



Frąckowiak
GrantThornton

Supplementary Report on the Audit of the Consolidated Financial Statement for the year 2010

LPP Spółka Akcyjna Capital Group

Auditing - Taxation - Outsourcing -
Consulting Member of Grant Thornton
International Ltd

The entity authorised to audit financial statements no. 238. Management Board: Cecylia Pol - the President, Tomasz Wróblewski - Vice
President.

Registered office: 61-831 Poznań, 2 Wiosny Ludów square. NIP: 776-01-62-560, REGON: 632474183, bank account: 0317501019 0000
000012897979.

Share capital 520 800 PLN. District Court in Poznań - Nowe Miasto 1 Wilda in Poznań, 8th Commercial Division, KRS number
0000006705.

1 Information on the Parent Company

The Parent Company in the Capital Group is LPP Spółka Akcyjna. The Parent Company was set up on 7 December 1989 for an indefinite period of time. The registered office of the Parent Company is in Gdańsk, 39/44 Łąkowa street.

The main business activities of the Parent Company are as follows:

- wholesale of clothing and footwear,
- retail sale of clothing.

The business activity of the subsidiaries and associates is related to the business of the Parent Company.

On 14 February 2001, the Parent Company was entered in the register of entrepreneurs of the National Court Register kept by the District Court in Gdańsk, 8th Commercial Division of the National Court Register, entry no. KRS 0000000778.

The Parent Company was issued a NIP number - 888 020 59 44 on 8 June 1995, and a REGON number - 910097080 on 19 August 2004.

The share capital of the Parent Company as at the financial year ended 31 December 2010 amounted to PLN 3 501 thousand. The equity capital of the Capital Group at that date amounted to PLN 736 546 thousand.

According to note 14.12 of the explanatory information to the consolidated financial statement as at 31 December 2010, the ownership structure of the share capital of the Parent Company was as follows:

Shareholder	Number of shares	Number of votes	Nominal value of shares	Share capital participation
Marek Piechocki	175 000	875 000	350 000	10.00%
Jerzy Lubianiec	175 000	875 000	350 000	10.00%
Monistor Limited (Cyprus)	200 728	200 728	401 456	11.47%
Grangefont Limited, with its registered office in London, UK	350 000	350 000	700 000	20.00%
Aviva OFE	157 962	157 962	315 924	9.02%
Other shareholders	691 587	691 587	1 383 174	39.51%
Total	1,750,277	3150 277	3 500 554	100.00%

Nominal shares owned by Marek Piechocki and Jerzy Lubianiec are preference shares with special voting rights at the general meeting of shareholders. Each share gives right to two votes at the general meeting of shareholders.

According to the share register of the Parent Company as at 12 April 2010, for the period from 1 January 2010 to 31 December 2010 and after the balance sheet date, until the date of this report, the following changes in the ownership structure of the Parent Company occurred:

Shareholder	number of shares 12	Participation 12 April	number of shares 31	Participation 31	number of shares 31	Participation 31
Marek Piechocki	175 000	10.00%	175 000	10.00%	324 390	18.53%
Jerzy Lubianiec	175 000	10.00%	175 000	10.00%	226 338	12.93%
Grangefont Limited	350 000	20.00%	350 000	20.00%	350 000	20.00%
Other shareholders	1 061 565	60.00%	1 050 277	60.00%	849 549	48.54%
Total	1 761 565	100%	1 750 277	100%	1 750 277	100%

The composition of the Management Board of the Parent Company as of 12 April 2011 was as follows:

- Marek Piechocki - the President of the Management Board,
- Dariusz Pachla – Vice-President of the Management Board,
- Hubert Komorowski - Vice-President of the Management Board,
- Piotr Dyka – Vice-President of the Management Board,
- Jacek Kujawa - Vice-President of the Management Board.

The composition of the Management Board of the Parent Company did not change in the period between 1 January 2010 and 12 April 2011.

