



Report on the audit of the consolidated financial statement for 2015

LPP SA
Capital Group

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

Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp k Entity authorised to audit financial statements no. 3654
General Partner Grant Thomson Frąckowiak Sp z o o Management Board of the general partner: Cecylia Pol - President of the Management Board. Registered office: 61-131 Poznań, ul.
Abpa Antoniego Baraniaka 88 E NIP: 778-14-7&013. REGON: 301591100 Bank account: 1817501019 0000 0000 0098 2229 District Court Poznań - Nowe Miasto i Wilda in Poznań, 8th
Commercial Division, under KRS No. 0000369868

1 Information about the Parent Company

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

The core business of the Parent Company is:

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

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

On 14 February 2001, the Parent Company was entered in the register of entrepreneurs of the National Court Register kept by the District Court for Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register, entry no. KRS 0000000778.

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

The share capital of the Parent Company for the financial year ended on 31 December 2015 amounted to PLN 3 662 thousand. The equity of the Capital Group as at that date amounted to PLN 1 889 739 thousand.

According to Note 15.12 to the consolidated financial statement as at 31 December 2015, the ownership structure of the share capital of the Parent Company was as follows:

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

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

According to information received from the Parent Company as at 18 April 2016, in the period from 1 January 2015 to 31 December 2015 and after the balance sheet date, until the date of signing the financial statement, the following changes took place in the Company's ownership structure relating to entities holding at least 5% of votes at General Meeting of Shareholders:

- on 13 August 2015 and 18 August 2015 Monistor Limited, in transactions outside the regulated market, sold 200 728 shares of the Company by providing tangible dividends to its shareholders. Following the transactions Monistor Limited does not hold any shares of the Company,
- on 17 August 2015, Forum TFI SA, acting on behalf and for the benefit of Forum 64 Closed-End Investment Fund, acquired 51 338 shares in the share capital of the Company entitling to votes representing 1.589 % of the total number of votes at the General Meeting of the Company,

- on 18 August 2015, Forum TFI SA, acting on behalf and for the benefit of Forum 65 Closed-End Investment Fund, acquired 149 390 shares in the share capital of the Company entitling to votes representing 4,623 % of the total number of votes at the General Meeting of the Company.

On 18 April 2016 (the date of signing the consolidated financial statement), the Management Board of the Parent Company consisted of:

- 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.

In the period from 1 January 2015 until 18 April 2016 (the date of issue of this report), the following changes took place in the Management Board of the Parent Company:

- on 14 October 2015 the Supervisory Board adopted a resolution under which Mr. Sławomir Łoboda took the position of Vice President of the Management Board,
- on 17 March 2016 Mr. Piotr Dyka resigned from his position as Member of the Management Board.

2 Composition of the Capital Group

As at 31 December 2015, LPP SA Capital Group consisted of the following subsidiaries (direct and indirect):

Company name	Consolidation method	Type of opinion on the financial statement	Name of entity responsible for the audit of the financial statement	End of financial year
G&M Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2015
DP&SL Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2015
IL&DL Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2015
AMUR Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2015
LPP Estonia OU	full consolidation	unqualified	HLB Expertus Klf.	31 December 2015
LPP Czech Republic s.r.o.	full consolidation	unqualified	ACT AUDIT	31 December 2015
LPP Hungary Kft.	full consolidation	unqualified	NP Audit Tanacsado Kft	31 December 2015
LPP Latvia Ltd.	full consolidation	unqualified	Rodl & Partner	31 December 2015
UAB "LPP Lithuania"	full consolidation	unqualified	JSC "Balanso auditas"	31 December 2015
LPP Ukraina AT	full consolidation	unqualified	ACF Business Partners	31 December 2015

Company name	Consolidation method	Type of opinion on the financial statement	Name of entity responsible for the audit of the financial statement	End of financial year
Re Trading 000	full consolidation	unqualified	HLB Univers Audit	31 December 2015
LPP Romania Fashion SRL	full consolidation	with explanatory notes	KM Partners Audit SRL	31 December 2015
LPP Bulgaria Ltd	full consolidation	unqualified	Kreston BulMar	31 December 2015
LPP Slovakia s.r.o.	full consolidation	unqualified	JAMAR, s.r.o	31 December 2015
LPP Fashion Bulgaria Ltd.	full consolidation	not audited	not applicable	31 December 2015
Gothals Limited	full consolidation	unqualified	KPSA Chartered Accountants	31 December 2015
LPP Croatia D.O.O.	full consolidation	unqualified	HLB Inzenjerski biro	31 December 2015
Reserved GMBH	full consolidation	with explanatory notes	MDS MOHRLE GmbH	31 December 2015
IMPS Management Services FZE	full consolidation	not audited	not applicable	31 December 2015
LPP Reserved UK Ltd	excluded from consolidation	not audited	not applicable	31 31 December 2015

