



**MANAGEMENT BOARD'S REPORT  
ON LC CORP GROUP'S OPERATIONS  
FOR THE PERIOD  
FROM JANUARY 1<sup>ST</sup> TO JUNE 30<sup>TH</sup> 2009**

**Wroclaw, August 11<sup>th</sup> 2009**

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## RULES FOR PREPARING LC CORP GROUP'S MID-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

LC Corp Group, where LC Corp is the Parent Undertaking, is obliged to draw up its consolidated financial statements in accordance with the International Financial Reporting Standards adopted by the European Union.

LC Corp Group's mid-year condensed consolidated financial statements for the reporting period from January 1<sup>st</sup> 2009 to June 30<sup>th</sup> 2009 were drawn up in accordance with the International Financial Reporting Standards ("IFRS") in their form adopted by the EU, applying to mid-year financial reporting.

Information on rules used for drawing up mid-year consolidated financial statements of the Group are also presented in Note 3 and Note 6 to the enclosed mid-year condensed consolidated financial statements.

Changes in the accounting rules used by the LC Corp Group and their impact on the Group's accounting policy and methods of data presentation are described in Note 4 to the enclosed mid-year condensed consolidated financial statements.

### I. BASIC INFORMATION

LC Corp Group (the "Group") consists of LC Corp S.A. and its subsidiary undertakings.

LC Corp S.A. (hereinafter also "LC Corp" or "the Issuer") was established by the Notarial Deed dated March 3<sup>rd</sup> 2006 and entered on March 15<sup>th</sup> 2006 into the National Court Register maintained by the District Court for Wrocław-Fabryczna in Wrocław, VI Commercial Section of the National Court Register, under KRS No. 0000253077. The Parent Undertaking's registered office is situated in Wrocław, Poland, at ul. Powstańców Śląskich 2-4.

The Parent Undertaking was assigned statistical identification number REGON 020246398 and NIP 899-25-62-750.

LC Corp's share capital totals PLN 447,558,311 (fully paid-up).

The Parent Undertaking and the Group's subsidiaries were established for an indefinite time. The Parent Undertaking's primary activity is:

- PKD 64.20.Z Activities of Holdings

The subsidiaries' primary activity is carrying out construction projects on the land belonging to these companies for the purpose of further renting and selling residential and commercial property.

LC Corp B.V., controlled by Leszek Czarnecki, is the Parent Undertaking of LC Corp S.A. and the whole group.

As at June 30<sup>th</sup> 2009 LC Corp Group comprises LC Corp S.A. and the following subsidiaries of LC Corp S.A.:

- Arkady Wrocławskie S.A. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- LC Corp Sky Tower Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4 (\*)
- Katowice Ceglana Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- Vratislavia Residence Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- LC Corp Dębowa Ostoja Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- LC Corp Bajkowy Park Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- LC Corp Szmaragdowe Wzgórze Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- LC Corp Stabłowice Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- LC Corp Pustynna Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- Warszawa Przy Promenadzie Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- Warszawa Przy Promenadzie Sp. z o.o. Sp. k. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- Warszawa Przyokopowa Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- Warszawa Rezydencja Kaliska Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- Kraków Zielony Złocień Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4,
- Łódź Pustynna Sp. z o.o. - seated in Wrocław, ul. Powstańców Śl. 2-4,

The subsidiary companies are fully consolidated, and associated companies are valued with the equity method.

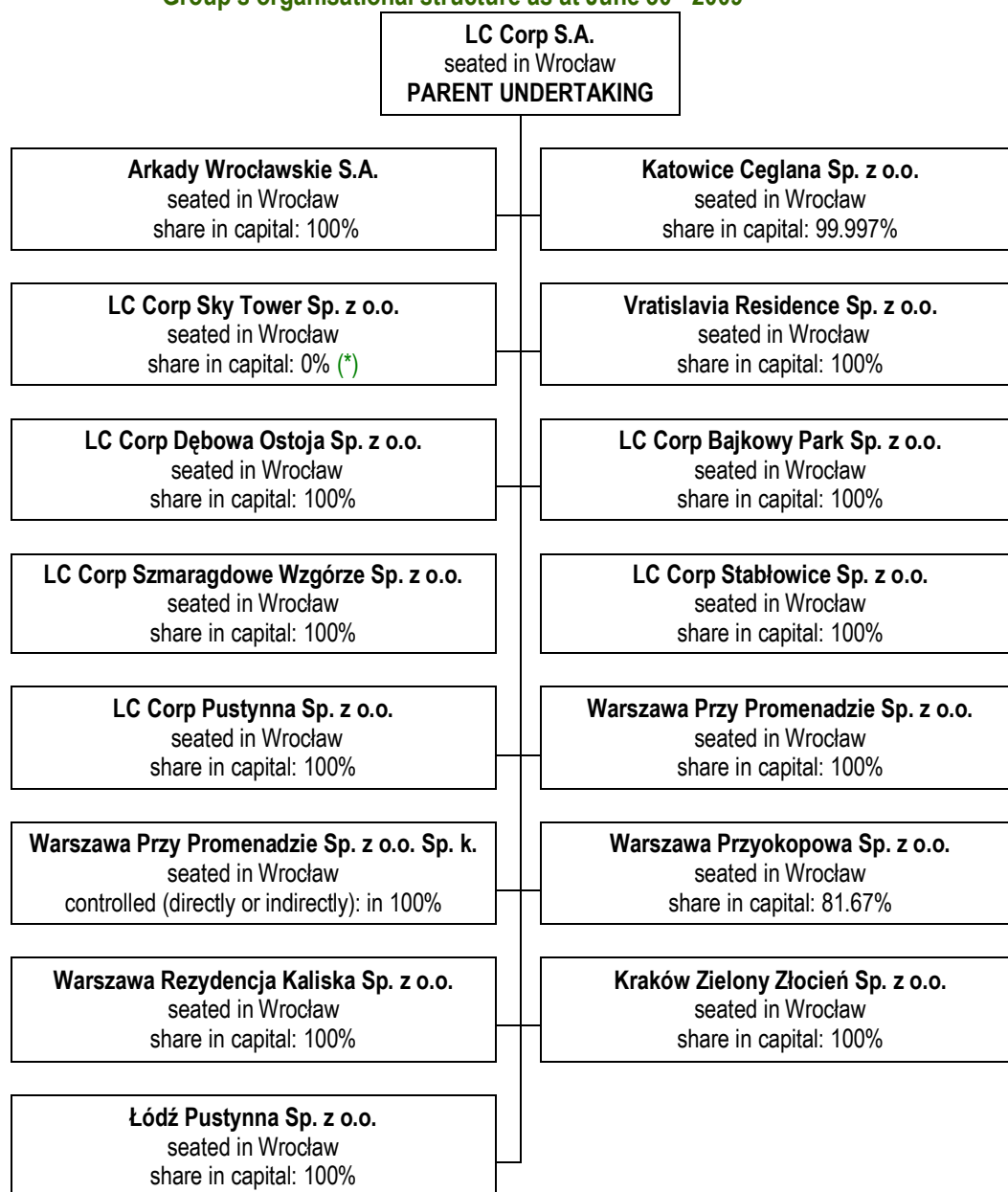
(\*) On November 2<sup>nd</sup> 2008, the Issuer, under a share disposal agreement, sold 118,998 shares of LC Corp Sky Tower Sp. z o.o. with its seat in Wrocław (being a subsidiary of the Issuer until the disposal date), of PLN 1,000 per share, with a total

