LPP SA Capital Group

CONSOLIDATED ANNUAL REPORT FOR 2015

Including:

1. Letter from the President of the Management Board to the shareholders
2. Selected financial data for 2014-2015
3. Consolidated financial statement of LPP SA Capital Group for the financial year ended on 31 December 2015
4. Management Board Report on the operations of LPP SA Capital Group (including declaration on Corporate Governance) for 2015
5. Statement of the Management Board of LPP SA

GDAŃSK, APRIL 2016

Letter from the President of the Management Board to the shareholders

Dear Shareholders,

The year 2015 was another year in which we ambitiously implemented our development plans. The most important event was entering new markets - in Middle East countries. Although the region is definitely different in terms of culture, it is very promising in terms of the potential of sales - significantly exceeding the results we achieve in Central Europe. Our business model for this market is based on the franchise business. RESERVED stores are present in 5 Persian Gulf countries - the UAE, Kuwait, Qatar, Egypt and Saudi Arabia. In this region, we also plan to open other brand stores: MOHITO and SiNSAY, ultimately in 9 countries.

In 2015, we continued the expansion of the chain of stores in Germany - where we opened 8 new stores - including the flagship RESERVED store in Stuttgart, with an area of 4,000 sq.m., located at the main shopping street. At the end of 2015, we had 12 stores in this country of Western Europe.

The development of e-commerce market has prompted us to invest in e-commerce. Last year, we opened new on-line RESERVED stores in such countries as the Czech Republic, Slovakia and Romania. Our plans for 2016 include further e-commerce development by introducing other brands to the markets where we have already been operating on-line and the launch on the Hungarian market.

Year 2015 meant for us also intensive work on our sixth brand - Tallinder. Trying to satisfy the sophisticated tastes of customers, we decided to create a premium brand dedicated to well-off customers, and in 2015, we consistently implemented our plan, the effect of which was the opening of the first Tallinder store in the first quarter of 2016. The elegant design of this premium brand showrooms has been designed in collaboration with the British studio Brinkworth, and the choice of location will depend on the prestigious nature of the shopping centre. Most Tallinder clothing will be manufactured in Europe, including Italy, Portugal and Poland.

Our company has not been indifferent to the issues of corporate social responsibility (CSR). In April 2015, we introduced a new Code of Conduct for our suppliers, which is the expression of our awareness of the importance of the safety of workers in the garment factories, the prohibition of the work of children under 15 and a decent wage. This is one of the reasons for which our office in Dhaka, the capital of Bangladesh, has been established. One of its main tasks is to audit factories in cooperation with the ACCORD (The Accord on Fire and Building Safety in Bangladesh) organisation, of which we are a member.

Year 2015 is also undeniable satisfaction with the launch of the new part of logistics centre in Pruszcz Gdański (one of the most modern facilities of this type in Poland) with an area of 35,000 m2, which will allow us to double the logistical resources and provide sufficient storage capacity to support our development over the next five years.

Let me now discuss the most important numbers. In 2015, we increased the number of our stores by 111, to 1 627, and selling area by 121 thousand sq.m. to 844 thousand sq.m., i.e. by 17%. We sold goods worth more than PLN 5,1 billion, generating PLN 352 million of net profit. Although net profit was lower than in the previous year, mainly due to lower trading margins (decrease to 53.5% resulted from the growth of the US dollar against the zloty by about 20%, and this was the reason for the reduction in operating costs to a level lower than during the crisis of the years 2009-2010), the figures confirm the fact that we are still the undisputed leader on the Polish clothing market.

The challenges facing LPP are traditionally ambitious and challenging. Looking to the future of our company, we can see that the Polish market is already heavily saturated with our brands - we have been present on it in nearly one thousand stores. Thus, our development is dependent on foreign expansion - but we need a strong, recognisable brand so that it is effective. In December 2015, we signed a preliminary agreement to lease commercial space at renowned Oxford Street in London, where in 2017 our flagship RESERVED store will be created. The opening of the store in such a prestigious place, where more than 200 million people pass by every year, will be another step to build the global RESERVED brand.

On behalf of the entire Management Board, I would like to thank all those who have contributed to the implementation of the ambitious development plans of our company, from LPP employees to our customers. I would also like to thank the participants of the capital market for their trust. I would like to assure you that we will make every effort to ensure that our company achieves good results, providing investors with attractive returns on their investment.

Marek Piechocki
President of the Management Board of LPP SA

Selected financial data for 2014 - 2015

1. Selected consolidated financial data of LPP SA Capital Group

Selected consolidated financial data	2015 01.01.2015-31.12.2015	2014 01.01.2014-31.12.2014	2015 01.01.2015-31.12.2015	2014 01.01.2014-31.12.2014
	in thousand PLN		in thousand EUR	
Net revenues from sales of products, goods and materials	5 130 353	4 769 288	1 225 949	1 138 445
Profit (Loss) on operating activities	502 689	609 103	120 123	145 395
Pre-tax profit (loss)	414 368	459 895	99 017	109 778
Net profit (loss)	351 320	481 860	83 951	115 022
Net cash flows from operating activities	253 888	492 896	60 669	117 656
Net cash flows from investing activities	-415 526	-475 959	-99 294	-113 613
Net cash flows from financing activities	201 162	17 237	48 070	4 115
Total net cash flows	39 524	34 174	9 445	8 157

Selected consolidated financial data	2015 01.01.2015-31.12.2015	2014 01.01.2014-31.12.2014	2015 01.01.2015-31.12.2015	2014 01.01.2014-31.12.2014
	in thousand PLN		in thousand EUR	
Total assets	3 565 169	2 933 726	836 600	688 296
Long-term liabilities	344 083	210 714	80 742	49 437
Short-term liabilities	1 331 347	1 084 598	312 413	254 463
Equity	1 889 739	1 638 414	443 445	384 397
Share capital	3 662	3 662	859	859
Weighted average number of ordinary shares	1 812 145	1 809 725	1 812 145	1 809 725
Profit (Loss) per ordinary share (in PLN / EUR)	193,87	266.26	46.33	63.56
Book value per ordinary share (in PLN / EUR)	1 042.82	905.34	244.71	212.41
Declared or paid dividends per ordinary share (in PLN / EUR)	32.00	93.60	7.51	21.96

Consolidated annual report of LPP SA Capital Group for 2015, in PLN '000

1. Consolidated statement of the financial position of LPP SA Capital Group

Statement of the financial position	Notes	Balance at the end: 31.12.2015	31.12.2014
ASSETS			
Non-current assets		1 796 996	1 516 416
1. Tangible fixed assets	15.1	1 258 751	1 038 837
2. Intangible assets	15.3	37 342	28 751
3. Goodwill	15.4	209 598	209 598
4. Trademark	15.3	77 508	77 508
5. Investments in subsidiaries	15.5	136	136
6. Investments in other entities	15.6	1 626	2 405
7. Receivables and loans	15.7	5 914	6 300
8. Deferred tax assets	15.20	139 194	143 531
9. Pre-payments	15.17	66 927	9 350
Current assets		1 768 173	1 417 310
1. Inventory	15.8	1 319 735	979 345
2. Trade receivables	15.9	115 086	176 947
3. Receivables from income tax	15.9	47 017	11 194
4. Other receivables	15.9	35 210	46 281
5. Loans	15.7	128	167
6. Pre-payments	15.17	26 550	19 847
7. Cash and cash equivalents	15.10	224 447	183 529
TOTAL assets		**3 565 169**	**2 933 726**

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Statement of the financial position	Notes	Balance at the end: 31.12.2015	31.12.2014
LIABILITIES			
Equity		1 889 739	1 638 414
1. Share capital	15.12	3 662	3 662
2. Own shares		-43 306	-43 288
3. Share premium	15.12	235 074	235 074
4. Other capital	15.12	1 323 736	1 092 205
5. Foreign exchange differences from the conversion of units		-228 757	-184 376
6. Retained earnings			
- profit (loss) from previous years		248 010	52 360
- net profit (loss) for the current period		351 320	479 546
7. Minority interest		0	3 231
Long-term liabilities		344 083	210 714
1. Bank credits and loans	15.7	284 253	204 461
2. Provisions for employee benefits	15.13	2 179	1 596
3. Provision for deferred income tax	15.20	7 085	4 657
4. Accruals	15.17	50 566	0
Short-term liabilities		1 331 347	1 084 598
1. Trade and other liabilities	15.16	721 394	618 578
2. Income tax liabilities	15.16	3 042	37 972
3. Bank credits and loans	15.7	561 074	378 346
4. Other financial liabilities	15.16	0	7
5. Provisions	15.13	17 774	20 201
6. Special funds	15.10	227	157
7. Accruals	15.17	27 836	29 337
TOTAL liabilities		**3 565 169**	**2 933 726**

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2. Consolidated statement of the results and other total revenue of LPP SA Capital Group

Statement of the results and other total revenue	Notes	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Continuing operations			
Sales revenue	15.18	5 130 353	4 769 288
Cost of goods sold		2 387 524	1 976 788
Gross Profit (Loss) on sales		2 742 829	2 792 500
Other operating income	15.18	24 231	45 889
Selling costs	15.19	2 012 420	1 942 937
General costs	15.19	179 247	205 411
Other operating expenses	15.19	72 704	80 938
Profit (Loss) on operating activities		**502 689**	**609 103**
Financial income	15.18	1 981	3 002
Financial cost	15.19	90 302	152 210
Pre-tax Profit (Loss)		414 368	459 895
Taxes	15.20	63 048	-21 965
Net Profit (Loss)		**351 320**	**481 860**
Net Profit (Loss) attributable to:			
Shareholders of parent company		351 320	479 546
Non- controlling entities			2 314
Other comprehensive income			
Exchange differences from the conversion of units		-44 381	-180 314
Total comprehensive income		**306 939**	**301 546**

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3. Consolidated statement of changes in the equity of LPP SA Capital Group

Statement of changes in the equity	Share capital	Own shares	Capital from the sale of shares above their value	Other capital	Exchange differences from the conversion of units	Profit (loss) from previous years	Profit (loss) for the current period	Minority interest	Equity TOTAL
Balance as at 1 January 2014	**3 662**	**-48 784**	**235 069**	**860 357**	**-4 062**	**447 070**	**0**	**3 178**	**1 496 490**
- correction of errors from previous years									
Balance as at 1 January 2014 after adjustments	**3 662**	**-48 784**	**235 069**	**860 357**	**-4 062**	**447 070**	**0**	**3 178**	**1 496 490**
Costs of acquiring own shares		-22							-22
Minority shareholders’ net profit								2 314	2 314
Payment of dividends to minority shareholders								-2 261	-2 261
Distribution of profit for 2013				225 093		-394 710			-169 617
Acquisition of shares			5						5
Remuneration paid in shares		5 518		3 818					9 336
Contribution by minority shareholders				2 937					2 937
Transactions with shareholders	0	5 496	5	231 848	0	-394 710	0	53	-157 308
Net profit (loss) for 2014							479 546		479 546
Exchange differences after the conversion of units					-180 314				-180 314
Balance as at 31 December 2014	**3 662**	**-43 288**	**235 074**	**1 092 205**	**-184 376**	**52 360**	**479 546**	**3 231**	**1 638 414**

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Statement of changes in the equity	Share capital	Own shares	Capital from the sale of shares above their value	Other capital	Exchange differences from the conversion of units	Profit (loss) from previous years	Profit (loss) for the current period	Minority interest	Equity TOTAL
Balance as at 1 January 2015	**3 662**	**-43 288**	**235 074**	**1 092 205**	**-184 376**	**531 906**	**0**	**3 231**	**1 638 414**
- correction of errors from previous years									
Balance as at 1 January 2015 after adjustments	**3 662**	**-43 288**	**235 074**	**1 092 205**	**-184 376**	**531 906**	**0**	**3 231**	**1 638 414**
Costs of acquiring own shares		-18							-18
Distribution of profit for 2014				225 908		-283 896			-57 988
Remuneration paid in shares				2 392					2 392
Contribution by minority shareholders				3 231				-3 231	0
Transactions with shareholders	0	-18	0	231 531	0	-283 896	0	-3 231	-55 614
Net profit (loss) for 2015							351 320		351 320
Exchange differences after the conversion of units					-44 381				-44 381
Balance as at 31 December 2015	**3 662**	**-43 306**	**235 074**	**1 323 736**	**-228 757**	**248 010**	**351 320**	**0**	**1 889 739**

