



## **LPP SA Capital Group**

Consolidated annual report for 2013

Including:

1. Letter from the President of the Management Board to the shareholders
2. Selected financial data for 2013-2012
3. Consolidated financial statement of LPP SA Capital Group for the financial year ended on 31 December 2013
4. Management Board Report on the operations of LPP SA Capital Group (including declaration on Corporate Governance) for 2013
5. Statement of the Management Board of LPP SA

Gdańsk  
April 2014

## **Letter from the President of the Management Board to the shareholders**

Dear Shareholders,

In 2013, as in the previous years, our company was developing very dynamically. A measurable proof of our achievements is the value of the realised sales of PLN 4.1 billion and the earned net profit of over PLN 430 million. These figures result from numerous actions aimed to expand our network of stores, the preparation of a wide range of products for our customers and the conduct of countless number of operational activities aimed at timely delivery of these products to any of the stores in a dozen countries.

At the end of last year, we had a network of 1,320 stores with a total area of 590 thousand square meters, which means that within twelve months we increased the surface area by 155 thousand square meters, i.e. by 36%. Despite this significant growth, we maintained satisfactory profitability ratios while ensuring cost-effectiveness. To provide servicing of the growing number of stores, we began the process of expanding our logistics centre. New part is to be commissioned in the first half of 2015. A notable element of our business operations in 2013 was the launch of the first stores of new, fifth brand of clothing, called Sinsay, in March. The brand was very well received by customers, which gives us the impetus to dynamically develop its chain stores.

The size of our business, though considerable, does not in any way mean a withdrawal from maintaining high rates of growth in the future. In 2014, we plan to achieve the growth rate of commercial networks at the level of more than 20 per cent. In addition to our operations on the markets on which we have been present for years, we will launch our first stores in Croatia, Germany and, in collaboration with a franchisee, in the Middle East.

While summarising in a few sentences the achievements of our company in the past year and the courses of action in the current year, I would also like to draw your attention to the fact that everything that has been achieved is a consequence of the belief that setting ambitious goals is a prerequisite for an organisation to grow and generate good results. Therefore, the long-time increase in sales can be realised only by the presence on many markets. In 2014, we will commence, as I mentioned, the construction of our network of stores in Western Europe. This is a great opportunity and a great challenge. I assure you that we will use our experiences and abilities to develop new markets. I am confident that, as in previous years, holding shares in LPP will be a source of satisfaction for all Shareholders.

*Marek Piechocki*

*President of the Management Board*

## **Selected financial data for 2013 - 2012**

## 1. Selected financial data of LPP SA Capital Group

in PLN '000

Selected consolidated financial data	2013	2012	2013	2012
	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
	in PLN '000		in EUR '000	
Net revenue from sales of products, goods and materials	4 116 302	3 223 755	977 512	772 416
Operating profit (loss)	615 627	454 417	146 195	108 879
Gross profit (loss)	523 871	424 136	124 405	101 624
Net profit (loss)	432 859	353 977	102 792	84 813
Net cash flows from operating activities	508 766	481 306	120 818	115 322
Net cash flows from investing activities	-518 233	-260 736	-123 066	-62 473
Net cash flows from financing activities	-571	-178 143	-136	-42 683
Total net cash flows	-10 038	42 427	-2 384	10 166

in PLN '000

Selected consolidated financial data	2013	2012	2013	2012
	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
	in PLN '000		in EUR '000	
Total assets	2 491 570	1 932 222	600 784	472 634
Long-term liabilities	192 331	130 980	46 376	32 039
Short-term liabilities	802 749	590 194	193 564	144 365
Equity capital	1 496 490	1 211 048	360 843	296 230
Share capital	3 662	3 662	883	896
Weighted average number of ordinary shares	1 809 725	1 780 848	1 809 725	1 780 848
Profit (loss) per ordinary share (in PLN / EUR)	239.18	198.77	56.80	47.63
Book value per share (in PLN / EUR)	826.92	680.04	199.39	166.34
Declared or paid dividend per share (in PLN / EUR)	85.10	77.36	20.52	18.92

Profit per ordinary share was calculated as the net profit divided by the weighed average number of shares.  
Book value per share was calculated as the quotient of equity and weighted average number of shares.

# **Consolidated financial statement of LPP SA Capital Group for the financial year ended on 31 December 2013**

## **1. Statement of financial position of LPP SA Capital Group**

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in PLN '000

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Statement of financial position	Notes	As at the end of:	
		31.12.2013	31.12.2012
ASSETS			
Fixed assets (long-term)		1 231 908	909 856
1. Tangible fixed assets	15.1	896 806	598 502
2. Intangible assets	15.3	20 132	17 599
3. Goodwill	15.4	183 609	183 609
4. Trademark	15.3	77 508	77 508
5. Investments in subsidiaries	15.5	136	186
6. Investments in associates	15.6	10 366	0
7. Investments in real property	15.7	0	661
8. Receivables and loans	15.8	12 928	8 680
9. Deferred tax assets	15.21	29 929	22 813
10. Accruals and prepayments	15.18	494	298
Current assets (short-term)		1 259 662	1 022 366
1. Inventories	15.9	805 038	656 070
2. Trade receivables	15.10	163 255	130 360
3. Income tax receivables	15.10	17 207	5 266
4. Other receivables	15.10	96 720	60 036
5. Borrowings	15.8	12 485	129
6. Other financial assets		2	0
7. Accruals and prepayments	15.18	15 600	11 112
8. Cash and cash equivalents	15.11	149 355	159 393
TOTAL ASSETS		2 491 570	1 932 222

in PLN '000

Statement of financial position	Notes	As at the end of:	
		31.12.2013	31.12.2012
LIABILITIES			
Equity capital		1 496 490	1 211 048
1. Share capital	15.13	3 662	3 662
2. Treasury shares		-48 784	-48 767
3. Share premium	15.13	235 069	235 069
4. Other reserves	15.13	860 357	656 950
5. Foreign exchange differences on translation		-4 062	-3 391
6. Retained earnings			
- profit (loss) from previous years		16 106	12 558
- net profit (loss) for the current period		430 964	352 429
7. Minority interests		3 178	2 538
Long-term liabilities		192 331	130 980
1. Bank loans and borrowings	15.8	184 285	125 114
2. Other financial liabilities		58	71
3. Provisions for employee benefits	15.14	2 718	1 277
4. Deferred tax provision	15.21	5 201	4 441
5. Other long-term liabilities		69	77
Short-term liabilities		802 749	590 194
1. Liabilities on trade and other liabilities	15.17	547 626	477 805
2. Income tax liabilities	15.17	37 524	19 079
3. Bank loans and borrowings	15.8	173 591	61 048
4. Other financial liabilities	15.17	84	42
5. Provisions	15.14	24 841	19 868
6. Special funds		159	224
7. Accruals and prepayments	15.18	18 924	12 128
TOTAL EQUITY AND LIABILITIES		2 491 570	1 932 222



## 2. Statement of financial result and other comprehensive income of LPP SA Capital Group

in PLN '000

Statement of financial result and other comprehensive income	Notes	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
Sales revenue	15.19	4 116 302	3 223 755
Cost of sales		1 707 151	1 396 690
Gross profit (loss) on sales		2 409 151	1 827 065
Other operating income	15.19	33 797	27 683
Selling costs	15.20	1 604 796	1 228 471
Overheads	15.20	154 409	132 285
Other operating income	15.20	68 116	39 575
Operating profit (loss)		615 627	454 417
Finance income	15.19	2 348	2 214
Finance costs	15.20	94 104	32 495
Gross profit (loss)		523 871	424 136
Tax burden	15.21	91 012	70 159
<b>Net profit (loss)</b>		<b>432 859</b>	<b>353,977</b>
<b>Net profit (loss) attributable to:</b>			
Parent Company shareholders		430 964	352 429
Non-controlling entities		1 895	1 548
<b>Other comprehensive income</b>			
Foreign exchange differences on translation		-671	1 146
<b>Total comprehensive income</b>		<b>432 188</b>	<b>355 123</b>

### 3. Statement of changes in equity of LPP SA Capital Group

in PLN '000

Statement of changes in equity	Share capital	Treasury shares	Share premium	Other capital	Foreign exchange differences on translation	Profit (loss) from previous years	Profit (loss) for the current period	Minority interests	Equity capital TOTAL
<b>As at 1 January 2012</b>	<b>3 555</b>	<b>-48 759</b>	<b>149 829</b>	<b>562 429</b>	<b>-4 537</b>	<b>243 977</b>	<b>0</b>	<b>2 700</b>	<b>909 194</b>
- adjustments due to errors in previous years									
<b>As at 1 January 2012 after adjustments</b>	<b>3 555</b>	<b>-48 759</b>	<b>149 829</b>	<b>562 429</b>	<b>-4 537</b>	<b>243 977</b>	<b>0</b>	<b>2 700</b>	<b>909 194</b>
Conversion of bonds to shares	107		85 240						85 347
Costs of purchase of treasury shares		-8							-8
Net profit for minority shareholders for 2012								1 548	1 548
Payment of dividends to minority shareholders								-1 710	-1 710
Distribution of profit for 2011				91 419		-231 419			-140 000
Share-based payment				3 102					3 102
Transactions with owners	107	-8	85 240	94 521	0	-231 419	0	-162	-51 721
Net profit for 2012							352 429		352 429
Calculation of foreign exchange differences on translation					1 146				1 146
<b>As at 31 December 2012</b>	<b>3 662</b>	<b>-48 767</b>	<b>235 069</b>	<b>656 950</b>	<b>-3 391</b>	<b>12 558</b>	<b>352 429</b>	<b>2 538</b>	<b>1 211 048</b>

in PLN '000

Statement of changes in equity	Share capital	Treasury shares	Share premium	Other capital	Foreign exchange differences on translation	Profit (loss) from previous years	Profit (loss) for the current period	Minority interests	Equity capital TOTAL
<b>As at 1 January 2013</b>	<b>3 662</b>	<b>-48 767</b>	<b>235 069</b>	<b>656 950</b>	<b>-3 391</b>	<b>364 987</b>	<b>0</b>	<b>2 538</b>	<b>1 211 048</b>
- adjustments for prior period errors									
<b>As at 1 January 2013 after adjustments</b>	<b>3 662</b>	<b>-48 767</b>	<b>235 069</b>	<b>656 950</b>	<b>-3 391</b>	<b>364 987</b>	<b>0</b>	<b>2 538</b>	<b>1 211 048</b>
Costs of purchase of treasury shares		-17							-17
Net profit for minority shareholders for 2013								1 895	1 895
Payment of dividends to minority shareholders								-1 255	-1 255
Distribution of profit for 2012				194 874		-348 881			-154 007
Share-based payment				8 533					8 533
Transactions with owners	0	-17	0	203 407	0	-348 881	0	640	-144 851
Net profit for 2013							430 964		430 964
Calculation of foreign exchange differences on translation					-671				-671
<b>As at 31 December 2013</b>	<b>3 662</b>	<b>-48 784</b>	<b>235 069</b>	<b>860 357</b>	<b>-4 062</b>	<b>16 106</b>	<b>430 964</b>	<b>3 178</b>	<b>1 496 490</b>

#### 4. Statement of cash flows of LPP SA Capital Group

in PLN '000

Statement of cash flows	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
<b>A. Cash flows from operations - indirect method</b>		
I. Gross profit (loss)	523 871	424 136
II. Total adjustments	-15 105	57 170
1. Depreciation and amortisation	148 188	108 997
2. Foreign exchange gains (losses)	10 547	4 169
3. Interest and share in profits (dividends)	10 442	15 809
4. Profit (loss) from investing activities	-5 392	-2 156
5. Income tax paid	-92 452	-56 428
6. Change in provisions	7 906	4 800
7. Change in inventories	-178 225	-71 704
8. Change in receivables	-82 050	-102 833
9. Change in short-term liabilities, excluding loans and borrowings	164 573	152 857
10. Change in accruals and prepayments	15	3 826
11. Other adjustments	1 343	-167
III. Net cash flows from operating activities	508 766	481 306
<b>B. Cash flows from investing activities</b>		
I. Inflows	48 553	30 759
1. Disposal of intangible assets and tangible fixed assets	43 144	26 684
2. From financial assets, including:	5 409	4 075
a) in related entities	278	246
- disposal of shares/liquidation of companies	88	53
- dividends and shares in profits	190	193
b) in other entities	5 131	3 829
- disposal of financial assets – foreign bonds	3 796	3 000
- interest	1 189	340
- repayment of loans	146	489
- other income from financial assets		
3. Other investment inflows		

II. Outflows	566 786	291 495
1. Purchase of intangible assets and tangible fixed assets	541 878	288 382
2. For financial assets, including:	24 908	3 113
a) in related entities	0	0
- acquisition of shares		
b) in other entities	24 908	3 113
- lending	10 745	113
- purchase of shares	10 367	
- purchase of foreign bonds	3 796	3 000
3. Other capital expenditure		
III. Net cash flows from investing activities	-518 233	-260 736
C. Cash flows from financing activities		
I. Inflows	219 547	4 260
1. Proceeds from issue of shares		
2. Loans and borrowings	219 547	4 260
3. Issue of debt securities		
4. Other financial income		
II. Outflows	220 118	182 403
1. Cost related to equity shares	16	9
2. Dividends and other payments to holders	155 262	141 711
3. Repayment of loans and borrowings	52 103	22 648
4. Finance lease payments	209	123
5. Interest	12 528	17 912
6. Other financial expenses		
III. Net cash flows from financing activities	-571	-178 143
<b>D. Total net cash flows</b>	<b>-10 038</b>	<b>42 427</b>
<b>E. Balance sheet change in cash and cash equivalents, including:</b>	<b>-10 038</b>	<b>42 427</b>
- change in cash and cash equivalents due to foreign exchange differences	-3 704	-2 339
<b>F. Opening balance of cash and cash equivalents</b>	<b>159,393</b>	<b>116,966</b>
<b>G. Closing balance of cash and cash equivalents, including:</b>	<b>149 355</b>	<b>159 393</b>
- restricted cash	8 440	224

## **Notes to the consolidated financial statement of LPP SA Capital Group for 2013**

### **INTRODUCTION**

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## 1. Overview

### Name and seat of the parent company of LPP Capital Group:

LPP SPÓŁKA AKCYJNA  
with its seat in Gdańsk / Poland  
ul. Łąkowa 39/44  
postcode: 80-769

### Core business:

- wholesale of clothing, classified in item 51.42 Z of the Polish Classification of Economic Activities (PKD) as "wholesale of clothing and footwear",
- retail sales of clothing, classified in item 52.42 Z as "retail sale of clothing".

### The competent District Court

The Company is registered in the District Court of Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register under KRS no. 0000000778.

### Place of business

The Group runs its business in the following countries:

- Poland,
- Estonia,
- Czech Republic,
- Lithuania,
- Latvia,
- Hungary,
- Russia,
- Ukraine,
- Romania,
- Bulgaria,
- Slovakia,
- Cyprus,
- United Arab Emirates.

### Sector according to the classification of the Warsaw Stock Exchange

Shares of the parent company, LPP SA, are listed on the main market of the Warsaw Stock Exchange and classified in the sector of "trade".

## 2. Composition of the Management Board and the Supervisory Board of the Issuer

Members of the Management Board:

- 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

Members of the Supervisory Board:

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

## 3. Characteristics of LPP SA Capital Group

The LPP SA Capital Group (GK Group) comprises:

- LPP SA – as the parent company,
- 4 domestic subsidiaries,
- 15 foreign subsidiaries.

There is no parent entity in relation to LPP SA.

The list of companies forming the Capital Group is presented below.

No.	Company name	Registered office	Control acquisition date
1.	G&M Sp. z o.o.	Gdańsk, Poland	26.09.2001
2.	DP&SL Sp. z o.o.	Gdańsk, Poland	26.09.2001
3.	IL&DL Sp. z o.o.	Gdańsk, Poland	26.09.2001
4.	AMUR Sp. z o.o.	Gdańsk, Poland	09.05.2003
5.	LPP Retail Estonia OU	Tallinn, Estonia	29.04.2002
6.	LPP Czech Republic s.r.o.	Prague, Czech Republic	16.09.2002
7.	LPP Hungary Kft	Budapest, Hungary	18.10.2002
8.	LPP Retail Latvia Ltd	Riga, Latvia	30.09.2002
9.	UAB LPP	Vilnius, Lithuania	27.01.2003
10.	LPP Ukraina	Peremyshliany, Ukraine	23.07.2003
11.	RE Trading Closed Joint Stock Company	Moscow, Russia	12.02.2004
12.	LPP Fashion Distributor SRL	Bucharest, Romania	12.08.2007
13.	LPP Retail Bulgaria Ltd.	Sofia, Bulgaria	14.08.2008
14.	Artman Slovakia s.r.o.	Banska Bystrica, Slovakia	30.10.2008
15.	Artman Mode s.r.o.	Ostrava, Czech Republic	30.10.2008
16.	LPP Fashion Bulgaria Ltd.	Sofia, Bulgaria	26.08.2011
17.	Gothals Ltd.	Nicosia, Cyprus	22.07.2011
18.	Jaradi Ltd.	Al Tatar, UAE	22.07.2011
19.	IP Services FZE	Ras Al Khaimah, UAE	23.12.2012

LPP SA holds direct control in its subsidiaries due to its substantial, i.e. mostly 100%, share in their capital and 100% of the total vote.

The consolidated financial statement of LPP SA Capital Group, covering the period between 1 January and 31 December 2013, includes separate results of LPP SA and the results of foreign subsidiaries listed below:

- LPP Retail Estonia OU
- LPP Czech Republic s.r.o.
- LPP Hungary Kft
- LPP Retail Latvia Ltd
- UAB LPP
- LPP Ukraina AT
- ZAO Re Trading
- LPP Fashion Distributor srl.
- LPP Retail Bulgaria Ltd.
- Artman Slovakia srl.
- Artman Mode s.r.o.



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- LPP Fashion Bulgaria Ltd.
  - Gothals Limited
  - Jaradi Limited
  - IP Services FZE

Polish subsidiaries of LPP SA were not consolidated as their financial data is immaterial. This is consistent with the Accounting Policy adopted by the Group.

Under the Policy, a subsidiary or associate is not consolidated if the amounts reported in the financial statements of that entity are insignificant compared to the financial statements of the parent entity. In particular, the balance sheet total and net revenues from sales of goods and services and financial operations of the entity which for the financial period are less than 10% of total assets and liabilities and the income of the parent company are regarded as insignificant. The total amount of revenues and balance sheet totals of the entities not included in the consolidation may not exceed that level, but in relation to the corresponding amounts of the consolidated financial statements established on the assumption that their scope includes all subsidiaries and affiliates without making any exclusions.

The share in the consolidated results of all non-consolidated Polish subsidiaries is as follows:

- in the total assets of the Group - 0.03%
- in the Capital Group's revenues from sales and financial revenues - 0.28%.

The fact that financial statements of these companies are not consolidated has no negative impact on true and fair presentation of the Capital Group's assets, financial standing and financial result.

LPP SA is a company involved in the design and distribution of clothing in Poland and the countries of Central and Eastern Europe. Consolidated Group companies are involved in the distribution of goods under the Reserved, Cropp, House, Mohito and Sinsay brands outside Poland. Clothing is basically the only product sold by the Capital Group companies. The basic offer is supplemented by footwear, bags and accessories. Designs of clothing are prepared in the design office located at the registered office of LPP SA in Gdańsk and in the design office in Kraków, and then sent to the purchasing department, which contracts the production of individual products in co-operation with production plants in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai.

The Capital Group also generates small revenues from sales of services (these include only the revenues generated by the parent company – mainly know-how services related to the management of brand stores by Polish contractors and the lease of transport vehicles).

Additional business activity of LPP Capital Group is the management of the rights to Reserved, Cropp, House, Mohito and Sinsay trademarks, including their protection, activities aimed at increasing their value, granting licenses to use, etc. Gothals Limited in Cyprus and Jaradi Limited and IP Services in United Arab Emirates were established for this purpose.

Four domestic subsidiaries are engaged in the rental of real properties where the shops of Cropp Town, Reserved Mohito and House are run.

#### **4. Legal basis of the financial statement and information on changes in adopted accounting principles**

Pursuant to the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2013, item 330), as of 1 January 2005 LPP Capital Group presents its consolidated financial report on the basis of International Financial Reporting Standards (IFRS) and related interpretations, published in the form of European Commission Regulations. In matters not covered by IFRS, provisions of the Accounting Act are applied. Financial statements covering periods starting before 1 January 2005 were prepared based on the Accounting Act and its implementing provisions.

The report contains the Group's consolidated financial statement and separate financial statements of LPP SA. The Report was drawn up in accordance with IFRS.

This consolidated financial statement was drawn up in PLN '000.

