



Grant Thornton

An instinct for growth

Report on the audit of the consolidated financial statement for 2013

LPP Spółka Akcyjna
Capital Group

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

Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k. Entity authorised to audit financial statements no. 3654. General Partner: Grant Thomson Frąckowiak Sp z o. o. Management Board of the general partner: Cecylia Pol - President of the Management Board, Tomasz Wróblewski - Vice-President of the Management Board. Address: 61-131 Poznań, ul. Abpa Antoniego Baraniaka 68 E NIP: 778-14-76 013. REGON: 301591100 Bank account: 18 1750 1019 0000 0000 0098 2229 District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division, National Court Register no. 0000369868

1 Information about the Parent Company

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

The core business of the Parent Company is as follows:

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

The core business of the subsidiaries is related to the operations of the Parent Company.

On 14 February 2001, the Parent Company was entered in the Register of Entrepreneurs of the National Court Register kept by the District Court Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register, entry no. KRS 000000778.

The Parent Company has a tax identification number (NIP) 5831014898 and a business registry number (REGON) 190852164.

The share capital of the Parent Company as at the financial year ended on 31 December 2013 amounted to PLN 3 662 thousand. The equity of the Capital Group as at that date amounted to PLN 1 496 490 thousand.

According to note 15.13 of the Notes to the consolidated financial statement as at 31 December 2013, the ownership structure of the share capital of the Parent Company was as follows:

Shareholder	Number of shares	Number of votes	Nominal value of shares	Share capital held
Marek Piechocki	175 000	875 000	350 000	9.6%
Jerzy Lubianiec	175 000	875 000	350 000	9.6%
Monistor Limited, Cyprus	200 728	200 728	401 456	11.0%
Grangeford Limited, Cyprus	350 000	350 000	700 000	19.1%
Other shareholders	930,395	930 395	1 860 790	50.8%
Total	1 831 123	3 231 123	3 662 246	100.00%

Registered shares held by Marek Piechocki and Jerzy Lubianiec in the number of 350 000 are preference shares in terms of voting rights at the General Meeting of Shareholders. Each registered share carries 5 votes.

According to information received from the Parent Company as at 11 April 2014, in the period from 1 January 2013 to 31 December 2013 and after the balance sheet date, until the date of signing the consolidated financial statement, no changes in the ownership structure of the Parent Company, holding at least 5% of votes at General Meeting of Shareholders, occurred.

The composition of the Management Board of the Parent Company as at 11 April 2014 was as follows:

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

The composition of the Management Board of the Parent Company did not change in the period between 1 January 2013 and 11 April 2014.

2 Composition of the Capital Group

As at 31 December 2013, LPP SA Capital Group consisted of the following subsidiaries (direct and indirect):

Company name	Consolidation method	Type of opinion on the financial statement	Name of entity responsible for the audit of the financial statement	End of financial year
G&M Sp. z o.o.	excluded from	not audited	not applicable	31 December 2013
DP&SL Sp. z o.o.	excluded from	not audited	not applicable	31 December 2013
IL&DL Sp. z o.o.	excluded from	not audited	not applicable	31 December 2013
AMUR Sp. zoo.	excluded from consolidation	not audited	not applicable	31 December 2013
LPP Retail Estonia OU	full consolidation	unqualified	HLB Expertus Klf.	31 December 2013
LPP Retail Latvia Ltd	full consolidation	unqualified	Rodl & Partner	31 December 2013
LPP Retail Czech Republic s.r.o.	full consolidation	unqualified	Act Audit	31 December 2013
LPP Hungary Kft.	full consolidation	with an explanatory note on negative equity	HLB Hungary Kft.	31 December 2013
UAB "LPP" - Lithuania	full consolidation	unqualified	JSC "Balanso auditas"	31 December 2013
LPP Ukraina AT	full consolidation	unqualified	Auditing Company ACF Business Partners LCC	31 December 2013
LPP Fashion Distributor SRL - Romania	full consolidation	with an explanatory note on negative equity, losses and possible follow-up action	Deloitte	31 December 2013
ZAO 'Re Trading'	full consolidation	with an explanatory note on negative equity and that the report contains the data of the merged entities ZAO 'Re Trading' and Fashion Point	HLB Univers Audit	31 December 2013
LPP Retail Bulgaria Ltd.	full consolidation	unqualified	Kreston BulMar	31 December 2013
Artman Modę SRO	full consolidation	unqualified	Act Audit	31 December 2013
Artman Slovakia	full consolidation	with an explanatory note on negative equity	Jamar s.r.o	31 December 2013
LPP Fashion Bulgaria	full consolidation	not audited	not applicable	31 December 2013
Gothals Limited	full consolidation	with the reservation concerning the valuation of the	KPSA Chartered Accountants	31 December 2013
Jaradi Limited	full consolidation	unqualified	KPSA Chartered Accountants	31 December 2013
IP Services	full consolidation	with an explanatory note on negative equity	Jitendra Chartered Accountants	31 December 2013

Compared to last year, the number of companies included in the consolidation decreased by Fashion Point Russia. Fashion Point Russia was merged with ZAO 'Re Trading' by the share pooling method. Financial statement of ZAO 'Re Trading' presents the data of the merged companies.