The number of consolidated companies changed in 2015 compared to the previous year due to:

- liquidation of IP Services FZE,
- establishment of IMPS Management Services FZE and LPP Reserved UK Ltd.

3 Consolidated financial statement for the previous year

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2014 (previous financial year) was audited by Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k., on behalf of which acted Elżbieta Grześkowiak, a certified auditor no. 5014. The auditor issued an unqualified opinion on the audited financial statement.

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2014 was approved by the General Meeting of Shareholders of the Parent Company on 26 June 2015.

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2014 (the previous financial year) together with an independent auditor's report were submitted to the National Court Register on 19 August 2015 following the resolution of the General Meeting of Shareholders regarding the approval of the consolidated financial statement and the report on the Capital Group's operations.

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

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

The audit of the consolidated financial statement was conducted by Jan Letkiewicz, a certified auditor, no. 9530, on behalf of Grant Thornton Frąckowiak Sp. z o.o.

On 6 May 2014, Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k. was appointed by the Supervisory Board of the Parent Company to audit the consolidated financial statement of the Capital Group for the financial years ended on 31 December 2014, 31 December 2015 and 31 December 2016. The audit of the consolidated financial statement was carried out following the agreement concluded on 30 June 2014 with the Management Board of the Parent Company.

5 Scope and date of the audit

The aim of the audit was to express a written opinion, along with a report, stating whether the consolidated financial statement for the financial year ended on 31 December 2015 accurately and clearly presents, in all its material aspects, the financial position, assets and financial results of the Capital Group, in accordance with accounting principles (policy) resulting from the International Accounting Standards, International Financial Reporting Standards and related interpretations announced in a form of regulations by the European Commission, and to the extent not covered by these Standards, in accordance with the provisions of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2009, no. 152, item 1223, as amended) and applicable implementing provisions.

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

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

The audit of the consolidated financial statement of the Capital Group for the financial year ended 31 December 2015 was conducted from 3 November 2015 to 18 April 2016.

6 Statement of impartiality

Grant Thornton Frąckowiak Limited Liability Company sp. k., members of the management board of the general partner, the network to which belongs the entity authorized to audit, the auditor managing the audit and other persons that participated in the audit meet the requirements to express impartial and independent opinions about the audited consolidated financial statement of the Capital Group, pursuant to art. 56 of the Act of 7 May 2009 on certified auditors and their self-governing council, entities authorized to audit financial statements and on public supervision (unified text: Journal of Laws of 2015, item 1011 as amended).

7 Availability of data and declarations received

On 18 April 2016, the Management Board of the Parent Company submitted a written statement on the completeness, reliability and accuracy of the audited financial statement, confirming that between the balance sheet date and the end of the audit there had been no events which could significantly impact the financial condition and assets of the Company and require to be disclosed in the audited financial statement. In this statement, the Management Board of the Parent Company confirmed its responsibility for the signed consolidated financial statement and declared that during the audit it made all financial statements of companies subject to consolidation, applicable documentation and other required documents available to us and provided explanations necessary to express an opinion on the audited consolidated financial statement.

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

8 Consolidated statement of financial position

ASSETS (in PLN '000)	31.12.2015	31.12.2014	31.12.2013
FIXED ASSETS (long-term)	1 796	1 516 416	1 231 908
Tangible fixed assets	1 258 751	1 038 837	896 806
Intangible assets	37 342	28 751	20 132
Goodwill	209 598	209 598	183 609
Trademark	77 508	77 508	77 508
Investments in subsidiaries	136	136	136
Investments in other entities	1 626	2 405	10 366
Receivables and loans	5 914	6 300	12 928
Deferred tax assets	139 194	143 531	29 929
Prepayments and accrued income	66 927	9 350	494
CURRENT ASSETS (short-term)	1 768 173	1 417 310	1 259 662
Inventory	1 319 735	979 345	805 038
Trade receivables	115 086	176 947	163 255
Receivables from income tax	47 017	11 194	17 207
Other receivables	35 210	46 281	96 720
Loans	128	167	12 485
Other financial assets	-	-	2
Prepayments and accrued income	26 550	19 847	15 600
Cash and cash equivalents	224 447	183 529	149 355
TOTAL ASSETS:	3 565 169	2 933 726	2 491 570

