

1. Corporate Governance Statement.

- a) LPP SA Management Board declares that the Company and its governing bodies to October 2009 complied with the Code of Best Practice for WSE Listed Companies described in parts II, III and IV with the exception of rules 7 and 8 of part III of "Best practice for the Supervisory Board Members" on the need of appointment of audit committee and the scope of tasks and the functioning of the committees of the Supervisory Board. The Supervisory Board of LPP SA in accordance with internal regulations consisted of 6 members which is an amount similar to the minimum required by law. All functions were performed by the Supervisory Board as a whole. The Board included two independent members. Lack of divisional committees did not adversely affected the functioning of the Supervisory Board.

During the trading year the Supervisory Board members' number was reduced (CR 52/2009) because of a member resignation. Since that time, the Supervisory Board has consisted of the minimum required by law number of members and committees' tasks have been performed by the Supervisory Board as a whole, as a result of which the Company has begun to follow all the rules without exceptions from parts II, III, IV of the Code of Best Practice for WSE Listed Companies.

Information on the principles of Corporate Governance is available on the Company's website www.lpp.com.pl

The Company shall not apply Corporate Governance principles beyond the requirements of national law.

The Company and its governing bodies also followed the principles of Best Practice for WSE Listed Companies described in part I, but for ensuring the transmission of AGM using the Internet and making and publication of the record of the meeting on a website.

Incidentally in 2009, the Company did not applied part of the principle II.1, point 4) of Best Practice for WSE Listed Companies, which was announced in current report CR 28/2009.

- b) **Description of the main features of the Company's internal control systems and risk management in relation to the process of preparing financial statements and consolidated financial statements.**

LPP SA have an adapted to their needs and activity specific character efficient internal control system, which provides:

- completeness of the invoiced revenues,
- appropriate cost control,
- efficient use of resources and assets,
- accuracy and reliability of financial information included in financial statements and periodic reports,
- adequate protection of sensitive information and preventing an uncontrolled outflow of information from the company,
- effective and rapid identification of irregularities,
- identification of significant risks and appropriate responding to them.

The elements of LPP internal control system are::

- control activities at all levels and in all cells of the Company based on procedures (permits, authorisations, verifications, agreements, review of operations, division of responsibilities) that allow to ensure compliance with the guidelines of the Management Board of the Company and at the same time allow

to take the necessary measures that identify and minimise errors and risks for the Company,

- flow of documents instructions - proper records flow and documentation control systems (to ensure compliance of accounting records with accounting documents),
- suitably qualified staff carrying out inspections,
- segregation of duties excluding possibility of executing by one employee an action associated with the execution and documenting a business transaction from beginning to end,
- Inventory manual defining rules of use, storage and inventory of assets,

- principles for balance sheet amortisation of intangible and tangible fixed assets,
- IT system - accounting books of the Company are carried out using a computer Integrated Business Management System AWEK at the Company's headquarters, which provides credibility, reliability and accuracy of processed information, access to information resources of the AWEK system is limited to authorised employees only within the scope of performance of their duties,
- accounting policy taking into account principles of International Accounting Standards and International Financial Reporting Standards (IAS / IFRS) and related interpretations published in the form of executive orders of the European Commission,
- communication system conducive to the acquisition and exchange of information necessary to effective management and control the Company.

In the process of preparing financial statements of the Company, both individual and consolidated, an audit of financial statements by an independent auditor as the essential element of internal audit. The statutory auditor shall be appointed by the Supervisory Board of LPP Company. The tasks of the independent auditor include reviewing half-yearly and annual statements, controlling accuracy of their preparation and compliance with accounting rules.

Two departments are responsible for the preparation of financial statements: accounting and finance, led by the Chief Accountant and Chief Financial Officer. Before submitting financial statements to the independent auditor, Chief Financial Officer shall verify them for completeness and correctness of all economic events.

In LPP SA there are carried out semi-annual reviews of the strategy and business plans implementation. This is due to cycles occurring in the clothing trade. After closing the first half of the year, senior and middle management with the participation of the finance department review the Company's financial results. Company's operating results, for individual business units or even stores, are analysed each month.

