LPP SA CAPITAL GROUP
CONSOLIDATED INTERIM REPORT FOR 2016

Including:

1. Statement of the Management Board complying with the Regulation of the Minister of Finance of 19 February 2009 on current and interim information provided by issuers of securities and on the conditions for regarding information required by the law of a non-member state as equivalent.
2. Interim condensed consolidated financial statements for the period from 01.01.2016 to 30.06.2016
3. Interim condensed separate financial statements for the period from 01.01.2016 to 30.06.2016
4. Additional notes and explanations to the interim condensed consolidated financial statements for the first half of 2016
5. Interim report on the activities of LPP SA Capital Group for the first half of 2016

GDAŃSK, AUGUST 2016

STATEMENT OF THE MANAGEMENT BOARD

In line with the Regulation of the Minister of Finance of 19 February 2009 on current and interim information provided by issuers of securities and on the conditions for regarding information required by the law of a non-member state as equivalent, the Management Board of LPP SA declares that:

- to the best of its knowledge, the interim condensed consolidated financial statements and comparative data have been prepared in accordance with the applicable accounting standards and they give a true and fair view of the financial standing of LPP SA Capital Group and its financial result,

- to the best of its knowledge, the interim condensed separate financial statements and comparative data have been prepared in accordance with the applicable accounting standards and they give a true and fair view of the financial position of LPP SA Capital Group and its financial result,

- the interim consolidated report of the Management Board on the activities of the issuer's group presents a true picture of development, achievements and situation of LPP SA Capital Group, including a description of risks and threats,

- the entity authorised to audit financial statements, which reviewed the interim separate and consolidated financial statements, had been selected in accordance with the law. This entity and auditors who conducted the review met the conditions to issue an impartial and independent audit report in accordance with the relevant provisions of national law and professional standards.

The 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, 25 August 2016

Interim condensed consolidated financial statements for the period from 01.01.2016 to 30.06.2016

1. Selected consolidated financial data of LPP SA Capital Group

Selected consolidated financial data	1 H 2016 01.01.2016-30.06.2016	1 H 2015 01.01.2015-30.06.2015	1 H 2016 01.01.2016-30.06.2016	1 H 2015 01.01.2015-30.06.2015
	in PLN '000		in EUR '000	
Revenues	2 677 243	2 293 827	611 173	554 855
Profit (loss) on operating activities	22 556	160 519	5 149	38 828
Pre-tax profit (loss)	19 943	128 560	4 553	31 097
Net profit (loss)	24 238	99 293	5 533	24 018
Net cash flows from operating activities	77 372	28 170	17 663	6 814
Net cash flows from investing activities	-98 904	-190 590	-22 578	-46 102
Net cash flows from financing activities	16 688	134 600	3 810	32 558
Total net cash flows	-4 844	-27 820	-1 106	-6 729

Selected consolidated financial data	1 H 2016 01.01.2016-30.06.2016	1 H 2015 01.01.2015-30.06.2015	1 H 2016 01.01.2016-30.06.2016	1 H 2015 01.01.2015-30.06.2015
	in PLN '000		in EUR '000	
Total assets	3 724 946	3 565 169	841 701	836 600
Long-term liabilities	303 268	344 083	68 527	80 742
Short-term liabilities	1 487 758	1 331 347	336 179	312 413
Equity capital	1 933 920	1 889 739	436 995	443 445
Share capital	3 670	3 662	829	859
Weighted average number of ordinary shares	1 816 049	1 812 145	1 816 049	1 812 145
Profit (loss) per ordinary share (in PLN/EUR)	13.35	54.79	3.05	13.25
Book value per share (in PLN/EUR)	1 064.91	1 042.82	240.63	244.71
Declared or paid dividend per share (in PLN/EUR)	33.00	32.00	7.46	7.51

Consolidated interim report for 2016 of LPP SA Capital Group, in PLN '000

2. Consolidated statement of financial position of LPP SA Capital Group

Statement of financial position	As at the end of: 1 H 2016 30.06.2016	1 H 2015 30.06.2015	the previous year 31.12.2015
ASSETS			
Non-current assets	**1 811 687**	**1 638 381**	**1 796 996**
1. Tangible fixed assets	1 265 973	1 129 201	1 258 751
2. Intangible assets	39 370	33 891	37 342
3. Goodwill	209 598	209 598	209 598
4. Trademark	77 508	77 508	77 508
5. Investments in subsidiaries	136	136	136
6. Investments in other entities	1 721	2 117	1 626
7. Loans and receivables	6 176	7 317	5 914
8. Deferred tax assets	146 113	130 043	139 194
9. Pre-payments	65 092	48 570	66 927
Current assets	**1 913 259**	**1 601 844**	**1 768 173**
1. Inventory	1 443 972	1 167 144	1 319 735
2. Trade receivables	116 465	192 008	115 086
3. Income tax receivables	67 375	36 002	47 017
4. Other receivables	32 967	28 347	35 210
5. Loans	87	264	128
6. Pre-payments	33 193	22 370	26 550
7. Cash and cash equivalents	219 200	155 709	224 447
TOTAL assets	**3 724 946**	**3 240 225**	**3 565 169**

Consolidated interim report for 2016 of LPP SA Capital Group, in PLN '000

Statement of financial position	As at the end of: 1 H 2016 30.06.2016	1 H 2015 30.06.2015	the previous year 31.12.2015
EQUITY AND LIABILITIES			
Equity capital	**1 933 920**	**1 725 365**	**1 889 739**
1. Share capital	3 670	3 662	3 662
2. Treasury shares	-43 312	-43 296	-43 306
3. Share premium	243 233	235 074	235 074
4. Other reserve capital	1 608 298	1 322 530	1 323 736
5. Currency translation on foreign operations	-157 039	-139 908	-228 757
6. Retained earnings	279 070	347 303	599 330
- profit (loss) from previous years	254 832	248 010	248 010
- net profit (loss) for the current period	24 238	99 293	351 320
7. Minority interest	0	0	0
Long-term liabilities	**303 268**	**217 881**	**344 083**
1. Bank loans and borrowings	239 638	182 842	284 253
2. Other financial liabilities	0	18	0
3. Provisions for employee benefits	2 695	2 256	2 179
4. Deferred tax liabilities	5 663	4 691	7 085
5. Accruals	55 272	28 074	50 566
Short-term liabilities	**1 487 758**	**1 296 979**	**1 331 347**
1. Trade and other liabilities	755 916	645 083	721 394
2. Dividend liabilities	59 936	57 988	0
3. Income tax liabilities	892	0	3 042
4. Bank loans and borrowings	619 234	556 137	561 074
5. Other financial liabilities	0	20	0
6. Provisions	23 756	16 121	17 774
7. Special funds	133	643	227
8. Accruals	27 891	20 987	27 836
TOTAL equity and liabilities	**3 724 946**	**3 240 225**	**3 565 169**

