,831	235,126
Number of shares	1,703,500	1,703,500
Book value per share – BVPS (in PLN)	163.09	138.03

8. Profit and loss account

Profit and loss account	YTD	Q4 2006	YTD	Q4 2005
	Current year		Previous year	
	01/01/2006- 31/12/2006	01/10/2006- 31/12/2006	01/01/2005- 31/12/2005	01/10/2005- 31/12/2005
Revenues from sales	748,962	263,570	639,059	201,272
Selling costs	385,535	124,490	318,419	104,071
Gross profit/loss on sales	363,427	139,080	320,640	97,201
Other operating revenues	10,780	6,941	5,694	2,593
Costs of sales	257,348	75,959	223,928	66,097
General administrative expenses	35,132	9,236	31,394	8,207
Other operating expenses	17,221	2,235	12,435	8,020
Operating profit (loss)	64,506	58,591	58,577	17,470
Financial revenues	5,964	1,661	2,364	-323
Financial expenses	17,799	6,313	19,313	15,090
Gross profit/loss	52,671	53,939	41,628	2,057
Taxes	9,939	10,156	9,731	2,117
Net profit/ loss	42,732	43,783	31,897	-60
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)	25.08	25.70	18.72	(0.04)

Profit per share (EPS) for each period is calculated by dividing net profit for the reporting period by the 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 (corrected)	3,407	151,172	47,599	0	0	202,178
Distribution of FY04 profit		48,033	-48,033		0	0
Cost of employee benefits – treasury shares		1,051				1,051
Net profit for 4 quarters of FY05				31,897		31,897
As at 31 December 2005	3,407	200,256	-434	31,897	0	235,126
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
Distribution of FY05 profit		31,897	-31,897			0
Net profit for 4 quarters of FY06				42,732		42,732
As at 31 December 2006	3,407	232,153	-461	42,732	0	277,831

10. Cash flow statement

	YTD	Q4 2006	YTD	Q4 2005
Cash flow statement	01/01/2006- 31/12/2006	01/10/2006- 31/12/2006	01/01/2005- 31/12/2005	01/10/2005- 31/12/2005
A. Cash flow from operations – indirect method				
I. Gross profit (loss)	52,671	53,939	41,628	2,057
II. Total adjustments	5,530	-10,265	-21,490	20,697
1. Depreciation and amortisation	28,958	7,334	22,947	6,632
2. Foreign exchange (gains) losses	2,090	1,785	306	310
3. Interest and share in profits (dividends)	3,995	1,436	4,747	1,616
4. (Profit) loss from investments	4,197	-959	13,760	13,264
5. Income tax paid	-13,180	-3,587	-12,946	-2,505
6. Change in provisions	196	117	-258	-294
7. Change in inventories	-40,384	-10,323	-32,948	33,462
8. Change in receivables	-37,968	1,505	-35,479	-4,991
9. Change in short-term payables, excluding credits and loans	57,528	-7,851	16,623	-27,655
10. Change in prepaid expenses, accruals and deferred income	98	278	708	-192
11. Other adjustments	0	0	1,050	1,050
III. Net cash flow from operations (I+/-II)	58,201	43,674	20,138	22,754
B. Cash flow from investments				
I. Inflows	2,844	273	3,945	783
1. Sale of intangible assets and tangible fixed assets	564	0	1,001	751
2. From financial assets, including:	2,280	273	2,942	32
a) in related parties	2,160	231	2,861	6
- dividends	1,136	0	0	0
- repayment of long-term loans granted	0	0	995	0
- repayment of short-term loans granted	480	2	1,599	0
- interest	544	229	267	6
b) in other entities	120	42	81	26
- repayment of short-term loans granted	105	38	68	22
- interest	15	4	13	4
3. Other inflows from investments	0	0	2	0

II. Outflows	47,178	16,256	73,737	29,950
1. Acquisition of intangible assets and tangible fixed assets	22,305	6,180	66,085	25,019
2. On financial assets, including:	24,873	10,076	7,638	4,931
a) in related parties	23,197	8,499	7,638	4,931
- acquisition of shares, additional paid-in capital	2,513	0	1,509	11
- long-term loans granted	20,684	8,499	5,401	4,920
- short-term loans granted	0	0	728	
b) in other entities	1,676	1,577	0	0
- short-term loans granted	1,676	1,577		
3. Other outflows on investments			14	0
III. Net cash flow from investments (I-II)	-44,334	-15,983	-69,792	-29,167
C. Cash flow from financial activity				
I. Inflows	0	0	67,816	22,579
1. Credits and loans	0	0	67,816	22,579
2. Other financial inflows				
II. Outflows	16,060	19,751	9,133	4,062
1. Repayment of credits and loans	9,940	18,055	4,026	2,454
2. Interest	6,120	1,696	5,107	1,608
3. Other financial outflows	0	0	0	
III. Net cash flow from financial activity (I-II)	-16,060	-19,751	58,683	18,517
D. Total net cash flow (A.III+/-B.III+/-C.III)	-2,193	7,940	9,029	12,104
E. Total cash flow balance, including:	-2,193	7,940	9,029	12,104
- change in cash – foreign exchange differences	-16	-19	14	-10
F. Opening cash balance	20,340	10,207	11,310	8,235
G. Closing cash balance (F+/-D), including:	18,147	18,147	20,339	20,339
- restricted cash	215	215	156	156

Notes to the condensed consolidated financial statement for Q4 2006

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.	Name of the company	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 (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 vote.