Internal control and closely related risk management in relation to financial reporting processes are the subject of current interest to the managing authorities of the Company. In LPP SA there is performed the analysis of risk areas related to activities of the Company. An important role here also plays the managerial staff that is responsible for monitoring the activities of their departments including identifying and assessing risks associated with the process of making accurate, reliable and in accordance with the laws concerning financial statements.

c) Information on shareholders of the Company holding, directly or indirectly, significant blocks of shares, indicating number of shares held by these entities, their percentage share in the share capital, resulting number of votes and their percentage share in the total number of votes at the general meeting.

Shareholder	Number held shares (pcs)	Number of votes at the General Meeting of Shareholders	Share in general number of votes at the General Meeting of Shareholders	Share in share capital
Marek Piechocki	324,390	1,024,390	32.52%	18.53%
Jerzy Lubianiec	226,338	926,338	29.40%	12.93%
Grangefont Limited, with its registered office in London, United Kingdom	350,000	350,000	11.11%	20.00%
Other shareholders	849,549	849,549	26.97%	48.54%
TOTAL	1,750,277	3,150,277	100.00%	100.00%

d) Information on holders of securities that give special control rights and on any restrictions on voting rights, such as restricting the voting rights of holders of a specified proportion or number of votes and the restrictions on transferring ownership rights.

Shareholders holding shares conferring the right to more than 15% in the General Meeting exercise the right to vote up to 15% regardless of the number of votes arising from shares held. Two shareholders, who have led the company for many years, Mr. Jerzy Lubianiec and Mr. Marek Piechocki hold each 175,000 preference shares of B series, one share entitles to 5 votes at the AGM. In addition, shares of the above mentioned shareholders are not covered by the statutory limitation as described above, limiting voting rights only up to 15% of votes at the AGM regardless of the number of shares held. The above statutory provisions give the dominant position to the two shareholders indicated above.

Restrictions on transferring the ownership of securities concern registered shares and series I shares.

Sale or mortgage of shares shall be dependent on the approval of the Company. Shares sale or mortgage permits are granted by the Supervisory Board in writing, under pain of nullity, within 14 days from the date of application. If the Company refuses to give the permit, it shall within 30 days designate another purchaser and define the date and place of payment. If the Company within the time does not indicate another purchaser, the shares may be sold without restriction.

I series shares that were issued to implement the Company's discretionary motivational programme for managerial staff of the Company, may not be disposed of within two years after their taking up. This restriction is intended to bind the key personnel to the Company by ensuring those people pay associated with the results of the Company.

e) Description of the rules governing the appointment and dismissal of managers and their rights, in particular the right to decide whether to issue or repurchase shares.

The Board consists of two to five members, including the President, and from one to four Vice-Presidents of the Management Board. The number of members is determined by the Supervisory Board. Members of the Management Board are appointed and dismissed by the Supervisory Board for a term of five years.

Competence and working rules of the LPP SA Management Board are set forth in the following documents:

- LPP SA Articles of Association (available on the Company's website)

- Management Board regulations (available on the Company's website)
- Code of Commercial Companies

The jurisdiction of the Board include all matters not reserved for other bodies of LPP SA. The Management Board shall not have the right to make decision on the issue or repurchase of shares.

f) Description of rules for amending the articles of association of the issuer.

Any amendment to the Articles of Association require a resolution of the General Meeting.

g) Mode of action of the General Meeting, its powers, the description of shareholders' rights and the way of their execution

Convening the General Meeting

- 1) The General Meeting of Shareholders may be convened in ordinary or extraordinary mode.
- 2) The General Meeting of Shareholders is held in Gdansk, Warsaw or Sopot, at the place designated by the Management Board.
- 3) Ordinary General Meeting is held annually within six months after the end of trading year.
- 4) Extraordinary General Meeting shall be convened by the Management Board on its own initiative, at the request of the Supervisory Board and at the written request of shareholders representing one tenth of the equity capital.
- 5) The fact of convening the General Meeting with the date (day, hour) and place is announced by the Management Board on the Company's website and in the manner provided for conveying current information and in accordance with the provisions on public offering and terms and conditions of introducing financial instruments to an organised trading system and on public limited companies.