Two departments are responsible for the preparation of financial statements: accounting and finance, headed by the Chief Accountant and Chief Financial Officer. Before submitting financial statements to the independent statutory auditor, Chief Financial Officer, responsible for the financial reporting process on behalf of the Management Board, verifies them for completeness and correctness of all economic events.

## 5. Declaration of compliance with IFRS

The presented consolidated financial statement covers the period between 1 January 2013 and 31 December 2013. Comparable data are presented for the period between 1 January 2012 and 31 December 2012.

This consolidated financial statement was drawn up in line with the International Financial Reporting Standards (IFRS) approved by the European Union, covering standards and interpretations approved by the International Accounting Standards Board and International Financial Reporting Standards Interpretation Committee.

### Changes in standards or interpretations valid and applied by the Group since 2013

New or amended standards and interpretations in effect from 1 January 2013:

- New IFRS 13 "Determining the fair value" unifies the concept of fair value for all IFRS and IAS, and introduces common guidelines and principles, which were previously scattered in different standards. IFRS 13 does not specify which items are measured at fair value. IFRS 13 provides a new definition of fair value, guidelines on how to measure non-financial assets and introduces a number of new disclosures about fair value. The Group fulfilled its obligation to present these disclosures in the notes on the relevant assets and liabilities. IFRS 13 is applied prospectively for annual periods beginning on or after 1 January 2013.
- Amendment to IAS 1 "Presentation of Financial Statements" - IASB changed the presentation of other comprehensive income. According to the revised IAS 1, the elements of other comprehensive income should be grouped into two sets:
  - o elements which at a later date will be reclassified to earnings (e.g. changes in the value of hedging instruments) and
  - o elements that will not be reclassified to earnings (e.g. valuation of fixed assets to fair value, which is then recognised in retained earnings without profit or loss).

Moreover, the names of individual financial statements presenting the effects of the entity's operations were changed to "Statement of financial result" and "Statement of financial result and other comprehensive income".

Amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The Group adjusted the presentation of the financial statement to the changes arising from IAS 1.

- Amendment to IAS 19 "Employee Benefits" - introduces several changes, most important of which relate to defined benefit plans:
  - o removal of the "corridor" approach,
  - o presentation of the effects of the re-valuation of the liability in other comprehensive income.

Considering that the Capital Group has no defined benefit plans, these changes did not affect the consolidated financial statements of the Group.

Furthermore, the amended standard elaborated the principles of recognising allowance cost for termination of the employment relationship. This did not affect the outcome or liabilities recognised in the consolidated financial statements.

The amended IAS 19 is effective for annual periods beginning on or after 1 January 2013.

- New IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" - refers to the accounting treatment of costs incurred in surface mines in order to gain access to deeper layers of ore. According to the interpretation these costs should be capitalised in breakdown into inventories (in the part attributable to excavated ore) and fixed assets (in the part attributable to access to deeper layers). It is effective for annual periods beginning on or after 1 January 2013. Entry into force of IFRIC 20 has no effect on the financial statements of the Group.
- Amendments to IFRS 7 "Financial Instruments: Disclosures" - provide the requirement to disclose information on financial assets and financial liabilities which are shown on a net basis in the statement on financial standing. Entities are required to disclose in the notes the gross and net amounts of assets and liabilities that are offset and the terms of framework agreements on

compensation. These amendments are effective for annual periods beginning on or after 1 January 2013. The amendment did not have a material impact on financial statement of the Group.

- Amendment to IFRS 1 "First-time Adopters" allows entities adopting IFRS for the first time to define the loans existing as at the transition date, received from the state on preferential terms, using one of the two methods selected by the entity:
  - o by value resulting from the accounting principles used so far, or
  - o by value resulting from the retrospective application of the relevant standards that require specific recognition of a state aid in the financial statement (IAS 20 and IFRS 9 or IAS 39) - provided that there was adequate information to carry out the estimate as at the loan recognition date.

The amendment is effective for annual periods beginning on or after 1 January 2013. This amendment did not affect the consolidated financial statements.

- Amendments to IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34 resulting from the "Annual Improvements Project: 2009-2011 cycle", effective for annual periods beginning on or after 1 January 2013. Amendments to the standards include:
  - o IFRS 1 "First-time Adoption of IFRS": regulates the procedure in the event that a company previously applying IFRS switched to other accounting policies and then again to IFRS. In line with the amendment, re-transition to IFRS can be made on the basis of IFRS 1 or IAS 8. This amendment did not affect the financial statement of the Capital Group.
  - o IFRS 1 "First-time Adoption of IFRS": in line with the amendment, at the time of transition to IFRS, the company may assume, as at the date of transition, the value of capitalised borrowing costs determined in accordance with the previously applied accounting policy. After that date, IAS 23 must be applied. The amendment does not affect the financial statement of the Capital Group.
  - o IAS 1 "Presentation of Financial Statements": amendment waives the obligation to include notes to the third statement of financial position, which is presented in the report in the event of changes in accounting policies, presentation or error adjustment. In addition, the third statement of financial position as at the date of commencing the previous reporting period is required only if the entity has a retrospective change in accounting policy or retrospective restatement of items in the statement of financial position or reclassification of items in the statement of financial position, and these changes have a significant impact on the information contained in the statement of financial position as at beginning the previous reporting period. If an entity presents more than two reporting periods, there is no need to show the statement of financial position as at beginning date of the earliest comparative period. Amendment to IAS 1 did not affect the presentation of the financial statements of the Group for the current period, as it did not make any retrospective changes, however, it may affect the report in the future.
  - o IAS 1 "Presentation of Financial Statements": specifies that an entity may present additional periods or days (over and above those required by the standard) in the financial statements, but does not have to show them then to all parts of the report (for example, can present only an additional statement of financial position no additional reports of the result). It must, however, present the note to the additional element of the report. The amendment did not affect the financial statement of the Group.
  - o IAS 16 "Property, Plant and Equipment": removes inconsistency that caused some IAS 16 customers to think that spare parts are to be classified as inventory. According to

the revised standard, they should be recognised as fixed assets or inventory in line with the general criteria laid down for the assets in IAS 16. The amendment did not affect the financial statement of the Group.

- o IAS 32 "Financial Instruments: Presentation": clarifies that the tax consequences of payments to owners and capital transaction costs should be accounted for in accordance with IAS 12. The amendment did not affect the financial statement of the Capital Group.

- o IAS 34 "Interim Financial Reporting": harmonises the disclosure requirements on assets and liabilities of IFRS 8 segments. The amendment did not affect the financial statement of the Capital Group prepared for the year in line with IAS 1.

The list of legally binding standards and interpretations in a version published by the IASB but not approved by the European Union is presented below in the section relating to standards and interpretations which have not entered into force.

#### Application of a standard or interpretation before the effective date

No early voluntary application of a standard or interpretation occurred in this financial statement.

#### Published standards and interpretations which have not entered into force as at 1 January 2013 and their impact on the Group's statement

By the date of this financial statement, the following new or amended standards and interpretations applicable to annual periods after 2013 were published:

- New IFRS 9 "Financial Instruments: Classification and Measurement" - will eventually replace the current IAS 39. The part of IFRS 9 published so far includes regulations on the classification and valuation of financial assets, the classification and valuation of financial liabilities, the derecognition of financial assets and liabilities and hedge accounting. The date of entry into force has not been determined, and the standard has not yet been approved by the European Commission. The Group is still evaluating the impact of the standard on the consolidated financial statements.
- New IFRS 10 "Consolidated Financial Statements" - replaces most of the IAS 27 "Consolidated and Separate Financial Statements". IFRS 10 introduces a new definition of control, but the rules and procedures for consolidation remain unchanged. In the Group's opinion, the amendment might affect entities for whom, in line with previous regulations, the requirement to consolidate was not clear. This amendment will not affect the consolidated financial statements. Effective date set by IASB is 1 January 2013, however, the European Commission introduced the obligation to apply the new standard for annual periods beginning on or after 1 January 2014.
- New IFRS 11 "Joint Arrangements" - replaces IAS 31 "Interests in Joint Ventures". In the new standard the accounting treatment of a shared agreement results from its economic provisions, i.e. the rights and obligations of the parties. In addition, IFRS 11 removes the possibility of settlement of investments in joint ventures using proportionate consolidation. These investments are accounted for using the equity method in a manner currently used for associates. According to the Group, the new standard will not affect the consolidated financial statement. Effective date set by IASB is 1 January 2013, however, the European Commission introduced the obligation to apply the new standard for annual periods beginning on or after 1 January 2014.
- New IFRS 12 "Disclosure of interests in other entities" sets out the requirements for disclosures about consolidated and non-consolidated entities, in which the entity preparing the statement has significant involvement. This will allow investors to assess the risks to which the entity creating special purpose vehicles and other similar structures is exposed. In the Group's opinion, the standard does not affect the extension of the disclosures. Effective date set by IASB is 1 January 2013, however, the European Commission introduced the obligation to apply the new standard for annual periods beginning on or after 1 January 2014.
- Amendments to IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - result from the introduction of IFRS 10, IFRS 11 and IFRS 12. IAS 27 will apply only to separate financial statements, and IAS 28 will cover investments in joint ventures. Effective date set by IASB is 1 January 2013, however, the European Commission introduced the obligation to apply the changes for annual periods beginning on or after 1 January 2014.
- Amendment to IAS 32 "Financial Instruments: Presentation" introduces a detailed explanation of the conditions for the presentation of financial assets and liabilities on a net basis. In the Group's opinion, the amendment will not have a material impact on the consolidated financial statement. This amendment is effective for annual periods beginning on or after 1 January 2014.
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of interests in other entities" - the newly issued standards on consolidation bring brighter than ever transitional and certain exemptions in data presentation comparable. These amendments are effective for annual periods beginning on or after 1 January 2014.
- Amendment to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of interests in other entities" and IAS 27 "Separate Financial Statements" - introduces the exemption from consolidation for investment entities. An investment entity is an entity that meets the following definition:

- o it obtains funds from one or more investors in order to provide the investors with investment management services,
  - o it undertakes to investors to ensure that its business purpose is solely to invest resources in order to achieve returns from the growth of investment and/or dividend,
  - o it evaluates the effectiveness of its investments on the basis of their fair value.
- New regulation will not affect the financial statement of the Group. These amendments are effective for annual periods beginning on or after 1 January 2014.
- New IFRIC 21 "Public charges" - the interpretation introduces rules for determining the moment of recognition of liabilities for taxes and charges imposed by the state bodies other than income tax governed by IAS 12. The interpretation forms a clarification of the rules outlined in IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". According to the Group, this interpretation will not affect the consolidated financial statement. This interpretation is effective for annual periods beginning on or after 1 January 2014.
  - Amendment to IAS 36 "Impairment of Assets" - by introducing the new IFRS 13 "Determining the fair value of the" IAS established additional disclosures regarding impairment. Their scope is too broadly defined and therefore another amendment that narrows the obligation to disclose the recoverable amount of the assets and centres that have lost value was introduced. The Group is in the process of estimating the impact of new regulations. These amendments are effective for annual periods beginning on or after 1 January 2014.
  - Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" - existing IAS 39 meant that if the entity has designated the derivative as a hedging position, and as a result changes in the regulations the counterparty to the derivative agreement was replaced by the so-called central counterparty (e.g. clearing agency), the hedging relationship must be terminated. With the introduction of changes to the standard, such situations will not result in termination of the security. The amendment will not affect the financial statement of the Group. These amendments are effective for annual periods beginning on or after 1 January 2014.
  - Amendment to IAS 19 "Employee Benefits" - clarifies the rules of conduct in the event that employees make a deposit to cover the costs of a defined benefit plan. The amendment will not affect the financial statement of the Group. These amendments are effective for annual periods beginning on or after 1 July 2014.
  - Amendments to IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24, IAS 38 resulting from the "Annual Improvements Project: 2010-2012 cycle", effective for annual periods beginning on or after 1 July 2014. Amendments to the standards include:
  - IFRS 2: the Council further clarified the standard by changing or introducing new definitions of the following terms: market condition, the condition of the provision of services, the condition of the acquisition

of powers, the performance condition. In the Group's opinion, the amendment will not affect its consolidated financial statement.

- o IFRS 3: the Council further clarified the rules for the valuation of contingent consideration after the acquisition date, to be compatible with other standards (primarily IFRS 9 / IAS 39 and IAS 37).
- o IFRS 8: the Council imposed on entities engaged in merger of operating segments a requirement of additional disclosures regarding these combined segments and economic characteristics due to which the merger was made. The amendment will not affect the consolidated financial statement.
- o IFRS 8: following the amendment, the standard provides that the requirement to disclose arrangements of total assets of segment with assets disclosed in the balance sheet is mandatory only when the value of the assets is disclosed as per segment. This amendment will not affect the consolidated financial statements of the Group.
- o IAS 16 and IAS 38: the Council introduced a correction of the rules for calculating the gross amount and accumulated amortization of the asset (an intangible asset) in the case of post-revaluation amount model. In the Group's opinion, the amendment will not affect its consolidated financial statement.
- o IAS 24: the definition of a related party was extended to units which provide services of key management personnel and adequate disclosures. This amendment will not affect the consolidated financial statements of the Group.



- Amendments to IFRS 3, IFRS 13, IAS 40 resulting from the "Annual Improvements Project: 2011-2013 cycle", effective for annual periods beginning on or after 1 July 2014. Amendments to the standards include:
  - o IFRS 3: clarifies that transactions to create joint arrangements in these joint arrangements are excluded from the standard. This amendment will not affect the consolidated financial statements.
  - o IFRS 13: the Council further clarified the scope of the exemption on the valuation of financial assets and liabilities on a net basis. This amendment will not affect the consolidated financial statements.
  - o IAS 40: the Council further clarified that in case of acquisition of an investment property it should also consider whether it is the acquisition of a group of assets or a combination of projects in accordance with the principles set out in IFRS 3. This change will have no impact on the consolidated financial statements.
- New IFRS 14 "Regulatory deferral Accounts" - applies only to entities that pass on IFRS and operate in industries in which the state regulates the prices charged, such as the provision of gas, electricity or water. The standard allows for the continuation of the accounting policy on the recognition of revenue from such activities used before the transition to IFRS, both in the first report prepared in accordance with IFRS, as well as later. New regulations will not affect the financial statement of the Group. The standard is effective for annual periods beginning on or after 1 January 2016.

The Group intends to implement these regulations within the time frames provided for by the standards or interpretations.

## 6. Going concern

The consolidated financial statement for 2013, the financial statement of the Parent Company and the statements of subsidiaries, which are the basis for the consolidated financial statement, were drawn up based on the assumption that the Group remains a going concern in the foreseeable future and that its business is not restricted to a considerable extent.

Based on the information available as at the date of the financial statement, the going concern assumption adopted in this financial statement is fully justified.

## 7. Date of approval of the financial statement for publication

This financial statement was approved for publication by the Management Board of the Parent Company of LPP Capital Group on 11 April 2014.

## 8. Events after the balance sheet date

As per IAS 10, events after the balance sheet date include all events that occurred between the balance sheet date and the date that the financial statement is approved for publication.

The Management Board is authorised to adjust the financial statement after its publication.

In the period between the balance sheet date and the date of approval of the report for publication, LPP SA Capital Group was expanded by three new foreign subsidiaries. A company, Koba SA, was acquired, which was a distributor of Cropp and Reserved clothing brands on the Slovak market. In view of the plan to launch stores in other countries still in 2014, new companies were established in Germany and Croatia.

All three companies are fully owned by LPP SA.

## 9. Methods of measurement of assets and liabilities and determination of the financial result adopted in the consolidated financial statement

### *Tangible fixed assets*

Fixed assets (property, plant and equipment) are initially carried at the purchase price, increased by all costs directly related to the purchase and necessary to adapt the asset to the working condition for its intended use. Costs incurred after the date when the fixed asset was put into use, including costs of maintenance and

repairs, are charged into the statement of financial result and other comprehensive income as they are incurred.

As at the balance sheet date, fixed assets are measured at cost less depreciation and impairment losses. Depreciation is made on a straight line basis. Tangible fixed assets are depreciated over their pre-determined expected useful life. This period is revised annually.

The value of PP&E is also tested for impairment resulting from any events or changes in the business environment or within the Group, which could cause an impairment of these assets below their current book value.

In fixing the rates of depreciation for individual tangible fixed assets, the Group determines whether there are any components of the assets whose purchase price is significantly different from the purchase price of the entire asset, and whether the life of these components is different from the rest of the life of the asset.

For accounting purposes, based on the materiality principle, the adopted threshold amounts for one-off depreciation of PP&E or non-inclusion of an asset in PP&E are equal to tax threshold amounts.

As a result, the Group adopted the following rule: whenever the initial carrying amount of a tangible fixed asset or property right exceeds PLN 3 500.00, monthly depreciation write-downs are made starting from the month following the month when the asset is put into use.

If the initial carrying amount of the fixed asset is below PLN 3 500, two accounting methods were adopted based on the materiality principle:

- the asset is entered in the fixed assets register or intangible assets register and depreciated on a one-off basis in the month when the asset is put into use;

or

- the asset is written-down on a one-off basis and allocated to costs of consumption of materials recorded in the month of the purchase.

Under the accounting policy adopted by the Capital Group, straight-line depreciation of low-price assets may be adopted in justified cases by a Management Board's decision if all the following circumstances occur simultaneously:

- if many fixed assets are purchased at the same time and their unit price is not in excess of the threshold amount, but their total value is material,
- if these assets are a part of a larger set of uniform and/or interconnected units, and their purchase is related to an extensive investment scheme to be implemented at least over the period of normative depreciation specified for this particular group of fixed assets in tax regulations,
- if these fixed assets are high quality and high availability (HA) assets.

Fixed assets in progress – as at the balance sheet day, they are carried in the total amount of costs directly related to their acquisition or formation, less impairment write-downs.

#### Intangible assets

Intangible assets include trademarks, patents and licenses, computer software, costs of development works and other intangible assets that meet the criteria of recognition as specified in IAS 38.

Intangible assets as at the balance sheet day are disclosed by the purchase price or the formation cost, less depreciation and impairment write-downs. Intangible assets with determined useful life are depreciated on a straight line basis for the period of their useful lives by applying the rates of 14 - 50%. Useful lives of individual intangible assets are subject to annual verification.

Intangible assets with indefinite useful lives are not subject to depreciation but they are tested for impairment annually. Intangible assets with indefinite useful lives owned by the Capital Group include the trademark of House. After analysis, it has been found that there is no time limit in which it can be expected that the asset will not generate income.

The Group's companies carry out development projects related to the design and construction of a standard garment showroom.

Expenditures directly associated with the project are shown as intangible assets only if they meet the following criteria:

- from a technical standpoint, the component of intangible asset is made so that it will be available for use or sale,
- the Group intends to complete the component and its use or sale,
- the Group is able to use or sell the component of intangible asset;
- the component of intangible asset will generate economic benefits and the Group can demonstrate this benefit by, among others the existence of market or usefulness of the element for the Group,
- technical, financial and other resources are available to the Group to complete the project in order to sell or use the component,
- the expenses incurred in the course of the project can be reliably evaluated and attributed to the intangible asset.

Expenses incurred for works carried out within the project are transferred to subsequent period if it is deemed that they will be recovered in the future. Assessment of future benefits is based on the principles set out in IAS 36.

After the initial recognition of the expenditure, the historical cost model is applied, according to which the assets are shown by their purchase price or production cost less accumulated depreciation and accumulated write-downs for impairment losses. Completed development works are straight-line depreciated over the expected period of obtaining benefits, which is five years.

Costs related to the maintenance of software, incurred in subsequent periods, are recognised as the cost of the period when incurred.

#### Borrowing costs

According to IAS 23 "Borrowing costs" all costs that can be allocated to adjusted assets are capitalised. Adjusted assets are those that require significant time of preparation for intended use. The Capital Group assumed that a considerable time is considered a period of 1 year. Thus, any borrowing costs are capitalised, provided that the adjustment of the component lasted 1 year or longer. All other minor costs of assets, which are adjusted for less than a year, are recognised directly in profit or loss. Borrowing costs may include mostly the following:

- interest on overdrafts and interest on short- and long-term credits and loans;
- differences in exchange rates in connection with the loans and credits granted in foreign currencies.

Capitalisation of borrowing costs commences on the day when borrowing costs on a qualifying asset are incurred and activities necessary to prepare the asset for its intended use or sale are undertaken. The Capital Group ceases to capitalise borrowing costs when a qualifying asset is transferred for use.

#### Leased assets

Finance lease agreements, under which generally the entire risk and benefits resulting from the possession of the leased item are transferred to the Group, are recognised in assets and liabilities as at the lease commencement date. The value of assets and liabilities is determined as at the lease commencement date at the lower of the following values: the fair value of an asset which is the subject of the lease or the present value of the minimal lease fees.