3 Consolidated financial statement for the previous year

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2012 (previous financial year) was audited by Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k., on behalf of which acted Justyna Komer-Fabiś, a certified auditor no. 10964. The auditor issued an unqualified opinion on the audited financial statement.

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2012 was approved by the General Meeting of Shareholders of the Parent Company on 14 June 2013.

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2012 (the previous financial year), along with the certified auditor's report, were submitted to the National Court Register on 24 June 2013, following the resolution of the General Meeting of Shareholders regarding the approval of the consolidated financial statement and the report on the operations of the Capital Group.

4 Information on entity authorised to audit the financial statement and the certified auditor

Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k., with its registered office in Poznań at ul. Abpa Antoniego Baraniaka 88 E, is an entity authorised to audit financial statements, entered in the list of the National Council of Auditors in Poland under no. 3654.

The audit of the consolidated financial statement was conducted by Justyna Komer-Fabiś, certified auditor no. 10964, on behalf of Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k.

On 18 April 2012, Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k. was appointed by the Supervisory Board of the Parent Company to audit the consolidated financial statement of the Capital Group for the financial years ended on 31 December 2012 and 31 December 2013. The audit of the consolidated financial statement was carried out following the agreement concluded on 9 May 2012 with the Management Board of the Parent Company.

5 Scope and date of the audit

The aim of the audit was to express a written opinion, along with a report, stating whether the consolidated financial statement for the financial year ended on 31 December 2013 accurately and clearly presents, in all its material aspects, the financial position, assets and financial results of the Capital Group, in accordance with accounting principles (policy) resulting from the International Accounting Standards, International Financial Reporting Standards and related interpretations announced in a form of regulations by the European Commission, and to the extent not covered by these Standards, in accordance with the provisions of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2009, no. 152, item 1223, as amended) and applicable implementing provisions.

While auditing individual items of the consolidated financial statement and consolidation documentation, we applied tests applicable to financial review. Based on the test results, we made conclusions concerning the correctness of audited items.

The audit did not cover issues which do not affect the audited consolidated financial statement.

The audit of the consolidated financial statement of the Capital Group for the financial year ended on 31 December 2013 was conducted from 21 March 2014 to 11 April 2014.

6 Statement of impartiality

Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k., members of the management board of the general partner, the network that owns the entity authorised to audit, the certified auditor managing the audit and other persons involved in the audit meet the conditions for an impartial and independent opinion on the audited consolidated financial statement of the Capital Group, pursuant to Article 56 of the Act of 7 May 2009 on certified auditors and their self-governing council, entities authorised to audit financial statements and on public supervision (Journal of Laws No. 77, item 649, as amended).

7 Availability of data and declarations received

On 11 April 2014, the Management Board of the Parent Company submitted a written statement on the completeness, reliability and accuracy of the audited financial statement, confirming that between the balance sheet date and the end of the audit there had been no events which could significantly impact the financial condition and assets of the Company and require to be disclosed in the audited financial statement. In this statement, the Management Board of the Parent Company confirmed its responsibility for the signed consolidated financial statement and declared that during the audit it made all financial statements of companies subject to consolidation, applicable documentation and other required documents available to us and provided explanations necessary to express an opinion on the audited consolidated financial statement.

We believe that the evidence received by us provided a sufficient basis to express our opinion on the consolidated financial statement, and, therefore, there were no limitations on the scope of our review.