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par value of PLN 118,998,000.00, to LC Corp B.V. of Amsterdam, for a total price of PLN 118,998,000.00. Under the agreement and until February 15th 2010, the Issuer will be entitled to unilaterally repurchase all the shares at a price of PLN 118,998,000, increased by arm's length interest. In addition, LC Corp B.V. undertook to provide LC Corp Sky Tower Sp. z o.o. with the means up to PLN 170,000,000 (one hundred seventy million), which the Company needs to pay all its liabilities towards the Issuer and its subsidiary - Warszawa Przyokopowa Sp. z o.o.

Pursuant to IAS 27 and IAS 39, the conditions for the transfer of benefits, risks and control from LC Corp SA to LC Corp B.V. were not met. As a result, the Parent Undertaking continues to disclose the shares of LC Corp Sky Tower Sp. z o.o. in the separate (non-consolidated) financial statements, and net assets of that company in the consolidated financial statements of the LC Corp Group. The cash obtained from the share disposal is disclosed as financial liability valued at amortized cost.

### **Group's organisational structure as at June 30<sup>th</sup> 2009**



(\*) see description above on p. 3

### **1. Major changes in the Group in H1 2009**

In the period of 6 months ended June 30th 2009, there were no changes in the composition of the Group. The composition of the LC Corp Group as at June 30th 2009 and as at December 31st 2008 is presented in Note 2 in the enclosed mid-year condensed consolidated financial statements.

## **2. Scope of business**

The Group's core activity comprises property development, related to the construction projects underway, and the core activity of LC Corp, reflected in REGON, i.e. the statistical records system, includes activities of holding companies, management and consulting activities in the scope of business management, and development and sale of own property.

Over the period from January 1<sup>st</sup> 2009 to June 30<sup>th</sup> 2009 LC Corp SA and the Group were implementing the strategy compliant with the company's core activity, i.e. investment activity.

## **3. Group's share capital as at June 30<sup>th</sup> 2009**

### **3.1. Share capital and shareholding structure of LC Corp S.A. as at June 30<sup>th</sup> 2009**

As at June 30<sup>th</sup> 2009 the share capital of LC Corp S.A. amounted to PLN 447,558,311 and was divided into 447,558,311 ordinary bearer shares carrying one vote at the General Meeting, with a par value of PLN 1.00 each.

**List of shareholders possessing at least 5% of the total vote at the General Meeting (based on information handed over to LC Corp. S.A. by shareholders):**

Shareholder	Number of shares	Number of votes	Share % in share capital	Share % in vote at general meeting
Leszek Czarniecki directly and indirectly* including: LC Corp B.V. seated in Amsterdam	229,126,674	229,126,674	51.19%	51.19%
ING Otwarty Fundusz Emerytalny	214,701,110	214,701,110	47.97%	47.97%
AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK **	27,774,961	27,774,961	6.21%	6.21%
	49,283,472	49,283,472	11.01%	11.01%

\* Leszek Czarniecki directly holds 14,424,564 shares constituting 3.22% of the share capital and 3.22% share in the vote at the General Meeting, and indirectly through his subsidiary undertakings Leszek Czarniecki holds 214,702,110 shares constituting 47.97% of the share capital and 47.97% share in the vote at the General Meeting. Leszek Czarniecki's subsidiary undertaking is LC Corp. B.V seated in Amsterdam holding 214,701,110 shares constituting 47.97% of the share capital and 47.97% share in the vote at the General Meeting and RB Investcom Sp. z o.o. seated in Wrocław holding 1,000 shares constituting 0.0002% of the share capital and 0.0002% share in the vote at the General Meeting.

\*\* earlier under the name Commercial Union Otwarty Fundusz Emerytalny BPH CU WBK

### **3.2. Changes in the ownership structure of significant blocks of the Issuer's Soares in H1 2009**

In H1 2009, only AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK significantly increased its share in the Issuer's share capital, exceeding 10% in the total vote at the Issuer's General Meeting. As at May 13<sup>th</sup> 2009, AVIVA Otwarty Fundusz Emerytalny AVIVA BZ WBK held 49,283,472 shares of LC Corp S.A constituting 11.01% of the Issuer's share capital and authorizing to 49,283,472 votes at the General Meeting, which constituted 11.01% of the total vote.

### **3.3. Holding of the Issuer's shares by the management staff and the supervisory staff**

#### **Supervisory staff holding the Issuer's shares**

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<b>Full name</b>	<b>Function in the body</b>	<b>Ownership of the Issuer's shares</b>
Leszek Czarniecki	Chairman of the Supervisory Board	14,424,564
Andrzej Błażejowski	Vice-Chairman of the Supervisory Board	20,000
Ludwik Czarniecki	Member of the Supervisory Board	10,000
Artur Wiza	Member of the Supervisory Board	14,000
Remigiusz Baliński	Member of the Supervisory Board	65,445

### **Management staff holding the Issuer's shares**

<b>Full name</b>	<b>Function in the body</b>	<b>Ownership of the Issuer's shares</b>
Dariusz Niedośpiiał	President of the Management Board	6,000
Waldemar Czarniecki	Member of the Management Board	-