Consolidated interim report for 2016 of LPP SA Capital Group, in PLN '000

3. Consolidated statement of profit and other comprehensive income of LPP SA Capital Group

Statement of profit and other comprehensive income	I half 01.01.2016-30.06.2016	I half 01.01.2015-30.06.2015
Continuing operations		
Revenues	2 677 243	2 293 827
Cost of goods sold	1 385 755	1 076 999
Gross profit (loss) on sales	**1 291 488**	**1 216 828**
Other operating income	13 691	10 461
Selling costs	1 149 117	950 199
General and administrative costs	97 868	85 768
Other operating costs	35 638	30 803
Profit (loss) on operating activities	**22 556**	**160 519**
Financial revenues	11 297	1 271
Financial costs	13 910	33 230
Pre-tax Profit (loss)	**19 943**	**128 560**
Income tax	-4 295	29 267
Net profit (loss)	**24 238**	**99 293**
Net profit attributable to:		
shareholders of the parent company	24 238	99 293
non-controlling entities	0	0
Other comprehensive income		
Items transferred to profit or loss		
Currency translation on foreign operations	**71 718**	**44 468**
Total comprehensive income	**95 956**	**143 761**
attributable to:		
shareholders of the parent company	**95 956**	**143 761**
non-controlling entities	**0**	**0**
Weighted average number of ordinary shares	1 816 049	1 812 145
Profit (loss) per ordinary share	13.35	54.79
Diluted profit (loss) per share	13.27	54.31

Consolidated interim report for 2016 of LPP SA Capital Group, in PLN '000

4. Consolidated statement of changes in equity of LPP SA Capital Group

Statement of changes in equity	Share capital	Treasury shares	Share premium	Other reserve capitals	Profit (loss) from previous years	Profit (loss) for the current period	Currency translation on foreign operations	Minority shares	Equity capital TOTAL
As at 1 January 2015	3 662	-43 288	235 074	1 092 205	531 906	0	-184 376	3 231	1 638 414
- adjustments due to errors in previous years									0
As at 1 January 2015, after adjustments	**3 662**	**-43 288**	**235 074**	**1 092 205**	**531 906**	**0**	**-184 376**	**3 231**	**1 638 414**
Treasury shares purchase		-8							-8
Distribution of profit for 2014				225 908	-283 896				-57 988
Contribution by minority shareholders				3 231				-3 231	0
Share-based payment				1 186					1 186
Transactions with owners	0	-8	0	230 325	-283 896	0	0	-3 231	-56 810
Net profit for 1 H 2015						99 293			99 293
Calculation of currency translation on foreign operations							44 468		44 468
As at 30 June 2015	**3 662**	**-43 296**	**235 074**	**1 322 530**	**248 010**	**99 293**	**-139 908**	**0**	**1 725 365**
As at 1 January 2016	3 662	-43 306	235 074	1 323 736	599 330	0	-228 757	0	1 889 739
- adjustments due to errors in previous years									0
As at 1 January 2016, after adjustments	**3 662**	**-43 306**	**235 074**	**1 323 736**	**599 330**	**0**	**-228 757**	**0**	**1 889 739**
Treasury shares purchase		-6							-6
Distribution of profit for 2015				284 562	-344 498				-59 936
Purchase of shares	8		8 159						8 167
Share-based payment									0
Transactions with owners	8	-6	8 159	284 562	-344 498	0	0	0	-51 775
Net profit for 1 H 2016						24 238			24 238
Calculation of currency translation on foreign operations							71 718		71 718
As at 30 June 2016	**3 670**	**-43 312**	**243 233**	**1 608 298**	**254 832**	**24 238**	**-157 039**	**0**	**1 933 920**

Consolidated interim report for 2016 of LPP SA Capital Group, in PLN '000

5. Consolidated cash flow statement of LPP SA Capital Group

Statement of cash flows	1 H 2016 01.01.2016-30.06.2016	1 H 2015 01.01.2015-30.06.2015
A. Cash flows from operating activities - indirect method		
I. Pre-tax profit (loss)	19 943	128 560
II. Total adjustments	57 429	-100 390
1. Amortisation and depreciation	129 211	106 057
2. Foreign exchange gains (losses)	-6 231	11 228
3. Interest and profit-sharing (dividends)	11 524	9 260
4. Profit (loss) from investing activities	3 541	7 025
5. Income tax paid	-27 621	-72 894
6. Change in provisions	5 713	-3 755
7. Change in inventory	-79 991	-176 025
8. Change in receivables	11 796	16 394
9. Change in short-term liabilities, excluding loans and borrowings	9 397	40 689
10. Change in prepayments and accruals	-3 565	-35 019
11. Other adjustments	3 655	-3 350
III. Net cash flows from operating activities	**77 372**	**28 170**
B. Cash flows from investing activities		
I. Inflows	26 519	38 797
1. Sale of intangible assets and tangible fixed assets	26 252	38 687
2. From financial assets, including:	267	110
a) in related entities	182	0
- dividends	182	0
b) in other entities	85	110
- repayment of loans	77	95
- interest	8	15
- other inflows from financial assets	0	0
3. Other investment inflows	0	0
II. Outflows	125 423	229 387
1. Purchase of intangible assets and tangible fixed assets	125 372	229 221
2. For financial assets, including:	51	166
a) in related entities	0	0
- purchase of shares	0	0
- loans granted	0	0
b) in other entities	51	166
- loans granted	51	166
3. Other investment outflows	0	0
III. Net cash flows from investing activities	**-98 904**	**-190 590**

