Chapter 1 – Summary and risks

1. Key information about the Issuer and the Issuer's capital group

1.1. Description of the Issuer and the Issuer's capital group, and the character of their operations

The Company's key operations involve wholesale of clothing classified in the Polish Classification of Economic Activities (PKD) under no. 51.42 Z as the „wholesale of clothing and footwear".

The shares of LPP S.A. are listed on the Warsaw Stock Exchange where they are classified in the trade sector.

LPP S.A. designs and distributes clothing in Poland and in countries of Central and Eastern Europe.

The specs of the Company's business operations lays in the combination of design, distribution and marketing activities. The Issuer directs his offer at various consumer groups. The main objective of LPP S.A. is to maximise customer satisfaction and financial results. The means towards this end include a varied product range, flexibility towards customer needs and fulfilling customer expectations where the quality of products is concerned. At the same time the Company is an effectively manages its costs, in that it optimises the working capital turnover and uses appropriate logistic solutions.

LPP S.A. conducts individual market research and designs collections and packaging. Production is outsourced and the production process itself is supervised by the Issuer with respect to quality at each production stage. The Company carefully chooses its subcontractors from the companies, that can offer developed technology processes, use state-of-the-art plant and equipment and are price competitive. Most subcontractors of LPP S.A. are registered in China, where the Company has a trade office as well. Part of the production is located in Poland, India and Turkey.

What makes the Company stand out, is the fact that LPP's products launched onto the market have their own brands, created and owned by the Issuer.

LPP S.A. promotes and sells each of its labels in a different way. The cornerstones of the Company's marketing management of each label are:

– Product – market research, product development, decisions on the product range, product lines, packaging, labels, working catalogues;

– Promotion – choice of brands, registration, developing ways of product and brand promotion, decisions of sales support, implementing modern logistical solutions;

– Distribution – creating new channels of distribution and using old ones, modification of the existing distribution system with a view to the changing environment and Company's needs;

– Price – decisions on pricing policy with respect to individual brands and customer groups.

As at the day of the Prospectus, the Issuer's capital group includes the following companies:

Company name	Registered office	Stake owned	Percentage of the total vote
Tora Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
Akme Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
G&M Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
M&G Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
P&G Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
GM&PL Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
IL&DL Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
SL&DP Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
DP&SL Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
PL&GM Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
AMA Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
LIMA Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
KAMA Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
KUMA Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
LUMA Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
AMUL Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
AMUR Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
AMUK Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
LPP Retail Estonia Oü	10143 Tallin, Estonia pst 1/3, Estonia	100%	100%
LPP Czech Republic s.r.o.	Praha 1, Na Prikope 22/859, the Czech Republic	100%	100%

Company name	Registered office	Stake owned	Percentage of the total vote
LPP Hungary KFT	1046 Budapest, Kiss Erno 1-3, Hungary	100%	100%
LPP Retail Latvia Ltd	Krasta Street 46, Riga, LV-1003, Latvia	100%	100%
Obgain Management Limited	1 Naousis Street, Larnaca 6018, Cyprus	50%	50%
UAB LPP	Wilno, ul. Užupio 26/6, Litwa	100%	100%

Additionally, as at the day of the preparation of the Prospectus, the Issuer has promoted two companies in organisation, as per article 161 of the Polish Code of Commercial Partnerships and Companies:

Company name	Registered office	Stake owned	Percentage of the total vote
AMUR Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%
AMUK Sp. z o.o.	Gdańsk, ul. Łąkowa 39/44	100%	100%

Companies from the Issuer's capital group provide supporting services to LPP S.A. organising retail sales of the products in Poland and abroad. The overseas subsidiaries set up LPP's brand stores on local markets and act as intermediary in sales of Reserved branded clothes on these markets. Polish subsidiaries mediate in the lease of premises for Reserved brand stores on the domestic market.

1.2. Key products, goods or services and markets

The key trading goods offered by the Company are sports and teenage clothing. They are coats and jackets, sweaters, jumpers, trousers, dresses, blouses, shirts, underwear and additional garments – caps, scarves, gloves, etc.

All clothing goods are sold by the Issuer under the following brands:

– Reserved,
– Ross,
– Promo Stars,
– Henderson,
– Le Fort,
– Runner,
– Geffer,
– Cropp,
– T-Line.

The product range is subject to continuous changes, as the company offers new items, which supplement existing product lines or designs new collections, launched on the market under new labels.

The company distributes its goods through various distribution channels:

– Reserved stores,
– promotional clothing,
– wholesalers,
– branches,
– large supermarkets,
– exports,
– direct sales to shops (canvassing).

Since 2002 the network of Reserved brand stores has been the basic channel of distribution. Its share in the Company's sales revenue for 2002 was over 49%.

The Company receives limited revenue from the sale of services consisting in:

– leasing premises in own buildings,
– leasing of means of transport,
– merchandising services in large supermarkets (monitoring inventory levels, display of goods).

Revenue from the sale of goods constitutes ca. 10% of the Company's revenue.

LPP S.A. sells its product in Poland and the countries of Central and Eastern Europe. Exports make up for about 10% of the Company's sales. Export destinations are:

– The Czech Republic,
– Russia,
– Slovakia,
– Hungary,
– Ukraine,
– Lithuania,
– Estonia,
– Latvia,
– Slovenia,
– Yugoslavia,
– Croatia,
– Belorus.

Part of export sales is conducted through overseas subsidiaries.

1.3. Plans and forecasts with regard to factors influencing future results

The following factors will have an impact on the Issuer's business development:

1. Internal factors:

– the Company's market strategy

LPP S.A. is a design and distribution company and as such it does not have its own production capacity. The Company will focus on its design activities, increasing its trading potential and the development of the existing channels of distribution (in particular on the extension of the Reserved brand stores network).

– LPP S.A. market position

LPP S.A. runs various marketing activities related to its trade marks. For the past two years, marketing activities have been primarily focused on the Reserved label and resulted in the increase of brand recognition by the target consumer group. High growth rate of sales revenues in the Reserved brand stores is a result of both the opening of new stores and the sales dynamics in the existing locations.

– extending and renewing offers presented to customers

The Company trades in a specific type of goods – the sales of clothing depend heavily on the preferences of customers and on fashion. Therefore, LPP S.A. keeps in touch with the changing preferences of customers and launches new product groups to the market. In the case of the Reserved label, LPP S.A. tries to create its own style, comparable still to global trends.

– motivating remuneration scheme

Since 2000, the Company has been introducing motivating remuneration scheme for LPP S.A. managing staff. Over 30 employees have participated in this scheme. Employees designated by the Supervisory Board are entitled to purchase LPP S.A ordinary series F bearer shares on preferential terms in relation to the current market price of the Company shares.

– purchase and introduction of a computer system

In line with the strategy of IT development, the Company purchased computer equipment and signed contracts for the purchase and introduction of a modern, multi-module IT system for the RETEK sales network management. This system will enable the company to introduce modern logistic solutions in its leading channel of distribution, i.e. in the Reserved brand stores.

2. External factors:

– change and growth of the clothing retail market in Poland and in Central and Eastern Europe

The analysis of the clothing retail market in Poland and in Central and Eastern Europe reveals the increase in demand for clothing and growing customer preference for high-quality products. Therefore, LPP S.A. puts into practice its strategy of brand stores network development and runs extensive marketing activities related to the Reserved label.

– relatively low costs of entrance into the clothing market

Low entrance barriers of the clothing market may result in the increase of competition. The development of the Company's own stores network and the introduction of RETEK IT system are the means to protect LPP S.A. against competitors with lower financial assets.

– Poland's accession to the European Union

When Poland becomes the member state of the European Union, LPP S.A. may be forced to compete with large foreign companies. Strong brand and extensive retail network of the Company's own stores enables LPP S.A. to compete on equal terms on the local markets. Advantageous location of brand stores gives LPP S.A. some edge over its competitors.

Poland's accession to the EU may entail administrative restrictions, for instance the necessity to acquire import quotas for clothing produced in China. These barriers will be eliminated on 1st January 2005, on the basis of agreements concluded between the EU and World Trade Organisation. The current customs policy in the area of clothing import from China is more advantageous in the EU member states (12% customs duty) than in Poland (18%).

– FX rates

The Company is sensitive to the fluctuations in foreign currency exchange rates, because LPP S.A. settles its accounts with its foreign suppliers and buyers mainly in USD, payment of rent in brand stores depend on the Euro exchange rate, and the Company has also concluded credit agreements in foreign currencies. Owing to the specificity of its business, the Company is able to minimise FX risks by taking into account the effects of FX rate fluctuations in price calculations for trading goods sold to end customers. The Company is considering the use of FX risk control instruments.

– the level of spending on consumer goods in Poland

The analyses of demand in the clothing market indicate the growth trends in retail clothing stores sector. The Company will therefore consistently implement the strategy of the development of its own network. The Management Board estimates that even if the customers' spending on clothing do not increase, LPP S.A. business will not be put at risk, taking into consideration the substantial split of market share among many companies active on the clothing market.

– changes in fashion trends

As the share of the Reserved label in the LPP S.A. sales structure increases, the impact of the fashion trends changes factor on the Issuer's results gains more importance. For the past several years, LPP S.A. has been building a strong design team, whose task is to create clothing collections on the basis of team-work, so as to prevent the influence of individual persons on the final result.

1.4. Strategy and development of the Issuer and its capital group

The Issuer's strategy of development and investment plans assumes dynamic development of the Company's own retail sales network and the introduction of a modern IT system to support the Company's management.

The Issuer intends to develop retail sales by opening 20-30 new Reserved brand stores in Poland in 2003 and another 30-40 stores in 2004, as well as around 10 new stores abroad each year. The Company plans to earmark funds for tangible assets and equipment for new stores, as well as for retail sales development (through the purchase of required goods to supply the stores). As at the date of the preparation hereof, the Company started to prepare the rented facilities with the view to open new stores in 2003.

In line with the strategy of IT development, the Company plans to purchase computer equipment valued at approx. PLN 4 million. In addition, as at the date of the preparation hereof, LPP S.A. signed the contract for the purchase and introduction of a modern, multi-module IT system for the sales network management, and sub-licence agreement and contract for professional consulting services with the company ACCENTURE Sp. z o.o. based in Warsaw.

In terms of capital investments, the Company plans only to invest into companies set up by LPP S.A.; these will act as intermediaries in the process of lease of facilities for certain Reserved brand stores in Poland, or will open new Reserved brand stores in Central and Eastern Europe. This model turned out to be effective during the last two years of Company's business strategy.

1.5. Persons responsible for managing the Issuer and shareholders having at least 5% of votes at the General Meeting

Management Board:

– Marek Piechocki – President of the Management Board,

– Alicja Milińska – Vice-President of the Management Board,

– Dariusz Pachla – Vice-President of the Management Board,

– Stanisław Dreliszak – Vice-President of the Management Board.

Authorised proxy:

– Jerzy Lubianiec

On 2nd April 2003 the right of authorised proxy awarded to Jerzy Lubianiec was withdrawn.

Supervisory Board:

– Jerzy Lubianiec – President of the Supervisory Board

– Maciej Krzyżanowski,

– Grzegorz Słupski,

– Wojciech Olejniczak,

– Sławomir Łoboda,

– Bogdan Małachwiej.

Shareholders having at least 5% of votes at the General Meeting of LPP S.A.:

– Marek Piechocki – 33.63% of the total vote at the General Meeting,

– Jerzy Lubianiec – 33.58% of the total vote at the General Meeting,

– Grangefont Ltd, London, UK – 18.88% of the total vote at the General Meeting.

According to § 34 of the Company's statute, persons holding individually or as a dominant entity, jointly with its subsidiaries, shares carrying more than 15% voting rights of total votes at the General Meeting of Shareholders, exercise their voting right in the amount of maximum 15% of total votes. The foregoing limitation does not pertain to the registered shares held by Jerzy Lubianiec and Marek Piechocki.

2. High risk factors for investors in Shares series H

2.1. Factors related to the Issuer's and the Issuer's capital group business

Competition risk

Low barriers for entering the clothing market may result in an increase of competition. The Polish market is not monopolised, and no manufacturer or distributor enjoys a dominant position.

The Issuer conducts competition analysis for all product groups. LPP S.A. fights against competition through high quality of clothing and a varied product range. Depending on the target segment, LPP S.A. reaches its clients through various distribution channels and diversifies its pricing policy with regard to particular brands.

Development of branded stores is a way of protecting LPP S.A. from competitive businesses of lower financial resources.

Exchange rate risk

The Issuer imports most of its goods from China and pays in USD. As a result, its financial results are exposed to the increases of exchange rates.

This risk is partly offset by receiving payments from overseas buyers in USD and by increasing the share of Polish producers in the supplies and the share of producers from other countries where accounts are settled in EURO.

Furthermore, the Company's business specifics allow it for minimising the exchange rate risk by assuming some effects of FX fluctuations in the final product price.

The Issuer is monitoring offers of financial institutions and will be considering the possibility of headging the exchange rate risk.

Sales' seasonality risk

Sales revenues of LPP S.A. and the value of its inventories are characterised by seasonal fluctuations. This phenomenon affects the Issuer's quarterly results.

In order to eliminate this risk, LPP S.A. expands its product range by introducing collections for each season of the year.

LPP's assets structure risk

LPP's assets are characterised by a high share of working capital, inventories in particular. This is a result of a relatively long time of order execution by Chinese suppliers and by the Issuer's strategy to keep inventory levels high enough to outpace competitors of LPP S.A.

Inventories maintained by the Company are liquid enough to provide security for the Company's day-to-day business. Inventory levels kept by the Company in a given month are directly related to the next month's forecasted sales. Inventory planning and control have been delegated to a team of specialist created especially for this purpose. Company's inventory valuation methods, different depemding on the product group, and provisioning for inventories that have diminished in value due to a loss of trade or useful value, ensures the balance-sheet reflects a fair value of inventories.

Current inventory levels, resulting from the fact that products in transit are included under this item as well, will be gradually reduced by increasing the number of Polish and European producers within LPP's suppliers.

Furthermore, due to the change in the structure of sales with regard to distribution channels, i.e. increasing the share of Reserved brand stores in the sales, and as a result of implementing the RETEK IT system, the Issuer forecasts that the inventory turnover will become quicker.

Risk connected with changes in fashion trends

The Issuer operates on the clothing market, which is governed by changeable fashion fads and individual tastes of customers. The risk increases with the growth of the share of the Reserved brand in the Issuer's revenue, because in comparison with other LPP's brands it is more susceptible to changes in fashion.

LPP S.A. minimises this risk by expanding its product range and customising particular collection to various target customer groups. LPP's collections are developed by teams of designers, and their work is organised in such a way as to minimise the influence of one designer onto entire collections.

Risk connected with the dependence on clients

The share in the sales revenues of Metro Kooperacja Polska Spółka komandytowa (limited partnership) has exceeded 10%. In 2002 this client's share in the total sales of LPP S.A. equalled to 10,6%. Transactions with this client were executed on the basis of a framework contract concluded between Metro Kooperacja Polska Spółka komandytowa and LPP S.A. which sets the key terms of co-operation. As per the provisions of the contract, the buyers for the Issuer's goods are:

– Makro Cash and Carry Poland Sp. z o.o., Warsaw,

– Real Sp. z o.o., Warsaw.

Since the network of Reserved brand stores is developing so dynamically and the share of this channel in the Issuer's sales is increasing, the Management Board envisages the share of orders by Metro Kooperacja Polska Spółka komandytowa in LPP's sales for 2003 will not exceed 10%, and the dependence will cease to exist.

Possibility of losing the „workplace for the disabled" status by the Company

The Company as per the decision of the Secretary of State for the Ministry of Employment and Social Policy, deputy for the disabled no. D/0891/98, issued on 28th October 1998 has received a „workplace for the disabled" status as defined in article 28 paragraph 1 of the Act on Professional and Social Rehabilitation of the Disabled and their Employment of 27th August 1997 (published in the Polish journal of law *Dziennik Ustaw* issue 123 item 776 with subsequent amendments). By decision no. D/0020/2001 of the Voivod of the Pomorskie Province issued on 9th October 2001 the Company has regained the „workplace for the disabled" status for the period from 25th October 2001 to 24th October 2004.

In case the conditions set in the Act on Professional and Social Rehabilitation of the Disabled and their Employment of 27th August 1997 (published in the Polish journal of law *Dziennik Ustaw* issue 123 item 776 with subsequent amendments) are not observed, the Company might lose its status of a „workplace for the disabled". In this situation, the Company would not be permitted to benefit from a number of incentives with respect to its financial structure management and taxation settlement.

This might lead to deterioration in financial results caused by the necessity to adjust the Company to altered conditions. The loss of the „workplace for the disabled" status is inextricably connected with the necessity to pay the unused means saved in the company fund for the disabled, which as at 31st December 2002 equalled 1,598,662.48 PLN into the account of the National Rehabilitation of the Disabled Fund (PFRON). According to article 33 paragraph 7b of the Act on Professional and Social Rehabilitation of the Disabled and their Employment, should a Company lose its status but at least 25% of its employees are disabled, the employer is allowed to retain the company fund for the disabled and the means saved in it.

When the amendments to the Act on Professional and Social Rehabilitation of the Disabled and their Employment come into effect, introduced by the Act on amending the act on professional and social rehabilitation of the disabled and their employment of 20th December 2002, the Voivod's decision on losing the „workplace for the disabled" status will have a declaratory character. Thus, the decision will determine the date of a company losing its „workplace for the disabled" status as of the day a company has ceased to fulfil any condition or obligation which is required to maintain the status. Therefore, issuance of such a decision will mean the Company having to repay all exemptions, benefits, rebates, subsidies and other privileges received as a result of the Company having the „workplace for the disabled" status. In 2002 the Company has received by way of exemptions, benefits, rebates, subsidies and other privileges in connection with its status a total amount of 4,131,713.33 PLN.

Additionally, article 5 of the Act on amending the act on professional and social rehabilitation of the disabled and their employment of 20th December 2002, article 14a of the Act on Value Added Tax and Excise (published in the Polish journal of law *Dziennik Ustaw* issue 11 item 50 with subsequent amendments) has been crossed out. However, in accordance with article 16 of the Act on Professional and Social Rehabilitation of the Disabled and their Employment, a company having the „workplace for the disabled" status or a professional rehabilitation company are repaid the VAT on the basis of separate legislation for monthly periods in 2003, but no longer than December 2003. Taking the foregoing into account, the Company shall no longer have its VAT paid back in 2004 to it from the Inland Revenue. In 2002 the Company has received from the Inland Revenue by way of VAT repayments an amount of 3,513,754.00 PLN.

Currently the Company fulfils the requirements set by the foregoing Act, and in the opinion of the Management Board, the risk of the Company losing its „workplace for the disabled" status is very low.

Shareholders' structure risk

Jerzy Lubianiec – President of the Supervisory Board, holds 278,338 shares, where 175,000 are registered preference shares series B. The shares constitute a 18.39% stake in the share capital and 33.58% of total votes at the General Meeting.

Marek Piechocki – President of the Management Board, holds 279,945 shares, where 175,000 are registered preference shares series B. The shares constitute a 18.50% stake in the share capital and 33.63% of total votes at the General Meeting.

Once the share capital has been increased by way of issuance of 190,000 shares of H series, Jerzy Lubianiec shall hold 16.34% of the share capital and 31,52% of the votes at the General Meeting, a Marek Piechocki 16,43% of the share capital and 31.58% of the votes at the General Meeting.

In accordance with § 34 of the Company's Statute, persons holding individually, or jointly as a capital group, shares carrying voting rights exceeding 15% of the total votes at the General Meeting, exercise their voting right in the amount of maximum 15% of total votes. This restriction does not pertain to the registered preference shares series B held by Jerzy Lubianiec and Marek Piechocki.

This shareholding structure and restrictions imposed on the ability to exercise the voting rights may create a risk of Jerzy Lubianiec and Marek Piechocki substantially influencing the General Meeting's decisions.

Risk connected with the possibility of the resolutions of the Supervisory Board being deemed null and void

In accordance with article 387 of the Polish Code of Commercial Partnerships and Companies, a member of the Management Board, an authorised proxy, a liquidator, branch/plant manager and the head accountant, solicitor or attorney employed by the Company must not be a member of the Supervisory Board at the same time.

Sławomir Łoboda – member of the Supervisory Board of LPP S.A. is a solicitor and partner in a law office with which the company signed a contract for legal services in 1997.

Jerzy Lubianiec – President of the Supervisory Board of LPP S.A. is the Company's authorised proxy.

Jerzy Lubianiec has been called up for a member of the Supervisory Board in the year 2000, Sławomir Łoboda has been appointed as a member of the Supervisory Board in 1999, when the Polish Commercial Code was still binding. Pursuant to article 378 of the Commercial Code, only solicitors employed by the Company were specifically barred from becoming members of the Supervisory Board. The Commercial Code did not prohibit authorised proxies from acting as members of the Supervisory Board. Sławomir Łoboda has never been employed by the Company, i.e. he became member in accordance with legislation binding on the day of his being appointed.

In case of the conflict of provisions as set out in article 387 of the Polish Code of Commercial Partnerships and Companies ("the Code"), this Code does not provide for the termination of a function of a member of the Supervisory Board appointed before it came into effect . And article 615 §2 of the Code sets out that "the expiration of the mandate of a member of a body of a company, granted prior to the date this Act came into force, shall be determined pursuant to the provisions binding before that date".

The quoted regulations prove therefore that Jerzy Lubianiec and Sławomir Łoboda are free to serve as members of the Supervisory Board until their mandate expires, i.e. until the day of a General Meeting which will accept the financial statement for the year 2002 has been held, i.e. for the last full financial year of their term as members of the Supervisory Board.

On 2nd April the right of authorised proxy awarded to Jerzy Lubianiec was withdrawn.

On 2nd April 2003 the contract for legal services concluded in 1997 between the Company and the law office, in which Sławomir Łoboda is a partner, was terminated.

As a result, the conflict described in article 387 of the Polish Code of Commercial Partnerships and Companies does not exist.

2.2. Factors connected with the environment of the Issuer's business activities

Risk connected with the current social and economic situation

The current social and economic situation in Poland does not provide for steady economic growth. The risk of a further rise in unemployment is also probable. These factors may negatively influence demand for the Company's goods since household revenue decreases.

Risk connected with Poland's accession to the European Union

Most of LPP's suppliers are located in China. Polish accession to the EU may result in administrative limitations for the import of clothing produced in China, for example it may cause the need to acquire import quotas.

The Polish Accession Treaty provides that the scope of current quotas will be extended as a result of new members joining. The aforementioned barriers, resulting from internal regulations of the European Union, will be in place until 1st of January 2005, according to contracts concluded between the European Union and the World Trade Organisation. Bearing in mind the fact that China joined the WTO in 2001, quotas for textiles imported to the countries of the EU will be removed in their entirety on 1st January 2005. Currently the duty policy with reference to clothing imported from China is more favourable in the European Union countries (12% duty) than in Poland (18%).

On Poland accessing the European Union, LPP S.A. may be exposed to competition from large foreign companies. A strong brand and an extensive retail network of brand stores allow LPP S.A. to compete on equal terms on local markets. Additionally, good location of brand stores and knowledge of customer preference give LPP S.A. a certain advantage over the competition.

2.3. Factors connected with the capital market

Risk connected with the Polish Securities and Exchange Commission objecting to the notification of the issue

LPP S.A. is introducing Shares series H to public trade in accordance with article 63 section 1 of the Law on the Public Trading of Securities. The submission of a notice of issue yields identical results as the consent expressed by the Polish Securities and Exchange Commission (PSEC) to introduce securities to public trading.

The PSEC, no later than 16 days prior to the commencement of a subscription, may file an objection to securities being introduced to public trading in this way, provided the notice fails to meet the requirements specified in article 73 of the Law on the Public Trading of Securities. In this case the effects of the notice are nullified and the introduction of securities to public trading requires the PSEC's consent.

Risk connected with the terms of distribution of Shares series H

Investors are advised to take notice that the rules for the distribution of Shares series H described in the Prospectus allow for Shares series H to be clawed back and forward between tranches before the Public Subscription begins. This may mean that each tranche may even be cancelled. Once the subscription for the TMI (Small Investors Tranche) starts, only those shares may be clawbaked to the TDI (Large Investors Tranche) which have not yet been subscribed, yet at the same time in the case of large demand in the TMI, the Issuer may choose to clawback TDI shares into this tranche.

Investors are advised to take notice that according to rules described in the Prospectus Investors intending to subscribe for Shares series H in the TMI will subscribe by indicating their Proposed Price, i.e. the maximum price at which they would be willing to subscribe for Shares series H. Where the Proposed Price evidenced in the subscription orders turns out to be lower than the Issue Price, they won't be allocated Shares series H. Where the Proposed Price turns out to be equal or higher to the Issue Price, they will be allocated Shares series H in accordance with rules set out in the Prospectus.

Furthermore, Investors are advised to take notice that Investors allowed to subscribe in the TDI are only those, who receive from the Issuer through the Offeror an addressed invitation to subscribe Shares series H. A condition to receive an invitation is to take part in the Book Building process and fill a declaration with a price equal to or higher than the Issue Price, with the proviso that the Issuer's decision as to Investors and the number of Shares series H that he is going to offer them is discretional. This might mean that despite participating in the Book Building process and filing a declaration with a price equal to or higher than the Issue Price, the Investor might not receive and invitation to subscribe, or receive an invitation to subscribe for fewer Shares series H than he indicated in his declaration during the Book Building process.

WSE listing suspension risk

According to § 23 of the Warsaw Stock Exchange (WSE) Rules, the WSE Supervisory Board may suspend the trade in Issuer's securities for a period of up to three months, and the WSE Management Board for up to one month:

– if the Issuer is in breach of the WSE Rules,

– if they consider such action is necessary to protect the interests and safety of trade participants.

No such situation has ever occurred with reference to the Issuer, and currently there is no reason to believe that such a situation might occur in future.

Risk connected with being de-listed

According to § 24 of the WSE Rules, the WSE Supervisory Board following the motion of the WSE Management Board may de-list securities if:

- they have ceased to meet requirements set out in the WSE rules,
- the Issuer is persistently in breach of the WSE Rules,
- the WSE Supervisory Board considers it is necessary to protect the interests and safety of public trade participants.

No such situation has ever occurred with reference to the Issuer, and currently there is no reason to believe that such a situation might occur in future.

Risk connected with exclusion of securities from public trading

Pursuant to article 85 of the Law on the Public Trading of Securities, should a public company fail to fulfil obligations specified by law, the PSEC might issue a decision on excluding securities from the public trading. No such situation has ever occurred with reference to the Issuer, and currently there is no reason to believe that such a situation might occur in future.

Risk connected with a delay in introducing Shares series H to the stock exchange

The Issuer shall make every effort to introduce Shares series H to the stock exchange as quickly as possible. However, Investors should be aware that due to deadlines set by the Polish Code of Commercial Partnerships and Companies, the Polish Securities and Exchange Commission and the Warsaw Stock Exchange there may be a delay in listing Shares series H on the WSE for reasons beyond the Issuer's control. Therefore, the Issuer cannot guarantee that Shares series H will be listed within the framework set in the Prospectus.

At the same time, in order to enable the subscribed securities to be traded, the Issuer intends to list PDA (rights to shares) on the WSE immediately after the allocation of Shares series H.

Risk connected with the requirement of entering into a brokerage services agreement and owning a securities account by Investors subscribing in the TMI

Investors are advised that one of the conditions of participating in the Public Subscription of Shares series H in the TMI is requirement of a brokerage services agreement and having a securities account in one of the brokerage houses accepting subscription orders for Shares series H. Because of rules in brokerage houses, there is a risk that the conclusion of the brokerage services agreement or opening the securities account might be prolonged, which will make subscription for Shares series H in the TMI impossible.

Risk connected with the issue of Shares series H not taking place

The issue of Shares series H will not take place if:

- no share series H is taken hold of,
- the resolution on increasing the share capital has not been filed for registration with the National Court Register within 6 months from the day it was accepted,
- the decision of the court refusing to register the resolution on increasing the share capital comes into effect.

The Company's Management Board shall immediately inform about the fact of the issue of Shares series H not taking place by a single announcement in the national daily *Gazeta Giełdy PARKIET* asking the subscribers to collect deposited amounts. The repayments will be conducted through brokerage houses that were accepting subscription orders for Shares series H in the way declared in the subscription form, without interest or damages, within 14 days from the day the advertisement on the issue not taking place was published.

Risk of the Issuer withdrawing from the Public Offering

The Issuer is entitled to withdraw from the Public Offering at any time before its commencement without giving any reason.

After the Public Offering commences, the Issuer may withdraw only for very important reasons, like:

- sudden and unpredictable changes in the economic or political situation of the country or the world, which may have a significant negative impact on the financial markets, the country's economy or on the Issuer's activities, including forecasts and declarations presented by the Issuer's Management Board in the Prospectus,
- sudden and unpredictable changes that have a direct influence on the Issuer's operating activities.

In case the Issuer withdraws from the Public Offering, the Management Board will notify about this decision immediately.

The information on withdrawing from the Public Offering will be made public by way of a communiqué, according to article 81 paragraph 1 of the Law on the Public Trading of Securities.

Risk connected with Issuer share quotations on the WSE

Stock exchange quotations result from demand and supply, and are subject to fluctuations. There is a risk of share prices fluctuations, which do not always reflect the financial and economic standing of companies.

This risk pertains to any investor participating in the public trading.

As at the day the Prospectus amendment, shareholders holding more than 20% of shares in the Company's share capital or more than 20% of the total vote at the General Meeting are:

– Jerzy Lubianiec,

– Marek Piechocki,

– Grangefont Ltd, UK.

The sale of shares of LPP S.A. by current key shareholders may influence the share price quoted on the WSE.

According to the declarations made by the above shareholders, described in section 4 of Chapter 6 of the Prospectus, the investment in the Company's shares in treated as a long-term investment.

3. Issuer's financial data for the last 3 fiscal years

The Issuer's basic financial data for years 2000-2002 is presented in the table below:

(amounts in PLN thousand)	2000	2001	2002
Sales revenues	143 835	171 325	261 602
Operating profit (EBIT)	15 859	15 762	28 636
Gross profit	8 689	14 182	25 003
Net profit	6 154	10 139	18 556
Assets	85 579	119 967	166 821
Liabilities and provisions	55 188	63 514	92 127
Long-term liabilities	8 630	7 221	7 344
Short-term liabilities	46 558	56 293	82 744
Equity (net assets)	29 157	53 696	74 694
Share capital	2 427	3 027	3 027
Shares issued (number)	1 213 500	1 513 500	1 513 500
Earnings per share	5.07	6.70	12.26
Dividend paid per share (PLN)	0.00	0.00	0.00

4. Ratios providing informtion on profitability of the business and the Issuer's ability to serve liabilities for the last 3 fiscal years

The basic ratios characterising the Issuer's business are presented in the table below:

	2000	2001	2002
Return on capital invested	23.60%	26.15%	28.34%
Return on assets	8.02%	10.78%	12.87%
Profit margin	4.28%	5.92%	7.09%
Dividend payout ratio	–	–	
Gearing	1.89	1.18	1.23

The methodology behind the ratios:

– Return on capital invested – the ratio of net profit for 12 months to average equity,

– Return on assets – the ratio of net profit for 12 months to average assets,

– Profit margin – ratio of the net profit to sales revenues,

– Dividend payout ratio – ratio of paid dividend to the net profit,

– Gearing – total debt/total equity ratio.

5. Use of proceeds from issue of series H

The main objectives of the Shares series H issue are:

– to develop the retail network under the Reserved brand by setting up new brand stores,

– to develop a multi-module integrated store operations management IT system.

The Company intends to use the proceeds from the issue as follows:

Issue aim	**% of means from the issue channelled for the fulfilment of aims**
Development of the retail network	80%
Development of the IT system	20%
Total:	**100%**

The Issuer is planning to develop retail sales by setting up in Poland 20-30 Reserved brand stores in 2003, about 30-40 in 2004, and ca. 10 abroad each year. Proceeds from the issue will be used for material investments and equipping new stores as well as supporting the development of the retail network by buying goods to supply them with. As at the day of the Prospectus, the process of opening new stores is advanced to different extents and the stores which will be set up can be divided into 3 groups:

- group 1 – stores, where the Issuer is at the stage of negotiating contracts for lease with premises owners,
- group 2 – stores, where the Issuer has concluded lease contracts,
- group 3 – stores, where the Issuer has begun adaptation works of the leased premises.

In order to achieve its objective of development of IT system the Company intends to spend ca. 4 million PLN on computer hardware.

Furthermore, as at the day of the Prospectus, LPP S.A. has signed a contract for the implementation of a modern, multi-module integrated store operations management system with RETEK INFORMATION SYSTEMS Inc., Delaware as well as sub-licence and professional consulting services with ACCENTURE Sp. z o.o., Warsaw.

The total contracts value is 3.3 million USD. Payments resulting from execution of the abovementioned contracts will be paid periodically as the implementation works progress.

Additionally, LPP S.A. has concluded a service contract with RETEK INFORMATION SYSTEMS Inc., Delaware.

As at the day of this Prospectus, the first stage of implementation of the IT system has begun, and is planned to be finalised by May 2003. It is planned that the implementation of the RETEK system will be finished by the 1st quarter of 2005.

The key objective of the issue is the development of the retail network.

Should the proceeds from the issue of Shares series H be insufficient to meet the abovementioned objectives, the Issuer is planning to achieve them by using its own capital and bank credits.

The proceeds from the issue will not be used to pay the Issuer’s debts, nor to buy assets from subsidiaries or affiliates.

The Issuer has not entered into any contract for acquiring assets by LPP S.A. to be financed by proceeds from the issue of Shares series H.

From the moment of receiving proceeds from the issue and fulfilling the objectives of the issue, these proceeds will be invested in safe financial instruments, i.e. bank deposits and securities issued by the State Treasury.

For the last 5 years, proceeds from share issues have been used according to the issue objectives.

The purpose of the shares series E issue was to clear the Company’s debt, which was done by converting the debt into share capital. Shares series E have been paid in by way of a contribution in kind, this being a receivable in the amount of 8,731,800 PLN.

The resolution of the General Meeting which referred to the issue of shares series F did not set aims of the issue, for which the proceeds from the issue would be used. These proceeds have been used to develop the Company’s business.

The aims of the issue of shares series G were:

- development and further growth of the retail network, by opening and starting new brand stores of LPP S.A.,
- Increasing the working capital in order to develop retail sales by buying goods to supply the newly opened stores,
- building an integrated IT system.

The key aim was extending the retail network, and expenditure for this aim has exceeded proceeds received from the issue of shares series G, i.e. 14,400,000.00 PLN.

6. Indication whether the objectives of the issue may change

The objectives of the issue of Shares series H should not be altered, but their fulfilment might become postponed.

The body entitled to make changes with respect to the aim of the issue is the Company's Management Board, which will accept an appropriate resolution should circumstances justifying such a decision arise. The resolution changing the aims of the issue will be made public by the Management Board, in accordance with article 81 paragraph 1 of the Law on the Public Trading of Securities.

7. Basic factors influencing the issue price of offered securities and pricing mechanism

The Minimum Price will be determined by the Management Board and made public on 18th April 2003, in accordance with article 81 paragraph 1 of the Law on the Public Trading of Securities and published in *Gazeta Giełdy PARKIET* on 19th of April 2003.

The Minimum Price will be determined by the following factors:

- the Company's book value,
- financial results achieved by the Issuer in 2002 and in Q1 of 2003,
- forecast financial results by the end of 2003,
- perspectives for the Issuer's growth,
- risks named in section 2 of Chapter 1 of this Prospectus,
- the share price of LPP S.A. and other companies listed on the WSE.

The Issue Price will be determined by the Issuer on the basis of recommendations of the Offeror, with regard to the results of the Book Building process. The Issue Price will be equal for the TMI and TDI, and will equal or exceed the Minimum Price.

The Issue Price will be determined and made public in accordance with article 81 paragraph 1 of the Law on the Public Trading of Securities on 25th April 2003, once the Book Building process has finished. The Issue Price will be announced in *Gazeta Giełdy PARKIET* on 26th of April 2003.

8. Dilution per share for new investors

Dilution per share:

Issue Price of 1 share series H	
NBV per share before the issue	49.35 PLN
NBV per share as a result of the issue	
NBV per share after the issue (pro forma)	
Dilution per acquired share	

	Acquired shares		Total capital		Mean price paid
	number	percentage	value	percentage	Per share
Current shareholders	1 513 500.00	88.85%	26 145 400.00 zł		17.27 PLN
New investors – Shares series H	190 000.00	11.15%			
Total	1 703 500.00	100.00%		100.00%	

9. Issuer's book value and liabilities

As at 31st December 2002, the Company's book value equalled 74,693,890.49 PLN, long-term liabilities equalled 7,343,860.65 PLN, and short-term liabilities 82,743,586.11 PLN.

As at 31st December 2003 the Company's long-term liabilities equalled 7,095,890.01 PLN, and short-term liabilities 77,295,019.31 PLN.

CHAPTER 2 – PERSONS RESPONSIBLE FOR INFORMATION INCLUDED IN THE PROSPECTUS

1. Issuer

1.1. Name, registered office, contact data of the Issuer

Name (firm):	LPP Spółka Akcyjna
Abbreviation of the firm:	LPP S.A.
Registered office:	Gdańsk
Address:	ul. Łąkowa 39/44, 80-769 Gdańsk
Phone:	(0-58) 76-96-900
Fax:	(0-58) 76-96-909
e-mail:	lpp@lpp.com.pl
website:	www.lpp.com.pl

1.2. Natural persons representing the Issuer

The Issuer is represented by the following natural persons – members of the Company's Management Board:

Marek Piechocki	– President of the Management Board
Alicja Milińska	– Vice-President of the Management Board
Dariusz Pachla	– Vice-President of the Management Board
Stanisław Dreliszak	– Vice-President of the Management Board

Information on the domicile of the natural persons representing the Issuer is not to be published and is presented in "Information not to be published"

The Issuer is responsible for all information contained in the Prospectus.

1.3. Issuer's declaration

Persons signed below hereby declare that information contained in the Prospectus is true, fair and does not leave undisclosed any facts or circumstances that have to be disclosed in the Prospectus by law, and that to the best of their knowledge there are no significant liabilities or circumstances, apart from those indicated in the Prospectus, that could have a significant impact on the legal and financial situation of the Issuer and financial results achieved by him.

Marek Piechocki	– President of the Management Board
Alicja Milińska	– Vice-President of the Management Board
Dariusz Pachla	– Vice-President of the Management Board
Stanisław Dreliszak	– Vice-President of the Management Board

2. Entities responsible for the preparation of the Prospectus

2.1. Issuer

2.1.1. Name, registered office, contact data

Name (firm):	LPP Spółka Akcyjna
Abbreviation of the firm:	LPP S.A.
Registered office:	Gdańsk
Address:	ul. Łąkowa 39/44, 80-769 Gdańsk
Phone:	(0-58) 76-96-900
Fax:	(0-58) 76-96-909
e-mail:	lpp@lpp.com.pl

2.1.2. Natural persons representing the Issuer

The Issuer is represented by the following natural persons – members of the Management Board of the Company:

Marek Piechocki	– President of the Management Board
Alicja Milińska	– Vice-President of the Management Board
Dariusz Pachla	– Vice-President of the Management Board
Stanisław Dreliszak	– Vice-President of the Management Board

Information on the domicile of the natural persons representing the Issuer is not to be published and is presented in "Information not to be published"

The Issuer is responsible for all information included in the Prospectus and for compiling all paragraphs of the Prospectus with the exception of section 2.2. and 3. in Chapter 2 and section 1.11. and 1.12. in Chapter 3 of the Prospectus.

2.1.3. Issuer's declaration

The persons signed below hereby declare that the Prospectus, in parts compiled by the Issuer, has been prepared with all professional care and that information contained in parts compiled by the Issuer is true and reliable, and does not leave undisclosed any facts or circumstances that have to be disclosed in the Prospectus by law.

Marek Piechocki	– President of the Management Board
Alicja Milińska	– Vice-President of the Management Board
Dariusz Pachla	– Vice-President of the Management Board
Stanisław Dreliszak	– Vice-President of the Management Board

2.2. Offeror

2.2.1. Name, registered office, contact data

Name (firm):	Dom Maklerski Banku Handlowego w Warszawie SA
Abbreviation of the firm:	DMBH
Registered office:	Warsaw
Address:	00-613 Warsaw, ul. Chałubińskiego 8
Phone:	(22) 690 39 44
Fax:	(22) 690 38 15
e-mail:	dmbh@citicorp.com

2.2.2. Natural persons representing the Offeror

The Offeror is represented by the following natural persons:

Paweł Szymański	– President of the Management Board
Mirosław Tkaczuk	– Manager of the Capital Transactions Office, Representative

Information on the domicile of the natural persons representing the Offeror has been the subject of a no publication petition and is presented in the „Information included in the no publication petition".

The Offeror has been responsible for compiling section 2.2. and 3. In Chapter 2 of the Prospectus and section 1.11. and 1.12. in Chapter 3 of the Prospectus.

2.2.3. Description of relationships between the Offeror and natural persons representing the Offeror in dealings with the Issuer

The following contractual relationships between the Offeror and the Issuer have been found to exist:

- contract for becoming a member of the stock exchange – the Issuer's market maker for LPP's shares on the WSE concluded on 7th of May, 2001,
- service underwriting agreement with regard to the issue of shares series F concluded on 20th September 2000,
- contract on the terms of the Centrum Operacji Kapitałowych Banku Handlowego w Warszawie S.A. acquiring and transferring shares series F to entitled persons concluded on 13th December 1999,

– contract for services connected with acting as a sponsor for the issue of LPP's shares concluded on 3rd April 2000.

The following contractual relationships between Bank Handlowy w Warszawie S.A. and the Issuer have been found to exist:

– current account contract concluded on 1st September 1995,

– electronic banking contract „Direct-Banking Off-line" concluded on 30th March 1997,

– contract for rendering services with the „Citibanking" software concluded on 14th May 2001,

– contract for a revolving credit in a foreign currency (contract life: 9th of April2002-9th of April2003; credit amount: 620.000,00 USD; purpose: financing current operations),

– contract for a revolving credit in a foreign currency (contract life: 9th April2003 - 8th April 2004; credit amount: 620.000,00 USD; purpose: financing current operations),

– contract for a revolving credit in a foreign currency (contract life: 23rd December 2002 – 19th December 2003; credit amount: 570.000,00 USD; purpose: financing current operations),

– framework contract for a revolving credit line for servicing and financing trade transactions (contract life: 31st May 2002 – 13th May 2003; limit: 13.600.000,00 PLN; purpose: opening import letters of credit).

Additionally, on 18th March 2003 Bank Handlowy w Warszawie S.A., Dom Maklerski Banku Handlowego w Warszawie S.A., and LPP S.A. have concluded a contract for organising the offering for Shares series H.

There are no relationships among natural persons acting on behalf of the Offeror, and LPP S.A.

2.2.4. Declaration of the Offeror

The persons signed below hereby declare that the Prospectus, in parts compiled by the Offeror, has been prepared with all professional care and that information contained in parts compiled by the Offeror is true and reliable, and does not leave undisclosed any facts or circumstances that have to be disclosed in the Prospectus by law.

Paweł Szymański	– President of the Management Board
Mirosław Tkaczuk	– Manager of the Capital Transactions Office, Representative

3. Entity entitled to audit financial statements

3.1. Name, registered office, contact data

Name (firm):	MOORE STEPHENS Trzemżalski, Krynicki i Partnerzy Kancelaria Biegłych Rewidentów Sp. z o.o.
Registered Office:	Gdańsk
Address:	ul. Rogaczewskiego 9/19, 80-804 Gdańsk
Phone:	0 58 300-98-00
Fax:	0 58 300-98-04
e-mail:	mstkip@moorestephens.pl
website:	www.morestephens.com

Basis for licence: entry in the list of entities licenced to audit financial statements under no. 372.

3.2. Natural persons acting on behalf of the entity licenced to audit financial statements

On behalf of the entity licenced to audit financial statements is the following natural person:

Jerzy Trzemżalski – President of the Management Board

Information on the domicile of the natural persons representing the Entity certified to audit financial statements is not to be published and is presented in "Information not to be published"

3.3. Auditors auditing the Issuer's financial statements

Janina Prusakowska – Auditor, reg. number 3253

Information on the domicile of the auditor auditing the Issuer's financial statements is not to be published and is presented in "Information not to be published".

3.4. Description of relationships between the entity certified to audit financial statements and natural persons acting on its behalf with the Issuer

The following contractual relationships between MOORE STEPHENS Trzemżalski, Krynicki i Partnerzy Kancelaria Biegłych Rewidentów Sp. z o.o. and persons acting on its behalf and the Issuer have been found to exist:

Contract concluded between MOORE STEPHENS Trzemżalski, Krynicki i Partnerzy Kancelaria Biegłych Rewidentów Sp. z o.o. and the Issuer on 3rd April 2003 on auditing services.

Apart from the indicated contract, no other contractual, personal, structural or capital relashionships exist between the Issuer and MOORE STEPHENS Trzemżalski, Krynicki i Partnerzy Kancelaria Biegłych Rewidentów Sp. z o.o. and the natural persons acting on its behalf.

3.5. Declaration of person acting on behalf of MOORE STEPHENS Trzemżalski, Krynicki i Partnerzy Kancelaria Biegłych Rewidentów Sp. z o.o.

We hereby declare that MOORE STEPHENS Trzemżalski, Krynicki i Partnerzy Kancelaria Biegłych Rewidentów Sp. z o.o., as an entity certified to audit financial statements, has been chosen in accordance with the law and fulfils the conditions for giving an unbiased and independent audit opinion.

Jerzy Trzemżalski – President of the Management Board

3.6 Declaration of auditor auditing the Issuer's financial statement on fulfilling conditions for giving an unbiased and independent audit opinion

I hereby declare that as a certified auditor auditing the Issuer's financial statement for the reporting period from 1st January to 31st December 2002 I fulfil the conditions required for giving an unbiased and independent audit opinion.

Janina Prusakowska – Auditor entered in the list of Auditors under no. 3253

3.7 Declaration on the responsibility of persons named in section 3.2 and 3.3

We hereby declare that:

- the Issuer's financial statement for the period from 1st January to 31st Demeber 2002 included in the Prospectus have been audited by us in accordance with the legislation and professional norms currently in force, and on the basis of the audit the statements have received an unqualified opinion on the true and fair view presented by teh financial statement, which is presented further in the Prospectus;
- comparative financial data included in the Prospectus has been compiled in a way which ensures comparability by way of using for all presented periods uniform accounting methods (policies) compliant the the accounting methods (policy) used by the Issuer for the previous period, and by way of charging material errors to periods during which they occured, regardless of periods to which they were charged in the books, and that the reconciliation of comparative data, presented in the audited items in the Prospectus presents a true and fair view of any transformation effected, and the comparative data included in the Prospectus results from audited financial statements, with regard to adjustments leading to comparability owing to a change in the accounting methods (policy) and adjustment of fundamental errors;
- as required by § 24 section 2 of the Ordinance, the Issuer has included in the Prospectus the last published annual report and accounts. The presentation of the financial statement and the comparative data included in the Prospectus, and the scope of data disclosed in it conforms to the requirements of the Ordinance.