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4. Consolidated cash flow statement of LPP SA Capital Group

Cash flow statement	01.01.2015-31.12.2015	01.01.2014-31.12.2014
A. Cash flows from operating activities - indirect method		
I. Pre-tax profit (loss)	414 368	459 895
II. Total adjustments	-160 480	33 001
1. Amortisation and depreciation	223 555	193 670
2. Foreign exchange gains (losses)	-15 392	22 840
3. Interest and profit sharing (dividends)	18 338	13 670
4. Profit (loss) on investing activities	18 219	8 951
5. Income tax paid	-127 987	-91 091
6. Change in provisions	-1 331	-432
7. Change in inventories	-381 692	-259 076
8. Change in receivables	6 530	51 670
9. Change in short-term liabilities excluding credits and loans	151 812	80 078
10. Change in prepayments and accruals	-45 370	-1 137
11. Other adjustments	-7 162	13 858
III. Net cash flows from operating activities	253 888	492 896
B. Cash flows from investing activities		
I. Inflows	75 353	87 758
1. Disposal of intangible and tangible fixed assets	74 358	75 884
2. From financial assets, including:	995	6 838
a) in related parties	182	214
- dividend and share in profit	182	214
b) in other entities	813	6 624
- sales of financial assets - foreign bonds		4 003
- interest, repayment of loans	510	1 120
- repayment of loans	303	1 501
3. Other investment inflows		5 036
II. Outflows	490 879	563 717
1. Purchase of intangible assets and tangible fixed assets	490 627	550 522
2. For financial assets, including:	252	13 195
a) in related parties	0	8 861
- purchase of shares		8 861
b) in other entities	252	4 334
- loans granted	252	331
- purchase of financial assets		4 003
3. Other capital expenses		
III. Net cash flows from investing activities	-415 526	-475 959
C. Inflows from the financing activities		
I. Inflows	364 819	282 535
1. Inflows from issuance of shares		5
2. Credits and loans	364 819	282 530
3. Issuance of debt securities		
II. Outflows		
1. Cost of maintaining own shares	163 657	265 298
2. Dividends to shareholders	18	22
3. Repayment of credits and loans	57 989	171 878
4. Payment of liabilities arising from financial leases	87 111	78 510
5. Interest	0	77

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6. Other outflows from financial activities	201 162	17 237
III. Net cash flows from financing activities	**39 524**	**34 174**
D. Total net cash flows	**40 918**	**34 174**
E. Balance sheet change in cash, including:	-4 934	-13 037
- change in cash due to foreign exchange differences	**183 529**	**149 355**
F. Cash opening balance	**223 053**	**183 529**
G. Closing balance of cash, including:	227	1 016
- of limited disposability	201 162	17 237

Notes to the consolidated financial statement of LPP SA Capital Group for 2015

INTRODUCTION

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,
- the Czech Republic,
- Lithuania,
- Latvia,
- Hungary,
- Russia,
- Ukraine,
- Romania,
- Bulgaria,
- Slovakia,
- Cyprus
- the United Arab Emirates
- Germany
- Croatia

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
- Przemysław Lutkiewicz - Vice-President of the Management Board
- Hubert Komorowski - Vice-President of the Management Board
- Jacek Kujawa - Vice-President of the Management Board
- Sławomir Łoboda - Vice-President of the Management Board

Piotr Dyka - Vice-President of the Management Board resigned from his position as Member of the Management Board of LPP on 17 March 2016.

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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
- Dariusz Pachla - member of the Supervisory Board

3. Characteristics of LPP SA Capital Group

LPP SA Capital Group (Capital Group, Group) consists of:
- LPP SA – as the parent company,
- 4 domestic subsidiaries,
- 16 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 Estonia OU	Tallinn, Estonia	29.04.2002
6.	LPP Czech Republic SRO	Prague, Czech Republic	16.09.2002
7.	LPP Hungary KFT	Budapest, Hungary	18.10.2002
8.	LPP Latvia LTD	Riga, Latvia	30.09.2002
9.	LPP Lithuania UAB	Vilnius, Lithuania	27.01.2003
10.	LPP Ukraina AT	Peremyshliany, Ukraine	23.07.2003
11.	RE Trading OOO	Moscow, Russia	12.02.2004
12.	LPP Romania Fashion SRL	Bucharest, Romania	12.08.2007
13.	LPP Bulgaria LTD	Sofia, Bulgaria	14.08.2008
14.	LPP Slovakia SRO	Banska Bystrica, Slovakia	30.10.2008
15.	LPP Fashion Bulgaria LTD	Sofia, Bulgaria	26.08.2011
16.	Gothals LTD	Nicosia, Cyprus	22.07.2011
17.	LPP Croatia DOO	Zagreb, Croatia	22.01.2014
18.	Reserved GmbH	Hamburg, Germany	03.03.2014
19.	IPMS Management Services FZE	Ras Al Khaimah, UAE	15.07.2015
20.	LPP Reserved UK LTD	Altrincham, UK	15.10.2015

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 2015, includes separate results of LPP SA and the results of foreign subsidiaries listed below:

- LPP Estonia OU
- LPP Czech Republic SRO
- LPP Hungary KFT
- LPP Latvia LTD
- LPP Lithuania UAB
- LPP Ukraine AT
- Re Trading OOO

- LPP Romania Fashion SRL
- LPP Bulgaria LTD
- LPP Slovakia SRO
- LPP Fashion Bulgaria LTD
- Gothals LTD
- IPMS Management Services FZE
- LPP Croatia DOO
- Reserved GMBH

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 – 0.02%
- in sales revenues and financial revenues of the Group – 0.19%.

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, Western and Eastern Europe. The 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 Group companies. Footwear, bags and clothing accessories are sold as products supplementing the basic offer of the Capital Group companies.
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, 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 IPMS in the United Arab Emirates were established for this purpose.
Four domestic subsidiaries are engaged in the rental of real properties where the stores of Cropp, 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 as European Commission Regulations. In matters not covered
by IFRS, provisions of the Accounting Act apply. 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 2015 and 31 December 2015. Comparable data are presented for the period between 1 January 2014 and 31 December 2014.

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 accounting standards or interpretations valid and applied by the Company since 2015

New or amended standards and interpretations in effect from 1 January 2015:

■ 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 decision of IASB, the interpretation is effective for annual periods beginning on 1 January 2014 or later, but its entry into force in the European Union is mandatory for annual periods beginning on 17 June 2014 or later, which is why the Group began using it since 2015. The Group has applied the interpretation, but its impact on the financial statements was not material.
■ 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:

- ■ IFRS 3: clarifies that transactions to create joint arrangements in these joint arrangements are excluded from the standard. The amendment did not affect the financial statement of the Group.
- ■ IFRS 13: the Council further clarified the scope of the exemption on the valuation of financial assets and liabilities on a net basis. The amendment did not affect the financial statement of the Group.
- ■ 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 had no impact on Group's consolidated financial statements.

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 2015 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 2015 were published:
■ New IFRS 9 "Financial Instruments: Classification and Measurement"
A new standard is to replace the current IAS 39. Changes introduced by the accounting standard for financial instruments mainly include:

- ■ other categories of financial assets, on which the valuation method of assets depends; categorising assets is made depending on the business model relating to the asset,
- ■ new principles for hedge accounting reflecting risk management to a greater extent,
- ■ new model for the impairment of financial assets value based on expected losses and causing the need for faster recognition of costs in the financial result.

The standard is effective for annual periods beginning on or after 1 January 2018 or later. The Group is in the process of assessing the impact of the standard on the consolidated financial statement.

■ Amendment to IAS 19 "Employee Benefits"
The amendments clarify the rules of conduct in the event that employees make a deposit to cover the costs of a defined benefit plan. In the Group's opinion, the amendment will not affect its consolidated financial statement. These amendments are effective for annual periods beginning on or after 1 February 2015.

■ 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 February 2015. 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.
- ■ 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). In the Group's opinion, the amendment will not affect its consolidated financial statement.
- ■ 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. In the Group's opinion, the amendment will not affect its consolidated financial statement.
- ■ 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. In the Group's opinion, the amendment will not affect its consolidated financial statement.
- ■ 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.
- ■ IAS 24: the definition of a related party was extended to units which provide services of key management personnel and adequate disclosures. In the Group's opinion, the amendment will not affect its consolidated financial statement.

■ New IFRS 14 "Regulatory Deferral Accounts"
The new standard 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.

■ New IFRS 15 "Revenue from Contracts with Customers"
The new standard replaces IAS 11 and IAS 18, providing one consistent revenue recognition model. The new 5-step model will make the recognition of revenue dependent on gaining control over the good or service by the customer. In addition, the standard introduces additional requirement for disclosures and guidance on several specific related issues. The new standard may change the moment and amount of revenues recognised by the Group, but the Group has not completed the analysis of its impact on the consolidated financial statements. The standard is effective for annual periods beginning on or after 1 January 2018 or later.

■Amendment to IFRS 11 "Joint Arrangements"
According to the amendment, entities acquiring interests in joint ventures or joint operations will have to recognise the assets and liabilities of joint operations based on IFRS 3, and thus, among others, measure assets and liabilities at fair value and determine the value of the company. In the Group's opinion, the amendment will not affect its consolidated financial statement. The amendment is effective for annual periods beginning on or after 1 January 2016.

■Amendment to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible assets"
According to the amendment, the method of depreciation of fixed assets based on the revenues earned from the use of the asset is not allowed. In the case of intangible assets, the use of the method has been limited. In the Group's opinion, the amendment will not affect its consolidated financial statement. The amendment is effective for annual periods beginning on or after 1 January 2016.

■Amendment to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"
The amendment provides that production plants (e.g. vines, fruit trees) will be excluded from the scope of IAS 41 and included in the scope of IAS 16 as assets generated internally. With this amendment, one will not have to carry out a valuation of the plants at fair value at each balance sheet date, which was required previously by IAS 41. The amendment does not apply to the Group's activities. The amendment is effective for annual periods beginning on or after 1 January 2016.

■Amendment to IAS 27 "Separate Financial Statements"
According to the amendment, interests subsidiaries, joint ventures or associates in separate financial statements may be valued also using the equity method. To date, IAS 27 provided only valuation at purchase cost or in accordance with IFRS 9/IAS 39. In the Group's opinion, the amendment will not affect its consolidated financial statement. These amendments are effective for annual periods beginning on or after 1 January 2016.

■Amendment to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"
The current principles governing the settlement of the loss of control over a subsidiary provided the recognition of profit or loss at the moment. In turn, the equity method principles stated that the result of transactions with entities valued using the equity method are recognised only to the extent of the other shareholders' interests of those entities.
In a situation where the parent company sells or makes an in-kind contribution in the subsidiary to an entity valued using the equity method in such a way that it loses control over it, the above-cited regulations would conflict with each other. The amendment to IFRS 10 and IAS 28 eliminates this collision as follows:

- ■ if the entity over which control was lost is an enterprise (business entity), the result on the transaction is recognised in full,
- ■ if the entity over which control was lost is not a business, the result is recognised only to the extent of other investors' interests.

The entry into force of this amendment has been paused.

■Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34 resulting from the "Annual Improvements Project: 2009-2011 cycle", effective for annual periods beginning on or after 1 January 2016. Amendments to the standards include:

- ■ IFRS 5: the amendment to the standard stipulates that if a company has changed the destination of assets classified as held for sale to classified as held for distribution to owners or vice versa, this means a continuation of the original plan and the corrections made are not reversed. In the Group's opinion, the amendment will not affect its consolidated financial statement.
- ■ IFRS 7: the amendment clarifies that the disclosure requirements in force since 2013 for the positions recognised in net amounts do not apply to condensed interim financial statements, unless this information is required to be disclosed under the general principles of IAS 34. This amendment will not affect the annual consolidated financial statements. In the Group's opinion, the amendment will not have a material impact on its interim consolidated financial statement.
- ■ IFRS 7: the amendment introduces a new indicator that allows to evaluate whether involvement has been maintained in transferred assets. If an entity has transferred assets, but has entered into a service agreement in which remuneration is dependent on the amount and maturities of the asset transferred, this means that an entity's continuing involvement in the asset. In the Group's opinion, the amendment will not affect its consolidated financial statement.
- ■ IAS 19: the standard allows the use of interest rates appropriate for Treasury securities for cash flows discounting if the market for the securities of commercial entities is shallow. The amendment to the standard specifies that the depth of the market should be evaluated based on the currency of the securities, and not the country. In the Group's opinion, the amendment will not affect its consolidated financial statement.
- ■ IAS 34: the standard permits certain information required by IAS 34 for condensed interim financial statements to be presented in other documents accompanying such interim statements, for example, in the report on operations. If the information is contained in the accompanying documents, the interim financial statements must include a clear reference to the places where it is disclosed. Additional documents must be available to users on the same terms and at the same time as the interim financial statements. Otherwise, the interim financial statements will be considered incomplete. This amendment will not affect the annual consolidated financial statements of the Group. In the Group's opinion, the amendment will not affect its interim consolidated financial statement.

■ Amendment to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of interests in other entities" and IAS 28 "Investments in Associates and Joint Ventures"
The IAS Council added new exemption from consolidation requirement or application of the equity method in the case of investment units:

- ■ If an intermediate parent company is dependent on the investment unit which recognises its investments at fair value in accordance with IAS 39/IFRS 9, then the intermediate parent company does not have to prepare consolidated financial statements,
- ■ if an investor is dependent on the investment unit, which recognises its investments at fair value in accordance with IAS 39/IFRS 9, then such an investor does not have to apply the equity method for recognising their investments in joint ventures and associates,
- ■ an investment unit is required to consolidate subsidiaries that provide ancillary services; however, if such a subsidiary is itself an investment entity, then it is not subject to consolidation.

These amendments are effective for annual periods beginning on or after 1 January 2016.

■ Amendments to IAS 1 "Presentation of Financial Statements"
The IAS Council, as part of a larger project that will lead to greater transparency and avoidance of excessive disclosures in financial statements, has published a number of amendments to IAS 1. The amendments include the following aspects:

- ■ The Council draws attention to the fact that placing too much irrelevant information in financial statements makes them become unreadable and is contrary to the principle of materiality,
- ■ statement items of the result and other comprehensive income and statement of financial position items required by the standard may be disaggregated,
- ■ requirements for subtotals included in the result and other comprehensive income statements and the statement of financial position have been added,
- ■ the order of notes in financial statements depends on the decision of the company, but comprehensiveness and comparability should be provided in this scope.

The Group is in the process of assessing the impact of the amendments on the consolidated financial statement. These amendments are effective for annual periods beginning on or after 1 January 2016.

■ New IFRS 16 "Leases"
The new standard regulates lease agreements (including rental and land lease agreements) provides a new definition of lease.
Significant changes apply to lessees: for each lease agreement, the standard requires recognising "the right to use the asset" and the corresponding financial liability in the balance sheet. The right to use the asset is then amortised, while the liability measured at amortised cost. Simplification has been provided for short-term contracts (up to 12 months) and assets of low value.
The accounting treatment of leases for lessors is similar to the principles set out in the current IAS 17.
The Group estimates that the new standard will not have a material impact on the consolidated financial statement. These amendments are effective for annual periods beginning on or after 1 January 2019.

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 2015, 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 18 April 2016.

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.

On 8 January 2016, the share capital of LPP SA has been increased by the amount of PLN 8 168, i.e. 4 084 shares. After this operation, the share capital of the parent company is divided into 1 835 207 shares.

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 (or the amount indicated in the Corporate Income Tax Act of the country), 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 (or the amount indicated in the Corporate Income Tax Act of the country), 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.
An item of property, plant and equipment may be removed from the statement of financial position after its sale or when no economic benefits of further use of the asset are expected. Profits or losses arising from the sale, liquidation or cessation of the use of fixed assets are defined as the difference between sales revenue and the net value of the fixed assets and are recognised in the result in other operating expenses and revenues.

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 amortisation and impairment write-downs. Intangible assets with determined useful life are amortised on a straight line basis for the period of their useful lives by applying the rates of 10–50%. 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 model garment showrooms.
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.
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.

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.

A financial asset is derecognised from the statement of financial position when rights to economic benefits arising from the contract and the risks resulting from it have been executed, have expired or the Group has waived them.
The Group derecognises a liability from the statement of financial position when it has expired, that is, when the obligation specified in the contract has been discharged, cancelled or expired.

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 measured at fair value through the financial result,
- 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 "Accruals and prepayments" in the liabilities column of the said statement, income of future periods and profit/loss on the sale of fit-out in stores are presented.
Fit-out resale is the result of the conclusion of the lease agreement and is a form of the return of costs incurred to adjust the showroom for sale. According to SIC 15, this kind of bonus should be deferred - on a straight-line basis, during the term of the agreement through adjusting lease payments.

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; for the conversion of amounts expressed in foreign currency, the following currency rate is used:
  - specified in customs documents,
  - from the day preceding issuing the purchase invoice for direct supplies to Russia,
- for goods purchased in Poland – at cost; purchase-related costs are charged directly into 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:

- spare 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.

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 employee benefits and other services.
Provisions for employee benefits include:
- provision for holiday leaves not taken,
- provision for future retirement benefits,
- provision for unpaid remuneration.

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 (including deferred 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. Due tax 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 central bank of a given country 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 – 3.8979, EUR – 4.2585, RON - 0.9404, RUB – 0.0518, CZK - 0.1565, 100HUF – 1.3571, BGN – 2.1759, HRK – 0.5563, 100BDT - 4.9434, 1GBP - 5.4996),
    - elements of liabilities – at the Parent Company's bank selling rate adopted as at this date (USD – 3.9044, EUR – 4.2645, RON – 0.9439, RUB – 0.0538, CZK – 0.1590, 100HUF – 1.3631, BGN – 2.1819, HRK – 0.5593, 100BDT – 4.9434, 1GBP-6.0494).
- 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 shall examine 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 15.21.

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 2015 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

The 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

In 2015 there was a change in the accounting policy with regard to the presentation of the profit earned on the sale of investment in foreign entities, the value of which, due to the expansion of the Group, becomes more and more important.
Until the end of 2014, the profit was presented in the Statement of Comprehensive Income in one lump sum, in the operating income as "Profit from the disposal of non-financial fixed assets".
From January 2015, it is settled in time, throughout the duration of the contract, as "Prepayments", whereas profit value per given period is accounted for by adjusting the cost of rent.
Comparative data, due to their immaterial effect on the statement of financial position of LPP SA, have not been changed.

11. Financial risk management

The Group is exposed to many risks associated with financial instruments. The Group's s assets and liabilities as per categories are presented in note 15.7. 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 15.7). 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 15.10), receivables, other financial assets and trade and services liabilities (note 15.9, 15.7 and 15.16).
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.

Items	2015	2014
Loans	269	337
Trade receivables	115 086	176 947
Cash and cash equivalents	224 447	183 529
Contingent liabilities under guarantees granted	177 953	279 324
Total	**517 755**	**640 137**

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

Customer	Share of receivables (%) in the total amount of receivables
Customers with debts representing less than 5% in the total amount of receivables	100%
Total gross trade receivables	**100.0%**

Classification of gross overdue trade receivables by overdue period as at 31.12.2015 and 31.12.2014 is presented in the table below.

in PLN '000	2015	2014
Not overdue	108 632	164 399
Overdue up to one year	16 560	22 344
Overdue for over one year	2 658	2 565
Total	**127 850**	**189 308**

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 Group increased significantly. 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 and its continuous development. Detailed description of the financial position of the Group in terms of contracted loans is presented in Note 15.7.

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

As at 31.12.2015	Short-term	Long-term
Credits in credit account	101 494	284 253
Overdrafts	459 580	
Total	**561 074**	**284 253**

As at 31.12.2014	Short-term	Long-term
Credits in credit account	78 110	204 461
Overdrafts	300 236	
Total	**378 346**	**204 461**

Liquidity risk must also include trade liabilities.

Classification of gross trade liabilities by overdue period as at 31.12.2015 and 31.12.2014 is presented in the table below.

in PLN '000	2015	2014
Not overdue	578 860	504 759
Overdue up to one year	10 984	8 277
Overdue for over one year	-	-
Total	**589 844**	**513 036**

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 receipts from sales is obtained in PLN.
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 31.12.2015	Values expressed in foreign currency		Value after conversion
	USD	EUR	
Cash	6 343	6 117	50 773
Trade receivables	5 047	318	21 028
Trade payables	102 904	7 851	435 281
Bank credits	2 067		8 071

Exchange rate risk

+/- 5%

Balance sheet items	Value	Effect on profit/loss	Effect on profit/loss
<u>Financial assets</u>			
Cash	50 773	-2 539	2 539
Trade receivables	21 028	-1 051	1 051
Effect on financial assets before tax		*-2 590*	*2 590*
Income tax (19%)		492	-492
Effect on financial assets after tax		*-2 098*	*2 098*
<u>Financial liabilities</u>			
Trade payables	435 261	21 763	-21 763
Bank credits	8 071	403	-403
Effect on financial liabilities before tax		*22 166*	*-22 166*
Income tax (19%)		-4 216	4 216
Effect on financial liabilities after tax		*17 950*	*-17 950*
Total		***15 852***	***-15 852***

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As at 31 December 2015, 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 2015 would have the same effect in terms of quantity but the opposite effect in terms of sign on the currencies used in the Group.

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
+/- 75 basis points of interest rate

Balance sheet items	Value	Effect on profit/loss	Effect on profit/loss
Financial assets			
Cash	224 447	1 683	-1 683
Loans	269	2	-2
Effect on financial assets before tax		*1 685*	-1 685
Income tax (19%)		-320	320
Effect on financial assets after tax		*1 365*	*-1 365*
Financial liabilities			
Bank credits	845 327	-6 340	6 340
Effect on financial liabilities before tax		*-6 340*	*6 340*
Income tax (19%)		1 205	-1 205
Effect on financial liabilities after tax		-5 135	*5 135*
Total		***-3 770***	***3 770***

As at 31 December 2015, the Group's net profit would be lower by PLN 3 770 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.

The methodology employed is based on the best knowledge of the Management Board of the parent entity 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.

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:
- ■ stated 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.

Management Board of LPP SA:

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

Przemysław Lutkiewicz – Vice-President of the Management Board ……………………………………………..

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

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

Sławomir Łoboda – Vice-President of the Management Board ....

Gdańsk, 18 April 2016

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 –90%,
- plant and machinery 2.5 - 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 146 thousand.

Compensations related to tangible fixed assets received by the Group in 2015 amounted to PLN 796 thousand (2014: PLN 540 thousand) and were related mainly to the vehicle-related damage.

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 15.7.

As at 31 December 2015, the value of contractual liability for the purchase of tangible fixed assets was PLN 21 271 thousand (2014: PLN 54 280 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 - 2015: PLN 198 959 thousand (2014: PLN 170 939 thousand),
- general costs - 2015: 17 540 thousand (2014: 16 851 thousand).