Consolidated interim report for 2016 of LPP SA Capital Group, in PLN '000

C. Cash flows from financing activities		
I. Inflows	80 510	188 015
1. Proceeds from issuance of shares	8 168	0
2. Loans and borrowings	72 342	188 015
3. Other inflows from financing activities	0	0
II. Outflows	63 822	53 415
1. Cost of maintenance of treasury shares	6	8
2. Dividends and other payments to owners	0	0
3. Repayment of loans and borrowings	52 527	44 505
4. Payment of liabilities arising from financial leases	0	0
5. Interest	11 289	8 902
6. Other outflows from financing activities	0	0
III. Net cash flows from financing activities	**16 688**	**134 600**
D. Total net cash flows	**-4 844**	**-27 820**
E. Balance sheet change in cash, including:	**-5 247**	**-27 820**
- change in cash due to currency translation	-403	-1 954
F. Opening balance of cash	**223 053**	**183 529**
G. Closing balance of cash, including:	**218 209**	**155 709**
- restricted cash	0	345

Interim condensed separate financial statements for the period from 01.01.2016 to 30.06.2016

1. Selected separate financial data of LPP SA

Selected consolidated financial data	1 H 2016 01.01.2016-30.06.2016 in PLN '000	1 H 2015 01.01.2015-30.06.2015 in PLN '000	1 H 2016 01.01.2016-30.06.2016 in EUR '000	1 H 2015 01.01.2015-30.06.2015 in EUR '000
Revenues	2 188 128	1 918 709	499 516	464 118
Profit (loss) on operating activities	-3 344	35 257	-763	8 528
Pre-tax profit (loss)	102 494	153 612	23 398	37 157
Net profit (loss)	96 145	135 618	21 948	32 805
Net cash flows from operating activities	-16 009	18 979	-3 655	4 591
Net cash flows from investing activities	-32 173	-150 999	-7 345	-36 525
Net cash flows from financing activities	16 675	134 567	3 807	32 550
Total net cash flows	-31 507	2 547	-7 193	616

Selected consolidated financial data	1 H 2016 01.01.2016-30.06.2016 in PLN '000	1 H 2015 01.01.2015-30.06.2015 in PLN '000	1 H 2016 01.01.2016-30.06.2016 in EUR '000	1 H 2015 01.01.2015-30.06.2015 in EUR '000
Total assets	3 610 256	3 420 825	815 785	802 728
Long-term liabilities	275 851	317 752	62 332	74 563
Short-term liabilities	1 433 648	1 246 687	323 952	292 547
Equity capital	1 900 757	1 856 386	429 501	435 618
Share capital	3 670	3 662	829	859
Weighted average number of ordinary shares	1 816 049	1 812 145	1 816 049	1 812 145
Profit (loss) per ordinary share (in PLN/EUR)	52.94	74.84	12.09	18.10
Book value per share (in PLN/EUR)	1 046.64	1 024.41	236.50	240.39
Declared or paid dividend per share (in PLN/EUR)	33.00	32.00	7.46	7.51

Consolidated interim report for 2016 of LPP SA Capital Group, in PLN '000

2. Statement of financial position of LPP SA

Statement of financial position	As at the end of: 1 H 2016 30.06.2016	1 H 2015 30.06.2015	the previous year 31.12.2015
ASSETS			
Non-current assets	**1 983 402**	**1 733 136**	**1 865 472**
1. Tangible fixed assets	807 625	737 181	834 894
2. Intangible assets	36 512	30 676	34 274
3. Goodwill	179 618	179 618	179 618
4. Investments in subsidiaries	857 393	690 318	707 547
5. Loans and receivables	1 660	1 564	1 650
6. Deferred tax assets	99 939	93 047	106 972
7. Pre-payments	655	732	517
Current assets	**1 626 854**	**1 382 536**	**1 555 353**
1. Inventory	1 040 378	829 763	954 211
2. Trade receivables	414 588	444 336	417 435
3. Income tax receivables	56 760	22 756	35 750
4. Other receivables	16 781	15 644	17 344
5. Loans	83	249	112
6. Pre-payments	16 663	13 059	16 990
7. Cash and cash equivalents	81 601	56 729	113 511
TOTAL assets	**3 610 256**	**3 115 672**	**3 420 825**

Consolidated interim report for 2016 of LPP SA Capital Group, in PLN '000

Statement of financial position	As at the end of: 1 H 2016 30.06.2016	1 H 2015 30.06.2015	the previous year 31.12.2015
EQUITY AND LIABILITIES			
Equity capital	**1 900 757**	**1 646 461**	**1 856 386**
1. Share capital	3 670	3 662	3 662
2. Treasury shares	-43 312	-43 296	-43 306
3. Share premium	243 233	235 074	235 074
4. Other reserve capital	1 601 021	1 315 403	1 316 609
5. Retained earnings	96 145	135 618	344 347
- profit (loss) from previous years	0	0	0
- net profit (loss) for the current period	96 145	135 618	344 347
Long-term liabilities	**275 851**	**198 499**	**317 752**
1. Bank loans and borrowings	239 638	182 842	284 253
2. Accruals	30 241	11 602	26 380
3. Provisions for employee benefits	1 994	1 622	1 790
4. Deferred tax liabilities	3 978	2 433	5 329
Short-term liabilities	**1 433 648**	**1 270 712**	**1 246 687**
1. Trade and other liabilities	782 100	691 775	654 814
2. Bank loans and borrowings	618 805	555 731	560 661
3. Provisions	12 465	8 418	8 642
4. Special funds	133	455	227
5. Accruals	20 145	14 333	22 343
TOTAL equity and liabilities	**3 610 256**	**3 115 672**	**3 420 825**