8 Consolidated statement of financial position

ASSETS (in PLN '000)	31.12.2013	31.12.2012	31.12.2011
FIXED ASSETS	1 231 908	909 856	744 937
Tangible fixed assets	896 806	598 502	447 725
Intangible assets	20 132	17 599	11 515
Goodwill	183 609	183 609	183 609
Trademark	77 508	77 508	77 508
Investments in subsidiaries	136	186	186
Investments in associates	-	-	19
Investments in other entities	10 366	-	-
Investments in real property	-	661	678
Receivables and loans	12 928	8 680	4 549
Deferred income tax assets	29 929	22 813	18 669
Accruals and prepayments	494	298	479
CURRENT ASSETS	1 259 662	1 022 366	868 931
Inventories	805 038	656 070	594 606
Trade receivables	163 255	130 360	114 313
Receivables from income tax	17 207	5 266	1 936
Other receivables	96 720	60 036	31 402
Loans	12 485	129	167
Other financial assets	2	-	-
Accruals and prepayments	15 600	11 112	9 541
Cash and cash equivalents	149 355	159 393	116 966
TOTAL ASSETS:	2 491 570	1 932 222	1 613 868
LIABILITIES (in PLN '000)	31.12.2013	31.12.2012	31.12.2011
EQUITY	1 496 490	1 211 048	909 194
LONG-TERM LIABILITIES	192 331	130 980	89 356
Bank loans and borrowings	184 285	125 114	86 446
Other financial liabilities	58	71	31
Provisions for employee benefits	2 718	1 277	1,135
Provision for deferred income tax	5 201	4 441	1 685
Other long-term liabilities	69	77	59
SHORT-TERM LIABILITIES	802 749	590 194	615 318
Trade and other liabilities	547 626	477 805	377 512
Income tax liabilities	37 524	19 079	12 179
Bank loans and borrowings	173 591	61 048	117 749
Issue of debt securities	-	-	86 243
Other financial liabilities	84	42	54
Provisions	24 841	19 868	14 665
Special funds	159	224	296
Accruals and prepayments	18 924	12 128	6 620
TOTAL LIABILITIES:	2 491 570	1 932 222	1 613 868

9 Consolidated statement of financial result and other comprehensive income

(in PLN '000)	2013	2012	2011
CONTINUED OPERATIONS			
Sales revenue	4 116 302	3 223 755	2 492 510
Cost of sales	1 707 151	1 396 690	1 068 773
Gross profit/loss on sales	2 409 151	1 827 065	1 423 736
Other operating income	33 797	27 683	20 590
Selling costs	1 604 796	1 228 471	967 910
Overheads	154 409	132 285	102 347
Other operating income	68 116	39 575	30 963
Operating profit/loss	615 627	454 417	343 106
Finance income	2 348	2 214	13 541
Finance costs	94 104	32 495	25 624
Gross profit/loss	523 871	424 136	331 023
Tax burden	91 012	70 159	61 877
Net profit/loss	432 859	353 977	269 146
OTHER COMPREHENSIVE INCOME			
Foreign exchange differences on translation	-671	1 146	-3 887
TOTAL COMPREHENSIVE INCOME	432 188	355 123	265 259
Net profit (loss) attributable to:			
parent company shareholders	430 964	352 429	268 725
minority interests	1 895	1 548	421

10 General information and financial ratios

The table below presents selected data and financial ratios for the years 2011, 2012 and 2013 which describe the financial condition of the Capital Group in that period. All ratios were calculated based on data included in the consolidated financial statements of the Capital Group for years ended on 31 December 2013 and 31 December 2012.

Ratio	Calculation formula	Ratio value		
		2013	2012	2011
revenues from sales (PLN '000)		4 116 302	3 223 755	2 492 510
net financial result ** (in PLN '000)		432 859	353 977	269 146
equity ** (PLN '000)		1 496 490	1 211 048	909 194
total assets (PLN '000)		2 491 570	1 932 222	1 613 868
return on assets (ROA) (%)	net financial result / total assets at end of period	17.4%	18.3%	16.7%
return on equity (ROE) (%)	net financial result / shareholders' equity at beginning of period	35.7%	38.9%	36.7%

Ratio	Calculation formula	Ratio value		
		2013	2012	2011
return on sales (%)	net profit from sales / revenues from sales	15.8%	14.5%	14.2%
liquidity ratio I	total current assets / short-term liabilities	1.6	1.7	1.4
liquidity ratio III	cash and cash equivalents / short-term liabilities	0.2	0.3	0.2
receivables turnover ratio (in days)	trade receivables* x 365 days / revenues from sales of products and goods	15	15	18
debt repayment period (in days)	trade payables x 365 days / cost of sales	97	104	107
inventory turnover ratio (in days)	inventories x 365 days / cost of sales	172	171	203
stability of financing	(shareholders' equity + long-term liabilities) / total liabilities	67.8%	69.5%	61.9%
debt to assets ratio (%)	(total liabilities - equity) / total liabilities	39.9%	37.3%	43.7%
Inflation ratios:				
average annual (%)		0.9	3.7	4.3
from December to December (%)		0.7	2.4	4.6

* before revaluation write-downs

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

11 Going concern

Note 6 of the introduction to the audited consolidated financial statement of the Capital Group for the year ended on 31 December 2013 contains the announcement of the Management Board of the Parent Company stating that the financial statements of the Parent Company and its subsidiaries constituting the basis for the preparation of the consolidated financial statement were drawn up assuming going concern of the Company for the period not shorter than 12 months starting from 31 December 2013, and that there were no circumstances which could impede the operations of the Parent Company and its subsidiaries.