EQUITY AND LIABILITIES (in PLN '000)	31.12.2015	31.12.2014	31.12.2013
EQUITY	1 889 739	1 638 414	1 496 490
LONG-TERM LIABILITIES	344 083	210 714	192 331
Bank loans and borrowings	284 253	204 461	184 285
Other financial liabilities	-	-	58
Provisions for employee benefits	2 179	1 596	2 718
Deferred tax liabilities	7 085	4 657	5 201
Other long-term liabilities	-	-	69
Prepayments and accrued income	50 566	-	-
SHORT-TERM LIABILITIES	1 331 347	1 084 598	802 749
Trade and other liabilities	721 394	618 578	547 626
Income tax liabilities	3 042	37 972	37 524
Bank loans and borrowings	561 074	378 346	173 591
Other financial liabilities	-	7	84
Provisions	17 774	20 201	24 841
Special funds	227	157	15
			9
Prepayments and accrued income	27 836	29 337	18 924
TOTAL EQUITY AND LIABILITIES:	3 565 169	2 933 726	2 491 570

9 Consolidated statement of financial result and other comprehensive income

(in PLN '000)	2015	2014	2013
CONTINUED ACTIVITIES			
Sales revenue	5 130 353	4 769 288	4 116 302
Cost of sales	2 387 524	1 976 788	1 707 151
Gross profit/loss on sales	2 742 829	2 792 500	2 409 151
Other operating income	24 231	45 889	33 797
Selling and distribution expenses	2 012 420	1 942 937	1 604 796
Administrative expenses	179 247	205 411	154 409
Other operating expenses	72 704	80 938	68 116
Operating profit (loss)	502 689	609 103	615 627
Financial revenue	1 981	3 002	2 348
Financial expenses	90 302	152 210	94 104
Gross profit/loss	414 368	459 895	523 871
Tax burden	63 048	-21 965	91 012
Net profit/loss	351 320	481 860	432 859
OTHER COMPREHENSIVE INCOME			
Foreign exchange differences on translation	-44 381	-180 314	-671
TOTAL COMPREHENSIVE INCOME	306 939	301 546	432 188
Net profit (loss), of which:			
- Parent Company shareholders	351 320	479 546	430 964
- non-controlling entities	-	2 314	1 895

10 General information and financial ratios

The table below presents selected data and financial ratios for the years 2013, 2014 and 2015 which describe the financial condition of the Capital Group in that period. All ratios were calculated based on data included in the consolidated financial statements of the Capital Group for years ended on 31 December 2015 and 31 December 2014.

Ratio	Calculation formula	Ratio value		
		2015	2014	2013
revenues from sales (in PLN '000)		5 130 353	4 769 288	4 116 302
net financial result ** (in PLN '000)		351 320	481 860	432 859
equity ** (in PLN '000)		1 889 739	1 638 414	1 496 490
total assets (in PLN '000)		3 565 169	2 933 726	2 491 570
return on assets (ROA) (%)	net financial result / total assets at end of period	9.9%	16.4%	17.4%
return on equity (ROE) (%)	net financial result / shareholders' equity at beginning of period	21.4%	32.2%	35.7%
return on sales (%)	net profit from sales / revenues from sales	10.7%	13.5%	15.8%
liquidity ratio I	total current assets / short-term liabilities	1.3	1.3	1.6
liquidity ratio III	cash and cash equivalents / short-term liabilities	0.2	0.2	0.2
receivables turnover ratio (in days)	trade receivables * x 365 days / revenues from sales of products and goods	8	14	15
debt repayment period (in days)	trade payables x 365 days / cost of sales	90	95	97
inventory turnover ratio (in days)	inventories x 365 days / cost of sales	202	181	172
stability of financing	(equity + long-term liabilities) / total liabilities	62.7%	63.0%	67.8%
debt to assets ratio (%)	(total liabilities - equity) / total liabilities	47.0%	44.2%	39.9%
Inflation ratios:				
average annual (%)		-0.9	0.0	0.9
from December to December (%)		-0.5	-1.0	0.7

* before revaluation write-downs

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

11 Going concern

Note 6 to the audited consolidated financial statement of the Capital Group for the year ended on 31 December 2015 contains the announcement of the Management Board of the Parent Company stating that the financial statements of the Parent Company and its subsidiaries constituting the basis for the preparation of the consolidated financial statement were drawn up assuming going concern of the Company for the period not shorter than 12 months starting from 31 December 2015, and that there were no circumstances which could impede the operations of the Parent Company and its subsidiaries.