The minimal lease fees are divided between the financial expenses and reduction of the outstanding balance of lease liabilities so as to allow gaining a fixed interest rate on outstanding liabilities. Contingent lease payments are recognised in costs of the period in which they were incurred.

Fixed assets used under financial lease contracts are amortised in line with the same principles as applied to the own assets of the Capital Group. If however, there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the two periods: the lease term or its useful life.

In case of qualifying a lease agreement as a finance lease in terms of accounting under the regulations of IAS 17, and in terms of taxing under the regulations of the income tax act as an operating lease agreement, then in order to determine a proper value of tax deductible expenses the following rules shall apply. Depreciation write-downs made by the user are not tax deductible expenses for tax purposes. Tax deductible expenses are solely the lease payments specified in the agreement, recognised as cost for the period they refer to.



Lease agreements under which the lessor retains basically all the risks and benefits resulting from holding the leased asset are recognised as operating lease contracts.

Lease payments under operational lease are recognised on straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit is derived by the Capital Group.

#### Goodwill

The goodwill is initially recognised pursuant to IFRS 3.

This value is calculated as the difference between two values:

- the value of the remuneration for the control, minority shares and fair value of blocks of shares held in the acquired entity prior to the acquisition date and
- the fair value of identifiable acquired net assets of the entity.

The excess of the amount calculated in the manner indicated above over the fair value of identifiable acquired net assets of the entity is recognised in the assets of the consolidated statement of the financial position as goodwill. Goodwill represents the payment made by the acquiring company in anticipation for future economic benefits from the assets which cannot be individually identified or separately recognised.

As at the reporting date, goodwill is measured at the cost of purchase less accumulated impairment losses made so far and deductions for the disposal of a part of shares to which it was previously assigned. Impairment losses up to a value assigned to a cash-generating unit (unit group) are not subject to reversal.

Goodwill is tested for impairment before the end of the reporting period in which the merger occurred, and then in each subsequent annual reporting period. If there are reasons implying depreciation, the depreciation test is carried out before the end of each reporting period in which such reasons occurred.

Until 1 January 2010, the Capital Group applied purchase accounting for settling mergers, as described in the previous version of IFRS 3.

#### Investments in subsidiaries

The Group solely owns shares in Polish subsidiaries.

Shares in subsidiaries are measured at acquisition prices less impairment losses.

Acquisition price includes the amount due to the selling party less deductible VAT, as well as costs directly related to the purchase and necessary to bring the asset to working condition for its intended use or marketing.

In the event of impairment, impairment write-down is charged to financial expenses. If the reasons for the impairment write-down no longer exist, the original value of the investment is restored by transferring the reversed amount to income from financial operations. Goodwill reinstatement may be entire or partial.

#### Investments in other entities

This item presents only shares in entities not affiliated with LPP SA, unlisted on active markets.

It is measured at acquisition prices less impairment losses.

In the event of impairment, revaluation write-down is charged to financial expenses. If the reasons for the impairment write-down no longer exist, the original value of the investment is restored by transferring the reversed amount to income from financial operations. Goodwill reinstatement may be entire or partial.

#### Investments in real property

Investment property is held due to rental income and/or increase in its value and is recognised at purchase cost.

Investment property is initially carried at purchase or manufacturing cost including the cost of the transaction. As at subsequent balance sheet days, investment property is valued at purchase or manufacturing cost.

Investment property is removed from the statement of financial position when it is sold or permanently withdrawn from use if no future economic benefits are expected.

As at the balance sheet date, the Group does not have any investment property.

#### Financial instruments

Each contract establishing an element of financial assets for one party and a financial liability or capital instrument for the other party is classified as a financial instrument.

A financial asset or liability is recognised in the statement of financial position if the Group becomes a party to that instrument. Standardised transactions of purchase and sale of financial assets and liabilities are recognised as at the date of the transaction.

The Capital Group values financial assets and liabilities at fair value as at the purchase date, i.e. mostly at fair value of the payment made (in the case of an element of assets) or payment received (element of liabilities).

As at the balance sheet date, financial assets and liabilities are valued in line with the principles specified below.

#### Financial assets

For the purposes of valuation following an initial recognition, financial assets other than hedging derivatives are classified by the Capital Group divided into:

- loans and receivables,
- financial assets valued at fair value through profit or loss,
- investments held to maturity, and
- financial assets available for sale.

These categories define the principles for valuation as at the balance sheet date and the recognition of profits and losses from the measurement in the financial result or in other total income. Profits and losses recognised in the financial result are presented as financial revenues or costs except for revaluation write-downs of trade receivables which are disclosed as other operating expenses.

All financial assets, except for those measured at fair value in the financial result, are assessed as at each balance sheet date due to indications suggesting the impairment of value.

Indications suggesting the impairment of value are analysed for each category of financial assets separately, as presented below.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted on an active market. Loans and receivables are measured at depreciated cost based on the effective interest rate method. Valuation of short-term receivables may also be based on the amount due, if the discount effect is immaterial.

Financial assets classified as loans and receivables are presented in the statement of the financial position as:

- long-term assets under "Receivables and loans" and
- short-term assets under "Loans", "Trade receivables", "Other receivables" and "Cash and cash equivalents".

Write-downs on receivables are made based on the type of receivables:

- claimed receivables (amounts claimed in court and amounts due from debtors in the process of liquidation or filing for bankruptcy) – write-downs in the total amount receivable,
- other receivables – write-downs are made based on a case-by-case analysis and assessment of the situation and risk of potential loss.

Financial assets measured at fair value through profit and loss include assets classified as held for trading or designated at initial recognition for valuation at fair value through financial result meeting the criteria set out in IAS 39.

This category includes all derivatives presented in the statement of financial position as a separate item and units in investment funds.

Investment funds units are recognised in the item "Other financial assets".

Instruments in this category are measured at fair value and the results of the measurement are presented in the financial result.

Investments held to maturity include non-derivative financial assets with fixed or determinable payments and fixed maturity date, which the Group intends and is able to hold to maturity, with the exception of assets classified as loans and receivables.

In this category, the Capital Group recognises bonds and other debt securities held to maturity, presented in the statement of financial position as "Other securities".

As at the balance sheet date, the Group does not have such investments.

Investments held to maturity are measured at amortised cost using the effective interest rate method. If there is any evidence indicating a possible impairment of investments held to maturity, assets are measured at

present value of estimated future cash flows. Changes in carrying value, including impairment write-downs, are recognised in the financial result.

Assets available for sale are non-derivative financial assets selected as available for sale or not classified as any of the above categories of financial assets.

In this category the Capital Group includes listed bonds not held to maturity and shares of companies other than subsidiaries or associates.

These assets in the statement of financial position are disclosed under "Other securities", "Investments in other entities".

Shares of unlisted companies are valued at acquisition cost less accumulated impairment losses due to the lack of a reliable estimate of their fair value. Impairment write-downs, are recognised in the financial result.

All other financial assets available for sale are measured at fair value.

Profits and losses on valuation are recognised as other comprehensive income and accumulated in revaluation capital from financial assets available for sale, except for impairment write-downs which are recognised in the financial result. The financial result includes also interest which would be recognised at the valuation of these financial assets at amortised cost based on the effective interest rate method.

#### *Financial liabilities*

Financial liabilities other than hedging derivatives are recognised under the following items of the statement of financial position:

- bank loans and borrowings,
- other financial liabilities,
- trade payables and other liabilities.

After initial recognition, financial liabilities are valued at amortised cost based on the effective interest rate, except for financial liabilities held for trading or indicated as measured at fair value by the financial result (derivatives

other than hedging instruments). The measurement of short term trade payables is based on the amount due as a result of immaterial discount effects.

#### *Accruals and prepayments*

Under the heading "Accruals and prepayments" in the assets column of the statement of financial result, the Capital Group presents prepaid expenses relating to future reporting periods, including primarily rents.

Under the heading "Accruals and prepayments" in the liabilities column of the said statement, income of future periods is presented.

#### *Inventories*

As at the balance sheet date, they are valued at cost of acquisition not in excess of their net selling prices.

Inventories include:

- trading commodities,
- materials (fabrics and sewing accessories) purchased and issued for processing to external contractors,
- IT consumables related to operation, maintenance and development of a computer network,
- advertising materials.

Trading commodities in local warehouses are recorded by quantity and value and measured as follows:

- for imported goods – at costs, including purchase prices, costs of transport abroad and cost of transport in Poland up to the first unloading point in Poland, as well as customs duties; currency rate specified in customs documents is used for the conversion of amounts expressed in foreign currency,
- goods purchased in Poland - at cost; purchase-related costs are charged directly to costs of ordinary operations when they are incurred, as they represent an immaterial amount.

The Reserved, Cropp, House, Mohito and Sinsay trading goods sold are valued at weighed average prices. For trading commodities from other collections, the FIFO method is employed.

Trading commodities in bonded warehouses are valued based on their purchase cost, as well as costs of transport abroad and cost of transport in Poland up to the first unloading point in Poland.

The value of goods issued from bonded warehouses (moved to local warehouses or sold directly abroad) is measured based on detailed identification of goods for individual lots accepted to bonded warehouses.

Trading goods in transit are measured at cost (purchase price) plus costs of transport abroad and in Poland determined as at the date of the statement of financial position. Imported goods in transit are measured based on the selling exchange rate published by Raiffeisen Bank Polska SA as at the balance sheet date.

Inventories whose trading and useful value is impaired are written down and charged to remaining operating costs.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and in bank accounts, demand deposits and short-term highly liquid investments (up to 3 months).

#### Equity capital

Basic capital is presented at nominal value of issued shares, in accordance with the Articles of Association of the Parent Company and entry in the National Court Register.

Shares of the Parent Company acquired and retained by the Parent Company are deducted from equity. Treasury shares are valued at cost.

Share premium account is formed from the surplus of share issue price over the share nominal value, less issue costs.

Other capital includes:

- supplementary capital,
- reserve capital,
- capital from the settlement of merger transactions and
- capital component of convertible bonds.

The amount of spare capital includes:

- profits brought forward from previous years, based on decisions of General Meetings of Shareholders,
- amounts of share-based payments made in respect of certain persons under the incentive scheme.

Reserve capital results from retained profits determined in accordance with the decision of the General Meeting of Shareholders.

Capital from merger settlement resulted from goodwill revaluation after the acquisition of Artman SA.

The retained earning present results from previous years and the financial result of the current year.

#### Share-based payments

The Group implements incentive plan, which provides for granting options convertible into shares of the parent company for key management.

The amount of remuneration for work of managers is determined indirectly by reference to the fair value of the equity instruments granted. The fair value is measured at grant date, whereas the non-market vesting

conditions (achieving the desired level of profit or loss) are not taken into account in estimating the fair value of stock options.

Remuneration costs with a corresponding increase in equity is recognised based on the best available estimates of the number of options which will be vested during the period. In determining the number of options which will be vested, the non-market vesting conditions are considered.

The Group makes adjustments to these estimates, if subsequent information indicates that the number of options granted is different from previous estimates. Estimate adjustments to the number of options granted are recognised in profit or loss for the current period - no adjustments are made to prior periods.

Once the options convertible into shares are exercised, the amount of capital valuation of the options granted is transferred to the capital from the sale of shares above their nominal value, less share issue costs.

#### Provisions

Provisions are made for deferred income tax, employee benefits and other services.

Provisions for employee benefits include:

- provision for holiday leaves not taken,
- provision for future retirement benefits,
- unpaid compensations provision.

Provision for future retirement benefits is measured individually by the Capital Group, taking into account the length of service, gender, and the current amount of remuneration. It was assumed that the discount related to the provision for retirement benefits is equal to the expected salary growth rate.

There were no actuarial gains or losses in the reporting period.

#### Revenues

Sales revenues are recognised at fair value of payments received or receivable and represent receivables for products, goods and services provided in the normal course of business, net of discounts and VAT. Revenues are recognised in the amount of probable economic benefits obtained by the Group related to the transaction, on condition that this amount can be reliably estimated.

Revenues from the sale of goods are recognised when the significant risks and rewards of ownership have passed to the buyer.

Given the complaints and returns from customers, revenues from the sale of goods are adjusted based on the adjustment of the estimated cost of these returns. Based on historical data, the ratio of product return against sales volume is estimated. For these estimates it is assumed that returns of products purchased in a given quarter take place in the next quarter. The value of this ratio (against the entity's prime costs and revenues) is defined every quarter.

State subsidies are recognised in books so as the subsidy income was recognised as commensurate to its costs.

The Capital Group adopted appropriate methods of presentation of subsidies in its financial statement:

- grants for assets – initially as a separate item in "Deferred income" and subsequently systematically presented as income over the usable life of an asset;
- income grants – as item "Other operating/financial revenues"

Revenues from interest are recognised successively as they accrue up to the net carrying amount of the financial asset.

#### Income tax

The mandatory reductions of the financial result comprise the current and deferred income tax which was not recognised in other comprehensive revenues or directly in equity.

Current tax is calculated on the basis of the taxable result of the fiscal year. Tax gains (losses) are different from book net gains (losses) as taxable revenues

and tax deductible expenses are recognised in subsequent years, and permanently non-taxable items of revenues and expenses are eliminated. Tax burden is calculated based on tax rates binding in the given fiscal year.

Deferred tax is calculated using the balance sheet method as tax to be paid or returned in the future based on differences between the balance sheet values of assets and liabilities, and the corresponding tax values used to determine the tax base.

Provision for the deferred tax is set aside for all positive taxable temporary differences and the asset under the deferred tax is recognised up to the extent that the recognised negative temporary differences may be deducted from future tax profits.

#### Transactions in foreign currencies

The functional and presentation currency of LPP Capital Group is Polish zloty (PLN), which is also the functional currency of the Parent Company.

As at the transaction date, assets and liabilities expressed in foreign currencies are carried in functional currency at the following exchange rates, respectively:

- Purchase or selling rate used by the Parent Company's bank – in the case of purchase or sale of foreign currencies and repayment of receivables or payables (applicable to accounts in PLN),
- Purchase rate used by the Parent Company's bank - in case of receipts of foreign currency to a currency account,
- Determined by FIFO method - in case of foreign currency expenses from a currency account,
- Average rate determined for a given currency by the National Bank of Poland on the last working day preceding the day of issuing a foreign or domestic invoice - in cases other than import or export (transit) of goods.
- Based on a customs document issued in relation to depositing goods at a customs bond - in case of goods and liabilities account on depositing the goods at a customs bond
- Sale rate applied by the Parent Company's bank as at the balance sheet day - in case of measurement of goods in transit and related import liabilities, in case when no goods were deposited at a customs bond as at the balance sheet day.

The following items denominated in foreign currencies are measured as at the balance sheet date:

- monetary items:

- elements of assets – at the Parent Company's bank purchase rate adopted as at this date (USD – 2.9148, EUR – 3.9415, RON - 0.8985, RUB – 0.0887, CZK - 0.1467, HUF – 1.3555, LVL – 5.7349),
- elements of liabilities – at the Parent Company's bank selling rate adopted as at this date (USD – 3.1006, EUR – 4.3531, RON – 0.9558, RUB – 0.0944, CZK – 0.1561, HUF – 1.4420, LVL – 6.1006).

- non-monetary items – at the historical exchange rate as at the transaction date.

#### Earnings per share

Earnings per share for each period are calculated by dividing net profit for the period by weighted average number of shares of LPP SA in this period. As at the balance sheet date, the Capital Group examines whether in the given period factors causing dilution of the earning/loss per share occurred. Information on profit per share and diluted profit per share is presented in Note 15.22.

#### Hyperinflation

Under the provisions of IAS 29, Financial Reporting in Hyperinflationary Economies, entities running their business in a hyperinflationary economy should restate individual items of their share capital by applying the general inflation rate. Results of this restatement should be disclosed as negative

amounts under the heading "Retained earnings" in the balance sheet. This restatement is made to reflect the impact of hyperinflation on the entity's financial result in the respective reporting period. In Poland, the period



1989-1996 is considered a period of hyperinflationary economy. However, the Management Board is in doubt whether the disclosure of this hyperinflationary restatement in the statement of financial position as an accumulated loss brought forward from previous is justified, taking into account that it refers to events which occurred before 1996, and the corresponding earnings had been distributed before this financial statement was drawn up. In addition, it is not clear whether such disclosure of the hyperinflationary restatement has any effects under provisions of the Commercial Companies Code, as regards e.g. the amount of dividend to be paid out, amount of payments on account of dividends, or conditions which require adoption of a resolution on the entity's remaining a going concern. Therefore, the Management Board is of the opinion that the direct disclosure of this restatement in the statement of financial position drawn up as at 31 December 2013 could be misleading for users of this financial statement, and decided to present relevant amounts, ratios, and conversion methods related to the hyperinflationary restatement in Note 15.12 to the financial statement. Financial statements of LPP Capital Group are drawn up based on the historical cost method.

#### Segments of operation

The scope of financial information in segment activity reporting within the Group is determined based on the requirements of IFRS 8.

A division into geographical segments has been adopted by the Group as the main reporting arrangement, which is due to its business activity in different geographical areas.

Two segments were specified:

- business within the European Union
- business in other countries

Division into geographical segments was based on the criterion of location of the Group's assets.

Assets (liabilities) of the segment are assets (liabilities) used by the segment in its operations, which are directly attributable or allocated to the segment on a reasonable basis.

The segment result is determined at the level of operating profit.

Revenues, profit or loss, assets and liabilities of segments are determined before transactions between segments are excluded, after elimination within a segment.

## **10. Corrections of errors and changes in the accounting policy**

The above scenarios did not take place in the reporting period.

## **11. Financial risk management**

The Group is exposed to many risks associated with financial instruments. The Group's assets and liabilities by categories are presented in Note 15.8. The risks affecting the Capital Group include:

- credit risk,
- liquidity risk, and
- market risk including currency risk and interest rate risk.

The main financial instruments in the operations of LPP Capital Group include primarily bank loans (Note 15.8). The main objective of these financial instruments is to provide financing of the Capital Group's operations. In addition, the Group has other financial instruments established in the course of its business operations. Those mainly include cash and deposits (Note 15.11), receivables, other financial assets and trade and services liabilities (Note 15.10, 15.8 and 15.17).

Pursuant to IFRS 7, the risks related to financial instruments, which the Capital Group is exposed to, were analysed.

#### *a) Credit risk*

The maximum credit risk is reflected by the balance sheet value of trade liabilities, loans and guarantees granted.

Balance sheet values of the aforementioned financial assets are presented in the table below.

in PLN '000

Items	2013	2012
Loans	15 516	6 208
Trade receivables	163 255	130 360
Cash and cash equivalents	149 356	159 393
Contingent liabilities under guarantees granted	168 553	164 663
<b>Total</b>	<b>496 680</b>	<b>460 624</b>

Concentration of credit risk related to trade receivables is presented in the table below.

Customer	Share of receivables (%) in the total amount of receivables
Customer 1	18.85
Other with debts representing less than 5% in the total amount of receivables	81.15
<b>Total gross trade receivables</b>	<b>100.0%</b>

Classification of gross overdue trade receivables by overdue period as at 31.12.2013 and 31.12.2012 is presented in the table below:

<i>in PLN '000</i>	2013	2012
Not overdue	132 691	92 018
Overdue up to one year	33 934	40 540
Overdue for over one year	2 413	3 685
<b>Total</b>	<b>169 038</b>	<b>136 243</b>

Receivables overdue for over one year and up to one year were partly written-down.

No hedging instruments for the above financial risks and no hedge accounting are used by the Capital Group.

*b) Liquidity risk*

The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of such funding sources as overdrafts or investment bank credits.

Compared to the previous year, credit exposure of the Capital Group was significantly increased. The main reason for this situation is building of a new warehouse in the Distribution Centre in Pruszcz Gdański along with cutting-edge logistics that are required due to the dynamic development of the Group. Detailed description of the financial position of the Group in terms of contracted loans is presented in Note 15.8.

As at the balance sheet date, the Group's financial liabilities were in the following maturity ranges.

As at 31.12.2013	Short-term	Long-term
Credits in credit account	77 610	184 285
Overdrafts	95 981	
<b>Total</b>	<b>173 591</b>	<b>184 285</b>



As at 31.12.2012	Short-term	Long-term
Credits in credit account	35 611	125 114
Overdrafts	25 437	
<b>Total</b>	<b>61 048</b>	<b>125 114</b>

Liquidity risk must also include trade liabilities.

Classification of gross trade liabilities by overdue period as at 31.12.2013 and 31.12.2012 is presented in the table below:

<i>in PLN '000</i>	2013	2012
Not overdue	440 891	363 439
Overdue up to one year	12 958	36 301
Overdue for over one year	33	74
<b>Total</b>	<b>453 882</b>	<b>399 814</b>

The Group continues its previous assumptions concerning the development of business and an increase of its significance for suppliers.

*c) Currency risk*

The base accounting currency for most commercial goods purchase transactions is USD. A small portion of settlements on this account is made in EUR.