Janina Prusakowska
Auditor

Entered in the list of Auditors
under no. 3253

Jerzy Trzemżalski
President of the Management Board of

MOORE STEPHENS Trzemżalski, Krynicki i Partnerzy
Kancelaria Biegłych Rewidentów Sp. z o.o.

4. Offeror

4.1. Name, registered office, contact data Offeror

Name (firm):	Dom Maklerski Banku Handlowego w Warszawie SA
Abbreviation of the firm:	DMBH
Registered ofiice:	Warsaw
Address:	00-613 Warsaw, ul. Chałubińskiego 8
Phone:	(22) 690 39 44
Fax:	(22) 690 38 15
e-mail:	dmbh@citicorp.com

4.2. Natural persons representing the Offeror

The Offeror is represented by the following natural persons:

Paweł Szymański	– President of the Management Board
Mirosław Tkaczuk	– Manager of the Capital Transactions Office, Representative

Information on the domicile of the natural persons representing the Offeror has been the subject of a no publication petition and is presented in the „Information included in the no publication petition".

4.3. Description of relationships between the Offeror and natural persons representing the Offeror in dealings with the Issuer

The following contractual relationships between the Offeror and the Issuer have been found to exist:

– contract for becoming a member of the stock exchange – the Issuer's market maker for LPP's shares on the WSE concluded on 7th of May, 2001

– underwriting agreement with regard to the issue of shares series F concluded on 20th September 2000

– contract on the terms of the Centrum Operacji Kapitałowych Banku Handlowego w Warszawie S.A. acquiring and transferring shares series F to entitled persons concluded on 13th December 1999

– contract for services connected with acting as a sponsor for the issue of LPP's shares concluded on 3rd April 2000

The following contractual relationships between Bank Handlowy w Warszawie S.A. and the Issuer have been found to exist:

– current account contract concluded on 1st September 1995

– electronic banking contract „Direct-Banking Off-line" concluded on 30th March 1997

– contract for rendering services with the „Citibanking" software concluded on 14th May 2001

– contract for a revolving credit in a foreign currency (contract life: 9th of April2002-9th of April2003; credit amount: 620.000,00 USD; purpose: financing current operations)

– contract for a revolving credit in a foreign currency (contract life: 9th April2003 - 8th April 2004; credit amount: 620.000,00 USD; purpose: financing current operations)

– contract for a revolving credit in a foreign currency (contract life: 23rd December 2002 – 19th December 2003; credit amount: 570.000,00 USD; purpose: financing current operations)

– framework contract for a revolving credit line for servicing and financing trade transactions (contract life: 31st May 2002 – 13th May 2003; limit: 13.600.000,00 PLN; purpose: opening import letters of credit)

Additionally, on 18th March 2003 Bank Handlowy w Warszawie S.A., Dom Maklerski Banku Handlowego w Warszawie S.A., and LPP S.A. have concluded a contract for organising the offering for Shares series H.

There are no relationships among natural persons acting on behalf of the Offeror, and LPP S.A.

4.4. Declaration of the Offeror

The persons signed below hereby declare that the Offeror shall make every effort to prepare the issue and introduce Shares series H to public trading.

Paweł Szymański	– President of the Management Board
Mirosław Tkaczuk	– Manager of the Capital Transactions Office, Representative

CHAPTER 3 – DETAILS OF THE ISSUE

1. Introduction to public trading and offering of Shares series H

1.1. Type, number and value of Shares series H

The Prospectus has been prepared in connection with the issue of H series ordinary bearer shares from 1 to 190.000 of nominal value amounting to 2,00 PLN each. Shares series H are neither preferential, nor limited with respect to the transfer of rights, no obligation of additional performance is connected with them.

Securities offered to public trading – Shares series H

Securities by types	Number (in pcs.)	Nominal value (in PLN)	Issue price (in PLN)	Share issuance premium (in PLN)	Estimated commission and issue costs (in PLN)	Issuers' Proceeds (in PLN)
1	**2**	**3**	**4**	**5**	**6**	**7+(2*4)-6**
Per unit	1.00	2.00			4.30	
Total	**190 000.00**	**380 000.00**			**816 500.00**	

1.2. Estimated cost of issuing Shares series H

The estimated cost of issue of Shares series H includes the costs of preparing and publishing the Prospectus and costs of preparing and carrying out a Public Subscription. The estimate commissions and costs are presented in the table below.

Estimated commissions and issue costs of Shares series H

Costs of preparing the prospectus, including advisory costs	655 500.00 zł
Costs of promoting the planned offering	109 000.00 zł
Underwriting fees	0.00 zł
Other costs of preparing and carrying out the offering	52 000.00 zł
Total:	**816 500.00 zł**

The costs of raising capital, through the issue of Shares series H, will reduce the Company's supplementary capital to the amount of the issuance premium of shares series H, any part left will be included in financial costs.

1.3. Legal basis for the issue of Shares series H and their introduction to public trading

1.3.1. Body entitled to decide on issuing Shares series H and their introduction to public trading

According to the provisions of the Code of Commercial Partnerships and Companies, and the Statute, the body entitled to decide on increasing the share capital, by issuing new shares and introducing them into public trading, is General Meeting of Shareholders. Decision is made by a resolution.

The basis of issue and introduction of Shares series H to public trading by Prospectus is a Resolution of General Meeting of Shareholders.

1.3.2. Date and form of deciding upon the issue of Shares series H

Decision on the issue and introduction of Shares series H into public trading was made by the Company's The Extraordinary Meeting of Shareholders on 14th March 2003 in resolution no. 4, in the following wording:

„The Extraordinary Meeting of Shareholders of LPP S.A. in Gdańsk, makes the following resolutions:

§ 1.

1. The share capital of LPP S.A. in Gdańsk, is hereby increased by not less than 2 PLN and not more than 380,000 PLN, that is from the amount of 3,027,000 (three million and twenty seven thousand) PLN to the amount not smaller than 3,027,002 (three million and twenty seven thousand and two) PLN and not larger than 3,407,000 (three million four hundred and seven thousand) PLN, through the issue of: 1 to 190,000 ordinary bearer shares series H, of

nominal value amounting to 2 PLN each. 1 to 190,000 ordinary bearer shares series H, each of a nominal value amounting to 2 PLN will be offered by public subscription.

2. Shares in this new issue are ordinary bearer shares and will be marked as the increase in the share capital has been registered.
3. Shares series H will participate in the dividend, starting from payments from profit to be distributed for the fiscal year 2002, i.e. since January 2002.
4. The Management Board is entitled to set the issue price of Shares series H. The Management Board shall set and announce the issue price of Shares series H, at the latest before the commencement of the Public Subscription.
5. The Management Board entitled to set dates of opening and closing the subscription for Shares series H."

§ 2.

1. „Acting on the basis of article 433 § 2 of the Code of Commercial Partnerships and Companies, the Extraordinary Meeting of Shareholders of LPP S.A. in Gdańsk, guided by Company interest, resolves on the exclusion of the pre-emptive right to Shares series H with regard to all original Company shareholders, holding shares series: A, B, C, D, E, F, G.
2. Exclusion of the pre-emptive right to Shares series H is entirely justified by Company interest, because the dynamic development of LPP S.A. requires fund raising for further rapid development of the company. Additionally, the necessity to look after the Company's image as an attractive stock market company, requires the increase of availability and liquidity of its shares. The exclusion of the pre-emptive right to Shares series H will result in an increase in share liquidity and availability to a larger group of investors.

and in resolution no 7, in the following wording:

„The Extraordinary Meeting of Shareholders of LPP S.A., with its registered office in Gdańsk, entitles the Company's Management Board to perform the following transactions, necessary to carry out and register the subscription for Shares series H, with special regard to the following transactions:

a) setting all dates connected with the issue of Shares series H,
b) setting specific terms of subscribing Shares series H ,
c) setting the terms and criteria for the allocation of Shares series H,
d) setting the terms and methods of distribution of Shares series H,
e) setting the terms of the issue of Shares series H, including the division of offered shares into tranches,
f) allotment of Shares series H,
g) concluding a contract with the Warsaw Stock Exchange and National Depository for Securities,
h) concluding an underwriting agreement for the issue of Shares series H,
i) concluding applicable contracts with brokerage houses,
j) concluding applicable contracts with advertising agencies, pertaining to the new issue of new share series,
k) performing other legal and factual transactions, necessary to carry out a Public Subscription for Shares series H on terms determined by the resolution and in compliance with regulations in force,
l) performing all legal and factual transactions, necessary to introduce Shares series H to public trading of securities, and performing all legal and factual transactions necessary to introduce Shares series H to the Warsaw Stock Exchange."

1.4. Pre-emptive right of original shareholders to take hold of Shares series H

Pre-emptive right of original shareholders to take hold of the Shares series H has been excluded by a resolution of the Extraordinary Meeting of Shareholders of LPP S.A. no. 4 of 14 March 2003.

Relevant excerpt of resolution no. 4 reads:

"§ 2.

1. „Acting on the basis of article 433 § 2 of the Code of Commercial Partnerships and Companies, the Extraordinary Meeting of Shareholders of LPP S.A. in Gdańsk, guided by the Company interest, resolves on the exclusion of the pre-emptive right to Shares series Hs with regard to all original Company shareholders, holding shares series: A, B, C, D, E, F, G.
2. The exclusion of Share series H right of subscription, on the basis of the Company interest is entirely justified, because the dynamic development of LPP S.A. requires fund raising for the ongoing dynamic development of the company. Additionally, the necessity to look after the Company's image, being an attractive stock market company,

requires the increase of availability and liquidity of its shares. The exclusion of Share series Hs right of subscription, will result in an increase of the liquidity of shares and availability to a larger group of people."

1.5. Effective date of Shares series H participation in the dividend

Shares series H will participate in dividend, starting with profit distribution, which will be subject to division for the accounting year 2002 that is since 1 January 2002.

The respective extract of resolution no. 4 of the Extraordinary Meeting of Shareholders of LPP S.A., of 14th March 2003, providing for this issue, reads as follows:

„(...)4. Shares series H will participate in the dividend, starting with profit distribution, which will be subject to division for accounting year 2002 that is since 1 January 2002.

(...)"

1.6. Rights and obligations connected with Shares series H

Code of Commercial Partnerships and Companies (KSH) and Statute

The general provisions concerning the rights of shareholders contain only a general characteristic of rights vested in shareholders, so in order to gain detailed information, one should seek advice from persons, entitled to provide legal advisory services.

The shareholder's rights can be divided into proprietary and corporate rights. Proprietary right include: right to dividend (art. 347 of the KSH), pre-emptive right to take hold of new shares (art. 433 of the KSH) and the right to participate in the division of the company's share capital, in case it is liquidated (art. 474 of the KSH). Corporate (organisational) rights include especially: right to vote (art. 411 of the KSH), right to participate in the General Meeting of Shareholders (art. 406 of the KSH), right to inspect the shareholders' register (art. 341 of the KSH), right to challenge the resolutions of General Meeting of Shareholders (art. 422 of the KSH), right to file a lawsuit against the members of the company authorities or other parties, who have caused damage to the company (art. 486 of the KSH), right to inspect the list of shareholders in the company's registered office, right to demand issuing a copy of the list of shareholders, right to demand issuing copies of motions connected with the agenda of the General Meeting of Shareholders (art. 407 of the KSH), right to receive copies of the statement of the Management Board together with a financial statement and opinions of chartered auditors (art. 395 of the KSH), the right to inspect the minutes book of General Meeting of Shareholders and the right to receive resolution copies, certified by the Management Board (art. 421 of the KSH), the right to file a lawsuit against the Company to declare the invalidity of a General Meeting of Shareholder's resolution (art. 425 of the KSH), right to demand information about the Company (art. 428 of the KSH).

Shares series H are ordinary bearer shares, entitling to one vote at the General Meeting of Shareholders. No additional performance is connected with Shares series H.

Pursuant to the § 34 of the Statute, the right to vote of Company shareholders, who hold ordinary shares, has been limited, so that none of them alone, or as a dominant subject, jointly with dependent subjects, during General Meeting of Shareholders, cannot cast more than 15% of the total number of votes, existing in the Company on the day General Meeting of Shareholders is held. The aforementioned limitations do not pertain to the registered shares, held by Jerzy Lubianiec and Marek Piechocki.

Pursuant to the § 5 item3 and 4 of the Company's Statute, B series registered shares of LPP S.A. are preference shares with respect to the right to vote. One preference share entitles to cast five votes during the General Meeting of Shareholders.

Shares series H participate in dividend as of 1st January 2002.

Law on the Public Trading of Securities

The following obligations connected with the holding and acquisition of larger blocks of shares, pursue the Law on the Public Trading of Securities:

Pursuant to art. 147 paragraph 1 of the Law of the Public Trading of Securities an entity, which obtains or exceeds 5% or 10% of the total number of votes at the general meeting of shareholders by buying shares in a public company, or prior to the sale held shares in public company ensuring at least 5% or at least 10% of the total number of votes at the general meeting of shareholders and after the sale holds shares ensuring no more than 5% or no more than 10% of the total number of votes, respectively - is obliged to notify the Commission, the company and the Office for Competition and Consumer Protection within 4 days after the shares are registered on the securities account, upon the purchase or sale of stock as the case may be. Pursuant to art. 147 paragraph 2 the obligation stated in section 1 applies also to cases of acquisition and disposal of shares resulting in a change in the portion of the vote held by shareholders who originally held more than 10% of the vote, by at least: 2% of the total vote in the general meeting of shareholders - in the case of a public company whose shares have been approved for trade in a regulated stock exchange market, 5% of the total vote in the general meeting of shareholders - in the case of other public companies. The said, described in art. 147 paragraph 2 obligation will result from the conclusion of both single and multiple combined transactions. Pursuant to art. 147 paragraph 4 entities which reads: as a result of acquiring the shares of a public company, reached or exceeded, or as a result of a disposal, became owners of shares providing them with no more than 25%, 50% or 75%, respectively, of the total vote in the general meeting of shareholders, are obliged to notify the Commission, the company and the Office for Competition and Consumer Protection within 4 days after the shares are registered on the securities account, upon the purchase or sale of stock as the case may be

Pursuant to art. 147 paragraph 5 the notice regarding the reaching or exceeding of 10% of the total vote in the general meeting of shareholders will additionally include information on any intent to continue to increase the share held in a public company in the period of 12 months following the date of its submission and the purpose for which such an increase will be sought. Each time such intent or the purpose thereof changes, within 12 months of the submission of the notice or later, the shareholder is obliged immediately to notify accordingly the Commission, the concerned company and the President of the Office for Competition and Consumer Protection

Pursuant to art. 148 Law of the Public Trading of Securities a public company is obliged: to provide information forthwith and simultaneously to the extent defined in Art. 147, to an information agency, the company running the stock exchange or the over-the-counter market - if the given shares are traded on a regulated market, to deliver to the Commission, no later than the day before the day indicated as the day for a general meeting of shareholders, the list of shareholders entitled to participate in the said meeting, specifying the number of shares and votes to which each one of them is entitled by virtue of the shares held, to deliver, at the same time, to the Commission and the information agency, within 14 days after general meeting of a shareholders, a list of all shareholders holding at least 5% of the total number of votes thereon, specifying the number of votes to which each of them is entitled.

Pursuant to art. 149 Law of the Public Trading of Securities, the acquisition of shares in a public company or of depository receipts issued in connection with such shares in a number causing the buyer to reach or exceed, in total, respectively 25%, 33% or 50% of the total vote in the general meeting of shareholders, is subject to the Commission's approval to be issued at the request of the buyer, the approval specified in Section 1 will not be required in cases where the acquired shares are shares of a public company traded exclusively in an unofficial over-the-counter market. Within 14 days of the filing of a request, the Commission will issue its approval and furnish, to the information agency, information regarding the approval granted or the denial to grant an approval, in cases where such an acquisition may result in a violation of the law or would compromise vital interests of the state or the national economy. The Commission may deny the approval in cases where, within 24 months prior to the filing of the request specified in Section 1, the requesting party failed to perform or inadequately performed obligations set out in Art. 147 and 150 of the Law of the Public Trading of Securities. In the case of an entity that, in accordance with an approval granted by the Commission, has reached or exceeded no less than one of the vote percentage thresholds specified in Paragraph 1 of the Law of the Public Trading of Securities and that subsequently disposed of or, in effect of another legal event, came into the ownership of a number of shares or depository receipts that provided it with a number of votes lower than the number for which it had received an approval, then the Commission's approval will be required to reach or exceed the threshold again, unless the date specified in Paragraph 5 has not elapsed.

Pursuant to art. 151 Law of the Public Trading of Securities, the acquisition of shares approved for public trading or depository receipts issued in connection with such shares constituting at least 10% of the total number of votes within a period of less than 90 days under secondary distribution may be effected only as a result of announcing a public summons to apply for the sale or conversion of equities, hereinafter referred to as the "summons" The summons shall be announced after collateralising 100% of the value of the shares to be acquired. The collateral so instituted should be documented with a certificate from a bank or another relevant institution. Withdrawal from summons is inadmissible, unless another entity announces summons concerning the same shares, after the withdrawal has been announced.

Pursuant to art. 154 Law of the Public Trading of Securities any person who has come into the ownership of shares of a public company or of depository receipts issued in connection with such shares, in a number providing such a person with over 50% of the total vote in the general meeting of shareholders, will: announce a summons to apply for the sale of the remaining shares of this company, or sell that number of shares, prior to exercising the voting rights on these shares, yielding or holding of no more than 50% of the total vote in the general meeting of shareholders. Summons described above, are announced and carried out by a brokerage house or bank, dealing in brokerage activities, which is obliged to immediately and parallelly inform the Commission or the company running the stock exchange or the over-the-counter market, about the intention to announce them, in case given shares are subject to trading on a different market.

Pursuant to art. 155 Law of the Public Trading of Securities, the price offered in the summons may not be lower than: (i) the average market price for the last six months before the announcement of the summons or - if the shares included in the summons were traded on a regulated market for less than six months the average price over this shorter period, (ii) the price, at which the shares were purchased under primary trading or the initial public offering - if the summons relates to shares which are not traded on a regulated market.

Moreover, the price offered in the summons may not be lower than the highest price paid, within 12 months prior to the announcement of the summons, for shares which were the subject matter of the summons by the summoning entity or by entities which: (i) are its direct or indirect subsidiaries or its direct or indirect parent companies, or (ii) which have entered into written or oral agreements concerning: joint acquisition of shares of this public company or depository receipts issued in connection with such shares, or the concerted voting of the company's shareholders in the general meeting of shareholders on matters of significance for the company, or the pursuit of an long-term joint policy regarding the company's management.

The price offered in the summons, is understood also as the value of objects or rights, which the summoning subject is to grant in exchange for shares. It has to be pointed out that pursuant to art. 155a Law of the Public Trading of Securities, a public company whose shares, included in the summons, have been traded in a stock exchange market, is obliged, not later than 2 working days prior to the opening of the admission of bidders, to submit, in a manner described in Art. 81.1, the opinion of the company's management board regarding the announced summons.

Pursuant to art. 156 Law of the Public Trading of Securities, exercising voting rights on shares acquired in violation of the obligations specified in Art.. 147, 149, 151 and 155 is null and void. A failure to perform on the obligation specified in Art. 154 of the Law of the Public Trading of Securities will void the right to exercise voting rights on all shares held.

Pursuant to art. 158a Law of the Public Trading of Securities: the acquisition, disposal or holding, by a direct or indirect subsidiary, of shares in a public company or depository receipts issued in connection with such shares, will be construed as the acquisition, disposal or holding of such shares or depository receipts by the parent company, whereas, depository receipts issued in connection with shares of a public company will be construed to be securities carrying voting rights on such a number of the company's shares as the holders of the depository receipts may obtain by trading their depository receipts for such shares

Art. 158a paragraph 2 Law of the Public Trading of Securities states that the performance of a legal act by a subsidiary or the occurrence of any other legal event in relation to such an entity will lead to obligations, as specified in this Chapter, also on the part of its parent company, provided that the change in the proportion of the vote held that results from such actions or events is subject to such obligations.

Pursuant to art. 158a paragraph 3 of the Law of the Public Trading of Securities, the obligations set out in art. 147 to 158 of the Law of the Public Trading of Securities, pertaining to the acquisition and disposal of large blocks of shares lay with:

1) jointly, on all subjects, joined by written or oral agreement, concerning:

   a) joint acquisition of shares of this public company or depository receipts issued in connection with such shares, or

   b) the concerted voting of the company's shareholders in the general meeting of shareholders on matters of significance for the company, or

   c) the pursuit of an long-term joint policy regarding the company's management

      – even if only one such entity has performed or has intended to perform activities resulting in the creation of such obligations; such obligations are performed by one of the parties to such an understanding, such a party to be indicated by the parties thereto,

2) be binding upon an investment fund also in cases where the reaching or exceeding of a vote percentage threshold specified in such regulations will be the result of a joint acquisition, disposal or holding of shares or depository receipts by:

   a) other investment funds managed by the same investment fund corporation

   b) other investment funds established outside of the Republic of Poland and managed by the same entity,

3) binding also upon entities whose reaching or exceeding of the number of votes specified in such regulations is the result of an acquisition, disposal or holding of shares or depository receipts:

   a) by a third party in its own name but for and to the order of the said entity, with the exception of shares acquired in the process of performing acts specified in Art. 30 paragraph 2 item 2,

   b) in the process of performing acts specified in Art. 30 paragraph 2 item 4 - with respect to shares comprised in managed securities portfolios on which the said entity, as portfolio manager, may, on behalf of its clients, exercise voting rights in the general meeting of shareholders.

Pursuant to art. 158b, 158c and 158d of the Law of the Public Trading of Securities , on the petition of a shareholder or of a group of shareholders, who hold at least 5% of the total number of votes at the General Meeting of Shareholders, the General Meting of a public company can make a resolution on the control, carried out by a chartered auditor, or another entity, having the necessary qualification to do that, to audit a particular issue connected with setting up a company of managing its businesses.

The aforementioned resolution of the General Meeting of Shareholders should define the object and scope of control, , the documents, which should be made available to the expert, as well as the statement of the Management Board towards the filed motion.

In case the motion to appoint a chartered auditor is not carried by the General Meeting of Shareholders, the mover can file a petition for appointing a chartered auditor to a register court, within 14 days, from the time of passing a resolution . Before the court issues its decision concerning the appointment of a chartered auditor, the register court will summon the company's Management Board and Supervisory Board to fill a post concerning the appointment within 7 days. If no answer is submitted within this period, does not withhold a court's decision. The court's decision, refusing to appoint a chartered auditor, is subject to complaint. Register court, on the petition of Management Board can condition the decision of appointing a chartered auditor, on the mover providing appropriate security. On the petition of the Management Board. register court can decide of the forfeiture of the security to the company, if chartered accountant's opinion proves an infringement of law. This decision of the court is subject to complaint.

The company's Management Board and Supervisory Board are obliged to make documents, specified in the resolution of the General Meeting of Shareholders, or in the court's decision concerning the appointment of a chartered auditor, available to the chartered accountant, as well as provide all necessary explanations, indispensable to carry out the control.

The chartered auditor is obliged to present a written report of the control to the company's Management Board and the Supervisory Board , a Management Board is obliged to make the opinion available to public opinion, according to the procedure specified in art. 81 paragraph 1 of the Law of the Public Trading of Securities.

The company's Supervisory Board reports the way the results of the control were implemented, during the next General Meeting.

Competition and Consumer Protection Act

Pursuant to art. 12 Competition and Consumer Protection Act, the intention of concentration by merger of two or more independent entrepreneurs, taking over – by way of acquisition or entering into a possession of stocks, other securities, shares, of the entirety or a part of the property or in any other way obtaining direct or indirect control over one or several entrepreneurs, creation by entrepreneurs of one joint entrepreneur, taking over or acquisition of stocks or shares of another entrepreneur resulting in achieving at least 25% of votes at a general assembly or assembly of shareholders, assuming by the same person the function of a member of the managing or controlling body of the competing entrepreneurs, initiating to exercise the rights arising from stocks or shares taken over or acquired without prior notification in accordance with Article 13, items 3 and 4 of the Competition and Consumer Protection Act is subject to the notification to the President of the Office in the case where combined turnover of the entrepreneurs participating in the concentration in the marketing year preceding the year of the notification exceeds 50 million EURO.

Pursuant to art. 17 Competition and Consumer Protection Act The President of the Office, by way of a decision, shall issue a permission to perform the concentration which will not result in creation or strengthening of a dominant position, thus will not significantly restrict competition on the market.

1.7. Principles of taxation of earnings connected with holding and trading Shares series H

The notes presented below are general in character and therefore to obtain detailed information concerning the taxation of share earnings, one should seek advice form tax advisors.

Taxation of dividend

Pursuant to art. 17 paragraph 1 item4 and art. 30 paragraph 1 item1a of the Act on Personal Income Tax and art. 10 and 22 of the Act on Corporate Income Tax, the earnings obtained by natural and legal persons by means of dividends, as well as other earnings, from legal persons' participation in profits, are taxed by lump sum income tax, amounting to 15% of the earnings. This tax is withheld by the company distributing the dividend, which is a payer. Pursuant to art. 23 of the Act on Corporate Income Tax, the amount of tax paid on the received dividend and other earnings from participation in profits of legal persons, having their registered offices in the Republic of Poland, is deducible from the tax chargeable for remaining earnings of that legal person, calculated according to the terms set out in the Act on Corporate Income Tax. In case such a deduction is impossible, in a given fiscal year, the received dividend is to be deduced from the income tax in the following years.

Taxation of earnings from the disposal of shares

Polish legal persons

Earnings of legal persons on the disposal of shares, are liable to corporate income tax. The object of taxation of the income, being the difference of the earnings that is the sum acquired from the disposal of shares, and the costs of goods sold that is the expenses incurred for the acquisition or taking hold of shares. The income on the disposal of shares is added to the remaining income and is liable to taxation, according to general provisions.

Pursuant to art. 19 of the Act on Corporate Income Tax the corporate income tax rate amounts to: 27 % of the tax base.

Earnings from the disposal of right of subscription and other rights, issuing from shares are taxed according to the same principles, as earnings from the disposal of shares.

Polish natural persons

Earnings of legal entities from the disposal of shares is taxed according to general provisions. The earnings, being the object of taxation, are earnings being the difference between revenue that is the amount of money for the disposal of shares, and the costs of goods sold that is expenses incurred on acquiring or taking hold of shares. Pursuant to art. 44 paragraph 8 of the Act on Personal Income Tax the corporate income tax payers, earning by disposing of their shares against payment, are obliged to pay tax advance amounting to 19% of earnings obtained from share disposal, until the 20^{th} of the month following the month, when the earnings form the disposal of shares was due, although was not actually received, in case earnings form the disposal of shares were due in December, to pay until the day of filing tax declarations, stating the earnings (losses) in a given fiscal year.

Earnings form the disposal of right of subscription and other rights issuing from shares, are taxed according to the sale regulations, as earnings from the disposal of shares.

Pursuant to art. 52 item 1 letter b) of the Act on Personal Income Tax, from 1 January 2001 to 31 December 2003 earnings from disposing shares against payment are exempted form tax – this pertains only to shares which are admitted to public trading of securities, acquired: following a public offering or on the securities exchange, or on a regulated over0the – counter secondary trading, or on the basis of an exemption, granted on the basis of the regulations of art. 92 or 93 of the Law of the Public Trading of Securities.

Foreign legal and natural persons

Foreign natural and legal persons, shall have to pay 15% income tax on obtaining dividend in Poland, paid by a company having its registered office in Poland, unless an agreement on avoiding double taxation, whose parties are Poland and the country, being the place of residence or the registered office of a foreign legal or natural person, states otherwise. Pursuant to art. 26 paragraph 1 of the Act on Corporate Income Tax, the 15 % tax rate, liable on dividend might be reduced to rates indicated in agreements on avoiding double taxation, only if before making the payment, the tax payer submits the payer with the so called certificate of residence that is a document certifying the place of residence or the tax payer's registered office, issued by appropriate authority, with respect to the place of residence, or registered office of the tax payer, for tax reasons.

Tax on civil transactions

Pursuant to the provisions of the Law of the Public Trading of Securities, secondary public trading of securities takes place, by agency of entities involved in brokerage activities. Pursuant to art. 9 item9 of the Act on Civil Transaction, the sales of securities to brokerage houses and banks involved in brokerage activities and the sales of securities, conducted by agency of brokerage houses or banks involved in brokerage activities, is exempted form tax on legal transactions. Law of the Public Trading of Securities provides, exceptionally, the possibility of selling shares admitted to public trading without the agency of entities running brokerage houses. In case a transaction is made between natural person, the tax on civil transactions will amount to 1 %. Tax on civil transactions in liable on the acquirer and disposer of shares, who will be parties to a given contract. The liable tax shall be paid within 14 days, form the time tax liability came into being; an appropriate tax declaration has to be submitted until the same date.

1.8. Underwriting agreements

Pursuant to the letter h) of resolution no. 7 of the Extraordinary Meeting of Shareholders, the Management Board was entitled to conclude an agreement of investment underwrite of the issue of Shares series H. As of the day of preparing this Prospectus the Company has not concluded and does not intend to conclude an agreement of investment underwriting of the issue of Shares series H.

If an investment underwriting agreement for the issue of Shares series H is concluded, the Company shall announce this fact immediately, according to the provisions of art. 81 paragraph 1 of the Law of the Public Trading of Securities.

The issue of Shares series H will not be underwritten on the basis of a service underwriting. The General Meeting of Shareholders has not entitled the Management Board to conclude agreements concerning the service underwrite of the issue of Shares series H.

1.9. Agreement defined in article 96 of the Law on Public Trading of Securities

The Issuer has not concluded an agreement on the basis of which securities (depositary receipts) based on the issued securities shall be issued outside Poland.

1.10. Issuer's intentions concerning the conclusion of an agreement described in article 96 of the Law on Public Trading of Securities

The Issuer does not intend to conclude a contract, on the basis of which securities (depositary receipts) based on the issued securities shall be issued outside Poland.

1.11. Distribution of Shares series H

1.11.1. Entity offering Shares series H in public trading

The entity offering Shares series H of LPP S.A. in public trading, as provided for in art. 33 of the Law of the Public Trading of Securities, is:

Dom Maklerski Banku Handlowego S.A. (Brokerage House of Bank Handlowy S.A.)

ul. Chałubińskiego 8

00-613 Warszawa

phone: 0-22 690-39/44

fax: 0-22 690-38-15

e-mail: dmbh@citicorp.com

1.11.2. General information

On the basis of the Prospectus, 1 to 190.000 H series ordinary bearer shares are offered, with nominal value of 2 PLN each, issued on the basis of a resolution of the Extraordinary Meeting of Shareholder of LPP S.A. no. 4 from 14 March 2003. Shares series H will be offered in two tranches:

– 50,000 Shares series H offered within the Tranche of Small Investors (the TMI)

– 140,000 Shares series H offered within the Tranche of Large Investors (the TDI).

The Issuer reserves the right to change the number of Shares series H within tranches, before Public Subscription has been opened. After the acceptance of the subscriptions for Shares series H has finished in the TMI, the Issuer may claw back unsubscribed Shares series H from the TMI to the TDI. Before allocating Shares series H to the TMI, the Issuer may claw back Shares series H from the TMI to the TDI.

The Issuer should announce information on claw back or forward of Shares series H across the tranches, pursuant to art. 81 of the Law on the Public Trading of Securities, within 24 hours, after the Management Board has decided to claw back and forward Shares series H between Tranches.

1.11.3. Dates of Public Subscription of Shares series H

18.04.2003	Announcement of the Minimum Price by EMITENT system
19.04.2003	Publication of the Minimum Price in the Stock Exchange Newspaper *Gazeta Giełdy PARKIET*
22.04.2003	Opening of the Public Subscription
22.04.2003	The start of accepting subscriptions for Shares series H in the TMI
22.04.2003	The start of Book Building for Shares series H
24.04.2003	The end of accepting subscriptions for a Shares series H in the TMI
25.04.2003 12.00	The end of Book Building for Shares series H
25.04.2003	Setting Issue Price
25.04.2003	Announcing Issue Price by EMITENT system
26.04.2003	Announcing information about the Issue Price in w “Gazeta Giełdy PARKIET”
28.04.2003	DMBH (Brokerage House of Bank Handlowy) directs invitations to make subscriptions in the TDI to Investors selected by the Issuer
28.04.2003	Start date of accepting subscription orders for Shares series H in the TDI
29.04.2003 15.00 p.m.	End date of accepting subscription orders for Shares series H in the TDI
29.04.2003	Closing Public Subscription
29.04.2003	Allocation of Shares series H in the TDI
30.04.2003	Allocation of Shares series H in the TMI via the Warsaw Stock Exchange System

The Issuer reserves the right to change any of the dates listed above. Appropriate Information will be announced according to art. 81 of the Law of the Public Trading of Securities and in *Gazeta Giełdy PARKIET*, not later than the date affected.

1.11.4. Entities entitled to subscribe for Shares series H

Tranche of Small Investors (the TMI)

Entities entitled to subscribe for Shares series H w in the Tranche of Small Investors, according to the provisions of the Prospectus are residents and non-residents, for the purpose of the Foreign Exchange Law:

– natural persons,

– natural persons,

– entities having no legal personality, having the ability to incur liabilities and acquire rights on its own behalf.

Tranche of Large Investors (the TDI)

Entities entitled to subscribe for Shares series H w in the Tranche of Large Investors, according to the provisions of the Prospectus are residents and non-residents, for the purpose of the Foreign Exchange Law:

– natural persons,

– natural persons,

– entities having no legal personality, having the ability to incur liabilities and acquire rights on its own behalf,

who have taken part in Book Building and received a personal invitation to make a subscription form the Issuer, by agent of the Offeror.

Non-residential Investors, intending to subscribe for Shares series H should get acquainted with the appropriate regulations of their countries of origin/residence.

1.11.5. Setting the issue price of Shares series H

On 18 April 2003 the Minimum Price will be announced. It will be possible to apply for Shares series H in the TMI only at a price equal to or higher than the Minimum Price. Price indicated in declarations of interest in subscription for Shares series H, filed within the Book Building process, shall not be lower than the Minimum Price. The announcement of the Minimum Price will be published in *Gazeta Giełdy PARKIET* on 19th April 2003.

Issue Price will be set by the Issuer on the basis of the recommendations of the Offeror based on the Book Building results. Issue Price shall be equal to or lower than the Minimum Price and will be identical for the TMI and the TDI. Issue Price will be set and announced on 25 April 2003 after Book Building has been finished The announcement of Issue Price will be published in *Gazeta Giełdy PARKIET* on 26th April 2003.

1.11.6. The Process of Book Building

From 22nd April to 25th April 2003, until 12.00, the Offeror will carry out actions aiming at:

– presenting information concerning the Company and the Public Offering,

– introductory identification of investors, declaring the intent of applying for Shares series H in the TDI,

– examining potential demand for Shares series H,

– setting the Issue Price.

During Book Building, the Investors will make declarations of applying for Shares series H in the TDI for not less than 2.500 Shares series H. On this basis, the Offeror will carry out Book of Demand, including a list of investors who intend to subscribe for Shares series H in the TDI and who indicated the number of Shares series H they want to to subscribe for as well as prices that they are ready to pay for the shares. The Issuer, on the basis of the recommendations of the Offeror, will choose discretionally investors, to whom invitations to place subscription orders in the TDI will be sent. The Issuer, taking into account the price and the required number of Shares series H the chosen Investors declared in the Book Building process, will send these Investors via the Offeror personal invitations to subscribe for Shares series H offered in the TDI. Under no circumstances shall the Issuer be obliged neither to send invitations to all investors, who will take part in the Book Building, nor to balance the demand declared during Book Building.

The Book of Demand will not be announced publicly.

Declarations of interest in acquiring Shares series H will be accepted in the Offeror's Customer Service Point in Warsaw at ul. Chałubińskiego 8. Investors, who have signed brokerage service agreements with the Offeror, enabling them to make orders by phone, can make declarations of interest of acquiring Shares series H by phone to the Offeror's office, providing all relevant information, necessary to fill out a declaration form. Investors interested in participating in Book Building, in order to acquire detailed information concerning the terms of taking part in this process, should contact the Offeror's Customer Service Point in Warsaw at ul. Chałubińskiego 8, in case they already have an account with the Offeror, they can contact the Offeror by phone at (22) 690-11-11.

In order to take part in the Book Building, an Investor shall fill two copies of declaration of interest in acquiring Shares series H, template of which is provided in Appendix no 5 thereto, or on the terms set out above, make a declaration by phone at the Offeror's.

Declaration should contain the following information:

– declaration number;

– information on investor:

  • name and surname, in case of a natural person, or the company name of a legal person or an entity not having legal personality;

  - residential address or registered office;
  - mailing address, phone number, fax number, e-mail address;
  - foreign exchange status (resident or non-resident);
  - in case of residents: PESEL number - natural persons, or REGON number for legal persons or entities not having legal personality, formed in line with the Polish law;
  - in case of non-residents: passport number – natural persons or appropriate registry number, for legal persons and persons not having legal personality;
- declared number of Shares series H the Investor declares to take hold of – not less than 2.500;
- maximum price, at which an Investor declares to acquire the given number of Shares series H, not lower than the Minimum Price announced by the Issuer and rounded to complete PLN;
- declared amount of contribution towards Shares series H (calculated as a product of a price, listed in the declaration and the declared number of Shares series H);
- Investor's consent, to be allocated a smaller number of Shares series H, than the number provided in the declaration, or not allocating any Shares series H at all, according to the provisions, set out in the Prospectus;
- Investor's signature;
- signature of the person accepting the declaration.

The Investor has the right to file more than one declaration of interest in acquiring Shares series H. In case an Investor has filed more than one declaration and this Investor will be included by the Issuer to the group of Investors invited to subscribe for Shares series H in the TDI, then a declaration with a price closest to the Issue Price will be the basis to invite an Investor to apply; the price shall be higher than, or equal to the Issue Price. The Investor will be invited to place a subscription order in TDI on the basis of only one declaration, in which the Investor indicated a price not lower that the Issue Price.

Within the period of Book Building the Investor is entitled to cancel or change a declaration filed previously. In case a declaration is changed, such declaration should be cancelled and a new declaration should be submitted. A declaration is cancelled through making appropriate note on the declaration that it is being cancelled, with a date of cancellation, Investor's signature and the signature of the person accepting the order to cancel a declaration.

Declarations with a price smaller than the Minimum Price or for less than 2,500 Shares series H will be found invalid.

Investment Fund Corporations file declarations separately for particular funds managed by a Corporation.

Entities managing securities of other parties, on other party's order, can make a declaration of subscription for Shares series H with respect to accounts managed by them.

The filing of a declaration of interest to acquire Shares series H is not an obligation to any of the parties. The Investors are, however, reminded that participation in Book Building is the first condition to receive a personal invitation to subscribe for Shares series H in the TDI.

Investors selected by the Issuer, only form those participating in the Book Building, will be invited to subscribe for Shares series H in the TDI, though an invitation, sent by fax, to the number an Investor has indicated in the declaration of interest in acquiring Shares series H. The investors are reminded that the Investor or entities responsible for making a declaration on behalf of the Investor, should have access to the fax machine, whose number is given on the declaration of interest in acquiring Shares series H.

Filing a declaration of interest in acquiring Shares series H during the Book Building process does not affect the Investor's right to subscribe in the TMI.

1.11.7. Venue of accepting subscriptions for Shares series H

1.11.7.1. Accepting subscriptions for Shares series H in the TMI

Subscriptions for Shares series H in the TMI will be accepted in the Offeror's Customer Service Points and other entities, being part of the distribution consortium, formed by the Offeror. A list of brokerage houses, included in the distribution consortium and a full list of Customer Service Points accepting subscriptions for Shares series H in the TMI is listed in Appendix no. 6 thereof.

1.11.7.2. Accepting subscriptions for Shares series H in the TDI

Subscriptions for Shares series H in the TDI will be accepted in the Offeror's Customer Service in Warsaw, at ul. Chałubińskiego 8 Investors, who have concluded a contract with the Offeror enabling them to make orders by phone, can apply for Shares series H in the TDI by phone, providing all information necessary to fill out a Subscription for Shares series H form.

1.11.8. Terms of Subscription for Shares series H

1.11.8.1. Terms of Subscription for Shares series H in the TMI

50.000 Shares series H are offered in the TMI, with a provision for claw backs of Shares series H between the Tranches, which are set out in item 1.11.2. in 3 thereof.

Public Subscription in the TMI will be carried out by the Investors' applying for Shares series H, giving the number of shares applied for, and the Proposed Price, which shall be not lower than the Minimum Price announced by the Issuer. The Proposed Price is declared as rounded to complete PLN. In case the Proposed Price, declared in the subscription is not rounded complete to PLN, it shall be automatically rounded down, to complete PLN. Because the allocation of Shares series H in the TMI will be carried out by the system of the Warsaw Stock Exchange S.A., the Investor, at the time of making a subscription, is obliged to posses a securities account in a brokerage house, where the Investor is applying. The application for subscription Shares series H in the TMI is the basis for placing an appropriate corresponding buy order for Shares series H at the WSE session.

The Investor can file an indefinite number of subscription orders, but in each subscription order the Issuer cannot apply for more than 2.499 Shares series H. A subscription order for more than 2,499 Shares series H will be found null and void. Purchase orders for Shares series H will be issued only on the basis of valid subscription orders for Shares series H made in the TMI. The brokerage house accepting subscription orders for Shares series H is responsible for placing purchase orders, however, on the basis of valid subscriptions only.

Applying for Shares series H in the TMI does not limit the right to file a declaration of interest in acquiring Shares series H in Book Building. Applying for Shares series H in the TMI does not limit the right to apply for Shares series H in the TDI on condition, the Investor has received a personal invitation to subscribe in the TDI.

1.11.8.2. Terms of Subscription for Shares series H in the TDI

140.000 Shares series H are offered in the TDI , with a provision for claw backs of Shares series H between the Tranches, which are set out in item 1.11.2. in 3 thereof.

Public Subscription in the TDI will be carried out by the Investors' subscription orders placed in response to invitations received form the Issuer, via the Offeror. The invitation shall state, among others: the number of Shares series H, for which the Investor should apply – not larger than the one declared by the Investor in Book Building.

The Investor can subscribe for not fewer number of Shares series H that was specified in the personal invitation, on the following conditions.

– The Number of Shares series H stated in the personal invitation cannot be larger that the number the Investor declared.
– The Subscriptions for a smaller number of Shares series H than the number specified in the personal invitation shall be invalid.
– Subscriptions for a larger number of Shares series H than specified in the invitation shall be treated as subscriptions for the number of Shares series H specified in the invitation.
– On the basis of one invitation, an Investor is entitled to make only one subscription.

1.11.9. Procedure of filing subscription orders for Shares series H

1.11.9.1. Filing subscription orders in the TMI

Subscription orders for the TMI will be accepted form 22 to 24 April 2003.

Subscriptions can be made in one of the Customer Service Points, listed in Appendix no 6 thereof. Entities, that have concluded a contract to make orders by phone with the entity accepting subscription orders for Shares series H, can apply for Shares series H in the TMI by phone, providing all information necessary to fill out a Subscription for Shares series H form.

Because the allocation of Shares series H in the TMI will be carried out by the system of the Warsaw Stock Exchange S.A., the Investor, at the time of making a subscription, is obliged to posses a securities account in a brokerage house, where the Investor is applying for Shares. The Investor should possess enough financial funds, on this account, amounting to the product of the number of Shares series H subscribed and the Proposed price, which cannot be lower than the Minimum Price, so that these funds could be blocked at the time of filing a subscription. If a brokerage house accepting the subscription, charges a brokerage fee, on buy orders, the funds on Investor's account should be also enough to cover brokerage fees. Applying for Shares series H in the TMI will result in issuing an appropriate buy order for Shares series H to be executed at a session of the Warsaw Stock Exchange. Buy orders will be entered into the IT system of the brokerage house, accepting the subscription, by entitled employees of the brokerage house. Only a valid subscription for Shares series H, shall serve as a basis for issuing an appropriate Shares series H buy order. The brokerage house accepting subscriptions for Shares in the TMI is entitled to charge the Investors with a brokerage fee, on the executed buy orders, on terms and conditions in place at the particular brokerage house. The decision whether to charge or not charge a brokerage fee, is made individually by brokerage houses accepting subscriptions. To gain information concerning levels of brokerage fees, the Investor should contact the brokerage house, where he intends to file his subscription.

Investors, filing subscriptions in the TMI are obliged to present appropriate documents, according to the principles of identifying investors, in place at the brokerage house, accepting the subscription for Shares series H.

1.11.9.2. Filing subscriptions in the TDI

Subscriptions in the TDI will be accepted from 28 to 29 April 2003 until 15.00 hours.

Subscriptions for Shares series H in the TDI will be accepted in the Offeror's Customer Service in Warsaw, at ul. Chałubińskiego 8 Investors, who have concluded a contract with the Offeror enabling them to make orders by phone, can apply for Shares series H in the TDI by phone, providing all information necessary to fill out a Subscription for Shares series H form.

1.11.9.3. Subscription form for Shares series H

An Investor, applying for Shares series H should, in the subscription venue, files three copies of a subscription form for Shares series H (one for the Investor, Customer Service Point accepting the subscription and the Issuer). The draft subscription form is presented in Appendix no 7 thereof. The Investor should also sign the statement, being an integral part of the subscription form, stating that the Investor:

– get acquainted with the contents of the Prospectus and the Issuer's Statute, the Investor agrees to the wording of the Statute and agrees to the terms of subscription;
– agrees to the terms of allocation of Shares series H, set out in the Prospectus;
– agrees to have his personal data processed, within the limits necessary to managing the register of entities applying for Shares series H.

Subscription form should contain the following information:

– Investor's particulars
  - name and surname, in case of a natural person, or the company name of a legal person, not having legal personality;
  - residential address or registered office;
  - mailing address;
  - foreign exchange status (resident or non-resident);
  - in case of residents: PESEL number - natural persons, or REGON number (any other identification number) for legal persons or entities not having legal personality;
  - in case of non-residents: passport number and country of issuing – natural persons or appropriate registry number, for legal persons and persons not having legal personality;
– number of Shares series H applied for;
– choosing the Tranche, in which the Investor applies for Shares series H (the TMI or the TDI);
– Proposed price for Shares series H (subscription within the TMI) rounded to complete PLN, or Issue Price of Shares series H (subscription within the TDI);
– amount of payment for Shares series H;
– declaration of the form of payment for Shares series H (cash, bank transfer);
– the bank or brokerage house account, to provide for the possibility of returning the payment, in case the issue does not take place, or a subscription is declared invalid – pertains only to the TDI;
– Investor's signature;
– signature of the person entitled to accept Subscriptions for Shares series H.

