

Gdańsk, 10 May 2011

REPORT OF THE SUPERVISORY BOARD  
of LPP SA seated in Gdansk [the Company] for the year 2010

On 31 December 2010 the Supervisory Board consisted of the following persons:

- Jerzy Lubianiec Chairman of the Supervisory Board,
- Krzysztof Fąferek,
- Wojciech Olejniczak,
- Krzysztof Olszewski,
- Maciej Matusiak,

In 2010 the Supervisory Board performed its statutory duties of constant supervision over the activities of the Company, in particular:

1. Constantly evaluated and analysed the position of the Company and LPP SA Capital Group
2. Examined the financial statement (including the balance sheet and the income statement) of LPP SA for the year 2010, the report of the Management Board of LPP SA for the year 2010, the request of the Management Board for the distribution of the profit generated by the Company and other documents of the Company, both as to the compliance of these reports with books, documents and and the factual findings.
3. Did a comprehensive evaluation of the position of the Company in the year 2010.
4. Familiarised itself with the Management plans for the Company development.
5. Familiarised itself with the position and development of LPP SA subsidiaries operating outside Poland.
6. Selected the Company's auditor for the period of two years.
7. Gave its opinion on the matters in the agenda of the Annual General Meeting of the Company on 25.06.2010
8. Performed functions of the Audit Committee, as described in the resolution of the Supervisory Board of LPP SA seated in Gdańsk of 14 April 2011 on the adoption of the report on implementation by the Supervisory Board of LPP SA of actions resulting from exercising by the Supervisory Board of LPP SA responsibilities of the audit committee.
9. Passed the resolution on the adoption of the incentive programme.
10. Passed the resolution on the adoption of the list of LPP SA Management Board members that are participants in the incentive programme for the Management Board of LPP SA and its key employees and associates for the year 2010.
11. Passed the resolution on determining the net profit of the LPP SA Capital Group for the year 2010, achievement of which shall entitle the persons participating in the incentive programme to take up series L shares for this year.

The Supervisory Board requests the Annual General Meeting of the Shareholders for approving the Supervisory Board's report on the operations in 2010 and giving the following members of the Supervisory Board:

- Jerzy Lubianiec Chairman of the Supervisory Board,
- Krzysztof Fąferek,
- Wojciech Olejniczak,
- Krzysztof Olszewski,
- Maciej Matusiak,

a vote of approval for the performance of the Supervisory Board members' duties in the business year of 2010.

Gdańsk, 14 April 2011

### **REPORT**

on implementation by the Supervisory Board of LPP SA actions resulting from exercising by the Supervisory Board of LPP SA responsibilities of the audit committee.

LPP SA Supervisory Board, while performing the duties of the audit committee, took in 2010 and 2011, only to the extent of individual and consolidated financial statements prepared by LPP SA, the following actions:

Within the operational risk assessment, the Supervisory Board examined the effectiveness of opening new stores, including in particular the analysis concerning:

1. Location selection;
2. New stores construction costs;
3. Existing stores efficiency.

In the LPP SA Supervisory Board's opinion, LPP SA efficiency rating system for opening new stores provides proper selection of the stores in terms of reducing the risk associated with executing long term lease agreements and investments in the form of store construction.

In terms of logistics risk assessment, LPP SA Supervisory Board analysed in particular:

1. Inventory management control;
2. Goods rotation;
3. Stocktaking results;
4. Supply punctuality;

In the LPP SA Supervisory Board's opinion, LPP SA item management system provides proper management of goods both in terms of ensuring timely deliveries and monitoring inventory and its shortages.

Within assessing the risk associated with current assets management, the Supervisory Board of LPP SA assessed in particular:

1. Fraud risk.
2. Cash management control.
3. Receivables management control.
4. Foreign exchange risk management control.
5. The Company's assets insurance contracts concluded by the Company.

In the LPP SA Supervisory Board's opinion, the Company properly protects its current assets.

Within assessing the operational risk associated with investments and the management of LPP SA foreign subsidiaries, the Supervisory Board of LPP SA assessed in particular:

1. The way of decision making by the Company to invest in LPP SA foreign subsidiaries;
2. The way of exercising supervision by LPP SA: owner, corporate and operational over LPP SA foreign subsidiaries;
3. The way of assessing the effectiveness of LPP SA foreign subsidiaries.

In the LPP SA Supervisory Board's opinion, the Company properly manages and controls its foreign subsidiaries;

Within assessing the internal control system, the Supervisory Board of LPP SA evaluated financial documents circulation, in particular:

1. Familiarised itself with the circulation of financial documents;
2. Familiarised itself with the circulation of cost invoices;
3. Analysed LPP SA invoice control and acceptance system.
4. Familiarised itself with the internal audit and controlling department operations,

In the LPP SA Supervisory Board's opinion, the Company's document and invoice circulation system and the way of their control and acceptance are adequate to the scale of the LPP SA operation and enable correct accounting of economic events as well as ensure safety of the Company in this regard.

LPP SA Supervisory Board assessed the Company's existing rules governing budget creation and enforcement. In the LPP SA Supervisory Board's opinion, the Company's budget creation and enforcement system ensures sufficient control in terms of implementation of financial performance planned by the Company, both in relation to revenue and costs.

LPP SA Supervisory Board assessed the safety of the Company's IT systems. In the LPP SA Supervisory Board's opinion, the Company's IT systems ensure normal operation safety. The Company pays special attention to the development of IT systems and to ensure the safety of functioning of these systems.

The Supervisory Board of LPP SA controlled the execution of financial audit actions and therefore the Supervisory Board of LPP SA familiarised itself in particular with the financial statements for the year 2010 prepared by the Company, analysed risks disclosed by the auditor in the financial statements and conducted an interview with the auditor and the Management Board of the Company. LPP SA Supervisory Board finds that the financial reports prepared by the Company contain reliable information concerning the Company's operation and are prepared in a timely manner and in accordance with the relevant requirements.