The majority of revenues from sales are obtained in PLN. Given the specific type of the Group's business, it is possible to partially transfer the increase of the USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.

In addition to currency risk concerning the accounting currency used for the purchase of commercial goods, there is also the risk associated with the fact that the commercial space rents are settled in EUR.

The Company's assets and liabilities in two major foreign currencies converted into PLN at the closing exchange rate as at the balance sheet date are as follows:

As at 31.12.2013	Values expressed in foreign currency		Value after conversion
	USD	EUR	
Cash	3 399	3 756	24 711
Trade receivables	2 830	8 006	39 605
Trade payables	96 676	6 168	321 164

Bank credits	239		741
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### Exchange rate risk

in PLN '000

+/- 5%			
Balance sheet items	Value	Effect on profit/loss	Effect on profit/loss
<b><u>Financial assets</u></b>			
Cash	24 711	-1 236	1 236
Trade receivables	39 605	-1 980	1 980
<i>Effect on financial assets before tax</i>		-3 216	3 216
Income tax (19%)		611	-611
<i>Effect on financial assets after tax</i>		-2 605	2 605
<b><u>Financial liabilities</u></b>			
Trade payables	321 164	16 058	-16 058
Bank credits	741	37	-37
<i>Effect on financial liabilities before tax</i>		16 095	-16 095
Income tax (19%)		-3 058	3 058
<i>Effect on financial liabilities after tax</i>		13 037	-13 037
<b>Total</b>		<b>10 432</b>	<b>-10 432</b>

As at 31 December 2013, net profit of the LPP Capital Group would have been higher by PLN 10 432 thousand if the Polish zloty had strengthened by 5% against foreign currencies (mainly USD), and the remaining factors did not change. It is due to a greater effect of measurement of liabilities expressed in foreign currency on foreign receivables. Weakening of the Polish zloty by 5% vs. foreign currencies as at 31 December 2013 would have the same effect in terms of quantity but the opposite effect in terms of sign on the currencies used in the Company.

### d) Interest rate risk

Interest rate risk is related to bank credits utilised by the Capital Group on a regular basis based on variable Wibor, Libor and Euribor rate. Bank credits with floating interest rate create cash flow risk. In the opinion of the Management Board, a change in interest rates will not affect significantly the Group's performance.

The tables below present an analysis of the impact of changes in interest rates and foreign exchange rates on the financial result and equity capital. The analysis relates to the financial components of the Group's financial position as at the balance sheet day.

### Interest rate risk

in PLN '000

+/- 75 basis points of interest rate			
Balance sheet items	Value	Effect on profit/loss	Effect on profit/loss
<b><u>Financial assets</u></b>			
Cash	149 355	1 120	-1 120
Loans	15 516	116	-116
<i>Effect on financial assets before tax</i>		1 236	-1 236
Income tax (19%)		-235	235

<i>Effect on financial assets after tax</i>		1 001	-1 001
<b><u>Financial liabilities</u></b>			
Bank credits	357 876	-2 684	2 684
<i>Effect on financial liabilities before tax</i>		-2 684	2 684
Income tax (19%)		510	-510
<i>Effect on financial liabilities after tax</i>		-2 174	2 174
<b>Total</b>		<b>-1 173</b>	<b>1 173</b>

As at 31 December 2013, the Group's net profit would be lower by PLN 1 173 thousand if the interest rates in PLN, EUR and USD had been higher by 75 basis points, assuming that the remaining parameters remain unchanged. This result is due to a higher balance of credits compared with cash and loans granted.

## 12. Capital management

The Group manages its capital in order to ensure the ability to continue operations by the Capital Group and to ensure the expected rate of return for shareholders and other parties interested in the financial condition of the Capital Group.

The Group examines the indicators used to assess the condition of the Capital Group, which are presented and described in detail in the Management Board's report on the operations of the Capital Group.

## 13. Critical accounting estimates and judgements

Estimates determining amounts disclosed in the financial statements refer to:

- estimated economic useful life of property, plant and equipment,
- residual value of property, plant and equipment as well as intangible assets,
- percentage of returns of commodities sold in the reporting period made in the next reporting period,
- assets revaluation write-downs,
- discount rate for the estimated increase in salaries and actuarial assumptions used to calculate the amount of provisions for retirement benefits,
- future tax results taken into account when calculating deferred income tax assets,
- assumptions adopted to test trademark and goodwill impairment,
- assumptions adopted for the valuation of options for incentive programmes.

The methodology employed by the Company is based on the best knowledge of the Management Board and is in line with the requirements of IFRS.

Methods of determination of estimated amounts are applied consistently in relation to the previous reporting period.

The following estimated amounts remained the same as in the previous period:

- discount rate for the estimated increase in salaries and actuarial assumptions used to calculate the amount of provisions for retirement benefits,
- future tax results taken into account when calculating deferred income tax assets.

The following estimated amounts were changed in line with the adopted methodology:

- the estimated economic useful life of property, plant and equipment – applicable to third-party facilities (determination of a new depreciation period after modernisation),
- sales adjustment ratio related to returns of goods made in the next reporting period,
- assumptions adopted to test trademark and goodwill impairment,
- assumptions adopted for the valuation of options for incentive programmes.

Changes in revaluation write-downs are presented below in Notes to individual items of assets.

## 14. Principles of consolidation

The consolidated financial statement of the Capital Group was drawn up based on financial statements of its subsidiaries, employing the same methods of valuation and principles of financial statements preparation as the parent company.

The consolidated financial statement of the Capital Group includes relevant data from the statement of the parent company and statements of foreign subsidiaries expressed in the local currency of their respective countries, converted into PLN based on the following principles:

- individual items under assets and liabilities presented in the statement of financial position (with the exception of shareholders' equity) are converted at the average exchange rate published by the National Bank of Poland for this particular currency as at the balance sheet date;
- individual items in the statement of financial result and other comprehensive income are converted at the exchange rate calculated as an arithmetic average of average exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- individual items in the cash flow statement are converted at the exchange rate calculated as an arithmetic average of average exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- shareholders' equity is converted as at the date when the control was taken over by the parent company, at the average exchange rate published by the National Bank of Poland as at that date.

Equity includes the following separate items:

- core capital,
- other equity,
- treasury shares,
- profit (loss) from previous years,
- net financial result,
- foreign exchange differences, including in particular foreign exchange differences resulting from different methods of conversion of the net financial result and the balance sheet into PLN, and
- minority interests.

The method of full consolidation was adopted.

The following adjustments and exclusions were recognised upon consolidation:

- stake in shareholders' equity of subsidiaries held by the parent company – non-consolidated,
- inter-company payables and receivables – non-consolidated,
- revenues and expenses related to the Capital Group inter-company sale and purchase transactions - non-consolidated,
- dividends paid - non-consolidated,
- profits and losses related to the Capital Group inter-company transactions, which are included in the carrying value of assets such as inventories and fixed assets - non-consolidated,
- interest on loans granted by the parent company to its subsidiaries (excluded from financial revenues and expenses);
- adjustments of the Capital Group's financial result related to deferred income tax on account of interest on loans granted within the Group and foreign exchange differences as at the balance sheet date.

#### **LPP SA Management Board:**

Marek Piechocki – President of the Management Board .....

Dariusz Pachla – Vice President of the Management Board .....

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Jacek Kujawa – Vice President of the Management Board .....

Piotr Dyka – Vice President of the Management Board .....

Hubert Komorowski – Vice President of the Management Board .....

Gdańsk, 11 April 2014

## ADDITIONAL NOTES

### 15. Additional notes

#### 15.1. Tangible fixed assets

Tangible fixed assets (property, plant and equipment) are depreciated on a straight-line basis based on the following depreciation rates:

- buildings, facilities and civil- and hydro-engineering structures: 2.5 - 85%,
- plant and machinery: 5 - 60%,
- transport vehicles: 10 - 33%,
- other tangible fixed assets: 10 - 60%.

The assumed economic useful life of PP&E is reviewed on an annual basis.

In the reporting period the Capital Group made impairment write-downs of fixed assets in the amount of PLN 186 thousand.

Compensations related to tangible fixed assets received by the Group in 2013 amounted to PLN 772 thousand (2012: PLN 524 thousand) and were related mainly to the vehicle-related damage.

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As at the balance sheet date, there was a limited right to use the property in Pruszcz Gdański due to an investment loan. A detailed description is presented in Note 15.8.

As at 31 December 2013, the value of contractual liability for the purchase of tangible fixed assets was PLN 128 533 thousand (2012: PLN 16 981 thousand).

As of the balance sheet date, there were no fixed assets held for sale or discontinued operations in the Group.

The Group has no information on the fair value of tangible assets used and does not disclose data in this regard.

Depreciation of tangible fixed assets is presented in a spreadsheet version of the profit and loss account, together with other expenses, in the following items:

- cost of sales - 2013: PLN 126 380 thousand (2012: PLN 83 210 thousand),  
overheads - 2013: PLN 16 992 thousand (2012: PLN 22 120 thousand).

Changes in fixed assets (by type) in the period from 01.01.2013 to 31.12.2013 in PLN '000

	Land	Buildings, facilities, civil- and hydro- engineering structures	Plant and machinery	Means of transport	Other fixed assets	Fixed assets in progress	Fixed assets, total
1) Opening balance gross value of fixed assets	19 174	710 697	160 878	12 549	201 998	19 731	1 125 027
- foreign exchange differences		-17 283	-2 308	-223	-7 298	-3 311	-30 423
- increase		244 589	48 061	1 247	116 878	496 479	907 254
- decrease		34 001	12 316	1 829	7 709	442 420	498 275
2) Closing balance gross value of fixed assets	19 174	904 002	194 315	11 744	303 869	70 479	1 503 583
3) Opening balance accumulated depreciation (amortization)		315 605	100 113	6 348	97 898	0	519 964
- depreciation		80 965	24 343	1 884	36 180		143 372
- foreign exchange differences		-8 999	-1 683	-109	-4 363		-15 154
- decrease		26 769	11 760	1 391	6 445		46 365
4) Closing balance accumulated depreciation (amortisation)		360 802	111 013	6 732	123 270	0	601 817
5) Opening balance impairment write-downs	0	5 964	311	0	286	0	6 561
- increase		186					186
- decrease		1 574	184		29		1 574
6) Closing balance impairment write-downs	0	4 576	127	0	257	0	4 960
Total closing balance net value of fixed assets	19 174	538 624	83 175	5 012	180 342	70 479	896 806

Changes in fixed assets (by type) in the period from 01.01.2012 to 31.12.2012 in PLN '000

	Land	Buildings, facilities, civil- and hydro- engineering structures	Plant and machinery	Means of transport	Other fixed assets	Fixed assets in progress	Fixed assets, total
1) Opening balance gross value of fixed assets	19 174	580 315	134 362	12 600	135 403	20 127	901 981
- foreign exchange differences		-10 122	-2 922	-108	-3 948	-433	-17 533
- increase		159 095	33 788	2 445	73 625	287 478	556 431
- decrease		18 591	4 350	2 388	3 082	287 441	315 852
2) Closing balance gross value of fixed assets	19 174	710 697	160 878	12 549	201 998	19 731	1 125 027
3) Opening balance accumulated depreciation (amortization)		272 695	88 245	6 312	80 342	0	447 594
- depreciation		63 114	18 345	1 828	22 043		105 330
- foreign exchange differences		-5 617	-2 287	-73	-1 820		- 9 797
- decrease		14 587	4 190	1 719	2 667		23 163
4) Closing balance accumulated depreciation (amortisation)		315 605	100 113	6 348	97 898	0	519 964
5) Opening balance impairment write-downs	0	6 153	509	0	0	0	6 662
- increase		661	6		286		953
- decrease		850	204				1 054
6) Closing balance impairment write-downs	0	5 964	311	0	286	0	6 561
Total closing balance net value of fixed assets	19 174	389 128	60 454	6 201	103 814	19 731	598 502



Impairment write-downs - items in the profit and loss account - 2013	Amount
- increase – "Revaluation of non-financial assets"	186
- reversal – "Other operating revenues"	1 186

Impairment write-downs - items in the profit and loss account - 2012	Amount
- increase – "Revaluation of non-financial assets"	953
- reversal – "Other operating revenues"	1 054

## 15.2. Leased assets

The Capital Group uses tangible assets under long-term lease agreements which, in accordance with IAS 17, are treated as operating leases. These agreements relate only to transport vehicles.

Outstanding future minimum lease payments as at 31.12.2013 are as follows:

Item	Minimum payments
For 1 year	1 039
From 1 to 5 years	1 339
Over 5 years	0
Total minimum lease payments	2 378

In 2013, the Group recognised fees from operating leases in the amount of PLN 961 thousand in the consolidated statement of financial result and other comprehensive income.

This amount covers only the minimum lease payments.

As at 31 December 2013, there were no contingent fees and sublease payments in the Group.

The basis for determining the minimum lease payments is the monthly lease instalment.

The Lessee has the right to terminate the lease agreement with a 30-days' notice period. Agreements do not contain restrictions on dividends, additional debt or further leasing agreements.

## 15.3. Intangible assets

Intangible assets used by the Capital Group include trademarks, patents and licenses, computer software, internally generated development works and other intangible assets.

The most important element of intangible assets is the House trademark, which was presented in the statement of financial position under a separate item of fixed assets as a "Trademark". Its carrying value as at 31.12.2013 amounted to PLN 77 508 thousand (2012: PLN 77 508 thousand). The useful life of this intangible asset is indefinite.

In the current reporting period, the Group performed an annual impairment test of this component and it was demonstrated that it does not require to be included in the write-down.

The detailed analysis is as follows:

The recoverable amount of cash-generating units to which a value was assigned was determined on the basis of their value in use, using the method of licensing fees.

Detailed assumptions for the estimates are as follows:

House trademark – valued by the royalty relief method, based on the determination of the charges that would have to be paid by an external company for the privilege of using the brand. This fee is usually determined as a percentage of revenues:

- the estimate is based on sales generated by clothing under the House brand, which amounted to PLN 569.4 million in 2013 and was higher by 92.97% compared with the turnover for 12 months (November 2007-October 2008) adopted for the initial balance sheet valuation,
- license fee at the rate of 3% of turnover was adopted,
- capitalization rate adopted for the valuation using the CAPM method (the forecast period is not defined here because it is based on the perpetual rent model) amounted to 9.91% and consisted of several elements:
  - risk-free rate – 2.59% equal to the profitability of 52-week treasury bills,
  - annual inflation rate – 1%,
  - risk premium – 7.50%.

These assumptions are based on current profitability parameters of 52-week treasury bills as at the balance sheet date and published, expected inflation rate. They were included in the valuation carried out according to the model drawn up by an expert, who determined the value of the House trademark. This value was initially included in the statement of financial position (thus, the assumptions are consistent with external sources of information).

As a result of the tests it has been established that the trademark's value exceeds the carrying value of these intangible assets as at the balance sheet date, and therefore there is no need to make any impairment write-downs.

The Group draws up a statement of financial result and other comprehensive income in the spreadsheet format. As a result, amortisation of intangible assets is recognised under the following items:

- costs of sales in the amount of PLN 1 372 thousand (2012: PLN 480 thousand),
- general administrative expenses in the amount of PLN 3 444 thousand (2012: PLN 3 187 thousand).

As at 31 December 2013, the Group was under no contractual obligation to acquire any intangible assets. In 2012, the Group incurred expenditure on development works related to the design and construction of a model showroom of Reserved, House and Sinsay brands. These expenditures are recognised as an increase in intangible assets. As at 31.12.2013, the carrying value of investment amounts PLN 3 804 thousand.

Changes in intangible assets during the period from 01.01.2013 to 31.12.2013 in PLN '000

	Costs of completed development works	Acquired concessions, patents, licenses and similar assets, including:		Intangible assets in progress	Total
		Total	Computer software		
a) Gross value of intangible assets at the beginning of the performance period	5 198	44 160	41 076	2 859	52 217
- foreign exchange differences		-139	-139		-139
- increase		7 192	7 136	5 874	13 066
- decrease	443	845	41	5 670	6 958
b) Gross value of intangible assets at the end of the performance period	4 755	50 368	48 032	3 063	58 186
c) Opening balance accumulated depreciation (amortisation)	443	34 175	31 363		34 618
- foreign exchange differences		-116	-116		-116
- planned amortisation write-downs	951	3 865	3 759		4 816
- decrease	443	821	41		1 264
d) Closing balance accumulated depreciation (amortisation)	951	37 103	34 965		38 054
Total net value of intangible assets at the end of the performance period	3 804	13 265	13 067	3 063	20 132

Changes in intangible assets during the period from 01.01.2012 to 31.12.2012 in PLN '000

	Costs of completed development works	Acquired concessions, patents, licenses and similar assets, including:		Intangible assets in progress	Total
		Total	Computer software		
a) Gross value of intangible assets at the beginning of the performance period	443	40 361	37 277	1 746	42 550
- foreign exchange differences		-97	-97	-3	-100
- increase	4 755	3 901	3 901	5 234	13 890
- decrease		5	5	4 118	4 123
b) Gross value of intangible assets at the end of the performance period	5 198	44 160	41 076	2 859	52 217
c) Opening balance accumulated depreciation (amortisation)	443	30 592	27 809		31 035
- foreign exchange differences		-82	-82		-82
- planned amortisation write-downs		3 667	3 638		3 667
- decrease		2	2		2
d) Closing balance accumulated depreciation (amortisation)	443	34 175	31 363		34 618
Total net value of intangible assets at the end of the performance period	4 755	9 985	9 713	2 859	17 599

At the balance sheet date, the Group was not subject to any restrictions on the use of the Reserved, Cropp and House trademarks in relation to a hedge of an investment loan. Detailed information on this matter is presented in Note 15.8.3.

#### 15.4. Goodwill

In 2013, the goodwill presented in the statement of financial position did not change in comparison to the previous year. It was formed following the merger of LPP SA and Artman SA in July 2009.

This merger was performed by the transfer of all assets of the acquired company, i.e. Artman SA to the acquiring company, i.e. LPP SA.

On the day of this merger, LPP SA held 100% shares of Artman SA.

The merger was performed under common supervision.

The provisions of the amended IFRS 3 were not applied to the completed merger transaction.

The valuation of all existing assets was performed on the day of the acquisition of Artman SA. The Group assessed intangible asset in the form of a trademark in accordance with IAS 38 and included it in the separate item of the statement of financial position.

The goodwill determined as at the balance sheet date, resulting from the acquisition of Artman SA, amounted to PLN 183 203 thousand.

At the same time, due to the above-mentioned acquisition, the Group took over the goodwill existing in the assets of Artman Capital Group, arising from the purchase of 100% of shares in UAB House Plus in the amount of PLN 406 thousand.

Pursuant to IAS 36 and the accounting policy as at 31.12.2013, an impairment test was conducted for the goodwill of Artman with the carrying value of PLN 183 203 thousand.

The recoverable amount of cash-generating units, to which the goodwill was assigned, was determined on the basis of their value in use based on the discounted cash flow method (DCF).

The detailed assumptions for the estimates are as follows:

Goodwill of Artman – estimated using the DCF method for flows generated by House stores acquired from Artman in 2008 (through the acquisition of Artman shares). The valuation was based on the following assumptions:

- the period covering estimated cash flows for 15 years (2014-2028), excluding the residual value,
- annual forecasts of revenues and expenses in 2014 (as per the company's budget) and subsequent years are growing at a rate similar to the inflation rate,
- forecast revenues and expenses for operating retail shops acquired together with ARTMAN (51 own and 33 franchise retail shops),
- annual sales in tested retail shops - about 4% higher in 2014 compared to 2013, and sales increase by 4% in subsequent years,
- operating costs in tested retail shops - about 2.5% higher in 2014 compared to 2013, and sales increase by 2.5% in subsequent years,
- the costs of HOUSE sales department, HOUSE production implementation department and marketing costs of the HOUSE brand – increasing year on year by 2.0% and assigned to the tested retail shops by proportion of the number of shops acquired (and still operating) at the time of the merger to all HOUSE retail shops,
- discount rate in the forecast period is variable and is calculated on the basis of WACC. The WACC rate is 10.08% in 2014 and remains at that level until 2028.

The parameters adopted above are consistent with past experience (for the expenses and sales assumptions) and information coming from external sources for other figures.

As a result of the tests it has been established that the goodwill exceeds the carrying value of intangible assets as at the balance sheet date and therefore there is no need to make any impairment write-downs.

The table below presents changes in goodwill subject to the impairment test.

in PLN '000

Gross value	31.12.2013	31.12.2012
Opening balance	183 203	183 203
Increases	0	0
Reductions	0	0
Closing balance	183 203	183 203
Revaluation write-downs	31.12.2013	31.12.2012
Opening balance	0	0
Closing balance	0	0
Net value	31.12.2013	31.12.2012
Opening balance	183 203	183 203
Closing balance	183 203	183 203

### 15.5. Investments in subsidiaries

The heading "Shares in subsidiaries" in the statement of financial position of the Capital Group includes only shares in non-consolidated domestic companies.