In the course of our audit, we found no material indications that the Parent Company may not be able to remain a going concern in the next 12 months following the balance sheet date, i.e. 31 December 2013, due to any intentional or forced discontinuation of operations or significant limitation of its business.

12 Financial year

Financial statements of all members of the Capital Group which provide a basis for the consolidated financial statement were prepared as at 31 December 2013 and include financial data for reporting period between 1 January 2013 and 31 December 2013.

13 Accounting principles (policy) and methods of presenting the financial data

In note 9 of the introduction to the consolidated financial statement for the year ended on 31 December 2013, the Management Board of the Parent Company presented the accounting principles (policy) and methods of presenting the financial data of the Capital Group. During the period for which this consolidated financial statement was prepared, there were no changes in the accounting principles (policy) or in the methods of presenting the financial data of the Capital Group.

14 Consolidation goodwill

The principles of determining consolidation goodwill, rules of impairment write-downs and the information allowing for the assessment of the changes in the company's balance value for the period between 1 January 2013 and 31 December 2013 were presented in note 15.4 of the Notes to the consolidated financial statement.

15 Equity capital

Equity presented in consolidated statement of financial position as at 31 December 2013 is in line with the consolidation documentation. As at 31 December 2013, non-controlling interests totalled PLN 3 178 thousand. Financial data referring to equity is presented in note 9 and 15.13 in Notes to the consolidated financial statement.

16 Non-consolidation

Consolidation exclusions concerning consolidated companies:

- inter-company settlements (payables and receivables),
- internal turnover (revenues and costs),
- results unrealised by consolidated companies, included at value of assets,
- dividends,

are in line with the consolidation documentation.

17 Sale of shares in subordinates

In the financial year ended on 31 December 2013, the Capital Group did not sell any shares in its subsidiaries.

18 Completeness and accuracy of the supporting documentation

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

19 Structure of assets and liabilities in the consolidated statement of financial position

The structure of assets and liabilities of the Capital Group is presented in the consolidated financial statements for the year ended on 31 December 2013. All the data presented in the consolidated financial statement is consistent with the supporting documentation.

20 Items affecting the financial result of the Capital Group

The items affecting the financial result of the Capital Group are described in the audited consolidated financial statement for the year ended on 31 December 2013. All the data presented in the consolidated financial statement is consistent with the supporting documentation.

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

Given the insignificant effect on the consolidated financial statement, the consolidation did not include 4 domestic subsidiaries listed in point 3 of the introduction to the Notes to the consolidated financial statement for 2013.

22 Additional information about the adopted accounting rules and other explanatory information

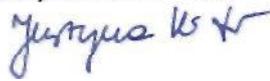
Additional information on the adopted accounting principles and Notes to the consolidated financial statement for the fiscal year ended on 31 December 2013 have been drawn, in all material aspects, correctly, i.e. in line with the accounting standards (policy) resulting from the International Accounting Standards, International Financial Reporting Standards and related interpretations announced as regulations by the European Commission; and to the extent not covered by the Standards, in line with the provisions of the Accounting Act and its implementing provisions.

23 Report on the operations of the Capital Group

We analysed the report of the Management Board of the Parent Company on the operations of the Capital Group for the financial year ended on 31 December 2013. The information included in the report on operations, originally disclosed in the audited consolidated financial statement for the financial year ended on 31 December 2013, is consistent with this statement. The report on the operations of the Capital Group is compliant, in all its material aspects, with the provisions of Article 49(2) of the Accounting Act and the provisions of the Regulation by the Minister of Finance of 19 February 2009 on current and interim information submitted by issuers of securities and on the conditions for regarding information required by the law of a non-member state as equivalent (consolidated text: Journal of Laws of 2014, item 133).

This report contains 11 pages.

Justyna Komer-Fabiś



Certified Auditor no. 10964

Key certified auditor conducting the audit on behalf of
Grant Thornton Frąckowiak Spółka Z ograniczoną odpowiedzialnością sp. k.,
Poznań, ul. Abpa Antoniego Baraniaka 88 E. The entity authorised to
audit financial statements no. 3654

Poznań, 11 April 2014