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Changes in fixed assets (by type) in the period from 1.01.2015 to 31.12.2015

	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	31 163	1 030 941	215 613	10 294	353 109	90 151	1 731 271
- foreign exchange differences	0	-26 191	-2 614	-326	-14 733	-720	-44 584
- increase	11 651	273 734	133 838	571	120 472	423 300	963 566
- decrease	0	57 289	12 751	1 451	14 896	487 236	573 623
2) Closing balance gross value of fixed assets	42 814	1 221 195	334 086	9 088	443 952	25 495	2 076 630
3) Opening balance accumulated depreciation (amortisation)	0	412 391	120 673	5 882	148 913	0	687 859
- depreciation	0	111 227	34 561	1 578	69 133	0	216 499
- foreign exchange differences	0	-10 619	-1 932	-180	-7 947	0	-20 678
- decrease	0	42 724	12 158	1 120	13 140	0	69 142
4) Closing balance accumulated depreciation (amortisation)	0	470 275	141 144	6 160	196 959	0	814 538
5) Opening balance impairment write-offs	0	4 385	21	0	169	0	4 575
- increase	0	146	0	0	0	0	146
- decrease	0	1 348	11	0	21	0	1 380
6) Closing balance impairment write-offs	0	3 183	10	0	148	0	3 341
Total closing balance net value of fixed assets	42 814	747 737	192 932	2 928	246 845	25 495	1 258 751

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Changes in fixed assets (by type) in the period from 1.01.2014 to 31.12.2014

	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	904 002	194 315	11 744	303 869	70 479	1 503 583
- foreign exchange differences		-74 107	-8 926	-783	-38 866	-4 105	-126 787
- increase	11 989	236 385	47 328	2 017	99 305	394 240	791 264
- decrease		35 339	17 104	2 684	11 199	370 463	436 789
2) Closing balance gross value of fixed assets	31 163	1 030 941	215 613	10 294	353 109	90 151	1 731 271
3) Opening balance accumulated depreciation (amortisation)	0	360 802	111 013	6 732	123 270	0	601 817
- depreciation		100 998	29 755	1 837	55 200		187 790
- foreign exchange differences		-25 382	-4 326	-413	-9 233		-39 354
- decrease		24 027	15 769	2 274	20 324		62 394
4) Closing balance accumulated depreciation (amortisation)	0	412 391	120 673	5 882	148 913	0	687 859
5) Opening balance impairment write-offs	0	4 576	127	0	257	0	4 960
- increase		2 155					2 155
- decrease		2 346	106		88		2 540
6) Closing balance impairment write-offs	0	4 385	21	0	169	0	4 575
Total closing balance net value of fixed assets	31 163	614 165	94 919	4 412	204 027	90 151	1 038 837

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Impairment write-downs - items in the profit and loss account - 2015	Amount
- increase – "Revaluation of non-financial assets"	146
- reversal – "Other operating revenues"	538

Impairment write-downs - items in the profit and loss account - 2014	Amount
- increase – "Revaluation of non-financial assets"	2 142
- reversal – "Other operating revenues"	913

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 31.12.2015 were as follows:

Item	Minimum payments
For 1 year	1 510
From 1 to 5 years	1 589
Over 5 years	0
Total minimum lease payments	3 099

In 2015, the Group recognised fees from operating leases in the amount of PLN 1 637 thousand in the consolidated statement of financial result and other comprehensive income.
This amount covers only the minimum lease payments.
As at 31 December 2015, 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 31.12.2015 amounted to PLN 77 508 thousand (2014: 77 508 thousand). The useful life of the 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 684 million in 2015 and was higher by 131.78% 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,
- capitalisation 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 9.57% and consisted of several elements:
  - risk-free rate – 2.95% equal to the profitability of 52-week treasury bills
  - annual inflation rate – -0.90%
  - 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 2 024 thousand (2014: PLN 1 764 thousand),
- general administrative expenses in the amount of PLN 5 032 thousand (2014: PLN 4 116 thousand).

As at 31 December 2015, the Group was under no contractual obligation to acquire any intangible assets.
the Group incurred expenditure on development works related to the design and construction of a model showroom of RESERVED, House, Cropp, SiNSAY and TALLINDER brands. These expenditures are recognised as an increase in intangible assets. As at 31.12.2015, the carrying value of investment amounts for PLN 7 963 thousand.

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Changes in intangible assets in the period from 1.01.2015 to 31.12.2015

	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 period	4 755	60 621	57 579	6 463	71 839
- foreign exchange differences	0	-269	-269	0	-269
- increase	6 408	11 893	11 403	15 503	33 804
- decrease	0	63	63	18 047	18 110
b) Gross value of intangible assets at the end of the period	11 163	72 182	68 650	3 919	87 264
c) Opening balance accumulated depreciation (amortisation)	1 902	41 186	39 222	0	43 088
- foreign exchange differences	0	-209	-209	0	-209
- planned amortisation write-offs	1 298	5 758	5 726	0	7 056
- decrease	0	13	13	0	13
d) Closing balance accumulated depreciation (amortisation)	3 200	46 722	44 726	0	49 922
Total net value of intangible assets at the end of the period	7 963	25 460	23 924	3 919	37 342

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Changes in intangible assets in the period from 1.01.2014 to 31.12.2014

	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 period	4 755	50 368	48 032	3 063	58 186
- foreign exchange differences	0	-1 023	-1 023	0	-1 023
- increase	0	11 573	10 840	14 788	26 361
- decrease	0	297	270	11 388	11 685
b) Gross value of intangible assets at the end of the period	4 755	60 621	57 579	6 463	71 839
c) Opening balance accumulated depreciation (amortisation)	951	37 103	34 965	0	38 054
- foreign exchange differences	0	-596	-596	0	-596
- planned amortisation write-offs	951	4 929	4 876	0	5 880
- decrease	0	250	23	0	250
d) Closing balance accumulated depreciation (amortisation)	1 902	41 186	39 222	0	43 088
Total net value of intangible assets at the end of the period	2 853	19 435	18 357	6 463	28 751

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 15.7.3

15.4. Goodwill

In 2015, the goodwill presented in the statement of financial position did not change in comparison to the previous year.

It was formed following two transactions:
- the merger of LPP SA and Artman SA in July 2009;
- the purchase of the shares of Koba AS with its registered office in Slovakia in April 2014.

The 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 Plius in the amount of PLN 406 thousand.

In 2014, Koba AS with its registered office in Slovakia was acquired, which resulted in an increase in goodwill by an amount of PLN 25 989 thousand.

As at 31.12.2015, the goodwill did not change and amounted to PLN 209 598 thousand.

Pursuant to IAS 36 and the accounting policy as at 31.12.2015, an impairment test was conducted for the goodwill of Artman with the carrying value of PLN 183 203 thousand and for the goodwill of Koba with the carrying value of PLN 25 989 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 (2016-2030), excluding the residual value,
- annual forecasts of revenues and expenses in 2015 (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 (40 own and 26 franchise retail shops)
- annual sales in tested retail shops - about 11% higher in 2016 compared to 2015 and sales increase by about 11% in subsequent years
- operating costs in tested retail shops - about 5% higher in 2016 compared to 2015, and sales increase by about 11% 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 2016 and remains at that level until 2029.

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

Goodwill of Koba – estimated using the DCF method for flows generated by RESERVED and Cropp stores acquired from Koba in 2014 (through the acquisition of Koba shares). The valuation was based on the following assumptions:

- the period covering estimated cash flows for 15 years (2016-2030), excluding the residual value,
- annual forecasts of revenues and expenses in 2015 (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 Koba and still operating (32 own stores)
- annual sales in tested retail shops - about 1.2% higher in 2016 compared to 2015 and sales increase by 1.2% in subsequent years
- operating costs in tested retail shops - about 2% lower in 2016 compared to 2015, and decrease by 2% in subsequent years
- discount rate in the forecast period is variable and is calculated on the basis of WACC. The WACC rate is 10,00% in 2015 and remains at that level until 2030.

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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.

Gross value	31.12.2015	31.12.2014
Opening balance	209 192	183 203
Increases	0	25 989
Reductions	0	0
Closing balance	209 192	209 192

Revaluation write-downs	31.12.2015	31.12.2014
Opening balance	0	0
Closing balance	0	0

Net value	31.12.2014	31.12.2014
Opening balance	209 192	183 203
Closing balance	209 192	209 192

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 (2014: PLN 136 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 2015 is 0.02% of the Group's assets, and the total value of revenues from sales of these companies is 0.19% 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 arouse 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.
The Group has 2 497 194 shares of the Bank of Cyprus. The value of the shares recognised at the time of transaction was 10 366 thousand.
According to the information on the introduction of the shares of the Bank of Cyprus to the stock market, the value of one share listed on the stock exchange at the balance sheet date is EUR 0.148.

At the balance sheet date, the Group holds 2 497 194 shares in the Bank of Cyprus at the nominal price of EUR 0.148 and of a balance value of PLN 1 626 thousand.
In connection with the decrease in share prices, the Group recognised an impairment loss in 2015 in the amount of PLN 731 thousand.

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15.7. Financial assets and liabilities

15.7.1. 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 31.12.2015

Fixed assets	L&R	In addition to IAS 39
Receivables and loans	5 914	
Current assets	L&R	In addition to IAS 39
Trade receivables	115 086	
Other receivables		82 227
Loans	128	
Cash and cash equivalents	224 447	

As at 31.12.2014

Fixed assets	L&R	In addition to IAS 39
Receivables and loans	6 300	
Current assets	L&R	In addition to IAS 39
Trade receivables	176 947	
Other receivables		57 475
Loans	167	
Cash and cash equivalents	183 529	

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 31.12.2015

Long-term liabilities	LAC	In addition to IAS 39
Bank loans and borrowings	284 253	
Short-term liabilities	LAC	In addition to IAS 39
Trade payables	587 200	
Other liabilities	0	137 236
Bank loans and borrowings	561 074	

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As at 31.12.2014

Long-term liabilities	LAC	In addition to IAS 39
Bank loans and borrowings	204 461	
Short-term liabilities	**LAC**	**In addition to IAS 39**
Trade payables	513 036	
Other liabilities	7	143 514
Bank loans and borrowings	378 346	

15.7.2. 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.

	31.12.2015	31.12.2014
Fixed assets:		
Receivables	5 773	6 130
Loans	141	170
Long-term receivables and loans	**5 914**	**6 300**
Current assets		
Trade and other receivables	197 313	234 422
Loans	128	167
Short-term receivables and loans	**197 441**	**234 589**
Receivables and loans, including:	**203 355**	**240 889**
Receivables (note 15.9)	269	240 552
Loans (note 15.7.2)	203 086	337

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 31.12.2015, loans granted in PLN with the carrying amount of PLN 226 thousand (2014: PLN 277 thousand) were subject to a fixed interest rate of 6%. The maturity dates for loans in PLN cover the period 2016-2019.

The Group also granted foreign currency loans in HUF. The carrying value of foreign currency loans as at 31.12.2015 was PLN 43 thousand. In accordance with Hungarian regulations, workers' loans are exempt from interest and concluded for a period of four to seven years.

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:

Gross value	31.12.2015	31.12.2014
Opening balance amount	337	15 516
The amount of loans granted during the period	252	330
Calculation of interest	21	1 226
Repayment of loans and interest	336	3 137
Impairment	5	12 550
Exchange rate differences	0	- 1 048
Closing balance amount	269	337

Disclosures regarding cash and cash equivalents are presented in note 15.10.