### **3.4. Share capital of LC Corp's subsidiary undertakings as at June 30<sup>th</sup> 2009**

<b>Subsidiary undertaking</b>	<b>Share capital as at June 30<sup>th</sup> 2009 PLN</b>	<b>Share of LC Corp S.A.</b>
Arkady Wrocławskie S.A.	113,700,000 (paid up in the amount of 108,700,000)	100 %
LC Corp Sky Tower Sp. z o.o.	119,000,000	0 %
Katowice Ceglana Sp. z o.o.	36,000,000	99.99 %
Vratislavia Residence Sp. z o.o.	88,000,000	100 %
Warszawa Przy Promenadzie Sp. z o.o.	1,500,000	100 %
Warszawa Przyokopowa Sp. z o.o.	3,000,000	81.67 %
Warszawa Rezydencja Kaliska Sp. z o.o.	4,500,000	100 %
Kraków Zielony Złocień Sp. z o.o.	6,000,000	100 %
LC Corp Dębowa Ostoja Sp. z o.o.	1,000,000	100 %
LC Corp Pustynna Sp. z o.o.	50,000	100 %
LC Corp Stabłowice Sp. z o.o.	23,000,000	100 %
LC Corp Bajkowy Park Sp. z o.o.	1,000,000	100 %
LC Corp Szmaragdowe Wzgórze Sp. z o.o.	13,500,000	100 %
Łódź Pustynna Sp. z o.o.	8,000,000	100 %
Warszawa Przy Promenadzie Sp. z o.o. Sp.k.*	10,000	99%

\* owing to the fact that Warszawa Przy Promenadzie Sp. z o.o. Sp.k. is a limited partnership, the item presented in the table above as share capital refers to the amount of the commendam sum.

## **II. COMPOSITION OF LC CORP'S SUPERVISORY AND MANAGEMENT BOARD**

### **1. Management Board of LC Corp S.A.**

As at June 30<sup>th</sup> 2009 the Management Board of LC Corp S.A. was composed of:

- Dariusz Niedośpiał – President of the Management Board;
- Waldemar Czarnecki – Member of the Management Board.

## **2. Supervisory Board of LC Corp S.A.**

As at June 30<sup>th</sup> 2008 the Supervisory Board was composed of:

- Leszek Czarnecki – Chairman;
- Andrzej Błażejowski – Deputy Chairman;
- Remigiusz Baliński – Member;
- Ludwik Czarnecki – Member;
- Artur Wiza – Member.

## **III. GROUP'S ACTIVITY IN H1 2009**

In the first half of 2009 LC Corp focused its activities on administrating, managing and exercising owner's supervision over its subsidiary undertakings and acquiring funds for their investment activity. LC Corp's subsidiary undertakings were active on the property development market continuing their investments or preparing to start building investments as well as managing a modern office and retail complex (Arkady Wrocławskie).

### **1. Finished property development projects**

#### **Arkady Wrocławskie**

Arkady Wrocławskie S.A. is a company managing an office and retail complex, Arkady Wrocławskie, in Wrocław. The main source of the company's income is constituted by revenue from rental of commercial and office space in the complex. The facility offers about 39.6 thousand m<sup>2</sup> of space for rental (including 29.7 thousand m<sup>2</sup> of commercial space and 9.9 thousand m<sup>2</sup> of A class office space) and a multi-level car park with 1,000 parking spaces. Arkady Wrocławskie is a modern, dominant complex which fulfils shopping, service, entertainment, and office functions. It is located in the central-southern part of Wrocław, within the block of Powstańców Śląskich, Swobodna, Komandorska and Nasykowa Streets.

All activities undertaken by the company are aimed at developing the facility, enhancing its attractiveness resulting in increasing the traffic and the tenants' turnover.

### **2. Ongoing property development projects**

#### **2.1. Sky Tower in Wrocław**

The project is executed by LC Corp Sky Tower sp. z o.o. on the plot of 27,362 m<sup>2</sup> located in the very centre of Wrocław, in the square formed by Powstańców Śląskich, Gwiaździsta, Wielka, and Szczęśliwa streets, approximately 2.5 km from the Market Square.

Sky Tower will be a high-standard, residential, office, and commercial complex. At present advanced construction works are in progress, related to reinforced concrete works at the Podium of the project. Commercialization of the facility started in January 2008.

#### **2.2. Osiedle Przy Promenadzie in Warsaw**

The project is implemented by Warszawa Przy Promenadzie Sp. z o.o. sp. k. And Warszawa Przy Promenadzie Sp. z o.o. and consists in the construction of a housing estate 'Przy Promenadzie' in the Goław district, Praga-Południe in Warsaw, on the plot of 32 thousand m<sup>2</sup>, located at the junction of ul. Rechniewskiego and ul. Anińska. The investment has been divided into three stages of which the first two are carried out by Warszawa Przy Promenadzie Sp. z o.o. sp. k. :

- Stage I: residential building with 164 apartments – finished stage; all apartments sold and transferred to the buyers,
- Stage II: building for residential and commercial functions with 385 apartments – at the final stage of construction (date of completion: September 2009), advanced sale of apartments, ownership transfer: Q3/Q4 2009

and the next stage is carried out by Warszawa Przy Promenadzie sp. z o.o.

- Stage III: residential building with about 90 apartments (commencement of construction: June 2009, planned completion: January 2011).



The General Contractor of the investment is Erbud, seated in Warsaw.

### **2.3. Rezydencja Kaliska in Warsaw**

The project is implemented by Warszawa Rezydencja Kaliska Sp. z o.o. on the plot of 4,999 m<sup>2</sup>, located in ul. Kaliska and ul. Niemcewicza (at the boundary of Śródmieście and Ochota districts in Warsaw). The plot is situated in the residential area and surrounded by multi-family apartment buildings (between 5 and 11 storeys). It is several hundred metres away from the very centre of Warsaw, close to Aleje Jerozolimskie, next to the city square. The Group intends to use the plot for a housing development project.

The company has started the investment with the participation of the general contractor (Erbud S.A. seated in Warsaw). The completion of the investment is planned for Q1 2011.

### **2.4. Dębowa Ostoja Project in Łódź**

The project is carried out by LC Corp Dębowa Ostoja Sp. z o.o. on the property of 73,156 m<sup>2</sup>. It will be an estate composed of detached houses, located in ul. Spadkowa, Bałuty, in Łódź, close to the road out of the city (ul. Aleksandrowska) to Konin and Poznań. The project consists in the construction of about 150 single-family, two-storey, terraced, semi-detached, and detached houses and city villas.