Consolidated interim report for 2016 of LPP SA Capital Group, in PLN '000

3. Statement of profit and other comprehensive income of LPP SA

Statement of profit and other comprehensive income	I half 01.01.2016-30.06.2016	I half 01.01.2015-30.06.2015
Revenues	2 188 128	1 918 709
Cost of goods sold	1 349 257	1 126 066
Gross profit (loss) on sales	**838 871**	**792 643**
Other operating income	25 797	21 527
Selling costs	687 673	590 404
General costs	156 791	133 833
Other operating costs	23 548	54 676
Profit (loss) on operating activities	**-3 344**	**35 257**
Financial revenues	145 068	148 288
Financial costs	39 230	29 933
Pre-tax profit (loss)	**102 494**	**153 612**
Income tax	6 349	17 994
Net profit (loss)	**96 145**	**135 618**
Total comprehensive income	**96 145**	**135 618**
Weighted average number of ordinary shares	1 816 049	1 812 145
Profit (loss) per ordinary share	52.94	74.84
Diluted income (loss) per share	52.63	74.18

Consolidated interim report for 2016 of LPP SA Capital Group, in PLN '000

4. Statement of changes in equity of LPP SA

Statement of changes in equity	Share capital	Treasury shares	Share premium	Other reserve capitals	Profit (loss) from previous years	Profit (loss) for the current period	Equity capital TOTAL
As at 1 January 2015	**3 662**	**-43 288**	**235 074**	**1 088 309**	**283 896**	**0**	**1 567 653**
- adjustments due to errors in previous years							**0**
As at 1 January 2015, after adjustments	**3 662**	**-43 288**	**235 074**	**1 088 309**	**283 896**	**0**	**1 567 653**
Treasury shares purchase		-8					-8
Distribution of net profit for 2014				225 908	-283 896		-57 988
Share-based payment				1 186			1 186
Transactions with owners	0	-8	0	227 094	-283 896	0	-56 810
Net profit for 1 H 2015						135 618	135 618
As at 30 June 2015	**3 662**	**-43 296**	**235 074**	**1 315 403**	**0**	**135 618**	**1 646 461**
As at 1 January 2016	**3 662**	**-43 306**	**235 074**	**1 316 609**	**344 347**	**0**	**1 856 386**
- adjustments due to errors in previous years							**0**
As at 1 January 2016, after adjustments	**3 662**	**-43 306**	**235 074**	**1 316 609**	**344 347**	**0**	**1 856 386**
Treasury shares purchase		-6					-6
Distribution of net profit for 2015				284 412	-344 347		-59 935
Purchase of shares	8		8 159				8 167
Transactions with owners	8	-6	8 159	284 412	-344 347	0	-51 774
Net profit for 1 H 2016						96 145	96 145
As at 30 June 2016	**3 670**	**-43 312**	**243 233**	**1 601 021**	**0**	**96 145**	**1 900 757**

Consolidated interim report for 2016 of LPP SA Capital Group, in PLN '000

5. Cash flow statement of LPP SA

Statement of cash flows	1 H 2016 01.01.2016-30.06.2016	1 H 2015 01.01.2015-30.06.2015
A. Cash flows from operating activities - indirect method		
I. Pre-tax profit (loss)	102 494	153 612
II. Total adjustments	-118 503	-134 633
1. Amortisation and Depreciation	74 309	61 972
2. Foreign exchange gains (loss)	-6 268	11 221
3. Interest and profit-sharing (dividends)	-60 013	-51 077
4. (Profit) loss from investing activities	-35 733	-61 135
5. Income tax paid	-21 677	-71 391
6. Change in provisions	4 027	-2 660
7. Change in inventory	-86 155	-117 595
8. Change in receivables	-46 044	36 574
9. Change in short-term liabilities, excluding loans and borrowings	62 751	61 450
10. Change in prepayments and accruals	-3 700	-3 178
11. Other adjustments	0	1 186
III. Net cash flows from operating activities	**-16 009**	**18 979**
B. Cash flows from investing activities		
I. Inflows	97 987	96 456
1. Sale of intangible assets and tangible fixed assets	26 183	36 196
2. From financial assets, including:	71 804	60 260
a) in related entities	71 719	60 150
- interest and dividends	71 719	60 150
- sale of shares / liquidation of companies	0	0
- repayment of loans	0	0
- other	0	0
b) in other entities	85	110
- interest	8	15
- sale of financial assets – foreign bonds	0	0
- repayment of loans	77	95
3. Other investment inflows	0	0
II. Outflows	130 160	247 455
1. Purchase of intangible assets and tangible fixed assets	60 560	158 586
2. For financial assets, including:	69 600	88 869
a) in related entities	69 549	88 703
- purchase of shares	69 549	88 703
- loans granted	0	0
b) in other entities	51	166
- loans granted	51	166
- purchase of foreign bonds	0	0
3. Other investment outflows	0	0
III. Net cash flows from investing activities	**-32 173**	**-150 999**

Consolidated interim report for 2016 of LPP SA Capital Group, in PLN '000

C. Cash flows from financing activities		
I. Inflows	80 510	187 961
1. Loans and borrowings	72 342	187 961
2. Net proceeds from issuance of shares	8 168	0
3. Other inflows from financing activities	0	0
II. Outflows	63 835	53 394
1. Cost of treasury shares	6	8
2. Repayment of loans and borrowings	52 540	44 513
3. Interest	11 289	8 873
4. Other financial outflows - financial leasing	0	0
III. Net cash flows from financing activities	**16 675**	**134 567**
D. Total net cash flows	**-31 507**	**2 547**
E. Balance sheet change in cash, including:	**-31 911**	**2 547**
- change in cash due to currency translation	-404	661
F. Opening balance of cash	**112 117**	**54 181**
G. Closing balance of cash, including:	**80 610**	**56 728**
- restricted cash	0	345

Additional notes and explanations to the interim condensed consolidated financial statements for the first half of 2016

1. General information

The parent entity of LPP SA Capital Group (further "Capital Group", "Group") is LPP SA (further "Parent Company").
The Parent Company is entered in the Register of Entrepreneurs of the National Court Register at the District Court Gdańsk Północ for the city of Gdańsk - 7th Commercial Division under the number KRS 0000000778. The Parent Company was given REGON statistical number 190852164.