Subscriptions made by investment fund corporations, on their own behalf, separately for particular funds, managed by the corporation shall be, in terms of this Prospectus , understood as subscriptions of separate Investors.

In case entities running other party's portfolio of securities, by another party's order, file subscriptions on their customer's behalf, they shall be entitled to make one subscription for the joint number of Shares series H, following the subscriptions on behalf of particular customers. This should be filed together with a list, containing the following information about each of the Investors:

– Investor's name and surname or company name,
– PESEL number or REGON number,

– address,

– number of Shares series H subscribed on behalf of each of the Investors.

All entities, on behalf of whom, a joint subscription is made, must be entitled to subscribe for Shares series H, pursuant to item 1.11.4 of 3 thereof. Joint subscriptions for Shares series H, filed by entities managing other parties' portfolio of securities, against demand, shall be, in terms of this Prospect understood as subscriptions of separate Investors.

When applying for Shares series H, an Investor is obliged to present or deposit with the Customer Service Point appropriate documents, according to the principles of identifying investors, in place at the brokerage house, accepting Subscriptions for Shares series H. Therefore, before applying for Shares series H, the Investor should seek relevant information in the brokerage house, where he intends to file the subscription.

As a proof of accepting the subscription, the Investor shall receive one copy of the filed subscription form, certified by an employee of the Customer Service Point, accepting the subscription. In case of subscriptions made by phone, the investor shall receive one copy of the subscription form, authorised by an employee of the brokerage house, accepting the subscription, in a manner agreed upon with an employee accepting the subscription, according to the regulations in place at the brokerage house. Subscriptions are unconditional, cannot contain any reservations and are irrevocable within the term of being bound by the subscription.

At the time of applying for Shares series H in the TDI, an Investor or his authorised proxy can make an irrevocable order to deposit Shares series H, which will enable the record of all Shares series H allocated by the Issuer, on the Investor's securities account.

The order to deposit Shares series H has to include, apart form data included in the form, the following:

– NSD code and the name of a brokerage house or the trustee's bank name, managing the securities account;

– number of the securities account, where all Shares series H, allocated to the Investor by the Issuer, are to be deposited;

– the orderer's signature;

– signature of the brokerage house employee, who accepts the order.

– clause stating: „I declare to inform the brokerage house, where I filed the subscription, in writing about any changes to my securities account".

An Investor, making a deposit order, which is situated on the subscription form, should file four copies of the subscription form.

A computer printout, signed by the Investor and containing all the aforementioned elements, required for a subscription or a deposit order, will also be treated as filing a subscription or deposit order.

All consequences resulting from incorrect filling in of the subscription form or the deposit order form are borne by the Investor. Incomplete subscriptions, omitting any elements, will be deemed null and void.

Share series H subscription in the TMI will be found invalid, in case at least one of the following items is found to exist:

– the subscription is incomplete, that is is omits any of the elements of a subsription listed above,

– the subscription covers more than 2,499 Shares series H,

– the subscription is not paid in full, within the period specified in the Prospectus, that is the payment being the result of the number of surbscribed Shares series H and the Proposed Price perone Share series H.

Share series H subscription in the TDI will be found invalid, where at least one of the following cases arises:

– the subscription is incomplete, that is it omits any of the elements of a subscription listed above,

– the subscription will cover fewer shares than specified in the personal invitation to subscribe Shares series H in the TDI,

– the subscription will not be paid in full, within the period specified in the Prospectus, that is the payment being the result of the number of surbscribed Shares series H and the issue price per Share series H.

1.11.10. Contributions for subscribed Shares series H

The amount being the product of the number of Shares series H subscribed in the TMI and of the Suggested Price, will be blocked on the Investor's account in the brokerage house accepting Shares series H application, at the time of filing the application. The brokerage house accepting the subscription for Shares series H in the TMI is responsible for blocking on the Ivestor's account as amount corresponding to the subscription for Shares series H in the TMI made by the Investor The amount being the product of Shares series H allocated to the Investor and of the Issue Price will be written off the Investor's account as a payment for allocated Shares series H, on the first working day after the session of the stock exchange, during which the allocation of Shares series H in the TMI has taken place. Any difference between the blocked amount ant the amount written off, shall be released and remain on the Investor's account. In case Suggested Price is lower than the Issue Price, and as a result of that no Shares series H will be allocated with the

Investor, the amount being the product of the Suggested Price and of the number of Shares series H, for which the Investors applied, will be released and remain on the Investor's account.

A subscription for Shares series H, not paid in full within the period specified in the Prospectus, is invalid.

The Investors filing subscriptions in the TMI are kindly reminded that brokerage houses are entitled to charge the brokerage fees on accepted Shares series H applications, therefore the amount blocked as a payment towards Shares series H might be enlarged by adding the brokerage fee, calculated according to the provisions in place at a brokerage house, accepting applications for Shares series H.

Payments towards TDI shall be make by bank transfer to account no 18200001-0300183174 in Bank Handlowy w Warszawie SA. Dom Maklerski Banku Handlowego SA. shall be indicated as the payee. The object of payment should be stated as „payment towards LPP shares".

In case of filing applications in the TDI the complete payment has to be in the account until 15.00 hours on the day of accepting the application within thin Tranche. The time of booking the money on the aforementioned account shall be understood as the hour of transferring the money to the account.

In case of payments towards Shares series H, for applications filed in the TDI, the complete payment shall be understood as the product of the number of Shares series H subscribed in the TDI and of the Issue Price.

Pursuant to Resolution No 396 of the Commission, of 9 November 1995, concerning the Commission's opinion on the operations of entities running brokerage enterprises, in case there are well-founded grounds to suspect that the financial means of the customers originated in an illegal act or are connected with illegal acts (Official Journal of the Commission No 6, section 197) the Commission shall, in case there are well-founded grounds to suspect that the customer's financial means originated in or are connected with illegal activities, recommends to record in all entities running brokerage enterprises:

- each one-off payment, with special regard to cash payments or transfer orders above 20.000 PLN,
- also smaller payments, with special regard to cash payments or transfer orders, made in short intervals, above 20.000 PLN,
- each payment and transfer order, other than the aforementioned, which are made in circumstances, suggesting they could be aimed at investing pecuniary means, originating in or connected with illegal activities.

Pursuant to art. 106 paragraph 1 of the Banking Act, banks shall be required to undertake measures to prevent the use of their activities for purposes associated with the criminal offence referred to in art. 299 of the Penal Code, or for the purpose of concealing criminal activity. In the event of circumstances referred to, the banks shall notify the attorney. Moreover, banks shall be required to maintain a record of cash deposits in excess of a certain amount, and of the particulars of the parities performing such deposits and the parties to whose account the deposits are made (art. 106 paragraph 4 Banking Act). The Commission of Banking Supervision shall specify, by resolution, the procedure to be followed by banks in the cases referred to in paragraph 4 and the procedures for maintaining the records referred to.

Pursuant to art. 108 of the Banking Act, banks shall not be liable for nay damages that may arise as a result of their performance in good faith of the requirements specified in art. 106 paragraph 1 of the Banking Act. In such cases, where the circumstances referred to in art. 106 paragraph 1 of the Banking Act, were not associated with a criminal offence or the concealment of criminal activity, liability for damages arising as a result of the non-performance of banking operations shall be borne by the Treasury of the Republic of Poland.

Pursuant to the Act of 16 November 2000 on the Counteracting of the introduction into financial trading of assets originating form illegal or non-documented source (Journal of Laws No 116, section1216, with further amendments), a brokerage house, accepting a customer's order to carry out a transaction, whose value exceeds the equivalent of 10.000 EURO, either if this is a one-off operation, or within a number of operations, if the circumstances indicate that there is a link between them, the brokerage house is obliged to register such a transaction. The obligation of registration pertains also to transactions, where the circumstances indicate that the means might originate form illegal or unrevealed sources, regardless of the value and character of the transaction. In order to perform the aforesaid obligation of registration, brokerage house shall identify its customers on each instance of making oral or written orders. The aforesaid identification includes:

1. in case of physical persons and their proxies – the stating and recording of details of the document, stating the person's identity pursuant to separate regulations, or a passport, as well as the name, surname, citizenship and address of the transaction maker; moreover in case of stating identity on the basis of a Polish identity card, the PESEL number should also be recorded, in case of a passport - the country code. In case of person, on behalf of whom the transaction is carried out – their name, surname and address should be stated and recorded.
2. in case of legal persons – register the current data form an extract of the court register or other document, indicating the organisational form of the legal person, its seat, address, as well as a current document, certifying the authorisation of the person performing the transaction to act as an authorised proxy of the legal person, as well as data set out in section 1, concerning the proxy,
3. in case of organisational entities, not having legal personality – the registration of data of the document, stating the organisational form and address, as well as a document certifying the authorisation of the person performing the

transaction to act as an authorised proxy of the given entity, as well as data set out in section 1, concerning the proxy.

Brokerage house shall submit information about transactions registered according to the aforementioned rules to the General Inspector for Financial information.

The register of transactions together with documents concerning the registered transactions shall be stored for 5 years, from the first day of the year following the year, when the last record pertaining to a given transaction was made.

Transaction is understood as: cash payments, cash withdrawals, transfer of ownership or transfer of assets held, transformation of liabilities to shares, as well as making these activities on one's own or a third party's behalf.

1.11.11. Acting by proxy

Investors entitled to subscribe for Shares series H by proxy. A Person acting as an authorised proxy shall present a written Investor's proxy to an employee of the Customer Service Centre. The proxy should include authorisation to make the subscription and the Investor's particulars set out in item 1.11.9. of 3 thereof, as well as the following data concerning the proxy:

Persons being residents:

– natural persons: name, surname, detailed address, number of Polish identity card or PESEL number, or passport number;

– legal persons and entities not having legal personality: name, address REGON number.

Non-residents:

– natural persons: name, surname, address, passport number, country of issuer

– foreign legal persons and entities not having legal personality: name, registered office.

When applying for Shares series H, an Investor's authorised proxy is obliged to present or deposit with the Customer Service Point appropriate documents, according to the principles of identifying investors, in place at the brokerage house, accepting subscriptions for Shares series H. Therefore, before applying for Shares series H , the Investor should seek relevant information in the brokerage house, where he intends to file the subscription.

The above provisions do not pertain to proxies issued for entities managing other party's portfolio of securities by another party's order. In such cases, the required document is a proxy, granted on the basis of contracts for managing other party's portfolio of securities, concluded by an entity providing such services and the customer (a excerpt form a contract, certified by proxies of enterprises managing other party's portfolios of securities, by another party's order).

In case of entities managing trust accounts, the document required to make a subscription for Shares series H, on behalf of the customer is a statement of the entity running the trust account about acting according to the customer's orders and a proxy, issuing form contracts of running the customer's account.

The proxy document or its copy are deposited in the Customer Service Point, which accepts Subscriptions for Shares series H.

To collect the certificate of acquiring Shares series H and the amounts to be returned, the authorised proxy is obliged to present a proxy in the form of a notarial deed or bearing a notarially authenticated Investor's signature, entitling the authorised proxy to perform the aforementioned transactions.

Such a proxy can be made in writing (without the necessity of it being a notarial deed, or bearing a notarially authenticated Investor's signature), only, if this form is accepted by the brokerage house accepting Subscriptions for Shares series H. To learn, whether in a particular brokerage house – a member of the distributing consortium, there exists a possibility of accepting a written proxy, without notarial authentication, an Investor should contact a brokerage house directly.

The Investors are reminded, that pursuant to the Act on Stamp Duty and the Ordinance on Stamp Duty, a stamp duty should be paid on proxy agreement.

1.11.12. Closing the Public Subscription

Public Subscription shall be closed on 29 April 2003.

1.11.13. Terms of allocation of Shares series H in the TMI

W TMI Shares series H will be allocated to these Investors, who have filed subscriptions, in which the Proposed price is equal to or higher than the Issue Price. If demand on Shares series H in the TMI among Investors, who applied for a Proposed price equal to or higher than the Issue Price, shall be smaller than or equal to the number of Shares series H offered within this Tranche, then the Issuer shall allocated Shares series H to all investors, who applied for this price, in according to the number specified in the subscription.

In case of oversubscription for Shares series H in the TMI, among Investors, whose subscriptions included Proposed price equal to or higher than the Issue Price, the number of Shares series H allocated to those Investors shall be reduced proportionally.

Fractional Shares series H will not be allocated. Shares series H, which are not allocated after the allocation carried out according to the principle of proportional reduction, will be allocated one by one depending on the volume of buy orders, according to order priority – starting from those of the largest volume, finishing with those of the smallest volume, until null allocation balance is achieved. The decision on the final allocation will be made by the Issuer.

1.11.14. Terms of allocation of Shares series H in the TDI

The Issuer shall allocate Shares series H to all Investors, who filed valid and paid subscriptions, in the number issuing form the subscription. In case the number of Shares series H in the subscription exceeds the number of Shares series H set out in the personal invitation, on the basis of which subscription was filed, the number of allocated Shares series H will be equal to the number set out in the invitation Shares series H.

1.11.15. Settlement of payments towards Shares series H in the TMI

The amount being the product of the number of subscribed Shares series H and the Proposed price will be blocked on the Investor's account in the brokerage house accepting subscriptions for Shares series H, at the time of filing the subscription. The amount being the product of Shares series H allocated to the Investor and of the Issue Price will be written off the subscriber's account as a payment for allocated Shares series H, on the first working day after the session of the stock exchange, during which the allocation of Shares series H in the TMI has taken place. In case an Investor is allocated a smaller number of Shares series H than the subscribed number, according to the provisions set out in the Prospectus, or if the Issue Price is lower than the Proposed price, any difference between the blocked amount ant the amount written off, shall be released and written off the account of payments towards Shares series H. In case Proposed price is lower than the Issue Price, and as a result of that no Shares series H will be allocated with the Investor, the amount being the product of the Proposed price and of the number of Shares series H, for which the Investors applied, will be released and remain on the Investor's account.

The Investors filing subscriptions in the TMI are kindly reminded that brokerage houses entitled to charge the brokerage fees on accepted Subscriptions for Shares series H, therefore the amount blocked as a payment towards Shares series H might be enlarged by adding the brokerage fee, calculated according to the provisions in place at a brokerage house, accepting subscriptions for Shares series H. In case Shares series H are not allocated or a smaller number of them is allocated, the respective amount of the fee will be released. If the Proposed price specified in the Investor's subscription proves to be higher than the settled Issue Price, any brokerage fees, blocked in connection with the subscription filed by the Investor shall be respectively reduced, with the difference in fees will be released at the time of settling the transaction.

1.11.16. Settlement payments towards Shares series H in the TDI

In case a subscription for Shares series H in the TDI is found to be invalid, or there is a payment surplus detected, the due amount will be returned to the Investor within 4 working days, after the allocation of Shares series H in the TDI, in the way the Investor has specified in the subscription form.

There is no interest on payments towards Shares series H. These amounts will be returned without any interest or compensation.

1.11.17. Issuing deposit receipts of Shares series H

After having registered the resolution to increase share capital by Public Subscription of Shares series H with the court and after registering Shares series H in Polish Securities and Exchange Commission, Customer Service Points, which have accepted Subscriptions for Shares series H, shall start to issue depository receipts to Investors, who have taken hold of their Shares series H in the TDI and who have not made orders to deposit Shares series H, within 14 days, after Shares series H have been registered in Polish Securities and Exchange Commission.

Investors, who have taken hold of their Shares series H in the TDI and have not made orders to deposit Shares series H, shall receive certificates of the number of allocated Shares series H.

Shares series H subscribed in the TDI, will be booked on the securities account indicated by the Investor in deposit order, within 14 days after the registration of Shares series H in Polish Securities and Exchange Commission. Shares series H subscribed for in the TMI will be booked on the Investor's accounts until the same date. Information about the booking of Shares series H will be submitted to the Investor by the brokerage house, managing the Investor's securities account, according to the principles of informing the customers, in place in a given brokerage house.

1.11.18. Legal effects of not making payments towards Shares series H until the specified date

The legal effect of not making the complete payment towards Shares series H within a given date, shall be finding the application void.

A complete payment in the TMI, translates as the amount equalling the product of the number of subscribed Shares series H and Proposed price.

A complete payment in the TDI, translates as the amount equalling the product of the number of subscribed Shares series H and Proposed price.

1.11.19. Date of being bound by subscription for Shares series H

If Issuer fails to submit the resolution on increasing the share capital to the National Court Register within six months, after it was made, or if the court or the decision of the court refusing to register the resolution on increasing the share capital comes into effect, or the Issuer announces earlier that the issue of Shares series H will not take place, the Investor is ceases to be bound by the subscription.

1.11.20. Issue of shares does not take place

The issue of shares series H will not take place if::

– no share series H is taken hold of,

– the resolution on increasing the share capital has not been filed for registration with the National Court Register within 6 months from the day it was accepted,

– the decision of the court refusing to register the resolution on increasing the share capital comes into effect.

The Company's Management Board shall immediately inform about the fact of the issue of shares series H not taking place by a single advertisement in the national daily Gazeta Giełdy PARKIET asking the subscribers to collect deposited amounts. The repayments will be conducted through brokerage houses accepting subscriptions for shares series H in the way declared on the subscription form, without interest or damages, within 14 days from the day the advertisement on the issue not taking place was published.

1.11.21. Withdrawal from Public Offering

The Issuer is entitled to withdraw from the Public Offering at any time before its commencement without giving any reason.

After the Public Offering commences, the Issuer may withdraw only for very important reasons, like:

– sudden and unpredictable changes in the economic or political situation of the country or the world, which may have a significant negative impact on > the financial markets, the country's economy or on the Issuer's activities, including forecasts and declarations presented by the Issuer's Management Board in the Prospectus,

– sudden and unpredictable changes that have a direct influence on the Issuer's operating activities.

In case the Issuer withdraws from the Public Offering, the Management Board > will notify about this decision immediately.
The information on withdrawing from the Public Offering will be made public by way of a communiqué, submitted to the Polish Securities and Exchange Commission, the Warsaw Stock Exchange and information agency.

1.12. Regulated market, on which the Issuer plans to introduce Shares series H for secondary trading

Immediately after all regulatory conditions have been met, the Issuer’s Management Board intends to file a petition to introduce Shares series H into trading on the stock exchange.

After allocating Shares in the TMI and in the TDI, the Issuer Management Board shall file a petition to the Polish Securities and Exchange Commission to register Allotment Certificates (PDA) in the securities depository and file all necessary documents to enable the registration of PDA in Polish Securities and Exchange Commission. parallelly, the Issuer shall file a petition to the Management Board of the Warsaw Stock Exchange to introduce PDA into trading on the stock exchange.

The Issuer shall exercise all diligence to register the number of PDA equalling the number of solicited Shares series H in Polish Securities and Exchange Commission within 5 working days after the allocation of Shares series H, on the following accounts:

– Investor’s accounts, who were allocated with Shares series H in the TMI

– Investor’s accounts, who were allocated with Shares series H in the TDI and who have made orders of depositing Shares series H.

PDA of the Investor’s who were allocated with Shares series H in the TDI and who have not made orders of depositing Shares series H, will be recorded on the account of the Sponsor of the Issue.

PDA shall be recorded on the sponsor’s account and will not be subject to trading on the stock exchange.

PDA shall be an object of trading on the stock exchange, only on the second working day after the day they were recorded on the Investors' accounts.

Immediately after registering the resolution on the increase of the share capital, the Issuer's Management Board shall file a petition with the PSEC to register and assimilate Shares series H with the other LPP S.A. shares listed on the Warsaw Stock Exchange. The Management Board will, at the same time file a petition with the Management Board of the Warsaw Stock Exchange to introduce Shares series H into trading. Immediately after the Shares series H have been registered with PSEC, on the Issuer's motion, PSEC, will cause the Shares series H to be recorded on the accounts of the Investors, who after the closing of a session of the stock exchange. on the same day will be entitled to PDA. this day will be the last day of PDA listing. For each PDA on the Investor's and Sponsor's account, there will be one Share series H recorded. From that moment on PDA expires. The Issuer's Management Board forecasts that the assimilation of Shares series H and the beginning of listings will take place in the fist half of May 2003.

In case the, register court deduces not to register the resolution on increasing the share capital, the Issuer, immediately after receiving the decision of the register court will announce this information and file for finishing the PDA listing on the Warsaw Stock Exchange, as of the day the decision has been made public. Payments towards Shares series H will be returned to those investors, on whose accounts PDA are recorded, the day transitions carried out on the last lay of their listing are settled, in the amount equalling the product of the number of PDA held by an Investor and the Issue Price. The amounts shall be returned according to the provisions and dates set out in Chapter 3 section 1.11.20 of this Prospectus. The Issuer's Management Board assumes that the first PDA listing will take place in the first half of May 2003.

1.13. Information concerning the Issuer's financing of acquiring or taking hold of Shares series H

Issuer will grant to loans, collaterals, advance payments, or finance in directly or indirectly taking hold of or acquiring Shares series H.

CHAPTER 4 – ISSUER'S DETAILS

1. Basic terms of Issuer's policy regarding the payment of dividend

1.1. The policy of the Management Board regarding payment of dividends within the last three years

During the last three years the Company has not been paying out dividend. Net profit earned by LPP S.A. within this period was entirely allocated to the Company's supplementary capital. Net financial results earned by the Issuer in this period amounted to::

– net result for 1999 equalled 5.994 thousand PLN,

– net result for 2000 equalled to 6.154 thousand PLN,

– net result for 2001 equalled to 10.139 thousand PLN, respectively.

1.2. The policy of the Management Board regarding payment of dividends within the next three years

Within the next three fiscal years, the Management Board is planning to file a motion to the General Meeting of Shareholders, asking it not to pay out dividends, or earmark only a part of the net profit for the payment of dividend. This decision will depend upon many factors, including financing requirements, connected with the Company activities, its financial results and market conditions.

1.3. Dates of deciding on the payment of dividend

Pursuant to art. 395 of the Polish Code of Commercial Partnerships and Companies, the body entitled to decide upon profit distribution and the payment of dividend is the General Meeting of Shareholders, which undertakes appropriate resolutions. Pursuant to the Polish Code of Commercial Partnerships and Companies and the provisions of the Company Statute, General Meeting of Shareholders shall be held within 6 months after the end of each fiscal year.

For the resolution on the payment of dividend to be valid, absolute majority of cast votes is required.

Pursuant to art. 348 § 3 of the Polish Code of Commercial Partnerships and Companies, the Company's General Meeting of Shareholders sets the dividend day and the dividend payment date.

1.4. Method of notification about dividend collection

Information concerning dividend collection will be announced, according to art. 81 of the Law of the Public Trading of Securities.

1.5. Conditions of the dividend collection

Pursuant to Chapter IX § 9 of Detailed WSE Trading Rules, where the Issuer passes a resolution to declare a dividend, he shall immediately notify the Warsaw Stock Exchange that such a resolution has been passed and shall in addition notify of the amount of the dividend, profit allocated to dividend, the date of record for determination of the dividend right, dividend day and the dividend payment date. In addition to and together with the aforesaid information, the Issuer shall submit to the Warsaw Stock Exchange the relevant resolutions of the company's appropriate body.

Pursuant to § 91 Detailed PSEC Operating Rules, the Issuer is obliged to notify the PSEC about the amount of the dividend and about the dates of the dividend day and the dividend payment date. The Issuer shall submit relevant resolutions of Company's appropriate organs to the PSEC, not later than 10 days before dividend day. Before that, the Issuer is obliged to agree with the PSEC upon both dividend day and the dividend payment day. At least 10 days has to elapse between the dividend day and the dividend payment date.

Pursuant to § 97 Detailed PSEC Operating Rules, the Issuer is obliged to provide the PSEC with funds, earmarked for the realisation of the right to dividend; the PSEC shall later distribute these funds to the money accounts of particular brokerage houses.

1.6. Preferences with respect to dividend

There are no preferences with respect to dividend payments in the Company.

2. Issuer's share capital composition

Share capital of LPP S.A. amounts to 3.027.000,00 PLN and is divided into 1.513.500 shares.

Share capital includes:

– 100 A series bearer shares, of net value amounting to 2,00 PLN each,
– 350.000 B series registered shares, of net value amounting to 2,00 PLN each,,
– 400.000 C series bearer shares, of net value amounting to 2,00 PLN each,
– 350.000 D series bearer shares, of net value amounting to 2,00 PLN each,
– 56.700 E series bearer shares, of net value amounting to 2,00 PLN each,
– 56.700 F series bearer shares, of net value amounting to 2,00 PLN each,
– 300.000 G series bearer shares, of net value amounting to 2,00 PLN each.

Issue price of A, B, C and F series shares was equal to their nominal value and amounted to 2,00 PLN per share.

Issue price of D series shares amounted to 4,00 PLN per share.

Issue price of E series shares amounted to 154,00 PLN per share.

Issue price of G series shares amounted to 48,00 PLN per share.

Registered B series shares are preference shares, with respect to the right to vote at the General Meetings of Shareholders - one share entitles to cast five votes, during the General Meeting of Shareholders.

3. Changes in the Issuer's share capital within the last three years

Within the last three years, the share capital was increased by public issue of G series ordinary bearer shares of LPP S.A.

On the basis of the resolution no 2 of 8 December 1999, changed by the resolution no 13 of 24 February 2000 and resolution no. 2 of 24th March 2000, the share capital was to be increased by the amount not smaller than 2 PLN and not larger than 600,000 PLN, through the issue of not fewer than 1 and not more than 300,000 ordinary bearer shares series G, of nominal value amounting to 2 PLN each. Shareholders subscribed for of and paid for 300,000 shares. Issue price amounted to 48 PLN per share. Company Statute was changed accordingly. As a result of the public subscription for shares series G, no person or group of persons subscribed for shares constituting 5% or more of the Company's capital.

The Company Statute was changed accordingly, to accommodate the increase in the share capital effected by the issue of shares series G.

The aforementioned changes in the Statute were registered on 11 April 2001.

Moreover, on 24 February 2000, by the resolutions no 2 and 6, of the Company Extraordinary Meeting of Shareholders changed the Company Statute, pertaining to B series preference registered shares of LPP S.A..

B series registered shares are preference shares, with respect to the right to vote at the General Meetings of Shareholders, concerning the division of assets in case the Company is liquidated, in that one preference share entitles to cast five votes, during the General Meeting of Shareholders. Preference with respect to the division of assets, in case the Company is liquidated means, that remaining assets, after having satisfied the creditors, are used to pay firstly nominal amounts, accruing to all shares, whereas the surplus is divided and paid equally to preference shares .

The aforementioned change in the Statute was registered on 1 March 2000.

On 21 March 2000 Company Extraordinary Meeting of Shareholders changed the Company Statute, pertaining to changing A series registered shares of LPP S.A to bearer shares.

The aforementioned change in the Statute was registered on 22 March 2000.

On 8 June 2000 Company Extraordinary Meeting of Shareholders changed the Company Statute, pertaining to B series preference registered shares of LPP S.A. B series registered shares, are at present, only preference shares with respect to the right to vote the right to vote at the General Meetings of Shareholders. One preference share entitles to cast five votes, during the General Meeting of Shareholders.

The aforementioned change in the Statute was registered on 19 June 2000.

On 28 July 2002 Extraordinary Meeting of Shareholders changed the Company Statute, pertaining to changing E series registered shares to bearer shares.

The aforementioned change in the Statute was registered on 6 November 2002.

4. Forecasted changes in the share capital, resulting from the bondholders' executing their rights resulting from convertible bonds or from bonds vesting them with pre-emption right to take hold of new share issues in the future

The Issuer will not issue bonds convertible to shares, or bonds with a pre-emptive right to subscribe for shares. Therefore, no changes of the share capital are planned, in connection with the Issuer's securities other than Shares series H, to be introduced into public trading and offered on conditions, described in Chapter 3 thereof.

5. Number of shares and the value of share capital, by which the share capital can be increased, within the limits of authorised capital

The Issuer's Statute do not provide for entitling the Management Board to increase the share capital, within the limits of authorised capital.

6. Entering the details of the Issuer's enterprise into part 4 of the register of entrepreneurs, as per the National Court Register (KRS) Act

As at the day of the preparation of this Prospectus, part 4 of the Company's entry in the register of entrepreneurs at KRS no. 0000000778, does not contain entries on tax, customs or social security arrears, not subject to enforcement; data concerning creditors, and their creditors; information about provisional enforcement writs, concerning claims against the entity.

CHAPTER 5 – ASSESSMENT AND PERSPECTIVES OF THE ISSUER'S DEVELOPMENT

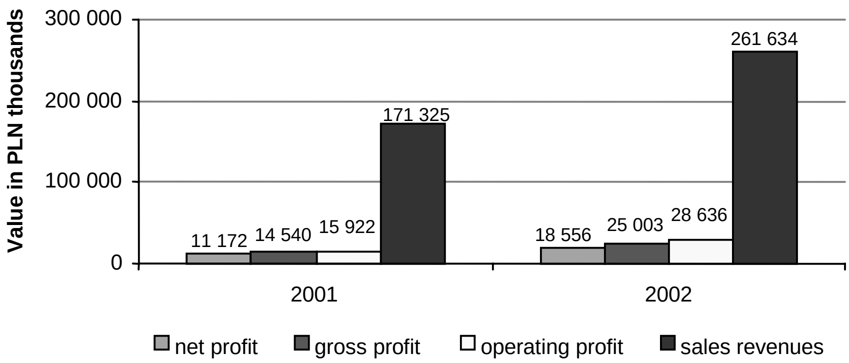
1. Assessment of the Issuer's financial assets management

Assessment of the Issuer's financial assets management was made based on the analysis of financial data presented in LPP S.A. annual financial statement for 2002 and comparative data from 2001.

The Company's dynamic growth is reflected by the increase of basic values presented in the profit and loss account, i.e. the following items:

– sales revenues,
– operating profit,
– gross profit,
– net profit.

LPP S.A. revenues and profits



The increase of value of the aforementioned items in 2002 against the previous year amounted to, respectively:

– sales revenues – by 52.71%,
– operating profit – by 79.85%,
– gross profit – by 71.96%,
– net profit – by 66.09%.

Such dynamic growth of sales in 2002 was mainly caused by the increase of revenues from sales of clothing under the Reserved label in the brand stores. In this particular channel of distribution, sales results increased by 171% compared with the previous year.

The strategic plan drawn up by the Company Management Board included the assumption that the Company stores will be characterised by the greatest growth potential. These forecasts proved correct and in 2002 this distribution channel became LPP S.A. major channel. Its share in the Company's sales revenues exceeded the level of 49%.

The second largest channel of distribution in terms the dynamics of clothing sales revenues was export (increase by 30% as compared with the previous year). This distribution channel involves the sale of clothing under three trade marks: Reserved, Promo Stars and Henderson. The increase of sales in this channel was also mainly a result of the development of the Reserved stores network across Central and Eastern Europe.

The Issuer intends to reduce share in sales revenues of other, less dynamic channels of distribution. These decisions are also supported by the sales profitability analysis in individual channels of distribution.

1.1. Profitability analysis

Profitability analysis was made based on fundamental ratios, defined as follows:

– operating profit margin – operating profit divided by sales revenues,
– net profit margin – net profit divided by sales revenues,

– return on assets (ROA) – net profit from the last 12 months divided by average assets,

– return on equity (ROE) – net profit from the last 12 months divided by average equity.

	2001	2002
operating profit margin	9.29%	10.95%
net profit margin	6.52%	7.09%
return on assets (ROA)	10.78%	12.87%
return on equity (ROE)	26.15%	28.34%

In 2002 there was an increase of all profitability ratios. The increase of margins was primarily the result of the change of sales structure and focusing on the development of the main growing and profitable channels of distribution.

Nearly 50% of sales revenues in 2002 was accomplished in the Reserved brand stores, where the margin is at the highest level of all Company's channels of distribution, despite the fact that brand stores generate operating costs as a result of the intensive growth. Further increase of the Company's profitability can be expected within the several years to come, in line with the further planned development of this channel of distribution.

In addition, in 2002 there was also an increase of the return on assets (ROA) ratio, despite substantial increase in value of the Company's fixed assets due to investment outlays in the brand store network and the increase of working capital value as a result of the rise in of inventory and receivables related to the development of the Reserved network.

Despite the increase of equity, as a result of the transfer of net profit from 2001 entirely to stock capital, the return on equity (ROE) ratio also gained in value.

1.2. Liquidity analysis

Liquidity ratios have been defined as follows:

– current ratio – working assets divided by the value of short-term liabilities,

– quick ratio – working assets less inventory divided by the value of short-term liabilities,

– inventory turnover ratio (days) – average inventory divided by costs of goods and products sold and multiplied by the number of days in a given period,

– receivables turnover ratio – average receivables divided by sales revenues and multiplied by the number of days in a given period,

– trade payables turnover ratio (days) – average trade payables divided by the costs of goods and products sold and multiplied by the number of days in a given period.

	2001	2002
current ratio	1.69	1.44
quick ratio	0.56	0.51
inventory turnover ratio	206 days	181 days
receivables turnover ratio	52 days	43 days
trade payables turnover ratio	99 days	94 days

In comparison with the previous year, in 2002 liquidity ratios declined. It was mainly due to the substantial increase (by over 55%) of the value of short-term liabilities, both in terms of trade payables for deliveries and services (working assets were financed by the trade credit) and short-term credits (expansion of business activity).

As a result of the dynamic development of the Company and intensive investments in the Reserved brand stores network, there was an increase of both trade payables and bank debt.

The discrepancy between current ratio and quick ratio results from the fact that LPP S.A. is a distribution company, and therefore inventory represents substantial part of the Company's working capital.

Substantial inventory enables the Company to maintain required amount of goods in the stores, which gives the Company the edge over its competitors. In addition, the delivery cycle is relatively long, as the majority of LPP S.A. suppliers are based in China, and the balance item 'inventory' includes not only trading goods stored in domestic warehouses and in customs warehouses, but also trading goods in transit.

The increase in inventory was also caused by the change of the Company's sales structure in terms of the channels of distribution. In 2002, the major channel of distribution was the sales of goods in the Reserved brand stores, which requires an appropriate amount of products displayed in the stores.

Compared with the previous year, in 2002 there was an improvement of inventory, receivables and payables turnover ratios. It was mainly attributable to the direct exchange of trading goods in stock into cash in the Reserved brand stores, and increasing importance of this particular channel of distribution in the Company's offer structure.

Liquidity analysis of LPP S.A. indicates that (taking into account the specifics of the design and distribution business) liquidity ratios are maintained at the safe level, the increase of working assets is closely related to the Company's development, inventory and receivables turnover improved, and the Company maintains positive balance between receivables turnover and trade payables turnover.

1.3. Leverage analysis

Leverage analysis was based on the structure of liabilities and leverage ratios defined as follows:

– long-term debt ratio – long-term liabilities divided by total assets/liabilities,

– total debt ratio – total liabilities divided by total assets/liabilities.

	2001	2002
long-term debt ratio	5.94%	4.40%
total debt ratio	52.79%	54.28%

Compared with the previous year, in 2002 the nominal value of long-term liabilities remained at a comparable level; however, its share in total liabilities structure decreased.

The decrease of the long-term debt ratio is a result of the increase of total balance sheet, including the increase in equity (by over 32%), related to the transfer of net profit from 2001 entirely to stock capital.

The decline of total debt ratio is directly related to the increase of short-term liabilities and results from the Issuer's policy towards its suppliers – maintaining and prolonging payment of trade payables for the purpose of financing working capital. The increase of short-term liabilities is also attributable to the development of the Reserved brand stores network. The increase of the Issuer's activities in this particular channel of distribution entails the increase in inventory necessary to supply the stores with required amount of goods, as well as investment outlays, partly financed by bank credits.

Solvency analysis of the Issuer indicates no risk of the Company's inability to meet its liabilities.

2. Assessment of factors and extraordinary events influencing business results in 2002

In 2002 there were no extraordinary events influencing the Issuer's business results.

3. Direction of changes in business activities between 31st December 2002 and the date of the Prospectus

Between 31st December 2002, the day of the last financial statement, and the date of the Prospectus, no changes in the Issuer's business activities occurred. The Company does not plan to introduce any changes in the direction of its business within the period of the next two years.

Until the update hereof, no events took place which would result in the change of the forecast sales revenues or the change of the Company's policy concerning inventory management.

4. Description of external and internal key factors influencing the development of the Issuer's company and description of the perspectives of the Issuer's business development

The following factors will have an impact on the Issuer's business development:

1. internal factors:

– the Company's market strategy

LPP S.A. is a design and distribution company and as such it does not have its own production capacity. The Company will focus on its design activities, increasing its trading potential and the development of the existing channels of distribution (in particular on the extension of the Reserved brand stores network).

– LPP S.A. market position

LPP S.A. runs various marketing activities related to its trade marks. For the past two years, marketing activities have been primarily focused on the Reserved label and resulted in the increase of brand recognition by the target consumer group. High growth rate of sales revenues in the Reserved brand stores is a result of both the opening of new stores and the sales dynamics in the existing locations.

– extending and renewing offers presented to customers

The Company trades in a specific type of goods – the sales of clothing depend heavily on the preferences of customers and on fashion. Therefore, LPP S.A. keeps in touch with the changing preferences of customers and launches new product groups to the market. In the case of the Reserved label, LPP S.A. tries to create its own style, comparable still to global trends.

– motivating remuneration scheme

Since 2000, the Company has been introducing motivating remuneration scheme for LPP S.A. managing staff. Over 30 employees have participated in this scheme. Employees designated by the Supervisory Board are entitled to purchase LPP S.A ordinary series F bearer shares on preferential terms in relation to the current market price of the Company shares.

– purchase and introduction of a computer system

In line with the strategy of IT development, the Company purchased computer equipment and signed contracts for the purchase and introduction of a modern, multi-module IT system for the RETEK sales network management. This system will enable the company to introduce modern logistic solutions in its leading channel of distribution, i.e. in the Reserved brand stores.

2. external factors:

– change and growth of the clothing retail market in Poland and in Central and Eastern Europe

The analysis of the clothing retail market in Poland and in Central and Eastern Europe reveals the increase in demand for clothing and growing customer preference for high-quality products. Therefore, LPP S.A. puts into practice its strategy of brand stores network development and runs extensive marketing activities related to the Reserved label.

– relatively low costs of entrance into the clothing market

Low entrance barriers of the clothing market may result in the increase of competition. The development of the Company's own stores network and the introduction of RETEK IT system are the means to protect LPP S.A. against competitors with lower financial assets.

– Poland's accession to the European Union

When Poland becomes the member state of the European Union, LPP S.A. may be forced to compete with large foreign companies. Strong brand and extensive retail network of the Company's own stores enables LPP S.A. to compete on equal terms on the local markets. Advantageous location of brand stores gives LPP S.A. some edge over its competitors.

Poland's accession to the EU may entail administrative restrictions, for instance the necessity to acquire import quotas for clothing produced in China. These barriers will be eliminated on 1st January 2005, on the basis of agreements concluded between the EU and World Trade Organisation. The current customs policy in the area of clothing import from China is more advantageous in the EU member states (12% customs duty) than in Poland (18%).

– FX rates

The Company is sensitive to the fluctuations in foreign currency exchange rates, because LPP S.A. settles its accounts with its foreign suppliers and buyers mainly in USD, payment of rent in brand stores depend on the Euro exchange rate, and the Company has also concluded credit agreements in foreign currencies. Owing to the specificity of its business, the Company is able to minimise FX risks by taking into account the effects of FX rate fluctuations in price calculations for trading goods sold to end customers. The Company is considering the use of FX risk control instruments.

– the level of spending on consumer goods in Poland

The analyses of demand in the clothing market indicate the growth trends in retail clothing stores sector. The Company will therefore consistently implement the strategy of the development of its own network. The Management Board estimates that even if the customers' spending on clothing do not increase, LPP S.A. business will not be put at risk, taking into consideration the substantial split of market share among many companies active on the clothing market.

– changes in fashion trends

As the share of the Reserved label in the LPP S.A. sales structure increases, the impact of the fashion trends changes factor on the Issuer's results gains more importance. For the past several years, LPP S.A. has been building a strong design team, whose task is to create clothing collections on the basis of team-work, so as to prevent the influence of individual persons on the final result.

In 2003 – 2004, the Company plans to continue this business philosophy in terms of design, and to introduce modern logistic methods in the area of clothing distribution. The perspectives of the Company development are good, and as at the date of the update hereof, there are no major threats which could considerably affect the Issuer's business results. The retail sales sector will be the most dynamic area of the Company's development. At present, LPP S.A. owns 41 brand stores in Poland and 7 brand stores in the Central and Eastern Europe countries. In 2003, the Company plans to open 20-30 new stores in Poland and another 10 abroad. Along with the development of retail network, the Company will also focus on intensive marketing of the Reserved label.

5. Forecasts of factors influencing the Issuer's future results

While preparing the strategy of development for the next several years as well as the forecast results for 2003, the Issuer's Management Board has taken into account the forecasts concerning the following factors:

– increased demand for high-quality clothing and at the same time decreasing demand for low-quality clothing,

– growing importance of customer's brand awareness in the process of purchase decision-making,

– the influence of store location on the volume of sales revenues,

– customer requirements towards the supplier in terms of logistics,

– the ability to keep up-to-date with the latest trends in fashion,

– flexible response to market changes.

6. The Issuer's strategy of development and investment plans and the assessment of investment feasibility

The Issuer's strategy of development and investment plans assumes dynamic development of the Company's own retail sales network and the introduction of a modern IT system to support the Company's management.

Thus, investment plans are identical with the objectives of Shares series H Issue.

The Issuer intends to develop retail sales by opening 20-30 new Reserved brand stores in Poland in 2003 and another 30-40 stores in 2004, as well as around 10 new stores abroad each year. The Company plans to earmark funds for tangible assets and equipment for new stores, as well as for retail sales development (through the purchase of required goods to supply the stores). As at the date of the preparation hereof, the Company started to prepare the rented facilities with the view to open new stores in 2003.

In line with the strategy of IT development, the Company plans to purchase computer equipment valued at approx. PLN 4 million. In addition, as at the date of the preparation hereof, LPP S.A. signed the contract for the purchase and introduction of a modern, multi-module IT system for the sales network management, and sub-licence agreement and contract for professional consulting services with the company ACCENTURE Sp. z o.o. based in Warsaw.

The total value of all concluded contracts amounts to USD 3.3 million. The payments arising under the provisions of the aforementioned contracts will be settled successively in line with the completion of the introduction works.

The Company has also signed a contract for maintenance services with the company RETEK INFORMATION SYSTEMS Inc., Delaware.

As at the date of the preparation hereof, the introduction of the system entered its first phase; it is due for completion in May 2003. The final introduction of all modules of the RETEK system is planned for the first quarter of 2005.

In terms of capital investments, the Company plans only to invest into companies set up by LPP S.A.; these will act as intermediaries in the process of lease of facilities for certain Reserved brand stores in Poland, or will open new Reserved brand stores in Central and Eastern Europe. This model turned out to be effective during the last two years of Company's business strategy.

To complete its investment plans, the Company will employ resources from the issue of H series shares. If these resources are not sufficient to achieve all these objectives, the Issuer will utilise cash flow and bank credits resources to realise the established strategy.

7. Forecast of the Issuer's financial results

In January 2003, LPP S.A. Management Board published the forecast of financial result for 2003.

The plan assumes the following values:

- sales revenues in the amount of PLN 390 million,
- EBIDTA (Earnings Before Interest, Tax, Depreciation and Amortisation) in the amount of PLN 54 million,
- operating profit in the amount of PLN 46 million,
- net profit in the amount of PLN 31 million.

The forecast of financial results has been prepared on the basis of:

- the Issuer's preliminary financial results for 2002,
- the Issuer's strategy of development for 2003-2004,
- investment plans for 2003-2004,

and the following macroeconomic values:

- average annual USD exchange rate – PLN 4.10,
- average annual WIBOR rate (Warsaw Interbank Offered Rate) – 6.2%

The Issuer will monitor the feasibility of forecast results against actual quarterly results and the realisation of investment objectives planned for 2003.

The Issuer will prepare current and quarterly assessment of the forecasts realisation, and any discrepancies will be published in the form of current reports.

The completeness and reliability of the assumed bases and key assumptions of the forecast have not been assessed by an auditor; nor has any proper body analysed these forecasts in terms of their correctness on the basis of the Company's assumptions, and in terms of the accounting principles (policies) used in the preparation of the financial results forecast and their compliance of with the accounting principles (policies) used by the Issuer.

CHAPTER 6 – INFORMATION ON THE ISSUER'S ORGANISATION, MANAGEMENT, SUPERVISORS AND MAJOR SHAREHOLDERS

1. The Issuer's Management Board

The Company's Management Board manages the activities of the Company, represents the Company in court and before the authorities and third parties, and takes decisions required to realise the Company's tasks.

The scope of responsibilities of the Management Board comprises all issues not restricted by the competence of other Company bodies, including decisions concerning returns of costs, remuneration and awards for the Supervisory Board members and other persons employed in the Company.

In accordance with §13 of the Company Statute, the Company's Management Board is comprised of 2 - 5 persons appointed and recalled by the Supervisory Board for the term of 5 years. The Management Board comprises the President and 1-4 Vice Presidents of the Management Board. The President alone, or two Vice Presidents acting together, or one Vice President acting with the authorised proxy, are authorised to make statements of will and sign documents for and on behalf of the Company.

The Management Board consists of:

Marek Piechocki – President of the Management Board

Age: 42, PESEL ID number: 61020502291. Graduate of the Gdańsk University of Technology. 1988 – 1990: construction assistant in the company Zakład Elektrotechniczny Jerzy Lubianiec; 1991: Deputy Trade Department Director in the company Przedsiębiorstwo Handlowe ETA s.c.; 1990 – 1997: own proprietorship – civil partnership P.H. Mistral s.c. in Gdańsk. Chairman of the Supervisory Board of LPP Tex S.A.; since 4th July 1995: President of LPP S.A. At present: the President of the Company Management Board. The current term of office of President of the Management Board will cease as at the date of the General Meeting, approving of the Company's financial statement for 2002, i.e. for the last full financial year of the term of office of the Management Board member.

Marek Piechocki is the partner in the civil partnership DH Market s.c. in Kościerzyna, in the limited liability company DH Jantar Sp. z o.o. in Lębork, and the shareholder in LPP TEX S.A. in Gdańsk. The activities of all these companies do not represent any competition for the Issuer's business.

Marek Piechocki does not run any competitive business, nor is he a partner or member of any body of any competing legal person.

On 1st January 2003, Marek Piechocki entered into a full-time employment agreement with the Company. The life of this agreement is indefinite. The remuneration due under the provisions of this agreement is not to be published and is presented in "Information not to be published".