2 Composition of the Capital Group

As at 31 December 2010, the LPP S.A. Capital Group consisted of the following subsidiaries (direct and indirect) and joint ventures:

Company name	Consolidation method	Type of opinion on the financial statement	Name of an entity auditing the financial statement	End of financial year
LPP Retail Estonia OU	full consolidation	unqualified	HLB Expertus Audit	31 December 2010
LPP Czech Republic s.r.o.	full consolidation	Unqualified	ACT Audit	31 December 2010
LPP Hungary Kft	full consolidation	Unqualified, with explanatory note	HLB Klient	31 December 2010
LPP Retail Latvia Ltd	full consolidation	Unqualified	Roedl & Partner	31 December 2010
UAB LPP	full consolidation	Unqualified, with an explanatory note	Balanso Auditas	31 December 2010
LPP Ukraina	full consolidation	Unqualified	Audit Company International standards	31 December 2010
RE Trading Zamknięta Spółka Akcyjna	full consolidation	Unqualified	ACCA DepIRF	31 December 2010
LPP Fashion Distributor SRL	full consolidation	Qualified	Boscolo & Partners	31 December 2010
ES STYLE	full consolidation	Unqualified	ACCA DepIRF	31 December 2010
FASHION POINT	full consolidation	Unqualified	ACCA DepIRF	31 December 2010
LPP Retaili Bułgaria Ltd.	full consolidation	Unqualified	ODIT MB LTD	31 December 2010
Artman Slovakia s.r.o.	Full consolidation	Unqualified	Marian Revay	31 December 2010
Artman Modę s.r.o.	Full consolidation	Unqualified	ACT Audit	31 December 2010

Company name	Consolidation method	Type of opinion on the financial statement	Name of entity auditing the financial statement	End of financial year
G&M Sp. z o.o.	Excluded from consolidation	not audited	not applicable	31 December 2010
TORA Sp. z o.o.	Excluded from consolidation	not audited	not applicable	31 December 2010
DP&SL Sp. z o.o.	Excluded from consolidation	not audited	not applicable	31 December 2010
IL&DLSp. z o.o.	Excluded from consolidation	not audited	not applicable	31 December 2010
AMA Sp. z o.o. in liquidation	Excluded from consolidation	not audited	not applicable	31 December 2010
AMUR Sp. z o.o.	Excluded from consolidation	not audited	not applicable	31 December 2010

In comparison with the previous year, the number of consolidated companies decreased by 1 entity due to the merger of two subsidiaries in Lithuania.

3 Consolidated financial statement for the previous year

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2009 (previous financial year) was audited by Grant Thornton Frąckowiak Sp. z o.o., on behalf of which acted Jan Lenkiewicz, a certified auditor, no. 9530

The auditor issued an unqualified opinion about the audited financial statement, *with* the following explanatory note:

"The consolidated financial statement of the Capital Group contains financial data of fourteen subsidiaries, whose individual financial statements had been audited by certified auditors acting on behalf of other entities authorised to audit financial statements. Cumulative amount of the balance sheets totals, sales revenues, operational income and financial income of the subsidiaries whose financial statements had been audited by certified auditors acting on behalf of other authorised entities represents, before consolidation exemptions, 16.1% of the balance sheet total and 22.7% of sales revenues, operational income and financial income of the consolidated financial statement of the Capital Group without making any consolidation exemptions".

This consolidated financial statement of the Capital Group for the financial year ended on 31 December 2009 was approved by the General Meeting of Shareholders of the Parent Company on 25 June 2010.

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2009 (the previous financial year) together with an independent auditor's report were submitted to the National Court Register on 28 July 2010 following the resolution of the General Meeting of Shareholders regarding the approval of the consolidated financial statement and the report on the operations of the Capital Group.

Additional information, in a part corresponding to the introduction to the consolidated financial statement, the consolidated balance sheet as at 31 December 2009, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the financial year ended

31 December 2009 (previous financial year), together with the auditor's opinion and the resolution of the General Meeting of Shareholders on the approval of the consolidated financial statement as of 1 July 2010 were submitted for publication in Monitor Polski B.

4 Information on the entity and the auditor authorised to conduct audits

Grant Thornton Frąckowiak Sp. z o.o. seated in Poznań, 2 Wiosny Ludów square, is an entity authorized to audit financial statements, entered in the list of the National Council of Auditors in Poland under no. 238.

The audit of the consolidated financial statement was conducted by Jan Letkiewicz, a certified auditor, no. 9530, on behalf of Grant Thornton Frąckowiak Sp. z o.o.