The Parent Company' registered office is located at ul. Łąkowa 39/44 in Gdańsk 80-769.
The Parent Company and the Group operate in the following countries: Poland, Estonia, the Czech Republic, Lithuania, Latvia, Hungary, Russia, Ukraine, Romania, Bulgaria, Slovakia, Germany, Croatia, United Kingdom, Cyprus and the United Arab Emirates.

LPP SA is a company involved in the design and distribution of clothing in Poland and the countries of Central and Eastern Europe and the Middle East. The Group's basic products are sold under the trademarks of RESERVED, Cropp, House, MOHITO, SiNSAY and TALLINDER. Most of the subsidiaries that compose the Group and who are subject to consolidation deal with the distribution of goods outside Poland. Clothing is basically the only product sold by the Capital Group companies. Footwear, bags and clothing accessories are sold as products supplementing the basic offer of the Capital Group companies.
Clothing designs are prepared in the design office located in the registered office of LPP SA in Gdańsk and for the House and Mohito brands - in the design office in Kraków, where they are then transferred to the purchasing department that orders the production of certain models, cooperating in this respect with companies in Poland and abroad, including China and Bangladesh. Production in China is managed by the Company's trading office in Shanghai, whereas the coordination and supervision of the Bangladesh productions is managed by the Company's trading office in Dhaka. An important task of the office in Bangladesh is a regular audit of manufacturing facilities for appropriate working conditions and compliance with human rights.

The Capital Group also generates small revenues from sales of services (these include only the revenues generated by the Parent Company – mainly know-how services related to the management of brand stores by Polish contractors and the lease of transport vehicles).
The additional business activity of LPP Capital Group involves the management of the rights to RESERVED, Cropp, House, MOHITO and SiNSAY trademarks, including their protection, activities aimed at increasing their value, granting licenses for their use, etc. Gothals Limited in Cyprus, as well as IPMS in the United Arab Emirates were established to that purpose.
Four domestic subsidiaries are involved in the rental of real properties where the stores of RESERVED, Cropp, House and MOHITO are operated.

As at 30.06.2016 the following companies form LPP SA Capital Group:

- LPP SA – as the parent entity,
- 4 domestic subsidiaries,
- 17 foreign subsidiaries.

There is no parent in relation to LPP SA.

The Group companies are listed below.

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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	Talin, 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 EOOD	Sofia, Bulgaria	14.08.2008
14.	LPP Slovakia S.R.O.	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 D.O.O.	Zagreb, Croatia	22.01.2014
18.	LPP Deutschland GmbH (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
21.	LLC Re Development	Moscow, Russia	22.04.2016

LPP SA exercises direct control over its subsidiaries by holding 100% of shares in their share capital and 100% of the total number of votes.

The consolidated financial statement of the Capital Group for the period from 1 January to 30 June 2016 includes individual results of LPP SA and the results of the following subsidiaries:

- LPP Estonia OU
- LPP Czech Republic SRO
- LPP Hungary KFT
- LPP Latvia LTD
- LPP Lithuania UAB
- LPP Ukraina AT
- Re Trading OOO
- LPP Romania Fashion SRL
- LPP Bulgaria LTD
- LPP Slovakia SRO
- LPP Fashion Bulgaria LTD
- Gothals LTD
- LPP Croatia DOO
- LPP Deutschland GmbH (formerly Reserved GmbH)
- IPMS Management Services FZE
- LPP Reserved UK LTD
- LLC Re Development

Domestic subsidiaries of LPP SA were not consolidated due to the immateriality of data. 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, 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 non-consolidated entities may not exceed that level, but in relation to the corresponding amounts of the consolidated financial statements determined on the assumption that their scope includes all subsidiaries, without any exclusions.

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

- in the Group's balance sheet total – 0.02 %
- in the Group's sales revenues and financial revenues – 0.20 %.

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

2. Basis for preparation and accounting policy

2.1. Basis for preparation

The interim condensed consolidated financial statements of the LPP SA Capital Group cover a period of six months ended on 30.06.2016 and they were prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not contain all the information that is disclosed in the annual consolidated financial statements prepared in accordance with IFRS. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Capital Group for 2015.

The currency of the interim condensed consolidated financial statements is Polish Zloty and all amounts are expressed in PLN thousand.

In the period covered by the condensed consolidated financial statements, the following exchange rates of the zloty into the euro, set by the National Bank Polish, were used for the conversion of selected financial data:

- exchange rate as at the last day of the reporting period: 30.06.2016 4.4255 PLN/EUR, and 30.06.2015 4.1944 PLN/EUR,
- average exchange rate for the period, calculated as the arithmetic average of the rates as at the last day of each month in the period: 01.01-30.06.2016 4.3805 PLN/EUR, 01.01.-30.06.2015 4.1341 PLN/EUR.

The interim condensed consolidated financial statements were prepared based on the assumption the companies composing the Capital Group and subject to consolidation remain a going concern in the foreseeable future. As at the date of approval of these condensed consolidated financial statements for publication, there are no circumstances that could pose a threat to the continued operation of the companies.

2.2. Accounting policy

These interim condensed consolidated financial statements have been prepared in accordance with accounting principles, which were presented in the last consolidated financial statements for the year ended 31 December 2015.

2.3. Adjustments and changes in accounting policy

These condensed consolidated financial statements do not include any adjustments from previous years, while there has been a change in the presentation of social fund cash.
Since 1 January 2016 the social fund cash has been excluded from the data presented in the consolidated statement of financial position as means not owned by the Capital Group.

As at 31 December 2015 the social fund cash balance amounted to PLN 227 thousand.
When applying the new rules, the item "Cash assets" under assets and the item "Social fund" under liabilities would be adjusted by the amount of PLN 227 thousand as at 31.12.2015.
Comparative data, due to their insignificant impact on the consolidated statement of financial position of LPP Capital Group, were not changed.