Powers of the General Meeting

- 1) Examination and approval of financial statements and reports of the Management Board on the activity of LPP SA for a last year.
- 2) Taking all decisions relating to claims for damages suffered during the establishment of LPP SA or its management or supervision.
- 3) Adopting a resolution on the distribution of profits or covering losses.
- 4) Granting to the members of LPP SA acknowledgement of the fulfilment of duties.
- 5) Adopting a resolution on the issue of bonds, including convertible bonds.
- 6) Amendments to the Articles of Association.
- 7) Adopting resolutions concerning a merger, conversion of LPP SA, its dissolution and liquidation.
- 8) Adoption of resolutions concerning the sale and lease of the company and establishing beneficial ownership.
- 9) Examination and deciding on proposals submitted by the Supervisory Board.
- 10) Deciding on other matters reserved to the competence of the General Meeting in the Code of Commercial Companies and the provisions of the Company's Articles of Association.

The General Meeting of Shareholders sessions

- 1) The General Meeting is opened by the Chairman of the Supervisory Board or a person authorised by him and they hold the elections of the President of the General Meeting.
- 2) The person opening the General Meeting brings to the immediate election of the President of the General Meeting who directs the works of the GM and ensures efficient and proper conduct of the session.
- 3) The General Meeting shall adopt resolutions only on matters included in the agenda.
- 4) Draft resolutions proposed for adoption by the General Meeting and other relevant materials are presented to the shareholders together with the reasons and the opinion of the Supervisory Board.
- 5) Course of the Meeting is recorded by a notary. **Voting**

- 1) Voting at the General Meeting shall be open. Secret voting is administered at the election of authorities and requests to dismiss the governing authorities or liquidators of the Company, or to make them accountable, as well as in case of personal matters. In addition, secret voting is held on the request of any shareholder or their representative.
- 2) The General Meeting may choose a three-person returning committee, whose duties shall include ensuring the proper conduct of each voting, supervision of computer service (in the case of voting with the use of electronic technology) and checking and announcing the results.
- 3) Each share in the General Assembly is the right to one vote. In the case of a B Series preference share, one share is the right to five votes at GM.
- 4) The President announces the voting results, which are then brought into the minutes of the session.

h) Membership and changes that occurred during the trading year and the description of the actions of managing, supervisory or administrative bodies and their committees.

LPP SA Management Board

Composition of the Management Board as of 31 December 2009:

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

In the last trading year there were changes in the composition of the Management Board arising from the resignation of three members of the Board: Mrs. Alicja Milińska, Mr. Aleksander Moroz, Mr. Stanisław Dreliszak and appointment by the Supervisory Board of new members of the LPP SA Management Board: Mr. Piotr Dyka, Mr. Hubert Komorowski and Mr. Jacek Kujawa (CR 44/2009, CR 45/2009, CR 54/2009, CR 55/2009).

Competence and working rules of LPP SA Management Board are set forth in the following documents:

- LPP SA Articles of Association (available on the Company's website)
- Management Board regulations (available on the Company's website)
- Code of Commercial Companies

Supervisory Board

Composition of the Supervisory Board as of 31 December 2009 was as following:

- Jerzy Lubianiec - Chairman of the Supervisory Board
- Krzysztof Olszewski - member of the Supervisory Board
- Wojciech Olejniczak - member of the Supervisory Board
- Maciej Matusiak - member of the Supervisory Board
- Krzysztof Faferek - member of the Supervisory Board

During the trading year there were changes in the composition of the Board resulting from the resignation of one of the members of the Board: Mr. Antoni Tyminski (CR 52/2009).

Competence and working rules of the LPP SA Supervisory Board are set forth in the following documents

- LPP SA Articles of Association (available on the Company's website)
- Supervisory Board regulations (available on the Company's website)
- Code of Commercial Companies