### **2.5. Zielony Złocień w Kraków**

The 'Osiedle Zielony Złocień' project is carried out by Kraków Zielony Złocień Sp. z o.o. on the plot of 10.22 ha., located in the Bieżanów-Złocień district in Kraków. The company has obtained a planning permission for this area, on the basis of which a housing estate has been designed for 1658 flats.

## **3. Property development projects under preparation**

### **3.1. Project in Łódź in ul. Pustynna**

The project is carried out by Łódź Pustynna Sp. z o.o. on the plot of 2.2441 ha., located in Łódź at ul. Pustynna no 43, purchased on March 4<sup>th</sup> 2008. An estate composed of terraced houses will be constructed there. At present the company has been waiting for a building permit.

### **3.2. Osiedle Bajkowy Park Project in Gdańsk**

The 'Osiedle Bajkowy Park' Project will be carried out by LC Corp Bajkowy Park Sp. z o.o. on the plot of 9.9421 ha., located in the southern part of Gdańsk-Mańkowy in ul. Starogardzka. The property is very well communicated – ul. Starogardzka connects Trakt Św. Wojciecha (entry to Gdańsk from the south) with the Tri-City (Trójmiasto) ring road. The design works are in progress – consisting in preparation of a conceptual design study of the whole housing estate and a land development design.

The planned total usable area of flats will amount to about 42,735 m<sup>2</sup>, and the total commercial area will amount to about 11,362 m<sup>2</sup>. At present the designing works related to the commencement of the project are carried out.

### **3.3. Osiedle Szmaragdowe Wzgórze Project in Gdańsk**

The 'Osiedle Szmaragdowe Wzgórze' Project is carried out by LC Corp Szmaragdowe Wzgórze Sp. z o.o. on the property purchased on January 21<sup>st</sup> 2008. The property is composed of 53 plots of a total area of 10.6217 ha., located in Gdańsk, in the Łostowice District. The project will consist in the construction of a housing estate. 'Osiedle Szmaragdowe Wzgórze' is located at the junction of ul. Niepołomicka and ul. Srebrna in the Gdańsk Łostowice District, which has excellent transport connections to both the Tri-City ring road and the centre of Gdańsk. The 'Osiedle Szmaragdowe Wzgórze' Project anticipates completion of two stages called: Szmaragdowe Wzgórze I (with a total floor space and usable space of 26,900 m<sup>2</sup>), and Szmaragdowe Wzgórze II (with a total floor space and usable space of 20,150 m<sup>2</sup>). Buildings erected as part of the estate will combine functionality and aesthetic qualities, and will be distinguished by their shapes and colour scheme. At present the designing works are in progress.

### **3.4. Vratislavia Residence in Malin near Wrocław**

The project is carried out by Vratislavia Residence Sp. z o.o. on the property of 169 ha. located in Malin near Wrocław. It will include a luxurious housing estate composed of detached and terraced houses (with the total usable floor space of about 158.8 thousand m<sup>2</sup>) and a retail and entertainment part. At present the works related to infrastructure are in progress, indispensable for carrying out the project. At the same time, Vratislavia



Residence Sp. z o.o. takes active part in study and planning works carried out by local authorities and connected with development of its land and the area of Wisznia Mała commune relevant to the property.

### **3.5. Project in ul. Przyokopowa in Warsaw**

The project is implemented by Warszawa Przyokopowa Sp. z o.o., on the property located in Warsaw in ul. Grzybowska and ul. Przyokopowa. The project is situated near the very centre of Warsaw, where a rapid development of office and residential space can be observed. At present the designing and demolition works are carried out, necessary before commencing the project.

### **3.6. Project in Katowice, in ul. Ceglana**

The project is carried out by Katowice Ceglana Sp. z o.o. on the property acquired on December 12<sup>th</sup> 2007, located in Katowice, in ul. Ceglana, having a total area of 103,940 m<sup>2</sup>, intended for residential and commercial development. At present the designing works are in progress.

### **3.7. Project in Katowice in al. Roździeńskiego**

The project is implemented by LC Corp Stabłowice Sp. z o.o. on the property purchased on January 17<sup>th</sup> 2008, located in Katowice, in Al. Roździeńskiego, having the area of 0.9938 ha., intended for office, residential, and commercial development. The current designing works focus on the selection of a conceptual design. At present the designing works are in progress.

## **4. Market situation**

### **4.1. Economic situation**

The Group focused on the projects in the big Polish cities such as Warsaw, Wrocław, Katowice, Gdańsk, Kraków, and Łódź. In these cities the flats with a medium-level finish standard still form the dominant group, but at present high standard projects and apartments gradually start to appear. The situation on the labour market opens up the opportunities for growth and increasing demand for both residential space, including apartments with high standard finishing, and office space.

In connection with a slump on the financial market (bank credits granted to both developers and buyers) there occurred a noticeable decline in demand for flats. The Company carefully observes a revival of the housing market seen since May 2009, connected mainly with the success of the government programme 'Rodzina na swoim' ("Family's own home"), intending to use this trend for selling flats in the newly started investments.

### **4.2. Office space market**

With respect to the size of the office space market Wrocław is the fourth city in Poland. The supply of modern office space amounts to almost 209,000 m<sup>2</sup>, the majority of which (nearly 60%) is located outside the city centre. At present the wide offer of the Wrocław office space market does not exceed class B and B+.

The Wrocław office space market is characterised by a low vacancy rate and a growing demand for office space, including in particular the facilities above 1,000 m<sup>2</sup>, rented by foreign investors in Wrocław, attracted by the policy adopted by the city authorities and the country's increasing popularity as a location for outsourcing. In the following years the demand for office space will be generated mainly by international companies representing the IT and telecom sectors. An increase in the office space supply in Wrocław is estimated at about 200,000 m<sup>2</sup> in four subsequent years. The growth rate of the office space market in Wrocław is estimated at 25% per year.

As anticipated, the same market trend applies to both Warsaw and Katowice, where the company intends to launch projects to offer office space for rental.

### **4.3. Commercial space market**

Apart from its already operating centre, Arkady Wrocławskie, the Group has planned to include the same business segment also in the ongoing Sky Tower project in Wrocław. Wrocław is the largest urban centre in the south-western part of Poland.