The value of the shares as at the balance sheet date amounts to PLN 136 thousand (2012: PLN 186 thousand).

Shares in subsidiaries are measured at cost less impairment write-downs. Results of the analysis carried out as at the balance sheet date did not show the need for impairment write-downs of assets held by the Capital Group.

In the opinion of the Management Board of the Parent Company, the financial statements of non-consolidated subsidiaries are irrelevant to the consolidated financial statement. The total value of assets of non-consolidated subsidiaries in 2013 is 0.03% of the Group's assets, and the total value of revenues from sales of these companies is 0.28% of the Group's revenues.

### 15.6. Investments in other entities

This item includes shares in companies outside LPP SA Capital Group.

This value presented in the statement of financial position arose in connection with the resolution of the Cypriot government adopted to rescue the financial situation of the country.

As a result of this decision, cash that LPP SA held on 23 March 2013 in the bank accounts maintained by the Bank of Cyprus was converted into series A shares of the same bank.

At the balance sheet date, the Group holds 2 497 194 shares in the Bank of Cyprus at the nominal price of EUR 1 and of a balance value of PLN 10 366 thousand.

As at the date of the financial statements, we do not have definitive information that would allow to clearly assess the value of shares of the company in the capital of the Bank of Cyprus. Therefore,

we are not able to determine whether and in what amount the shares presented in the balance sheet should be subject to amortization for impairment.

## 15.7. Investments in real property

Investments in real property included only residential premises, which were considered by the Group as a source of rental income. In view of the expiry of the lease agreement, the residential premises were assigned to the operational needs of the Parent Company in 2013.

The Group applies the purchase price or production cost model for balance sheet valuation of a given real property.

Changes in the carrying amount in the reporting period were as follows:

	in PLN '000	
	From 01.01.2013 to 31.12.2013	From 01.01.2012 to 31.12.2012
Opening balance carrying amount	661	678
Redemption	13	17
Transfer to tangible fixed assets	648	0
Closing balance carrying amount	0	661

Impairment write-downs are made on a straight-line basis using the depreciation rate of 2.5%. The Group assumed the period of use of real property of 40 years.

In the reporting period, the Group did not obtain the rent revenues. In the comparable period, they amounted to PLN 29 thousand.

## 15.8. Financial assets and liabilities

### 15.8.1. Categories of financial assets and liabilities

The value of financial assets presented in the consolidated statement of financial position relates to the following categories of financial instruments defined in IAS 39:

1. loans and receivables (L&R)
2. financial assets measured at fair value in the financial result (AFV)
3. financial assets available for sale (AAS)

As at 31.12.2013

	in PLN '000	
<i>Fixed assets</i>	L&R	In addition to IAS 39
Receivables and loans	12 928	
<i>Current assets</i>	L&R	In addition to IAS 39

Trade receivables	163 255	
Other receivables		113 927
Loans	12 485	
Cash and cash equivalents	149 356	

As at 31.12.2012

in PLN '000

<i>Fixed assets</i>	L&R	In addition to IAS 39
Receivables and loans	8 680	
<i>Current assets</i>	L&R	In addition to IAS 39
Trade receivables	130 360	
Other receivables	452	64 850
Loans	129	
Cash and cash equivalents	159 393	

The value of financial liabilities presented in the consolidated statement of financial position refers only to one of the categories of financial instruments specified in IAS 39 as financial liabilities measured at amortised cost (LAC).

As at 31.12.2013

in PLN '000

<i>Long-term liabilities</i>	LAC	In addition to IAS 39
Bank loans and borrowings	184 285	
Other liabilities	58	69
<i>Short-term liabilities</i>		
Trade payables	453 882	
Other liabilities	84	131 268
Bank loans and borrowings	173 591	

As at 31.12.2012

in PLN '000

<i>Long-term liabilities</i>	LAC	In addition to IAS 39
Bank loans and borrowings	125 114	
Other liabilities	71	77



<i>Short-term liabilities</i>	LAC	In addition to IAS 39
Trade payables	399 814	
Other liabilities	42	97 070
Bank loans and borrowings	60 517	

### 15.8.2. Receivables and loans

For the purposes of presentation in the consolidated statement of financial position, the Capital Group distinguishes the receivables and loans category (IFRS 7.6). In the long-term part, receivables and loans are presented as one item in the statement of financial position. In the short-term part, pursuant to IAS 1, the Group presents trade receivables and other receivables separately.

The LPP Capital Group statement of financial position items of the receivables and loans class are presented in the table below.

in PLN '000

	31.12.2013	31.12.2012
<i>Fixed assets:</i>		
Receivables	9 897	2 601
Loans	3 031	6 079
<b>Long-term receivables and loans</b>	<b>12 928</b>	<b>8 680</b>
<i>Current assets</i>		
Trade and other receivables	277 182	130 360
Loans	12 485	129
<b>Short-term receivables and loans</b>	<b>289 667</b>	<b>130 489</b>
<b>Receivables and loans, including:</b>	<b>302 595</b>	<b>139 169</b>
Receivables (Note 15.10)	287 079	132 961
Loans (Note 15.8.2)	15 516	6 208

Loans granted are measured at depreciated cost using the effective interest rate method. In the absence of an active market it was assumed that the carrying value of loans is equal to their fair value.

As at 31.12.2013, loans granted in PLN with the carrying amount of PLN 3 044 thousand (2012: PLN 3 217 thousand) were subject to a fixed interest rate of 7%. The maturity dates for loans in PLN cover the period 2014-2017.

The Group also granted foreign currency loans in HUF and RUB. The carrying value of foreign currency loans as at 31.12.2013 was PLN 12 472 thousand. In accordance with Hungarian regulations, workers' loans are exempt from interest and concluded for a period of four to seven years. Russian loan bears interest at a fixed rate of 14% and matures in 2014.

At the end of the balance sheet period, they are assessed in terms of impairment. Results of the analysis carried out as at the balance sheet date did not show that there was a need to perform impairment write-downs of loans taken by LPP Capital Group.

Change in the gross carrying value of loans is as follows:

in PLN '000

Gross value	31.12.2013	31.12.2012
Opening balance amount	6 208	3 545
The amount of loans granted during the period	9 091	2 873
Calculation of interest	1 529	105
Repayment of loans and interest	1 312	315
Closing balance amount	15 516	6 208

Disclosures regarding cash and cash equivalents are presented in Note 15.11.

### 15.8.3. Bank loans and borrowings and other debt instruments

The Capital Group does not recognise any instruments from the credit and loans class into financial liabilities selected for valuation at fair value in the financial result. All credits, loans and other debt instruments are measured at depreciated cost using the effective interest rate method.

As at 31 December 2013, the Company's debt related to bank credits was as follows:

Bank	Use of credits as at 31 December 2013		Credit costs	Maturity date
	in PLN '000	currency in '000		
PKO BP SA	80 830		wibor 1 m + bank's margin	31.12.2022
PKO BP SA	181 065		wibor 1 m + bank's margin	31.12.2017
PKO BP SA	35 842		wibor 1 m + bank's margin	23.06.2014
Citibank Bank Handlowy	58 712		wibor 1 m + bank's margin	12.01.2016
Pekao SA	741	239 USD	libor 1 m + bank's margin	12.01.2015
BNP Paribas Bank Polska SA	333		wibor 1 m + bank's margin	16.12.2014
Raiffeisen Bank Polska SA	7		wibor 1 m + bank's margin	01.10.2014
Unicredit Bulbank AD	346	85 EUR	euribor 1 m + bank's margin	28.02.2015
Total	357 876			

Bank credits amounting to PLN 357 876 thousand include:

- long-term loans in the amount of PLN 184 285 thousand,
- short-term loans in the amount of PLN 173 591 thousand (including PLN 77 610 thousand, which constitutes part of the long-term investment loans falling due in the period of 12 months following the balance sheet day).

As at 31 December 2012, the Company's debt related to bank credits was as follows:

Bank	Use of credits as at 31 December 2012		Credit costs	Maturity date
	in PLN '000	currency in '000		
PKO BP SA	56 039		wibor 1 m + bank's margin	04.11.2017
PKO BP SA	104 686		wibor 1 m + bank's margin	31.12.2017
Citibank Bank Handlowy	23 991		wibor 1 m + bank's margin	22.11.2013
Citibank Bank Handlowy	664	USD 208	libor 1 m + bank's margin	21.11.2013
BNP Paribas Bank Polska SA	248		wibor 1 m + bank's margin	16.12.2013
Raiffeisen Bank Polska SA	3		wibor 1 m + bank's margin	30.09.2013
Unicredit Tiriak Bank SA	531	EUR 129	euribor 1 m + bank's margin	31.07.2013
Total	186 162			

As at 31.12.2012, bank credits amounting to PLN 186 162 thousand include:

- long-term loans in the amount of PLN 125 114 thousand,
- short-term loans in the amount of PLN 61 048 thousand (including PLN 35 611 thousand, which constitutes part of long-term investment loans falling due in the period of 12 months following the balance sheet date).

Detailed information on bank credits and multi-purpose lines is as follows:

Bank	Type of credit/line	Credit amount and currency:		Security
		in '000	currency	
PKO BP SA	Multi-purpose and multi-currency credit line	173 000	PLN	2 blank promissory notes
PKO BP SA	Investment loan	188 025	PLN	ordinary and capped mortgage, assignment of receivables from insurance, blank promissory note
PKO BP SA	Investment loan	227 000	PLN	ordinary and capped mortgage, assignment of receivables from insurance, blank promissory note, registered pledge on Reserved, Cropp and House trademarks
Pekao SA	Multi-purpose and multi-currency credit line	230 000	PLN	blank bill of exchange power of attorney for accounts
BNP Paribas Bank Polska SA	Multi-purpose and multi-currency credit line	230 000	PLN	blank bill of exchange
Raiffeisen Bank Polska SA	Multi-purpose and multi-currency credit line	230 000	PLN	blank bill of exchange, power of attorney for accounts
Citibank Bank Handlowy	Multi-purpose, multi-currency line	75 000	PLN	blank bill of exchange
Citibank Bank Handlowy	Revolving line of letters of credit	18 100	USD	blank bill of exchange
Unicredit Bulbank AD	Credit line	330	EUR	guarantee of Pekao SA
Unicredit Tiriack Bank SA	Credit line	6 500	RON	guarantee of Pekao SA
Unicredit Prague	Credit line	48 100	CZK	surety of the Parent Company

In the reporting period, in the case of loans, there was no situation in which the Group companies defaulted on payments or conditions of the contracts.

#### 15.8.4. Other information on financial instruments

The fair values, carrying values and comparable data of individual financial instruments as at the balance sheet date are presented in the table below.

2013

in PLN '000

Assets*	Fair value	Carrying amount
Trade and other receivables	287 079	287 079
Cash and cash equivalents	149 355	149 355
<b>Total</b>	<b>436 434</b>	<b>436 434</b>
Liabilities	Fair value	Carrying amount
Bank loans and borrowings	357 876	357 876
Trade and other liabilities	585 219	585 219
Other financial liabilities	142	142
<b>Total</b>	<b>943 237</b>	<b>943 237</b>

2012

in PLN '000

Assets*	Fair value	Carrying amount
Trade and other receivables	198 263	198 263
Cash and cash equivalents	159 393	159 393
<b>Total</b>	<b>357 656</b>	<b>357 656</b>
Liabilities	Fair value	Carrying amount
Bank loans and borrowings	186 162	186 162
Trade and other liabilities	399 890	399 890
Other financial liabilities	113	113
<b>Total</b>	<b>586 165</b>	<b>586 165</b>

\* due to the lack of possibility of reliable pricing, the table does not include unquoted equity instruments valued at purchase price and the value of loans priced using the amortised cost method for which there is no active market.

Fair value is defined as the amount for which on market conditions the asset could be exchanged or a liability settled, between knowledgeable, interested and unrelated parties. In the case of financial instruments for which there is an active market, fair value is determined based on parameters from the active market (sales and purchase prices). In the case of financial instruments for which there is no active market, fair value is determined on the basis of valuation techniques, where input data of the model are variables derived from active markets (exchange rates, interest rates).

In the Group's opinion, the carrying value of financial assets and financial liabilities is close to the fair value.

## 15.9. Inventories

Trading commodities are the key element of the Capital Group's inventories. The structure of inventories as at the balance sheet date is presented in the table below:

in PLN '000

Inventories	31.12.2013	31.12.2012
- materials	7 415	8 588
- goods	797 623	647 482
<b>Total</b>	<b>805 038</b>	<b>656 070</b>

The value of inventories disclosed in the statement of financial position was reduced by the amount of a revaluation write-down. Changes in the amount of inventories revaluation write-down in the reporting period and comparative periods are presented in the table below.

As at 31.12.2013 the value of inventories recognised as an expense during the reporting period amounted to PLN 2 031 644 thousand.

in PLN '000

Inventory revaluation write-down	31.12.2013	31.12.2012
Opening balance	5 017	5 251
Inventory write-downs included as cost in the period	8 265	3 460
Reversed revaluation write-downs in the period	1 912	3 673
Exchange rate differences	-485	-21
Closing balance	10 885	5 017

## 15.10. Receivables

Trade and other receivables recognised by the Capital Group as receivables and loans (Note 15.8) are as follows:

Long-term receivables in the carrying amount of PLN 9 897 thousand (2012: PLN 2 601 thousand) include only several deposits paid.

Detailed information on the structure of the Capital Group's short-term receivables is presented in the table below.

in PLN '000

Short-term receivables	31.12.2013	31.12.2012
Trade receivables	169 038	136 243
Revaluation write-downs of trade receivables	5 783	5 883
<b>Net trade receivables</b>	<b>163 255</b>	<b>130 360</b>
Other receivables		700
Revaluation write-downs of other receivables		248
<b>Other receivables net according to IAS 39</b>	<b>0</b>	<b>452</b>
<b>Other receivables beyond IAS 39</b>	<b>113 927</b>	<b>64 850</b>
<b>Total short-term receivables</b>	<b>277 182</b>	<b>195 662</b>

Changes in the amount of write-downs in the reporting period and comparative periods are presented in the table below.

in PLN '000

Receivables revaluation write-down	31.12.2013	31.12.2012
Opening balance amount	6 131	6 678
Revaluation write-downs created in the period	1 598	1 070
Reversed revaluation write-downs in the period	1 378	1 693
Exchange rate differences	-314	76
Closing balance amount	6 037	6 131

## 15.11. Cash

in PLN '000

Cash	31.12.2013	31.12.2012
Cash in hand and cash at banks	105 357	102 629
Other cash	43 999	56 764
<b>Total</b>	<b>149 356</b>	<b>159 393</b>

"Other cash" includes short-term deposits. These deposits are established for a fixed term (from one day up to one month, depending on the Company's needs) and bear interest based on fixed interest rates.

The currency structure of cash is presented in the table below.

in PLN '000		
Cash - currency structure	31.12.2013	31.12.2012
In the Polish currency	48 752	56 989
In foreign currencies (by currency)	100 604	102 404
- USD	9 907	33 201
- RMB	90	0
- EUR	30 771	16 209
- LVL	2 050	1 573
- CZK	14 434	10 065
- UAH	6 718	3 660
- LTL	5 001	2 284
- HUF	4 169	8 168
- RUB	21 365	22 078
- BGN	3 663	2 403
- RON	2 436	2 763
<b>Total (in PLN '000).</b>	<b>149 356</b>	<b>159 393</b>

As at 31 December 2013, the Group had free borrowed funds in the amount of PLN 304 245 thousand. In the period from 1.01.2013 to 31.12.2013, the Capital Group made non-cash settlements with its customers (in the form of set-off of liabilities and receivables) in the total amount of PLN 51 309 thousand.

As at the balance sheet day, the use of cash in the amount of PLN 8 440 thousand was limited. The amount of PLN 8 216 thousand results from deposits formed in Cyprus for a period of 6, 9 and 12 months with the possibility to extend the period for which they were originally created. The remaining amount of PLN 224 thousand stems from the fact that it is on account of the social fund. Payment of these funds from the account may be made only as payment for a specific type of expenses related to the employment of workers.

## 15.12. Discontinued operations

In 2013, the Group had no discontinued operations.

## 15.13. Equity capital

### *Share capital*

The Group's share capital is equal to share capital of the parent company. As at 31 December 2013, it amounted to PLN 3 662 246. The capital is divided into 1 831 123 shares of a nominal value of PLN 2 each.



The table below shows a total number of shares divided into separate issues.

Series / issue	Type of shares	Type of privilege	Type of restriction concerning shares entitlements	Number of shares	Value of the issue
A	bearer	ordinary	none	100	200
B	registered	preference	none	350 000	700 000
C	bearer	ordinary	none	400 000	800 000
D	bearer	ordinary	none	350 000	700 000
E	bearer	ordinary	none	56 700	113 400
F	bearer	ordinary	none	56 700	113 400
G	bearer	ordinary	none	300 000	600 000
H	bearer	ordinary	none	190 000	380 000
I	bearer	ordinary	none	6 777	13 554
J	bearer	ordinary	none	40 000	80 000
K	bearer	ordinary	none	80 846	161 692
Total number of shares				1 831 123	

All issued shares are paid up in full.

In the reporting period, LPP SA paid dividends to its shareholders. Part of the profit generated in 2012 in the amount of PLN 154 007 597.50 was used as dividend, which corresponds to PLN 85.10 per one authorised share.

The amount of PLN 124 222 597.50 was allocated to ordinary shares and PLN 29 785 000 - to preference shares.

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.

Ownership structure of the share capital of LPP SA as at 31 December 2013:

Shareholder	Number of shares held	Number of votes at the AGM	Share in the total number of votes at the AGM	Participation in share capital	Nominal value of shares
Marek Piechocki	175 000	875 000	27.1%	9.6%	350 000
Jerzy Lubianiec	175 000	875 000	27.1%	9.6%	350 000
Monistor Limited (Cyprus)	200 728	200 728	6.2%	11.0%	401 456
Grangeford Limited (Cyprus)	350 000	350 000	10.8%	19.1%	700 000
Other shareholders	930 395	930 395	28.8%	50.8%	1 860 790
Total	1 831 123	3 231 123	100.0%	100.0%	3 662 246

#### *Share premium*

The separated value of the spare capital resulting from the surplus at the disposal of the shares above their nominal value with the carrying value of PLN 235 069 thousand.

#### *Other reserves*

The value of other capital results from the sum of spare capital, reserve capital, capital from the settlements of the merger and the equity component of convertible bonds.

The amount of individual capital is presented in the table below.

in PLN '000

Type of capital	31 December 2013	31 December 2012
Spare capital	841 618	645 760
Reserve capital	7 859	310
Capital from the settlement of the merger	-1 410	-1 410
Capital component of convertible bonds	12 290	12 290
<b>Total</b>	<b>860 357</b>	<b>656 950</b>

The Company's spare capital presented under equity as at 31.12.2013 was created mainly from net profit brought forward from previous years and as a result of measurement of share-based payments. Part of the spare capital created on a statutory basis under Article 396 of the Commercial Companies Code may be used in the future only to offset a loss (if any).

The structure of the spare capital is as follows:

in PLN '000

Type of spare capital	31 December 2013	31 December 2012
Created on a statutory basis based on the write-off from profit or loss	1 323	1 300
Created as per the Articles of Association based on write-off from profit or loss	818 303	630 999
Created from share-based payments	21 992	13 461
<b>Total</b>	<b>841 618</b>	<b>645 760</b>

#### Equity of the Company in the period of hyperinflation

Conversion of the equity in the hyperinflationary period was based on the following data:

1. 18.12.1989 - establishment of the company and contribution of share capital in the amount of (after denomination) PLN 200
2. 4.05.1995 - acquisition of the company by Marek Piechocki and Jerzy Lubianiec
3. 12.04.1995 - registration of the increase of share capital up to PLN 700 thousand
4. 24.10.1995 - adoption of the resolution on the increase of share capital up to PLN 1 500 thousand
5. 4.01.1996 – adoption of the resolution on the increase of share capital up to PLN 2 200 thousand

in PLN '000

Year	Opening balance equity	Increases	Inflation	Days	Inflation rate	Capital after conversion
1990	0.2		585.8%	365	6.858	1.4
1991	1.4		70.3%	365	1.703	2.3
1992	2.3		43.0%	365	1.430	3.3
1993	3.3		35.3%	365	1.353	4.5
1994	4.5		32.2%	365	1.322	5.9
1 January 1995	5.9		27.8%	365	1.278	7.6
12 April 1995		700	27.8%	263	1.200	840
24 October 1995		800	27.8%	68	1.052	841
TOTAL 1995						1 689
1 January 1996	1 916 <sup>1)</sup>		19.9%	365	1.199	2 298
4 January 1996		1 400 <sup>2)</sup>	19.9%	362	1.197	1 676
Total 1996						3 974

<sup>1)</sup> equity at the end of 1995 + retained result for 1995

<sup>2)</sup> capital increase + agio

As at 31.12.1996 (excluding profit for the fiscal year), the Company's equity amounted to PLN 3 127 thousand. The difference resulting from the revaluation of equity was PLN 847 thousand.