Marek Piechocki is not included in the Bankrupcy Register, maintained pursuant to the Act on the National Court Register.

Marek Piechocki has never executed any tasks of persons holding managing or supervisory positions in companies which at that time filed for bankruptcy and liquidation.

Marek Piechocki holds the position of the President of the Management Board of the limited liability company Tora Sp. z o.o. This company is 100%-owned by the Issuer and does not run any competitive business activities.

Dariusz Pachla – Vice President of the Management Board

Age: 42, PESEL ID number: 61051302350. Graduate of the Szczecin University of Technology and post-graduate studies at the University of Szczecin. 1986 – 1991: engineering specialist in the company Zakład Mechaniki Pojazdowej in Szczecin; 1991-1995: branch manager in the company P.H. Mistral s.c. in Gdańsk (based in Szczecin); 1995-1997 – branch manager in the company LPP S.A. (based in Szczecin); July 1998 – December 2002: sole proprietorship of the company Dariusz Eugeniusz Pachla, delivering services for LPP S.A. under the provisions of a management contract as of 1st July 1998.

The current term of office of Vice President of the Management Board will cease as at the date of the General Meeting, approving of the Company's financial statement for 2002, i.e. for the last full financial year of the term of office of the Management Board member.

On 1st January 2003, Dariusz Pachla entered into a full-time employment agreement with the Company. The life of this agreement is indefinite. The remuneration due under the provisions of this agreement is not to be published and is presented in "Information not to be published".

Dariusz Pachla is not included in the Bankruptcy Register, maintained pursuant to the Act on the National Court Register.

Dariusz Pachla has never executed any tasks of persons holding managing or supervisory positions in companies which at that time filed for bankruptcy and liquidation.

Dariusz Pachla holds the position of the President of the Management Board of the limited liability companies Kuma Sp. z o.o., Luma Sp. z o.o. and Amur Sp. z o.o. Dariusz Pachla is the Supervisory Board member of LPP Retail Estonia Ou. These companies are 100%-owned by the Issuer and do not run any competitive business activities.

Stanisław Dreliszak – Vice President of the Management Board

Age: 40; PESEL ID number: 63053001855. Graduate of the Gdańsk University of Technology. 1990-1992: equipment designer in the company 'ZREMB' in Gdańsk; 1992-1997: warehouse manager in P.H. Mistral s.c., later in LPP S.A. 1997-1998: Director of the Production and Design Department in LPP S.A. April 1998 – December 2002: sole proprietorship of the company 'DRELUX', delivering services for LPP S.A. under the provisions of a management contract as of 1st July 1998.

The current term of office of Vice President of the Management Board will cease as at the date of the General Meeting, approving of the Company's financial statement for 2002, i.e. for the last full financial year of the term of office of the Management Board member.

1st January 2003, Stanisław Dreliszak entered into a full-time employment agreement with the Company. The life of this agreement is indefinite. The remuneration due under the provisions of this agreement is not to be published and is presented in "Information not to be published".

Stanisław Dreliszak is not included in the Bankruptcy Register, maintained pursuant to the Act on the National Court Register.

Stanisław Dreliszak has never executed any tasks of persons holding managing or supervisory positions in companies which at that time filed for bankruptcy and liquidation.

Stanisław Dreliszak holds the position of the President of the Management Board of the limited liability companies Amuk Sp. z o.o. and Amul Sp. z o.o These companies are 100%-owned by the Issuer and do not run any competitive business activities.

Alicja Milińska – Vice President of the Management Board

Age: 43, PESEL ID number: 60091706366. Graduate of the University of Gdańsk. 1985-1990: Personnel and Salary Specialist in the state-owned company Spółdzielnia Pracy „STOREM" in Gdańsk. 1990: Personnel and Salary Specialist in the limited liability companies „Carot" Sp. z o.o. in Gdańsk and „Tal" Sp. z o.o. in Gdańsk. 1990-1995: accountant, later Chief Accountant in the company Przedsiębiorstwo Handlowe „ETC" in Gdańsk. From 1995 to 1996 worked in P.H. Mistral s.c. as Chief Accountant. Since 1996 till present has been working in LPP S.A. as Chief Accountant.

The current term of office of Vice President of the Management Board will cease as at the date of the General Meeting, approving of the Company's financial statement for 2002, i.e. for the last full financial year of the term of office of the Management Board member.

On 1st January 1998, Alicja Milińska entered into a full-time employment agreement with the Company. The life of this agreement is indefinite. The remuneration due under the provisions of this agreement is not to be published.

Alicja Milińska is not included in the Bankruptcy Register, maintained pursuant to the Act on the National Court Register.

Alicja Milińska has never executed any tasks of persons holding managing or supervisory positions in companies which at that time filed for bankruptcy and liquidation.

Alicja Milińska holds the position of the President of the Management Board of the limited liability companies Sp. z o.o., Lima Sp. z o.o. and Kama Sp. z o.o These companies are 100%-owned by the Issuer and do not run any competitive business activities.

The Company's authorised proxy is:

Jerzy Lubianiec – Authorised proxy, Chairman of the Supervisory Board

Age: 43, PESEL ID number: 60061501654. Graduate of the Gdańsk University of Technology. 1985 – 1990: cooperation with the company Zakład Elektrotechniczny Jerzy Lubianiec; 1990 – 1997: proprietorship of the civil partnership P.H. Mistral s.c. in Gdańsk. Supervisory Board member in LPP Tex S.A.; 4th April 1995 – 3rd January 2000: President of the Management Board of LPP S.A., since 3rd January 2000: Chairman of the Supervisory Board in LPP S.A., since 5th January 2000: the Company's Authorised proxy.

Jerzy Lubianiec is the partner in the civil partnership DH Market s.c. in Kościerzyna, in the limited liability company DH Jantar Sp. z o.o. in Lębork, and the shareholder in LPP TEX S.A. in Gdańsk. The activities of all these companies do not represent any competition for the Issuer's business.

The current term of office of the Supervisory Board member will cease as at the date of the General Meeting, approving of the Company's financial statement for 2002, i.e. for the last full financial year of the term of office of the Supervisory Board member.

On 8th March 2000, Jerzy Lubianiec entered into a part-time employment agreement with the Company. The life of this agreement is indefinite. Jerzy Lubianiec receives remuneration due for the position of the President of Supervisory Board

The remuneration due under the provisions of the employment agreement and due for the position of the President of Supervisory Board is not to be published and is presented in "Information not to be published".

Jerzy Lubianiec is not included in the Bankruptcy Register, maintained pursuant to the Act on the National Court Register.

Jerzy Lubianiec has never executed any tasks of persons holding managing or supervisory positions in companies which at that time filed for bankruptcy and liquidation.

On 2nd April 2003 the right of authorised proxy awarded to Jerzy Lubianiec was withdrawn and the employment agreement of 8th March 2000 was terminated.

Information concerning the domicile of the members of the Management Board and the Authorised proxy is not to be published and is presented in "Information not to be published".

2. The Issuer's Supervisory Board

The Supervisory Board is responsible for constant supervision of the Company's activities in all Company's branches. In particular, the Supervisory Board is responsible for: the analysis of balance sheet and profit and loss account, both in terms of compliance with books and documents, and factual check; analysis of the Management Board report and any motion filed by the Management Board concerning the distribution of profit and coverage of losses; as well as preparing annual written report for the General Meeting on the results of these analyses.

In accordance with §17 of the Company Statute, the Company's Supervisory Board comprises of 6 members, including the Chairman of the Supervisory Board. Supervisory Board members are appointed for the term of office of 5 years. The Supervisory Board is appointed and recalled by the General Shareholders Meeting. The Supervisory Board members appoint the Chairman of the Supervisory Board among themselves.

The Company Management Board must obtain the approval of the Supervisory Board to perform the following:

1. acquisition and disposal of real estate ownership rights, acquisition and disposal of perpetual usufruct rights, encumbrance of the real estate,
2. takeover of liabilities from third persons,
3. establishing new legal persons and acquisition, disposal, or pledging existing shares,
4. lease of the company or its part,
5. acquisition and disposal of the Company's sites and branches,
6. disposal of a part or a whole of the Company's enterprise,
7. approval of the employees' share in profits and distributing special disability and retirement benefits,
8. any operations related to securities and capital or financial investments (deposits),
9. appointment of the Company's chartered auditor.

The Supervisory Board is comprised of the following persons:

<u>Jerzy Lubianiec – Chairman of the Supervisory Board</u>

Age: 43, PESEL ID number: 60061501654. Graduate of the Gdańsk University of Technology. 1985 – 1990: cooperation with the company Zakład Elektrotechniczny Jerzy Lubianiec; 1990 – 1997: proprietorship of the civil partnership P.H. Mistral s.c. in Gdańsk. Supervisory Board member in LPP Tex S.A.; 4th April 1995 – 3rd January 2000: President of the Management Board of LPP S.A., since 3rd January 2000: Chairman of the Supervisory Board in LPP S.A., since 5th January 2000: the Company's Authorised proxy.

Jerzy Lubianiec is the partner in the civil partnership DH Market s.c. in Kościerzyna, in the limited liability company DH Jantar Sp. z o.o. in Lębork, and the shareholder in LPP TEX S.A. in Gdańsk. The activities of all these companies do not represent any competition for the Issuer's business.

The current term of office of the Supervisory Board member will cease as at the date of the General Meeting, approving of the Company's financial statement for 2002, i.e. for the last full financial year of the term of office of the Supervisory Board member.

On 8th March 2000, Jerzy Lubianiec entered into a part-time employment agreement with the Company. The life of this agreement is indefinite. Jerzy Lubianiec receives remuneration due for the position of the President of Supervisory Board The remuneration due under the provisions of the employment agreement and due for the position of the President of Supervisory Board is not to be published and is presented in "Information not to be published".

Jerzy Lubianiec is not included in the Bankruptcy Register, maintained pursuant to the Act on the National Court Register.

Jerzy Lubianiec has never executed any tasks of persons holding managing or supervisory positions in companies which at that time filed for bankruptcy and liquidation.

On 2nd April 2003 the right of authorised proxy awarded to Jerzy Lubianiec was withdrawn and the employment agreement of 8th March 2000 was terminated.

Maciej Krzyżanowski – Supervisory Board member

Age: 57, PESEL ID number: 46092401752. Graduate of the University of Gdańsk, Department of History. Positions previously held: President of the Students' Association 'Zak'; Director of the Baltic Opera and Philharmonic; Director of the Culture and Arts Department of the Province Office in Gdańsk; Director of the company Przedsiębiorstwo Polonijno-Zagraniczne 'Bolid'. At present: Director of LPP S.A. and sole proprietor of the company 'Maciej Krzyżanowski', delivering services for LPP S.A. under the provisions of a management contract as of 11th February 1998. The contract as of 11th February 1998 expired on 31st March 2000. Since 31st March 2000 until 31st December 2002 his company delivered consulting services. Since 1st January 2003 Maciej Krzyżanowski holds the position of the Director of the accounts payable collection team in the legal office Krzyżagórska Podniesiński Łoboda Adwokaci i Radcowie Prawni s.c.

The current term of office of the Supervisory Board member will cease as at the date of the General Meeting, approving of the Company's financial statement for 2002, i.e. for the last full financial year of the term of office of the Supervisory Board member.

Maciej Krzyżanowski is the Supervisory Board member in the limited liability company Gdańskie Zakłady Fosforowe Sp. z o.o., based in Gdańsk. The activities of this company do not represent any competition for LPP S.A.

Maciej Krzyżanowski is not included in the Bankruptcy Register, maintained pursuant to the Act on the National Court Register.

Maciej Krzyżanowski has never executed any tasks of persons holding managing or supervisory positions in companies which at that time filed for bankruptcy and liquidation.

Wojciech Olejniczak – Supervisory Board member

Age: 47, PESEL ID number: 56021903172. Education: secondary, technical. 1971-1983: locksmith, later designer in the Stocznia Gdańska (the Gdańsk Shipyard); 1983-1990: housekeeper in the LWSM 'Morena'; 1991-1996: civil partnership proprietorship in P.H. Mistral s.c. 1996-1997: LPP S.A. Management Board member, at the same time holding the position of the Textile Department Director. Since 1997: President of the Management Board in LPP TEX S.A. in Gdańsk. 1997-1998: Supervisory Board member in LPP S.A. Since 14th November 1999: again the Supervisory Board member in LPP S.A. Shareholder in the company LPP TEX S.A.; this activity does not represent any competition for LPP S.A.

The current term of office of the Supervisory Board member will cease as at the date of the General Meeting, approving of the Company's financial statement for 2002, i.e. for the last full financial year of the term of office of the Supervisory Board member.

Wojciech Olejniczak is not included in the Bankruptcy Register, maintained pursuant to the Act on the National Court Register.

Wojciech Olejniczak has never executed any tasks of persons holding managing or supervisory positions in companies which at that time filed for bankruptcy and liquidation.

Grzegorz Maria Słupski – Supervisory Board member

Age: 44, PESEL ID number: 59012601871. PhD in Business Studies. 1983 – 1990: lecturer in the University of Gdańsk; 1987 – 1994: head economic and financial manager in SWORD Sp. z o.o. (limited liability company) in Gdańsk; at present: President of the Management Board in ARGO S.A. in Gdańsk and Supervisory Board member in Card Sp. z o.o., Argo Media sp. z o.o. and Spółdzielnia Budowlana in Gdańsk. The activities of all these companies do not represent any competition for the Issuer's business. Since 14th November 1999: the Supervisory Board member.

The current term of office of the Supervisory Board member will cease as at the date of the General Meeting, approving of the Company's financial statement for 2002, i.e. for the last full financial year of the term of office of the Supervisory Board member.

Grzegorz Maria Słupski is not included in the Bankrupcy Register, maintained pursuant to the Act on the State Court Register.

Grzegorz Maria Słupski has never executed any tasks of persons holding managing or supervisory positions in companies which at that time filed for Bankruptcy and liquidation.

Sławomir Łoboda – Supervisory Board member

Age: 38, PESEL ID number: 65020510115. Graduate of the University of Gdańsk, legal advisor. 1992 – 1993: sole proprietor – tax advisor; since 1994: partner in the legal office presently under the name of Krzyżagórska Podniesiński Łoboda Adwokaci i Radcowie Prawni s.c.; These activities do not represent any competition for the Company. In addition, Sławomir Łoboda holds the position of the President of the Management Board in The Warsaw Tower S.A. and Vice-President of the Management Board of Spółdzielnia OAW in Gdańsk. Sławomir Łoboda is the Supervisory Board member in LPP Retail Estonia Ou.

Sławomir Łoboda owns a share in the limited liability companies Dworek Uphagena sp. z o.o., Dora sp. z o.o., as well as shares in Capitol S.A. The activities of all these companies do not represent any competition for the Company.

The current term of office of the Supervisory Board member will cease as at the date of the General Meeting, approving of the Company's financial statement for 2002, i.e. for the last full financial year of the term of office of the Supervisory Board member.

Sławomir Łoboda is not included in the Bankruptcy Register, maintained pursuant to the Act on the National Court Register.

Sławomir Łoboda has never executed any tasks of persons holding managing or supervisory positions in companies which at that time filed for bankruptcy and liquidation.

Bogdan Małachwiej – Supervisory Board member

Age: 35, PESEL ID number: 68031914910. Graduate of the Warsaw University of Technology, Department of Automobiles and Heavy Machinery Engineering; securities broker; and graduate of Post-graduate Consulting Studies at the Warsaw School of Economics (SGH). 1995-1998: branch manager, later project leaders team manager in the Capital Operations Centre in Bank Handlowy w Warszawie S.A. in Warsaw. 1998: responsible for the primary market development in Wood & Company S.A. 1998-2001: Director of the Office of Offerings and Underwriting in the Capital Operations Centre in Bank Handlowy w Warszawie S.A. in Warsaw. 2002-2002: member of the Management Board in the limited liability company Equity Poland Sp. z o.o., and President of the Management Board of the national investment fund Zachodni Fundusz Inwestycyjny NFI S.A. At present: proprietorship of CORVUS Działalność Gospodarcza. Member of the Supervisory Boards in Zakłady Automatyki POLNA S.A. (President) and Sanwil S.A. This activity does not represent any competition for the Company.

The current term of office of the Supervisory Board member will cease as at the date of the General Meeting, approving of the Company's financial statement for 2002, i.e. for the last full financial year of the term of office of the Supervisory Board member.

Bogdan Małachwiej is not included in the Bankrupcy Register, maintained pursuant to the Act on the State Court Register.

Bogdan Małachwiej has never executed any tasks of persons holding managing or supervisory positions in companies which at that time filed for Bankruptcy and liquidation.

Information concerning the domicile of the Supervisory Board members is not to be published and is presented in "Information not to be published".

3. Shareholders with 5% - 20% of the total vote at the Issuer's General Meeting or 5% - 20% of shares in the Issuer's share share capital – directly or indirectly through subsidiaries

The following persons are shareholders with 5% - 20% of shares in LPP S.A. share capital:

1. Jerzy Lubianiec, PESEL ID number: 60061501654,
2. Marek Piechocki, PESEL ID number: 61020502291.

The data concerning these shareholders are presented in Chapter 6, item 4 hereof, as their share represents over 20% of votes at the Company General Meeting.

Grangefont Limited, based in London, 120 East Road, UK, owns 5% - 20% of votes at the Company General Meeting.

The data concerning this shareholder are presented in Chapter 6, section 4 hereof, as its share represents over 20%-share in the Issuer's share capital.

4. Shareholders with 20% - 50% of the total vote at the Issuer's General Meeting or 20% - 50% of shares in the Issuer's share capital – directly or indirectly through subsidiaries

The following persons are shareholders with 20% - 50% of the total number of votes at the Issuer's General Meeting or 20 % - 50% of shares in the Issuer's share capital:

1. **Jerzy Lubianiec**, who owns 278 338 shares, including 175.000 series B registered preference bearer shares, 50 series A bearer shares, 100.000 series C bearer shares, 3288 series F shares, which altogether represent 18.39% of the total number of shares in the share capital and 33.58% of the total number of votes at the General Meeting.

   Series B registered bearer shares are preference shares (one preference share represents the right to 5 votes at the General Meeting).

   Series A shares were acquired by Jerzy Lubianiec from Bożena Wróblewska-Burciu (1 share) and Zbigniew Burciu (49 shares) on the basis of share disposal contracts concluded on 5th April 1995. The share price amounted to PLN 2 each.

Series B shares were subscribed by Jerzy Lubianiec as a result of the increase in the Company's share capital, on the basis of a resolution as of 4th April 1995, amended on 12th April 1995 and 8th September 1999; share issue price amounted to PLN 2 each.

75.000 series C shares were acquired by Jerzy Lubianiec from Ewa Lubianiec on the basis of share purchase agreement concluded on 20th March 1998, at PLN 2 each.

The remaining 25.000 C series shares were acquired by Jerzy Lubianiec from Halina Lubianiec on the basis of share purchase agreement concluded on 1st March 2000, at PLN 2 each.

F series shares were acquired in accordance with the Regulations on purchase of series F share by LPP S.A. managing staff. 2100 F series shares were acquired on 20th July 2001 at PLN 2.69 each, while the remaining 1188 series F shares were acquired on 11th December 2002 at PLN 3.01 each.

After the issue of H series shares, Jerzy Lubianiec will own 278 338 shares, which will represent 16.34% of the total number of shares in the share capital and 31.52% of the total number of votes at the General Meeting.

Jerzy Lubianiec is a shareholder of LPP Tex S.A. in Gdańsk (7 shares of the nominal value PLN 5.000 each). This company is engaged in wholesale of fabrics and hosiery (towels, tablecloths, bed sheets, etc.).

Jerzy Lubianiec is also a partner in the company Dom Handlowy JANTAR in Lębork (2 shares valued at PLN 1.500 each) and in the company Dom Handlowy „MARKET" s.c. in Kościerzyna (with a share of 1/3). Both these companies run department stores in Lębork and in Kościerzyna.

Jerzy Lubianiec treats his shareholding in the the Company as a long-term investment and does not plan the disposal of the Company's shares in the nearest future.

2. **Marek Piechocki**, who owns 279 945 shares, including 175.000 B registered preference bearer shares, 50 series A bearer shares, 100.000 series C bearer shares, 4 895 series F shares, which altogether represent 18.50% of the total number of shares in the share capital and 33.63% of the total number of votes at the General Meeting.

Series B registered bearer shares are preference shares (one preference share represents a right to 5 votes at the General Meeting).

Series A shares were acquired by Marek Piechocki from Alicja Konarska-Mikołajewicz (1 share) and Mirosław Konarski (49 shares) on the basis of share disposal contracts concluded on 5th April 1995. The share price amounted to PLN 2 each.

Series B shares were subscribed by Marek Piechocki as a result of the increase in the Company's share capital, on the basis of a resolution as of 4th April 1995, amended on 12th April 1995 and 8th September 1999; share issue price amounted to PLN 2 each.

50.000 series C shares were acquired by Marek Piechocki from Jadwiga Władyczak on the basis of share purchase agreement concluded on 30th July 1998, at PLN 2 each.

The remaining 50.000 C series shares were acquired by Marek Piechocki from Halina Lubianiec on the basis of share purchase agreement concluded on 1st March 2000, at PLN 2 each.

F series shares were acquired in accordance with the Regulations on purchase of series F share by LPP S.A. managing staff. 3 200 F series shares were acquired on 20th July 2001 at PLN 2.69 each, while the remaining 1 695 series F shares were acquired on 11th December 2002 at PLN 3.01 each.

After the issue of H series shares, Marek Piechocki will own 279 945 shares, which will represent 16.43% of the total number of shares in the share capital and 31.58% of the total number of votes at the General Meeting.

Marek Piechocki is a shareholder of LPP Tex S.A. in Gdańsk (7 shares of the nominal value PLN 5.000 each). This company is engaged in wholesale of fabrics and hosiery (towels, tablecloths, bed sheets, etc.).

Marek Piechocki Lubianiec is also a partner in the company Dom Handlowy JANTAR in Lębork (2 shares valued at PLN 1.500 each) and in the company Dom Handlowy „MARKET" s.c. in Kościerzyna (with a share of 1/3). Both these companies run department stores in Lębork and in Kościerzyna.

Marek Piechocki treats his shareholding in the Company as a long-term investment and does not plan the disposal of the Company's shares in the nearest future.

3. **Grangefont Limited**, based in London, 120 East Road, UK – owns 550.000 bearer shares, including 200.000 series C shares and 350.000 series D shares, which represent 45.32% of the total number of shares in the share capital and 21.04% of the total number of votes at the General Meeting.

Grangefont Limited is involved in:

- trade activities,
- acquisition of immovables, movables, lease and rent,
- acquisition of copyright, licences, trade marks and other rights,

- construction works and works related to the maintenance or administration of real estate,
- investment and management of a company's resources,
- concluding joint-venture contracts with other companies,
- establishing companies and associations, co-operation with other companies and enterprises,
- acquisition of companies, enterprises or sites with active businesses,
- granting loans and credits to other companies,
- issuing, contracting, and discounting cheques, bills of exchange, promissory notes, bills of lading, letters of lien, customs receipts, etc.

Grangefont Limited is owned by a group of private investors, mainly former presidents of the management boards and investment banks advisors. This group selects Central European companies with strong growth potential, and invests its funds in shares of such companies. Grangefont Limited does not intent to control operational management in such companies, but only to increase the value of its invested funds.

After the issue of H series shares, Grangefont Limited will own 550,000 shares, which will represent 32.29% of the total number of shares in the share capital and 17.72% of the total number of votes at the General Meeting.

According to § 34 of the Company's statute, persons holding individually, or jointly as a holding company with its subsidiaries, shares carrying more voting rights than 15% of the total vote at the General Meeting, exercise their voting right in the amount of 15% of the total vote. The foregoing limitation does not pertain to the registered shares held by Jerzy Lubianiec and Marek Piechocki.

Grangefont Limited acquired all its shares from the company Ketts & Co. on the basis of share purchase agreement concluded on 3rd March 2000, at USD 1.636 each.

Grangefont Limited treats its shareholding in the Company as a long-term investment, but does consider the disposal of the Company's shares in the future.

All aforementioned shareholders are direct owners of their shares.

On 2nd January 1998, the Company shareholders Marek Piechocki and Jerzy Lubianiec concluded a contract of lease with the Company; the subject of this contract are business premises in a building in Gdańsk, ul. Grunwaldzka 219.

On 8th March 2000, the Company Shareholder, Chairman of the Supervisory Board, and Authorised proxy – Jerzy Lubianiec, entered into a half-time employment agreement with the Company. On 2nd April 2003 the right of authorised proxy awarded to Jerzy Lubianiec was withdrawn and the employment agreement of 8th March 2000 was terminated.

On 1st January 2003, Marek Piechocki entered into a full-time employment agreement with the Company, whose life is indefinite.

Information concerning the domicile of Jerzy Lubianiec and Marek Piechocki not to be published and is presented in "Information not to be published".

Grangefont Limited has not entered into any contracts with the Issuer.

5. Shareholders with over 50% of the total vote at the Issuer's General Meeting or over 50% of shares in the Issuer's share capital – directly or indirectly through subsidiaries

None of the shareholders own more than 50% of the total number of votes General Meeting or more than 50% of shares in the Issuer's share capital.

6. The subject of art. 158a, paragraph 3 of the Act

As at the date of the Prospectus, the Issuer does not have any information on any agreements concerning joint acquisition of shares, acting in concert in term of voting at the General Meeting or in terms of managing the Company's business.

7. Information on any agreements known to the Issuer which could result in a future change in the current shareholding structure of the Company

As at the date of the preparation of this Prospectus, the Issuer does not have any information on any agreements which could result in a future change in the current shareholding structure of the Company.

CHAPTER 7 – ISSUER'S FINANCIAL STATEMENTS

1. Issuer's Annual Report

1.1. Letter from the President of the Management Board

Dear Shareholders,

I am aware that the year 2002 was not particularly good, either for many of you, or for the Polish economy. I hope that our Company has managed, at least to some extent, to compensate for these difficult experiences. Since for LPP S.A. this was an undoubtedly good year.

Our sales revenue amounted to 261 million PLN and our net profit exceeded 18 million PLN. Each zloty of our equity brought over 0.28 PLN in net profit. We have met the published forecasts, which, as you know, were upgraded twice in the last year.

Our performance and the fact that the potential of LPP S.A was appreciated were mirrored in the valuation of our shares at the Warsaw Stock Exchange. On 31st December 2002, one LPP S.A. share was worth 187.50 PLN, whereas the year before it was worth only 65.00 PLN. Today the value of our share has topped 226.00 PLN.

The amounts presented above, which reflect a certain stage in the development of LPP S.A. are, of course, only an attempt at presenting the factor, which is of crucial importance to every company – its position. The true gauges of its value are, in my option, its potential and competitive edge. These two factors have been, and still are, the key goal towards which the Management Board and I strive.

Our good results were accompanied by a marked rise in our position on the retail clothing market, which, in my opinion is an even greater reason for satisfaction. The network of 24 Reserved Stores, existing since 2001, has been expanded by another 17 Stores in Poland and 7 abroad. Our total surface area, amounting to about 21 thousand square meters. Within this period, we made every effort to promote the Reserved label. Further development of the network of Stores selling this label will be decisive for the future of the whole company. Since we have to counteract problems, which might affect us following the enlargement of our company, and could be connected with efficient management of goods and the total process of retail sales, we have decided to choose and implement adequate software, assisting these activities. After a few months of analyses and negotiations, we signed a contract on the last day of 2002. On the basis of this contract we will implement the latest, specialist software developed by Retek, USA. This decision involves a considerable organisational and financial effort, but we are aware that the ability to foresee future problems and implement solutions to counter them before they escalate is a cornerstone of business.

Whilst focusing our organisational efforts on issues connected with retail sales, we do not neglect other distribution channels, which, if functioning correctly, complement the results of our network of brand stores.

In 2002, we managed round up the process of setting up one of the largest departments in our company – the design department. At present, this department is made up of a couple of dozen designers, who have a feeling for the market and the ability to foresee the customers' needs.

Last year we finished adaptation works in our warehousing facilities in Pruszcz Gdański, which began in 2001. Today, we have an efficient logistics centre, of the total area amounting to over 11 thousand square meters, which to a large extent provides for our current needs. The land we own would enable us to extend out warehousing facilities in future.

As you might know, the Management Board has resolved to convene an Extraordinary Meeting of Shareholders, to take appropriate actions, enabling another public share issue. These actions are necessitated by the need to acquire new financial means to develop the network of Reserved Stores even further. It is out intention to precipitate this process to achieve a network of 100-110 Stores in Poland, and 25-30 Stores abroad by the end of 2004. The completion of this task, especially in Poland, will enable us to strengthen our company in the face of Poland's accession to the European Union. After the accession, we might expect an increase in competition on the Polish market. It is the dynamic development of LPP S.A. that we have planned, which makes us turn to the Shareholders, asking you to make a resolution on earmarking the total profit, earned in 2002, for increasing the shareholders' equity.

Marek Piechocki

President of the Management Board

1.2. Annual financial statement

INTRODUCTION

1. Basic Issuer information

Name and registered office:	LPP SPÓŁKA AKCYJNA Z siedzibą w Gdańsku Ul. Łąkowa 39/44 Zip code: 80-769
Register Court:	Provincial Court in Gdańsk, 12th Commercial Division of the National Court Register (KRS)
KRS Number:	0000000778

Basic scope of activity:

1. wholesale sales of clothing, classified as 51.42 Z of Polish Classification of Economic Activities (PKD) as „wholesale sales of clothing and footwear",
2. retail sales of clothing, classified as 52.42 Z as „retail sales of clothing"

LPP S.A Shares are listed on the basic market of the Warsaw Stock Exchange in Warsaw, where they are classified as belonging to the trade sector.

2. Issuer's duration

Issuer's duration has not been established.

3. Period to which the presented financial statement and comparative financial data apply

The presented financial statement pertains to the period:

– from 1st January 2002 to 31st December 2002.

The presented comparative financial data pertain to the period:

– from 1st January 2001 to 31st December 2001.

4. Members of the Management Board and of the Supervisory Board

Members of the Management Board:

– Marek Piechocki	–	president of the Management Board
– Dariusz Pachla	–	vice-President of the Management Board
– Alicja Milińska	–	vice-President of the Management Board
– Stanisław Dreliszak	–	vice-President of the Management Board

Members of the Supervisory Board:

– Jerzy Lubianiec	–	chairman of the Supervisory Board
– Maciej Krzyżanowski	–	member of the Supervisory Board
– Grzegorz Słupski	–	member of the Supervisory Board
– Wojciech Olejniczak	–	member of the Supervisory Board
– Bogdan Małachwiej	–	member of the Supervisory Board
– Sławomir Łoboda	–	member of the Supervisory Board

5. Reporting data

The company's financial statement for 2002 as well as comparative data for 2001, include solely the information pertaining to the company.

The company is composed of a number of internal organisational entities, which prepare their own financial statements.

6. Related parties

LPP S.A. is the mother company to 18 Polish and 4 foreign companies, as well as a significant investor in a foreign company.

The Issuer does not prepare a consolidated financial statement pursuant to art. 56 paragraph 3 and art. 58 paragraph 1 item 1 and paragraph 2 of the Accounting Act of 29 September 1994 (unified text, Journal of Law of 2002r no 76, item 694).

LPP S.A. related parties have not been consolidated, since their financial data is irrelevant to the Company fulfilling the obligations, specified in art. 4 paragraph 1 of the Accounting Act.

7. Merger of companies during the reporting period

There has never been any merger between LPP S.A. and any other entity.

8. Going concern

The Company's financial statement for the period from January to December 2002 as well as comparative data for 2001 were prepared, assuming that it will remain a going concern in the foreseeable future.

At present, there are no circumstances indicating any threat to the Company's going concern.

9. Transformation of statement information

Financial statement for the comparative period, i.e. 01.01.2001-31.12.2001 was transformed because the Accounting Act was amended which made it necessary to include the amendments introduced in the Act.

A table and description of discrepancies resulting from adjustments were presented in an additional note.

10. Adjustments in the financial statement

No objections were raised by the auditor therefore no adjustments were introduced to the financial statement for 2002 or to the comparative financial data for 2001. Auditor's opinions did not include any objections.

11. Accounting principles and methods employed

Financial statement for 2002 has been prepared according to the Accounting Act in conformance with the accounting principles which include in particular prudence in valuation of assets and liabilities, consistency and matching.

11.1. The principles and methods of valuation of assets and liabilities as well as determining the financial result

a. intangible assets, fixed assets

Intangible assets, fixed assets and fixed assets in progress have been valued at costs less depreciation to date.

The evaluation of asset's useful life and the net initial value is carried out if the initial value of the elements of the aforementioned fixed assets does not exceed PLN 3.500.

Depending on the individual assessment, two alternative methods have been adopted:

– capitalisation in fixed assets or intangible assets under appropriate analytical account of 010 and 020 group and one-off depreciation in the month in which the asset was made available for use;
– the asset is entered into an off-balance sheet register and written off on purchase.

Expenditures for the purchase of elements of fixed assets or peripheral devices whose net purchase price does not exceed 3 500 PLN are written off on purchase in the month the expenditure was incurred.

Expenditures for the purchase of elements of fixed assets or peripheral devices whose net purchase price exceeds 3 500 PLN increase the initial value of these fixed assets.

Depreciation write-offs on intangible assets and fixed assets are made on the basis of a depreciation plan, including among others, annual write-off rates.

Assets are depreciated on a straight line basis.

Depreciation rates used by the Company for basic groups of assets, are presented below.

Intangible assets:

– copyright and related rights	50%
– other intangible assets	20%

Fixed assets:

– Buildings and constructions	2,5 - 10%
– Plant and machinery	5 - 30%
– Vehicles	6 - 20%
– Other fixed assets	14 - 20%

b. long-term investments

Long-term financial assets, especially shares, have been recognised in the accounts as at the day of their purchase or establishment at cost, i.e. the amount of money spent on this purpose, increased by payments connected with acquiring shares and setting up a company.

As at the balance sheet day, the Company values its shares at cost taking into account the impairment write-down.

Impairment of assets is an accounting event when the existence and generation of profits as a result of owning the investment is under threat in the long run. In case of holding the shares in foreign entities, impairment of assets is the inability of an entity to generate profit, as well as considerable losses within the last fiscal years, and the decrease of share capital.

Regardless of the impairment analysis shares in foreign entities expressed in foreign currencies are subject to balance sheet valuation on the same basis as in the case of other assets expressed in foreign currencies, i.e. by converting their value into PLN using the company's bank purchase rate. The rate must not be higher than the average rate established for that currency by the National Bank of Poland as at the balance sheet day. The outcome of this valuation is translated into the costs or financial revenues, respectively .

The Company has adopted a principle that financial investment impairment write-downs are charged to financial expenses. In case there is no basis for impairment write-down, the equivalent of the entire amount of a part of previous write-downs increases the value of a given element of assets and is included in financial revenues.

Shares in foreign entities are presented in the balance sheet under "Investments – shares". The Company has adopted the principle of presenting the results of the following economic events, in the balance sheet under Fixed assets – Long-term investments – shares:

- Acquisition of shares of an existing entity – as at the date of concluding a contract for the sale of shares,
- establishment of a new entity or extension of an existing entity (increase in its capital) – as at date of:
  - entry into the commercial register – local companies,
  - signing a notarial deed – foreign companies and local companies in process of organisation.

The principles of valuation of long-term loans granted by the Company presented in the balance sheet under Long-term investments – Long-term financial assets - Loans granted, have been described along with the principles of valuation of receivables and payables.

c. short-term investments

The Company has adopted the principle that acquired shares and other assets included in short-term investments are recognised in the accounts as the day of their purchase and establishment at cost. As at the balance sheet day these assets are valued at cost or at market price, whichever is lower. The difference between the higher cost value and lower market price is charged to financial expenses. The results of price increase translate into financial revenues only if previous price reductions were written off and provided that amounts previously written off are not exceeded.

The principles concerning impairment write-downs described above apply here as well.

The principles of valuation of short-term loans granted by the Company presented in the balance sheet under short-term investments – short-term financial assets - Loans granted, have been described along with the principles of valuation of receivables and payables.

d. inventory

Inventory acquired or established during the fiscal year are recognised as a rule at cost value, or at manufacturing cost, with the exception of specific valuation principles established for individual groups of trading goods presented in the balance sheet under in the item "Trading goods".

The value of trading goods inventory presented in the balance sheet includes:

- trading goods in local warehouses,
- trading goods in bonded warehouses,
- trading goods in transit.

Trading goods in local warehouses are valued taking into account purchase costs, costs of transport abroad in Poland up to the first dispatch destination in Poland, and customs duties.

Trading goods in bonded warehouses are valued taking into account purchase costs, costs of transport abroad in Poland up to the first dispatch destination in Poland.

Trading goods in transit are valued taking into account purchase costs and costs of transport abroad identified as the balance sheet day.

The value of goods out of local warehouses is based on FIFO formula.

The value of goods out of bonded warehouses (taken out to local warehouses or sold directly abroad is established on the basis of purchase documents for individual deliveries, grouped in bonded warehouses as separate lots from which goods are taken out from bonded warehouses. Customs regulations require that goods out of warehouse are subject to detailed identification against the bonded warehouse receipt document.

Inventories as at the balance sheet day are valued at purchase price not higher that its net sales price.

Inventory whose trading and useful value is impaired are written-down. Inventory revaluation write-downs are included in other operating costs.

e. receivables and payables

Receivables and liabilities (including credits and loans) in Polish currency are presented at the balance sheet day in the amount due in accordance with principle of prudence.

Receivables and liabilities in foreign currencies as at the day of their establishment are presented in accordance with the average exchange rate specified by the President of the National Bank of Poland for this particular currency. Positive or negative FX rate discrepancies as at the payment day resulting from the discrepancy between the exchange rate as at that day and the exchange rate as at the day of their establishment are translated into financial revenues or expenses respectively.

Receivables and liabilities in foreign currency due as at the balance sheet day are valued according to the Company's bank exchange day established as at that day according to the principle that assets or liabilities valuation expressed in foreign currency as at the balance sheet day cannot be higher or lower (respectively) than their value converted into Polish currency at average rate specified for this currency by the National Bank of Poland as at the balance sheet day.

Receivables are revaluated by writing them down taking into consideration the probability of their payment

Receivables write-down is established against the following principles:

- doubtful receivables - in full amount,
- minor receivables due from a large group of small customers overdue above 6 months - 30% of the debt,
- other receivables - on the basis of an individual analysis of the situation and risk assessment.

Loans granted by the Company were valued as at the balance sheet day in accordance with general principle, pursuant to art. 28 paragraph 1 item 7 of the Accounting Act, i.e. in the amount due taking into consideration the principle of prudence and impairment of the same.

At the same time, the valuation of the long-term loans granted was assessed based on the ordinance of the Minister of Finance of 12 December 2001 on detailed principles of recognising, measuring and presenting financial instruments whose results will be presented in additional notes in item 1.

f. cash

Local cash in hand and cash in banks is valued at nominal value.

Cash inflows in foreign currencies, made either to the Company's foreign account or PLN account are valued at:

- Company's bank purchase rate in the case of the inflow of foreign receivables,
- Company's bank selling rate in the case of purchase of foreign currencies from the bank.

Foreign currency outflows are valuated at :

- Company’s bank purchase rate in the case of payment of foreign liabilities:
- Company’s bank selling rate in the case of sale of foreign currencies.

To identify FX rate discrepancies related to payments in foreign currency made from foreign currency account, the company uses the FIFO method, i.e. first in – first out.

As at the balance sheet day cash is valued in accordance with the company’s bank purchase exchange rate but not higher than the value converted into Polish currency using the average rate specified by the National Bank of Poland as at that day. FX rate discrepancies identified as at the end of the fiscal year influence the financial result - positive discrepancies are included as financial revenues or as negative discrepancies – as financial costs.

g. capitals

Company Shareholders’ equity includes:

- share capital at nominal value,
- supplementary capital from the share premium,
- supplementary capital from the distribution of profit,
- profit from previous years,
- net profit earned during the fiscal year.

Share capital is reported in the amount specified in the Articles of Association and entered in the court register. Capital contribution which were declared, but unpaid are reported as unpaid capital.

Share issue costs incurred when increasing the share capital decreased the Company supplementary capital to the amount of the share premium while the remainder is included in financial expenses.

Supplementary capital is created from write-offs of the Company’s clear annual profit. Moreover, supplementary capital includes share premium.

Profit from previous years includes both the amount of undistributed profit earned by the Company in the previous years, as well as the amount resulting from the transformation of the financial statement for 2001, following the amendments in the Accounting Act.

As at the balance sheet day, this item of Shareholders’ equity totals the amount following the transformation, since net profit made by the Company in 2001 increased supplementary capital .

h. provision for liabilities

Provisions are made for liabilities whose establishment is certain, or most probable but whose amount or payment date is uncertain, or if they result from past events and if their reliable estimate is possible. Provisions for liabilities include among others: provision for deferred income tax, provision for retirement benefits and provision for holiday leaves which were not used in the previous year.

i. prepaid expenses

Prepaid expenses are expenses incurred in advance of future reporting periods. These include prepaid subscriptions, property insurance premiums, rents, costs of registering trademarks used by the Company, costs of increasing share capital incurred before 31.12.2001.

j. deferred income

The Company’s deferred income includes in particular equivalents of damages claimed by the Company, future revenues related to the purchase of cash registers and the value of subsidies from PFRON (National Fund for the Rehabilitation of the Disabled) and ZFRON (Company Fund for the Rehabilitation of the Disabled) for the purchase of fixed assets by the Company, partly not covered by depreciation write-offs.

k. deferred income tax provision and assets

Because of temporary discrepancies between the book value of assets and liabilities and their tax value as well as future tax deductible loss the Company establishes deferred income tax provision and assets.

Deferred income tax assets are established in the amount to be written off income tax in the future due to negative temporary discrepancies which will cause a future reduction of the income tax deduction base and deductible tax loss.

Provision for deferred income tax is established in the amount of future payable income tax due to positive temporary discrepancies, i.e. those which will cause future increase of the income tax deduction base.

The amount of deferred income tax provision and assets is established taking into consideration income tax rate in force in 2003, i.e. 27%.

l. financial result

The financial result includes: result on sales, result on other operations, result on financial activities, obligatory charges and result on extraordinary activities. To measure the financial result, the Company employs comparative method.

Revenue from the sales of products, i.e. finished goods and services is the amount due from the customer less VAT. Sales are considered effective upon the receipt of products or services by the customer. Company's revenues from sales of products also include from sales of services (mainly lease).

Revenue from sales of goods and materials is the amount due from the customer less VAT. Sales are considered effective upon the receipt of products or services by the customer.

The value of goods and materials sold is their cost value corresponding to revenues from sales of these goods and materials.

Other operating revenues and expenses include costs and revenues not connected with the core activity, influencing the financial result.

Financial revenues are revenues due from financial operations, whereas financial expenses are expenses incurred during financial operations. Interest, commissions and FX rate discrepancies related to fixed assets in progress increase their cost value. Negative FX rate discrepancies and interest on liabilities and credits after fixed assets are made available for use reduce operating expenses.

Financial result on extraordinary operations is a difference between realised extraordinary gains and extraordinary losses incurred.

11.2 Principles of preparing financial statement.

Annual report was prepared, according to the Company's financial statement pursuant to:

– the provisions of the Accounting Act,
– The Council of Ministers Ordinance of 10 December 2001 on detailed requirements for Prospectus and abridged prospectus (Journal of Law no. 139 of 2001 item 1568, Journal of Law no. 36 of 2002 item 328)
– The Council of Ministers Ordinance of 16 October 2001 on current and periodic data required for submission by the Issuers of securities (Journal of Law no. 139 of 2001 item 1569, Journal of Law no. 31 of 2002 item 280)
– accounting principles currently in force.

Financial statement has been prepared on the basis of the accounts kept by the company. Costs are recorded in accordance with their category and cost centres.

Profit and loss account is prepared using comparative method and using calculation method for the purpose of this report.

Cash flow statement has been prepared according to indirect method.

Accounts are computer-managed.

11.3. Average exchange rates of PLN against EURO in the reporting periods and comparative periods.

	Average exchange rate during the period	**Lowest exchange rate during the period**	**Highest exchange rate during the period**	**Exchange rate on the last day of the period**
2001	3,6517	3,3564	3,9569	3,5219
2002	3,8697	3,5015	4,2116	4,0202

13. Financial statement and comparative financial data in EURO

Balance sheet as at 31st December 2002 and comparative financial data as at 31st December200 in EURO thousand

SPECIFIC DATA	31st Dec 2002	31st Dec 2001
ASSETS		
I. Fixed assets	11 945	7 488
II. Current assets	29 551	27 043
Total assets	**41 496**	**34 531**
LIABILITIES		
I. Shareholders' equity	18 580	15 979
Including FX rate discrepancies (exchange into EURO)	-179	113
II. Liabilities and provisions for liabilities	22 916	18 552
Total liabilities	**41 496**	**34 531**

Profit and loss account for the period 1st January - 31st December 2002 and comparative financial data 1st January - 31st December in EURO thousand

SPECIFIC DATA	From	
	1st Jan. 2002 -31st Dec. 2002	1st Jan. 2002 -31st Dec. 2002
I. Net revenues from sales of goods and products	67 611	46 917
II. Costs of goods, products and materials sold	36 475	26 395
III. Gross profit (loss) on sales	31 136	20 522
IV. Cost of sales	19 210	12 278
V. General administrative expenses	4 326	3 762
VI. Profit (loss) on sales	7 600	4 482
VII. Other operating revenues	2 346	1 610
VIII. Other operating expenses	2 546	1 732
IX. Operating profit (loss)	7 400	4 360
X. Other financial revenues	278	714
XI. Financial expenses	1 217	1 092
XII. Profit (loss) on business operations	6 461	3 982
XIII. Extraordinary events	0	0
XIV. Gross profit (loss)	6 461	3 982
XV. Income tax	1 666	923
XVI. Other obligatory charges		
XVII. Net profit (loss)	4 795	3 059

Cash flow statement for the period 1st January - 31st December 2002 and comparative financial data 1st January - 31st December 2001in EURO thousand

SPECIFIC DATA	from	
	1st Jan. 2002 -31st Dec. 2002	1st Jan. 2002 -31st Dec. 2002
A. Cash flow from operations	3 686	1 007
I. Net profit (loss)	4 795	3 059
II. FX rate discrepancies (exchange into EURO)	-179	113
III. Total adjustments	-930	-2 165
B. Net cash flow from investments	-6 857	-3 208
I. Inflows from investments	183	92
II. Outflows on investments	-7 040	-3 300
C. Net cash flow from financial activity	3 763	2 424
I. Inflows from financial activity	5 110	5 332
II. Outflows on financial activity	-1 347	-2 908
D. Total net cash flow	592	223
E. Cash opening balance	863	585
F. FX rate discrepancies (exchange into EURO)	-107	55
G. Cash closing balance	1 348	863

The following principles were assumed when exchanging the value of individual items of the balance sheet, profit and loss account and cash flow statement from PLN into EURO:

– the value of individual balance sheet items was exchanged in accordance with the average exchange rate established by the President of NBP (the National Bank of Poland) for EURO as at the balance sheet day;

– the value of individual profit and loss account items was exchanged in accordance with the exchange rate calculated as arithmetic average of the exchange rates established for EURO by the President of NBP as at the lat day of each month during the fiscal period;

– the value of individual cash flow statement items was exchanged in accordance with the average exchange rate established by the President of NBP for EURO as at the balance sheet day;

– FX rate discrepancies in the profit and loss account are presented in the item Shareholders' Equity as 'FX rate discrepancies (exchange into EURO)';

– FX rate discrepancies resulting from the exchange of cash flow statement items were presented in this financial statement as: 'FX rate discrepancies (exchange into EURO)' and presented under operations in terms of net financial result exchange rate discrepancies, as well as under the item concerning the exchange of cash opening balance.