On 14 April 2010, the Supervisory Board chose Grant Thornton Frąckowiak Sp. z o.o. to audit the consolidated financial statement of the Capital Group for the financial year ended 31 December 2010. The audit of the consolidated financial statement was carried out following the agreement concluded on 19 April 2010 with the Management Board of the Parent Company.

5 Scope and date of the audit

The aim of our audit was to express a written opinion together with a report stating whether the consolidated financial statement for the financial year ended 31 December 2010 accurately and clearly presents, in all its material aspects, the financial situation, assets and financial result of the Capital Group, in accordance with accounting rules (policy) resulting from the International Accounting Standards, International Financial Reporting Standards and related interpretations announced in a form of regulations by the European Commission, and to the extent not covered by these Standards, in accordance with the provisions of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2009, no. 152, item 1223, as amended) and its executive provisions.

When auditing each item in the consolidated financial statement and the supporting documentation, we used tests and trials specific to financial revision. On the basis of these tests and trials we decided on the accuracy of the audited items.

Matters that have no impact on the audited consolidated financial statement were not the object of our audit.

The audit of the consolidated financial statement of the Capital Group for the financial year ended 31 December 2010 was conducted from 31 March 2011 to 12 April 2011.

6 Statement of impartiality

Grant Thornton Frąckowiak Sp. z o.o., the members of the management board and supervisory bodies, the network which the entity authorised to conduct the audit is a part of, the certified auditor being in charge of the audit and other persons

that audited the financial statement meet the requirements to express impartial and independent opinions about the audited consolidated financial statement of the Capital Group, pursuant to art. 56 of the Act of 7 May 2009 on certified auditors and their self-governing council, entities authorized to audit financial statements and on public supervision (Journal of Laws no. 77 item 649).

7 Data availability and declarations obtained

The Management of the Parent Company passed to us a written declaration, dated 12 April 2011, on the completeness, fairness and accuracy of the audited consolidated financial statement. The declaration stated that between the balance sheet date and the day when the audit was completed no circumstances occurred that could significantly affect the financial position of the Capital Group and that would require to be included in the audited consolidated financial statement. The Management Board of the Parent Company confirmed its responsibility for the approved consolidated financial statement and declared that during the audit we were provided with all the financial statements of the subsidiaries covered by consolidation, supporting documentation, information and other documents required to conduct the audit. The Management Board of the Parent Company also declared that we were provided with all the explanations necessary to express an opinion on the audited consolidated financial statement.

We believe that the evidence we had been given provided a sufficient basis to express our opinion on the consolidated financial statement.

8 Consolidated Balance Sheet

ASSETS (in PLN '000)	31 December	31 December	31 December
FIXED ASSETS	712 574	739 993	766 704
Tangible fixed assets(Property, plant and equipment)	422 456	442117	469 077
Intangible assets	11 040	12 763	13 964
Goodwill	183 609	183 609	183 609
Trademark	77 508	77 508	77 508
Shares in subsidiaries	212	719	719
Investments in associates	19	-	-
Receivablesand borrowings	1 062	1 057	1 773
Deferred taxassets	16 491	22 045	19 857
Prepaid expenses	177	175	197
CURRENT ASSETS	716 446	621 610	659 504
Inventories	424 437	322 756	462 644
Receivables	119 246	93 426	100 895
Borrowings	237	541	446
Other securities	16 430	-	-
other financial assets	53 064	-	-
Prepaid expenses	6 562	7 405	5 688
Cash and cash equivalents	96 470	197 482	89 831
TOTAL ASSETS:	1 429 020	1 361 603	1 426 208
LIABILITIES (in PLN '000)	31 December	31 December	31 December
EQUITY	736 546	685 589	565 235
LONG-TERMLIABILITIES	281 231	347 725	322 316
SHORT-TERM LIABILITIES	411 243	328 289	538 657
TOTAL LIABILITIES:	1 429 020	1 361 603	1 426 208

Consolidated statement of comprehensive income.