#### 15.14. Provisions

As at the balance sheet date, the Group has provisions in the statement of financial position liabilities in the total amount of PLN 27 559 thousand.

##### *Provision for retirement benefits*

This provision is created only by the parent company. Retirement severance payments are not paid in other capital companies, except Slovakia and Bulgaria. The companies estimate the amount of this provision individually, based on actuarial methods.

##### *Provision for holiday leaves not taken*

The Group also creates provision for holiday leaves not taken, i.e. future payment of amounts payable to employees for their on-going service.

##### *Unpaid compensations provision*

This provision is created for the future remunerations paid in connection with the created incentive programme.

in PLN '000

	Provision for pensions and similar benefits	Provision for unpaid remuneration	Provision for liabilities	Provision for holiday leaves not taken
As at 1 January 2013	1 277	13 666	16	6 186
- provisions established	1 298	16 232		8 003
- provisions reversed	1 277	11 640	16	6 186
As at 31 December 2013	1 298	18 258	0	8 003

### 15.15. Contingent liabilities

In 2013, capital companies used bank guarantees to secure payment of rent for leased retail premises where brand stores are located.

As at 31 December 2013, the total value of bank guarantees granted at the request and on the responsibility of LPP SA amounted to PLN 130 446 thousand, of which:

- a) guarantees granted to secure agreements executed by LPP SA - PLN 69 511 thousand,
- b) guarantees granted to secure agreements executed by consolidated related parties - PLN 58 673 thousand,
- c) guarantees granted to secure agreements executed by non-consolidated related parties - PLN 1 657 thousand,
- d) guarantees granted to secure lease agreements executed by LPP SA - PLN 603 thousand.

On 30 December 2013, the value of guarantees granted by the parent amounted to PLN 39 179 thousand and increased compared to 31 December 2012 by PLN 14 292 thousand.

According to the Management Board, any outflow of funds disclosed under off-balance sheet/contingent liabilities is unlikely. The majority of these liabilities are related to guarantees securing payment of rent by entities of LPP SA Capital Group.

### 15.16. Future liabilities under lease agreements

The Capital Group is party to lease agreements for the use of retail premises where Reserved, Cropp, House, Mohito and Sinsay brand stores are located.

The value of rents charged to costs of the current financial period amounts to PLN 571 475 thousand. This amount includes both the minimum and contingent rents, depending on the amount of turnover achieved. The amount of contingent rents has not been separated due to their negligible value.

Total future minimum payments under lease agreements, estimated as at 31 December 2013, are as follows:

- payables maturing within 12 months after the balance sheet date - PLN 523 339 thousand.
- payables maturing within 12 months to 5 years from the balance sheet date - PLN 1 649 744 thousand.
- payables maturing over 5 years from the balance sheet date - PLN 902 858 thousand.

Provisions of fixed-term lease agreements under which these payments are due are typical for this type of agreements. Apart from the minimum rent, these agreements usually provide for additional contingent rent if a specified level of revenues in the store is generated. In the reporting period, the amount of contingent rent was immaterial, as it represented only 2.38% of the total amount of rent. Retail lease agreements also contain adjustment clauses, linking the amount of rent with statistical price indices. Some of them contain provisions allowing to extend the term of lease agreements, leaving the decision to the lessee.

As these lease agreements refer to premises located mainly in large shopping malls, they do not provide for the purchase of leased premises.

### 15.17. Trade and other liabilities

in PLN '000

Short-term liabilities	31.12.2013	31.12.2012
Trade payables	453 882	399 814
Other financial liabilities	84	42
<b>Financial liabilities according to IAS 39</b>	<b>453 966</b>	<b>399 856</b>
Payables due under taxes and other benefits	121 535	89 596
Other non-financial liabilities	9 733	7 474
<b>Non-financial liabilities</b>	<b>131 268</b>	<b>97 070</b>
<b>Total short-term liabilities</b>	<b>585 234</b>	<b>496 926</b>

### 15.18. Accruals and prepayments

in PLN '000

Prepayments - assets	31.12.2013	31.12.2012
<i>Long-term</i>		
Software supervision	448	247
Other long-term settlements	46	51
<b>Total long-term prepayments</b>	<b>494</b>	<b>298</b>
<i>Short-term</i>		
Rent	10 869	7 152
Insurance	2 042	1 960
Software supervision	844	347
Other	1 845	1 653
<b>Total short-term prepayments</b>	<b>15 600</b>	<b>11 112</b>

in PLN '000

Prepayments - liabilities	31.12.2013	31.12.2012
Returns of goods from domestic sale	4 793	2 918
Sales based on gift cards and vouchers	8 821	5 478
Marketing services	2 021	
Other	3 289	3 732
<b>Total accruals</b>	<b>18 924</b>	<b>12 128</b>

## 15.19. Revenues

in PLN '000

Revenues	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
1) net revenues from sales of services	32 177	31 552
2) net revenues from sales of goods and materials	4 084 125	3 192 203
<b>Total revenues</b>	<b>4 116 302</b>	<b>3 223 755</b>

The Group's revenues from sales of services are generated only by the parent company. Services provided by the company include, above all:

- sale of know-how concerning the management of brand stores by Polish contractors,
- rental of own means of transport.

in PLN '000

Other operating income	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
1. Profit from the disposal of non-financial fixed assets	13 860	9 841
2. Grants	42	15
3. Other operating revenues, including:	19 894	17 827
- reversal of write-downs of fixed assets	1 186	1 054
- reversal of write-downs of receivables	715	482
- reversal of write-downs of provisions	1 912	3 673
<b>Total operating revenues</b>	<b>33 797</b>	<b>27 683</b>

in PLN '000

Finance income	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
1. Interest, including:	2 090	1 968
- on deposits	461	1 667
- on loans and receivables	1 604	240
- on bonds	25	61
2. Dividends	190	193
3. Profit from the disposal of investments	38	0
4. Other	30	53
- including the balance of exchange rate differences	0	0
<b>Total financial revenues</b>	<b>2 348</b>	<b>2 214</b>

## 15.20. Costs

in PLN '000

Expenses by type	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
1. Depreciation and amortisation	148 188	108 997
2. Consumption of materials and energy	112 121	90 744
3. Outsourced services	1 196 499	873 265
4. Taxes and fees	11 298	9 563
5. Salaries	227 617	172 297
6. Social insurance and other benefits, including:	56 697	41 054
- pension contribution		5 646
7. Other expenses by type	6 176	58 829
<b>Total expenses by type</b>	<b>1 758 596</b>	<b>1 360 395</b>

Change in products - 609 361

The value of costs of sales and general administrative expenses 1 759 205 1 360 756 presented in the statement of financial result and other comprehensive income

in PLN '000

Other operating income	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
1. Revaluation of non-financial assets	10 498	5 176
- fixed assets	199	953
- inventories	8 886	3 460
- receivables	1 413	763
2. Other	57 618	34 399
<b>Total operating costs</b>	<b>68 116</b>	<b>39 575</b>

in PLN '000

Finance costs	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
1. Interest, including:	12 390	17 187
- regarding bank loans	12 390	12 286
- regarding debt securities	0	4 901
2. Other, including:	81 714	15 308
- commissions on bank credits and guarantees	3 040	2 568
- balance of foreign exchange differences	78 674	12 722
<b>Total financial expenses</b>	<b>94 104</b>	<b>32 495</b>

## 15.21. Income tax

The main elements of taxation of the Group for 2013 and the comparative period are shown in the table below.

in PLN '000

Statement of financial result and comprehensive income	2013	2012
Current income tax	97 355	72 140
Deferred income tax	- 6 343	- 1 981
<b>Total income tax</b>	<b>91 012</b>	<b>70 159</b>

Reconciliation of income tax calculation disclosed in the consolidated statement of financial result and other comprehensive income for 2013 and 2012 is shown in the table below.

in PLN '000

Current income tax	2013	2012
Gross profit/loss of the Group before consolidation adjustments	628 768	640 577
Adjustment of permanently tax-exempt expenses and revenues	-131 643	-193 749
Gross profit/loss of the Group after adjustment	497 125	446 828
Income tax at the average rate of 18.73%, 18.19%	93 116	81 304
Tax consolidation adjustments	722	-9 842
Tax relieves	-2 826	-1 303
<b>Income tax</b>	<b>91 012</b>	<b>70 159</b>

Income tax is calculated according to the following rates:

- LPP SA – 19 %,
- ZAO Re Trading (Russia) – 20%,
- UAB LPP (Lithuania) - 15%,
- LPP Reatil Latvia (Latvia) – 15%,
- LPP Ukraine AT – 21%,
- LPP Hungary (Hungary) - 10%,
- LPP Retail Estonia – 21%,
- LPP Czech Republic (Czech Republic) - 19%,
- LPP Retail Bulgaria – 10%,
- Artman Słowacja – 23%,
- LPP Fashion Distributor (Romania) – 16%,
- Gothals Ltd (Cyprus) - 12.5%.

The amount of deferred income tax assets and provision recognised in the statement of financial position results from the items and amounts presented in the table below.



in PLN '000

Deferred income tax assets:	31.12.2013	31.12.2012
Surplus of balance sheet depreciation value of assets over tax depreciation	9 640	8 240
Revaluation of trade receivables	452	421
Margin on goods unsold outside the Group	11 354	7 952
Revaluation of inventories	442	520
Tax loss	3 709	2 237
Remuneration and overheads	3 520	2 506
Other	812	937
<b>Total</b>	<b>29 929</b>	<b>22 813</b>

in PLN '000

Deferred income tax assets:	31.12.2013	31.12.2012
Accelerated tax depreciation	4 708	4 091
Outstanding interest on loans granted	72	4
Damages not received	152	155
Accrued interest on bank loans	204	137
Other	65	54
<b>Total</b>	<b>5 201</b>	<b>4 441</b>

Deferred income tax assets will be realised provided that the entities forming the Group generate positive financial result in the future periods.

Deferred tax shown in the statement of financial result and other comprehensive income for the period from January to December 2013 and 2012 relates to the following items:

in PLN '000

Deferred income tax assets:	31.12.2013	31.12.2012
Surplus of balance sheet depreciation value of assets over tax depreciation	1 400	1 096
Revaluation of trade receivables	31	-26
Margin on goods unsold outside the Group	3 402	3 777
Interest on bonds		-555
Revaluation of inventories	-78	-75
Tax loss	1 472	-844
Remuneration and overheads	1 014	402
Other temporary differences	-125	369
Foreign exchange differences from translation	-150	210
<b>Total</b>	<b>6 966</b>	<b>4 354</b>

in PLN '000

Deferred income tax assets:	31.12.2013	31.12.2012
Accelerated tax depreciation	617	2 746
Outstanding interest on loans granted	68	-20
Damages not received	-3	4
Accrued interest on bank loans	67	21
Other	11	5
Foreign exchange differences from translation	-137	-383
<b>Total</b>	<b>623</b>	<b>2 373</b>

## 15.22. Earnings per share and diluted earnings per share

Earnings per share (EPS) ratio is calculated by dividing net profit of the parent company's shareholders by the weighted average number of ordinary shares in the period.

While calculating both basic and diluted profit (loss) per share, LPP SA applies in the numerator the amount of profit (loss) attributable to shareholders of the parent company, i.e. there is no dilutive effect influencing the amount of profit (loss).

While calculating diluted earnings per share, the denominator takes into account the dilutive effect of stock options convertible into shares (see Note 15.23.1 on transactions with key management personnel).

Calculation of EPS is presented below.

	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
<b>Number of shares used as the denominator in the formula</b>		
Weighted average number of ordinary shares	1 809 725	1 780 848
Dilutive effect of stock options convertible into shares	15 604	6 596
Diluted weighted average number of ordinary shares	1 825 329	1 787 444
<b>Earnings per share</b>		
Net profit (loss) for the current period	430 964	352 429
Profit (loss) per share	238.14	197.90
Diluted profit (loss) per share	236.10	197.17

## 15.23. Transactions with affiliated entities

The Group's affiliates include:

- foreign and Polish companies controlled by the Group based on direct ownership of shares,
- members of key management of LPP SA Capital Group and their close family members,
- entities controlled or significantly influenced by members of the key personnel or their close family members.

### 15.23.1. Transactions with key management personnel

The Group's key management personnel includes members of the Management Board and the Supervisory Board of the parent company.

The Management Board members received remuneration on account of the functions served both in LPP SA and a subsidiary IP Service.

The value of short-term benefits of the key management personnel received for the period from 1 January to 30 June 2013 amounted to PLN 5 084 thousand. Remuneration presented separately for each of the persons classified as the key personnel is as follows:

Marek Piechocki, President of the Management Board, PLN 1 350 thousand.

Dariusz Pachla, Vice President of the Management Board, PLN 900 thousand.

Piotr Dyka, Vice President of the Management Board, PLN 900 thousand.

Hubert Komorowski, Vice President of the Management Board, PLN 900 thousand.

Jacek Kujawa, Vice President of the Management Board, PLN 900 thousand.

Jerzy Lubianiec, Chairman of the Supervisory Board, PLN 23 thousand and PLN 24 thousand – for services other than membership in the Supervisory Board.

Other members of the Supervisory Board obtained a total of PLN 87 thousand.

As at 31 December 2013, accrued provisions for retirement severance payments for the Management Board members amounted to PLN 21 thousand (2012: PLN 20 thousand), and for not taken leaves amounting to PLN 43 thousand (2012: 19 thousand).

In addition to the above remuneration, the Management Board members were entitled to payment of a premium following publication of the financial statements for 2013.

This premium is linked to the results achieved by the LPP Capital Group, for which an adequate provision had been created and it amounts for individual persons to:

Marek Piechocki, President of the Management Board, PLN 216 thousand,

Dariusz Pachla, Vice President of the Management Board, PLN 144 thousand,

Piotr Dyka, Vice President of the Management Board, PLN 187 thousand,

Hubert Komorowski, Vice President of the Management Board, PLN 187 thousand,

Jacek Kujawa, Vice President of the Management Board, PLN 144 thousand.

On 14 June 2013, the AGM passed Resolutions introducing the incentive programme addressed to six key managers of LPP SA. Details of the programme are published on the company's website. This programme gives its participants the right to purchase shares of LPP held by the company at a the nominal price (PLN 2) provided that the net profit of LPP for the Financial Year (2013) increased a minimum of 10% compared to the profit generated in 2012.

Individual participants are entitled to subscribe for such number of shares which follows from the following assumptions:

1. Marek Piechocki will have the right to take 16 shares for every percent increase in net profit of LPP SA Capital Group in the Financial Year, more than 110% of the profit means the right to purchase 192 shares;
2. Dariusz Pachla will have the right to take 11 shares for every percent increase in net profit of LPP SA Capital Group in the Financial Year, more than 110% of the profit means the right to purchase 132 shares;
3. Jacek Kujawa will have the right to take 11 shares for every percent increase in net profit of LPP SA Capital Group in the Financial Year, more than 110% of the profit means the right to purchase 132 shares;
4. Sławomir Łoboda - who is not a member of the company authorities - will have the right to take 11 shares for every percent increase in net profit of LPP SA Capital Group in the Financial Year, more than 110% of the profit means the right to purchase 132 shares;
5. Hubert Komorowski and Piotr Dyka (each) will have the right to take shares in a number equal
  - a) 11 shares for every percent increase in net profit realised LPP SA Capital Group in the Financial Year, more than 110% of net profit
  - and
  - b) additional number of Shares in an amount specified by the Supervisory Board according to the results obtained by the distribution channels supervised by Hubert Komorowski and Piotr Dyka;

However, in no case the amount of the Shares subscribed by Hubert Komorowski and Piotr Dyke (i.e. each of them) cannot be greater than 130% of the shares, or less than 70% of the Shares subscribed for by each of the other participants in the programme (with the exception of Marek Piechocki).

For Hubert Komorowski, it means the right to purchase 172 shares.

For Piotr Dyke, it means the right to purchase 172 shares.

Additionally, in accordance with the principles of the said programme, its participants obtained the right to acquire Shares in the form of a Special Bonus for the results achieved by LPP SA Capital Group in 2010-2012.

This right has not been exercised, and for individual participants in the programme it means the ability to purchase:

1. For Marek Piechocki – 306 Shares;
2. For Dariusz Pachla - 204 Shares;
3. For Jacek Kujawa - 204 Shares;
4. For Sławomir Łoboda - 204 Shares;
5. For Hubert Komorowski - 285 Shares;
6. For Piotr Dyke - 285 Shares.

The Supervisory Board decides whether each scheme participant meets the conditions for granting rights under the scheme at the same time defining the number of Shares to be acquired. The Shares may not be sold before 1 January 2016, with the exception of the Shares resulting from the Special Bonus whose disposal is not possible until 1 January 2015.

The reporting period has included costs related to this incentive programme in the amount of PLN 5 438 thousand.

These costs have been determined based on the valuation of one option based on the model of the Black-Scholes-Merton for call option designated on 14 June 2013, i.e. upon adoption of Resolution by General Meeting of Shareholders on introducing the programme assuming the volatility of the share price of LPP of 35%, dividend yield of 3% and a risk-free rate of 5%. The total cost was distributed in proportion to the vesting period, i.e. from 14 June 2013 to 1 January 2016 (or 1 January 2015 for the Special Bonus) with the assumption that all participants meet the conditions of continuity of employment in accordance with the Rules.

In the reporting period, the cost of the Incentive Programme of 2011 for particular period were also recognised in the amount of PLN 3 096 thousand.

### 15.23.2. Transactions with affiliated entities

in PLN '000

No.	Affiliated entities	Liabilities as at 31.12.2013	Receivables as at 31.12.2013	Revenues in 2013	Expenses in 2013
1.	Polish subsidiaries	114	1	14	11 720
Total		114	1	14	11 720

in PLN '000

No.	Affiliated entities	Liabilities as at 31.12.2012	Receivables as at 31.12.2012	Revenues in 2012	Expenses in 2012
1.	Polish subsidiaries	225	2	19	9 618
Total		225	2	19	9 618

The figures given in the table only present transactions between LPP SA and non-consolidated Polish subsidiaries, and they are presented from the parent company's point of view.

Data presented as payables of LPP SA are receivables in affiliated entities, and expenses are equivalent to revenues of given entities.

All the transactions with affiliated entities were concluded under market conditions.

Revenue from domestic companies is generated on the lease of office space for the purposes of operation of these companies.

Expenses related to the domestic subsidiaries concern the rental of property where Cropp Town, Reserved, Mohito and House are run.

Payment terms adopted for subsidiaries are between 45 and 120 days.

## 15.24. Segments of operation

Financial results and other information regarding geographical segments for the period from 1 January 2013 to 31 December 2013 and for the comparative period are presented in the following tables.

2013

in PLN '000

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	3 164 592	951 710		13 860	4 116 302
Intersegmental sales	535 340		(535 340)		-
Other operating income	13 250	6 687		13 860	33 797
<i>Total revenue</i>	<i>3 713 182</i>	<i>958 397</i>	<i>(535 340)</i>	<i>13 860</i>	<i>4 150 099</i>
Total operating income, including	2 939 922	883 006	(510 981)	154 409	3 466 356
Costs of intersegmental sales	414 384		(414 384)		-
Other operating income	39 415	28 701			68 116
<i>Segment results</i>	<i>733 845</i>	<i>46 690</i>	<i>(24 359)</i>	<i>(140 460)</i>	<i>615 627</i>
Finance income					2 348
Finance costs					94 104
<i>Profit before tax</i>					<i>523 871</i>
Income tax					91 012
<i>Net profit</i>					<i>432 859</i>

in PLN '000

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
Segment assets	2 417 984	663 976	(635 835)		2 446 125
Unallocated assets across the group				45 445	45 445
<i>Total consolidated assets</i>					2 491 570
Segment liabilities	604 936	627 064	(599 997)		632 003
Unallocated liabilities across the group				363 077	363 077
<i>Consolidated total liabilities</i>					995 080

Other disclosures	EU Member States	Other countries
Segment capital expenditure	346 469	150 009
Segment depreciation	104 713	43 475
Impairment write-downs	2 937	7 561
Release of impairment write-downs	3 792	21
Other non-cash expenses	36 478	21 140

2012

in PLN '000

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	2 586 055	637 700			3 223 755
Intersegmental sales	374 242		( 374 242)		-
Other operating income	16 956	886		9 841	27 683
<i>Total revenue</i>	2 977 253	638 586	(374 242)	9 841	3 251 438
Total operating income, including	2 391 663	586 191	(352 693)	132 285	2 757 446
Costs of intersegmental sales	284 338		(284 338)		-
Other operating income	28 197	11 378			39 575
<i>Segment results</i>	557 593	41 017	(21 733)	(122 444)	454 417
Finance income					2 214
Finance costs					32 495
<i>Profit before tax</i>					424 136
Income tax					70 159
<i>Net profit</i>					353 977

in PLN '000

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
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Segment assets	1 814 300	450 892	(361 990)		1 903 202
Unallocated assets across the group				29 020	29 020
<i>Total consolidated assets</i>					<i>1 932 222</i>
Segment liabilities	453 734	415 677	(338 840)		530 571
Unallocated liabilities across the group				190 603	190 603
<i>Consolidated total liabilities</i>					<i>721 174</i>

Other disclosures	EU Member States	Other countries
Segment capital expenditure	158 916	128 562
Segment depreciation	83 126	25 871
Impairment write-downs	3 398	1 778
Release of impairment write-downs	5 004	205
Other non-cash expenses	24 798	9 601

\*Impairment write-downs of assets by segments shown in the statement of financial result and other comprehensive income include:

- receivables revaluation write-downs;
- inventory revaluation write-downs;
- assets revaluation write-downs.