15.7.3. 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 2015, the Company's debt related to bank credits was as follows:

Bank	Use of credits as at 31 December 2015		Credit costs	Maturity date
	in PLN '000	currency in '000		
PKO BP SA	169 696		wibor 1 m + bank's margin	31.12.2022
PKO BP SA	83 397		wibor 1 m + bank's margin	31.12.2017
PKO BP SA	75 945		wibor 1 m + bank's margin	4.08.2020
PKO BP SA	37 415		wibor 1 m + bank's margin	23.06.2017
Pekao SA	56 709		wibor 1 m + bank's margin	30.09.2020
Pekao SA	134 788	USD 2 067	libor 1 m + bank's margin	30.06.2016
Citibank Bank Handlowy	206 447		wibor 1 m + bank's margin	10.01.2017
BGŻ BNP Paribas Bank Polska SA	1 927		wibor 1 m + bank's margin	30.01.2017
Raiffeisen Bank Polska SA	78 590		wibor 1 m + bank's margin	30.09.2016
Unicredit Bulbank AD	413	EUR 100	euribor 1 m + bank's margin	31.05.2016
Total	845 327			

Bank credits amounting to PLN 845 327 thousand included:
- long-term loans in the amount of PLN 284 253 thousand,
- short-term credits in the amount of PLN 561 074 thousand (including PLN 101 494 thousand which is part of long-term investment credits to be repaid within 12 months after the balance sheet date)

As at 31 December 2014, the Company's debt related to bank credits was as follows:

Bank	Use of credits as at 31 December 2014		Credit costs	Maturity date
	in PLN '000	currency in '000		
PKO BP SA	168 049		wibor 1 m + bank's margin	31.12.2022
PKO BP SA	114 522		wibor 1 m + bank's margin	31.12.2017
PKO BP SA	151 621		wibor 1 m + bank's margin	23.06.2017
Citibank Bank Handlowy	12 142		wibor 1 m + bank's margin	12.01.2016
BNP Paribas Bank Polska SA	360		wibor 1 m + bank's margin	16.12.2015
Raiffeisen Bank Polska SA	24 755	USD 205	libor 1 m + bank's margin	01.10.2015
Unicredit Bulbank AD	358	EUR 83	euribor 1 m + bank's margin	31.03.2015
Total	582 807			

As at 31.12.2014, bank credits amounting to PLN 582 807 thousand included:
- long-term loans in the amount of PLN 204 461 thousand,
- short-term credits in the amount of PLN 378 346 thousand (including PLN 78 110 thousand which is part of long-term investment credits to be repaid within 12 months after 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	280 000	PLN	2 blank promissory notes
PKO BP SA	Investment loan	200 578	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
PKO BP SA	Investment loan	100 000	PLN	contractual mortgage, assignment of receivables from insurance, blank promissory note
Pekao SA	Multi-purpose and multi-currency credit line	330 000	PLN	blank bill of exchange power of attorney for accounts
Pekao SA	Investment loan	60 000	PLN	contractual mortgage, assignment of receivables from insurance, blank promissory note
BGŻ BNP Paribas Bank Polska SA	Multi-purpose and multi-currency credit line	280 000	PLN	blank bill of exchange
Raiffeisen Bank Polska SA	Multi-purpose and multi-currency credit line	280 000	PLN	blank bill of exchange, power of attorney for accounts
Citibank Bank Handlowy	Multi-purpose, multi-currency line	244 000	PLN	blank bill of exchange
Citibank Bank Handlowy	Revolving line of letters of credit	50 700	PLN	blank bill of exchange
Citibank Bank Handlowy	Stand-by letters of credit line	18 000	PLN	blank bill of exchange
HSBC	Letters of credit line	15 000	USD	blank bill of exchange, power of attorney for accounts
Unicredit Bulbank AD	Credit line	411	EUR	guarantee of Pekao SA

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.

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15.7.4. Other information on financial instruments

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

2015

Assets*	**Fair value**	**Carrying amount**
Trade and other receivables	203 086	203 086
Cash and cash equivalents	224 447	224 447
Total	**427 533**	**427 533**
Liabilities	***Fair value***	***Carrying amount***
Bank loans and borrowings	845 327	845 327
Trade and other liabilities	724 436	724 436
Other financial liabilities	0	0
Total	**1 569 763**	**1 569 763**

2014

Assets*	**Fair value**	**Carrying amount**
Trade and other receivables	240 552	240 552
Cash and cash equivalents	183 529	183 529
Total	**424 081**	**424 081**
Liabilities	**Fair value**	**Carrying amount**
Bank loans and borrowings	582 807	582 807
Trade and other liabilities	656 550	656 550
Other financial liabilities	7	7
Total	**1 239 364**	**1 239 364**

***** due to the lack of possibility of reliable pricing, the table does not include unquoted equity instruments valued at purchase price 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.

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15.8 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:

Inventories	31.12.2015	31.12.2014
Materials	14 399	8 777
Goods	1 305 336	970 568
Total	**1 319 735**	**979 345**

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 31.12.2015 the value of inventories recognised as an expense during the reporting period amounted to PLN 2 652 313 thousand.

Inventory revaluation write-down	31.12.2015	31.12.2014
Opening balance	18 420	10 885
Inventory write-offs not included as cost in the period	0	3 147*
Inventory write-offs included as cost in the period	9 863	6 413
Reversed revaluation write-offs in the period	3 709	1 195
Exchange rate differences	-1 885	-830
Closing balance	22 689	18 420

* relates to write-offs in the company Koba prior to its acquisition by the parent company

15.9. Receivables

Trade and other receivables recognised by the Capital Group as receivables and loans (note 15.7) are as follows:

Long-term receivables in the carrying amount of PLN 5 773 thousand (2014: PLN 6 130 thousand) include only deposits paid.
Detailed information on the structure of the Capital Group's short-term receivables is presented in the table below.

Short-term receivables	31.12.2015	31.12.2014
Trade receivables	127 850	189 308
Revaluation write-downs of trade receivables	-12 764	-12 361
Net trade receivables	**115 086**	**176 947**
Other receivables	0	0
Revaluation write-downs of other receivables	0	0
Other receivables net according to IAS 39	**0**	**0**
Other receivables beyond IAS 39	82 659	57 901
Revaluation write-downs of other receivables	-432	-426
Other receivables beyond IAS 39	**82 227**	**57 475**
Total short-term receivables	**197 313**	**234 422**

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

Receivables revaluation write-down	31.12.2015	31.12.2014
Opening balance amount	12 787	6 037
Revaluation write-downs created in the period	1 511	11 474
Reversed revaluation write-offs in the period	1 054	4 499
Exchange rate differences	-48	-225
Closing balance amount	13 196	12 787

15.10. Cash

Cash	31.12.2015	31.12.2014
Cash in hand and cash at banks	222 170	175 636
Other cash	2 277	7 893
Total	**224 447**	**183 529**

"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.

Cash - currency structure	31.12.2015	31.12.2014
In the Polish currency	45 547	56 291
In foreign currencies (by currency)	178 900	127 238
- USD	24 724	13 564
- RMB	369	293
- EUR	73 767	36 335
- HRK	1 736	3 092
- CZK	13 827	13 385
- UAH	7 462	17 707
- BDT	169	4 507
- HUF	5 864	2 328
- RUB	19 116	20 118
- BGN	8 314	7 944
- RON	23 552	7 965
Total (in PLN '000).	**224 447**	**183 529**

As at 31 December 2015, the Group had free borrowed funds in the amount of PLN 577 983 thousand.
In the period from 1.01.2015 to 31.12.2015, the Group made non-cash settlements with its customers (in the form of set-off of liabilities and receivables) in the amount of PLN 42 734 thousand.

As at the balance sheet day, the use of cash was limited in the amount of PLN 227 thousand (2014: PLN 1 016 thousand)
It stems from the fact that it is on account of the social fund required by law. 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.

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For the purpose of preparing the statement of cash flows, the Group classifies cash in the manner adopted for the presentation of financial position. The impact on the difference in the value of cash shown in the statement of financial position and the statement of cash flows is due to:

	31.12.2015
Cash and cash equivalents in the statement of financial position	224 447
Adjustments:	
Exchange differences from balance sheet valuation of cash in foreign currency	1 394
Cash and cash equivalents recognised in CF	**223 053**

15.11. Discontinued operations

In 2015, the Group had no discontinued operations.

15.12. Equity capital

Stated capital

The Group's stated capital is equal to share capital of the parent company
As at 31.12.2015, it amounted to PLN 3 662 246. It was divided into 1 831 123 shares with 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. A part of the profit generated in 2014 in the amount of PLN 57 988 640 was allocated for dividends, which corresponded to the amount of PLN 32.00 per a legitimate share.
Ordinary shares were allocated the amount of PLN 46 788 640 and the preferred shares - PLN 11 200 000.
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.

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Ownership structure of the share capital of LPP SA as at 31 December 2015.

Shareholder	Number of shares held	Number of votes at the AGM	Share in the total number of votes at the AGM	Share in the share capital	Nominal value of shares
Marek Piechocki	175 498	875 498	27.3%	9.6%	350 996
Jerzy Lubianiec	175 000	875 000	27.2%	9.6%	350 000
Forum TFI SA	200 728	200 728	6.2%	11.0%	401 456
Treasury shares	18 978	0	0.0%	1.0%	37 956
Other shareholders	1 260 919	1 260 919	39.3%	68.8%	2 521 838
Total	**1 831 123**	**3 212 145**	**100.0%**	**100.0%**	**3 662 246**

In the reporting period there was a significant change in the ownership structure of the share capital of LPP SA.
The existing shareholder, Monistor Limited with its registered office in Nicosia, decreased its share to less than 5% of the total number of votes at the General Meeting of the Issuer (CR 34/2015).
At the same time, Forum TFI SA with its registered office in Kraków, notified the Issuer of the acquisition of LPP SA shares entitling to vote in the share exceeding the threshold of 5% of the total number of votes at the General Meeting of Shareholders (CR 35/2015).

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 235 074 thousand.

Other capital
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.

Type of capital	31 December 2015	31 December 2014
Spare capital	1 302 963	1 074 663
Reserve capital	9 893	6 662
Capital from the settlement of the merger	-1 410	-1 410
Capital component of convertible bonds	12 290	12 290
Total	**1 323 736**	**1 092 205**

The Company's spare capital presented under equity as at 31.12.2015 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:

Type of spare capital	31 December 2015	31 December 2014
Created on a statutory basis based on the write-off from profit or loss	1 335	1 335
Created as per the Articles of Association based on write-off from profit or loss	1 267 907	1 041 999
Created from share-based payments	33 721	31 329
Total	**1 302 963**	**1 074 663**

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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 December 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 April 1995 - registration of the increase of share capital up to PLN 700 thousand
4. 24 October 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

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[1)]		19.9%	365	1.199	2 298
4 January 1996		1 400[2)]	19.9%	362	1.197	1 676
Total 1996						3 974

[1)] equity at the end of 1995 + retained result for 1995
[2)] capital increase + aggio

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.

15.13. Provisions

As at the balance sheet date, the Group has provisions in the statement of financial position liabilities in the total amount of PLN 19 953 thousand.

Provision for retirement benefits
This provision is created only by the parent company. Retirement severance payments are not paid in other capital companies. 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.

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Provision for unpaid remuneration
This provision is created for future remuneration resulting from the ongoing work of employees.

	Provision for pensions and similar benefits	Provision for unpaid remuneration	Provision for liabilities	Provision for holiday leaves not taken
As at 1 January 2015	1 596	7 683	176	12 342
- provisions established	2 179	830	0	13 437
- provisions reversed	1 596	4 176	176	12 342
As at 31 December 2015	2 179	4 337	0	13 437

15.14. Contingent liabilities

In 2015, LPP SA Capital Group companies used bank guarantees to secure the payment of rent for leased retail premises where brand stores are located.
As at 31 December 2015, the total value of bank guarantees granted at the request and on the responsibility of LPP SA amounted to PLN 211 794 thousand, of which:
- value of guarantees issued for contracts concluded by LPP SA amounted to PLN 70 430 thousand,
- guarantees granted to secure agreements executed by consolidated related parties amounted to PLN 139 415 thousand,
- guarantees granted to secure agreements executed by non-consolidated related parties amounted to PLN 1 645 thousand,
- guarantees granted to secure office space lease agreements concluded by LPP SA - PLN 305 thousand.

In 2015, the Company also received guarantees as collateral for payment from a counterparty. The value of guarantees received is PLN 17 360 thousand.

On 31 December 2015, the value of sureties granted by the parent company amounted to PLN 105 573 thousand and increased in comparison with 31 December 2014 by PLN 20 871 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.

15.15. Future liabilities under lease agreements

The Capital Group is party to lease agreements for the use of retail premises where RESERVED, Cropp, House, MOHITO, SiNSAY and Tallinder brand stores are located.

The value of rents charged to costs of the current financial period amounts to PLN 741 704 thousand**.** This amount includes both the minimum and contingent rents, depending on the amount of turnover achieved.

Total future minimum payments under lease agreements, estimated as at 31 December 2015, are as follows:
- payables maturing within 12 months after the balance sheet date PLN 848 371 thousand
- payables with the maturity date from 12 months to 5 years from the balance sheet date PLN 2 503 002 thousand
- payables maturing within more than 5 years from the balance sheet date 1 063 048 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 represented 0.9% 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.