(in PLN '000)	2010	2009	2008
CONTINUED ACTIVITIES			
Revenue on sales	1 997 159	1 945 367	1 622 999
Operating expenses	1 793 324	1 750 511	1 388 654
Other operating revenues	23 749	27 379	8 647
Other operating expenses	27 661	39 614	28 218
Operating profit (loss)	199 923	182 621	214 774
Financial income	10 528	2 838	18 376
Financial expenses	28 731	44 883	19 925
Profit (loss) before tax	181 720	140 576	213 225
Income tax	43 260	34 782	45 718
Net profit (loss) from continuing operations	138 460	105 794	167 507
DISCONTINUED OPERATIONS			
Net profit (loss) from discontinued operations	623	-1 160	-
Net profit (loss)	139 083	104 634	167 507
Net profit (loss), of which:			
- Parent Company shareholders	139 083	104 634	167 474
- non-controlling entities		-	33
(in PLN '000)	2010	2009	2008
OTHER COMPREHENSIVE INCOME			
Other comprehensive income	-1 159	3 578	-2 790
Comprehensive income	137 924	108 212	164 717

10 General information and financial ratios

Selected data and financial ratios characterising the financial situation of the Group for the years 2008, 2009 and 2010 are presented below. All the ratios were calculated on the basis of the data included in the consolidated financial statements of the Capital Group for the years ended on 31 December 2010 and 31 December 2009.

Ratio	Calculation formula	Value of ratio		
		2010	2009	2008
sales revenues (PLN thousand)		2 079 358	2 003 095	1 622 999
net financial result (PLN thousand)		139 083	104 634	167 507
shareholders' equity (PLN thousand)		736 546	685 589	565 235
assets total (PLN thousand)		1 429 020	1 361 603	1 426 208
return on assets (ROA) (%)	net financial result / total assets at the end of the period	9.73%	7.7%	11.7%
return on equity (ROE) (%)	net financial result / shareholders' equity at the beginning of the period	20.29%	18.5%	41.3%

Ratio	Calculation formula	Value of ratio		
		2010	2009	2008
return on sales	net profit on sales / sales revenue	9.93%	9.7%	14.4%
liquidity ratio I	total current assets / short-term liabilities	1.7	1.9	1.3
liquidity ratio III	cash and cash equivalents / short-term liabilities	0.2	0.6	0.2
receivables turnover ratio (in days)	trade accounts receivables* x 365 days / revenues from sales of products and goods	17	17	17
debt repayment period (in days)	trade payables x 365 days / costs of sales	121	71	105
inventory turnover ratio (in days)	inventories x 365 days / costs of sales	164	125	261
sustainability of financing	(shareholders' equity + long-term liabilities) / total liabilities	71.2%	75.9%	62.2%
debt ratio (%)	(total liabilities - equity) / total liabilities	48.5%	49.6%	60.4%
Inflation ratios:				
annual average (%)		2.6	3.5	4.2
from December to December (%)		3.1	3.5	3.3

* before write downs

** equity contains capital attributable to the shareholders of the Parent Company and non-controlling shares; net financial result includes a result attributable to the shareholders of the Parent Company and non-controlling shareholders.

11 Commentary on the Ratios

The ratios presented indicate the following trends:

The profitability ratios increased in 2010 in comparison to 2009. Return on assets increased by 2.03 percentage points, return on equity increased by 1.79 percentage points and return on sales increased by 0.23 percentage points.

The values of the capital group's liquidity ratios decreased in 2010. Liquidity ratio I decreased by 11% and liquidity ratio III decreased by 70%. This change was primarily due to the decline in the value of cash and cash equivalents in the balance sheet at the end of 2010.

In the period from 2008 to 2010, the receivables turnover ratio remained unchanged. At the same time, in 2010, the debt repayment period and the inventory turnover period increased by 50 and 39 days, respectively.

The value of financing sustainability ratio decreased at the end of 2010. This means that most of the assets were financed with short-term capital. At the same time, there was an increase in the participation of equity in the financing structure of the Capital Group.



12 Business continuity

Note 6 of the introduction to the additional information to the consolidated financial statement of the Capital Group for the year ended 31 December 2010 contains the announcement by the Management Board of the Parent Company stating that the financial statements of the Parent Company and its subsidiaries constituting the basis for the preparation of the consolidated financial statement were drawn up with the assumption that those companies would continue their business activity for the period not shorter than 12 months starting from 31 December 2010, and that there were no circumstances which could impede the operations of the Parent Company and its subsidiaries.

During our audit we did not notice any significant circumstances which could lead us to believe that the Parent Company is not able to continue its business activity for at least 12 months from the balance sheet date, that is from 31 December 2010, as a result of deliberate or involuntary cessation of its operations or significant restrictions thereof.