The consolidated financial statement of the Capital Group covering the period between 1 January and 31 December 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 established in relation to the corresponding amounts of the consolidated financial statement, based on the assumption that the statement covers all subsidiaries and associates with no exceptions (non-consolidation).

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

- in the Capital Group's balance sheet total – -0.80%
- in the Capital Group's revenues from sales and financial revenues – 5.53%

The fact that financial statements of these companies are not consolidated has no negative impact on the 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. The 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 the 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 the adopted accounting principles

Report of LPP Capital Group for Q4 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 adopted in 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 together 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 Q4 FY06 included:

1. Revenues from sales in Q4 FY06 totalled PLN 287.1 million, up by 35% compared to revenues generated in Q4 FY05 (PLN 212.6 m). After 4 quarters, revenues from sales of LPP S.A. Capital Group amounted to PLN 815.1 million and were up by 19% compared to revenues from sales generated in the corresponding period of the previous year (PLN 685.9 m).
2. Operating profit in Q4 FY06 totalled PLN 55.0 million, up by 133% vs. operating profit in Q4 FY05 (PLN 23.6 m). Year to date, LPP S.A. Capital Group closed the 12-month period with the operating profit of PLN 51.5 million (in 2005 – PLN 58.8 m).
3. Sales in Q14 FY06 totalled PLN 211.2 million in Reserved stores and PLN 49.7 million in CroppTown stores (compared to PLN 154.3 m and PLN 36.6 m respectively in Q4 FY05).
4. New outlets were opened in Q4 (approx. 7.5 thousand square meters), increasing the total retail area to approx. 117.7 thousand square metres (246 outlets), of which approx. 43.0 thousand square metres (83 outlets) outside of Poland.

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

Results generated in Q4 2006 depended heavily on the autumn/winter collection, which was considerably different from the previous two collections offered during the 12 months preceding the reporting period (Q4). These modifications were introduced to adjust the offer to expectations of the market based on earlier analyses, which proved correct (as the results show).

The broad range of products was very successful with consumers, which resulted in higher sales and profit margins. The collection sold well not only in Poland, but also abroad. The second main reason for the improved results in Q4 2006 was the extension of our network and the fact that the last quarter of the year is a period when more clothes are sold (seasonal structure of sales).

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

Name of the company	Country	Revenues from sales in Q4 FY06 2006	% share of sales by country in Q4 FY06	Revenues from sales 01.01.- 31.12.2006	% share of sales by country in the period 01.01 - 31.12.2006
LPP S.A.	Poland	221,368	77.10%	641,791	78.73%
LPP Retail Estonia OU	Estonia	6,942	2.42%	21,867	2.68%
LPP Retail Latvia Ltd	Latvia	7,271	2.53%	20,780	2.55%
LPP Retail Czech Republic s.r.o.	Czech Republic	19,075	6.64%	43,899	5.39%
LPP Hungary Kft.	Hungary	4,881	1.70%	12,342	1.51%
UAB "LPP"	Lithuania	7,023	2.45%	22,720	2.79%
LPP Ukraina AT	Ukraine	4,609	1.61%	14,171	1.74%
ZAO "Re Trading"	Russia	15,947	5.55%	37,566	4.61%
Total:		287,116	100.00%	815,136	100.00%

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

Seasonality of sales is a feature characteristic for the entire clothing market both in Poland and abroad, and the fourth quarter is considered the best period for companies representing this industry. As a result, just as in the past, companies of LPP Capital Group generated the highest revenues in Q4 covered by this report.

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 in 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 reporting", LPP Capital Group is under no obligation to disclose its financial data broken down into segments in this quarterly report.