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15.16. Trade and other liabilities

Short-term liabilities	31.12.2015	31.12.2014
Trade payables	589 844	513 036
Other financial liabilities	0	7
Financial liabilities according to IAS 39	**589 844**	**513 043**
Payables due under taxes and other benefits	130 598	133 712
Other non-financial liabilities	3 994	9 802
Non-financial liabilities	**134 592**	**143 514**
Total short-term liabilities	**724 436**	**656 557**

15.17. Accruals and prepayments

Prepayments - assets	31.12.2015	31.12.2014
Long-term		
Software supervision	449	584
Commissions for intermediaries	66 406	8 722
Other long-term settlements	72	44
Total long-term prepayments	**66 927**	**9 350**
Short-term		
Rent	16 657	15 049
Insurance	1 852	1 973
Software supervision	585	613
License fees, subscriptions, Internet domains	2 589	829
Commissions from intermediaries	3 026	345
Other	1 841	1 038
Total short-term prepayments	**26 550**	**19 847**

Accruals – liabilities	31.12.2015	31.12.2014
Long-term		
Sale of investments	35 242	
Subsidies to lease agreements	15 324	
Sale of marketing services	515	
Total long-term accruals	**50 566**	**0**
Short-term		
Sale of investments	7 466	0
Returns of goods from domestic sale	3 911	4 628
Sales based on gift cards and vouchers	13 897	11 901
Marketing services	531	1 536
Subsidies to lease agreements	2 031	9 174
Other	0	2 098
Total short-term accruals	**27 836**	**29 337**

In the reporting period, a new position within the accruals appeared concerning the sale of investments. Detailed information on this subject is available in item 10 of the report.

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15.18. Revenues

Sales revenue	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Net revenues from sales of services	23 833	26 560
Net revenues from sales of goods and materials	5 106 520	4 742 728
Total sales revenues	**5 130 353**	**4 769 288**

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.

Other operating income	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Profit from the disposal of non-financial fixed assets	805	22 704
Subsidies	451	0
Other operating revenues, including:	22 975	23 185
- reversal of write-downs of fixed assets	538	913
- reversal of write-downs of receivables	474	2 667
- reversal of write-downs of provisions	3 709	1 195
Total operating revenues	**24 231**	**45 889**

Financial revenue	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Interest, including:	1 794	2 679
- on deposits	5	962
- on loans and receivables	1 786	1 702
- on bonds	3	15
Dividends	182	204
Profit from the disposal of investments	0	0
Other, including:	5	119
- reversal of write-downs of loans	5	0
Total financial revenues	**1 981**	**3 002**

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15.19. Costs

Expenses by type	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Depreciation	223 555	193 670
Consumption of materials and energy	137 275	128 595
Outsourced services	1 191 959	1 365 689
Taxes and fees	199 346	13 690
Remuneration	284 173	260 909
Social insurance and other benefits, including:	61 695	65 582
- pension contribution	7 785	6 665
Other expenses by type	96 650	118 828
Total expenses by type	**2 194 653**	**2 146 963**

Reconciliation of expenses by nature and function in the table below:

	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Expenses by type	2 194 653	2 146 963
Change in products	792	1 386
Value of costs of sales and general administrative expenses	**2 195 445**	**2 148 349**

Other operating expenses	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Revaluation of non-financial assets, including:	11 374	19 957
- fixed assets	146	2 142
- inventories	9 863	6 413
- receivables	1 365	11 402
Other	61 330	60 981
Total operating costs	**72 704**	**80 938**

Financial expenses	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Interest, including:	19 061	15 934
- regarding bank loans	19 061	15 934
Revaluation of investments	731	20 933
- loans and shares	731	20 933
Other, including:	70 510	115 343
- commissions on bank credits and guarantees	1 914	3 515
- balance of foreign exchange differences	68 596	111 828
Total financial expenses	**90 302**	**152 210**

15.20. Income tax

The main elements of taxation of the Group for 2015 and the comparative period are shown in the table below.

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Statement of financial result and comprehensive income	2015	2014
Current income tax	56 053	94 805
Deferred income tax	6 995	- 116 770
Total income tax	**63 048**	**-21 965**

Reconciliation of income tax calculation disclosed in the consolidated statement of financial result and other comprehensive income for 2015 and 2014 is shown in the table below.

Income tax	2015	2014
Gross profit/loss of the Group before consolidation adjustments	605 362	516 523
Adjustment of permanently tax-exempt expenses and revenues	-288 472	-402 395
Gross profit/loss of the Group after adjustment	316 890	114 128
Income tax at the average rate of 18.73%; 20.36%*	64 535	22 372
Tax consolidation adjustments	-263	-44 337
Tax relieves	-1 224	59
Income tax	**63 048**	**-21 965**

*rate 18.73% - 2014, rate 20.36% - 2015

Income tax is calculated according to the following rates:
- LPP SA – 19 %,
- Re Trading OOO (Russia) – 20%,
- LPP Lithuania UAB (Lithuania) – 15%,
- LPP Latvia LTD (Latvia) – 15%,
- LPP Ukraine AT – 18%
- LPP Hungary KFT (Hungary) – 10%
- LPP Estonia OU – 20%
- LPP Czech Republic SRO (the Czech Republic) – 19%
- LPP Bulgaria LTD – 10%
- LPP Slovakia SRO– 22%
- LPP Romania Fashion SRL (Romania) – 16%
- LPP Croatia DOO – 20%
- 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.

Deferred income tax assets:	31.12.2015	31.12.2014
Revaluation of fixed assets	12 592	11 560
Revaluation of trademarks	101 569	106 915
Revaluation of trade receivables	398	742
Revaluation of inventories	2 240	1 431
Margin on goods unsold outside the Group	12 039	10 389
Margin from the sale of investments	5 907	0
Tax loss	433	9 298
Remuneration and surcharges	1 648	1 460
Estimated returns of goods	865	787
Other	1 503	948
Total	**139 194**	**143 531**

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Deferred income tax liabilities:	31.12.2015	31.12.2014
Amortisation of intangible assets	4 940	4 394
Estimate of the cost of rent	1 077	0
Outstanding damages	131	133
Accrued interest on bank loans	239	51
Adjustments received in the following year	692	0
Other	6	79
Total	**7 085**	**4 657**

Deferred tax shown in the statement of financial result and other comprehensive income for the period from January to December 2015 and 2014 relates to the following items:

Deferred income tax assets:	31.12.2015	31.12.2014
Revaluation of fixed assets	1 032	1 820
Revaluation of trademarks	-5 346	106 915
Revaluation of trade receivables	-344	290
Revaluation of inventories	809	1 010
Margin on goods unsold outside the Group	1 650	-990
Margin from the sale of investments	5 907	
Tax loss	-8 865	9 604
Remuneration and surcharges	188	2 060
Estimated returns of goods	78	-19
Other temporary differences	555	839
Foreign exchange differences from translation	-231	-5 323
Total	**-4 567**	**116 206**

Deferred income tax provision:	31.12.2015	31.12.2014
Accelerated tax depreciation	546	-192
Estimate of the cost of rent	1 077	0
Damages not received	-2	-19
Accrued interest on bank loans	188	-153
Adjustments received in the following year	692	0
Other	-73	-58
Foreign exchange differences from translation	0	-142
Total	**2 428**	**-564**

15.21. 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.
Calculation of EPS is presented below.

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	1.01.2015-31.12.2015	1.01.2014-31.12.2014
Number of shares used as the denominator in the formula		
Weighted average number of ordinary shares	1 812 145	1 809 725
Dilutive effect of stock options convertible into shares	15 388	17 053
Diluted weighted average number of ordinary shares	1 827 533	1 826 778
Earnings per share		
Net profit (loss) for the current period	351 320	479 546
Profit (loss) per share	193.87	266.26
Diluted profit (loss) per share	192.24	262.51

15.22. 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

15.22.1. Transactions with key management personnel

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

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

The value of short-term benefits of the key management personnel received for the period from 1 January to 31 December 2015 amounted to PLN 5 269 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
- Przemysław Lutkiewicz, Vice-President of the Management Board, PLN 821 thousand
- Piotr Dyka, Vice-President of the Management Board, PLN 900 thousand
- Huber Komorowski, Vice-President of the Management Board, PLN 900 thousand
- Jacek Kujawa, Vice-President of the Management Board, PLN 901 thousand
- Sławomir Łoboda, Vice-President of the Management Board, PLN 225 thousand*
- Jerzy Lubianiec, Chairman of the Supervisory Board, PLN 80 thousand.

Other members of the Supervisory Board obtained a total of PLN 92 thousand.

*Sławomir Łoboda, Vice-President of the Management Board, was appointed a member of LPP SA Management Board by the Supervisory Board on 14.10.2015. The remuneration specified above refers to the period of sitting on the board of the Company.

As at 31 December 2015, accrued provisions for retirement severance payments for the Management Board members amounted to PLN 23 thousand (2014: PLN 21 thousand) and for not taken leaves amounted to PLN 136 thousand (2014: PLN 74 thousand).

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15.22.2 Transactions with affiliated entities

No.	Affiliated entities	Liabilities as at 31.12.2015	Receivables as at 31.12.2015	Revenues in 2015	Expenses in 2015
1.	Polish subsidiaries	0	8	14	9 885
Total		0	8	14	9 885

No.	Affiliated entities	Liabilities as at 31.12.2014	Receivables as at 31.12.2014	Revenues in 2014	Expenses in 2014
1.	Polish subsidiaries	98	2	14	10 650
Total		98	2	14	10 650

The figures given in the table only present transactions between LPP SA and non-consolidated Polish subsidiaries, and they are presented form the parent company's point of view.
Data presented as payables of LPP SA are receivables in related entities, and expenses are equivalent to revenues of given entities.
All related party transactions were concluded on an arm's length basis.

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 and RESERVED, MOHITO and House stores are run.

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

15.23. Segments of operation

Financial results and other information regarding geographical segments for the period from 1 January 2015 to 31 December 2015 and for the comparative period are presented in the following tables.

2015

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	4 105 749	1 024 604	0	0	5 130 353
Intersegment sales	655 459	0	(655 459)	0	-
Other operating income	17 684	5 742	0	805	24 231
Total revenue	*4 778 892*	*1 030 346*	*(655 459)*	*805*	*5 154 584*
Total operating expenses, including	4 106 038	891 743	(597 837)	179 247	4 579 191
Costs of intersegment sales	480 055	0	(480 055)	0	-
Other operating expenses	49 668	23 036	0	0	72 704
Segment results	*623 186*	*115 567*	*(57 622)*	*(178 442)*	*502 689*
Financial revenue					1 981
Financial expenses					90 302
Profit before tax					*414 368*
Income tax					63 048
Net profit					*351 320*

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	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
Segment assets	3 122 773	500 028	(197 095)		3 425 706
Unallocated assets across the group				139 463	139 463
Total consolidated assets					*3 565 169*
Segment liabilities	787 101	174 903	(138 986)		823 018
Unallocated liabilities across the group				852 412	852 412
Consolidated total liabilities					*1 675 430*

Other disclosures	EU Member States	Other countries
Segment capital expenditure	409 210	40 905
Segment depreciation	175 424	48 131
Impairment write-downs	8 230	3 875
Release of impairment write-downs	4 523	198
Other non-cash expenses	42 210	19 120

2014

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	3 688 778	1 080 510	0	0	4 769 288
Intersegment sales	582 046	4 274	(586 320)	0	-
Other operating income	15 893	7 291	0	22 705	45 889
Total revenue	*4 286 717*	*1 092 075*	*(586 320)*	*22 705*	*4 815 177*
Total operating expenses, including	3 484 174	1 025 949	(590 398)	205 411	4 125 136
Costs of intersegment sales	482 813		(482 813)		-
Other operating expenses	53 528	27 410			80 938
Segment results	*749 015*	*38 716*	*4 078*	*(182 706)*	*609 103*
Financial revenue					3 002
Financial expenses					152 210
Profit before tax					*459 895*
Income tax					(21 965)
Net profit					*481 860*

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
Segment assets	2 424 561	548 719	(183 422)		2 789 858
Unallocated assets across the group				143 868	143 868
Total consolidated assets					*2 933 726*
Segment liabilities	682 654	189 580	(164 386)		707 848
Unallocated liabilities across the group				587 464	587 464
Consolidated total liabilities					*1 295 312*

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Other disclosures	EU Member States	Other countries
Segment capital expenditure	335 357	85 444
Segment depreciation	137 670	56 212
Impairment write-downs	30 042	10 848
Release of impairment write-downs	4 668	107
Other non-cash expenses	34 422	26 559

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

- Receivables revaluation write-offs;
- Inventory revaluation write-offs;
- assets revaluation write-offs.

