

LC Corp S.A.

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

I. GENERAL NOTES

1. Background

LC Corp S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 3 March 2006. The Company's registered office is located in Wrocław, at 2-4 Powstańców Śląskich Street.

The Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000253077 on 15 March 2006.

The Company was issued with tax identification number (NIP) 899-25-62-750 on 27 March 2006 and statistical number (REGON) 020246398 on 17 March 2006.

The Company is the holding company of the LC Corp S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 17 and 29 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2010.

The principal activities of the Company is managing the holding.

As at 31 December 2010, the Company's issued share capital amounted to 447,558 thousand zlotys. Equity as at that date amounted to 769,096 thousand zlotys.

In accordance with information received from the Company as at 17 March 2011, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Shares Par value (PLN'000)	Share % in share capital
Leszek Czarnecki directly and indirectly	229,126,674	229,126,674	229,126	51.19%*
Aviva OFE	55,000,000	55,000,000	55,000	12.29%
ING OFE	32,684,371	32,684,371	32,684	7.3%
Other shareholders	130,747,266	130,747,266	130,748	29.22%
Total	447,558,311	447,558,311	447,558	100%

*- including: LC Corp B.V. 47.97%, which is 214,701,110 shares (214,701,110 votes)

The following changes took place in the ownership structure of the Company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

- ING OFE increased its number of shares from 27,774,961 to 32,684,371.

There were no movements in the share capital in the reporting period.

As at 17 March 2011, the Company's Management Board was composed of:

Dariusz Niedośpiał	- President
Joanna Jaskólska	- Vice-President
Mirosław Kujawski	- Member
Tomasz Wróbel	- Member

There were following changes in the Company's Management Board composition during the reporting period:

- As of 31 August 2010 Mr Waldemar Czarnecki resigned from the position of the Member of the the Company's Management Board,
- As of 29 November 2010 Mr Mirosław Kujawski was appointed to the position of the Member of the Management Board,
- As of 29 November 2010 Mr Tomasz Wróbel was appointed to the position of the Member of the Management Board,
- As of 29 November 2010 Ms. Joanna Jaskólska was appointed to the position of the Vice-President of the Management Board.

2. Financial Statements

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board on 6 October 2010 to audit the Company's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649).

Under the contract executed on 8 October 2010 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2010.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified opinion dated 17 March 2011, stating the following:

“To the General Shareholders’ Meeting and Supervisory Board of LC Corp S.A.

1. We have audited the attached financial statements for the year ended 31 December 2010 of LC Corp S.A. (‘the Company’) located in Wrocław at 2-4 Powstańców Śląskich Street, containing statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of changes in equity, cash flow statement for the period from 1 January 2010 to 31 December 2011 and the summary of significant accounting policies and other explanatory notes (‘the attached financial statements’).
2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company’s Management Board. In addition, the Company’s Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors’ Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – ‘the Accounting Act’). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
 - chapter 7 of the Accounting Act,
 - national auditing standards issued by the National Council of Statutory Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. In our opinion, the attached financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Company’s operations for the period from 1 January 2010 to 31 December 2010, as well as its financial position³ as at 31 December 2010;
 - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
 - are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Company’s Articles of Association.

¹ Translation of the following expression in Polish: ‘*rzetelność i jasność*’

² Translation of the following expression in Polish: ‘*rzetelnie i jasno*’

³ Translation of the following expression in Polish: ‘*sytuacja majątkowa i finansowa*’

5. We have read the 'Directors' Report for the period from 1 January 2010 to 31 December 2010 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259)."

We conducted the audit of the Company's financial statements during the period from 29 November 2010 to 17 March 2011. We were present at the Company's head office from 29 November 2010 to 3 December 2010 and from 14 February 2011 to 25 February 2011.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness⁴ of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 17 March 2011, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2009 were audited by Marek Musiał, key certified auditor no. 90036, acting on behalf of Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2009. The Company's financial statements for the year ended 31 December 2009 were approved by the General Shareholders' Meeting on 19 May 2010, and the shareholders decided to cover the 2009 net loss in the amount of 8,276 thousands zlotys from the reserve capital.

The financial statements for the financial year ended 31 December 2009, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the coverage of loss and the Directors' Report, were filed on 26 May 2010 with the National Court Register.

⁴ Translation of the following expression in Polish: "*rzetelność i jasność*"

The balance sheet as at 31 December 2009, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2009, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the coverage of loss were published in Monitor Polski B No. 1329 on 5 August 2010.

The closing balances as at 31 December 2009 were correctly brought forward in the accounts as the opening balances at 1 January 2010.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2008 - 2010. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2009 and 31 December 2010. The ratios for the year ended 31 December 2008 were calculated on the basis of financial information presented in the financial statements audited by another certified auditor.

	2010	2009	2008
Total assets	841,663	799,818	944,330
Shareholders' equity	769,096	740,492	748,768
Net profit/ loss	28,604	-8,276	-10,645
Return on assets (%)	3.4%	-1.0%	-1.1%
$\frac{\text{Net profit} \times 100}{\text{Total assets}}$			
Return on equity (%)	3.9%	-1.1%	-1.4%
$\frac{\text{Net profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	39.7%	-21.2%	-27.2%
$\frac{\text{Net profit} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	9.8	4.3	1.5
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			

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(in thousand zlotys)

	2010	2009	2008
Liquidity III	2.3	0.1	0.2
Cash and cash equivalents			
Short-term creditors			
Debtors days	33 days	76 days	65 days
Trade debtors x 365			
Sales of finished goods, goods for resale and raw materials			
Creditors days	10 days	11 days	41 days
Trade creditors x 365			
Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	98.4%	96.0%	91.9%
(Equity + long-term provisions and liabilities) x 100			
Total liabilities, provisions and equity			
Debt ratio (%)	8.6%	7.4%	20.7%
(Total liabilities and provisions) x 100			
Total assets			
Rate of inflation:			
Yearly average	2.6%	3.5%	4.2%
December to December	3.1%	3.5%	3.3%

3.2 Comments

The following trends may be observed based on the above financial ratios:

- return on assets for the year 2010 was 3.4%, compared with -1.0% in 2009 and -1.1% in 2008,
- return on equity for the year 2010 was 3.9%, compared with -1.1% in 2009 and -1.4% in 2008,
- profit margin ratios for the year 2010 was 39.7% and was higher than in 2009 and 2008 when it was respectively -21.2% and -27.2%,

- liquidity I ratio was 9.8 for the year 2010, compared with 4.3 in 2009 and 1.5 in 2008. Liquidity III ratio was 2.3 for the year 2010, compared with 0.1 in 2009 and 0.2 in 2008,
- turnover rate for receivables was 33 days for the year 2010, compared with 76 days in 2009 and 65 days in 2008,
- liabilities turnover was 10 days for the year 2010, compared with 11 days in 2009 and 41 days in 2008,
- stability of financing for the year 2010 was 98.4%, compared with 96.0% in 2009 and 91.9% in 2008,
- debt ratio increased in 2010 to 8.6%, compared to 7.4% in 2009. However, in 2008 debt ratio was 20.7%.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2010 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 7 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2010, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2010 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the NAV computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2010.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2010.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2010 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2010 to 31 December 2010 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

5. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

on behalf of
Ernst & Young Audit sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Marek Musiał
certified auditor
no. 90036

Wrocław, 17 March 2010