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3. Seasonality of operations

Seasonality in sales is the characteristic feature of the clothing market both in Poland and abroad. Typically, the gross margin achieved in the second and the fourth quarter is higher than the margin recorded in the first and third quarter. This is due to the sale of new collections at regular rates, i.e. without discounts (in the second quarter of the collection spring-summer, and in the fourth quarter of the autumn-winter).

4. Operating segments

LPP SA Capital Group conducts one type of activity (one business segment, which is considered the basic one). A division into two geographical segments was applied: activity within and outside the European Union. The division into geographical segments was based on the criterion of location of the Group's assets.

Revenues and financial results regarding geographical segments for the period from 01 January 2016 to 30 June 2016, and for the comparable period, are presented in the following tables.

1 H 2016

	European Union countries	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	2 114 173	563 070			2 677 243
Sales between segments	338 442		-338 442		-
Other operating income	10 936	2 661		94	13 691
Total revenue	**2 463 551**	**565 731**	**-338 442**	**94**	**2 690 934**
Total operating expenses, including	2 330 070	552 364	-347 562	97 868	2 632 740
Cost of sale of goods between segments	274 828		-274 828		-
Other operating costs	22 059	13 579			35 638
Segment result	**111 422**	**-212**	**9 120**	**-97 774**	**22 556**
Financial revenues					11 297
Financial costs					13 910
Profit before tax					19 943
Income tax					-4 295
Net profit from continuing operations					**24 238**

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1 H 2015

	European Union countries	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	1 806 059	487 768			2 293 827
Sales between segments	463 550		-463 550		-
Other operating income	7 464	2 448		549	10 461
Total revenue	**2 277 073**	**490 216**	**-463 550**	**549**	**2 304 288**
Total operating expenses, including	1 869 833	428 756	-271 391	85 768	2 112 966
Cost of sale of goods between segments	234 927		-234 927		-
Other operating costs	20 295	10 508			30 803
Segment result	**386 945**	**50 952**	**-192 159**	**-85 219**	**160 519**
Financial revenues					1 271
Financial costs					33 230
Profit before tax					128 560
Income tax					29 267
Net profit from continuing operations					**99 293**

The decrease in the value of consolidation adjustments in the first half of 2016, as compared to the first half of 2015, is due to the lower intercompany margins that LPP SA added to goods sold to its subsidiaries. Intercompany profit margins, in line with the policy of transfer pricing adopted by LPP Capital Group, are variable and depend on the operating results of each company. In the long term, with the increase in profitability of foreign companies, intercompany margins should grow.

5. Tangible fixed assets

For the purchase of tangible fixed assets LPP SA Capital Group made contractual commitments in the amount of PLN 17 326 thousand. In comparable periods, the figures were as follows:

- as at 30.06.2015 - PLN 22 387 thousand,
- as at 31.12.2015 - PLN 21 271 thousand.

The value of buildings increased as a result of the development of stores in Poland and abroad.

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CHANGES IN FIXED ASSETS (by type) in the period from 01.01.2016 to 30.06.2016

	Land	Buildings, facilities, civil- and hydro-engineering structures	Plant and machinery	Means of transport	Other fixed assets	Fixed assets in progress	Total fixed assets
1) Gross value of fixed assets at the beginning of period	42 814	1 221 195	334 086	9 088	443 952	25 495	2 076 630
- currency translation	0	33 461	6 414	188	16 600	799	57 462
- increase	0	64 201	15 007	814	36 770	92 795	209 587
- decrease	0	25 228	4 480	744	8 858	92 400	131 710
2) Gross value of fixed assets at the end of period	42 814	1 293 629	351 027	9 346	488 464	26 689	2 211 969
3) Accumulated depreciation (amortisation) at the beginning of period	0	470 275	141 144	6 160	196 959	0	814 538
- depreciation	0	61 235	22 291	593	40 311	0	124 430
- currency translation	0	17 092	3 954	137	9 899	0	31 082
- decrease	0	16 981	4 227	371	5 706	0	27 285
4) Accumulated depreciation (amortisation) at the end of period	0	531 621	163 162	6 519	241 463	0	942 765
5) Impairment write-offs at the beginning of period	0	3 183	10	0	148	0	3 341
- increase	0	130	1	0	26	0	157
- decrease	0	262	5	0	0	0	267
6) Impairment write-offs at the end of period	0	3 051	6	0	174	0	3 231
Total closing balance net value of fixed assets	42 814	758 957	187 859	2 827	246 827	26 689	1 265 973

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CHANGES IN FIXED ASSETS (by type) in the period from 01.01.2015 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	Total fixed assets
1) Gross value of fixed assets at the beginning of period	31 163	1 030 941	215 613	10 294	353 109	90 151	1 731 271
- currency translation	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) Gross value of fixed assets at the end of period	42 814	1 221 195	334 086	9 088	443 952	25 495	2 076 630
3) Accumulated depreciation at the beginning of period	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
- currency translation	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) Accumulated depreciation at the end of period	0	470 275	141 144	6 160	196 959	0	814 538
5) Impairment write-offs at the beginning of period	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) Impairment write-offs at the end of period	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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6. Intangible assets

Changes in intangible assets in the period from 01.01.2016 to 30.06.2016

	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 period	11 163	72 182	68 650	3 919	87 264
- currency translation	0	348	348	0	348
- increase	0	4 529	4 529	6 711	11 240
- decrease	0	87	1	4 375	4 462
a) Gross value of intangible assets at the end of period	11 163	76 972	73 526	6 255	94 390
c) Accumulated depreciation (amortisation) at the beginning of period	3 200	46 722	44 726	0	49 922
- currency translation	0	317	317	0	317
- planned depreciation write-offs	1 173	3 608	3 440	0	4 781
- decrease	0	0	0	0	0
d) Accumulated depreciation (amortisation) at the end of period	4 370	50 647	48 483	0	55 020
Total closing balance net value of intangible assets	6 790	26 325	25 043	6 255	39 370