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

Management Board of LPP SA:

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

Przemysław Lutkiewicz – Vice-President of the Management Board ……………………………………………

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

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

Sławomir Łoboda – Vice-President of the Management Board …………………………………………

Gdańsk, 18 April 2016

Management Board Report on the operations of LPP SA Capital Group (including declaration on Corporate Governance) for 2015

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 16 foreign companies.

The consolidated financial statement of LPP SA Capital Group, covering the period between 1 January and 31 December 2015, includes separate results of LPP SA and the results of foreign subsidiaries listed below:

- LPP Estonia OU
- LPP Czech Republic SRO
- LPP Hungary KFT
- LPP Latvia LTD
- LPP Lithuania UAB
- LPP Ukraine AT
- Re Trading OOO
- LPP Romania Fashion SRL
- LPP Bulgaria LTD
- LPP Slovakia SRO
- LPP Fashion Bulgaria LTD
- Gothals LTD
- IPMS Management Services FZE
- LPP Croatia DOO
- Reserved GMBH

LPP SA, as a parent company, is involved in the design and distribution of clothing in Poland and the countries of Central, Western and Eastern Europe and the Middle East. The 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	2015		2014		Change
	in PLN '000	Share in sales volume %	in PLN '000	Share in sales volume %	%
Sales of trading commodities	5 106 520	99.5%	4 742 728	99.4%	7.7%
Sales of services	23 833	0.5%	26 560	0.6%	-10.3%
Total	**5 130 353**	**100.0%**	**4 769 288**	**100.0%**	**7.6%**

The main distribution channels guaranteeing the development of the Capital Group are networks of RESERVED, Cropp, House, MOHITO, SiNSAY and Tallinder stores and on-line stores of the above-listed brands. Individuals are the recipients of the products both in stationary and online stores.

Distribution channel	2015		2014		Change
	in PLN '000	Share in sales volume %	in PLN '000	Share in sales volume %	%
RESERVED brand stores	2 428 605	47.3%	2 312 030	48.5%	5.0%
Exports	39 850	0.8%	34 146	0.7%	16.7%
Cropp brand stores	788 020	15.4%	771 350	16.2%	2.2%
House brand stores	671 813	13.1%	633 648	13.3%	6.0%
MOHITO brand stores	584 548	11.4%	522 900	11.0%	11.8%
SiNSAY brand stores	328 363	6.4%	224 652	4.7%	46.2%
Other	289 154	5.6%	270 562	5.7%	6.9%
Total	**5 130 353**	**100.0%**	**4 769 288**	**100.0%**	**7.6%**

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):

Company name	Country	Revenues from sales between 01.01.2015 and 31.12.2015	Revenues from sales between 01.01.2014 and 31.12.2014
LPP SA	Poland	3 250 263	3 079 644
LPP Estonia OU	Estonia	78 036	66 807
LPP Latvia LTD	Latvia	66 158	59 891
LPP Czech Republic SRO	Czech Republic	224 117	186 397
LPP Hungary KFT.	Hungary	48 110	41 610
LPP Lithuania UAB	Lithuania	77 451	73 121
LPP Ukraina AT	Ukraine	188 363	191 810
Re Trading OOO	Russia	836 242	884 425
LPP Romania Fashion SRL	Romania	56 410	26 311
GMBH Reserved	Germany	93 933	15 108
LPP Croatia DOO	Croatia	32 515	5 683
LPP Bulgaria LTD	Bulgaria	44 905	32 571
LPP Slovakia SRO	Slovakia	133 846	105 910*
Total:		**5 130 348**	**4 769 288**

*total revenues of 2 companies in Slovakia: LPP Slovakia s.r.o. and KOBA AS

Export sales to entities other than capital companies conducted by LPP SA totalled PLN 39 859 thousand, i.e 0.8% of total revenues. Presented below are the main directions in export sales of the Capital Group.

Country	2015		2014	
	export amount in PLN '000	share in export in %	export amount in PLN '000	share in export in %
Belarus	3 122	7.8%	3 574	10.5%
Egypt	5 802	14.6%	3 331	9.8%
Russia	6 809	17.1%	10 438	30.6%
Ukraine	1 676	4.2%	2 370	6.9%
Qatar	6 506	16.3%	2 886	8.5%
Kuwait	7 130	17.9%	-	-
United Arab Emirates	2 680	6.7%	-	-
Saudi Arabia	4 527	11.4%	-	-
Other	1 597	4.0%	11 547	33.8%
Total	**39 850**	**100.0%**	**34 146**	**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 this country accounted for about 60%, and in other Asian countries about 30%. In addition, the Group purchased goods from Turkish (about 5%) and Polish (about 2%) manufacturers.
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 2015:

1) Revenues from sales made by LPP SA Capital Group amounted to PLN 5 131 million and were higher by 7.6% than those achieved in 2015.
2) In 2015, the Capital Group generated net profit of about PLN 351 million. This is by 37.2% less than in 2014 (approx. PLN 482 million).
3) The total selling area in brand stores was up by about 121 thousand square meters (i.e. about 16.7%). The total retail selling area in the entire LPP S.A. Capital Group amounted to approx. 724 thousand sq. m, including approx. 379 thousand sq. m outside Poland.

Network	2015		2014		Change in selling area
	Area (thousand m2)	Quantity (pcs)	Area (thousand m2)	Quantity (pcs)	%
RESERVED	461	449	390	425	18.2%
Cropp	115	372	106	366	8.5%
House	100	319	90	308	11.1%
MOHITO	95	280	83	256	14.5%
SiNSAY	60	170	44	129	36.4%
Outlet	14	37	11	32	27.3%
Total	**845**	**1 627**	**724**	**1 516**	**16.7%**

Results generated by LPP SA Capital Group in 2015 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 SiNSAY.

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

Item	2015 (in PLN '000)	2014 (in PLN '000)	Change %
Net revenues from sales	5 130 353	4 769 288	7.6%
Profit from sales before tax	2 742 829	2 792 500	-1.8%
Profit from sales	551 162	644 152	-14.4%
Operating profit	502 689	609 103	-17.5%
Profit on business operations	414 368	459 895	-9.9%
Net profit	351 320	481 860	-27.1%
Equity	1 889 739	1 638 414	15.3%
Liabilities and provisions for liabilities:	1 675 430	1 295 312	29.3%
Long-term liabilities	344 116	210 714	63.3%
Short-term liabilities:	1 331 314	1 084 598	22.7%
- bank credits	561 074	378 346	48.3%
- due to suppliers	721 394	513 036	40.61%
Fixed assets	1 796	1 516 416	18.5%
Current assets	1 768 173	1 417 310	24.8%
Inventories	1 319 735	979 345	34.8%
Short-term receivables	197 313	234 422	-15.8%
Trade receivables	115 086	176 947	-35.0%

The increase in revenues from sales of 7,6% was achieved by increasing sales in all retail chains.
Gross margin reached 53.5% and was lower than last year by 5.1 percentage points.
Profit on sales fell by 14.4%.

Operating profit amounted to PLN 502 689 thousand (decrease by 17.5% compared with 2014) and the operating profit margin amounted to 9.8% (in previous year it was PLN 609 103 thousand and 12.8%, respectively).
Profit from business operations was lower compared to the previous year by 9.9% and amounted to PLN 414 368 thousand.

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Net profit generated in 2015 amounted to PLN 351 320 thousand and was lower compared to the previous year (PLN 481 860 thousand) by 27.1%. The resulting net profit margin amounted to 6.8% (in 2014 it was 10.1%).
The equity capital of LPP SA Capital Group was up by 15.3% in 2015. It was mainly due to the transfer of profit to equity.
Long-term liabilities increased by 63.3%, while short-term liabilities increased by 22.7% compared to 2014.
At the end of 2015, the debt arising from bank loans was higher by 48.3% compared to the end of 2014, as a result of releasing investment loans.
At the same time, short-term liabilities due to suppliers increased by 16.6%.
In the analysed period, fixed assets increased by 18.5%, due to the development of chain stores.
Current assets increased by 24.8% compared to the end of 2014.
Values of profitability ratios, presented in the table below, result directly from factors described above, determining the value of each category of profit.

Profitability ratios

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	2015 %	2014 %	Change p.p.
Gross profit margin on sales	53.5%	58.6%	-5.1%
Operating profit margin	9.8%	12.8%	-3.0%
Net profit margin	6.8%	10.1%	-3.3%
Return on assets	10.8%	17.8%	-7.0%
Return on equity	19.9%	30.7%	-10.8%

Liquidity ratios

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	2015	2014	Change %
Current liquidity ratio	1.3	1.3	0.0%
Quick liquidity ratio	0.3	0.4	-25.0%
Inventory turnover (days)	176	165	6.7%
Receivables turnover (days)	10	13	-23.1%
Trade payables turnover (days)	102	89	14.61%

Asset Management Ratios

The ratios were calculated as follows:

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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	2015 %	2014 %	Change p.p.
Fixed assets to equity ratio	105.2%	108.0%	-2.9%
Total debt ratio	47.0%	44.2%	2.8%
Short-term debt ratio	37.3%	37.0%	0.4%
Long-term debt ratio	9.7%	7.2%	2.5%

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 2015, the Capital Group entered into the following material agreements:

- 151 lease agreements (including annexes extending the agreements and one conditional agreement) with space distributors in shopping centres. These agreements concern the premises where RESERVED, Cropp, House, MOHITO and SiNSAY, and Tallinder clothing is sold.
- Loan agreements and Annexes to existing loan agreements. Detailed information on these agreements has been published in current reports (CR 2/2015, CR 7/2015, CR 9/2015, CR 20/2015, CR 25/2015, CR 31/2015, CR 33/2015, CR 37/2015, CR 42/2014). A list of loan agreements is presented in Notes to the financial statement (section 15.7.3).
- 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 on the expansion of the Distribution Centre

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 two new companies were established: IPMS Management Services FZE with its registered office in the United Arab Emirates and LPP Reserved UK Ltd with its registered office in the UK. The former has been established to protect trademark rights, and the latter in connection with the start of the expansion in the country.

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 and received

Information on credits taken as at 31.12.2015 and their maturity dates is presented in notes to the financial statement (15.7.3).

In 2015, 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 LPP SA or its affiliated entities are lessees.
As at 31 December 2015, the total value of bank guarantees granted at the request and on the responsibility of LPP SA amounted to PLN 211 794 thousand, of which:

- value of guarantees issued for contracts concluded by LPP SA amounted to PLN 70 430 thousand,
- guarantees granted to secure agreements executed by consolidated related parties amounted to PLN 139 415 thousand,
- guarantees granted to secure agreements executed by non-consolidated related parties amounted to PLN 1 645 thousand,
- guarantees granted to secure storage space lease agreements concluded by LPP SA - PLN 305 thousand.

In 2015, the Company also received guarantees as collateral for payment from a counterparty. The value of guarantees received is PLN 17 360 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 (15.7.2).

9. Information on guaranties granted and received, including guarantees granted to 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 BBK SA	894
Guarantee for DP and SL Sp. z o.o.	1 359
Guarantee for Re Trading OOO	20 933
Guarantee for LPP Estonia OU	761
Guarantee for LPP Romania Fashion SRL	931
Guarantee for LPP Ukraina AT	4 708
Guarantee for LPP Czech Republic SRO	24 434
Guarantee for Reserved GmbH	13 840
Guarantee for LPP Latvia LTD	989
Guarantee for LPP Bulgaria LTD	2 661
Guarantee for LPP Slovakia SRO	9 282
Guarantee for LPP Lithuania UAB	820
Guarantee for LPP Hungary KFT	4 629
Guarantee for LPP Croatia DOO	11 633

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 2015, 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

An unusual event in 2015, affecting the profit/loss on operations of LPP SA, was the unfavourable political situation linked to the conflict in Russia and Ukraine, which resulted in a significant weakening of local currencies resulting in a decrease in the level of revenues generated in this region in translation into zlotys. In addition to the negative foreign exchange differences arising from the depreciation of the Russian rouble and the Ukrainian hryvnia, there were also those resulting from the weakening of the Polish zloty against the US dollar.