13 Financial Year

The financial statements of all the companies that are part of the Capital Group, constituting the basis for the preparation of the consolidated financial statement, were prepared as at 31 December 2010 and include financial data for the reporting period from 1 January 2010 to 31 December 2010.

14 Accounting rules (policy) and the methods of presenting financial data

In note 9 of the introduction to the additional information to the consolidated financial statement for the year ended 31 December 2010, the Management Board of the Parent Company presented the accounting principles (policy) and methods of presenting the financial data of the Capital Group. During the period for which this consolidated financial statement was prepared, there were no changes in the accounting principles (policy) or in the methods of presenting the financial data of the Capital Group.

15 Goodwill on consolidation, gain from a bargain purchase

The rules of determining goodwill on consolidation, rules of making write-offs for the impairment of goodwill, as well as information that enables to assess changes in the balance sheet value of goodwill in the period from 1 January 2010 to 31 December 2010 were disclosed in note 14.4 of the explanatory information to the additional information to the consolidated financial statement.

16 Equity

Equity as shown in the consolidated balance sheet as at 31 December 2010 is consistent with the supporting documentation. Financial data relating to shareholders' equity is presented in note 14.12 of the explanatory information to the consolidated financial statement.

17 Non-consolidation

The exclusions concerning companies covered by consolidation, namely:

- reciprocal settlements (receivables and liabilities),
- internal turnover (revenues and costs),
- results unrealised by the companies covered by consolidation, included in the value of their assets,
- dividends

are consistent with the supporting documentation.

18 Completeness and accuracy of the supporting documentation

As a result of our audit, we have decided that the supporting documentation, in all its material aspects, is complete and accurate and meets all the requirements applicable to supporting documentation. In particular, this applies to exclusions which were the result of consolidation adjustments.

19 The structure of assets and liabilities in the consolidated balance sheet

The structure of assets and liabilities of the Capital Group is presented in the consolidated financial statement for the year ended 31 December 2010. All the data presented in the consolidated financial statement is consistent with the supporting documentation.

20 Items affecting the financial result of the Capital Group

The description of items affecting the financial result of the Capital Group was presented in the audited consolidated financial statement for the year ended 31 December 2010. All the data presented in the consolidated financial statement is consistent with the supporting documentation.

21 Derogations from the consolidation principles and from the application of the equity method

Given the insignificant effect on the consolidated financial statement, the consolidation did not include 6 domestic subsidiaries listed in point 3 of the introduction to the additional information to the consolidated financial statement for the year 2010.

22 Additional information regarding the adopted accounting principles and other explanatory information

Additional information on the adopted accounting principles and other explanatory information to the consolidated financial statement for the financial year ended 31 December 2010 were prepared, in all material aspects, in accordance with accounting rules (policy) resulting from the International Accounting Standards, International Financial Reporting Standards and related interpretations announced in a form of regulations of the European Commission, and to the extent not covered by

these Standards - in accordance with the provisions of the Accounting Act and its executive regulations, and according to the provisions of the Regulation of the Minister of Finance dated 19 February 2009 on current and interim information provided by issuers of securities and on conditions under which information required by regulations adopted by countries other than Member States is considered equivalent (Journal of Laws of 2009, no. 33, item 259, as amended).

23 Report on the operations of the Capital Group

We have analysed the report of the Management Board on the operations of the Capital Group for the financial year ended 31 December 2010. The information included in this report on operations, originally disclosed in the audited consolidated financial statement for the financial year ended 31 December 2010, is consistent with this statement. The report on operations of the Capital Group is compliant, in all its material aspects, with the provisions of art. 49 (2) of the Accounting Act and the provisions of the Regulation by the Minister of Finance of 19 February 2009 on current *and* interim information provided by issuers of securities and on conditions under which information required by regulations adopted by countries other than Member States is considered equivalent.

This report contains 11 pages.

Jan Letkiewicz

Certified Auditor no. 9530

Key certified auditor conducting the audit on behalf of

Grant Thornton Frąckowiak Sp. z o.o.,

Poznań, 2 Wiosny Ludów square, entity authorised to audit
financial statements, reference number 238

Poznań, 12 April 2011.