A low percentage of vacant space in the existing shopping centres despite the crisis and the interest in renting space proves the existence of demand for modern commercial space. A good economic situation and promising perspectives translate into developers' and retailers' interest in Wrocław.

According to the Group's belief an increase in the society's affluence and a change of consumer behaviours will impel demand for modern commercial space.

**IV. ASSET, FINANCIAL AND REVENUE POSITION OF LC CORP GROUP IN H1 2009**

Basic economic and financial figures	Position as at June 30 <sup>th</sup> 2009 PLN'000	Position as at June 30 <sup>th</sup> 2008 PLN'000
Non-current assets	679,915	591,546
Current assets	1,033,765	974,663
Equity	970,914	930,390
Liabilities and provisions for liabilities	742,766	635,819
Balance-sheet total	1,713,680	1,566,209
Revenue from sales	24,297	106,355
Profit (loss) on sales	18,199	40,527
Operating profit (loss)	34,792	31,168
Pre-tax profit (loss)	9,067	39,697
Net profit (loss)	6,227	31,877

In the period ended June 30<sup>th</sup> 2009, the Company earned net revenue from sales in the total amount of PLN 24,297,000 and net profit of PLN 6,227,000.

Factors and events which had a material impact on the financial results of the LC Corp's Group in the period of 6 months ended June 30<sup>th</sup> 2009 include in particular:

- revenue obtained from rental of retail, service and office space and from promotion and advertising activities in Centrum Arkady Wroclawskie.
- revaluation of the investment property – service and retail centre Arkady Wroclawskie. Revaluation of non-current non-financial assets amounted to PLN 17,351,000.
- incurred costs of financial operations connected with the execution of financial liabilities resulting from contracted loans, bond scheme and balance-sheet valuation of loans contracted in EUR.

**Structure of the consolidated balance sheet assets and equity and liabilities, including its assessment in respect of the Group's liquidity**

	June 30 <sup>th</sup> 2009 PLN '000	Structure %
<b>Assets</b>		
<b>A. Non-current assets</b>	<b>679,915</b>	<b>39.68%</b>
1. Intangible assets	885	0.05%
2. Goodwill of subordinated undertakings	0	0.00%
3. Property, plant and equipment	5,314	0.31%
3.1. Tangible assets	5,314	0.31%
3.2. Tangible assets under construction	0	0.00%
4. Non-current receivables	0	0.00%
5. Non-current investments	671,298	39.17%
6. Non-current prepayments and accrued income	991	0.06%
7. Deferred tax assets	1,427	0.08%
<b>B. Current assets</b>	<b>1,033,765</b>	<b>60.32%</b>

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1. Inventories	928,652	54.19%
2. Trade and other receivables	11,217	0.65%
3. Income tax receivable	633	0.04%
4. Cash and cash equivalents	89,242	5.21%
5. Current prepayments and accrued income	4,021	0.23%
<b>C. Non-current assets classified as held for sale</b>	<b>0</b>	<b>0.00%</b>
<b>Total assets</b>	<b>1,713,680</b>	<b>100.00%</b>
<b>Equity and liabilities</b>		
<b>A. Equity</b>	<b>970,914</b>	<b>56.66%</b>
1. Share capital	447,558	26.12%
2. Balance of called-up share capital not paid	0	0.00%
3. Reserve funds	428,914	25.03%
4. Other reserve funds	65,451	3.82%
5. Other capital	3,108	0.18%
6. Retained profit	72	0.00%
7. Minority interest	25,811	1.51%
<b>B. Non-current liabilities</b>	<b>400,338</b>	<b>23.36%</b>
1. Non-current financial liabilities	353,768	20.64%
2. Non-current trade and other payables	3,003	0.18%
3. Provisions	23	0.00%
4. Deferred tax liability	43,544	2.54%
	<b>342,428</b>	<b>19.98%</b>
<b>C. Current liabilities</b>	<b>253,262</b>	<b>14.78%</b>
1. Current financial liabilities	22,721	1.33%
2. Trade and other payables	4	0.00%
3. Income tax payable	45	0.00%
4. Provisions	66,396	3.87%
5. Accrued expenses and revenue	<b>1,713,680</b>	<b>100.00%</b>

## **V. EVENTS EXERTING A SIGNIFICANT IMPACT ON THE GROUP'S ACTIVITY AND FINANCING THE GROUP'S ACTIVITY IN H1 2009**

### **1. Loans taken out by LC Corp Sky Tower Sp. z o.o. from its shareholders**

- 1.1. On January 15th 2009, LC Corp Sky Tower Sp. z o.o. took out a loan of PLN 11,002,000 from its shareholder Leszek Czarnecki for the period of 2 years and at arm's length, intended for repayment of LC Corp Sky Tower Sp. z o.o. liabilities towards LC Corp S.A and Warszawa Przyokopowa Sp. z o.o.
- 1.2. On February 3rd 2009, LC Corp Sky Tower Sp. z o.o. took out a loan of PLN 23,000,000 from its shareholder Mr Leszek Czarnecki for the period of 2 years and at arm's length, intended for repayment of LC Corp Sky Tower Sp. z o.o. liabilities towards LC Corp S.A and Warszawa Przyokopowa Sp. z o.o.
- 1.3. On February 13th 2009, LC Corp Sky Tower Sp. z o.o. took out a loan of PLN 17,000,000 from its shareholder LC Corp B.V. for the period of 2 years and at arm's length, intended for repayment of LC Corp Sky Tower Sp. z o.o. liabilities towards LC Corp S.A and Warszawa Przyokopowa Sp. z o.o.
- 1.4. On March 30th 2009, LC Corp Sky Tower Sp. z o.o. took out a loan of PLN 10,000,000 from its shareholder Mr Leszek Czarnecki for the period of 2 years and at arm's length.

### **2. Concluding a loan agreement with PKO BP S.A. by Warszawa Rezydencja Kaliska Sp. z o.o.**

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On February 26th 2009, Warszawa Rezydencja Kaliska Sp. z o.o. entered into an agreement with the bank PKO BP SA, relating to an investment loan in the amount of PLN 34,036,112, intended for partial financing of the housing project "Calisia Residence" within the property located in Warsaw ul. Kaliska.