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 CG basic tasks, implementation of which will determine its position in the future:
a) expansion into new markets in Western Europe, the Balkans, the Middle East, and Belarus and Kazakhstan,
b) building strong clothing brands: RESERVED, Cropp, House, MOHITO, SiNSAY and Tallinder,
c) developing Internet sale,
c) increasing the business profitability and effectiveness.

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

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. Accordingly, all Group's investments are directed at increasing the commercial potential, maintaining a competitive advantage in the market, creating own distribution network, building a positive image the Capital Group in the clothing market, gaining consumers that are loyal to the Capital Group and its products.
The development strategy for the leading brand - RESERVED - assumes taking action to maintain the brand's prestigious position in customers' eyes, leaving it still in the mass clothing segment.

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 (a dozen or so per cent on the Polish market) market share, the Capital Group is also one of the most important entities on the domestic market.
At the end of 2015, LPP Capital Group had a network of 1 627 shops selling products of all brands, with a total retail area of about 843.5 thousand sq.m.Capital expenditure (CAPEX) in the past year amounted to PLN 489 215 thousand, of which 89% were expenses incurred for the brand stores. The plans for 2016 include the establishment of new outlets, which in turn will lead to an increase in the total area of the retail network by about 11**%.** Planned capital expenditures for 2016 amount to PLN 370 000 thousand, including expenditure on own stores amounting to PLN 290 000 thousand (decrease due to the increased opening of franchise stores).

Extending and renewing the offer for the customers of the Company

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. Since the season SS2016, the Group will expand its offer by an increased number of models in the collection RESERVED (by 50%) and increasing the variety of fabrics used.
To some extent, especially in the case of RESERVED, MOHITO, and lately also Tallinder brand stores, LPP SA stara się kreować własny styl, is trying to create its own style, based on global trends.
In order to expand its offer, the Company has launched another brand - Tallinder - in the premium segment, addressed to both women and men.

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.
Ambitious plans for the development of the sales network by LPP SA and its subsidiaries in the coming years (a 11-13% increase in retail space is assumed) necessitate the need to increase efficiency of the logistics centre. In 2015, we completed the expansion of the existing logistics centre with new facilities. The implemented technological solutions will allow to support the needs of LPP SA Capital Group and its subsidiaries until 2020.

On-line sales

Adapting to the prevailing trend related to the increasing popularity of on-line shopping, LPP SA Capital Group has launched on-line stores of all of its brands. In the reporting period, the network sales was also made outside Poland - since mid 2014 the Group enabled customers in five countries outside Poland to buy Reserved products on-line.

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

To ensure the Company'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 LPP SA Capital Group.
The 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

The pace of economic growth in Poland and in countries where the outlets of the LPP SA Capital Group operate

Sales revenue and profits generated by the Group depend both on the attractiveness of the offer, Group's organisational efficiency, and the business environment situation. The ongoing conflict between Russia and Ukraine is likely to restrict the expansion of the Group's sales network in these countries (especially in Ukraine). Therefore, the Issuer is looking for development opportunities in the countries of Western Europe, and through franchise stores in the Middle East, in Belarus and Kazakhstan.
An increase in the taxation of trade in Poland may have a negative effect on the further development of the Group.

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).

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 2015 was 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.

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 very good price-quality ratio. 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 LPP SA Capital Group's business

The long-term development strategy of LPP SA Capital Group assumes strengthening its current position on the markets where it is already operating, and the expansion into new geographic areas such as Western Europe, the Balkans and the Middle East. The expansion of sales network is to be conducted simultaneously with activities aimed at an increase in operational efficiency in each area.

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 2015, 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 model RESERVED, House, SiNSAY and Tallinder brand stores.

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 Group 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.

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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

- Currency risk – presented in section 15 as an external risk factor.
- 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.
- 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 2015, 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 31.12.2015, 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	175 498	875 498	350 996
Vice President of the Management Board	51	51	102
Vice President of the Management Board	153	153	306
Vice President of the Management Board	172	172	344
Vice President of the Management Board	172	172	344
Chairman of the Supervisory Board	175 000	875 000	350 000
Member of the Supervisory Board	500	500	1 000

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, the incentive scheme for key managers of the parent company for 2011-2014 applied, launched in 2011.

As part of the incentive scheme implementation, the Company issued 21 300 subscription warrants, which were acquired by authorised persons, out of which 4 084 warrants were converted into Series L shares (CR 02/2016).
If all other issued warrants were converted, the total number of shares would amount to 1 852 423, and the total number of votes at the General Meeting of Shareholders of LPP SA would amount to 3 233 445.

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 15.22.1 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 30 June 2014, LPP SA concluded with Grant Thornton Frąckowiak Sp. z o.o. Sp. K. an agreement for the audit of the annual financial statements of the Company and LPP SA Capital Group for the years 2014, 2015 and 2016, and a review of interim financial statements of the Company and LPP SA Capital Group for the above-mentioned years.
The amount of remuneration of the entity authorised to audit and review the financial statements for the financial and for the previous year amounted to:

1) auditing the financial statements for the period from 1 January 2015 to 31 December 2015, giving opinion on it and preparing the audit report - remuneration of PLN 60 thousand plus the tax on goods and services.
2) auditing the Capital Group's consolidated financial statements for the period from 1 January 2015 to 31 December 2015, giving opinion on it and preparing the audit report - remuneration of PLN 30 thousand plus the tax on goods and services.
3) auditing the interim financial statements for the period from 1 January 2015 to 30 June 2015 and preparing the audit report - remuneration of PLN 30 thousand.

4) auditing the consolidated interim financial statements for the period from 1 January 2015 to 30 June 2015 and preparing the audit report - remuneration of PLN 20 thousand plus the tax on goods and services.
5) auditing the financial statements for the period from 1 January 2014 to 31 December 2014, giving opinion on it and preparing the audit report - remuneration of PLN 60 thousand plus the tax on goods and services.
6) auditing the Capital Group's consolidated financial statements for the period from 1 January 2014 to 31 December 2014, giving opinion on it and preparing the audit report - remuneration of PLN 30 thousand plus the tax on goods and services.
7) auditing the interim financial statements for the period from 1 January 2014 to 30 June 2014 and preparing the audit report - remuneration of PLN 30 thousand plus the tax on goods and services.
8) auditing the consolidated interim financial statements for the period from 1 January 2014 to 30 June 2014 and preparing the audit report - remuneration of PLN 20 thousand plus the tax on goods and services.

Additionally, in 2015 and 2014, Grant Thornton Frąckowiak Sp. z o.o Sp. K. provided other services for which it received remuneration of PLN 392 thousand and PLN 240 thousand, respectively, plus VAT.

27. Information on policy in the field of business sponsorship, charity or any other of a similar nature

Due to the nature of the business, since 1996 we have donated our brand clothing for charitable purposes. Annually, this form of aid includes almost one hundred non-governmental organisations (associations and foundations) in the country. In the years 1996-2015, within this aid, LPP's donation was equal to the value of more than PLN 16 million net.

As one of the largest employers in Pomerania, LPP SA is actively supporting the local community. In just the past few years, together with its Partners, the Issuer has carried out numerous social projects. On the initiative of people employed in LPP, a corporate volunteering programme is run, within which actions are taken for the benefit of people and organisations in need of support.

To date, the company focused mainly on aid for the sick, children and the youth at risk of social exclusion, investing its funds in projects that counteract the above-listed:

■ In 2013-2014 - project "Homes for Children". Its purpose was to support families in their local environment, as well as organise temporary stays of children in the so-called Homes for Children. LPP employees voluntarily involved in the creation of four such facilities, and the company has financially supported their construction and renovation. In total, for this purpose the company has allocated more than PLN 270 thousand.

■ Financial support in the amount of PLN 150 000 of the project Socially Responsible Hotel - So Stay Hotel. The idea behind the hotel is to provide work experience for the young wards of the above-mentioned homes, run by the Foundation for Social Innovation.

■ For over 10 years, LPP has been also co-operating with the Gdańsk Hospice Foundation. By encouraging customers to transfer 1% of their income tax for the organisation and by donating clothes and gift cards to our stores that go to dozens of hospice establishments, the Issuer supports the Foundation also financially. The financial assistance the Foundation in 2013-2015 amounted to over PLN 100 thousand.

■ Since 2010, in December, at the company's seat, LPP employees' action "Santas' Time" is carried out, who collect funds and then, with financial support of the company, prepare Christmas gifts for the selected local organisation. So far more than 350 needy people from Gdańsk and Kraków have benefited from our support.

Currently the Company is in the process of developing a new, comprehensive policy of sponsoring and CSR actions, which is planned to be completed in 2016.

CORPORATE GOVERNANCE STATEMENT

The Management Board of LPP S.A. declares that in 2015 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 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 www.lppsa.com/relacje-inwestorskie/lad-korporacyjny.

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 did 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 were 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.

In addition to the information regarding the application of the principles of Best Practices, the Management Board of LPP SA hereby declares that the Company applies the recommendations and principles contained in the new ECR Best Practices of WSE Listed Companies 2016, except for:
■ Recommendation IV.R.2 - conducting the annual general meeting by means of electronic communication (real-time broadcast of the meeting, two-way communication in real-time, execution, in person or by a proxy, voting rights during the general meeting).
■ Recommendation VI.R.1 - The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.
■ Recommendation VI.R.2 - the remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.
■ Detailed principle I.Z.1.20 – placing an audio or video recording of a general meeting on the corporate website.
■ Detailed principle IV.Z.2. - ensuring publicly available real-time broadcasts of general meetings.
■ Detailed principle VI.Z.4. - publishing a report on the remuneration policy in the report on operations.

1. 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 prevention of uncontrolled outflow of information from the company,
■ effective and prompt 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.

Semi-annual reviews of the strategy and implementation of business plans are carried out in LPP SA. 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.

2. 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

Consolidated annual report of LPP SA Capital Group for 2015, in PLN '000

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	175 498	875 498	27.3%	9.6%
Jerzy Lubianiec	175 000	875 000	27.2%	9.6%
Forum TFI SA	200 728	200 728	6.2%	11.0%
Treasury shares	18 978	0	0.0%	1.0%
Other shareholders	1 260 919	1 260 919	39.3%	68.86%
Total	**1 831 123**	**3 212 145**	**100.0%**	**100.0%**

3. 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.

4. 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 six members, including the President, and from one to five 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:

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

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.

5. 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.

6. 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 twentieth 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.

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 2015:
- Marek Piechocki – President of the Management Board
- Przemysław Lutkiewicz - 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
- Sławomir Łoboda - Vice-President of the Management Board

In October of the financial year, there was a change in the composition of the Management Board involving the appointment of a new member - Mr. Sławomir Łoboda (CR 39/2015), and in March this year, a change involving resignation from the position of a Member of the Management Board of LPP SA, Mr. Piotr Dyka (CR 12/2016).

Competencies and working rules of the Management Board of LPP SA are set forth in the following documents:
- LPP SA Articles of Association (available on the Company's website)
- Management Board Bylaws (available on the Company's website)
- Code of Commercial Companies

The Supervisory Board

Composition of the Supervisory Board as at 31 December 2015 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
- Dariusz Pachla - member of the Supervisory Board

During the financial year, there were changes in the composition of the Supervisory Board - resignation of Mr. Krzysztof Fąferek (CR 16/2015) and appointment of a member of the Supervisory Board, Mr. Dariusz Pachla (CR 29/2015).

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)
- Code of Commercial Companies

Management Board of LPP SA:

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

Przemysław Lutkiewicz – Vice President of the Management Board ……………………………………………..

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

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

Sławomir Łoboda – Vice-President of the Management Board ....

Gdańsk, 18 April 2016

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.

Management Board of LPP SA:

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

Przemysław Lutkiewicz – Vice-President of the Management Board ………………………………………..

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

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

Sławomir Łoboda – Vice-President of the Management Board ....

Gdańsk, 18 April 2016