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Changes in intangible assets in the period from 01.01.2015 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 period	4 755	60 621	57 579	6 463	71 839
- currency translation	0	-269	-269	0	-269
- increase	6 408	11 893	11 403	15 503	33 804
- decrease	0	63	63	18 047	18 110
a) Gross value of intangible assets at the end of period	11 163	72 182	68 650	3 919	87 264
c) Accumulated depreciation (amortisation) at the beginning of period	1 902	41 186	39 222	0	43 088
- currency translation	0	-209	-209	0	-209
- planned depreciation write-offs	1 298	5 758	5 726	0	7 056
- decrease	0	13	13	0	13
d) Accumulated depreciation (amortisation) at the end of period	3 200	46 722	44 726	0	49 922
Total closing balance net value of intangible assets	7 963	25 460	23 924	3 919	37 342

7. Revaluation write-offs of assets

Revaluation write-offs of inventory:

	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015	from 01.01.2015 to 31.12.2015
Opening balance	22 689	18 420	18 420
Inventory write-offs included as cost in the period	7 412	2 643	9 863
Reversed write-offs in the period	686	368	3 709
Currency translation	-285	-1 795	-1 885
Closing balance	**29 130**	**18 900**	**22 689**

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Revaluation write-offs of receivables and loans

	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015	from 01.01.2015 to 31.12.2015
Opening balance	13 229	25 337	25 337
Increases recognised in the reporting period	300	264	1 511
Decreases recognised in the reporting period	417	12 809	13 571
Currency translation	-35	-124	-48
Closing balance	**13 077**	12 668	13 229

Revaluation write-offs of shares

	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015	from 01.01.2015 to 31.12.2015
Opening balance	9 163	8 383	8 383
Increases recognised in the reporting period	0	239	731
Decreases recognised in the reporting period	22	0	0
Currency translation	-74	0	49
Closing balance	**9 067**	**8 622**	**9 163**

8. Fair value of 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.

30.06.2016

Assets*	Fair value	Carrying value
Trade and other receivables	222 837	222 837
Cash and cash equivalents	219 200	219 200
Total	442 037	442 037

***** Due to the lack of reliable valuation, the table does not include unlisted shares valued at the purchase price and the value of loans measured at amortised cost, for which there is no active market.

Liabilities	Fair value	Carrying value
Bank loans and borrowings	858 872	858 872
Trade and other liabilities	816 744	816 744
Total	1 675 616	1 675 616

31.12.2015

Assets*	Fair value	Carrying value
Trade and other receivables	203 086	203 086
Cash and cash equivalents	224 447	224 447
Total	427 533	427 533

***** Due to the lack of reliable valuation, the table does not include unlisted shares valued at the purchase price and the value of loans measured at amortised cost, for which there is no active market.

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Liabilities	Fair value	Carrying value
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**

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 no 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).

IAS 34 requires the inclusion of selected disclosures of IFRS 13 *Determination of fair value* in the interim financial statements. These disclosures relate to the fair value of financial instruments according to their types and levels of fair value.
The Group has no financial instruments recognised in the financial statements at fair value because of the types of instruments held or receivables and payables, loans and shares listed on the market.

The Group considers the carrying amount of financial assets and financial liabilities as approximate to fair value.

9. Cash

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:

	30.06.2016
Cash and cash equivalents recognised in the statement of financial position	219 200
Adjustments:	
Currency translation from balance sheet valuation of cash in foreign currency	991
Cash and cash equivalents recognised in cash flow statement	**218 209**

10. Share capital

The Group's share capital is equal to share capital of the Parent Company.
In the balance sheet period a part of series A subscription warrants as converted into series L shares in the share capital of LPP SA. As a result of the conversion 4 084 series L bearer shares were issued.
As at 30 June 2016, the share capital was PLN 3 670 thousand. This capital was divided into 1 835 207 shares with a nominal value of PLN 2 each.

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As a 30.06.2016, the structure of share capital of LPP SA was as follows:

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	175 497	875 493	27.2%	9.6%	350 994
Jerzy Lubianiec	174 999	874 995	27.2%	9.5%	349 998
Forum TFI SA	200 730	200 738	6.2%	10.9%	401 460
Treasury shares	18 978	0	0.0%	1.0%	37 956
Other shareholders	1 265 003	1 265 003	39.3%	68.9%	2 530 006
Total	1 835 207	3 216 229	100.0%	100.0%	3 670 414

11. Dividends

In the first half of 2016, the Parent Company LPP SA did not pay any dividends to the shareholders. At the same time, in the reporting period, i.e. on 17 June 2016, by Resolution No. 21, the General Meeting of Shareholders of LPP SA decided to allocate part of the profit generated for 2015 in the amount of PLN 59 935 557 for dividend payment. The dividend record date was set at 5 September 2016, while the dividend payment date was set for 21 September 2016. As at the date of the resolution the amount of the dividend per share of LPP SA is PLN 33 (RB 34/2016).

12. 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.
Calculation of EPS is presented below:

	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015	from 01.01.2015 to 31.12.2015
Profit (loss) for the current period attributable to shareholders of the parent entity	24 238	99 293	351 320
Weighted average number of ordinary shares	1 816 049	1 812 145	1 812 145
Profit (loss) per share	13.35	54.79	193.87
Diluted profit (loss) per share	13.27	54.31	192.24

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13. Provisions

The value of provisions included in the condensed consolidated financial statements and their changes in different periods were as follows:

	Long-term provision for pensions and similar benefits	Short-term provision for unpaid remuneration	Short-term provision for liabilities	Short-term provision holiday leaves not taken
For the period from 01.01.2016 to 30.06.2016				
Opening balance	2 179	4 337	0	13 437
- provisions established	2 695	6 568	0	17 189
- provisions reversed	2 179	4 336	0	13 437
Closing balance	2 695	6 567	0	17 189
For the period from 01.01.2015 to 30.06.2015				
Opening balance	1 596	7 683	176	12 342
- provisions established	2 256	411	0	12 204
- provisions reversed	1 596	4 177	176	12 342
Closing balance	2 256	3 917	0	12 204
For the period from 01.01.2015 to 31.12.2015				
Opening balance	1 596	7 683	176	12 342
- provisions established	2 179	830	0	13 437
- provisions reversed	1 596	4 176	176	12 342
Closing balance	2 179	4 337	0	13 437

14. Contingent liabilities and assets

In the first half of 2016, companies of LPP SA Capital Group used bank guarantees to secure the payment of rent for the space occupied by retail stores.