In the course of our audit, we found no material indications that the Parent Company may not be able to remain a going concern in the next 12 months following the balance sheet date, i.e. 31 December 2015, due to any intentional or forced discontinuation of operations or significant limitation of its business.

12 Financial year

Financial statements of all members of the Capital Group which provide a basis for the consolidated financial statement were prepared as at 31 December 2015 and include financial data for reporting period between 1 January 2015 and 31 December 2015.

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

In Note 9 to the consolidated financial statement for the year ended on 31 December 2015, the Management Board of the Parent Company presented the accounting principles (policy) and methods of presenting the financial data of the Capital Group.

In the period for which these consolidated financial statements were prepared there was a change in accounting policy regarding the recognition and presentation of the sale of investments incurred when adapting commercial showrooms. The Capital Group assessed the impact of the change in accounting on the financial statement for the previous year. Due to the insignificant impact of changes on the material and financial situation of the Capital Group comparative data presented in the consolidated financial statement have not been restated.

14 Goodwill on consolidation, gain from a bargain purchase

The principles of determining consolidation goodwill, rules of impairment write-downs and the information allowing for the assessment of the changes in the company's balance value for the period between 1 January 2015 and 31 December 2015 were presented in Note 15.4 to the consolidated financial statement.

15 Equity

Equity presented in consolidated statement of financial position as at 31 December 2015 is in line with the consolidation documentation. Shares of non-controlling at 31 December 2015 did not occur. Financial data referring to equity is presented in Note 15.12 to the consolidated financial statement.

16 Non-consolidation

Consolidation exclusions concerning consolidated companies:

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

are in line with the consolidation documentation.

17 Sale of shares in subordinates

In the financial year ended on 31 December 2015, the Capital Group did not sell any shares in its subsidiaries.

18 Completeness and accuracy of the supporting documentation

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

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

The structure of assets and liabilities of the Capital Group is presented in the consolidated financial statements for the year ended on 31 December 2015. All the data presented in the consolidated financial statement is consistent with the supporting documentation.

20 Items having an impact on the the financial result of the Capital Group

The items affecting the financial result of the Capital Group are described in the audited consolidated financial statement for the year ended on 31 December 2015. All the data presented in the consolidated financial statement is consistent with the supporting documentation.

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

Given the insignificant effect on the consolidated financial statement, the consolidation did not include 4 domestic subsidiaries and 1 foreign subsidiary listed in Note 3 to the consolidated financial statement for 2015.

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

Additional information on the adopted accounting principles and Notes to the consolidated financial statement for the fiscal year ended on 31 December 2015 have been drawn, in all material aspects, correctly, i.e. in line with the accounting standards (policy) resulting from the International Accounting Standards, International Financial Reporting Standards and related interpretations announced as regulations by the European Commission; and to the extent not covered by the Standards, in line with the provisions of the Accounting Act and its implementing provisions.

23 Report on the operations of the Capital Group

We analysed the report of the Management Board of the Parent Company on the operations of the Capital Group for the financial year ended on 31 December 2015. The information included in the report on operations, originally disclosed in the audited consolidated financial statement for the financial year ended on 31 December 2015, is consistent with this statement. The report on the operations of the Capital Group is compliant, in all its material aspects, with the provisions of Article 49(2) of the Accounting Act and the provisions of the Regulation by the Minister of Finance of 19 February 2009 on current and interim information submitted by issuers of securities and on the conditions for regarding information required by the law of a non-member state as equivalent (consolidated text: Journal of Laws of 2014, item 133).

This report contains 11 pages.

Jan Letkiewicz
Certified Auditor no. 9530
Key certified auditor conducting the audit on behalf of
Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k.,
Poznań, ul. Abpa Antoniego Baraniaka 88E, entity authorised to audit financial statements,
reference number 3654

Poznań, 18 April 2016