14. The discrepancies in the disclosed values and major discrepancies in adopted accounting principles – pursuant to § 17 item 2 of the Ordinance by the Council of Ministers as of 16th October 2001 on detailed requirements established for prospectus and abridged prospectus (Journal of Law - Dz.U. no. 139 from 2001, item 1568, Dz.U. no. 36 from 2002, item 328)

The discrepancies between Polish accounting principles and IAS or GAAP in terms of the adopted accounting principles and methods, as well as the data published in accordance with the Polish accounting principles have not been presented because there are no Company's securities quoted on the regulated securities market outside the territory of the Republic of Poland.

The requirement to present the description of discrepancies in terms of LPP S.A. securities quoted on the official exchange market will come into force apply to financial statements for the periods of fiscal year 2003. The requirement to describe these discrepancies in full, i.e. also in terms of their valuation, will come into force to include financial statements for the periods of fiscal year 2004.

FINANCIAL STATEMENTS

SELECTED FINANCIAL DATA	PLN thousand		EURO thousand	
	2002	2001	2002	2001
I. Net revenues from sales of products, goods and materials	261 634	171 325	67 611	46 917
II. Operating profit (loss)	28 636	15 922	7 400	4 360
III. Gross profit (loss)	25 003	14 540	6 461	3 982
IV. Net profit (loss)	18 556	11 172	4 795	3 059
V. Cash flow from operations	14 818	3 547	3 686	1 007
VI. Net cash flow from investments	-27 567	-11 297	-6 857	-3 208
VII. Net cash flow from financial activity	15 127	8 535	3 763	2 424
VIII. Total net cash flow	2 378	785	592	223
IX. Total assets	166 821	121 616	41 496	34 531
X. Liabilities and provisions for liabilities	92 127	65 340	22 916	18 552
XI. Long-term payables	7 344	7 221	1 827	2 050
XII. Short-term payables	82 744	56 293	20 582	15 984
XIII. Shareholders' equity	74 694	56 276	18 580	15 979
XIV. Share capital	3 027	3 027	753	859
XV. Number of shares (items)	1 513 500	1 513 500	1 513 500	1 513 500
XVI. Profit (loss) per ordinary share (in PLN / EURO)	12.26	7.53	3.17	2.06
XVII. Diluted profit (loss) per ordinary share (in PLN / EURO)	–	7.38	–	2.02
XVIII. Book value per share - BVPS (in PLN / EURO)	49.35	37.18	12.28	10.56
XIX. Diluted book value per share (in PLN / EURO)	–	–	–	–
XX. Declared or paid dividend per share (in PLN / EURO)	0	0	0	0

BALANCE SHEET

	Note	2002	2001
ASSETS			
I. Fixed assets		**48 020**	**26 373**
1. Intangible assets, including:	**1**	**978**	**86**
Goodwill		0	0
2. Tangible fixed assets	**2**	**40 528**	**23 647**
3. Long-term receivables	**3,8**	**210**	**0**
3.1. Due from related parties		0	0
3.2. Due from other entities		210	0
4. Long-term investments	**4**	**3 141**	**141**
4.1. Real estate		0	0
4.2. Intangible assets		0	0
4.3. Long-term financial assets		3 141	141
a) in related parties, including:		3 065	40
– shares in subsidiaries valued in accordance with equity method		0	0
b) in other entities		76	101
4.4. Other long-term investments		0	0
5. Long-term prepaid expenses	**5**	**3 163**	**2 499**
5.1. Deferred income tax assets		2 567	1 650
5.2. Other prepaid expenses		596	849
II. Current assets		**118 801**	**95 243**
1. Inventory	**6**	**76 603**	**63 685**
2. Short-term receivables	**7,8**	**34 304**	**26 882**
2.1. Due from related parties		4 587	11
2.2. Due from other entities		29 717	26 871
3. Short-term investments		**7 004**	**3 500**
3.1. Short-term financial assets	9	7 004	3 500
a) in related parties		1 554	0
b) in other entities		722	1 059
c) cash and cash equivalents		4 728	2 441
3.2. Other short-term investments		0	0
4. Short-term prepaid expenses	**10**	**890**	**1 176**
Total assets		**166 821**	**121 616**

LIABILITIES			
I. Shareholders' equity		**74 694**	**56 276**
1. Share capital	**12**	**3 027**	**3 027**
2. Unpaid share capital (negative value)		**0**	**0**
3. Own shares (negative value)	**13**	**0**	**0**
4. Reserve capital	**14**	**50 669**	**40 530**
5. Reserve capital from revaluation	**15**	**0**	**0**
6. Other reserve capitals	**16**	**0**	**0**
7. Profit (loss) from previous years		**2 442**	**1 547**
8. Net profit (loss)		**18 556**	**11 172**
9. Net profit write-offs during fiscal year (negative value)	**17**	**0**	**0**
II. Liabilities and provisions for liabilities		**92 127**	**65 340**
1. Provisions for liabilities	**18**	**470**	**685**
1.1. Provision from deferred income tax		91	493
1.2. Provision for retirement benefits and related benefits		156	0
a) long-term		156	0
b) short-term		0	0
1.3. Other provisions		223	192
a) long-term		0	0
b) short-term		223	192
2. Long-term payables	**19**	**7 344**	**7 221**
2.1. Due to related parties		0	0
2.2. Due to other entities		7 344	7 221
3. Short-term payables	**20**	**82 744**	**56 293**
3.1. Due to related parties		93	78
3.2. Due to other entities		80 655	54 833
3.3. Special funds		1 996	1 382

4. Accruals and deferred income	**21**	**1 569**	**1 141**
4.1. Negative goodwill		0	0
4.2. Accruals and deferred income		1 569	1 141
a) long-term		765	840
b) short-term		804	301
T o t a l l i a b i l i t i e s		**166 821**	**121 616**

Book value		74 694	56 276
Number of shares		1 513 500	1 513 500
Book value per share (BVPS) (in PLN)	22	49,35	37,18
Number of diluted shares		–	–
Diluted book value per share (in PLN)	22	–	–

OFF-BALANCE SHEET ITEMS

	Note	2002	2001
1. Conditional receivables	**23A**	**192**	
1.2. Due from other entities		192	
– from guarantees received		192	
2. Conditional payables	**23B**	**9 440**	**4 901**
2.1. Due to related parties		2 527	796
– from guarantees granted by banks to the Issuer's subsidiaries		2 527	796
2.2. Due to other entities		6 913	4 105
– from guarantees granted		6 000	4 105
– from guarantees granted by banks to other entities		913	
T o t a l o f f – b a l a n c e s h e e t i t e m s		**9 248**	**4 901**

PROFIT AND LOSS ACCOUNT

	Note	2002	2001
I. Net revenues from sales of goods, products and materials, including:		**261 634**	**171 325**
– from related parties		4 149	11
1. Net revenues from sales of products	24	2 308	2 067
2. Net revenues from sales of goods and materials	25	259 326	169 258
II. Costs of goods, products and materials sold, including:		**141 149**	**96 387**
– from related parties		3 159	
2. Value of goods and materials sold		141 149	96 387
III. Gross profit (loss) on sales (I-II)		**120 485**	**74 938**
IV. Cost of sales	**26**	**74 337**	**44 835**
V. General administrative expenses	**26**	**16 740**	**13 737**
VI. Profit (loss) on sales (III-IV-V)		**29 408**	**16 366**
VII. Other operating revenues		**9 080**	**5 881**
1. Profit from the disposal of non-financial fixed assets		2	
2. Subsidies		581	554
3. Other operating revenues	27	8 497	5 327
VIII. Other operating expenses		**9 852**	**6 325**
1. Loss from the disposal of non-financial fixed assets			108
2. Non-financial assets revaluation	28	6 962	4 534
3. Other operating expenses	28	2 890	1 683
IX. Operating profit (loss) (VI+VII-VIII)		**28 636**	**15 922**
X. Financial revenues	**29**	**1 076**	**2 606**
2. Interest, including:		1 050	1 288
– from related parties		33	
4. Revaluation of investments		26	
5. Other			1 318
XI. Financial expenses	**30**	**4 709**	**3 988**
1. Interest, including:		2 940	3 483
3. Revaluation of investments			38
4. Other		1 769	467
XII. Profit (loss) on business operations (IX+X-XI)		**25 003**	**14 540**
XIII. Extraordinary events (XIII.1. - XIII.2.)		**0**	**0**
XIV. Gross profit (loss) (XII+/-XIII)		**25 003**	**14 540**
XV. Income tax	**34**	**6 447**	**3 368**
a) current		7 766	4 043
b) deferred		-1 319	-675
XVIII. Net profit (loss) (XIV-XV-XVI+/-XVII)		**18 556**	**11 172**

Net profit (loss) (annualised)		18 556	11 172
Weighted average number of ordinary shares		1 513 500	1 483 911
Profit (loss) per ordinary share (in PLN)	38	12,26	7,53
Diluted weighted average number of ordinary shares		–	1 513 500
Diluted profit (loss) per ordinary share (in PLN)	38	–	7,38

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	2002	2001
I. Shareholders' equity – opening balance	**56 276**	**29 157**
I. a. Shareholders' equity - opening balance, adjusted to comparative data	**56 276**	**29 157**
1. Opening balance share capital	**3 027**	**2 427**
1.1. Change in share capital		600
a) increase		600
– from the issue of shares		600
1.2. Closing balance share capital	3 027	3 027
3. Opening balance own shares	**1 513 500**	**1 213 500**
3.1. Change in own shares		300 000
a) increase		300 000
– from the issue of shares		300 000
3.2. Closing balance own shares	1 513 500	1 513 500
4. Opening balance supplementary capital	**40 530**	**20 576**
4.1. Change in supplementary capital	10 139	19 954
a) increase	10 139	19 954
– from the issue of shares above their nominal value		13 800
– from the distribution of profit (statutory)		200
– from the distribution of profit (above statutory minimum value)	10 139	5 954
4.2. Closing balance reserve capital	50 669	40 530
7. Opening balance profit (loss) from previous years	**12 719**	**6 154**
7.1. Opening balance profit from previous years	12 719	6 154
b) adjustment of fundamental errors	138	
7.2. Opening balance profit from previous years, adjusted to comparative data	12 581	
a) increase		1 547
b) adjustments due to balance sheet transformation		1 547
b) decrease	10 139	6 154
– from the distribution of profit from previous years	10 139	6 154
7.3. Closing balance profit from previous years	2 442	1 547
7.7. Closing balance profit (loss) from previous years	2 442	1 547
8. Net result	**18 556**	**11 172**
a) net profit	18 556	11 172
II. Closing balance shareholders' equity	**74 694**	**56 276**

CASH FLOW STATEMENT

	2002	2001
A. Cash flow from operations – indirect method		
I. Net profit (loss)	**18 556**	**11 172**
II. Total adjustments	**-3 738**	**-7 625**
2. Depreciation and amortisation	5 163	2 420
3. (Profits) losses due to FX rate discrepancies	450	-1 076
4. Interest and dividend	2 170	2 358
5. (Profit) loss from investments	425	345
6. Change in provisions	-353	191
7. Change in inventory	-12 919	-18 656
8. Change in receivables	-7 622	-6 154
9. Change in short-term payables, excluding loans and credits	9 273	12 112
10. Change in deferred income and accrued expenses	-325	835
III. Net cash flow from operations (I+/-II) – indirect method	**14 818**	**3 247**
B. Cash flow from investments		
I. Inflows	**735**	**325**
1. Disposal of intangible assets and tangible fixed assets	126	145
3. From financial assets, including:	609	180
b) in other entities	609	180

	2002	2001
– repayment of long-term loans	401	154
Interest	110	
– other inflows from financial assets	98	26
II. Outflows	**28 302**	**11 622**
1. Acquisition of intangible assets and tangible fixed assets	23 449	11 400
3. For financial assets, including:	3 848	189
a) in related parties	3 805	40
– acquisition of financial assets	983	40
– long-term loans granted	2 822	
b) in other entities	43	149
– long-term loans granted	43	149
4. Other investment outflows	1 005	33
III. Net cash flow from investments (I-II)	**-27 567**	**-11 297**
C. Cash flow from financial activity		
I. Inflows	**20 542**	**18 779**
1. Net inflows from the issue of shares and other capital instruments and additional payments to capital		14 400
2. Credits and loans	19 836	3 031
4. Other financial inflows	706	1 348
II. Outflows	**5 415**	**10 244**
4. Payment of credits and loans	2 517	5 143
7. Payments due from financial leasing contracts		2 265
8. Interest	2 252	2 331
9. Other financial outflows	646	505
III. Net cash flow from financial activity (I-II)	**15 127**	**8 535**
D. Total net cash flow (A.III+/-B.III+/-C.III)	**2 378**	**785**
E. Total cash flow balance, including:	**2 378**	**785**
F. Opening cash balance	**3 040**	**2 256**
G. Closing cash balance (F+/-D), including:	**5 418**	**3 041**

ADDITIONAL NOTES

NOTES TO BALANCE SHEET

NOTE 1A

INTANGIBLE ASSETS	2002	2001
c) acquired permits, patents, licences and other values, including:	978	86
- software	940	86
Total intangible assets	**978**	**86**

NOTE 2A

TANGIBLE FIXED ASSETS	2002	2001
a) fixed assets, including:	39 258	22 019
– land (including right of perpetual usufruct of land)	854	854
– building, lodgings and units of land and water engineering	32 328	17 937
– technical equipment and machines	2 286	1 509
– vehicles	2 067	1 326
– other fixed assets	1 723	393
b) fixed assets in progress	1 062	1 625
c) provisions for fixed assets in progress	208	3
Total tangible fixed assets	**40 528**	**23 647**

There are mortgages on the issuer's tangible fixed on securing investment credits (long-term):

I. balance as at 31.12.2002 and 31.12.2001:

1. mortgage amounting to 2400 thousand EUR, established on the property in Gdańsk, at ul. Łąkowa 39/44.
2. mortgage amounting to 5660 thousand PLN, established on the property in Pruszcz Gdański, at ul. Grunwaldzka.

NOTE 2B

CHANGES IN FIXED ASSETS (ACCORDING TO GROUP TYPES)	**- land (including the perpetual land usufruct)**	**- building, lodgings and objects of land and water engineering**	**- plant and machinery**	**– vehicles**	**- other fixed assets**	**total fixed assets**
a) Opening balance gross value of fixed assets	854	19 907	2 858	1 779	661	26 059
b) increase from	0	17 315	1 849	1 542	1 601	22 307
– purchase		1 359	1 542	1 389	1 529	5 819
– investments		15 956	307	153	72	16 488
c) decrease from	0	-614	-115	-149	-23	-901
– sales			-85	-139		-224
– liquidation, theft			-30	-10	-23	-63
– transfer to fixed assets						0
– returns of stamp duties, withdrawal from use (withdrawal from usufruct of a lodging)		-614				-614
d) closing balance gross value of fixed assets	854	36 608	4 592	3 172	2 239	47 465
e) opening balance cumulative depreciation		1 970	1 348	452	269	4 039
f) depreciation	0	2 310	958	653	247	4 168
– planned depreciation		2 512	1 002	730	258	4 502
– sales			-25	-75		-100
– liquidation, theft			-19	-2	-11	-32
– other (withdrawal from use – withdrawal from usufruct lease of a lodging, extension of a lease contract, return of stamp duties, adjustment of depreciation)		-202				-202
g) closing balance cumulative depreciation at the end of the period	0	4 280	2 306	1 105	516	8 207
j) Closing balance net value of fixed assets	854	32 328	2 286	2 067	1 723	39 258

NOTE 2C

BALANCE FIXED ASSETS (OWNERSHIP STRUCTURE)	2002	2001
a) owned	39 258	22 019
Total balance fixed assets	**39 258**	**22 019**

NOTE 4C

LONG-TERM FINANCIAL ASSETS	2002	2001
a) in related parties	**3 065**	**40**
– shares	1 077	40
– loans granted	1 988	
f) in other entities	**76**	**101**
– loans granted	76	101
Total long-term financial assets	**3 141**	**141**

NOTE 4K

CHANGE IN LONG-TERM FINANCIAL ASSETS (ACCORDING TO GROUP TYPES)	2002	2001
a) Opening balance	**141**	**0**
– shares	40	0
– loans granted	101	0
b) increase from	3 919	189
– acquisition of shares	1 009	40
– valuation of shares expressed in foreign currencies	30	
– loans	2 864	149
– valuation of loans expressed in foreign currencies	16	
c) decrease from	-919	-48
– transfer to short-term loans	-888	-48
– valuation of loans expressed in foreign currencies	-29	
– valuation of shares expressed in foreign currencies	-2	
d) closing balance	**3 141**	**141**

NOTE 4L

SHARES IN RELATED PARTIES

No	a	b	c	D	e	f	g	h	i	j	k	l
	name of the entity, including its legal form	**seat**	**object of the enterprise**	**relation (subsidiary, affiliated entity related entity, with direct and indirect relations presented)**	**consolidation method/ equity method valuation used, or indication that an entity is not subject to consolidation /equity method valuation**	**date of taking control /joint control / of acquiring substantial influence**	**value of shares at purchase price**	**revaluation (total)**	**balance value of shares**	**percentage of share capital owned**	**stake in the total number of votes at general meeting of shareholders**	**indication of type of control other than indicated in j) or k), basis of control /joint control / of the substantial influence**
1	Tora Sp. z o.o.	Gdańsk	property management	subsidiary		26.09.2001	4		4	100%	100%	
2	M & G Sp. z o.o.	Gdańsk	property management	subsidiary		26.09.2001	4		4	100%	100%	
3	G & M Sp. z o.o.	Gdańsk	property management	subsidiary		26.09.2001	4		4	100%	100%	
4	P & G Sp. z o.o.	Gdańsk	property management	subsidiary		26.09.2001	4		4	100%	100%	
5	Akme Sp. z o.o.	Gdańsk	property management	subsidiary		26.09.2001	4		4	100%	100%	
6	SL & DP Sp. z o.o.	Gdańsk	property management	subsidiary		26.09.2001	4		4	100%	100%	
7	DP & SL Sp. z o.o.	Gdańsk	property management	subsidiary		26.09.2001	4		4	100%	100%	
8	IL & DL Sp. z o.o.	Gdańsk	property management	subsidiary		26.09.2001	4		4	100%	100%	
9	PL & GM Sp. z o.o.	Gdańsk	property management	subsidiary		26.09.2001	4		4	100%	100%	
10	GM & PL Sp. z o.o.	Gdańsk	property management	subsidiary		26.09.2001	4		4	100%	100%	
11	AMA Sp. z o.o.	Gdańsk	property management	subsidiary		28.05.2002	4		4	100%	100%	
12	LIMA Sp. z o.o.	Gdańsk	property management	subsidiary		22.07.2002	51		51	100%	100%	
13	KAMA Sp. z o.o.	Gdańsk	property management	subsidiary		29.10.2002	51		51	100%	100%	
14	KUMA Sp. z o.o.	Gdańsk	property management	subsidiary		05.11.2002	51		51	100%	100%	
15	LUMA Sp. z o.o.	Gdańsk	property management	subsidiary		05.11.2002	51		51	100%	100%	
16	AMUL Sp. z o.o.	Gdańsk	property management	subsidiary		29.10.2002	51		51	100%	100%	
17	LPP Retail Estonia OU	Tallinn, Estonia	property management	subsidiary		29.04.2002	238	26	264	100%	100%	
18	LPP Czech Republic sro	Praha, Czech Rep.	retail sales	subsidiary		16.09.2002	26		26	100%	100%	
19	LPP Hungary KFT	Budapest, Hungary	retail sales	subsidiary		18.10.2002	466	4	470	100%	100%	
20	LPP Retail Latvia Ltd	Riga, Latvia	retail sales	subsidiary		30.09.2002	14		14	100%	100%	
21	Obgain Management Ltd	Larnaca, Cyprus	management, organisation	affiliate		20.09.2002	4		4	50%	50%	

By the end of 2002, the LPP S.A. Company set up two companies which are in the process of establishment, however as at 31.12.2002 had not taken hold of their shares.

These companies are AMUK Sp. z o.o. and AMUR Sp. z o.o. , until the end of 2002 no capital was paid.

NOTE 4M

SHARES IN RELATED PARTIES -continued.

No.	A	m								n			o			p	r	s	t
	name of entity	entity's shareholders' equity , including:								liabilities and provisions for the entity's liabilities, including :			Entity's receivables, including:			total entity's assets	sales revenue	the amount of entity's shares unpaid by the issuer	received or due dividend from the entity for the last fiscal year
			share capital	called up share capital (negative value)	supplementary capital	reserve capital	other shareholders' equity, including :				long-term liabilities	short-term liabilities		long-term receivables	short-term receivables				
								Profit (loss) from previous years	net profit (loss)										
1	Tora Sp. z o.o.	25	4		3	14	4		4	1		1	0	0	0	26	241		
2	M & G Sp. z o.o.	26	4			8	14		14	12		12	8	0	8	38	541		
3	G & M Sp. z o.o.	24	4		2	8	10		10	1		1	0	0	0	24	785		
4	P & G Sp. z o.o.	26	4			10	12		12	52		52	50	0	50	79	551		
5	Akme Sp. z o.o.	17	4			2	11		11	1		1	2	0	2	17	223		
6	SL & DP Sp. z o.o.	16	4				12	2	10	40		40	40		40	56	397		
7	DP & SL Sp. z o.o.	14	4				10		10	1		1				15	368		
8	IL & DL Sp. z o.o.	12	4				8		8	3		3				15	369		
9	PL & GM Sp. z o.o.	-43	4				-47	-2	-45	48		1				5	842		
10	GM & PL Sp. z o.o.	12	4				8	-2	10	66		66	3		3	78	415		
11	AMA Sp. z o.o.	12	4				8	-16	24				3		3	13	329		
12	LIMA Sp. z o.o.	47	50				-3		-3	2		2				50			
13	KAMA Sp. z o.o.	47	50				-3		-3	1		1				48			
14	KUMA Sp. z o.o.	47	50				-3		-3	1		1				48			
15	LUMA Sp. z o.o.	47	50				-3		-3	1		1				48			
16	AMUL Sp. z o.o.	47	50				-3		-3	1		1				48			
17	LPP Retail Estonia OU	-361	257				-618		-618	1 175		1 175	69		69	789	1 895		
18	LPP Czech Republic sro	-1 005	25				-1 030		-1 030	6 270	1 953	4 317	744		744	5 632	935		
19	LPP Hungary KFT	401	476		2		-77	-118	41	2 398	807	1 591	421		421	2 842	1 533		
20	LPP Retail Latvia Ltd	-26	13				-39		-39	1 956		1 956	239		239	1 930	643		
21	Obgain Management Ltd	6	5				-11		-11	7		7				1	0		

Since AMUK and AMUR, which are in the process of establishment, had not started their business operations by the end of 2002, no financial data pertaining to these companies is presented.

NOTE 4O

SECURITIES, SHARES AND OTHER LONG-TERM FINANCIAL ASSETS (CURRENCY STRUCTURE)	2002	2001
a) in Polish currency	294	40
b) in foreign currencies (according to currencies and after conversion into PLN)	739	
b1. unit/currency thousand ./EEK ...	1 000	
thousand PLN	231	
b2. unit/currency thousand /CZK	200	
thousand PLN	26	
b3. unit/currency thousand HUF	28 000	
thousand PLN	464	
b4. unit/currency thousand CYP	1	
thousand PLN	4	
b5. unit/currency thousand LVL	2	
thousand PLN	14	
c) additional elements connected with purchase price	44	
Total securities, shares and other long-term financial assets	**1 077**	**40**

NOTE 4P

SECURITIES, SHARES AND OTHER LONG-TERM FINANCIAL ASSETS (ACCORDING TO TRANSFERABILITY)	2002	2001
C. With unlimited transferability, not listed on the regulated market (balance value)	1 077	40
c) other – according to group types (balance value):	1 077	40
c1. shares in related parties	1 077	40
Total balance value	**1 077**	**40**

NOTE 4Q

LONG-TERM LOANS GRANTED (CURRENCY STRUCTURE)	2002	2001
a) in Polish currency	76	101
b) in foreign currencies (according to currencies and after converting into PLN)	1 988	
b1. unit/currency in thousand of EUR	500	
in thousand of PLN	1 988	
Total long-term loans granted	**2 064**	**101**

NOTE 5A

CHANGE IN DEFERRED INCOME TAX ASSETS	2002	2001
1. Opening balance deferred income tax assets, including:	1 650	900
a) charged to financial result	1 650	900
2. Increase	3 153	1 827
a) charged to financial result of the period, in connection with negative temporary discrepancies from	3 153	1 827
– the creation of FX rate discrepancies	3 153	
3. Decrease	2 236	1 077
a) charged to financial result of the period, in connection with negative temporary differences from	2 236	1 077
– the reversal of temporary discrepancies	1 220	
– deductions of deferred income tax assets	921	
– change of tax rates	95	
4. Total closing balance deferred income tax assets, including:	**2 567**	**1 650**
a) charged to financial result	2 567	1 650

Since the Company has adopted the following methods of setting and recording:

- writing trading goods down, as at the balance sheet day
- FX rate discrepancies, resulting from balance valuation of assets and liabilities, expressed in foreign currencies,

the economic value of these changes (increases and decreases) in deferred income tax assets connected with these events, is not so unambiguous as in other cases where increases and decreases result from one of the situations listed below :

- increases:
  - from temporary discrepancies,
  - from the change of tax rates,
  - from unrecognised temporary discrepancies from the previous period,

  - from tax losses,
  - from unrecognised tax loss from previous periods.
- decreases:
  - from the reversal of temporary discrepancies,
  - from the change of tax rates,
  - from the write off of deferred income tax assets,
  - from the use of tax loss.

In case of write-downs on trading goods, (just as in case of negative FX rate discrepancies, set on the balance sheet day), an asset created for the total of a write-off (or for the total of negative FX rate discrepancies) is presented as an increase set, in relation to the state of the inventories (or FX rate discrepancies, set in relation to the state of assets and liabilities expressed in foreign currencies) as at the balance sheet day.

At the same time, an asset resulting from writing off of the calculation made on the last balance sheet day is presented as a decrease.

Therefore, it is not possible to divide the value of increases resulting from latest events, which took place only in the reporting period.

The same pertains to the amount of changes in assets for deferred income tax .

It must be emphasised that the adopted method of establishing changes in deferred income tax assets does not adversely affect the accuracy of establishing the values of changes in deferred income tax assets in a given period.

NOTE 6

INVENTORY	**2002**	**2001**
a) materials	841	432
d) goods	75 716	63 119
e) provisions for deliveries	46	134
Total inventory	**76 603**	**63 685**

Trading goods of the Company are encumbered with (short-term) bank credit guaranties:

1. Balance as at 31.12.2002
   a. lien on goods – total amount 14 400 thousand PLN,
   b. transfer of goods ownership – total amount 15 500 thousand PLN.
2. Balance as at 31.12.2001
   a. lien on goods – total amount 12 400 thousand PLN,
   b. transfer of goods ownership – total amount 19 790 thousand PLN.

NOTE 7A

SHORT-TERM RECEIVABLES	**2 002**	**2 001**
a) from related parties	4 587	11
– trade receivables, due:	4 587	11
- up to 12 months	4 587	11
b) receivables from other entities	29 717	26 871
– trade receivables, due:	27 357	24 139
- up to 12 months	27 357	24 139
– on taxes, subsidies, customs, social and health security as well as other benefits	311	858
– other	2 049	1 874
Total net short-term receivables	**34 304**	**26 882**
c) write-downs on receivables	6 429	4 674
Total gross short-term receivables	**40 733**	**31 556**

NOTE 7B

SHORT-TERM RECEIVABLES FROM RELATED PARTIES	2 002	2 001
a) trade receivables, including:	4 587	11
– receivables from subsidiaries	4 587	11
b) other, including:	0	0
c) claimed in court, including:	0	0
Total net short-term receivables from related parties	**4 587**	**11**
d) write-downs of receivables from related parties	**210**	**0**
Total gross short-term receivables from related parties	**4 797**	**11**

NOTE 7C

CHANGE IN WRITE-DOWNS OF SHORT-TERM RECEIVABLES	2002	2001
Opening balance	4 674	3 014
a) increase	4 669	3 746
b) decrease	2 914	2 086
Closing balance of write-downs of short-term receivables	**6 429**	**4 674**

NOTE 7D

GROSS SHORT-TERM RECEIVABLES (CURRENCY STRUCTURE)	2 002	2 001
a) in Polish currency	28 327	25 876
b) in foreign currencies (according to currencies and after converting into PLN)	12 406	5 680
b1. unit/currency thousand / USD	2 270	1 425
thousand PLN	8 548	5 679
b2. Unit/currency thousand / RMB		2
thousand PLN		1
b4. Unit/currency thousand / EURO	978	
thousand PLN	3 858	
Total short-term receivables	**40 733**	**31 556**

NOTE 7E

GROSS TRADE RECEIVABLES - DUE AS AT THE BALANCE SHEET DAY:	2002	2001
a) up to 1 month	8 800	8 188
b) from 1 month to 3 months	7 363	2 600
c) from 3 months to 6 months	12	129
f) receivables overdue	22 064	17 794
Total gross trade receivables	**38 239**	**28 711**
g) write-downs of trade receivables	6 295	4 562
Total net trade receivables	**31 944**	**24 149**

Time periods: up to 1 month and from 1 to 3 months are connected with normal course of the issuer's trading.

NOTE 7F

GROSS TRADE RECEIVABLES OVERDUE – DIVIDED INTO RECEIVABLES DUE:	2002	2001
a) up to 1 month	7 181	5 880
b) from 1 month to 3 months	6 664	5 429
c) from 3 months to 6 months	2 273	1 749
d) from 6 months to 1 year	1 951	2 609
e) over 1 year	3 995	2 127
Total gross trade receivables overdue	**22 064**	**17 794**
f) write-downs of trade receivables overdue	6 295	4 562
Total net trade receivables overdue	**15 769**	**13 232**

NOTE 8

Total gross value of short- and long-term receivables amounts to 40 943 thousand PLN, including:

1. doubtful receivables: 268 thousand PLN

All doubtful receivables were written down. Doubtful receivables are recorded in the balance sheet at zero value.

2. receivables overdue: 22,064 thousand PLN

These receivables are all trade receivables. Receivables overdue not included in write-downs amount to 15,769 thousand PLN. Receivables overdue are claimed in court but are subject to intensive debt collection.

NOTE 9A

SHORT-TERM FINANCIAL ASSETS	2002	2001
a) in related parties	**1 554**	
– loans granted	1 554	
f) in other entities	**722**	**1 059**
– loans granted	32	460
– deposits	690	599
g) cash and cash equivalents	**4 728**	**2 441**
– cash in hand and cash in banks	4 728	2 346
– other cash		95
Total short-term financial assets	**7 004**	**3 500**

NOTE 9D

SHORT-TERM LOANS GRANTED (CURRENCY STRUCTURE)	2002	2001
a) in Polish currency	32	460
b) in foreign currencies (according to currencies and after conversion into PLN)	1 554	
b1. unit/currency thousand/USD	200	
thousand of PLN	761	
b2. Unit/currency thousand / EUR	200	
thousand of PLN	793	
Total short-term loans granted	**1 586**	**460**

NOTE 9E

CASH AND CASH EQUIVALENTS (CURRENCY STRUCTURE)	2002	2001
a) in Polish currency	3 550	1 419
b) in foreign currencies (according to currencies and after conversion into PLN)	1 178	1 022
b1. unit/currency thousand/USD	196	256
thousand of PLN	739	
b3. unit/currency thousand / RMB	75	
thousand of PLN	34	
b4. unit/currency thousand / EUR	107	
thousand of PLN	405	
Total cash and cash equivalents	**4 728**	**2 441**

NOTE 10

SHORT-TERM PREPAID EXPENSES	2002	2001
Prepaid expenses	**822**	**1 102**
– insurance costs	186	154
– lease costs	329	300
– subscription costs	12	3
– customs guaranties	37	10
– cost of trademark registration and use	4	4
– costs of increase in share capital	249	249
– costs connected with software	5	382
– **other costs, including:**	**68**	**74**
– other	68	74
Total short-term prepaid expenses	**890**	**1 176**

NOTE 11

Because of the impairment of trading goods, the Company has written them down.

According to the adopted principles, the total amount of the item indicated above is written down before the next balance sheet day, to enable new current valuation, as at the balance sheet day.

Therefore, it is not possible to divide the value of the latest write-down into the one pertaining to the write-down made in the previous reporting period and which the one concerning the current reporting period.

NOTE 12

SHARE CAPITAL (STRUCTURE)								
Series / issue	**Share type**	**Preference type**	**Type of limitation on allotment certificates**	**Number of shares**	**Value of series / issue according to nominal value**	**Capital coverage method**	**Registration date**	**Right to dividend (since)**
A	bearer	ordinary	none	100	200	cash	18-12-1989	18-12-1989
B	registered	preference with respect to vote number (x5)	none	350 000	700 000	cash	12-04-1995	01-01-1995
C	bearer	ordinary	none	400 000	800 000	cash	28-11-1995	01-01-1996
D	bearer	ordinary	none	350 000	700 000	cash	20-06-1996	01-01-1996
E	bearer	ordinary	none	56 700	113 400	contribution in kind	16-12-1999	01-01-2000
F	bearer	ordinary	none	56 700	113 400	cash	16-12-1999	01-01-2000
G	bearer	ordinary	none	300 000	600 000	cash	11-04-2001	01-01-2000
Total number of shares				**1 513 500**				
Total share capital					**3 027 000**			
Nominal value per share 2,00 PLN								

From 01.01.2002 to 31.12.2002 the following changes in the share capital took place:

1. change of Articles of Association, changing 56,700 shares series E from registered shares to bearer shares.
2. second stage of the management stock option programme was carried out , where the entitled persons were granted 13,126 shares series F.

The issuer intends to increase the value of share capital, by not less than 60,002 PLN and not larger than 560,000 PLN by issuing 30,000 bearer shares series H and 250,000 bearer shares series I, nominal value per share - 2 PLN. Resolutions concerning the increase of share capital will be made at LPP S.A., Extraordinary Meeting of Shareholders, which will take place on 14.03.2003.

Neither the issuer nor issuer's related parties own the shares of LPP S.A.

Shareholders, holding substantial Issuer's shareholdings as at 31.12.2002 include:

- Marek Piechocki (President of the LPP S.A. Management Board) – 279,945 shares, 979,945 votes at AGM,
- Jerzy Lubianiec (President of the LPP S.A. Supervisory Board)– 278,338 shares, 978,338 votes at AGM,
- Grangefont Ltd. – 550,000 shares, 550,000 votes at AGM.

Total number of issuer's shares: 1,513,500 shares.

Total number of votes at AGM: 2,913,500 votes.

NOTE 14

SUPPLEMENTARY CAPITAL	**2002**	**2001**
a) from sales of shares over their nominal value	23 118	23 118
b) pursuant to legal acts	1 009	1 009
c) pursuant to articles of association / contract, over the minimal value, required by law	26 542	16 403
Total supplementary capital	**50 669**	**40 530**

NOTE 18A

CHANGE IN PROVISION FROM DEFERRED INCOME TAX	**2002**	**2001**
1. Opening balance of provision from deferred income tax, including:	493	419
a) charged to financial result	493	419
2. Increase	125	1 388
a) charged to financial result of the period from adding positive temporary discrepancies from	125	1 388
– temporary discrepancies	125	
3. Decrease	527	1 314
a) charged to financial result of the period connected with positive temporary discrepancies from	527	1 314
– reversal of temporary discrepancies	477	
– using the provision for deferred income tax	47	
– changes of tax rate	3	
4. Total closing balance provision from deferred income tax	**91**	**493**
a) charged to financial result	91	493

Because of the adopted method of posting some economic events, the presented amounts in the increases of the provision from deferred income tax, presented in item „temporary discrepancies " and in the decrease of this provision, presented in item „reversal of temporary discrepancies" were presented only generally .

These items include positive FX rate discrepancies, connected with statistical asset and liabilities valuation as at the balance sheet day, expressed in foreign currencies and interest on loans granted, calculated as at the balance sheet day.

According the principle adopted by the company, the items indicated above are corrected in their full amount, before the next balance sheet day, to enable their current valuation, performed anew, as at the next balance sheet day, which is mirrored in the amount of increases and decreased of the provision from deferred income tax.

Similarly to the situation described in the comment to 5A note, pertaining to assets from deferred income tax , it is not possible to divide the value of increases resulting from latest events, which took place only in the reporting period.

The same pertains to the amount of write-downs of the provision for deferred income tax .

It must be emphasised that the adopted method of establishing changes in provisions for deferred income tax does not influence in any negative way the accuracy of establishing the values of changes in provisions from deferred income tax, pertaining to a given period.

NOTE 18B

CHANGE IN LONG-TERM PROVISION FOR RETIREMENT BENEFITS AND SIMILAR BENEFITS (ACCORDING TO TITLES)	**2002**	**2001**
a) opening balance	139	
b) increase from	17	
e) closing balance	**156**	

In the list, the total amount calculated as at 31-12-2002 of the write-off for retirement benefits, was split into the amount calculated before 2002 (indicated as the balance as at the beginning of the period) and for 2002 (indicated as an increase)

NOTE 19A

LONG-TERM PAYABLES	**2002**	**2001**
f) towards other entities	**7 344**	**7 221**
- credits and loans	7 344	7 179
- other, including:	0	42
b) purchase on instalments		42
Total long-term payables	**7 344**	**7 221**

Information about securing the Issuer's property has been presented in the comment below note 2A.

NOTE 19B

LONG-TERM PAYABLES, DUE AS AT THE BALANCE SHEET DAY	**2002**	**2001**
a) from 1 year to 3 years	6 180	5 209
b) from 3 years to 5 years	1 164	2 012
Total long-term payables	**7 344**	**7 221**

NOTE 19C

LONG-TERM PAYABLES (CURRENCY STRUCTURE)	**2002**	**2001**
a) in Polish currency	2 686	2 191
b) in foreign currencies (according to currencies and after converting into PLN)	4 658	5 030
b1. unit/currency thousand / .EURO	1 139	1 428
thousand of PLN	4 658	5 030
Total long-term payables	**7 344**	**7 221**

LONG-TERM PAYABLES FROM BANK CREDITS AND LOANS								
Entity name and legal form	**Seat**	**Amount of credit/loan according to the contract**		**Amount of credit/loan remaining to be paid back**		**Terms of interest rates**	**Due date**	**Guarantee**
		PLN	currency	PLN	currency			
Kredyt Bank S.A. II Oddział w Gdańsku	Warsaw	9 472	2 272 EUR	4.658	1.139 EUR		15.12.2007	real estate mortgage securing an existing or future claim, assignment of insurance policy rights, blank promissory note, proxy to administer current account
BIG Bank Gdański S.A. III Oddział w Gdańsku	Warsaw	5 660		2.686			30.09.2005	contractual real estate mortgage, assignment of insurance policy rights, blank promissory note, proxy to administer current account

NOTE 20A

SHORT-TERM PAYABLES	**2002**	**2001**
a) to subsidiaries	93	78
– trade payables, due:	93	78
- up to 12 months	93	78
f) to other entities	80 655	54 833
– credits and loans, including:	38 910	21 271
- long-term payables, within the payment period	2 734	1 800
– trade payables, due:	40 133	32 606
- up to 12 months	40 133	32 606
– tax, customs, insurance and other provisions	753	158
– remuneration	24	22
– other (according to titles)	835	776
g) special funds (according to titles)	1 996	1 382
Total short-term payables	**82 744**	**56 293**

Information on short-term payables guaranteed by the issuer's property, has been presented in note 6.

NOTE 20B

SHORT-TERM PAYABLES (CURRENCY STRUCTURE)	**2002**	**2001**
a) in Polish currency	27 419	15 511
b) in foreign currencies (according to currencies and after converting into PLN)	55 325	40 782
b1. unit/currency thousand / USD	13 663	9 296
thousand of PLN	53 358	37 062
b2. unit/currency thousand / EURO	481	990
thousand of PLN	1 967	3 488
other currencies in thousand of PLN		232
Total short-term payables	**82 744**	**56 293**

NOTE 21B

OTHER ACCRUALS AND DEFERRED INCOME	2002	2001
a) Other long-term accruals and deferred income	**765**	**840**
– cash register allowance		4
– subsidy for the purchase of fixed assets from PFRON		1
– subsidy for the purchase of fixed assets from ZFRON	765	835
b) Other short-term accruals and deferred income	**804**	**301**
– cash register allowance	12	20
– subsidy for the purchase of fixed assets from PFRON	1	1
– subsidy for the purchase of fixed assets from ZFRON	176	166
– goods sent to a foreign receiver – no customs documents as at the balance sheet day	499	
– damages	116	114
Total other accruals and deferred income	**1 569**	**1 141**

NOTE 22

Additional data explaining the method of calculating book value per share and diluted book value per share.

Book value per share has been calculated by dividing the value of shareholders' equity indicated in the balance sheet on particular balance sheet days, by the number of registered shares on particular balance.

EXPLANATORY NOTES TO PROFIT AND LOSS ACCOUNT

NOTE 24A

NET REVENUES FROM SALES OF PRODUCTS (OBJECT STRUCTURE – TYPES OF ACTIVITIES)	2002	2001
– revenues from sales of other services	2 308	2 067
– including: from related parties	78	0
Total net revenues from sales of products	**2 308**	**2 067**
– including: from related parties	78	0

NOTE 24B

NET REVENUES FROM SALES OF PRODUCTS (TERRITORIAL STRUCTURE)	2002	2001
a) local	2 308	2 067
– including: from related parties	78	0
b) export	0	0
– including: from related parties	0	0
Total net trade revenues	2 308	2 067
– including: from related parties	78	0

NOTE 25A

NET REVENUES FROM SALES OF GOODS AND MATERIALS (OBJECT STRUCTURE – TYPES OF ACTIVITIES)	2002	2001
Revenues from sales of goods	259 326	169 258
– including: from related parties	4 070	0
revenues from sales of materials	0	0
– including: from related parties	0	0
Total net revenues from sales of goods and materials	**259 326**	**169 258**
– including: from related parties	4 070	0

NOTE 25B

NET REVENUES FROM SALES OF GOODS AND MATERIALS (TERRITORIAL STRUCTURE)	2002	2001
a) local	236 290	151 564
– including: from related parties	0	0
b) export and transit	23 036	17 694
– including: from related parties	4 070	0
Total net revenues from sales of goods and materials	**259 326**	**169 258**
– including: from related parties	4 070	0

NOTE 26

COSTS ACCORDING TO TYPE	2002	2001
a) depreciation	5 163	2 420
b) consumption of energy and materials	10 825	6 002
c) outsourced services	50 966	36 321
d) taxes and payments	1 755	851
e) remuneration	9 150	6 023
f) social insurance and other provisions	1 548	931
g) other costs per type	11 639	5 907
– insurance	344	333
– business trips	583	326
– advertising	10 284	4 965
– other	428	282
Total costs according to type,	**91 046**	**58 455**
Change in inventory, products and deferrals and accruals	31	117
Cost of sales (negative value)	**-74 337**	**-44 835**
General administrative expenses (negative value)	**-16 740**	**-13 737**
Production costs of sold goods	**0**	**0**

NOTE 27

OTHER OPERATING REVENUES	2002	2001
a) reduction of write-downs on non-financial assets from	3 565	1 949
– reduction of write-downs on doubtful receivables	1 092	998
– reduction of write-downs on claimed receivables	773	570
– reduction of write-downs on receivables – court fees	108	56
– reduction of write-downs on trading goods	1 592	325
b) damages received	606	383
c) adjustment of fixed assets depreciation	127	
d) inventory surplus	228	128
f) VAT return from ZPCHR (workplace for the disabled)	3 514	2 467
g) subsidy from ZFRON for the purchase of fixed assets	173	48
h) other	284	352
Total other operating revenues	**8 497**	**5 327**

NOTE 28A

OTHER OPERATING EXPENSES – REVALUATION OF NON-FINANCIAL ASSETS	2002	2001
a) write-down of non-financial assets - doubtful receivables	3 195	2 482
b) write-down of non-financial assets - claimed receivables	647	460
c) write-down of non-financial assets - trading goods and materials	3 120	1 592
Total other operating expenses – revaluation of non-financial assets	**6 962**	**4 534**

NOTE 28B

OTHER OPERATING EXPENSES	2002	2001
a) donations	805	342
b) costs of post-accident repairs and losses in the working capital, due to contractors	345	302
c) cancellation of trading goods, which lost their trade value	130	83
d) inventory shortfalls	610	320
e) liquidation, withdrawal of fixed assets from use	308	13
f) penalties, punitive fees	100	22
g) other	592	601
Total other operating expenses	**2 890**	**1 683**

Write-downs on assets were made on the following groups of assets:

- trading goods inventories
- inventories of materials
- receivables

The amounts of write-downs on trading goods inventories were calculated on the basis of a detailed analysis of individual product groups stored both in local warehouses and in bonded warehouses. The value of write-downs on inventories results from the assessment of risk of incurring losses on selling goods which lost their trade value.

The company performs write-downs on receivables, also in accordance with the principle of prudence.

Claimed receivables are written town in full, write-downs on doubtful receivables amount to 30% of the debt – minor receivables from a large group of small contractors ,

and on the basis of individual assessment of the economic situation and financial condition of debtors, indicating the risk of incurring a loss – with respect to other receivables.