Impairment and reversal was due to the occurrence or termination of conditions related to overdue debts and the occurrence of bad debts

#### LPP SA Management Board:

Marek Piechocki – President of the Management Board .....

Dariusz Pachla – Vice President of the Management Board .....

Jacek Kujawa – Vice President of the Management Board .....

Piotr Dyka – Vice President of the Management Board .....

Hubert Komorowski – Vice President of the Management Board .....

Gdańsk, 11 April 2014

## **Management Board Report on the operations of LPP SA Capital Group (including declaration on Corporate Governance) for 2013**



## 1. Information on basic products, goods or services with qualitative and quantitative description and share of individual products, goods or services (if material) or their groups against the Issuer's total sales volumes, and information on changes in products, goods or services during the fiscal year

LPP SA Capital Group is composed of 5 Polish companies (including the parent company) and 15 foreign companies.

The consolidated financial statement of LPP SA Capital Group, covering the period between 1 January and 31 December 2013, includes separate results of LPP SA and the results of foreign subsidiaries listed below:

- LPP Retail Estonia OU
- LPP Czech Republic s.r.o.
- LPP Hungary Kft
- LPP Retail Latvia Ltd
- UAB LPP
- LPP Ukraina AT
- ZAO Re Trading
- LPP Fashion Distributor srl.
- LPP Retail Bulgaria Ltd.
- Artman Slovakia srl
- Artman Mode s.r.o.
- LPP Fashion Bulgaria Ltd.
- Gothals Limited
- Jaradi Limited
- IP Services FZE

LPP SA, as the parent company, is a company involved in the design and distribution of clothing in Poland and in Central and Eastern Europe. Consolidated Group companies are involved in the distribution of goods under the Reserved, Cropp, House, Mohito and Sinsay brands outside Poland.

Clothing is the essential commodity sold by LPP SA Capital Group companies.

Designs of clothing are prepared in the design offices located in the registered office of the Parent Company in Gdańsk and Kraków, and the manufacture of individual products is outsourced to factories in Poland and abroad.

Production in China is managed by the parent company's trading office in Shanghai. The Capital Group's offer is extensive. It covers, among others, coats (jackets, overcoats), jumpers, sweatshirts, trousers, dresses, blouses and shirts as well as underwear and other accessories – caps, scarves, gloves, shoes etc. Small amounts of clothes and footwear of other brands offered in the Cropp network are purchased in Poland from their distributors.

The Capital Group also generates revenues from sale of services.

Source of revenues	2013		2012		Change
	in PLN '000	Share in sales volume %	in PLN '000	Share in sales volume %	%
Sales of trading commodities	4 084 125	99.2%	3 192 203	99.0%	27.9%
Sales of services	32 177	0.8%	31 552	1.0%	2.0%
<b>Total</b>	<b>4 116 302</b>	<b>100.0%</b>	<b>3 223 755</b>	<b>100.0%</b>	<b>27.7%</b>

The main distribution channels guaranteeing the development of the Capital Group are networks of Reserved, Cropp, House, Mohito and Sinsay brand stores, selling products to individual customers.

Distribution channel	2013		2012		Change
	in PLN '000	Share in sales volume %	in PLN '000	Share in sales volume %	%
Reserved brand stores	2 058 187	50.0%	1 714 759	53.2%	20.0%
Exports	52 444	1.3%	57 576	1.8%	-8.9%
Cropp brand stores	681 032	16.5%	580 430	18.0%	17.3%
House brand stores	553 968	13.5%	436 984	13.6%	26.8%
Mohito brand stores	444 798	10.8%	259 408	8.0%	71.5%
Sinsay brand stores	73 961	1.8%	0	0.0%	-
Other	251 912	6.1%	174 598	5.4%	44.3%
<b>Total</b>	<b>4 116 302</b>	<b>100.0%</b>	<b>3 223 755</b>	<b>100.0%</b>	<b>27.7%</b>

**2. Information on markets (both Polish and foreign) and change in sources of supply of production materials, goods and services, indicating dependence on one or several customers and suppliers; customers or suppliers with at least 10% share in total revenues from sales – their name, share in sales or supply volumes, and formal relations with the issuer**

Revenues from sales of products, goods and materials disclosed in the consolidated financial statement have been earned by individual companies of the Capital Group in the following amounts (after the exemption of intra-group sales):

in PLN '000

Company name	Country	Revenues from sales between 1.01.2013 and 31.12.2013	Revenues from sales between 1.01.2012 and 31.12.2012
LPP SA	Poland	2 701 181	2 212 609
LPP Retail Estonia OU	Estonia	63 828	56 240
LPP Retail Latvia Ltd	Latvia	51 215	43 670
LPP Retail Czech Republic s.r.o.*	Czech Republic	166 876	124 914
LPP Hungary Kft.	Hungary	38 210	28 489
UAB "LPP"	Lithuania	71 345	61 961
LPP Ukraina AT	Ukraine	164 639	88 295
ZAO "Re Trading"	Russia	787 071	549 405
LPP Fashion Distributor SRL	Romania	27 290	25 352
LPP Retail Bulgaria Ltd.	Bulgaria	24 412	16 756
Artman Slovakia	Slovakia	20 235	16 062
<b>Total:</b>		<b>4 116 302</b>	<b>3 223 755</b>

\* total revenues of 2 companies in the Czech Republic: LPP Retail Czech Republic s.r.o., Artman Mode s.r.o.

Export sales to entities other than capital companies conducted by LPP SA totalled PLN 52 444 thousand, i.e. 1.3% of total revenues. Presented below are the main directions in export sales of the Capital Group.

Country	2013		2012	
	export amount in PLN '000	share in export in %	export amount in PLN '000	share in export in %
Belarus	3 452	6.6%	3 931	6.8%
Russia	11 498	21.9%	17 492	30.4%
Slovakia	33 960	64.8%	31 689	55.0%
Ukraine	2 043	3.9%	2 631	4.6%
Other	1 491	2.8%	1 833	3.2%
Total	52 444	100.0%	57 576	100.0%

### Dependence of the Issuer's Capital Group on customers

The Capital Group companies are not dependent on any customer. The share of any of the customers did not exceed 10% of the Group's sales.

### Dependence of the Issuer's Capital Group on suppliers

Foreign companies included in LPP SA Capital Group are supplied with trade goods by LPP SA.

Companies manufacturing goods for LPP SA Capital Group are mainly based in China. Purchases made in China represented about 58% of the total purchase volume. Additionally, the Capital Group purchased goods from Polish (about 3%) and other European (about 7%) and Asian (almost 32%) producers. The purchase volume did not exceed 10% for any of the suppliers.

The Capital Group concluded framework agreements, determining general terms and conditions of co-operation. Specific products are manufactured for LPP SA Capital Group on the basis of specific agreements concluded for the implementation of individual deliveries.

### 3. Basic economic and financial figures disclosed in the annual financial statement, including in particular description of factors and events, including extraordinary events, influencing the business and its gains or losses during the fiscal year

The basic tasks carried out by the Company in 2013:

- 1) Revenues from sales made by LPP SA Capital Group amounted to PLN 4 116 million and were higher by 27.7% than those achieved in 2012.
- 2) In 2013, the Capital Group generated net profit of about PLN 433 million. This is about 22.3% higher than in 2012 (about PLN 354 million).
- 3) The total selling area in brand stores was up by about 154 thousand square meters (i.e. about 35.5%). The total retail selling area in the entire LPP SA Capital Group amounted to about 588 thousand sq. m, including about 222 thousand sq. m outside Poland.

Network	2013		2012		Change in selling area
	Area (thousand	Quantity (pcs)	Area (thousand	Quantity (pcs)	%

	m2)		m2)		
Reserved	322	386	252	344	27.8%
Cropp	91	337	72	295	26.4%
House	80	292	64	259	25.0%
Mohito	66	219	39	161	69.2%
Sinsay	20	62	0	0	-
Outlet	9	24	7	16	28.6%
<b>Total</b>	<b>588</b>	<b>1320</b>	<b>434</b>	<b>1075</b>	<b>35.5%</b>

Results generated by LPP SA Capital Group in 2013 depended primarily on the performance of five retail sales networks, Reserved, Cropp, House, Mohito and Sinsay with the major portion of revenues and profits generated by Reserved stores. However, the highest growth rate of sales revenues was recorded by Mohito.

Presented below are basic economic and financial figures and their changes in comparison with the previous year.

Item	2013	2012	Change
	(in PLN '000)	(in PLN '000)	%
Net revenues from sales	4 116 302	3 223 755	27.7%
Profit from sales before tax	2 409 151	1 827 065	31.9%
Profit from sales	649 949	466 309	39.4%
Operating profit	615 627	454 417	35.5%
Profit on business operations	523 871	424 136	23.5%
Net profit	432 859	353 977	22.3%
Equity capital	1 496 490	1 211 048	23.6%
Liabilities and provisions for liabilities:	995 080	721 174	38.0%
Long-term liabilities	192 331	130 980	46.8%
Short-term liabilities:	802 749	590 194	36.0%
- bank credits	173 591	61 048	184.4%
- due to suppliers	547 626	477 805	14.6%
Fixed assets	1 231 908	909 856	35.4%
Current assets	1 259 662	1 022 366	23.2%
Inventories	805 038	656 070	22.7%
Short-term receivables	277 182	195 662	41.7%
Trade receivables	163 255	130 360	25.2%

The increase in revenues from sales of 27.7% was achieved by increasing sales in all retail chains. Gross profit margin reached 58.5% and was higher than in the previous year (56.7%) by 1.8 percentage points. Profit on sales increased by 39.4%.

Operating profit amounted to PLN 615 627 thousand (increase by 35.5% compared to 2012) and the operating profit margin amounted to 15.0% (in previous year: PLN 454 417 thousand and 14.1%, respectively).

Profit from business operations was higher compared to the previous year by 23.5% and amounted to PLN 523 871 thousand.

Net profit generated in 2013 amounted to PLN 432 859 thousand and increased by 22.3% compared to the previous year (PLN 353 977 thousand). The resulting net profit margin amounted to 10.5% (in 2012 it was 11.0%).

The equity capital of LPP SA Capital Group was up by 23.6% in 2013. It was mainly due to the transfer of profit to equity.

The balance of long-term liabilities increased by 46.8%.

The balance of short-term liabilities increased by 36.0% compared to 2012.

At the end of 2013, liabilities related to bank credits were higher by 184.4% compared to the end of 2012, and short-term trade liabilities increased by 14.6%.

In the analysed period, fixed assets increased by 35.4%, due to the development of chain stores.

Current assets increased by 23.2% compared to the end of 2013.

Values of profitability ratios, presented in the table below, result directly from factors described above, determining the value of each category of profit.

## 1. Profitability ratios

Gross profit margin on sales in 2013 amounted to 58.5% and, compared to the previous year, increased by 1.8 percentage points.

Operating profit margin in 2013 was 15.0% and, compared to the previous year, increased by 0.9 percentage points.

The net profit margin in 2013 was 10.5% and was lower by 0.5 percentage points compared to the net profit margin last year. In 2013, each Polish zloty of sales revenue gave more than 10 Polish grosz of profit after tax, similar to the previous financial year of 11 grosz.

The level of return on assets in 2013 reached 19.6%, which means that every Polish zloty involved in the financing of assets generated a profit of more than 19 Polish grosz (previous year: 20 grosz).

The rate of return on equity reached in 2013 the level of 32.0%.

Profitability ratios presented in the table have been calculated as follows:

- a) gross profit margin – gross profit on sales divided by revenues from sales of goods and services;
- b) operating profit margin – operating profit divided by revenues from sales of goods and services;
- c) net profit margin – net profit divided by revenues from sales of goods and services;
- d) Return on Assets – net profit divided by average assets during the fiscal year;
- e) Return on Equity – net profit divided by average equity during the fiscal year.

Volume	2013	2012	Change
	%	%	p.p.
Gross profit margin on sales	58.5%	56.7%	1.8%
Operating profit margin	15.0%	14.1%	0.9%
Net profit margin	10.5%	11.0%	-0.5%
Return on assets	19.6%	20.0%	-0.4%
Return on equity	32.0%	33.4%	-1.4%

## 2. Liquidity ratios

In 2013, liquidity ratios obtained values similar to those of the previous year.

Inventories turnover has decreased from 163 to 156 days, which results mainly from actions taken by the Company to reduce inventories held in the logistics centre.

Receivables turnover ratio decreased in comparison to the previous year by 7.1%, while liabilities turnover decreased by 1.8% compared with the rate achieved in 2012.

Liquidity ratios were calculated as follows:

- a) current ratio – current assets divided by the carrying amount of short-term liabilities;
- b) quick ratio – current assets less inventory divided by the carrying amount of short-term liabilities;
- c) inventory turnover ratio (days in inventory) – average inventory divided by costs of goods and products sold and multiplied by the number of days in a given period;
- d) receivables turnover ratio (days in receivables) – average trade receivables divided by revenues from sales and multiplied by the number of days in a given period;
- e) trade liabilities turnover ratio (days) – average trade liabilities divided by costs of goods and products sold and multiplied by the number of days in a given period.

Volume	2013	2012	Change
			%
Current liquidity ratio	1.6	1.7	-5.9%
Quick liquidity ratio	0.6	0.6	0.0%
Inventory turnover (days)	156	163	-4.3%
Receivables turnover (days)	13	14	-7.1%
Trade payables turnover (days)	110	112	-1.8%

### 3. Asset Management Ratios

Fixed assets to equity ratio decreased by 11.6% compared to last year.

Total debt, long-term debt and short-term debt ratios increased compared to 2012.

These changes were caused by the increase in the debt of the Capital Group (especially liabilities from bank loans).

The ratios were calculated as follows:

- a) fixed assets to equity ratio – shareholders' equity divided by fixed assets;
- b) total debt – long- and short-term payables divided by the balance sheet total (including provisions for liabilities);
- c) short-term debt ratio – short-term debt divided by the balance sheet total;
- d) long-term debt ratio – long-term debt divided by the balance sheet total.

Volume	2013	2012	Change
	%	%	p.p.
Fixed assets to equity ratio	121.5%	133.1%	-11.6%
Total debt ratio	39.9%	37.3%	2.6%
Short-term debt ratio	32.2%	30.5%	1.7%
Long-term debt ratio	7.7%	6.8%	0.9%

### 4. Information on agreements crucial for the issuer's business, including agreements made between shareholders (partners) as well as insurance or co-operation contracts

In 2013, the Capital Group entered into the following material agreements:

- 314 lease agreements with distributors of retail premises. These agreements concern the premises where clothing under Reserved, Cropp, House, Mohito and Sinsay brand are sold.
- Annexes to existing loan agreements. Detailed information on these agreements has been published in current reports (RB 24/2013, RB 26/2013, RB 29/2013, RB33/2013, RB34/2013, RB35/2013, RB38/2013). A list of loan agreements is presented in Notes to the financial statement (section 15.8.3).
- Agreements on guarantees of payment of customs obligations.
- Insurance contracts:
  - Property insurance policy
  - Civil liability insurance policy
  - Electronic Equipment Insurance (EEI)
  - Construction All Risk Insurance (CAR)
  - Machinery Insurance Policy
  - Motor vehicle insurance policy
- Agreement for the expansion of the Distribution Centre
- Sub-license agreement for the use of House, Mohito and Sinsay trademarks.

The Group has no knowledge of any agreement concluded by and between its Shareholders that would influence its operations.

## **5. Information on changes in the issuer's organisational or capital relations with other parties and description of its major local and foreign investments (securities, financial instruments, intangible assets and real property), including capital expenditure outside the group of affiliated entities and methods of their financing**

In the reporting period there was a merger of two subsidiaries Re Trading and Fashion Point into one company, Re Trading.

Details concerning capital expenditure of LPP SA Capital Group are presented in the Notes to the statement in section 15.5 and 15.7.

## **6. Description of significant transactions concluded by the issuer or its subsidiary with affiliated entities not concluded at arm's length, together with amounts and information specifying the nature of these transactions**

All transactions in the reporting period concluded by the Issuer with affiliated entities were concluded at arm's length.

## **7. Information on credits and loans incurred, specifying their maturity as well as guarantees and sureties granted to the Issuer**

Information on credits taken as at 31.12.2013 and their maturity dates is presented in the Notes to the financial statement in section 15.8.3.

In 2013, LPP SA Capital Group used bank guarantees to secure the payment of rent for leased retail premises where brand stores are located. LPP SA Capital Group requested for bank guarantees to secure retail lease agreements where the Capital Group or its affiliated entities are lessees.

As at 31 December 2013, the total value of bank guarantees granted at the request and on the responsibility of LPP SA amounted to PLN 130 446 thousand, of which:

- a) guarantees granted to secure agreements executed by LPP SA - PLN 69 511 thousand,
- b) guarantees granted to secure agreements executed by consolidated related parties - PLN 58 673 thousand,
- c) guarantees granted to secure agreements executed by non-consolidated related parties - PLN 1 657 thousand,



d) guarantees granted to secure lease agreements executed by LPP SA - PLN 603 thousand.  
In the previous year no loans were taken by LPP SA Capital Group.

## 8. Information on loans granted, in particular to the Issuer's affiliated entities, specifying at least their amount, type, interest rate, currency and maturity

Information on loans granted by LPP SA Capital Group is presented in the Notes to the financial statements (section 15.8.2).

## 9. Information on guaranties granted (by the issuer), including guarantees granted to the issuer's affiliated entities.

In the reporting period, LPP SA Capital Group granted the following guarantees within the Group:

Description	Amount in PLN '000
Promissory note guarantee issued to Orlen for a single business entity	22
Guarantee for Amur Sp. z o.o.	7 678
Guarantee for LPP TEX SA	1 099
Guarantee for DP and SL Sp. z o.o.	1 359
Guarantee for the daughter company Re Trading	13 832
Guarantee for the daughter company LPP Retail Estonia	687
Guarantee for the daughter company LPP Fashion Distributor (Romania)	1 193
Guarantee for LPP Ukraina	79
Guarantee for LPP Czech Retail	7 422
Guarantee for the daughter company Artman Mode S.R.O.	1 097
Guarantee for LPP Retail Latvia	412
Guarantee for LPP Retail Bulgaria	1 323
Guarantee for Artman Slovakia	73
Guarantee for LPP Hungary	2 903

In the previous year, LPP SA Capital Group was not granted any guarantees (except for guarantees granted by LPP SA to its subsidiaries).

No guarantees were granted by subsidiaries. Subsidiaries received the above guarantees from the parent company only.

## 10. Use of proceeds (as at the preparation of the report on operations)

In 2013, LPP SA Capital Group did not issue any securities.

## 11. Explanation of discrepancies between financial results presented in the annual financial report and forecast results for a given fiscal year published earlier

The forecast of financial results was not published.

## 12. The assessment (and its justification) of financial assets management with particular focus on the ability to meet the obligations, as well as identification of potential threats and actions the Issuer has taken or is going to take in order to prevent them



LPP SA Capital Group fulfils all the relevant obligations to the State and contractors on an on-going basis. The basic business model consisting in retail sales allows to receive immediate payments for goods sold. Generated receipts and concluded credit agreements provide full security of incurred liabilities.

### **13. Assessment of the feasibility of planned investments, including capital expenditure, against owned assets, including any possible changes in the structure of investment financing**

Investment plans will be realised using the Group's own funds or loans taken.

### **14. Assessment of factors and extraordinary events influencing the financial result in the fiscal year and the identification of their impact on the financial result**

In 2013, there were no extraordinary events having an impact on the financial result.