### **3. Repayment of loan in Pekao S.A. by Warszawa Przyokopowa Sp. z o.o.**

On February 28th 2009, Warszawa Przyokopowa Sp. z o.o. repaid in full the loan taken out on June 1st 2007 from Pekao S.A. in the amount of PLN 12,700,000.

### **4. Concluding an annex to a loan agreement with PKO BP S.A. by Kraków Zielony Złocień Sp. z o.o.**

On March 30th 2009, Kraków Zielony Złocień Sp. z o.o. concluded an annex with PKO BP S.A. to the loan agreement taken out on August 14th 2007 for the amount of PLN 94,000,000 extending the complete repayment of the loan until March 31st 2010. In the period of 6 months ended June 30th 2009 the Company repaid PLN 40,000,000 from that loan. As at June 30th 2009 the total amount to be repaid stood at PLN 54,000,000.

### **5. Concluding an annex to a loan agreement with DnB Nord Polska S.A. by LC Corp Bajkowy Park Sp. z o.o.**

On May 13th 2009, LC Corp Bajkowy Park Sp. z o.o. concluded an annex with DnB Nord Polska S.A. to the loan agreement taken out on June 5th 2008 for the amount of PLN 25,480,000 extending the complete repayment of the loan until February 28th 2010.

### **6. Issue of an investment bond by LC Corp Sky Tower Sp. z o.o.**

On June 16th 2009, LC Corp Sky Tower Sp. z o.o. issued 1 investment note of a par value of PLN 10,000,000. The redemption value of the investment note was established at arm's length. The redemption date is February 15th 2010, although an earlier redemption of the note is admissible. In the case of earlier redemption, the redemption price will be calculated proportionally to the actual period of the issue. The investment note was acquired by the Fundacja LC Heart foundation. The transaction was concluded at arm's length.

### **7. Repayment of a loan taken out by Arkady Wrocławskie from a consortium of banks**

In the period of 6 months ended June 30th 2009, Arkady Wrocławskie made a repayment, in accordance with the repayment schedule, of a loan taken out in EUR from a consortium of banks: ING Bank Hipoteczny S.A., ING Bank Śląski S.A. and Kredyt Bank in the amount of PLN 6,488,000. As at June 30th 2009, the total amount to be repaid, after conversion into PLN, stood at PLN 256,592,000.

## **VI. CONTINGENT LIABILITIES**

### **1. Insurance guarantees commissioned by Arkady Wrocławskie S.A.**

1.1. On May 29th 2008, insurance guarantee commissioned by Arkady Wrocławskie S.A. was issued by Towarzystwo Ubezpieczeń EUROPA S.A. for the beneficiary Spółdzielnia Usług Motoryzacyjnych SPOLMOT, seated in Wrocław, in order to secure the payment of the lease fee in the period June 1<sup>st</sup> 2009 – May 31<sup>st</sup> 2010, specified in the lease agreement concluded on May 13<sup>th</sup> 2004. The value of the guarantee together with Annex No. 1 dated December 9th 2005 amounted to PLN 290,000.

1.2. On May 29th 2008, insurance guarantee commissioned by Arkady Wrocławskie S.A. was issued by Towarzystwo Ubezpieczeń EUROPA S.A. for the beneficiary Spółdzielnia Usług Motoryzacyjnych SPOLMOT, seated in Wrocław, in order to secure the payment of the lease fee in the period June 1<sup>st</sup> 2009 – May 31<sup>st</sup> 2010, specified in the lease agreement concluded on May 13<sup>th</sup> 2004. The value of the guarantee together with Annex No. 1 dated December 9th 2005 amounted to PLN 282,000.

### **2. Claims resulting from building contracts concluded by LC Corp Sky Tower Sp. z o.o.**

Due to dissolution of several building contracts concerning the subsidiary undertaking LC Corp Sky Tower Sp. z o.o. parties to these contracts asserted counter-claims, which as at the publication date, owing to pending

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negotiations, have not been settled yet. The Management Board of the parent undertaking does not see a risk for the Group in the existence of potential contingent liabilities against this company because redemption of its shares is highly unlikely. This company is comprised by the Group on the grounds of IAS 39 (see Note 2) and as at the balance-sheet date, valuation allowance for the net assets of this company was created.

### **VII. INFORMATION ON LOAN SURETIES ISSUED BY THE ISSUER OR ITS SUBSIDIARY UNDERTAKING; GUARANTEES ISSUED FOR THE VALUE OF AT LEAST 10% OF THE ISSUER'S EQUITY**

On March 30th 2009, the Issuer backed an in blanco promissory note issued by Kraków Zielony Złocien sp. z o.o. (a subsidiary of the Issuer). The note was given as security for repayment of a loan taken out on August 14th 2007 by Kraków Zielony Złocien sp. z o.o. The surety was granted to Bank PKO BP S.A. The total amount of the loan was PLN 94,000,000. As of the date of signing the annex, the amount to be repaid stood at PLN 74,000,000. In addition, the Issuer as the backer of the note - in order to secure PKO BP SA's claims resulting from the loan advanced to Kraków Zielony Złocien sp. z o.o. on the issuing of the in blanco promissory note – submitted itself to enforcement procedures carried out by PKO BP SA under a bank executory title up to a total amount of PLN 111,000,000, which includes the principal and any interest, charges as well as other amounts payable, and the expenses that PKO BP SA may incur while taking steps to recover the secured debt (specifically the cost of issuing notifications, default notices and reminders). The bank executory title may be issued by March 31st 2011.

### **VIII. EVENTS WHICH OCCURRED AFTER JUNE 30TH 2009**

On July 14th 2009, Warszawa Rezydencja Kaliska Sp. z o.o. signed with Erbud S.A. Annex No. 2 to the contract dated August 18<sup>th</sup> 2008 concerning the construction of a residential building. Under this Annex, previously suspended construction works connected with this investment were resumed.

On July 20th 2009, LC Corp Sky Tower Sp. z o.o. received a claim from Betonox Construction S.A. lodged on June 22<sup>nd</sup> 2009 to the District Court in Wrocław, 10<sup>th</sup> Commercial Section, for a payment resulting from a construction works contract of the amount of PLN 610,000 along with statutory interest from April 22<sup>nd</sup> 2009 and until the date of payment along with costs of proceedings. The case has not been examined yet.