NOTE 29B

FINANCIAL REVENUES FROM LOANS GRANTED	**2002**	**2001**
a) from loans granted	117	110
– from related parties, including:	33	
– from subsidiaries	33	
– from other entities	84	110
b) other interest	933	1 178
– from other entities	933	1 178
Total financial revenues from interest	**1 050**	**1 288**

NOTE 29C

OTHER FINANCIAL REVENUES	**2002**	**2001**
1. FX rate discrepancies balance, including:	0	1 318
a) positive FX rate discrepancies	0	3 592
– realised		3 329
– not realised		263
b) negative FX rate discrepancies	0	2 274
– realised		2 370
– not realised		-96
Total other financial revenues	**0**	**1 318**

NOTE 30A

FINANCIAL EXPENSES ON INTEREST	**2002**	**2001**
a) on credits and loans	2 376	2 359
– for related parties, including:	0	0
– for affiliated entities	0	0
– for other entities	2 376	2 359
b) other interest	564	1 124
– for related parties, including:	0	0
– for related entities	0	0
– for other entities	564	1 124
Total financial expenses on interest	**2 940**	**3 483**

NOTE 30B

OTHER FINANCIAL EXPENSES	**2002**	**2001**
1. FX rate discrepancies balance	833	0
a) positive FX rate discrepancies	2 124	0
– realised	2 610	
– not realised	-486	
b) negative FX rate discrepancies	2 957	0
– realised	2 232	
– not realised	725	
2. other, including:	936	467
a) commission on credits and bank guarantees	245	78
b) factoring fees	433	241
c) costs of increasing the company's capital	249	148
d) other	9	
Total other financial expenses	**1 769**	**467**

NOTE 34A

CURRENT INCOME TAX	2002	2001
1. Gross profit (loss)	25 003	14 540
2. Differences between gross profit (loss) and the income tax base (according to titles)	2 736	-100
– revenues not being tax revenues	-7 970	-5 448
– revenues from previous years, being tax revenues of the current year	95	97
– costs not belonging to costs of goods sold	10 434	5 804
– costs from previous years, belonging to the costs of goods sold in the current year	-450	-481
– other	627	-72
3. Income tax base	27 739	14 440
4. Income tax according to 28 % rate	7 766	4 043
6. Current income tax indicated in tax return of the period, including:	7 766	4 043
indicated in profit and loss account	7 766	4 043

NOTE 34B

DEFERRED INCOME TAX, INDICATED IN PROFIT AND LOSS ACCOUNT	2002	2001
– decrease (increase) on the temporary discrepancies and their reversal	-1 227	-675
– decrease (increase) on changes of tax rates	-92	0
– decrease (increase) on tax loss, tax relief or temporary discrepancy of the former period, not included previously,	0	0
– decrease (increase) resulting from the deferred income tax assets write-off or no possibility to employ the provision for deferred income tax	0	0
– other components of deferred income tax (according to titles)	0	0
Total deferred income tax	**-1 319**	**-675**

NOTE 37

The manner of profit distribution for the presented fiscal years, and a proposal of profit distribution, if the fiscal year has not finished yet .

The Management Board plans to earmark the total net profit earned in 2002, amounting to 18,556,165.95 PLN, to increase supplementary capital .

NOTE 38

Additional data explaining the method of calculating profit (loss) per an ordinary share and diluted profit (loss) per ordinary share.

Profit per ordinary share has been calculated by dividing the value of net profit indicated in profit and loss account for the last 12 months preceding the balance sheet days, i.e. 31.12.2002 and 31.12.2001 by the average weighted number of ordinary shares entitled to dividend in this period.

Diluted profit per ordinary share indicated in the comparative period has been calculated by dividing the value of net profit, indicated in the profit and loss account, for the last 12 months, preceding the balance sheet day, that is 31.12.2001, by the diluted number of ordinary shares entitled to dividend including the issue of 300.000 ordinary shares series G.

NOTES TO CASH FLOW STATEMENT

For the purpose of preparing the cash flow statement the following elements of assets have been used:

– „Cash in hand and cash in banks" - recognised in assets in item III 1c,

– Short-term deposits (up to 3 months) – recognised in assets in item III 1 „Other short-term financial assets",

– Due interest on financial assets – recognised in assets in item III c „Other cash".

Structure of cash shown in the cash flow statement.

Type	Amount as at 01.01.2002 in PLN thousand	Amount as at 31.12.2002 in PLN thousand
1. Cash in hand and cash in banks	2 346	4 728
2. Short-term deposits (up to 3 months)	599	690
3. Interest on financial assets due at the balance sheet day	95	
4. Total cash	**3 040**	**5 418**

Explanation of variances between the change of some items in the balance sheet and the changes of these items in the cash flow statement.

Note: the amounts shown in the following table are preceded by the sign having an impact on the cash flow.

No.	Description	change as per balance sheet in PLN thousand	change shown in the report in PLN thousand	Variance in PLN thousand	Accounting for the variance
1/	Change in provisions	-215	-353	-138	The change resulting from provisions for retirement benefits which partly referred to pre-2001 period was taken out of the balance sheet provisions. This amount was recognised in Liabilities under loss item as the so called fundamental error.
2/	Change in receivables	-7.632	-7.622	10	The receivables concerning investment activities (loan granted claimed in court) were taken out of the change in receivables in the balance sheet.
3/	Change in short-term payables, excluding loans and credits	8.811	9.273	462	Value of change in short-term payables (excluding loans and credits) and special funds shown in the cash flow statement is adjusted by the change in investment payables compared to the change in the balance sheet.
4/	Change in accruals and deferred income	51	-325	-376	Value of change in accruals and deferred income is adjusted by the change in investment activities – it is a value of gradually established intangible assets which are recorded until they are available for use as shown on the accrual and deferred income account.

NOTES TO FINANCIAL STATEMENTS

1. Information on financial instruments

1.1. Financial instruments used

In line with the ordinance of the Minister of Finance dated 12.12.2001 on detailed principles of recognising, measuring and presenting financial instruments and based on IAS 39 – Financial instruments: recognition and measurement, it was established that as far as the financial instruments are concerned, the company used loans granted and financial assets available for sale.

The following table shows the opening and closing loan balances with decreases, increases and financial assets available for sale for the balance year and comparative year.

Loans granted	**2001**	**2002**
Opening balance as at 1 January	**682,652.26**	**561,016.57**
Increase:	**231,333.08**	**4,604,855.59**
loan granted	179,000.00	3,662,260.46
interest	4,333.08	27,754.43
revaluation	26,352.70	
reclassification from long-term loans to short-term loans	48,000.00	888,488.00
Decrease**:**	**352,968.77**	**1,516,072.73**
payment of loan	265,641.57	498,692.96
revaluation	38,434.70	105,190.46
reclassification from long-term loans to short-term loans	48,000.00	888,488.00
other adjustments	892.50	23,701.31
Closing balance as at 31 December	**561,016.57**	**3,649,799.43**

Loans granted according to a division assumed in the balance sheet at the last balance sheet day of 2002 and 2001

Loans granted		
Division as in the balance sheet	**Balance at 31/12/2001**	**Balance at 31/12/2002**
Long-term loans including:	**101 000,00**	**2 063 743,33**
– loans in related entities	0	1 987 718,33
– loans in other entities	101 000,00	76 025,00
Short-term loans, including:	**460 016,57**	**1 586 056,10**
– loans in related entities	0	1 554 106,10
– loans in other entities	460 016,57	31 950,00
Total	**561 016,57**	**3 649 799,43**

Financial assets available for sale	**2001**	**2002**
Balance at January	127 000,00	599 177,56
Increase	599 177,56	690 362,76
opening of deposit	599 177,56	690 362,76
Decrease	127 000,00	599 177,56
closing of deposit	127 000,00	599 177,56
Balance at 31 December	599 177,56	690 362,76

The above values are shown in the balance sheet as short-term items.

1.2 Basic description of financial instruments

1.2.1 Loans granted

As at 31 December 2002 the following loans were granted:

1) 8 loans granted to self-employed natural persons providing services to the issuer in a total amount of 107 975,00 PLN;
2) 3 loans in foreign currency granted to related entities amounting to PLN 3 541 824,43 PLN.

Loans granted to natural persons were used exclusively for the purchase of their company car.

The repayment of each loan is made on a monthly basis in two equal instalments including annualised interest rate.

The detailed terms and conditions are shown in the following table:

Number of loans	Value of loans as at 31.12.02	Value of monthly instalment	Interest rate	Loan repayment date
6 loans	73 075.00	300.00 PLN	20%	01.10.2006
1 loan	11 500.00	500.00 PLN	15%	07.04.2004
1 loan	23 400.00	650.00 PLN	15%	07.12.2005

The loan agreements provide for the possibility of repaying the loan before the due date.

The loans in foreign currency were granted by the issuer to related entities with a view to developing the companies' business.

The repayment of each loan will be made on the date specified in the agreement, including annualised interest rate of 5%.

The detailed information on the above loans is shown in the table below:

Number of loans	Currency	The amount pad in foreign currency	The amount paid recalculated into PLN	Accrued interest as at 31.12.2002	Loan repayment date
1 loan	EUR	500 000.00	1 972 050.00	15 668.33	31.12.2004
1 loan	USD	200 000.00	753 200.00	8 114.98	31.12.2003
1 loan	EUR	200 000.00	788 820.00	3 971.12	31.12.2003

The loans granted were valued based on the Accounting Act regulations. The long-term foreign currency loan was valued in line with the ordinance of the Minister of Finance on the financial instruments in the amount of adjusted purchase price valued using the effective interest rate.

The interest value established in accordance with the Act after recalculation into PLN amounted to 15 668,33 PLN. (table, item 1), whereas in accordance with the decree it amounted to 8 102,13 PLN.

Following the analysis of the above values it was established that the variance resulting from employing different valuation methods is immaterial and it was decided that the adherence to the Accounting Act regulations does not distort the structure of the company's assets and eliminates complicated solutions included in the ordinance.

As at 31 December 2002, the Issuer showed gains from interest rate on loans, for the period from 01.01.2002 to 31.12.2002.

The interest rate earned as at 31.12.2002 is shown in the following table:

Type of loan	Interest rate earned	
	Realised	Unrealised
PLN loans	19 564.03	
Foreign currency loans – EUR		15 668.33
Foreign currency loans – EUR		3 971.12
Foreign currency loans – USD		8 114.98
Total	**19 564.03**	**27 754.43**

Earned but unrealised interest values by due dates:

– over 3 to 12 months – 12 086.10

– over 12 months – 15 668.33

1.2.2. Financial assets available for sale

The financial instruments classified by the issuer as financial assets available for sale apply to deposits only.

Due to the nature of those deposits which are handled by a bank without a specific request from the issuer and those towards which the entity does not have specific intentions regarding their economic use the company decided to classify the deposits as assets available for sale.

In line with the ordinance the financial assets available for sale are valued at their fair value.

It was established that the fair value of assets is their nominal value as recognised in the balance sheet.

2. Conditional liabilities

Off-balance sheet items at the end of the reporting period and comparative periods are shown in the financial statement in the table "Off-balance sheet items"

3. Liabilities towards the state budget or local authorities concerning the ownership rights to buildings and constructions.

There were no such liabilities as at 31 December 2002.

4. Discontinued operations.

No operation was discontinued in the reporting period.

5. Costs of investments in progress, fixed assets and company's development.

The company did not incur any costs of investments in progress and development for own needs.

6. Planned capital investments for the next 12 months.

Capital spend on fixed assets in 2002 amounted to ca. 21.8 M PLN and was mainly used to develop the Reserved store chain (ca. 17 M PLN.), continue to upgrade and adapt the warehouse in Pruszcz Gdański, which was purchased in 2001, and to purchase new means of transport. In addition, in 2002 the Company incurred capital expenditure on the upgrade of the IT system, in particular on buying new licences.

Key capital investment plans for 2003 include further development of the Reserved store chain and purchase and implementation of the specialist software (including the required hardware), which will be used to manage the retail sales process. The total capital spend in 2003 is expected to amount to ca. 35 M PLN.

7.1. Significant transactions between the issuer and related parties

The issuer did not carry out any transactions with related entities concerning the transfer of rights or liabilities.

7.2. Financial data concerning the issuer's related parties

The amounts shown in the following changes are valid as at 31 December. The figures apply to transactions of the issuer with related entities. They are considered from the issuer's perspective. The data shown as liabilities of LPP S.A. are in fact recognised as receivables by related entities and the costs of LPP S.A. are recognised as revenues by related entities listed below.

No.	Related entities	Liabilities as at 31.12.02	Receivables as at 31.12.02	Costs in 2002	Revenues in 2002
1	TORA Sp. Z o.o.		475.34	240 720.12	4 632.19
2	AKME Sp. z o.o.	1 830.00	475.34	222 700.64	4 632.19
3	P & G Sp. z o.o.	50 299.54	475.34	551 361.58	4 632.19
4	M & G Sp. z o.o.		904.01	540 845.32	4 632.19
5	G & M Sp. z o.o.		475.34	785 421.38	4 632.19
6	SL & DP Sp. z o.o.	38 589.77	950.68	396 910.39	5 015.29
7	DP & SL Sp. z o.o.		1 659.78	267 888.93	5 015.29
8	IL & DL Sp. z o.o.		950.68	369 557.49	5 015.29
9	PL & GM Sp. z o.o.		950.88	841 702.77	5 015.29
10	GM & PL Sp. z o.o.	1 773.83	0.00	415 115.12	5 015.29
11	AMA Sp. z o.o.		462.34	328 673.93	8 081.98
12	LIMA Sp. z o.o.		2 311.70		1 894.85
13	KAMA Sp. z o.o.		1 237.89		1 014.66
14	KUMA Sp. z o.o.		1 237.89		1 014.66
15	LUMA Sp. z o.o.		1 237.89		1 014.66
16	AMUL Sp. z o.o.		1 237.89		1 014.66
17	LPP Retail Estonia OŰ		1 085 764.28		1 944 845.25
18	LPP Czech Republic s.r.o.		3 502 570.79		1 571 890.78
19	LPP Hungary KFT		1 650 599.84		411 138.39
20	LPP Retail Latvia Ltd		1 904 553.60		1 209 364.51
Total		**92 493.14**	**8 128 531.30**	**4 960 897.67**	**5 199 511,80**

The figures presenting the receivables balance as at 31.12.2002 with foreign related entities include also the loans granted to foreign related entities in the following amounts:

– LPP Czech Republic – 1,987,718.33 PLN

– LPP Hungary KFT – 792,791.12 PLN

– LPP Retail Latvia – 761,314.98 PLN

No related party transactions were concluded between the issuer and the company established in Cyprus, as well as between the issuer two Polish related parties.

The issuer has full control over the management of these subsidiaries, except for the Cyprian company, where the issuer holds a share of 50%.

8. Information on joint projects not subject to consolidation

The company did not participate in any joint project in the reporting period.

9. Headcount

As at 31st December 2002, the Company employed 423 people (386 jobs).

Between 1st January and 31st December 2002, average employment represented 386 jobs, including:

– 328 jobs of white-collar employees,

– 57 jobs of blue-collar employees,

– 1 person on parental leave or unpaid leave.

10. Remuneration of the Management Board and Supervisory Board members

Between 1st January and 31st December 2002, remuneration paid to the Management Board members totalled PLN 510,632.00.

In the same period, remuneration of the Supervisory Board members totalled PLN 136,560.00.

in the reporting period, remuneration paid to the Company's management due for their positions held in subsidiaries totalled PLN 4,560.00.

11. Information on the amount of unpaid prepayments, credits, loans, and guaranties granted by the issuer or its related parties to the issuer's Management Board or Supervisory Board members and their spouses, relatives and other related persons

Between 1st January and 31st December 2002, the Company did not grant any loans and guaranties to the Management Board and Supervisory Board members, nor to their spouses, relatives and other related persons.

12. Significant events concerning previous years occurring in the reporting period

No significant events concerning previous years occurred in the reporting period.

13. Post-balance sheet events not included in the financial statement

There are no significant post-balance sheet events not included in the financial statement.

14. Information on the issuer's legal predecessor

The company does not have any legal predecessor.

15. Financial statement and comparative financial data adjusted by inflation rate

For the past two years the Company has not reached or exceeded 100% value of the accumulated average annual inflation rate; as a result, adjustment of the financial statement and comparative financial data by an appropriate inflation rate is not required.

16. Summary and explanation of discrepancies between the results and comparative financial data published in this financial statement and in previously published financial statements

Discrepancies between the values of certain comparative financial data presented in this report and the data published in previous financial statement result from the amendments to the Accounting Act and from the fact that the financial statement has been transformed to serve its comparative purpose.

This transformation resulted in several changes in terms of the balance sheet and profit and loss account, owing to:

– different accounting approach towards positive statistical FX rate discrepancies,
– establishment of assets and the provision for deferred income tax,
– change of legal definition of intangible assets.

Financial result and shareholders' equity were influenced by:

– changes in terms of the approach towards positive statistical FX rate discrepancies,
– establishment of assets and the provision for deferred income tax.

Changes in balance sheet as at 31st December 2001, transformed to serve its comparative purposes, are presented in the table below.

Balance sheet / profit and loss account item	Amount in PLN thousand before transformation	Amount in PLN thousand after transformation
Assets A.V.1 Deferred income tax assets	–	1,650
Liabilities A.VII Profit (loss) from previous years	–	1,547
Liabilities A.VIII Net profit (loss)	10,139	11,172
Liabilities B.I.1 Provision from deferred income tax	–	493
Liabilities B.IV Accruals and deferred income	2,757	1,141
Profit and loss account: obligatory charges	4,043	3,368

Amounts of increase and decrease of items presented in the financial statement changed as a result of the transformation.

Deferred income tax assets

Contents	Amount in PLN thousand
Opening balance as at 1st January 2001	900
Assets established between 1st January 2001 and 31st December 2001	1,827
Decrease in assets between 1st January 2001 and 31st December 2001	1,077
Closing balance as at 31st December 2001	1,650

Profit from previous years

Contents	Amount in PLN thousand
Profit from previous years before transformation	–
Adjustment of the net profit from 2000 from positive statistical FX rate discrepancies	1,066
Adjustment of the net profit from 2000 from deferred income tax	481
Profit from previous years after transformation	1,547

Net profit

Contents	Amount in PLN thousand
Net profit before transformation	10,139
Adjustment from positive statistical FX rate discrepancies	1,708
Deferred income tax	675
Net profit after transformation	11,172

Provision from deferred income tax

Contents	Amount in PLN thousand
Opening balance as at 1st January 2001	419
Provision established between 1st January 2001 and 31st December 2001	1,388
Decrease in provision between 1st January 2001 and 31st December 2001	1,314
Closing balance as at 31st December 2001	493

17. Changes in adopted accounting principles and methods of financial statement preparation

In 2002, changes in accounting principles resulted only from changes of accounting regulations. Financial statement for the comparative period was transformed so as to ensure the comparability of data (the method was described in item 16).

18. Adjustments of fundamental errors, their causes and impact on the issuer's assets and financial situation

In the reporting period the first ever provision for retirement benefits was established. The amount of this provision from previous years (before 2000) amounted to PLN 138,000. This amount was presented as a fundament error and published in the balance sheet under item Liabilities – Losses from previous years, in accordance with the Accounting Act.

In previous reporting period, on the basis of the materiality principle the company decided that the amount of the provision for retirement benefit is immaterial, which resulted from the employees' age structure.

Establishment of the provision in the current period resulted from:

- forecast substantial increase of the number of permanent employees,
- taking into account provisions of IAS 19 on benefits for employees.

19. Uncertainty as to the company's remaining a going concern

There is no uncertainty as to the company's remaining a going concern in foreseeable future.

20. Information on mergers

No mergers occurred in the reporting period.

21. Information on the equity method not used in the financial statement for the purpose of valuation of shares in subsidiaries, and the possible result of this method and its impact on the financial result.

Equity method for the purpose of valuation of shares in subsidiaries was not used in the financial statement for 2002.

No permanent loss of value of shares in subsidiaries was identified, which is confirmed both in the analysis of figures presented in the table below, and the fact that a minor decrease in the value of shares against net assets results from the situation of several individual limited liability companies, such as: Lima Sp. z o.o., Kama Sp. z o.o., Kuma Sp. z o.o., Luma Sp. z o.o., Amul Sp. z o.o.

These are new companies, established in 2002, and earmark their financial assets mainly for the purpose of investments and development. As a result, a loss is justified at that stage of development, and the prospects of future growth are good. Out of all companies established in 2001, almost all increased in value.

No.	Company data		Book value			increase / decrease in the reporting period	increase / decrease in value since acquisition
	name	date of acquisition / establishment	as at 31.12.2002	as at 01.01.2002	as at date of acquisition / establishment		
1	G&M Sp. z o.o.	26.09.2001	23 528.32	14 031.08		9 497.24	19 528.32
2	M&G Sp. z o.o.	26.09.2001	26 038.75	12 088.92		13 949.83	22 038.75
3	AKME Sp. z o.o.	26.09.2001	16 709.92	5 763.90		10 946.02	12 709.92
4	P&G Sp. z o.o.	26.09.2001	26 544.11	14 241.37		12 302.74	22 544.11
5	TORA Sp. z o.o.	26.09.2001	24 719.00	20 781.81		3 937.19	20 719.00
6	SL&DP Sp. z o.o.	26.09.2001	16 658.04	3 657.50		13 000.54	12 658.04
7	GM&PL Sp. z o.o.	26.09.2001	12 086.99	1 899.16		10 187.83	8 086.99
8	DP& SL Sp. z o.o.	26.09.2001	13 772.17	4 021.64		9 750.53	9 772.17
9	IL&DL Sp. z o.o.	26.09.2001	11 870.01	3 866.35		8 003.66	7 870.01
10	PL&GM Sp. z o.o.	26.09.2001	-43 573.09	1 905.79		-45 478.88	-47 573.09
11	AMA Sp. z o.o.	28.05.2002	11 832.60	-12 271.14		24 103.74	7 707.16
12	LIMA Sp. z o.o.	22.07.2002	47 488.53		51 197.75	-3 709.22	-3 709.22
13	KAMA Sp. z o.o.	29.10.2002	47 195.54		51 197.75	-4 002.21	-4 002.21
14	KUMA Sp. z o.o.	05.11.2002	47 236.93		50 992.67	-3 755.74	-3 755.74
15	LUMA Sp. z o.o.	05.11.2002	47 236.93		50 992.67	-3 755.74	-3 755.74
16	AMUL Sp. z o.o.	29.10.2002	47 365.61		50 972.36	-3 606.75	-3 606.75
17	LPP Retail Estonia OU	29.04.2002	-385 669.36		237 919.82	-623 589.18	-623 589.18
18	LPP Czech Republic sro	16.09.2002	-1 017 070.00		25 660.54	-991 409.46	-991 409.46
19	LPP Hungary KFT	18.10.2002	1 222 017.08		465 707.91	756 309.17	756 309.17
20	LPP Retail Latvia Ltd	30.09.2002	-26 044.54		14 153.48	-40 198.02	-40 198.02
21	Obgain Management Limited		-5 320.58		3 899.03	-9 219.61	-9 219.61
TOTAL			**164 622,96**	**69986,38**	**1002693.98**	**-856 736.32**	**-830 875.38**

(All data in the table is in PLN)

LPP owns 100% of shares in 20 companies and 50% of shares in one company set up in Cyprus.

Towards the end of 2002, LPP has also established 2 companies currently in the process of establishment, but as it did not take hold of their shares, these companies are not presented in the table.

Taking all these facts into consideration, the comparison between the share value at cost and the total net value of individual companies was used for the purpose of valuation of shares in subsidiaries on the basis of the equity method.

Out of all 21 companies presented in the table above, 10 were established by LPP in 2001, two (AMA Sp. z o.o. and LPP Retail Estonia OU) were established in the first half of 2002, and the remaining companies were set up in the second half of 2002.

Using equity method for the purpose of valuation of shares in subsidiaries would entail the following effects:

1/ presentation of the amount of PLN 246,000 in balance sheet Assets – item I.4.3.a) „Long-term financial assets – shares in subsidiaries valued in accordance with equity method" (change: PLN –831,000)

2/ presentation of the effects of share value revaluation in the profit and loss account under item "Operating expenses" in the amount of PLN 831,000.

3/ establishment of deferred income tax assets related to share write-down in the amount of PLN 224,000 (PLN 831,000 x 27%) and presentation of this amount in Fixed assets in item I.5.1. 'Deferred income tax assets'.

4/ decrease of reductions of gross financial result from deferred income tax in Profit and loss account

5/ decrease of the net financial result in Liabilities, item I.8 'Net profit' by the amount of PLN 607,000 in relation to changes of financial result in Profit and loss account (described above).

On the basis of this summary of changes it may be concluded that using equity method for the purpose of valuation of shares in subsidiaries would result in the decrease of net financial result by 3.37% and the decrease of total capitalisation by 0.36%.

This data, as well as the fact that most companies are in the initial stage of development and in the process of investments, prove that the results presented in the financial statement are reliable, in spite of the fact that equity method of valuation has not been used.

22. Significant events related to changes in balance of assets, liabilities, profits and losses of a subsidiary, if its financial statement subject to consolidation has been prepared as at earlier date than the consolidated financial statement.

No such situation has occurred.

23. Legal basis for non-consolidation, data justifying non-consolidation, t preparing a consolidated financial statement, data justifying non-consolidation, as basic financial data of the issuer's subsidiaries.

According to art. 58 paragraph 1 item 1 of the Accounting Act of 29th September 1994 (uniform text: Journal of Law, Dz.U. 2002, no. 76, item 694), certain subsidiaries have not been consolidated because their financial data is immaterial in the understanding of art. 4 item 1 of the Accounting Act.

As a result, the issuer is under no obligation to prepare a consolidated annual report.

Data justifying non-consolidation:

Company	Total capitalisation as at 31st December 2002 in PLN	Net revenues from sales of goods and products and from financial operations from the period 1st January 2002 – 31st December, in PLN	Subsidiary's share in LPP S.A. total capitalisation	Subsidiary's share in LPP S.A. revenues from sales and financial operations
LPP S.A.	166 820 878.43	271 609 319.61		
G&M Sp. z o.o.	24 284.84	786 445.86	0.01%	0.29%
M&G Sp. z o.o.	38 346.92	542 103.89	0.02%	0.20%
AKME Sp. z o.o.	17 479.44	224 845.37	0.01%	0.08%
P&G Sp. z o.o.	78 535.17	552 636.89	0.05%	0.20%
TORA Sp. z o.o.	25 682.02	241 916.16	0.02%	0.09%
SL&DP Sp. z o.o.	56 479.67	397 448.61	0.03%	0.14%
GM&PL Sp. z o.o.	77 909.88	415 537.04	0.04%	0.15%
DP& SL Sp. z o.o.	14 984.03	268 285.64	0.009%	0.10%
IL&DL Sp. z o.o.	14 908.57	369 991.80	0.009%	0.13%
PL&GM Sp. z o.o.	5 026.95	842 346.81	0.003%	0.31%
AMA Sp. z o.o.	12 540.94	328 916.97	0.007%	0.12%
LIMA Sp. z o.o.	49 800.23	652.23	0.03%	0.0002%
KAMA Sp. z o.o.	48 433.43	208.43	0.03%	0.00007%
KUMA Sp. z o.o.	48 474.82	0.82	0.03%	0.0000003%
LUMA Sp. z o.o.	48 474.82	0.82	0.03%	0.0000003%
AMUL Sp. z o.o.	48 603.50	0.00	0.03%	0.00%
LPP Retail Estonia OU	788 909.82	1 922 817.09	0.47%	0.71%
LPP Czech Republic sro	5 632 570.00	936 480.00	3.37%	0.34%
LPP Hungary KFT	2 841 750.34	1 651 676.95	1.70%	0.61%
LPP Retail Latvia Ltd	1 930 132.55	645 803.32	1.16%	0.24%
Obgain Management Ltd	1 205.38	0.00	0.0007%	0.00%

	Total capitalisation as at 31st December 2002 in PLN	Net revenues from sales of goods and products and from financial operations from the period 1st January 2002 – 31st December, in PLN	Share of all non—consolidated subsidiaries in total capitalisation of the capital group	Share of all non—consolidated subsidiaries in revenues from sales and financial operations of the capital group
All non-consolidated subsidiaries	11 804 533.32	10 128 114.70	7.1%	3.73%
All members of the capital group	178 625 411.75	281 737 434.31		

Basic economic data of LPP S.A. subsidiaries has been presented in the tables below

1. G&M Sp. z o.o.

4 quarters incremental	Revenues from sales and financial revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Reserve capital	Net profit (loss)	
2002	786 445.86	0.00	23 528.32	4000.00	1624.47	8406.61	9 497.24	1
2001	730 436.98	0.00	14 031.08	4000.00	1624.47	–	8 406.61	1

2. Akme Sp. z o.o.

4 quarters incremental	Revenues from sales and financial revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Reserve capital	Profit (loss) from previous years	Net profit (loss)	
2002	224 845.37	0.00	16 709.92	4000.00	1 763.90	0.00	10 946.02	1
2001	188 154.89	0.00	5 763.90	4000.00	–	-4388.22	6 152.12	1

3. Tora Sp. z o.o.

4 quarters incremental	Revenues from sales and financial revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Reserve capital	Net profit (loss)	
2002	241 916.16	0.00	24 719.00	4000.00	2658.17	14123.64	3 937.19	2
2001	114897.65	0.00	20 781.81	4000.00	2658.17	–	14 123.64	2

4. M&G Sp. z o.o.

4 quarters incremental	Revenues from sales and financial revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Reserve capital	Profit (loss) from previous years	Net profit (loss)	
2002	542 103.89	0.00	26 038.75	4000.00	8 088.92		13 949.83	1
2001	219433.74	0.00	12 088.92	4000.00		-588.28	8 677.20	1

5. P&G Sp. z o.o.

4 quarters incremental	Revenues from sales and financial revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Reserve capital	Profit (loss) from previous years	Net profit (loss)	
2002	552 636.89	0.00	26 544.11	4000.00	10239.37	–	12 304.74	1
2001	226847.82	0.00	14 239.37	4000.00	–	-2076.27	12 315.64	1

6. GM&PL Sp. z o.o.

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	415 537.04	0.00	12 086.99	4 000.00	–	-2 103.85	10 190.84	1
2001	0.00	0.00	1 896.15	4 000.00	–	-1 176.00	-927.85	0

7. IL&DL Sp. z o.o.

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			Total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	369 991.80	0.00	11 870.01	4 000.00	–	-133.65	8 003.66	1
2001	16 719.70	0.00	3 866.35	4 000.00	–	-1 161.00	1 027.35	0

8. SL&DP Sp. z o.o.

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	397 448.61	0.00	15 658.04	4 000.00	–	1 770.26	9 887.78	1
2001	166 315.24	0.00	57 70.26	4 000.00	–	-1 169.00	2 939.26	0

9. DP&SL Sp. z o.o.

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	268 285.64	0.00	13 772.17	4 000.00	–	21.90	9750.27	1
2001	31 328.10	0.00	4 021.90	4 000.00	–	-1 150.00	1 171.90	0

10. PL&GM Sp. z o.o.

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount.
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	842 346.81	0.00	-43 573.09	4 000.00	–	-2 094.21	-45 478.88	1
2001	0.00	0.00	1 905.79	4 000.00	–	-1 181.00	-9 13.21	0

11. AMA Sp. z o.o.

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	328 916.97	0.00	11 832.6	4 000.00	–	-16 271.14	24 103.74	0
2001	60 440.30	0.00	-12 271.14	4 000.00	–	-32 369.46	16 098.32	0

12. LIMA Sp. z o.o.

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	652.23	0.00	47 488.53	50 000.00	–	0.00	-2 511.47	0

13. KAMA Sp. z o.o.

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	208.43	0.00	47 195.54	50 000.00	–	0.00	-2 804.46	0

14. KUMA Sp. z o.o.

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	0.82	0.00	47 236.93	50 000.00	–	0.00	-2 763.07	0

15. LUMA Sp. o.o.

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	0.82	0	47 236.93	50 000.00	–	0.00	-2 763.07	0

16. AMUzL Sp. z o.o.

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	0.00	0.00	47 365.61	50 000.00	–	0.00	-2 634.39	0

17. LPP Retail Estonia OÜ

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	1 922 817.09	439 064.71	-361 412.82	257 000.00	–	4.11	-618 416.93	0

18. LPP Czech Republic s.r.o.

2 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	936 180.00	3 216 060.00	-1 004 800.00	25 500.00	–	0.00	-1 030 300	0

19. LPP Hungary KFT

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	1 651 676.95	1 074 577.54	401 069.29	476 868.00	2 786.27	-119 823.70	41 238.72	0

20. LPP Retail Latvia Ltd

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	645 803.32	1 005 685.78	-26 312.46	13 130.60	–	0.00	-39 443.06	0

21. Obgain Management Ltd

4 quarters incremental	Revenues from sales and other revenues. in PLN	Fixed assets in PLN	Shareholders' equity. in PLN					Average annual headcount
			total	Share capital	Supplementary capital	Profit (loss) from previous years	Net profit (loss)	
2002	0.00	1 205.38	-5 320.58	5 911.75		0.00	-11 232.33	0

Limited liability companies Lima, Kama, Kuma, and Amul were established and started their businesses in the second half of 2002. The same applies to four foreign companies; in this case the table presents only the 2002 data.

The tables presented above include no financial data on companies in the process of development, i.e. Amuk and Amur, because these companies did not start their activities by the end of 2002, and therefore they did not generate any revenues or costs.

1.3. Management Board report on the Issuer's activities in 2002

1. Information on basic products, goods or services with qualitative and quantitative description and share of individual products, goods or services (if necessary) or their groups against the Issuer's total sales, and information on changes in products, goods or services during the fiscal year.

LPP S.A. is a company involved in the design and distribution of clothing in Poland and in Central and Eastern Europe.

Clothing is the sole object of the Company's activities. Each product is marketed under one of the following trade marks:

– Reserved,

– Ross,

– Promo Stars,

– Henderson,

– Le Fort,

– Runner,

– Geffer,

– Cropp

– T-line

All trade marks are registered and owned exclusively by the Company.

The designs of clothing are prepared in the design office located in the Company's registered office in Gdańsk, and then passed on to the purchasing department to start the production in co-operation with production sites in Poland and abroad. Production in China is organised by the Company's trading office in Shanghai. The products sold by the Company are mainly clothing for teenagers, and include jackets, coats, sweaters, sweatshirts, trousers, dresses, tops, shirts, and underwear, as well as hats, scarves, gloves, etc.

The Company also gains minor revenues from the sales of services (mainly the lease of facilities in the Company's building and the lease of transport vehicles, as well as merchandising services in supermarkets).

Source of revenues	2002		2001		Change
	PLN thousand	share in sales %	PLN thousand	share in sales %	%
Sales of goods	259 327	99.12	169 258	98.79	53.21
Sales of services	2 307	0.88	2 067	1.21	11.12
Total	**261 634**	**100.00**	**171 325**	**100.00**	**52.71**

The product range structure is constantly evolving, as the Company's offer is increasingly extended by new products – both within the existing product groups as well as new product types. The Company records revenues in individual channels of distribution which often correspond to particular clothing labels. In total, approx. 13 M items of clothing of all types were sold in 2002.

2. Information on the changes in market outlets (both local and foreign) and change in sources of supply of production materials, goods and services, indicating the dependence on one or several customers and suppliers; customers / suppliers with at least 10% share in total revenues from sales – their name, share in sales or supply, and formal relations with the Issuer

The customers of LPP S.A. are based both in Poland and abroad.

Approx. 9% of the Company's sales are directed to foreign markets. The Company's main export customers are companies from Russia, Ukraine, the Czech Republic, Slovakia, Estonia, Latvia and Lithuania.

As the Company uses various channels of distribution, there is not record of revenues from sales based on the country's geographical structure. In its internal records, the Company differentiates between local and export sales, and introduces categorisation in terms of the channels of distribution.

The following table presents the sales of goods in 2002, divided into local and foreign markets, compared with the results from previous year:

Direction of sales	2002		2001		Change
	PLN thousand	share in sales %	PLN thousand	share in sales %	%
Local	236 287	91.12	151 563	89.55	55.90
Export	23 040	8.88	17 695	10.45	30.21
Total	**259 327**	**100.00**	**169 258**	**100.00**	**53.21**

The following table presents the main directions of LPP S.A. export (the table presents final destination countries, not the countries where the importer's office is based)

Country	2002		2001	
	Export value in PLN thousand	Share in export in %	Export value in PLN thousand	Share in export in %
The Czech Republic	2 374	10.30	981	5.54
Russia	10 096	43.82	7 050	39.84
Slovakia	2 000	8.68	1 799	10.17
Hungary	555	2.41	922	5.21
Ukraine	1 590	6.90	2 366	13.37
Lithuania	1 269	5.51	1 411	7.97
Estonia	2 194	9.52	1 365	7.71
Latvia	2 109	9.15	910	5.14
Slovenia	98	0.43	198	1.12
Yugoslavia	19	0.08	0	0
Croatia	680	2.95	535	3.02
Belarus	56	0.24	58	0.33
Total	**23 040**	**100.00**	**17 695**	**100.00**

The following table presents revenues from sales in individual channels of distribution and their share in total sales:

Channel of distribution	2001		2000		Change
	PLN thousand	share in sales %	PLN thousand	share in sales %	%
Reserved brand stores	128 100	49.40	47 238	27.91	171.18
Promotional clothing	14 565	5.62	12 962	7.67	12.37
Wholesale offices	14 435	5.57	16 395	9.69	-11.95
Branches	10 692	4.12	9 862	5.83	8.42
Supermarkets	45 309	17.47	38 491	22.73	17.71
Export	23 040	8.88	17 695	10.45	30.21
Direct (door-to-door)	23 186	8.94	26 100	15.42	-11.16
Other	–	–	515	0.30	
Total	**259 327**	**100.00**	**169 258**	**100.00**	**53.21**

The Reserved brand store network, whose development is still in progress, is at present the major channel of distribution which guarantees the growth of the Company.

The Issuer's dependence on the suppliers

The Company is not dependant on any supplier.

LPP S.A. production companies – subcontractors are mainly based in China. The purchases made in China represented 86% of total purchase volume. Additionally, the Company purchased goods from Polish producers (approx. 10%), from Turkey (approx. 3%) and from India (approx. 1%). The volume of purchase did not exceed 10% of sales for any of the suppliers.

The Company concluded framework agreements, establishing general terms of co-operation. Individual products are made for the Company on the basis of detailed contracts, concluded for the realisation of each delivery.

The Issuer's dependence on the customers

The Company is not dependant on any customer.

The company Metro Kooperacja Polska Spółka Komandytowa is the only customer, whose share in revenues from sales exceeded 10% of total revenues. In 2002, this customer's share amounted to 10.6% of LPP S.A. total revenues from sales, indirectly through the following customers:

– Makro Cash and Carry Poland Sp. z o.o., Warsaw,

– Real Sp. z o.o., Warsaw

LPP S.A. and Metro Kooperacja Polska Spółka Komandytowa concluded a framework agreement, establishing general terms of co-operation.

3. Basic economic and financial figures published in the annual financial statement, including in particular a description of factors and events, including extraordinary events, influencing the Issuer's business and the Issuer's profits / losses during the fiscal year.

The basic factor influencing the Issuer's business is its adopted and constantly fine-tuned business model, assuming the adaptation of product to the customers' requirements and stimulating the customers' needs by creating a well-recognised label. Detailed description of internal and external factors is presented in item 14.

The major accomplishments of the Company in 2002:

1. Revenues from sales: PLN 261.6 M (increase by 53% against 2001),
2. Net profit: over PLN 18.6 M (increase by 61% against the previous year),
3. Return on Equity: 28.3%
4. Increase in sales revenues of the Reserved label by over 170 % to the level of PLN 128 M, which goes to prove that the strategy of the brand stores network development is successful,
5. Increase in the total surface area of all brand stores – over 17 000 m^2 in Poland and 3 800 m^2 abroad,
6. Completion of works in Pruszcz Gdański – organisation of logistics centre,
7. Completion of the selection of specialist software supporting the organisation of retail, and signing contract of its purchase and implementation.

The following table presents basic economic and financial figures and the dynamics of their change against the previous year.

Item	2002 (PLN thousand)	2001 (PLN thousand)	Change %
net revenues from sales	261 634	171 325	52.71
gross profit on sales	120 485	74 938	60.78
profit on sales	29 408	16 366	79.69
operating profit	28 636	15 922	79.85
profit on business operations	25 003	14 540	71.96
net profit	18 556	11 172	66.09
shareholders' equity	74 694	56 276	32.73
liabilities:	92 127	65 340	41.00
long-term payables	7 344	7 221	1.70
short-term payables	87 744	56 293	55.87
– bank credits	38 911	21 271	82.93
– due to suppliers	40 133	32 606	23.08
fixed assets	48 020	26 373	82.08
current assets	118 801	95 244	24.73
– inventory	76 603	63 685	20.28
– short-term receivables	34 304	26 882	27.61

The increase in revenues from sales by 53% and the increase in gross profit on sales by 61% indicate the success of the Company's core business. Such substantial increase in sales revenues was achieved through the development of the brand stores network. Moreover, the increase in share of this particular channel of distribution made it possible to improve the average annual gross profit margin from 43.7% in 2001 to 46.05% in 2002.

This phenomenon reflects the trend of the growing importance of brand stores, targeting its offer to a specified customer group; this trend was identified earlier on the clothing markets in Western Europe.

The increase in profit on sales by over 80% is a result of both the increase in the volume of sales, as well as its efficiency (measured, among others, by means of a margin, or by means of revenues per one unit of surface area – in the case of brand stores). This increase represents a substantial figure, in spite of the associated increase in the cost of sales by 66%; the latter is due to the fact that the major channel of distribution (brand stores) generates higher operational expenses, especially during the period of its intensive development.

Profit on operations was affected by negative balance of other operations amounting to PLN 772 000. Other operating expenses include mainly revaluation of receivables and goods, whereas other operating revenues include the return of the Value-Added Tax and reduction of revaluation of goods and receivables.

Profit on business operations increased by 72% against the previous year. This figure was additionally influenced by the balance of financial revenues and expenses, depending heavily on the costs of bank credits interest and unfavourable FX rate discrepancies balance.

As a result, the value of net margin increased from 6.52% to 7.09% during the period in question.

In 2002, the value of LPP S.A. shareholders' equity increased by over 32%, as a result of the transfer of net profit from 2001 entirely to supplementary capital.

The value of long-term payables remains at the same level.

The increase in short-term debt is a result of the increase in goods purchased and the increase of bank payables. The increase in the value of goods is related to the increase of sales planned for 2003 – by approx. 49%. As in previous years, large amounts of goods included in inventory are still en route to Poland as at 31st December 2002. The increase in bank credits is attributable to intensive investments for the development of the brand stores network.

Substantial increase in fixed assets (by 82%) is a result of large investments, mainly capital investments in brand stores.

During the period in question, the value of current assets increased by 25% against the end of 2001, which was mainly caused by the increase in inventory and receivables. The increase in current assets is closely linked to the Company's development, but it is important to indicate that inventory and receivables turnover is also improving.

The volume of inventory gives the Company a competitive edge, and although it is relatively high, it corresponds to the scale of the Company's business. Larger inventory volumes in warehouses are necessary as the share of the Reserved brand stores in total sales is increasing and requires an appropriate amount of products displayed in the stores. The advantage of this channel of distribution is that inventory is exchanged directly to cash, which improves financial liquidity of the Issuer, generating considerable cash flows.

The value of profitability ratios, presented in the table below, results directly from the factors described above which influence the value of each category of profit.

The Company's profitability is on the increase, despite rapid increase in sales, assets and shareholders' equity.

Profitability ratios presented in the table have been calculated as follows:

a) gross profit margin – gross profit on sales divided by revenues from sales of goods and services,

b) operating profit margin – operating profit revenues from sales of goods and services,

c) net profit margin – profit revenues from sales of goods and services,

d) Return on Assets – net profit divided by average assets during the fiscal year,

e) Return on Equity – net profit divided by average equity during the fiscal year.

Ratio	2002 (%)	2001 (%)	Change %
gross profit margin	46.05	43.74	5.28
operating profit margin	10.95	9.29	17.87
net profit margin – return on sales (ROS)	7.09	6.52	8.74
Return on Assets (ROA)	12.87	10.78	19.39
Return on Equity (ROE)	28.34	26.15	8.37

Liquidity ratios, presented in the table below, declined in comparison with the previous year, mainly due to the increase in short-term interest payables used to finance the Company's development. Compared with 2002, there is an improvement in terms of inventory, receivables and payables turnover.

Liquidity ratios have been calculated as follows:

a) current ratio - working assets divided by the balance value of short-term liabilities,

b) quick ratio – working assets less inventory divided by the value of short-term liabilities,

c) inventory turnover ratio (days) – average inventory divided by costs of goods and products sold and multiplied by the number of days in a given period,

d) receivables turnover ratio (days) – average receivables divided by sales revenues and multiplied by the number of days in a given period,

e) trade payables turnover ratio (days) – average trade payables divided by the costs of goods and products sold and multiplied by the number of days in a given period.

Ratio	2002	2001	change %
current ratio	1.44	1.69	-14.79
quick ratio	0.51	0.56	-8.93
inventory turnover ratio (days)	181	206	-12.14
receivables turnover ratio (days)	43	52	-17.31
trade payables turnover ratio (days)	94	99	-5.05

The decline in fixed asset to equity ratio is a result of the factors described above (intensive investments using credits). The value of other solvency ratios is comparable to last year's ratios.

Solvency ratios have been calculated as follows:

a) fixed assets to equity ratio – shareholders' equity divided by fixed assets

b) total debt – long- and short-term liabilities divided by total balance capitalisation (including provisions for liabilities)

c) short-term debt – short-term liabilities divided by total balance capitalisation,

d) long-term debt – long-term liabilities divided by total balance capitalisation,

Ratio	2002 (%)	2001 (%)	change %
fixed assets to equity ratio	1.55	2.13	-27.23
total debt	54.28	52.79	2.82
short-term debt	49.60	46.29	7.15
long-term debt	4.40	5.94	-25.93

4. Information on agreements crucial for the Issuer's business, including agreements made between shareholders (partners) known by the Issuers, as well as insurance or co-operation contracts.

In 2002, the Company concluded the following major contracts:

– Insurance agreement of 17th October 2002 with supplementary documents, concluded with Allianz Polska S.A. in Warsaw. The insurance policy includes the insurance of all LPP S.A. assets, including brand stores.

– Contracts of purchase of shares in limited liability companies presented in item 8(4).

– Contract for insurance within a specified guaranteed limit concluded with TUiR 'Warta' S.A. on 19th February 2002, with annexes. The guaranteed limit amounts to PLN 20 M.

– Sub-licence agreement and contract for professional consulting services concluded with the company ACCENTURE Sp. z o.o. based in Warsaw. The object of the contract is the introduction of specialist Retek software for comprehensive retail management in the network of stores. Value of the contract: USD 3.3 M.

– In 2002, the Company concluded 12 important lease agreements with distributors of surface areas in business facilities, for the lease of 15 facilities used for retail trade.

Other contracts concluded or prolonged in 2002 or earlier, important for LPP S.A. business, included:

– Co-operation agreements signed with major suppliers, including:

  • Metro Kooperacja Polska Spółka Komandytowa

  • Jeronimo Martins Dystrybucja Sp. z o.o.