### **15. External and internal key factors influencing the issuer's development and description of the issuer's development perspectives at least until the end of the current fiscal year, including the elements of the issuer's adopted market strategy Description of key risks and threats and their probability.**

LPP SA Capital Group's basic tasks, implementation of which will determine its position in the future:

- a) developing the network of brand stores in Poland and Central and Eastern Europe, as well as expansion into new markets in Western Europe, the Balkans and the Middle East,
- b) building strong clothing brands of Reserved, Cropp, House, Mohito and Sinsay,
- c) increasing the profitability and effectiveness of operations.

Development of the Issuer's strategic tasks and goals will depend on the following internal and external factors (representing both opportunities and threats):

#### **Internal factors**

##### **a) Market strategy of LPP SA Capital Group**

Capital Group is focused on designing and distribution of clothing as well as building its brand while outsourcing many activities to third parties. LPP SA Capital Group does not have its own production capacity which allows to significantly reduce fixed costs. The entire clothing production is outsourced to contractors mainly from the Far East. As a result, the goal of all investments is to increase the Capital Group's trading potential, maintain its competitive edge on the market, develop its own network of distribution, create good image of LPP SA on the clothing market, gain customers and ensure their loyalty to the Company and its products.

The development strategy for the leading brand - Reserved - assumes taking action to improve the image of the uniqueness and prestige of this brand in the eyes of customers, leaving it still in the mass clothing segment.

##### **b) The Group's market position**

The volume of revenues from sales generated by LPP SA Capital Group confirms its good position in the domestic market. Despite its relatively low (up to over a dozen per cent on the Polish market) market share, the Capital Group is also one of the most important entities in the domestic market.

##### **c) Extending and renewing offers presented to the customers of LPP SA Capital Group**

Products marketed by LPP SA Capital Group meet expectations of target customers groups connected to individual channels of distribution. As the clothing industry is strongly correlated with changes in fashion trends, LPP SA Capital Group, observing the changing customer preferences, every year launches new

product groups trying to anticipate market needs. To some extent, especially in the case of Reserved and Mohito brand stores, the Capital Group is trying to create its own style, based on global trends. To expand its offer, the Capital Group introduced another brand - Sinsay - addressed to young customers - teenagers in junior high school and high school. The Capital Group also took steps to develop and launch new, sixth brand, on the market. The opening of the first stores is planned for spring 2016.

d) Logistics

The applied logistic model consisting in using specialised technology in its own logistics centre, while outsourcing the transport of goods from suppliers to the logistics centre and from the logistics centre to outlets to specialised transportation companies, allows for a more effective implementation of processes in this area. Due to the significant share of sales on the Russian market, a commodity distribution model was initiated, oriented toward brand stores in the country, whose main feature is the direct supply from Asia to Russia and cooperation with local logistics operator.

This process reduced the total time of transporting the goods from their shipment from Asia to the moment of delivery to the Russian store, it liberalised the ability to make trading decisions (allocate goods that are already in Russia and not in Poland), provided more regular deliveries to stores, and optimised transportation costs.

Ambitious plans for the development of the sales network by LPP SA Capital Group in the coming years (over a twenty per cent increase in retail space is assumed) necessitated the need to increase efficiency of the logistics centre. In 2013, the construction of additional facilities in the existing logistics centre was launched. The implemented technological solutions will allow to support the needs of LPP SA Capital Group until 2020. New part of the logistics centre is to start its operations in the first half of 2015.

e) Measures aimed at maintaining low levels of costs, increasing profitability and market share through global sales growth

To ensure the Capital Group's efficiency and productivity at a high level, measures have been taken to reduce incurred costs - keeping them at a relatively low level is one of the main objectives of the Group.

LPP SA Capital Group pursues a strategy aimed at increasing profitability while expanding retail space by building new stores, and where the forecasts are highly satisfactory - by building stores with a larger floor area.

## External factors

a) Economic growth in Poland and in countries where the outlets of LPP SA Capital Group operate

Despite the present drop in the global economy, the Capital Group manages to increase revenues from sales and profits. The size of these parameters depends to some extent on the situation of the environment, but to a large extent on the attractiveness of the offer and the organizational efficiency of the Issuer. Information on the expected developments in the global economy, especially in Poland and the countries in which operate the Issuer's subsidiaries, although not clearly optimistic and resulting in the reorganization of consumers' household budgets, they do not raise concerns about the negative impact on the growth of the Capital Group.

b) Foreign exchange rates

The base accounting currency in most commercial transactions of the purchase of goods is USD. A small portion of settlements on this account is made in EUR.

The majority of receipts from sales is obtained in PLN. Instability of the exchange rate of the Polish zloty vs. USD and EUR is more risky, the faster the ratios are changing (PLN/USD). Given the specific type of the Company's business, it is possible to partially transfer the risk of increase in USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.

In addition to foreign exchange risk concerning the accounting currency used for the purchase of commercial

goods, there is also the risk associated with the fact that the commercial space rents are settled in EUR. Large fluctuations of the Russian rouble and the Ukrainian hryvnia also have Significant impact on the financial results. The weakening of the exchange rates of these currencies against Polish zloty in the second half of 2013 were already reflected in the financial costs, whereas the uncertain economic situation in these countries may also have influenced the results in future periods.

Information on foreign exchange risk is presented in section 11 of the Note.

c) Changes in fashion influencing the popularity of products offered to customers.

The key success factor for a clothing company is sensing changes in fashion trends and offering the range of goods meeting the current consumer preferences.

LPP SA Capital Group pays great attention to the latest fashion trends. The design department is constantly observing the changing trends and adapts them to meet consumer needs, so as to continue to offer desirable products at a good value for money. In order to fulfil its tasks, the designers participate in trade fairs around the world, benefit from the professional literature and information on issues related to fashion available on the Internet. Being aware of its enormous impact on the results of its operations, the Capital Group pays particular attention to this issue.

### **Perspectives for the development of the Issuer's business**

Long-term development strategy of LPP SA Capital Group assumes strengthening the existing market position, further expansion both in the domestic and foreign markets (in the nearest future only in the countries where subsidiaries already operate), as well as expansion into new markets: Western Europe, the Balkans, Middle East while increasing profitability and efficiency.

At the end of 2013, LPP Capital Group had a network of 1,320 shops selling products of all brands, with a total retail area of about 588 thousand sq.m. The plans for 2014 include the establishment of new outlets, which in turn will lead to an increase in the total area of the retail network in Poland and abroad by more than 20%.

### **16. Information on the acquisition of treasury shares, in particular the purpose of the acquisition, the number and nominal value of the shares, the proportion of share capital represented by the shares, purchase and selling price of the treasury shares (if sold)**

In 2013, LPP SA Capital Group did not acquire any treasury shares.

### **17. Information on key achievements in research & development**

In the reporting period, LPP SA Capital Group conducted research and development related to the design and construction of master brand showrooms Reserved, House and Sinsay.

### **18. Information on financial instruments related to:**

#### **a) the risk of: prices change, credit, serious disruption of cash flows and financial liquidity loss, to which the entity is exposed,**

In line with the International Accountancy Standards on detailed principles of recognition, valuation, disclosure and presentation of financial instruments, the following financial instruments were identified by LPP SA Capital Group:

- loans granted,
- bank credits incurred,
- bank deposits.

The Company also identified embedded derivatives connected with:

- retail lease agreements for brand stores with rent calculated based on foreign exchange rates

- payables denominated in foreign currencies connected with purchase of trading commodities abroad
- receivables in foreign currencies relating to sales of commercial goods to foreign contractors.

In line with the International Accountancy Standards on principles of recognition, valuation, disclosure and presentation of financial instruments, embedded derivatives are not measured and presented in the balance sheet.

**b) purposes and methods of financial risk management, including methods of hedging key types of planned transactions, for which hedge accounting is used**

- 1) Currency risk – presented in section 15 as an external risk factor,
- 2) Interest rate risk – according to the Management Board, based on the analysis of changes in interest rates in previous periods, any potential increase of this parameter determining the amount of credits taken can have no significant impact on the financial results,
- 3) Credit risk – this risk primarily influences trade receivables and guarantees and sureties granted. The Management Board believes there is no danger of non-payment by contractors, although in some cases the need to extend the payment dates is likely.

LPP SA Capital Group does not hedge these risks.

**19. Changes of basic principles of management of the Issuer's business and its capital group**

In 2013, there were no major changes in the management of the Issuer's business and its capital group.

**20. Total number and nominal value of all shares of LPP SA and all shares of LPP SA's affiliated entities held by members of the Management and Supervisory Board**

As at 31.12.2013, members of the Company's Management and Supervisory Board held the following shares:

Shareholder	Number of shares held	Number of votes at the Annual General Meeting of Shareholders	Nominal value of shares
President of the Management Board	175 000	875 000	350 000
Vice President of the Management Board	164	164	328
Vice President of the Management Board	17	17	34
Chairman of the Supervisory Board	175 000	875 000	350 000
Member of the Supervisory Board	321	321	642

No shares in the affiliated entities are held by Members of the Company's Supervisory and Management Board.

**21. Information on any agreements known to the Issuer (including agreements concluded after the balance sheet date) which may result in the future change in the present structure of share ownership in terms of shares held by current shareholders**

In the reporting period, a new incentive programme for key managers of the Capital Group for 2011-2014 applies, launched in 2011.

Under the incentive programme, the Parent Company will issue no more than 21 300 subscription warrants carrying the right to acquire no more than 21 300 shares.

In the reporting period, 3 481 of 21 300 subscription warrants were issued.

At the same time, a new incentive programme for key managers of the Capital Group for 2013-2014 was launched in 2013. As part of the new programme, the Parent Company will sell no more than 3 000 of its own shares to eligible persons.

In addition, in connection with the Special Bonus for the results of LPP SA Capital Group in 2010-2012, the Parent Company will sell 1 488 shares to eligible persons.

In the event that all subscription warrants were converted into shares and the sale of all shares resulting from the new incentive programme and the Special Bonus were sold, the total number of shares would amount to 1 852 423, and the number of votes at the General Meeting of LPP SA would amount to 3 252 423.

## **22. Information on the control system of employee share schemes**

Not applicable

## **23. Agreements concluded between the Company and members of its Management Board, providing compensation in the event of their resignation or dismissal from positions currently held for no justified reason, or if they are recalled or dismissed as a result of business merger by take-over**

None.

## **24. Amounts of remuneration, bonuses or rewards, including those received under incentive or bonus schemes based on the Issuer's equity, schemes based on bonds with pre-emptive rights, convertible bonds, subscription warrants (in cash, in kind or any other form), paid, due or potentially due to members of the Issuer's Management Board and Supervisory Board**

Remuneration values of all managers and supervisors are presented in section 15.23.1 of the Notes to the financial statement.

## **25. Proceedings before the court, competent arbitration institution including information on:**

- a) proceedings relating to liabilities or receivables of the issuer or its subsidiary, with value at least 10% of shareholders' equity,
- b) two or more proceedings relating to liabilities or receivables with total value at least 10% of equity

There are no such proceedings.

## **26. Information on the entity authorised to audit financial statements**

On 9 May 2012, LPP SA concluded with Grant Thornton Frąckowiak Sp. z o.o. an agreement on, respectively:

- 1) auditing the financial statements for the period from 1 January 2012 to 31 December 2012, giving opinion on it and preparing the audit report - remuneration of PLN 55 thousand plus the tax on goods and services.
- 2) auditing the Capital Group's consolidated financial statements for the period from 1 January 201 to 31 December 2012, giving opinion on it and preparing the audit report - remuneration of PLN 27 thousand plus the tax on goods and services.
- 3) auditing the interim financial statements for the period from 1 January 2012 to 30 June 2012 and preparing the audit report - remuneration of PLN 27 thousand plus the tax on goods and services.

- 4) auditing the consolidated interim financial statements for the period from 1 January 2012 to 30 June 2012 and preparing the audit report - remuneration of PLN 16 thousand plus the tax on goods and services.
- 5) auditing the financial statements for the period from 1 January 2013 to 31 December 2013, giving opinion on it and preparing the audit report - remuneration of PLN 55 thousand plus the tax on goods and services.
- 6) auditing the Capital Group's consolidated financial statements for the period from 1 January 2013 to 31 December 2013, giving opinion on it and preparing the audit report - remuneration of PLN 27 thousand plus the tax on goods and services.
- 7) auditing the interim financial statements for the period from 1 January 2013 to 30 June 2013 and preparing the audit report - remuneration of PLN 27 thousand plus the tax on goods and services.
- 8) auditing the consolidated interim financial statements for the period from 1 January 2013 to 30 June 2013 and preparing the audit report - remuneration of PLN 16 thousand plus the tax on goods and services.

The total value of the net remuneration due under the aforementioned agreements amounts to PLN 250 thousand plus VAT.

The amount of remuneration for auditing and reviewing the Parent Company's and the Capital Group's financial statements for 2012 and 2013 is PLN 125 thousand each plus VAT.

Additionally, in 2012 and 2013, Grant Thornton Frąckowiak Sp. z o.o. Sp. K. provided tax consulting services, for which it received remuneration of PLN 6.5 thousand and PLN 23.25 thousand, respectively, plus VAT.

## 27. Declaration on Corporate Governance

The Management Board of LPP SA declares that in 2013 the Company and its authorities complied with the principles of Best Practices for WSE Listed Companies as described in parts II, III and IV, wherein:

- the obligation under Part II, paragraph 1 sub-paragraph 2a, which relates to inclusion in 4Q information on the participation of women and men in the bodies of the company, was not observed incidentally,
- the requirement of section 9a part II, which regards the necessity to publish on a corporate website a record of the General Meeting in audio or video format, was not observed,
- the requirement of section 10 part IV, which regards the necessity to provide shareholders with the possibility to participate in the general meeting by means of electronic communication, was not observed.

Information on the principles of Corporate Governance is available on the Company's website at [www.lpp.com.pl](http://www.lpp.com.pl) ([www.inwestor.lpp.com.pl](http://www.inwestor.lpp.com.pl)).

The Company does not apply Corporate Governance principles beyond the requirements of national law. The Company and its authorities also followed the principles of Best Practice for WSE Listed Companies described in part I, except for:

- section 5 - the applicable principles of remuneration do not comply with all the requirements described in the recommendations of the European Commission of 14 December 2004 and Recommendations of 30 April 2009,
- section 9 - there are no formal principles for membership in the authorities of the company in relation to gender or schemes to promote balanced participation of women and men in performing the functions of management and supervision in LPP SA. Currently, all members of the Company's authorities are men.
- section 12 - the company did not provide its shareholders to exercise in person or by proxy to vote during the general meeting, excluding the event of the general meeting by means of electronic communication.

### a) Description of the main features of the Company's internal control systems and risk management in relation to the process of preparing financial statements and consolidated financial statements

LPP SA has adapted to its needs and characteristics a well-functioning internal control system, which provides:



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

Elements of the internal control system within LPP SA include:

- control activities taken at all levels and in all cells of the Company, based on procedures (permits, authorizations, verifications, reconciliation, review of operational activities, distribution of duties) ensuring compliance with guidelines of the Company's Management Board and, at the same time, enabling to identify and take the necessary actions to minimise errors and risks for the Company,
- Workflow Guide - proper records and documentation circulation control system (to ensure compliance of the account records with accounting evidence),
- suitably qualified personnel carrying out inspections,
- division of duties excluding a possibility that one employee performs an action associated with execution and documentation of a business transaction from beginning to end,
- inventory manual, specifying the rules for the use, storage and inventory of assets,
- principles for balance sheet amortisation of intangible and tangible fixed assets,
- information system - the Company's accounting books are kept with the help of computerised Integrated Enterprise Management System AWEK at the Company's headquarters, which provides credibility, reliability and accuracy of the processed information. Access to AWEK information resources is limited to authorised personnel, only for performance of their duties,
- accounting policy, taking into account the principles of the International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and related interpretations published in the form of executive regulations of the European Commission,
- electronic system for document processing (invoices, elements of employee documentation, commissions to purchase equipment, payment orders, etc.),

Audit of financial statements, carried out by an independent statutory auditor, is an essential element of internal audit in the process of preparing the Company's financial statements, both individual and consolidated.

The statutory auditor is appointed by the Supervisory Board of LPP Company. The tasks of the independent auditor include reviewing semi-annual and annual statements, controlling accuracy of their preparation and compliance with accounting rules.

Two departments are responsible for the preparation of financial statements: accounting and finance, headed by the Chief Accountant and Chief Financial Officer. Before submitting financial statements to the independent statutory auditor, Chief Financial Officer, responsible for the financial reporting process on behalf of the Management Board, verifies them for completeness and correctness of all economic events.

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

Internal control and closely related risk management in relation to financial reporting processes are the subject of current interest of the Company's managing authorities. LPP SA performs analysis of business risk factors related to the company operations. An important role in this respect is also played by the managerial personnel responsible for monitoring activities of their departments, including identification and assessment of risks associated with the process of preparation of financial statements in an accurate, reliable manner and in compliance with the law.

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

Shareholder	Number of shares held	Number of votes at the Annual General Meeting of Shareholders	Share in the number of votes at the Annual General Meeting of Shareholders	Share capital held
Marek Piechocki	175 000	875 000	27.1%	9.6%
Jerzy Lubianiec	175 000	875 000	27.1%	9.6%
Monistor Limited (Cyprus)	200 728	200 728	6.2%	11.0%
Grangeford Limited (Cypr)	350 000	350 000	10.8%	19.1%
Other shareholders	930,395	930,395	28.8%	50.8%
Total	1 831 123	3 231 123	100.0%	100.0%

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

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

Restrictions on transferring the ownership of securities concern registered shares.

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

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

The Management Board consists of two to five members, including the President, and from one to four Vice-Presidents. The number of members is determined by the Supervisory Board.

Members of the Management Board are appointed and dismissed by the Supervisory Board for a term of five years.



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

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

The Management Board is responsible for all and any affairs not reserved for other authorities of LPP SA. The Management Board is not entitled to make decision on the issue or repurchase of shares.

#### **e) Description of rules for amending the issuer's articles of association**

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

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

##### **Convention of the General Meeting of Shareholders**

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

##### **Competencies of the General Meeting**

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

##### **Sessions of General Meeting of Shareholders**

- 1) General Meeting is opened by the Chairman of the Supervisory Board or a person authorised by him, who then holds the elections of the President of the General Meeting.
- 2) The person opening the General Meeting provides for an immediate election of the President of the General Meeting who directs the works of the GM and ensures efficient and proper conduct of the session.
- 3) The General Meeting adopts resolutions only on matters included in the agenda.
- 4) Draft resolutions proposed for adoption by the General Meeting and other relevant issues are presented to the shareholders together with the rationale and the opinion of the Supervisory Board.
- 5) The course of the General Meeting is recorded by a notary.

## Voting

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

## g) Membership and changes that occurred during the financial year, as well as description of the actions of managing, supervisory or administrative bodies and their committees.

### Management Board of LPP SA

Composition of the Management Board as at 31 December 2013:

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

In the last financial year there were no changes in the composition of the Management Board. Competencies and working rules of the Management Board of LPP SA are set forth in the following documents:

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

### The Supervisory Board

Composition of the Supervisory Board as at 31 December 2013 was as follows:

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

In the last financial year there were no changes in the composition of the Supervisory Board.

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

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

### LPP SA Management Board:

Marek Piechocki – President of the Management Board .....

Dariusz Pachla – Vice President of the Management Board .....

Jacek Kujawa – Vice President of the Management Board .....

Piotr Dyka – Vice President of the Management Board .....

Hubert Komorowski – Vice President of the Management Board .....

Gdańsk, 11 April 2014

## **Statement of the Management Board of LPP SA**

## STATEMENT OF THE MANAGEMENT BOARD

In line with the Regulation by the Minister of Finance dated 19 February 2009 on current and interim information provided by issuers of securities, the Management Board of LPP SA hereby declares that:

- to the best of the Board's knowledge, the annual consolidated financial statements and comparative data have been prepared in line with accounting principles currently in effect and present a true and fair view of assets, financial standing, and financial result of LPP SA Capital Group,
- the annual consolidated report on LPP SA Capital Group's operations presents a true and fair view of the development and achievements of LPP SA Capital Group, including an accurate description of risks and threats,
- the entity authorised to audit financial statements which conducted an audit of the annual consolidated financial statements was appointed in line with applicable legal provisions currently in effect. This entity and statutory auditors who performed audits satisfied all requirements to prepare an impartial and independent audit report, pursuant to the applicable provisions of the Polish law.

### LPP SA Management Board:

Marek Piechocki – President of the Management Board .....

Dariusz Pachla – Vice President of the Management Board .....

Jacek Kujawa – Vice President of the Management Board .....

Piotr Dyka – Vice President of the Management Board .....

Hubert Komorowski – Vice President of the Management Board .....

Gdańsk, 11 April 2014