On July 31<sup>st</sup> 2009 the Company's Extraordinary General Shareholders Meeting authorised the Management Board of LC Corp S.A. to purchase not more than 20,000,000 Company's own shares purchased for the purpose of retiring them during 3 years from the day of adopting this resolution. The amount of funds allocated to the purchase of own shares may not be higher than PLN 30,000,000. The price of purchased shares may not be higher than PLN 1.50 per 1 share.

Except for the above events, there were no other events which occurred after June 30th 2009, which could materially affect the financial results of LC Corp Group.

### **IX. OPINION OF THE MANAGEMENT BOARD OF LC CORP SA ON THE FEASIBILITY OF MEETING THE EARLIER PUBLISHED FINANCIAL FORECASTS FOR THE YEAR IN VIEW OF THE RESULTS PRESENTED IN THIS QUARTERLY REPORT**

The Issuer did not publish any financial forecasts for the year 2009.

### **X. COURT PROCEEDINGS**

As at June 30th 2009, no proceedings before court or public administration authorities were initiated with regard to liabilities or receivables of LC Corp SA and its subsidiaries, whose total value amounted to at least 10% of the equity of LC Corp SA (which is shown in Note 21 to the enclosed mid-year consolidated financial statements).

## **XI. FACTORS WHICH MAY AFFECT THE PERFORMANCE OF THE ISSUER IN THE NEXT QUARTER**

The factor affecting the performance of the LC Corp Group will be the situation on financial markets, and whether the economic crisis deepens or is stopped. Banks still limit financing of the property development activity, using very high margins and tightening conditions for activation of developer loans. Some banks openly declare that they do not finance property development activity. Another negative factor is the slump in the market of alternative financing with corporate bond schemes. Also, availability of loans to the Group's potential customers for its apartments has not significantly improved, which consequently affects a decrease in the demand for new apartments and decrease in their prices. One solution for some customers are state-subsidized loans in the programme "Rodzina na swoim ("Family's own home").

Information flowing from the financial market and from the European Commission forecasting a significant fall in GDP in 2009 still cause uncertainty on the market and a smaller tendency to invest. Improvement of the situation on financial markets and increasing mortgage lending activity by banks will be the deciding factors in the execution of the Group's property projects.

Financial performance of the Group in the next quarters will also be influenced by the level of revenue generated from rental of commercial space in Arkady Wroclawskie Centre, which is linked with EUR exchange rate and the level of capitalisation rates of investments used for property and investment projects valuation. With the current instability of the property market and a small number of transactions, a rising trend of capitalisation rates can be observed.

## **XII. STRUCTURE OF EMPLOYMENT IN LC CORP GROUP**

As at June 30<sup>th</sup> 2009, LC Corp Group employed 50 staff, of whom 5 employees belonged to management (members of the Management Board\*), and 12 employees belonged to middle management (directors, managers).

(\*)- members of Management Boards of the Group's undertakings are also persons from the Management Board of the Parent Undertaking

## **XIII. OTHER INFORMATION MATERIAL FOR THE ASSESSMENT OF THE PERSONNEL, ECONOMIC, OR FINANCIAL STANDING OF THE ISSUER AND THE FEASIBILITY OF FULFILLING ITS OBLIGATIONS**

In the relevant reporting period, there were no events material for the assessment of the personnel, economic, or financial standing of the Issuer and the feasibility of discharging its obligations.

## **XIV. INFORMATION ON SIGNIFICANT, NON-TYPICAL, RELATED PARTY TRANSACTIONS OF THE ISSUER OR ITS SUBSIDIARY UNDERTAKING**

The Issuer and its related undertakings did not conclude any transactions at arm's length with a related entity.

## **XV. RISK FACTORS SIGNIFICANT FOR THE GROUP'S OPERATION**

### **Ongoing crisis risk**

In H1 2009 the effects of the financial crisis and its influence on other areas of the Polish economy were still noticeable, including in particular the property market. A slump on the financial market entailed a slump on the property trading market, on which the Issuer and its subsidiary undertakings operate. The slump on the housing market constitutes a risk factor, as it results in a reduced demand for residential space offered by the subsidiary undertakings. At the moment, despite some positive symptoms, it is still difficult to make any forecasts regarding the end date of the crisis, which will be of crucial importance for the operation of both the Issuer and the Group.

### **Foreign exchange risk**

A substantial part of the Group's liabilities, in particular those resulting from some agreements on financing, is denominated in EUR. In consequence, the Group is exposed to foreign exchange risk related to the fluctuations of PLN/EUR exchange rate. Currency risk which will arise at the moment of managing a foreign currency loan will be minimized by collecting rent indexed against the currency of the loan financing the investment.



Currency risk is also connected with valuation in EUR of some assets and liabilities, which as at the balance-sheet day are disclosed in PLN (it pertains to a property for which fair value is established in accordance with IAS 40 and a loan in EUR).

#### **Interest rate risk**

The Company acquires financing for carrying out its projects mainly through loans with a floating interest rate. In the major part these are the loans incurred for the duration of a given project construction. Changes of interest rates in this period did not require concluding hedging transactions.

#### **Risk related to additional demand for cash**

Although in the Issuer's opinion, as a result of undertaken activities, the Group will have sufficient current assets to finance its current operations, in the future it may be necessary for the Group to obtain additional funds, for example, through incurring loans, borrowings or issuing debt instruments. There is no guarantee that the Company's subsequent attempts at raising funds will end up in financial success, bearing in mind the present situation on the financial market. The development of the Group's activity may be restricted if the attempts at raising funds prove to be ineffective or the financial resources are raised under unfavourable terms.

#### **Risk related to financial leverage**

For the purpose of financing its activity the Group makes use of loans, borrowings, and debt instruments. The Group cannot guarantee that it will be able to ensure financing for its activity at favourable prices or, having raised funds, to repay interest and principal amounts or meet other obligations resulting from financing agreements or issued debt instruments. If the Group is not able to raise additional funding in line with its expectations, it may be forced to change its strategy or restrict its development and refinancing of the existing debt.

#### **Risk related to implementation of property development projects**

Civil structures built by the Group require substantial capital expenditure at the phase of preparing the project and during its construction. Due to considerable needs for funding, such undertakings are usually accompanied by numerous considerable risks. These risks include, in particular, failure to obtain permits indispensable to make use of real property as planned by the Group, delays in completion of projects, costs exceeding the costs assumed in the budget due to unfavourable weather conditions, insolvency of contractors or subcontractors, labour disputes concerning contractors or subcontractors, shortage of construction materials or equipment, accidents or unforeseeable technical difficulties, impossibility of obtaining occupancy permits or other required permits regarding a building or buildings, or changes in the regulations concerning the use of land. If any of the above-mentioned risks takes place, there may occur delays in completion of property development projects, an increase in costs or loss of revenue, freezing of funds invested to purchase the real property for development, and in some cases the inability to finalise projects, which may have a considerable adverse impact on the Group's operations, financial position or results.