  • Auchan Polska Sp. z o.o.

– Contracts for outsourced services, including: trade agency, warehousing, legal advisory, marketing, maintaining import and export documentation.

The Issuer is not aware of any agreements made between the Company shareholders which could influence its business.

5. Information on changes in the Issuer's organisational or capital relations with other parties and description of the Issuer's major local and foreign investments (securities, financial instruments, intangible assets and real estate), including capital investments outside the group of related parties and methods of their financing

As at 31st December 2001 LPP S.A. was a mother company for ten limited liability companies with a share of 100%.

In 2002 significant changes in organisational and capital relations of LPP S.A were introduced:

In the 2nd quarter of 2002, LPP S.A. acquired 100% of shares in the Estonian company OU Front Trade based in Tallinn, as well as Reserved Sp. z o.o. (the company's name has been changed into AMA Sp. z o.o.). The details of these acquisitions were published in current reports no. 24/2002 of 29th April 2002 and 28/2002 of 28th May 2002.

In addition, LPP S.A. took hold of the whole share in two newly established limited liability companies: Lima Sp. z o.o. and Kama Sp. z o.o.

In the 3rd quarter of 2002, LPP S.A. acquired 100% of shares in the Czech company LWD 10 s.r.o., based in Prague (the company's name has been changed into LPP Retail Czech Republic s.r.o.). In addition, LPP S.A. established the company LPP Retail Latvia Ltd., based in Riga. The details of these acquisitions were published in current reports no. 48/2002 of 16th September 2002 and 53/2002 of 30 the September 2002.

In the 4th quarter of 2002 LPP S.A. acquired 50Cyprian company Obgain Management Ltd. and 100% of shares in the company LPP Hungary Kft. Based in Budapest. In addition, LPP S.A. established five new limited liability companies, taking hold of 100% share in each case.

The details of the establishment or acquisition of subsidiaries were published in current reports no. 55/2002 of 9th October 2002, 57/2002 of 14th October 2002, and 60/2002 of 18th October 2002.

As a result of these changes in capital relations, as at 31st December 2002 LPP S.A. was a mother company for twenty limited liability companies with a share of 100% and a major investor in one company with a share of 50%.

Establishing new entities or acquisition of shares in existing companies is part of the Issuer's plans of the Reserved stores network development both in Poland and abroad.

In 2002, upgrade and adaptation works in the purchased warehouse in Pruszcz Gdański were continued.

Realising the objective of retail stores network development, the Company incurred capital expenses related to the construction of hired facilities, but did not purchase these immovables.

The real estate investment value exceeded PLN 17 M.

Intangible assets used in 2002 (valued at PLN 1.5 M) were mainly licences for computer programmes.

Most of the aforementioned investments were financed from current assets, without incurring any liabilities for this particular purpose. The only exception was partial financing of the investment in Pruszcz Gdański, where the Company used a tranche (in the amount of PLN 2.6 M) of the investment credit granted in 2001 by the bank BIG Bank Gdański.

6. Transactions with related parties – when one-off or total value of transactions concluded with a given related party within 12 months exceeds the equivalent of EURO 500 000 in PLN.

In two cases, total value of transactions concluded with related parties exceeds the equivalent of 500 000 EURO.

A. Transactions concluded with the company LPP Retail Czech Republic s.r.o, valued in total at PLN 3 572 823.24, including:

a) loan granted – valued at PLN 2 000 932.46 earmarked for capital investments in the Reserved brand stores in the Czech Republic,

b) sales of goods valued at PLN 1 571 890.78, for resale in the Reserved brand stores in the Czech Republic.

B. Transactions concluded with the company LPP Retail Latvia LTD, valued in total at PLN 2 029 877.51, including:

a) loan granted – valued at PLN 820 513.00,

b) sales of goods valued at PLN 1 209 364.51, for resale in the Reserved brand stores in Latvia.

Transactions were concluded on market terms and conditions within the capital group.

7. Information on credits and loans incurred, specifying their maturity and guaranties granted to the issuer.

Information on credits incurred as at 31st December 2002 and their maturity is presented in note 18.C hereof.

In 2002, the Company used bank guaranties to secure the payment of rent for the area rented to run brand stores. These bank guaranties are used to secure payments arising under contracts of lease, both when the Company and related parties or other entities act as lessees under terms and provisions of these contracts.

As at 31st December 2002, the total value of bank guarantees granted upon the request and on the responsibility of LPP amounted to PLN 7 461 000, including:

– guaranties granted to secure contracts of lease concluded by LPP – valued at PLN 4 021 000,

– guaranties granted to secure contracts of lease concluded by related parties – valued at PLN 2 527 000,

– guaranties granted to secure contracts of lease concluded by other entities – valued at PLN 913 000,

Last year, no loans were incurred by and no guaranties were granted to the Company.

8. Information on loans granted, specifying their maturity and guaranties granted by the issuer, including loans and guaranties granted to the issuer's related parties.

In 2002, the Company granted the following loans:

a. Loans granted to related parties:

Name of the related party	Loan value	Date of contract	Date of payment
LPP Retail Czech Republic Ltd.	500.000 EUR	18.09.2002	31.12.2004
LPP Retail Latvia Ltd.	250.000 USD	30.09.2002	31.12.2003
LPP Hungary Ltd.	250.000 EUR	25.10.2002	31.12.2003

b. Loans granted to other entities:

– loan granted on 14th August 2002 to a natural person in the amount of PLN 26 000. Date of payment: 7th December 2005.

– loan granted on 23rd January 2002 to a natural person in the amount of PLN 17 000. Date of payment: 7th November 2004.

During the fiscal period, the Company granted promissory notes to Cargosped Składy Celne Sp. z o.o. LPP S.A. guarantee secures the payment of STU Ergo Hestia S.A under the guarantee of customs debt repayment to Cargosped Składy Celne Sp. z o.o. for warehousing of LPP S.A. goods. As at 31st December 2002, the value of the off-balance accounts payable arising under guarantees granted amounted to PLN 6 M.

9. Appropriation of inflows from the issue of securities.

In 2002, no securities were issued.

10. Explanation of discrepancies between financial results presented in the annual financial report and forecast results for a given fiscal year published earlier, if at least one of the items in the financial result differs considerably from the item presented in the last forecast published.

Results achieved by LPP S.A. were slightly higher than forecast results published earlier.

11. Assessment (and its justification) of financial assets management, with particular focus on the ability to meet the terms and conditions of all incurred liabilities, and identification of possible threats and actions taken or to be taken by the issuer to counter these threats.

Financial assets owned by the Company secure liquid settlement of its all major liabilities. No serious defaults in terms of liabilities incurred from the State, employees or customers were identified. In 2002 there was a substantial increase in revenues from the brand stores network – in this particular channel of distribution, goods are quickly exchanged into financial assets. This share amounted to 49% in 2002 (including 65% in Q4), which reduced the cycle of receivables turnover. As the general unfavourable market situation often causes the so-called payment congestions, the Company is reducing its customer group (letting go of bad debtors) and at the same time is taking all necessary actions to collect debts from customers in default.

12. Assessment of the feasibility of planned investments, including capital investments, against owned assets, including any possible changes in the structure of investment financing.

Basic investments planned this year are related to the development of the Reserved brand stores network, as well as the purchase and introduction of a specialist software (and all necessary hardware) used for the management of the retail sales process. The value of total investment outlays planned for 2003 amounts to PLN 35 M. The Company plans another issue of shares, and to earmark resulting share premium for the realisation within the following two years. If no share issue is performed, investments will be financed on the basis of current inflows and bank credits. Taking into account planned investments, the Management Board will put forward a proposal to the shareholders to increase shareholders' equity by the entire amount from 2002.

13. Assessment of factors and extraordinary event influencing financial result from the fiscal year and the identification of their impact on the financial result.

The Management Board did not identify any extraordinary events influencing the financial result from 2002.

14. Description of external and internal key factors influencing the development of the Issuer's company and description of the perspectives of the Issuer's business development at least until the end of the current fiscal year, including the elements of the Company's market strategy.

Description of key risks and threats and the identification of their probability.

Basic objectives of the Company influencing its future market position include:

a) creation of the network of brand stores in Poland and Central and Eastern Europe,

b) creation of a strong clothing label (Reserved),

The following internal and external factors (presenting both opportunities and threats) will have an impact on the realisation of Issuer's strategic tasks and goals:

Internal factors

a) The Company's market strategy

LPP S.A. is a design and distribution company, outsourcing many activities (co-operation with third parties). The Company does not have its own production capacity and does not plan to develop its own production sites. As a result, the objectives of all investments is to increase of the Company's trading potential, maintaining its competitive edge on the market, developing its own network of distribution, creating a good image of LPP S.A. on the clothing market, gaining customers and securing their loyalty for the Company and its products.

b) LPP S.A. market position

Marketing activities, focusing primarily on the Reserved label, resulted in the considerable increase of brand recognition by the target consumer group. The growth of LPP S.A. in terms of its revenues from sales and its profits is getting more and more dynamic.

c) Extending and renewing offers presented to customers

Products marketed by LPP S.A. meet the expectations of target customers groups for particular channels of distribution. Keeping in touch with the changing preferences of customers, LPP S.A. launches new product groups to the market each year, trying to get ahead of the market needs. In certain cases, especially in the case of the Reserved brand stores, LPP S.A. tries to create its own style, based still on global trends.

External factors

a) Change and growth of the clothing retail market in Poland

In reaction to changes of the retail clothing market, LPP S.A. consistently realises its plan of development of an extensive network of brand stores, selling clothing under widely recognized label.

b) Relatively low costs of entrance into the clothing market

Relatively low entrance barriers of the clothing market may result in the increase of competition. This will require more intensive actions on the part of LPP S.A. in order to maintain its market position and secure further development, especially the development of an extensive network of brand stores. What differentiates this channel of distribution from others is the development of the Company's own network is the means to protect LPP S.A. against competitors with lower financial assets; it results from the fact that building a network of stores and creating a strong brand require considerable investment outlays.

c) Poland's membership in the European Union

When Poland becomes the member state of the European Union and its borders will be open to competition, our market may become attractive for large foreign companies from the same market sector. LPP S.A. tries to minimise this threat by developing extensive retail network of the Company's brand stores in the best locations in Poland; advantageous location of brand stores is one of the basic requirements on the retail market if a given company wants to be successful.

Poland's membership in the EU may entail administrative restrictions, for instance the necessity to acquire import quotas for clothing produced in China and imported to the European Union. This problem will be solved on 1st January 2005 on the basis of agreements concluded between the EU and World Trade Organisation. Under these agreements, all formal barriers in the trade of clothing between the EU and the WTO members are eliminated as at the aforementioned date. Currently, import customs duties for clothing import from China to the EU member states (12%) than to Poland (18%).

d) FX rates

Current analyses of USD exchange rates (the Company settles its accounts with its suppliers and export customers in this currency) and factors which may have an impact on USD exchange rate suggest possible increase of prices of purchased goods. Reasonable forecasts of USD exchange rate for 2003, based on the opinion of major financial institutions justify the assumption that this will not pose any serious problems for LPP S.A. activities.

Specific character of the Company's activity makes it possible to partly transfer the increase in USD exchange rate to end customers – selling price of a given product is calculated "last minute" – before it is introduced to the market. Presented forecast of the Company's results for 2003 was prepared assuming, among others, average annual USD exchange rate at the level of PLN 4.10. Major devaluation of PLN against USD may pose a threat for the presented forecast profit. The Company is constantly monitoring changes on the foreign currency market and is considering the use of FX risk control instruments.

e) General economic situation in Poland. The level of spendings on consumer goods, including clothing.

2002 results prove that the Company achieved a considerable increase in revenues from sales, in spite of the unfavourable market situation. As the Company's planed growth for 2003 and in subsequent years is based on the assumption of a further development of the Reserved brand stores network, and the increase in revenues from sales were the largest in this particular channel of distribution, even if the customers' spendings on clothing do not increase, LPP S.A. business will not be put at risk.

f) Changes in fashion – influencing attractiveness of the products

Keeping up with the latest trends in fashion and stimulating customer's demand is one of the main criteria of success in the trade of the group of clothing essential for the Company's development. The Company is aware of the impact of fashion and for the last several years it has been building a strong design team of professionals. The adoption of team work rules eliminates the risk of excessive influence of individual persons on various elements of a final collection of clothing. This diversification is a safeguard for the Company if the customers do not approve of several elements of various clothing groups. Work of the team is organised on the basis of rules adopted by global business leaders.

Perspectives for development of the Issuer's business

For 2003, LPP S.A. plans further expansion in the most dynamic segment of the clothing market. Thus, it may be concluded that the perspectives for the Company's development are good and at present there are no major threats which could considerably affect the Issuer's business results. Previous achievements of LPP S.A. in terms of the development of the Reserved brand stores network (41 stores in Poland and 7 abroad) justify the assumption that objectives for 2003, i.e. opening of another 20-30 new stores, will be put into practice. Additionally, in 2003 the Issuer plans to open 10 new brand stores in Central and Eastern Europe. This plan is a part of the adopted strategy, assuming the creation of a strong brand in this part of Europe.

Forecasts for 2003 assume:

a) revenues from sales at the level of PLN 390 M,

b) net profit at the level of PLN 31 M,

and were prepared based on the following assumptions: average annual USD exchange rate – PLN 4.10, WIBOR rate – 6.2%, investment outlays – PLN 35 M.

15. Changes of the basic management of the Issuer's business and its capital group.

No major changes in the Company's management principles were introduced last year.

16. Personal changes in terms of management and supervision in the last fiscal year.

No personal changes in terms of the Company's management and supervision took place lat year.

17. Total number and nominal value of all shares of the Issue and all shares of the Issuer's related parties owned by the Issuer's management and supervision personnel

As at the date of the presentation of annual report for 2002, the Issuer's management and supervision personnel owns the following Company shares in terms of number and value:

No.	Position	Total number of shares	Nominal value in PLN.
1.	President of the Management Board	279 945	559 890
2.	President of the Supervisory Board	278 338	556 676
3.	Vice President of the Management Board	4 388	8 776
4.	Vice President of the Management Board	4 053	8 106
5.	Vice President of the Management Board	2 948	5 896
6.	Member of the Supervisory Board	1 728	3 546
7.	Member of the Supervisory Board	1 271	2 542
8.	Member of the Supervisory Board	216	432

As at that date, these persons did not own any shares in related parties.

18. Shareholders with at least 5% of votes at the Issuer's annual general meeting – directly or indirectly through subsidiaries.

As at the date of the presentation of annual report for 2002, the following shareholders had at least 5% at the annual general meeting:

No.	Shareholder	Number of shares	Share in share capital in %	Number of votes at the AGM	Share in votes at the AGM in %
1.	Marek Piechocki	279 945	18.50	979 945	33.63
2.	Jerzy Lubianiec	278 338	18.39	978 338	33.58
3.	Grangefont Ltd	550 000	36.34	550 000	18.88

19. Information on any agreements known to the Issuer (including agreements concluded after the closing balance sheet day) which may result in the future change in the present structure of ownership in terms of shares owned by shareholders and bondholders

Change in the present structure of share ownership may take place as a result of the execution of the agreement for the purchase of 56 700 F series shares concluded with Capital Operations Centre in Bank Handlowy w Warszawie S.A. in Warsaw on 21st September 2000.

For the subsequent years of the introduction of the management options programme, the Company's Supervisory Board specifies the number of shares which may be acquired in a given year and identifies eligible persons.

Marek Piechocki
President of the Management Board

Alicja Milińska
Vice President of the Management Board

Dariusz Pachla
Vice President of the Management Board

Stanisław Dreliszak
Vice President of the Management Board

1.4. Auditor's opinion

Opinion of an independent auditor
for the Shareholders and Supervisory Board of LPP S.A.
for the reporting period from 1st January 2002 to 31st December 2002.

We have audited the financial statement of LPP S.A. with its registered office in Gdańsk, at. ul. Łąkowa 39/44, which forms an appendix to this opinion and includes:

(a) introduction to the financial statement,

(b) balance sheet as at 31st December 2002, which closes with a total capitalisation of 166,820,878.43 PLN,

(c) profit and loss account for the reporting period from 1st January 2002 to 31st December 2002 evidencing a net profit of 18,556,165.95 PLN,

(d) statement of shareholders' equity evidencing as at 31st December 2002 shareholders' equity of 74,693,890.43 PLN,

(e) cash flow statement for the reporting period from 1st January 2002 to 31st December 2002 evidencing an increase in cash by 2,377,684.38 PLN,

(f) additional information and notes.

The Company Management Board is responsible for preparing the financial statement and statement of company operation. Our task consists in giving an opinion on the reliability, correctness and clarity of the financial statement and correctness of the account books on which it has been based.

The audit was conducted in conformity to the provisions of:

(a) chapter 7 of the Accounting Act of 29th September 1994 (published in *Dziennik Ustaw* 02.76.694 with subsequent amendments),

(b) norms for auditors issued by the National Auditors Chamber in Poland.

Our audit has been planned and conducted in such a way, so that we can guarantee our opinion on the financial statement and the account books on which it has been based. The audit encompassed in particular, the assessment of the correctness of accounting methods used by the company and substantial valuations made for the purpose of drawing up the financial statement, checking – to a large extent in a random way – of evidence and accounting entries, on which the information included in the statement is based, as well as a holistic assessment of the financial statement. We believe that our audit has been sufficient to issue this opinion.

In our opinion the audited financial statement, encompassing numerical data and notes, has been drawn up in all material aspects on the basis of correct account books and in conformance with the accounting methods set out in the Accounting Act, which have been used consistently throughout the statement. The financial statement conforms to all legislation and provisions of the Company's statute that influence its contents, and also gives a true and fair view of all information vital for assessing the Company's financial situation as at 31st December 2002, and its financial result for the reporting period from 1st January 2002 to 31st December 2002.

We hereby confirm that the statement of company operation, as per the Accounting Act, is complete and information contained in it is borne out by the audited financial statement. Furthermore, the statement has been drawn up with due regard to the Ordinance of the Council of Ministers of 16th October 2001 on current and periodic information disclosed by issuers of securities.

Acting on behalf of Moore Stephens Trzemżalski, Krynicki i Partnerzy KBR Sp. z o.o.:

Janina Prusakowska

Auditor

Entered in the list of Auditors

under no. 3253

Jerzy Trzemżalski

For the Management Board of

MOORE STEPHENS Trzemżalski, Krynicki i Partnerzy Kancelaria Biegłych Rewidentów Sp. z o.o.

Company entered on the list of entities authorised to audit financial statements under no. 372

3rd April 2003, Gdańsk

1.5. Auditor's report

Report supplementing the opinion from the audit of the financial statement
for the Shareholders and the Supervisory Board of LPP S.A.
for the reporting period from 1st January 2002 to 31st December 2002.

The report has been prepared in connection with the audit of the financial statement of LPP S.A. with its registered office in Gdańsk, ul. Łąkowa 39/44, hereinafter referred to as the "Company".

The audited financial statement included:

(a) introduction to the financial statement,

(b) balance sheet as at 31st December 2002, which closes with a total capitalisation of 166,820,878.43 PLN,

(c) profit and loss account for the reporting period from 1st January 2002 to 31st December 2002 evidencing a net profit of 18,556,165.95 PLN,

(d) statement of shareholders' equity evidencing as at 31st December 2002 shareholders' equity of 74,693,890.43 PLN,

(e) cash flow statement for the reporting period from 1st January 2002 to 31st December 2002 evidencing an increase in cash by 2,377,684.38 PLN,

(f) additional information and notes.

The financial statement has been signed by the Company's Management Board on 28th February 2003. This report should be read as accompanying the audit opinion for the Shareholders and the Supervisory Board of 3rd April 2003 referring to the foregoing financial statement.

The report contains 16 numbered pages and consists of the following parts:

Acting on behalf of Moore Stephens Trzemżalski, Krynicki i Partnerzy KBR Sp. z o.o.:

Janina Prusakowska	Jerzy Trzemżalski
Auditor	For the Management Board of
Entered in the list of Auditors under no. 3253	MOORE STEPHENS Trzemżalski, Krynicki i Partnerzy Kancelaria Biegłych Rewidentów Sp. z o.o.
	Company entered on the list of entities authorised to audit financial statements under no. 372

3rd April 2003, Gdańsk

I. Company overview

(a) LPP S.A., hereinafter referred to as the Company, operates in accordance with the Polish Code of Commercial Partnerships and Companies. The Company's registered office is located in Gdańsk at ul. Łąkowa 39/44. Apart from its registered office, the Company also operates in own warehouses in Pruszcz Gdański. The sales are conducted through 3 wholesale outlets and 41 brand stores located throughout the country.

(b) The Company's notarial deed of association been drawn up in the Notarial Office in Gdynia on 7th December 1989, Register Book A no. 2452/1989. The Company was registered by decision of the District Court in Gdańsk in the Commercial Register under RHB no. 3878. By decision of the District Court in Gdańsk, the Company was entered in the National Court Register under KRS no. 00000778. The last updated copy of the Company's entry in the National Court Register has been prepared on 21st February 2003.

(c) The Company possesses a tax identification number NIP 583-10-14898 and a statistical identification number REGON 190852164.

(d) The Company's key objects, according to its statute, include wholesale and retail sale of clothing.

(e) The Company's financial statement for the previous reporting period from 1st January 2001 to 31st December 2001 has been audited by Moore Stephens Trzemżalski, Krynicki i Partnerzy Kancelaria Biegłych Rewidentów Sp. z o.o. with its registered office in Gdańsk, at ul. Rogaczewskiego 9/19 and has obtained an unqualified audit opinion.

(f) The Company's financial statement for the previous reporting period has been approved by resolution of the General Meeting of Shareholders of 28th June 2002. The General Meeting on 28th June 2002 contributed the entire net profit for the previous fiscal year of 10,138,914.42 PLN to the supplementary capital.

(g) The financial statement for the previous reporting period has been filed with the National Court Register on 11th July 2002 and filed for publication in *Monitor Polski B* on 19th August 2002.

(h) The Company's bodies are: the General Meeting of Shareholders, the Supervisory Board and the Management Board.

(i) The Supervisory Board during the audited period was composed of:

– Jerzy Ryszard Lubianiec – President

and members

– Maciej Krzyżanowski
– Grzegorz Słupski
– Wojciech Olejniczak
– Sławomir Łoboda
– Bogdan Małachwiej

During the reporting period the Company's Management Board was composed of:

– Marek Piechocki – President of the Management Board
– Dariusz Pachla – Vice-President of the Management Board
– Alicja Milińska – Vice-President of the Management Board
– Stanisław Dreliszak – Vice-President of the Management Board

(j) The Company's share capital as at the balance-sheet day equalled 3,027,000.00 PLN and was divided into 1,513,500 shares of nominal value 2 PLN each. As at the balance-sheet day, the value of the shareholders' equity was 74,693,890.49 PLN.

(k) The Company shares as at the balance-sheet day were allocated in the following way:

		number of shares	**share value in PLN**	**% of the total vote**
Marek Piechocki	President of the Management Board	279,945	559,890	33.63
Jerzy Lubianiec	President of the Supervisory Board	278,338	556,676	33.58
Grangefont	London	550,000	1,100,000	18.88
Others		405,217	810,434	13.91
		1,513,500	**3,027,000**	**100.00**

(l) In the audited period and until the audit has finished, the Company's ownership structure has been subject to immaterial changes. In accordance with a resolution of the General Meeting the statute was changed, in that 56,700 registered shares series E have been transformed into bearer shares.

(m) The Company's related parties have been named in two separate notes sections. They are 16 subsidiaries with their registered offices in Gdańsk and 5 subsidiaries abroad with their registered offices in Estonia, Latvia, Hungary and Cyprus.

(n) This reporting period encompasses 12 consecutive months from 1st January 2002 to 31st December 2002. The previous reporting period encompasses 12 months of 2001 respectively. The reporting period two years previously encompasses 12 months of 2000.

II. General audit information

(a) Moore Stephens Trzemżalski, Krynicki i Partnerzy Kancelaria Biegłych Rewidentów Sp. z o.o. have been chosen as the Company's auditor by resolution of the Management Board of 3rd April 2003, by approval of the Supervisory Board expressed in the resolution of 3rd April 2003.

(b) The audit was conducted in the Company's registered office on the basis of the contract concluded on 3rd April 2003 between the Company as the Principal and Moore Stephens Trzemżalski, Krynicki i Partnerzy Kancelaria Biegłych Rewidentów Sp. z o.o. with its registered office in Gdańsk at ul. Rogaczewskiego 9/19, as the Contractor, from 6th January to 28th February 2003.

(c) During the audited period the Company was taking stock:

- by way of physical inventory:
  - cash in hand as at 31st December 2002;
  - physical stock in warehouses and brand stores has been taken in 2002 at appropriate intervals on different dates;
- by way of statements of account received from banks and trading partners:
  - cash in banks as at 31st December 2002;
  - financial assets as at 31st December 2002;
  - receivables as at 31st December 2002;
- by way of comparing books with relevant evidence:
  - land as at 31st December 2002;
  - fixed assets in progress as at 31st December 2002;
  - intangible assets as at 31st December 2002;
  - financial assets as at 31st December 2002;

The auditor observed stock taking in 4 physical inventory wholesale and canvassing points conducted as at 30th November 2002. The inventories value equalled 654,000 PLN. The auditor considered the inventory true and fair.

(d) For the purposes of the audit and preparing this report no findings of external control bodies were used.

(e) A written statement of the Company's solicitor has been secured on 18th February 2003, which set out the litigation and legal matters connected with the Company

(f) The auditors have received a statement from the Company's Management Board dated 3rd April 2003 on the fair and true view presented by the statement about to be audited, on disclosing in the notes all contingent liabilities and on non-existence or possible existence of events by the end of the audit, which could materially influence the data evidenced in the financial statement for the audited year.

III. Audit summary

The basic financial ratios are comparable to the previous year's. The increase in sales, profit on sales and net profit, as well as the increase in total capitalisation indicate the continuance of the upturn tendency in the Company's development.

The audit results and analysis of the financial ratios does not imply a hazard to the Company remaining a going concern for 12 months as at the balance-sheet date.

IV. Financial analysis

BALANCE SHEET as at 31st December 2002

	Comments	A End of the current period PLN '000	B End of the previous period PLN '000	Change (A-B) PLN '000	Change (A-B)/B %	End of the current period % structure	End of the previous period % structure
ASSETS							
Fixed assets							
Intangible assets	1	978	86	892	1037%	1%	0%
Tangible fixed assets	2	40 528	23 647	16 881	71%	24%	19%
Long-term receivables	3	210	0	210	0%	0%	0%
Long-term investments	4	3 141	141	3 000	2128%	2%	0%
Long-term prepaid expenses	5	3 163	2 499	664	27%	2%	2%
		48 020	**26 373**	**21 647**	**82%**	**29%**	**22%**
Current assets							
Inventory	6	76 603	63 685	12 918	20%	46%	52%
Short-term receivables	7,8,9,10	34 304	26 882	7 422	28%	21%	22%
Short-term investments	11	7 004	3 500	3 504	100%	4%	3%
Short-term prepaid expenses	12	890	1 176	-286	-24%	1%	1%
		118 801	**95 243**	**23 558**	**25%**	**71%**	**78%**
Total assets		**166 821**	**121 616**	**45 205**	**37%**	**100%**	**100%**

BALANCE SHEET as at 31st December 2002 (cont.)

	Comment	A End of the current period PLN '000	B End of the previous period PLN '000	Change (A-B) PLN '000	Change (A-B)/B %	End of the current period % structure	End of the previous period % structure
LIABILITIES							
Shareholders' equity							
Capital issued	13	3 027	3 027	0	0%	2%	2%
Unpaid capital issued		0	0	0	0%	0%	0%
Own shares		0	0	0	0%	0%	0%
Stock capital	14	50 669	40 530	10 139	25%	30%	33%
Revaluation capital		0	0	0	0%	0%	0%
Other reserve capitals		0	0	0	0%	0%	0%
Profit (loss) from previous years		2 442	1 547	895	58%	1%	1%
Net profit (loss)	VI	18 556	11 172	7 384	66%	11%	9%
Net profit write-offs during fiscal year		0	0	0	0%	0%	0%
		74 694	**56 276**	**18 418**	**33%**	**45%**	**46%**
Liabilities and reserves for liabilities							
Reserves for liabilities	15	470	685	-215	-31%	0%	1%
Long-term payables	16	7 344	7 221	123	2%	4%	6%
Short-term payables	17,18,19	82 744	56 293	26 451	47%	50%	46%
Accruals and deferred income	21	1 569	1 141	428	38%	1%	1%
		92 127	**65 340**	**26 787**	**41%**	**55%**	**54%**
						0%	0%
Total liabilities		**166 821**	**121 616**	**45 205**	**37%**	**100%**	**100%**

PROFIT AND LOSS ACCOUNT (comparative version) for the fiscal year 1st January – 31st December 2002

	Comment	A Current period PLN '000	B Previous period PLN '000	Change (A-B) PLN '000	Change (A-B)/B %	Current period % structure	Previous period % structure
Net revenues from sales and their equivalents	23	261 603	171 208	90 395	53%	100%	100%
Cost of operations	24	232 195	154 842	77 353	50%	89%	90%
Profit (loss) from sales		**29 408**	**16 366**	**13 042**	**80%**	**11%**	**10%**
Other operating income	25	9 080	5 881	3 199	54%	3%	3%
Other operating expenses	25	9 852	6 325	3 527	56%	4%	4%
Profit (loss) from operations		**28 636**	**15 922**	**12 714**	**80%**	**11%**	**9%**
Financial revenues	26	1 076	2 606	-1 530	-59%	0%	2%
financial expenses	26	4 709	3 988	721	18%	2%	2%
Profit (loss) from business activities		**25 003**	**14 540**	**10 463**	**72%**	**10%**	**8%**
Extraordinary events		0	0	0	0%	0%	0%
Gross profit (loss)		**25 003**	**14 540**	**10 463**	**72%**	**10%**	**8%**
Income tax	27	7 766	4 043	3 723	92%	3%	2%
Other compulsory reductions of profit (increase of lossy)	27	-1 319	-675	-644	95%	-1%	0%
Net profit (loss)		**18 556**	**11 172**	**7 384**	**66%**	**7%**	**7%**

he Company's financial situation, assets, financial result and profitability

The following ratios present the Company's business operations, its financial result and profitability for the fiscal year, as well as its assets and financial situation as at the balance sheet day as compared with the previous period:

	Formula	Unit	Current period	Previous period
Assets management (efficiency) ratios				
– Sales to Total Assets	revenues from sales / average assets		1.81	1.65
– Sales to Total Fixed Assets	revenues from sales / average fixed assets		7.03	8.11
– Sales to Equity	revenues from sales / average equity		3.99	3.94
– receivables turnover ratio (in days)	average short-term receivables x 365 days / revenues from sales	days	43	52
– inventory turnover ratio (in days)	average inventory x 365 days / COGS	days	110	128
Profitability ratios				
– net profit margin	net profit / revenues from sales	%	7.09	6.53
– gross profit margin	profit on sales / revenues from sales	%	11.24	9.56
– Return on Assets	net profit / average assets	%	12.87	10.74
– Return on Equity	net profit / average equity	%	28.34	25.69

Solvency ratios

– total debt	$\frac{\text{long- and short-term payables}}{\text{total liabilities}}$	x100	54.28	52.79
– payables turnover ratio (in days)	$\frac{\text{average short-term payables x 365 days}}{\text{COGS}}$	days	109	254
– equity to fixed assets ratio	$\frac{\text{equity}}{\text{fixed assets}}$		1.56	2.13
–financing structure ratio	$\frac{\text{equity + long-term payables}}{\text{total liabilities}}$		0.49	0.52

Liquidity ratios			**End of the current period**	**End of the previous period**
– current ratio	$\frac{\text{total current assets}}{\text{short-term payables}}$		1.44	1.69
– quick ratio	$\frac{\text{total current assets - inventory}}{\text{short-term payables}}$		0.51	0.56
– acid-test ratio	$\frac{\text{cash}}{\text{short-term payables}}$		0.01	0.01

Capital market ratios

– earnings per share (EPS)	$\frac{\text{net profit / loss}}{\text{number of shares issued}}$	PLN	3.00	-43.00
– price / earnings ratio (PER)	$\frac{\text{share market price}}{\text{net profit / loss per share}}$		3.50	-0.26
– dividend yield (DY) – for non-public shares	$\frac{\text{dividend per share}}{\text{share nominal value}}$	%	12.00	0.00
– dividend yield (DY) – for public shares	$\frac{\text{dividend per share}}{\text{share market value}}$	%	11.43	0.00
– dividend cover*	$\frac{\text{dividend per share}}{\text{net profit per share}}$	%	40.00	0.00
– equity per share	$\frac{\text{equity}}{\text{number of shares issued}}$	PLN	-99.00	-102.00

* excluding dividend amount which represents share's preference

V. Discussion of entries in the financial statement

1. Intangible assets

Intangible assets consist mainly of software licences. The material cause for their increase in comparison to the previous period was the acquiring and implementing a new FK and inventories operations software.

2. Tangible fixed assets

This item consists mainly of the net value of buildings and investments in buildings not owned by the company. The rise in comparison to the previous period can be attributed to the acquisition of new fixed assets of all kinds. Expenditure on brand stores exceeded 13 million PLN.

3. Long-term receivables

Long-term receivables consist of the contractual deposit for booking future supplies of furniture to the brand stores.

4. Long-term investments

Are financial assets. The key entries are shares in subsidiaries and a loan granted to one of them.

5. Long-term prepaid expenses

Consist mainly of deferred income tax assets and prepaid expenses. Rise in the first ones is connected mainly with the rise in inventory and write downs of receivables. The other ones refer to the cost of increasing the Company's share capital.

6. Inventories

The key entry are stocks. Increase in their value in comparison to the previous period was ca. 20%, and was slower than the sales dynamics. The structure of inventories according to sale accessibility is as follows:

– stocks in wholesale warehouses and brand stores	35.4%
– stocks in bonded warehouses	33.7%
– stocks en route to bonded warehouses	30.9%

Entries evidenced in inventories and referring to previous sales seasons have been identified. Where their expected net sales price is lower than the acquisition price a relevant write down has been made.

7. Short-term receivables

The time structure of the main short-term receivables according to their maturity has been presented in the notes to the financial statement. Receivables in foreign currencies have been valued as at the balance-sheet day in accordance to regulations currently in force.

8. Receivables due from supplies and services

As at the balance-sheet day the Company has received 50,5% statements of account for these receivables. Until the last day of audit no less than 45,8% of receivables due for supplies and services have been paid.

In the time structure of these receivables, the share of overdue net receivables decreased by 5.4%. It is a positive outcome, both from the point of view of debt recovery as well as with regard to valuation levels.

As at the balance-sheet day cases in court and in enforcement amount to 3,666,000 PLN. The amounts include interest and court costs. From these amounts relevant write downs have been made.

9. Receivables due from taxes, subsidies, customs, social security

The main entry in these receivables is formed by the Value Added Tax which will be repaid to the company.

10. Other receivables

Include settlements from factoring and client cards, contractual deposits paid in and the calculated VAT to be settled with the budget in January 2003.

11. Short-term financial assets

As at the balance-sheet day the Company possesses the following short-term financial assets:

– loans granted	22.6%
– bank deposits	9.9%
– cash in hand and cash in banks	67.5%

12. Short-term prepaid expenses

The material items in the deferred expenditure as at the end of the reporting period is formed by expenditure referring to the following fiscal year, such as deferred insurance and the cost of raising the Company's capital spread over time.

13. Share capital

In the reporting period the share capital has not changed.

The share capital has been paid in cash in the amount of 2,913,600.00 PLN and by way of a contribution in kind in the amount of 113,400.00 PLN.

14. Supplementary capital

The supplementary capital has been increased only by a contribution from the profit evidenced for the previous year.

15. Provisions for liabilities

Encompass duly created and reversed provisions for the deferred income tax and for unused holidays, as well as a calculated provision for termination benefits determined by the Polish Labour Code.

16. Long-term payables

Refer to two bank credits of investment type to be paid up in the years:

2004	2,717 thousand PLN
2005	2,334 thousand PLN
2006	1,182 thousand PLN
2007	1,110 thousand PLN

17. Short-term payables – time-structure with reference to maturity on the balance-sheet day

The time structure of the main short-term payables with reference to their maturity on the balance-sheet day has been presented in additional notes to the financial statement. Payables in foreign currencies have been valued as at the balance-sheet day in conformance with regulations currently in force.

18. Short-term payables from supplies and services

Within these payables only 7% are overdue, of which 47% have been paid by the day of the audit.

The Company's costs with reference to interest are minimal, and therefore no special provision for future liabilities is being created.

19. Payables from taxes, customs and social securities

Types of budgetary payables have been presented in additional notes to the financial statement.

In the current reporting period the Company was not inspected by fiscal authorities.

Within the total liabilities the amount of income tax payable to the budget for 2002 is material. Its due date falls on 31st March 2003. Other payables have been paid and settled in due time.

20. Other short-term payables

Here the main items are special funds consisting of the Company Social Fund and the Company Disabled Rehabilitation Fund. For the purposes of these funds, the Company deposits means on a separate bank account in the required amounts. The funds are created and used in accordance with rules currently in force.

Other liabilities include settlements with employees, which have been cleared by the day of the audit, and settlements for various services cleared with their users.

21. Accruals and deferred income

Here the main items are:

– subsidies from the National Rehabilitation of the Disabled Fund (PFRON) for preparing workplaces for the disabled, diminished by write downs of fixed assets acquired with these subsidies,

– export sales value, unconfirmed until the balance-sheet day by documentation of the goods crossing the borders of Poland.

22. Collaterals established on assets for the benefit of third parties

– by way of securing the repayment of investment credits, a mortgage has been established on the Company's real property in Gdańsk and Pruszcz Gdański;

– revolving credits are secured by way of registered pledges on stocks and transferring stock ownership.

Amounts of the foregoing collaterals are presented in the additional notes.

The company has full right to dispose of the foregoing assets.

23. Revenues from sales and their equivalents

In the period, the Company's core operations consisted in clothing trade, from which the main part of the revenue comes.

The remaining sales, which contributed to a lesser extent to the revenue for the period, has been the sale of materials and services.

The share of export sales within the total sales has decreased by 1.5%, but its value increased by over 5 million PLN.

The total sales revenue has increased significantly in comparison to the previous period, which was caused by the further expansion of the retail stores network.

24. Operating expenses

The main item in the operating expenses is the prime cost of goods sold. Its increase in comparison to the previous year is slower than the rise in sales. This has allowed to achieve a lower gross margin and a rise in profit on sales.

The types of costs which have risen more than the average ratio of increase of operating expenses are amortisation and depreciation, wear and tear of materials, consumption of energy and cost taxes. This is mainly connected with using the real property throughout the year, which was bought in 2001 in Pruszcz Gdański for warehousing.

25. Other operating revenues and expenses

Have been presented by the Company in additional notes and their classification and relevant evidence are correct.

26. Financial revenues and financial expenses

Have been presented by the Company in additional notes and their classification and relevant evidence are correct.

27. Income tax

The balances between the gross total capitalisation and the income and tax base have been presented in the additional notes.

The income tax evidenced in the profit and loss account includes the tax due for 2002 and adjustments to the income tax for 2001.

Changes in provisions and deferred income tax assets have been fairly presented.

VI. Auditor's conclusion

(a) The Company has presented the required information, reliable explanations and statements in scope and time sufficient to conduct this audit and has filed a statement on disclosing all data in account books and all contingent liabilities, as well as disclosing all main events which happened after the balance-sheet date until the day the statement was filed.

(b) The company has relevant documentation setting out the accepted and correct accounting policy,. Operations audited by us were backed by appropriate evidence and have been correctly posted in the books. Accounting entries which have been audited by us are fair and true and are backed in their entirety by appropriate evidence. The financial statement has been based on correct account books.

(c) The accepted accounting policy is used consistently. The closing balance for the end of the previous reporting period has been correctly posted in the books as the opening balance for the current period.

(d) The books are maintained with a computer in a reliable, error-free and auditable fashion. The methods used for protecting the data and their processing system from unauthorised access are sufficient. Accounting evidence, books and financial statements are stored in a correct way.

(e) On the basis of the audit of reliability of individual entries in the financial statement, it can be concluded that the internal controls provide for the correctness and reliability of the books.

(f) The share capital has been paid in accordance with the law and has been found to exist.

(g) The stock taking conducted during the audited period was correct and conformed to the Accounting Act. The results of stock taking have been correctly calculated and posted in the account books.

(h) Entries which shape the gross financial result of the Company's operations have been posted in their entirety and are true and fair.

(i) The gross financial result has been transformed into net financial result correctly in all important aspects.

(j) The statement of changes in the shareholders' equity and the cash flow statement have been fairly presented in connection with the balance sheet, profit and loss account and the account books.

(k) Introduction to the financial statement and additional notes include all material information required by the Accounting Act and present a true and fair view of all important aspects.

(l) The statement of company operations is complete as per the Accounting Act and included information is borne out by the financial statement for the current period.

(m) Numerical data presented in the additional notes, supplemented with information included in parts IV and V of the report, conform in the material aspects with the norms for auditors issued by the National Auditors Chamber in Poland.

(n) Both the entity entitled to conduct audits and the auditor herself are independent of the audited Company.