7. Issue, redemption and repayment of debt 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 27 February 2007.

11. Events after the balance sheet date not presented in the financial statement, which may have 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 Q4 FY06, there were no changes in the Capital Group's structure, including no business combinations (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 the end of the previous financial year

In Q4 FY06, LPP S.A. and its subsidiaries used bank guarantees to secure payment of rent for the leased retail premises where brand stores are located. As at 31 December 2006, the total value of all bank guarantees granted at the request and on the responsibility of LPP S.A. amounted to: PLN 55,374.2 k, of which:

- a) guarantees granted to secure agreements concluded by LPP S.A. – PLN 6,422.3 k
- b) guarantees granted to secure agreements concluded by consolidated related parties – PLN 34,041.5 k

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 Q4 FY06 was as follows:

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	246,338	946,338	30.49%	14.46%
Grangefont Limited, headquartered in London, UK	350,000	350,000	11.28%	20.55%
Commercial Union OFE BPH CU WBK S.A. (CU OFE)	214,954	214,954	6.93%	12.62%

Since the date of submission of the previous quarterly report, the number of shares of LPP S.A. held by Commercial Union OFE BPH CU WBK S.A. (CU OFE) has changed - as at 10 November the number of LPP S.A. shares held by this shareholder totalled 156,260, which represented 156,260 votes at the AGM.

17. Structure of ownership of LPP S.A. shares or rights to shares (options) held by members of the Issuer's Management Board and 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	1,955	1,955
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	246,338	946,338

Since the date of submission of the previous quarterly report, one person holding the position of Vice-President of the Management Board sold 2,100 shares (cf. current report no. 03/2007) and currently holds 1,955 shares. 150 shares were sold by one of the Supervisory Board members (cf. current report no. 41/2006), who currently holds no shares of the Issuer.

18. Information on legal proceedings in progress

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 16 October 2006, the Company concluded a loan agreement with its subsidiary ZAO RE Trading for the amount of EUR 2,000 k. This loan is to be used for the extension and development 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 31 December 2006 totalled PLN 1,211k, of which PLN 1,199k was received by members of the Management Board and PLN 12k by a member of the Supervisory Board for services other than performance of the Supervisory Board member's duties.

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

Related parties	receivables as at 31.12.2006	payables as at 31.12.2006	revenues for the period Jan-Dec 2006	costs for the period Jan-Dec 2006
1. Polish subsidiaries	944	2,568	96	44,418
Total	944	2,568	96	44,418



Data presented as payables of LPP S.A. represent 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 the rental of offices where these companies run their businesses.

Expenses related to the Polish subsidiaries are connected with the 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 Capital Group's financial standing, assets, human resources, financial result, and any changes thereof, as well as information relevant for the assessment of the 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. Results of sales of the autumn/winter collection in brand stores and success of the spring/summer collection in 2007;
2. Development of the Reserved and Cropp Town network;
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 December 2006 includes an adjustment for a revaluation write-down totalling PLN 1,556 k.

The amount of payments on account of the acquisition of tangible fixed assets as at 31 December 2006 was PLN 3,431 k.

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

	in PLN '000
As at 31 December 2005	175,138
Increase	96,770
Decrease	(43,816)
Foreign exchange differences	3,911
Depreciation	(38,428)
As at 31 December 2006	193,575

24.2 Inventories

The amount of inventories presented in the consolidated financial statement drawn up as at 31 December 2006 includes a revaluation write-down totalling PLN 1,800 k.

24.3 Receivables

The amount of receivables presented in the consolidated financial statement drawn up as at 31 December 2006 includes an adjustment for a revaluation write-down totalling PLN 5,172 k. This revaluation write-down includes:

- revaluation write-down of receivables and claimed receivables due from customers: PLN 3,829 k
- revaluation write-down of the so-called doubtful receivables: PLN 1,126 k
- revaluation write-down of receivables from employees and other: PLN 217 k

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

- as at 31 December 2005 PLN 5,573 k
- write-downs made between 1 January and 31 December 2006 PLN 1,948 k
- reduction of write-downs made in previous years PLN 1,665 k
- reduction of write-downs made in the period 01.01-31.12.2006 PLN 684 k
- as at 31 December 2006 PLN 5,172 k

24.4 Provisions

The amount of provisions presented in the consolidated financial statement drawn up as at 31 December 2006 totals PLN 6,084 k and includes:

- provision for retirement severance payments: PLN 364 k
- provision for holiday leaves not taken: PLN 1,354 k
- provision for deferred income tax: PLN 4,366 k

24.5 Income tax

Income tax presented in the consolidated profit and loss account for the period between 1 January and 31 December 2006 amounts to PLN 9,363 k and includes:

- current tax PLN 13,431 k
- deferred tax PLN (4,068) k

24.6 Foreign exchange differences

The consolidated profit and loss account drawn up as at 31 December 2006 presents an excess of taxable foreign exchange differences over deductible foreign exchange differences of PLN 4,875 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 the last annual report, the following elements of assets of the individual balance sheet: shares, additional paid-in capital, loans, and receivables, were written down in the period from January to December 2006; these write-downs totalled PLN 6,464 k, reduced individual items of assets, and were also recognised under financial and operating expenses and revenues in the individual 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.