#### **Risk related to an increase in operating expenses and other costs**

The Group's operating expenses and other costs may increase without a corresponding increase in the Group's revenue. Factors which may cause an increase in operating expenses and other costs include: (a) inflation; (b) increase in taxes and other public law liabilities; (c) changes in the provisions of law, other important regulations or government policy; (d) increase in the costs of funding. These factors may have a substantial adverse effect on the Group's activity, financial standing or results.

#### **Risk related to construction costs**

The Group's undertakings are concluding and will conclude agreements with general contractors regarding construction works related to completion of Group's property development projects. Costs of property development projects may be subject to change due to: (a) modifications in the scope of a property development project and alterations in an architectural design; (b) increase in prices for construction materials; (c) increase in costs of hiring skilled labour or shortage of such labour; (d) failure on the part of a contractor to complete the works within the agreed time limits or in accordance with the standard acceptable for the Group. Each significant increase in costs or delay in finalising a property development project may affect adversely the Group's activity, financial position or results.

#### **Risk related to the Group's dependence on building contractors**

In its respective property development projects the Group entrusts completion of the majority of construction works to specialised building entrepreneurs. Although the Group's policy provides for exercising ongoing supervision over the construction works underway, the Group is not able to ensure that the contracted works will be carried out by contractors in the correct manner and within the agreed time limits. Delays in completion of the



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works and irregularities in workmanship may cause delays in finalising respective property development projects, and, in consequence, contribute to an increase in costs of their completion. A special kind of risk is a loss of liquidity on the part of building contractors, which may have an impact on the quality and timeliness of their performance. In extreme cases it may lead to a cessation of works carried out by a building contractor and the necessity of replacement. As a result of that, all delays and costs connected with the replacement of a contractor may have a negative influence on the financial result of a property development project, which may adversely affect the Group's operations, financial standing or results.

### **Risk of a lack of liquidity in real property investments**

Investments in real property are characterised by a relatively low liquidity. In other words, disposal of real property assets may take longer than it is desirable from the commercial point of view, which in turn may influence the date of disposal or the amount of funds obtained from disposal of real property. Delayed disposal of real property or a drop in selling prices may have a substantial negative effect on the Group's activity, financial position or results.

### **Risk related to real property prices and rental rates**

The Group's profitability depends, among others, on the level of prices of flats and houses as well as rental rates for retail and office space in Poland, and, in particular, in the cities where property development projects are carried out. In the case of a drop in prices the Group cannot guarantee that it will be able to rent retail and office space or sell the flats it has built at previously assumed prices. It may have a strong adverse impact on the Group's operations, financial standing or results.

### **Risk related to liability for flats and houses after their sales**

The Group's activity will include in particular sale of flats and houses. In connection with that the Group may be exposed to disputes and court proceedings related to completed projects, as a result of which the Group's undertakings may be obliged to fulfil specific obligations (e.g. resulting from performance bonds for construction works granted to clients). It may have a significant negative influence on the Group's activity, financial condition or results.

### **Risk related to VAT rate in Poland**

It was planned to change the VAT rate on sale of flats and houses from 7% to 22% as of January 1<sup>st</sup> 2008, which was finally postponed to January 1<sup>st</sup> 2010. By this time the EU states should take the relevant decisions. The increase in the rate will not apply to the so-called social housing. As at the date of drawing up this report, there is no certainty over the rate applicable after the above date. The so-called social housing will be exempted from the said change. There is a risk that after the period of increased demand, caused by the expected increase in VAT, and following the introduction of the increase, the Group may be unable to offload on its clients the whole VAT increase with regard to flats and houses which will not fit the definition of "social housing", although it is the Group's intention to introduce a relevant price adjustment clause – related to a potential increase in the VAT rate – to standard agreements on sale of flats and houses. It may have a considerable negative influence on the Group's operations, financial condition or results.

Risk management in LC Corp S.A. is effected by way of a formalised process of regular identification, analysis, and assessment of risk factors. In the process of risk identification appropriate procedures and processes are put in place, which aim at elimination or reduction in risk for the Company and for the Group.

## **XVI. SUMMARY**

In H1 2009 the activity was focused on carrying out activities intended to minimize the influence of the financial crisis on the investments carried on by the Group's companies with minimum limitation on their activities.

In the opinion of the Management Board of LC Corp SA the objectives set for the Group were accomplished.

The Group's companies discharged and still discharge their obligations towards the State Treasury, financial institutions, and contracting partners on a timely basis. The Group's anticipated financial situation ensures its further development and financing of its current operating and investment activity.

The Management Board of LC Corp S.A. hereby declares that the Company's and Group's continued activity is not at risk.

## **XVII. DECLARATION OF THE MANAGEMENT BOARD**

**Authenticity and accuracy of the presented financial statements**

The Management Board of LC Corp S.A. hereby represents that to the best of its knowledge the mid-year condensed financial statements of LC Corp S.A. and the mid-year condensed consolidated financial statements of the LC Corp Group for H1 2009 and the comparable data were prepared in compliance with the accounting standards in force and present LC Corp's and the LC Corp Group's assets, financial standing and financial performance in a true, fair and clear manner, and the mid-year Management Board's Report shows a true view of the LC Corp Group's development, achievements and standing, including the description of basic risks and threats.

**Selection of an entity qualified to audit financial statements**

The Management Board of LC Corp SA represents that the entity qualified to audit financial statements which reviewed the mid-year financial statements of LC Corp SA and the LC Corp Group for H1 2009 was appointed in accordance with the applicable regulations, and the entity as well as the auditors who reviewed the financial statements of LC Corp SA and the LC Corp Group meet the requirements necessary to issue an impartial and independent review report, pursuant to the applicable laws and regulations and professional standards.

Drawn up in Wrocław, on August 11<sup>th</sup> 2009

Dariusz Niedośpiał  
President of the Management Board

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Waldemar Czarnecki  
Member of the Management Board

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