APPENDICES

1. Copy of the Issuer's register entry

NATIONAL COURT REGISTER

As at 21st February 2003, 14:35:10 hrs

KRS no.: 0000000778

FULL ENTRY

IN THE REGISTER OF ENTREPRENEURS

Entry no.	1	**Date when entry was made**	14th February 2001
Description		REGISTRATION IN THE NATIONAL COURT REGISTER	
Ref. no.		GD. XII NS-REJ.KRS/52/01/410	
Court		DISTRICT COURT IN GDAŃSK, 12TH COMMERCIAL DIVISION OF THE NATIONAL COURT REGISTER	
Entry no.	2	**Date when entry was made**	11of April 2001
Description		OTHER ENTRY	
Ref. no.		GD. XII NS-REJ.KRS/654/01/818	
Court		DISTRICT COURT IN GDAŃSK, 12TH COMMERCIAL DIVISION OF THE NATIONAL COURT REGISTER	
Entry no.	3	**Date when entry was made**	11th of November 2001
Description		OTHER ENTRY	
Ref. no.		GD.XII NS-REJ.KRS/6126/01/578	
Court		DISTRICT COURT IN GDAŃSK, 12TH COMMERCIAL DIVISION OF THE NATIONAL COURT REGISTER	
Entry no.	4	**Date when entry was made**	6th of November 2002
Description		CHANGE OF REGISTERED DATE	
Ref. no.		GD.XII NS-REJ.KRS/5391/02/954	
Court		DISTRICT COURT IN GDAŃSK, 12TH COMMERCIAL DIVISION OF THE NATIONAL COURT REGISTER	
Entry no.	5	**Date when entry was made**	18th of February 2003
Description		CORRECTION OF ENTRY	
Ref. no.		GD.XII NS-REJ.KRS/863/03/946	
Court		DISTRICT COURT IN GDAŃSK, 12TH COMMERCIAL DIVISION OF THE NATIONAL COURT REGISTER	

Part 1

Section 1 – Entity details			
No. and name of field	**Entry no.**		**Content**
	Entered	**Removed**	
1. Legal form	1	–	SPÓŁKA AKCYJNA (public limited company)
2. REGON number	1	–	190852164
3. Company name	1	–	LPP SPÓŁKA AKCYJNA
4. Details of previous registration	1	–	RHB 3878 DISTRICT COURT IN GDAŃSK, 12TH COMMERCIAL DIVISION
5. Does the entrepreneur operate with other entities on the basis of a civil law partnership agreement?	1	–	NO

Section 2 – Registered office and Address			
No. and name of field	Entry no.		Content
	Entered	Removed	
1. Registered office	1	–	State POLSKA, province POMORSKIE, poviat THE CITY OF GDAŃSK, commune THE CITY OF GDAŃSK, location GDAŃSK
2. Address	1	–	Ul. ŁĄKOWA, no. 39, office. 44, postal code 80-769, post office GDAŃSK

Section 3 – Branches
No entries

Section 4 – Details of statute				
No. and name of field	Field no.	Entry no.		Content
		Entered	Removed	
1. Details of drawing up or altering the statute	1	1	–	7th December 1989 LIDIA DERENGOWSKA WINIECKA NATIONAL NOTARY OFFICE IN GDYNIA RECORD BOOK A/B NO. 2452/1989 § 3.18TH JANUARY 2001 NOTARY OFFICE RENATA GÓRSKA RECORD BOOK A NO. 135/2001 ALTERATION OF STATUTE
	2	2	–	8TH DECEMBER 1999 RECORD BOOK A NO. 7166/1999, MARIA PASZKIEWICZ, NOTARY, 80-835 GDAŃSK UL. SZEROKA 29/2; § 5 CHANGED BY NOTARIAL DEED OF 24TH MARCH 2000 RECORD BOOK A NO. 1017/2000 KATARZYNA GRAJEWSKA BARTOSZ NOTARY, 81-805 SOPOT, UL. PODJAZD 7/2 § 5
	3	3	–	29.06.2001 RECORD BOOK A NO. 1280/2001, RENATA GÓRSKA NOTARY, 80-853 GDAŃSK UL. STOLARSKA 4B/1 § 13 SEC.1 I SEC.2 - CHANGED
	4	4	–	28.06.2002R, RECORD BOOK A NO. 1896/2002, NOTARY RENATA GÓRSKA, NOTARY OFFICE UL. STOLARSKA 413/1, 80-883 GDAŃSK CHANGED: § 5 SEC.2 PKT 5, § 13 SEC.1, § 17 SEC.2, § 19, § 21,§ 22, § 35, § 40 ADDED: § 33 SEC.4

Section 5			
No. and name of field	Entry no.		Content
	Entered	Removed	
1. Company lifetime	1	–	UNLIMITED
2. Journal other than *Monitor Sądowy i Gospodarczy*, indicated for company communiqués	–	–	———
3. Shareholder may have:	–	–	******
4. Does the statute give personal rights to specific shareholders of to participate in the company's profit or capital not connected with held shares?	1	–	NO
5. Are the bond holders entitled to participate in the profit?	1	–	NO

Section 6 – Way of company formation
No entries

Section 7 – Details of sole shareholder
No entries

Section 8 – Company capital			
No. and name of field	Entry no.		Content
	Entered	Removed	
1. Share capital	1	2	2,427,000.00 PLN
	2	–	3,027,000.00 PLN
2. Authorised capital	–	–	–
3. Number of shares from all issues	1	2	1213500
	2	–	1513500
4. Share nominal value	1	2	2.00 PLN
	2	–	2.00 PLN
5. Paid up capital	1	5	2,427,000.00 PLN
	5	–	3,027,000.00 PLN

Subsection 1 Details of payments by a contribution in kind				
No. and name of field	Field no..	Entry no.		Content
		Entered	Removed	
1. Shares paid up by way of a contribution in kind	1	1	–	113,400.00 PLN

Section 9 – Share issue				
No.	No. and name of field	Entry no.		Content
		Entered	Removed	
1	1. Share series	1	–	A
	2. Number of shares in the series	1	–	100
	3. Preference type and number of preference shares or information that the shares are not preferenced	–	–	–
2	1. Share series	1	–	B
	2. Number of shares in the series	1	–	350000
	3. Preference type and number of preference shares or information that the shares are not preferenced	1	–	350000 ONE SHARE CARRIES 5 VOTES AT THE GM

3	**1. Share series**	1	–	C
	2. Number of shares in the series	1	–	400000
	3. Preference type and number of preference shares or information that the shares are not preferenced	–	–	–
4	**1. Share series**	1	–	D
	2. Number of shares in the series	1	–	350000
	3. Preference type and number of preference shares or information that the shares are not preferenced	–	–	–
5	**1. Share series**	1	–	E
	2. Number of shares in the series	1	–	56700
	3. Preference type and number of preference shares or information that the shares are not preferenced	–	–	–
6	**1. Share series**	1	–	F
	2. Number of shares in the series	1	–	56700
	3. Preference type and number of preference shares or information that the shares are not preferenced	–	–	–
7	**1. Share series**	1	–	G
	2. Number of shares in the series	1	–	300000
	3. Preference type and number of preference shares or information that the shares are not preferenced	–	–	–

Section 10 – Mention on adopting a resolution on issue of convertible bonds
No entries

Part 2

Section 1 –Body authorised to represent the entity

No.	**No. and name of field**	**Entry no.**		**Content**
		Entered	**Removed**	
1	**1. Name of body authorised to represent the entity**	1	–	MANAGEMENT BOARD
	2. Representation	1	3	MANAGEMENT BOARD: PRESIDENT OF THE MANAGEMENT BOARD INDIVIDUALLY, TWO MEMBERS OF THE MANAGEMENT BOARD JOINTLY, MEMBER OF THE MANAGEMENT BOARD WITH THE AUTHORISED REPRESENTATIVE JOINTLY AUTHORISED REPRESENTATIVE: INDIVIDUALLY
		3	–	TO MAKE STATEMENTS OF WILL AND SIGN ON BEHALF OF THE MANAGEMENT BOARD THE PRESIDENT OF THE MANAGEMENT BOARD INDIVIDUALLY, TWO VICE-PRESIDENTS OF THE MANAGEMENT BOARD JOINTLY OR VICE-PRESIDENT OF THE MANAGEMENT BOARD WITH THE AUTHORISED REPRESENTATIVE JOINTLY

Subsection 1 Details of persons constituting the body				
No.	**No. and name of field**	**Entry no.**		**Content**
		Entered	**Removed**	
1	**1. Surname/Name or firm**	1	–	PIECHOCKI
	2. Names	1	–	MAREK LESZEK
	3. PESEL / REGON number	1	–	61020502291
	4. KRS number	-	–	*****
	5. Function in the representation body	1	–	PRESIDENT OF THE MANAGEMENT BOARD
	6. Has the member of the Management Board been suspended?	1	–	NO
	7. Date until suspended	–	–	——
2	**1. Surname/Name or firm**	1	–	MILIŃSKA
	2. Names	1	–	ALICJA KATARZYNA
	3. PESEL / REGON number	1	–	60091706366
	4. KRS number	–	–	*****
	5. Function in the representation body	1	3	MEMBER OF THE MANAGEMENT BOARD
		3	–	VICE-PRESIDENT OF THE MANAGEMENT BOARD
	6. Has the member of the Management Board been suspended?	1	–	NO
	7. Date until suspended	–	–	——
3	**1. Surname/Name or firm**	1	–	PACHLA
	2. Names	1	–	DARIUSZ EUGENIUSZ
	3. PESEL / REGON number	1	–	61051302350
	4. KRS number	–	–	*****
	5. Function in the representation body	1	3	MEMBER OF THE MANAGEMENT BOARD
		3	–	VICE-PRESIDENT OF THE MANAGEMENT BOARD
	6. Has the member of the Management Board been suspended?	1	–	NO
	7. Date until suspended	–	–	——
4	**1. Surname/Name or firm**	1	–	DRELISZAK
	2. Names	1	–	STANISŁAW JANUSZ
	3. PESEL / REGON number	1	–	63053001855
	4. KRS number	–	–	*****
	5. Function in the representation body	1	3	MEMBER OF THE MANAGEMENT BOARD
		3	–	VICE-PRESIDENT OF THE MANAGEMENT BOARD
	6. Has the member of the Management Board been suspended?	1	–	NO
	7. Date until suspended	–	–	——

Section 2 – Supervisory Body				
No.	No. and name of field	Entry no.		Content
		Entered	Removed	
1	1. Name of body	1	–	SUPERVISORY BOARD

Subsection 1 Details of persons constituting the body				
No.	No. and name of field	Entry no.		Content
		Entered	Removed	
1	1. Surname	1	–	KRZYŻANOWSKI
	2. Names	1	–	MACIEJ PIOTR
	3. PESEL number	1	–	46092401752
2	1. Surname	1	–	SŁUPSKI
	2. Names	1	–	GRZEGORZ MARIA
	3. PESEL number	1	–	59012601871
3	1. Surname	1	–	LUBIANIEC
	2. Names	1	–	JERZY RYSZARD
	3. PESEL number	1	–	60061501654
4	1. Surname	1	–	OLEJNICZAK
	2. Names	1	–	WOJCIECH GRZEGORZ
	3. PESEL number	1	–	56021903172
5	1. Surname	1	3	PODNIESIŃSKI
	2. Names	1	3	KRZYSZTOF MAREK
	3. PESEL number	1	3	64101312895
6	1. Surname	1	–	ŁOBODA
	2. Names	1	–	SŁAWOMIR JÓZEF
	3. PESEL number	1	–	65020510115
7	1. Surname	3	–	MAŁACHWIEJ
	2. Names	3	–	BOGDAN
	3. PESEL number	3	–	68031914910

Section 3 – Authorised representatives				
No.	No. and name of field	Entry no.		Content
		Entered	Removed	
1	1. Surname	1	–	LUBIANIEC
	2. Names	1	–	JERZY
	3. PESEL number	1	–	60061501654
	4. Type of authorised representation	1	–	INDIVIDUAL

Part 3

Section 1 – Objects				
No. and name of field	No. in the field	Entry no.		Content
		Entered	Removed	
1. Objects of the entrepreneur's activity	1	1	–	17, 60, Z, MANUFACTURE OF KNITTED AND CROCHETED FABRICS
	2	1	–	18, 10, Z, MANUFACTURE OF LEATHER CLOTHING
	3	1	–	18, 21, Z, MANUFACTURE OF WORKWEAR
	4	1	–	18, 22, A, MANUFACTURE OF OTHER OUTERWEAR FOR MEN AND BOYS
	5	1	–	18, 22, B, MANUFACTURE OF OTHER OUTERWEAR FOR FOR WOMEN AND GIRLS
	6	1	–	18, 23, Z, MANUFACTURE OF UNDERWEAR
	7	1	–	18, 24, Z, MANUFACTURE OF OTHER WEARING APPAREL AND ACCESSORIES n.e.c.
	8	1	–	51, 16, Z, AGENTS INVOLVED IN THE SALE OF TEXTILES, CLOTHING, FOOTWEAR AND LEATHER GOODS
	9	1	–	51, 18, Z, AGENTS INVOLVED IN THE SALE OF PARTICULAR PRODUCTS OR RANGES OF PRODUCTS n.e.c.
	10	1	–	51, 19, Z, AGENTS INVOLVED IN THE SALE OF A VARIETY OF GOODS
	11	1	–	51, 41, Z, WHOLESALE OF TEXTILES
	12	1	–	51, 42, Z WHOLESALE OF CLOTHING AND FOOTWEAR

	13	1	–	52, 11, Z, RETAIL SALE IN NON-SPECIALISED STORES WITH FOOD, BEVERAGES OR TOBACCO PREDOMINATING
	14	1	–	52, 12, Z, OTHER RETAIL SALE IN NON-SPECIALISED STORES
	15	1	–	52, 41, Z, RETAIL SALE OF TEXTILES
	16	1	–	52, 42, Z, RETAIL SALE OF CLOTHING
	17	1	–	52, 43, Z, RETAIL SALES OF FOOTWEAR AND LEATHER GOODS
	18	1	–	52, 48, D, RETAIL SALE OF SPORTS GOODS
	19	1	–	52, 61, Z, RETAIL SALE VIA MAIL ORDER HOUSES
	20	1	–	52, 63, Z, OTHER NON-STORE RETAIL SALE
	21	1	–	60, 24, C, RENTAL OF GOODS VEHICLES WITH THE DRIVER
	22	1	–	63, 11, Z, CARGO HANDLING
	23	1	–	63, 12, Z STORAGE AND WAREHOUSING
	24	1	–	63, 40, Z, ACTIVITIES OF OTHER TRANSPORT AGENCIES
	25	1	–	65, 22, Z, OTHER CREDIT GRANTING
	26	1	–	70, 20, Z, LETTING OF OWN PROPERTY
	27	1	–	71, 10, Z, RENTING OF AUTOMOBILES
	28	1	–	71, 33, Z, RENTING OF OFFICE MACHINERY AND EQUIPMENT
	29	1	–	71, 34, Z, RENTING OF OTHER MACHINERY AND EQUIPMENT
	30	1	–	74, 13, Z, MARKET RESEARCH AND PUBLIC OPINION POLLING
	31	1	–	74, 15, Z MANAGEMENT ACTIVITIES OF HOLDING COMPANIES
	32	1	–	74, 84, A, ORGANISING FAIRS AND EXHIBITIONS

Section 2 – Mentions of filed documents					
No. and name of field	**Field no.**	**Entry no.**		**Date**	**Period**
		Entered	**Removed**		
1. Mention of filing an annual financial statement	**1**	4	–	11th July 2002	1st January 2001 - 31st December 2001
2. Mention of filing an authorised auditor's opinion	**1**	4	–	******	1st January 2001 - 31st December 2001
3. Mention of filing resolutions or decisions on approving the financial statements	**1**	4	–	*****	1st January 2001 - 31st December 2001
4. Mention of filing reports from the entity's activity	**1**	4	–	*****	1st January 2001 - 31st December 2001

Part 4

Section 1 – Liabilities
No entries

Section 2 - Claims
No entries

Section 3 – Court decisions on overruling a bankruptcy petition
No entries

Section 4 – Discontinuance of enforcement proceedings against the entrepreneur
No entries

Part 5

Section 1 – Company trustee
No entries

Section 2 – Information on dissolution or nullification of company
No entries

Section 3 – Creditor committee
No entries

Section 4 – Information on combinations, demergers or transformations
No entries

Section 5 – Bankruptcy proceedings
No entries

Section 6 – Scheme of arrangement
No entries

21st of February 2003, 14:35:12 hrs, Gdynia.

2. Resolutions of the Issuer's General Meeting on the issue of Shares series H and their introduction to public trading

Resolution no. 4 of the Extraordinary General Meeting of LPP S.A. of 14th March 2003

„The Extraordinary General Meeting of LPP S.A. in Gdańsk, resolves as follows:

§ 1.

1. The share capital of LPP S.A. in Gdańsk, is hereby increased by not less than 2 PLN and not more than 380,000 PLN, that is from the amount of 3,027,000 (three million and twenty seven thousand) PLN to the amount not smaller than 3,027,002 (three million and twenty seven thousand and two) PLN and not larger than 3,407,000 (three million four hundred and seven thousand) PLN, through the issue of: 1 to 190,000 ordinary bearer shares series H, of nominal value amounting to 2 PLN each. 1 to 190,000 ordinary bearer shares series H, each of a nominal value amounting to 2 PLN will be offered by public subscription.
2. Shares in this new issue are ordinary bearer shares and will be marked as the increase in the share capital has been registered.
3. Shares series H will participate in the dividend, starting from payments from profit to be distributed for the fiscal year 2002, i.e. since January 2002.
4. The Management Board is entitled to set the issue price of Shares series H. The Management Board shall set and announce the issue price of Shares series H, at the latest before the commencement of the Public Subscription.
5. The Management Board entitled to set dates of opening and closing the subscription for Shares series H."

§ 2.

1. „Acting on the basis of article 433 § 2 of the Code of Commercial Partnerships and Companies, the Extraordinary Meeting of Shareholders of LPP S.A. in Gdańsk, guided by Company interest, resolves on the exclusion of the pre-emptive right to Shares series H with regard to all original Company shareholders, holding shares series: A, B, C, D, E, F, G.
2. Exclusion of the pre-emptive right to Shares series H is entirely justified by Company interest, because the dynamic development of LPP S.A. requires fund raising for further rapid development of the company. Additionally, the necessity to look after the Company's image as an attractive stock market company, requires the increase of availability and liquidity of its shares. The exclusion of the pre-emptive right to Shares series H will result in an increase in share liquidity and availability to a larger group of investors."

Resolution no. 7 of the Extraordinary General Meeting of LPP S.A. of 14th March 2003

„The Extraordinary Meeting of Shareholders of LPP S.A., with its registered office in Gdańsk, entitles the Company's Management Board to perform the following transactions, necessary to carry out and register the subscription for Shares series H, with special regard to the following transactions:

a) setting all dates connected with the issue of Shares series H,

b) setting specific terms of subscribing Shares series H ,

c) setting the terms and criteria for the allocation of Shares series H,

d) setting the terms and methods of distribution of Shares series H,

e) setting the terms of the issue of Shares series H, including the division of offered shares into tranches,

f) allotment of Shares series H,

g) concluding a contract with the Warsaw Stock Exchange and National Depository for Securities,

h) concluding an underwriting agreement for the issue of Shares series H,

i) concluding applicable contracts with brokerage houses,

j) concluding applicable contracts with advertising agencies, pertaining to the new issue of new share series,

k) performing other legal and factual transactions, necessary to carry out a Public Subscription for Shares series H on terms determined by the resolution and in compliance with regulations in force,

l) performing all legal and factual transactions, necessary to introduce Shares series H to public trading of securities, and performing all legal and factual transactions necessary to introduce Shares series H to the Warsaw Stock Exchange."

3. Unifom and updated text of the Issuer's statute

STATUTE OF LPP S.A.

/unifom text/

§ 1

GENERAL PROVISIONS

1. The Company's name is "LPP" Spółka Akcyjna.
2. The Company's registered office is located in the city of Gdańsk.

§ 2

1. The Company operates on the territory of the Republic of Poland and beyond.
2. The company may open branches and agencies, as well as act as a shareholder in other companies and partnerships in Poland and beyond.

THE COMPANY'S OBJECTS

§ 3

The company's objects according to the Polish Classification of Economic Activities (PKD) are:

1. Manufacture of knitted and crocheted fabrics – PKD symbol 17.60 Z
2. Manufacture of leather clothing –PKD symbol 18.10 Z
3. Manufacture of workwear –PKD symbol 18.21 Z
4. Manufacture of other outerwear for men and boys 18.22 A
5. Manufacture of other outerwear for women and girls 18.22 B
6. Manufacture of underwear 18.23 Z
7. Manufacture of other wearing apparel and accessories n.e.c. 18.24 Z
8. Agents involved in the sale of textiles, clothing, footwear and leather goods 51.16 Z
9. Agents involved in the sale of particular products or ranges of products n.e.c. 51.18 Z
10. Agents involved in the sale of a variety of goods 51.19 Z
11. Wholesale of textiles 51.4 1 Z
12. Wholesale of clothing and footwear 51.42 Z
13. Retail sale in non-specialised stores with food, beverages or tobacco predominating 52.11 Z
14. Other retail sale in non-specialised stores 52.12 Z
15. Retail sale of textiles 52.41 Z
16. Retail sale of clothing 52.42 Z
17. Retail sales of footwear and leather goods 52.43 Z
18. Retail sale of sports goods 52.48 D
19. Retail sale via mail order houses 52.61 Z
20. Other non-store retail sale 52.63 Z
21. Rental of goods vehicles with the driver 60.24 C
22. Cargo handling 63.11 Z
23. Storage and warehousing 63.12 Z
24. Activities of other transport agencies 63.40 Z
25. Other credit granting 65.22 Z
26. Letting of own property 70.20 Z
27. Renting of automobiles 71.10 Z

28. Renting of office machinery and equipment 71.33 Z
29. Renting of other machinery and equipment 71.34 Z
30. Market research and public opinion polling 74.13 Z
31. Management activities of holding companies 74.15 Z
32. Organising fairs and exhibitions 74.84 A

§ 4

The Company's life is unlimited.

SHARE CAPITAL AND SHARES

§ 5

1. The Company's share capital equals 3,027,000.00 PLN (three million twenty-seven thousand PLN) and is divided into 406,700 (four hundred six thousand seven hundred) registered shares and 1,106,800 (one million one hundred six thousand eight hundred) bearer shares, of nominal value 2.00 (two) PLN each.
2. The Company has issued:
    1. 100 (hundred) bearer shares series A, of nominal value 2.00 PLN each,
    2. 350.000 (three hundred and fifty thousand) registered shares series B, of nominal value 2.00 PLN (two) each,
    3. 400.000 (four hundred thousand) bearer shares series C, of nominal value 2.00 PLN (two) each,
    4. 350.000 (three hundred and fifty thousand) bearer shares series D, of nominal value 2.00 PLN (two) each,
    5. 56.700 (fifty six thousand seven hundred) bearer shares series E, of nominal value 2.00 PLN (two) each,
    6. 56.700 (fifty-six thousand seven hundred) bearer shares series F, of nominal value 2.00 PLN (two) each.
    7. 300.000 (three hundred thousand) bearer shares series G, of nominal value 2.00 PLN (two) each.
3. Shares series B are preferenced with regard to the voting right at the General Meeting.
4. One preference share is entitled to 5 (five) votes at the General Meeting.

§ 6

1. Share capital may be increased or decreased by resolution of the General Meeting.
2. The Company's shares are issued in series marked with subsequent letters of the alphabet.
3. Shares may be paid in by cash or contributions in kind.
4. The Company may issue bonds, including bonds convertible to shares.

§ 7

The Company's shares are transferable.

§ 8

1. The shares may be cancelled with respect to regulations on decreasing the share capital, or without respect to these regulations from clear profit.
2. In exchange for cancelled shares the Company may issue utility shares.
3. The methods and terms of cancelling shares are set on each occasion by the General Meeting.

§ 9

1. Transferring or pledging registered shares is conditioned by the approval of the Company.
2. The approval of share transfer or pledging is issued by the Supervisory Board in writing, or otherwise null and void, within 14 (fourteen) days as of filing an application to his effect.
3. Where the Company does not give its approval, it should indicate an alternative transferee within 30 (thirty) days and set a date and venue for the payment of the price. Where the Company within the foregoing framework does not indicate an alternative transferee, the shares may be transferred without any restrictions
4. Preference shares may be inherited with preference intact
5. Exchanging registered shares for bearer shares is possible only with approval of the Company's Supervisory Board given by way of a written resolution or else null and void.

6. Exchanging registered shares for bearer shares involves the loss of their preference.

§ 10

Apart from share capital, the Company creates the following capitals and funds:

1) supplementary capital,
2) other capitals and funds provided for by the law and created by resolution of the General Meeting.

§ 11

1. The supplementary capital is created by way of contributions from distributable profit and from the premium at which shares are sold during further share issues. Contributions to this capital might not be less than 8% of the annual clear profit.
2. Contributions to the supplementary capital are made up to a moment when the capital reaches the value of one-third of the share capital
The General Meeting may resolve on further increasing the supplementary capital.

§ 12

The Company's bodies include:

1) the Management Board,
2) the Supervisory Board,
3) the General Meeting.

§ 13

MANAGEMENT BOARD

1. The Company's Management Board consists of two to five persons called up and dismissed by the Supervisory Board for a period of five years. The Management Board consists of the President of the Management Board and one to four Vice-Presidents.
2. The Company's Management Board represents the Company in court and out of court. Authorised to make statements of will and sign on behalf of the Company are the President of the Management Board individually, two Vice-Presidents jointly or a Vice-President with the authorised representative jointly.
3. The Management Board may institute authorised representatives, and give the power of attorney as per provisions of the civil code.

§ 14

The Management Board employs and dismisses employees and determines their remuneration.

§ 15

A newly elected Management Board is under the obligation to present to the Supervisory Board a plan for Company operations for the term it has been elected for, at the latest two months since the date of being elected.

§ 16

The Management Board is competent in matters which have not been delegated to other Company bodies, including the setting of costs reimbursement, remuneration and bonuses for members of the Supervisory Board, Company employees and other persons employed by the Company.

§ 17

SUPERVISORY BOARD

1. The Supervisory Board consists of 6 (six) members, including the President of the Supervisory Board.
2. Members of the Supervisory Board are elected for a term of five years. The members of the first Supervisory Board are called up for a term of one year.
3. The Supervisory Board shall be called up and dismissed by the General Meeting.
4. The members of the Supervisory Board shall choose from among themselves the President of the Supervisory Board.

§ 18

Members of the Supervisory Board fulfil their obligations in person.

§ 19

1. Meetings of the Supervisory Board are held at least once every quarter and are called by the President of the Supervisory Board or his deputy.

2. Persons entitled to call the meetings are further obliged to call a meeting at a request of at least three members of the Supervisory Board or the Management Board. In this case, the meeting of the Supervisory Board should be held not later than 14 days as of filing a written application to this effect with the President.
3. The Supervisory Board may make resolutions during its meeting, or in writing by using means of direct communication.
4. Members of the Supervisory Board may participate in the process of the Supervisory Board taking resolutions by casting their votes in writing by agency of another member of the Supervisory Board.

§ 20

1. For their validity, resolutions of the Supervisory Board require that all members have been invited to participate in the Meeting and at least half of them are present. The resolutions are made by ordinary majority of cast votes, unless the specific provisions of this statute provide otherwise.
2. An invitation to a Meeting of the Supervisory Board shall specify the agenda. The Supervisory Board may discuss only these matters that have been included in the agenda, or else the discussions will be null and void, unless all members of the Supervisory Board are present at the meeting and no present member shall object to the meeting being held with its agenda changed nor to discussing matters not included in the agenda.

§ 21

The Supervisory Board shall pass its own bylaws.

§ 22

The Management Board is obliged to secure an agreement of the Supervisory Board for the following transactions:

1. acquiring and disposing of the ownership rights to real property, acquiring and disposing of the right to use real property, charging real property,
2. assuming liabilities of third parties,
3. forming new business entities and acquiring, disposing of or pledging shares in entities which already exist,
4. leasing the enterprise or its part,
5. acquiring or sale of Company branches or plants,
6. disposing of the Company's enterprise in whole or part,
7. allowing employees to participate in the profit and allocating special pension and disability rights,
8. all transactions connected with trading securities, capital and financial investments (deposits),
9. choice of an auditor for the Company.

§ 23

THE GENERAL MEETING OF SHAREHOLDERS

1. The ultimate Company body is the General Meeting of Shareholders, in which all shareholders participate, where each share carries one voting right, unless it is preferenced with regard to the voting right.
2. Holders of registered shares are entitled to participate in the General Meeting if they are entered in the shareholder's register at least one week before the General Meeting is held.
3. Holders of bearer shares are entitled to participate in the General Meeting if the shares are filed in the Company's registered office no later than one week before the General Meeting and are not claimed back before the Meeting has finished. Instead of shares, notarial certificates may be filed within the same time frame, confirming that the shares have been filed in the notarial depository and will not be given back to the holder before the Meeting has finished.
4. Holders of bearer shares introduced to public trading are entitled to participate in the General Meeting, if they file at the Company's registered office a certificate issued by an entity running a brokerage business indicating the number of shares, and stating that the shares may not be disposed of before the General Meeting has finished, at least one week before the General Meeting.

§ 24

Before each General Meeting, a list of shareholders entitled to participate in the General Meeting shall be made in accordance with rules set out in the commercial code. The list should be made available in the Company's registered office for 3 working days before the General Meeting is held.

§ 25

As soon as the chairman of the General Meeting has been elected, a list of participants should be drawn up, indicating the number of shares held by each participant and the number of votes, signed by the chairman of the proceedings.

§ 26

Shareholders may participate in the General Meeting in person or by proxy.

§ 27

The Annual General Meeting is held each year within six months as of the fiscal year elapsing.

§ 28

An Extraordinary General Meeting is called by the Management Board at its discretion, at the request of the Supervisory Board and at the application of shareholders representing one-tenth of the share capital, filed with the Management Board in writing. The Management Board is under the obligation to fulfil this request within 14 days as of receiving the application from the Supervisory Board or the shareholders.

§ 29

the Management Board is obliged to communicate the fact of calling a General Meeting and its date in *Monitor Sądowy i Gospodarczy*. The communiqué shall indicate the date, hour and venue of the General Meeting and present the agenda in detail.

§ 30

The General Meeting is capable of taking binding resolutions regardless of the number of represented shares and value of capital, unless the provisions of this statute or the commercial code determine otherwise.

§ 31

1. General Meetings are held in Gdańsk, Warsaw, Sopot, and venue indicated by the Management Board.

2. The General Meeting is opened by the President of the Supervisory Board, or in case he is absent by a member of the Supervisory Board.

3. The General Meeting shall pass its bylaws determining in detail the way of conducting proceedings.

§ 32

Resolutions are made by ordinary majority of cast votes, unless this statute or the commercial code provide otherwise.

§ 33

1. The following transactions require a resolution of the General Meeting:
   1) analysing and approving financial statements and the report of the Management Board from Company's operation for the previous year,
   2) making any decisions on claims for remedying damage effected during the formation of the Company or performance of the management and supervision duties,
   3) adopting resolutions on the distribution of profits or covering of losses,
   4) granting a vote of acceptance to Members of Company bodies confirming the discharge of their duties,
   5) issuing bonds, incl. bonds convertible to shares,
   6) altering the statute,
   7) adopting resolutions on the merger or transformation of the Company, its dissolution or winding-up,
   8) adopting resolutions on disposing or leasing the business and the right of usufruct on it,
   9) disposing of the Company's real property,
   10) analysing and deciding on applications filed by the Supervisory Board,
   11) deciding on other matters delegated to the General Meeting by the commercial code and provisions of this statute.
2. Matters to be included in the agenda of the General Meeting must be previously filed by the Management Board with the Supervisory Board. Shareholders holding jointly of at least one-tenth of the share capital who request that a General Meeting be called or certain matters be introduced into the agenda of the nearest General Meeting are obliged to file relevant applications with the Management Board in writing and in good time.
3. Competencies listed in section 1 items 1-10 are performed by the General Meeting of Shareholders at the request of the Company's Management Board filed together with a written opinion of the Supervisory Board or at the request of shareholders, which should be opinionated by the Company's Management Board and its Supervisory Board.
4. Acquiring and disposing of the right of property ownership as well as acquiring and disposing of the right of perpetual usufruct of real property does not require a resolution of the General Meeting of Shareholders.

§ 34

1. Persons who individually or as a holding company together with its subsidiaries hold shares giving them more than 15% of the total vote at the General Meeting, exercise the right to 15% of the total vote.
2. Limitations set out in the foregoing section do not pertain to the registered shares held by Jerzy Lubianiec and Marek Piechocki.

COMPANY ACCOUNTING AND FINANCE

§ 35

The company's accounting and financial reports conform to the regulations contained in the Polish Code of Commercial Partnerships and Companies, the Polish Accounting Act and other regulations binding to that effect.

§ 36

The Company's fiscal year equals the calendar year.

§ 37

The Company corporate structure is determined by the organisation bylaws compiled by the Company's Management Board.

§ 38

The financial statement and report from the Company's operations should be prepared by the Management Board not later than three months from the end of the fiscal year. The General Meeting held within six months of the end of the fiscal year shall accept a resolution on approving the reports by the Management Board.

§ 39

1. The Company's clear profit is earmarked for:
   1) shareholder dividends;
   2) contributions to the supplementary capital;
   3) contributions to the reserve capital and other capitals and funds created by the General Meeting of Shareholders;
   4) other purposes determined by the General Meeting of Shareholders.
2. The resolution of the General Meeting of Shareholders on the distribution of yearly profit among Shareholders shall set out the deadline for dividend payments and the date for determining the right to the dividend.
3. Dividend which has not been not drawn for 5 (five) years as of the date of its payment is transferred to the Company.

FINAL PROVISIONS

§ 40

Matters not regulated by this statute are governed by the provisions of the Polish Code of Commercial Partnerships and Companies.

4. Opinion of the Issuer's Management Board justifying the exclusion or limitation of the pre-emptive right

13th March 2003, Gdańsk

Opinion of the Management Board

on the matter of excluding the current Shareholders' pre-emptive right to shares series H

The Management Board of LPP S.A. believes that excluding the pre-emptive right to shares series H is entirely justified by Company interest as the dynamic growth of LPP S.A. with its registered office in Gdańsk and the necessity to look after the Company's image as an attractive stock market company require winning as much finance as possible to develop the Company even further and increase the liquidity and accessibility of its shares.

The exclusion of the pre-emptive right to shares series H will result in an increase in share liquidity, and as a result will improve the availability of shares to a larger group of investors.

The Management Board of LPP S.A.

5. Declaration of interest in acquiring shares series H - template

Declaration of interest in acquiring shares series H of LPP S.A. no. ....

This declaration is not binding on any party and is prepared in order to recognise the demand for shares series H of LPP S.A. during a Public Subscription. The declaration may be a basis for addressing an invitation for the Investor to subscribe for shares series H in the Large Investors Tranche.

In the declaration the Investor sets out the number of shares series H that he intends to subscribe, not fewer than 2,500 of shares series H.

The declaration must specify the fax number, since the invitations to subscribe shares series H will be sent to fax numbers indicated in the declarations.

1. Name and surname (firm): ....

2. Address (registered office): ....

3. Mailing address: ....

4. Phone, fax number, e-mail: ....

5. Foreign Exchange statue ☐ resident ☐ non-resident (tick the right box)

Resident

☐ Natural person PESEL ....

☐ Legal person REGON ....

NON-RESIDENT

☐ Natural person Passport number ....

State ....

☐ Legal person Foreign register no. ....

State ....

6. Number of shares series H declared: ....

Read: ....

7. Proposed maximum issue price of the declared shares series H (rounded up to the entire PLN): ....

Read: ....

8. Declared amount of payment (number of shares series H indicated in section 6 multiplied by the price of shares series H indicated in section 7): ....

Read: ....

I hereby declare my consent to being allocated fewer shares series H than declared or not being allocated any shares series H, in accordance with the terms set out in the Prospectus.

....	....
Date and Investor's signature	Date and signature of person accepting the declaration
	....
	Address stamp of the Customer Service Point

6. List of Customer Service Points accepting subscriptions for shares series H in the TMI

1. List of brokerage houses accepting subscriptions for shares series H in the TMI:

1. Dom Maklerski Banku Handlowego w Warszawie SA (DMBH)
2. Dom Inwestycyjny BRE Banku SA (DI BRE Banku)
3. Dom Maklerski BZ WBK SA (DM BZ WBK)

2. List of Customer Service Points accepting subscriptions for shares series H in the TMI:

No.	City	Street	Brokerage
1	BIELSKO-BIAŁA	Pl. Wolności 7	DI BRE Banku
2	BIELSKO-BIAŁA	ul. 11 Listopada 60/62 (Multibank)	DI BRE Banku
3	BOLESŁAWIEC	ul. Sądowa 6	DM BZ WBK
4	BYDGOSZCZ	ul. Powstańców Wlkp. 26	DM BZ WBK
5	BYDGOSZCZ	ul. Grodzka 17	DI BRE Banku
6	BYDGOSZCZ	ul. Grodzka 17 (Multibank)	DI BRE Banku
7	CHORZÓW	ul. Katowicka 72	DM BZ WBK
8	CZĘSTOCHOWA	ul. Szymanowskiego 1 (Multibank)	DI BRE Banku
9	DZIERŻONIÓW	ul. Mickiewicza 4	DM BZ WBK
10	GDAŃSK	ul. Długie Ogrody 10	DM BZ WBK
11	GDAŃSK	ul. Okopowa 7	DI BRE Banku
12	GDAŃSK	ul. Karmelicka 1 (Multibank)	DI BRE Banku
13	GDYNIA	ul. 10 Lutego 11	DM BZ WBK
14	GDYNIA	Skwer Kościuszki 16 (Multibank)	DI BRE Banku
15	GLIWICE	ul. Zwycięstwa 56 (Multibank)	DI BRE Banku
16	GŁOGÓW	ul. Obrońców Pokoju 12	DM BZ WBK
17	GNIEZNO	ul. Sienkiewicza 17	DM BZ WBK
18	GORZÓW WIELKOPOLSKI	ul. Sikorskiego 111 (Multibank)	DI BRE Banku
19	GORZÓW WLKP	ul. Pionierów 8	DM BZ WBK
20	GOSTYŃ	ul. Bojanowskiego 22	DM BZ WBK
21	INOWROCŁAW	ul. Grodzka 5/7	DM BZ WBK
22	JAROCIN	ul. Kilińskiego 2 a	DM BZ WBK
23	JELENIA GÓRA	ul. Bankowa 5/7	DM BZ WBK
24	KALISZ	ul. Parczewskiego 9 a	DM BZ WBK
25	KATOWICE	ul. Wita Stwosza 2	DM BZ WBK
26	KATOWICE	ul. Powstańców 43	DI BRE Banku
27	KATOWICE	ul. Powstańców 43 (Multibank)	DI BRE Banku
28	KĘDZIERZYN-KOŹLE	ul. Żeromskiego 5	DM BZ WBK
29	KĘPNO	ul. Kościuszki 6	DM BZ WBK
30	KIELCE	ul. Wspólna 2	DM BZ WBK
31	KŁODZKO	ul. Kościuszki 7	DM BZ WBK
32	KONIN	ul. Energetyka 6a	DM BZ WBK
33	KRAKÓW	ul. Augustiańska 15	DI BRE Banku
34	KRAKÓW	ul. Straszewskiego 20 (Multibank)	DI BRE Banku
35	LEGNICA	ul. Witelona 8	DM BZ WBK
36	LESZNO	ul. Słowiańska 33	DM BZ WBK
37	LUBIN	ul. Odrodzenia 5	DM BZ WBK
38	LUBLIN	ul. Krakowskie Przedmieście 6	DI BRE Banku
39	ŁÓDŹ	ul. Sienkiewicza 26	DM BZ WBK
40	ŁÓDŹ	ul. Piotrkowska 148/150	DI BRE Banku

No.	City	Street	Brokerage
41	ŁÓDŹ	ul. Piotrkowska 242/250 (Multibank)	DI BRE Banku
42	ŁÓDŹ	ul. Piotrkowska 43 (Multibank)	DI BRE Banku
43	NOWA SÓL	ul. Moniuszki 9	DM BZ WBK
44	NOWY TOMYŚL	ul. Poznańska 13	DM BZ WBK
45	OLSZTYN	ul. Głowackiego 28	DI BRE Banku
46	OLSZTYN	ul. Piłsudskiego 1 (Multibank)	DI BRE Banku
47	OPOLE	ul. Ozimska 6	DM BZ WBK
48	OSTRÓW WLKP.	Pl. Bankowy 1	DM BZ WBK
49	PIŁA	ul. Sikorskiego 81	DM BZ WBK
50	PŁOCK	ul. Kolegialna 21	DM BZ WBK
51	POLKOWICE	Rynek 13/14	DM BZ WBK
52	POZNAŃ	ul. Szkolna 5	DM BZ WBK
53	POZNAŃ	ul. Szyperska 20/21	DI BRE Banku
54	POZNAŃ	ul. Św. Marcin 40 (Multibank)	DI BRE Banku
55	POZNAŃ	ul. Garbary 71 (Multibank)	DI BRE Banku
56	POZNAŃ	Pl. Wolności 16	DM BZ WBK
57	POZNAŃ	ul. Św. Marcin 81	DM BZ WBK
58	RZESZÓW	ul. Sokoła 6	DI BRE Banku
59	SŁUBICE	ul. Kościuszki 2	DM BZ WBK
60	SZCZECIN	ul. Tkacka 55	DI BRE Banku
61	ŚWIEBODZIN	ul. Głogowska 8	DM BZ WBK
62	TORUŃ	ul. Krasińskiego 2	DM BZ WBK
63	TORUŃ	ul. Chełmińska 21 (Multibank)	DI BRE Banku
64	TYCHY	ul. Bałuckiego 4	DM BZ WBK
65	WAŁBRZYCH	ul. Chrobrego 7	DM BZ WBK
66	WARSZAWA	ul. Chałubińskiego 8	DMBH
67	WARSZAWA	ul. Kasprowicza 132	DM BZ WBK
68	WARSZAWA	Atrium Tower Al. Jana Pawła II 25	DM BZ WBK
69	WARSZAWA	ul. Wspólna 47/49	DI BRE Banku
70	WARSZAWA	ul. Senatorska 18 (Multibank)	DI BRE Banku
71	WARSZAWA	ul. Królewska 14 (Multibank)	DI BRE Banku
72	WARSZAWA	ul. Kijowska 1 (Multibank)	DI BRE Banku
73	WROCŁAW	Pl. Kościuszki 7/8	DM BZ WBK
74	WROCŁAW	Rynek 9/11	DM BZ WBK
75	WROCŁAW	ul. Strzegomska 6-10	DM BZ WBK
76	WROCŁAW	ul. Podwale 63	DI BRE Banku
77	WROCŁAW	ul. Św. Mikołaja 69 (Multibank)	DI BRE Banku
78	WRZEŚNIA	ul. Warszawska 17	DM BZ WBK
79	WSCHOWA	ul. Niepodległości 3 a	DM BZ WBK
80	ZGORZELEC	ul. Wolności 10-11	DM BZ WBK
81	ZIELONA GÓRA	ul. Bankowa 5	DM BZ WBK

7. Subscription form for shares series H - template

SUBSCRIPTION FOR SHARES SERIES H OF LPP SA

This document constitutes a subscription for shares series H of LPP SA. The legal basis for the issue of shares series H is resolution no. 4 of the General Meeting of LPP SA of 14th March 2003. The subject of the Public Offering are 1 to 190.000 ordinary bearer shares series H of nominal value 2 PLN each.

1. Name and surname/firm or name of legal person or entity that does not have legal personality:

....

2. Domicile/registered office: ....

3. Mailing address: ....

4. Person*: a) ☐ resident ☐ non-resident

b) ☐ natural person ☐ legal person/entity that does not have legal personality

5. Identification numbers **: ....

6. Number of shares series H subscribed: ....

Read: ....

7. Tranche: ☐ Small Investors Tranche ☐ Large Investors Tranche

8. Price for 1 Share series H (in the Small Investors Tranche – the Proposed Price rounded up to the entire PLN, in the Large Investors Tranche – Issue Price) ....

9. Total amount of payment towards shares series H: ....

10. Method of payment towards shares series H (pertains to the Large Investors Tranche): ☐ cash ☐ transfer

11. Bank account or account in the Investor's brokerage house, for the purpose of possible return of payment (refers to the Large Investors Tranche only) account no. ....

in (bank/brokerage house) ....

Caution: In case a wrong or incomplete account number is given, the Issuer or persons acting on his behalf shall not be held liable for a delay in repayment. The repayment is made on terms set out in the Prospectus.

Notes:

* tick the right box

** enter where appropriate: resident, natural person – PESEL, legal person or an entity that does not have legal personality – REGON or other identification number, non-resident, natural person – passport series, number and name of state where the passport was issued; non-resident legal person or entity that does not have legal personality – appropriate register number;

I, the undersigned, hereby declare that:

I have perused the Prospectus for shares series H and the Statute of LPP SA. I agree to the Statute and accept the terms of the subscription, including the rules for allocating shares series H.

I agree to my details being processed for needs of compiling a register of subscribers for shares series H.

....	....
Date and Investor's signature	Date, stamp of the brokerage house
	And signature and stamp of person accepting the subscription

INSTRUCTION FOR DEPOSITING SHARES SERIES H OF LPP SA

(refers to subscriptions in the Large Investors Tranche only)

Please, deposit on my securities account no. ....

in (KDPW code and full name of the entity operating the account): ....

in the name of (the account holder): ....

all shares series H of LPP SA. allocated to me

I hereby oblige myself to inform in writing the brokerage house where my subscription was made of any changes regarding the foregoing securities account number and entity operating the account.

....	....
Date and signature of person giving the instruction	Date, stamp of the brokerage house
	and signature of the person accepting the instruction

8. Definitions and abbreviations

Act on Civil Transaction Tax	Act on Civil Transaction Tax of 9th September 2000 (published in *Dziennik Ustaw* 00.86.959 with subsequent amendments)
Act on Corporate Income Tax	Act on Corporate Income Tax of 15th February 1992 (unified text published in *Dziennik Ustaw* 00.54.654 with subsequent amendments)
Act on Personal Income Tax	Act on Personal Income Tax of 26th July 1991 (unified text published in *Dziennik Ustaw* 00.14.176 with subsequent amendments)
Act on Stamp Duty	Act on Stamp Duty of 9th September 2000 (published in *Dziennik Ustaw* 00.86.960 with subsequent amendments)
Banking Act	Banking Act of 29th August 1997 (published in *Dziennik Ustaw* 97.140.939 with subsequent amendments)
Book Building	Process of collecting declarations of subscribing to shares series H filed by investors in the TDI, which will be used by the Issuer for the purpose of determining the Issue Price, the demand for shares series H and identifying those Investors which will be invited to subscribe to shares series H
Commercial Code	The Polish Commercial Code, Ordinance of the President of the Republic of Poland of 27th June 1934 (published in *Dziennik Ustaw* 34.57.502 with subsequent amendments)
Commission	The Polish Securities and Exchange Commission (Komisja Papierów Wartościowych i Giełd)
Company	Spółka LPP S.A. with its registered office in Gdańsk
Competition and Consumer Protection Act	Competition and Consumer Protection Act of 15th December 2000 (published in *Dziennik Ustaw* 00.122.1319 with subsequent amendments)
Customer Service Point	Customer Service Point accepting subscriptions for Shares series H
DMBH	Dom Maklerski Banku Handlowego w Warszawie S.A., with its registered office in Warsaw (Brokerage House of Bank Handlowy S.A.)
Dziennik Ustaw	*Dziennik Ustaw Rzeczypospolitej Polskiej* – a Polish journal of law
EBIDTA	Operating profit increased by depreciation and amortisation
EURO	Currency of the European Union
Extraordinary General Meeting	Extraordinary General Meeting of LPP S.A.
Foreign Exchange Law	Foreign Exchange Law, Act of 18th December 1998 (published in *Dziennik Ustaw* 98.160.1063 with subsequent amendments)
General Meeting	The General Meeting of LPP S.A.
Investor	Person interested in acquiring shares series H by way of Public Subscription
Issue Price	The issue price of shares series H to be determined by the Management Board basing on the recommendation of the Offeror, with regard to the results of the Book Building process. The final price at which Investors will acquire shares series H.
Issuer	LPP S.A. (public limited company) with its registered office in Gdańsk
Offeror	Dom Maklerski Banku Handlowego w Warszawie S.A. (Brokerage House of Bank Handlowy S.A.)– entity offering Shares series H for public trading
KDPW	Krajowy Depozyt Papierów Wartościowych S.A. w Warszawie - National Depository of Securities
KSH	the Polish Code of Commercial Partnerships and Companies, Act of 15th September 2000 (published in Dziennik Ustaw 2000.94.1037 with subsequent amendments) – Kodeks Spółek Handlowych
Law on the Public Trading of Securities	Law on the Public Trading of Securities, Act of 21st August 1997 (published in *Dziennik Ustaw* 97.118.754 with subsequent amendments)
LPP S.A.	LPP S.A. with its registered office in Gdańsk
Management Board	The Management Board of LPP S.A.
Minimum Price	Minimum issue price of shares series H to be determined by the Management

	Board for the purpose of the tender. The minimum price at which the Investors shall subscribe to shares series H in the TMI, and the minimum price to be declared by Investors filing declarations of acquiring shares series H during the Book Building process.
Ordinance	Ordinance of the Council of Ministers on requirements to be fulfilled by a prospectus and a summary of a prospectus of 16th October 2001 (published in *Dziennik Ustaw* 01.139.1568 with subsequent amendments)
Ordinance on Stamp Duty	Ordinance of the Minister of Finance on the collection, payment and repayment of stamp duty and method of operating a register of this tax (published in *Dziennik Ustaw* 00.110.1176 with subsequent amendments)
PAP	Polska Agencja Prasowa (the Polish Press Agency)
PDA	„Prawo do akcji", right to shares series H, a security certifying the Investor's right to shares series H which arises on the allocation of shares to the Investor and ceases at the registration of shares with the KDPW, or on the day of coming into effect of a court decision on refusing to enter into the register the increase in share capital by way of issuing shares series H
Penal Code	The Polish Penal Code, Act of 6th June 1997 (published in *Dziennik Ustaw* 97.88.553 with subsequent amendments)
PKD	Polska Klasyfikacja Działalności, the Polish Classification of Economic Activities
PLN	Legal tender in the Republic of Poland
POK	Customer Service Point accepting subscriptions for shares series H
Proposed Price	Issue Price proposed by the Investor subscribing to shares series H in the TMI, which is a maximum which the Investor is willing to pay for shares series H. The Proposed Price must not be lower than the Minimum Price.
Prospectus	This document, prepared in connection with the offering of Shares series H, in accordance with the requirement of the Ordinance, the only binding document containing information on Shares series H
PSEC	The Polish Securities and Exchange Commission (Komisja Papierów Wartościowych i Giełd, KPWG)
Public Offering	Public Offering of Shares series H, on terms set out in the Prospectus
Public Subscription	Public Offering of Shares series H on the terms of this Prospectus
S.A.	Spółka akcyjna (Polish law public limited company)
Shares series H	190,000 ordinary bearer shares series H of LPP S.A. of nominal value 2.00 PLN each, offered for Public Subscription on the basis of the Prospectus
Sp. z o.o.	Spółka z ograniczoną odpowiedzialnością (Polish law limited liability company)
Statute	Statute of LPP S.A.
Supervisory Board	LPP's supervisory body
TDI	Transza Dużych Inwestorów (Large Investors Tranche)
the Polish Code of Commercial Partnerships and Companies	the Polish Code of Commercial Partnerships and Companies, Act of 15th September 2000 (published in Dziennik Ustaw 2000.94.1037 with subsequent amendments) – Kodeks Spółek Handlowych
TMI	Transza Małych Inwestorów (Small Investors Tranche)
USD	The United States Dollar, legal tender on the territory of the United States of America
VAT	Value Added Tax regulated by the Act on Value Added Tax and Excise of 8th January 1993 (published in *Dziennik Ustaw* 93.11.50 with subsequent amendments)
WIBOR	Warsaw Interbank Offered Rate – interest rate accepted on the Polish interbank market for interbank credits
WSE	The Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A., GPW)

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