As at 30 June 2016, the total value of bank guarantees issued on behalf of and responsibility of LPP SA amounted to about PLN 268 380 thousand, including:

- guarantees granted to secure agreements executed by LPP SA amounted to PLN 82 001 thousand,
- guarantees granted to secure agreements executed by consolidated related parties amounted to PLN 184 365 thousand,
- guarantees granted to secure agreements executed by non-consolidated related parties amounted to PLN 1 708 thousand,
- guarantees granted to secure lease agreements executed by LPP SA amounted to PLN 317 thousand.

In the first half of 2016, the Company also obtained guarantees. The guarantees were secure payments from the counterparty, and their value as of 30 June 2016 amounted to PLN 20 862 thousand.

On 30 June 2016, the value of guarantees issued by the Parent Company amounted to PLN 113 632 thousand and increased compared to 31 December 2015 by PLN 8 058 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.
In the reporting period, neither the Issuer nor any subsidiary granted credit or loan sureties or guarantees to one entity or its subsidiary, whose total value would be the equivalent of at least 10.0% of the equity of the Issuer.

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15. Income tax

The main components of the Group' income tax for the period from 01.01.2016 to 30.06.2016, and for the comparative period, are presented in the table below.

	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Current income tax	3 320	15 191
Deferred income tax	-7 615	14 076
Total	**-4 295**	**29 267**

16. Transactions with affiliated entities

The Group's affiliates include:

- foreign and Polish companies controlled by the Group based on direct ownership of shares,
- persons included in the key management personnel of LPP SA Capital Group and close members of their families,
- entities controlled or significantly influenced by members of the key personnel or their close family members, within the meaning pursuant to IAS 24.

16.1 Key personnel

The key management personnel of the Group includes members of the management board and supervisory board of the parent entity.

Short-term benefits of key management personnel for the period from 1 January to 30 June 2016 amounted to PLN 3 025 thousand.

16.2. Transactions with affiliated parties

Affiliated entities	Liabilities as at 30.06.2016	Payables as at 30.06.2016	Sales revenues in 1 H 2016	Cost of sales in 1 H 2016
Polish subsidiaries – total	255	1	7	5 428

Affiliated entities	Liabilities as at 30.06.2015	Receivables as at 30.06.2015	Sales revenues in 1 H 2015	Cost of sales in 1 H 2015
Polish subsidiaries – total	133	12	7	5 472

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

Data presented as payables of LPP SA are receivables in related entities, and expenses are equivalent to revenues of given entities.
All the transactions with affiliated entities were concluded under market conditions.
Revenues from the domestic companies are derived from the rental of office space for the purpose of business operation of these companies.

Expenses related to the domestic subsidiaries concern the rental of property where Cropp Town, RESERVED, MOHITO and House are run. Payment time-limits adopted for subsidiaries are between 45 and 120 days.

17. Events after the balance sheet date

After the balance sheet date there were no events affecting the financial statements prepared as at 30.06.2016.

18. Additional information and explanatory notes to the separate interim financial statements of LPP SA

The following are important disclosures, which are not included in the notes to the consolidated statement of LPP SA Capital Group for the first half of 2016.

18.1. Tangible fixed assets

At the balance sheet date, LPP SA has contractual obligations to acquire tangible fixed assets in the amount of PLN 10 846 thousand. In comparable periods, the figures were as follows:

- as at 30.06.2015 - PLN 22 387 thousand,
- as at 31.12.2015 - PLN 21 271 thousand.

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CHANGES IN FIXED ASSETS (by type) in the period from 01.01.2016 to 30.06.2016

	Land	Buildings, facilities, civil- and hydro-engineering structures	Plant and machinery	Means of transport	Other fixed assets	Fixed assets in progress	Total fixed assets
1) Gross value of fixed assets at the beginning of period	42 813	787 884	240 188	7 812	281 568	13 086	1 373 351
- increase	0	20 477	10 763	315	13 162	55 844	100 561
- decrease	0	5 443	2 789	327	1 282	56 615	66 456
2) Gross value of fixed assets at the end of period	42 813	802 918	248 162	7 800	293 448	12 315	1 407 456
3) Accumulated depreciation (amortisation) at the beginning of period	0	306 162	93 453	6 275	131 771	0	537 661
- depreciation	0	31 458	13 832	279	24 253	0	69 822
- decrease	0	4 517	2 679	58	1 194	0	8 448
4) Accumulated depreciation (amortisation) at the end of period	0	333 103	104 606	6 496	154 830	0	599 035
5) Impairment write-offs at the beginning of period	0	796	0	0	0	0	796
- increase	0	0	0	0	0	0	0
- decrease	0	0	0	0	0	0	0
6) Impairment write-offs at the end of period	0	796	0	0	0	0	796
Total closing balance net value of fixed assets	42 813	469 019	143 556	1 304	138 618	12 315	807 625

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CHANGES IN FIXED ASSETS (by type) in the period from 01.01.2015 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	Total fixed assets
1) Gross value of fixed assets at the beginning of period	31 163	673 503	134 886	8 531	224 511	77 559	1 150 153
- increase	11 650	152 980	114 018	98	67 979	325 211	671 936
- decrease	0	38 599	8 716	817	10 921	389 683	448 736
2) Gross value of fixed assets at the end of period	42 813	787 884	240 188	7 812	281 569	13 087	1 373 353
3) Accumulated depreciation (amortisation) at the beginning of period	0	281 253	81 091	6 088	99 655	0	486 087
- depreciation	0	58 696	20 643	878	41 687	0	121 904
- decrease	0	33 787	8 280	691	9 571	0	52 329
4) Accumulated depreciation (amortisation) at the end of period	0	306 162	93 454	6 275	131 771	0	537 662
5) Impairment write-offs at the beginning of period	0	1 435	0	0	0	0	1 435
- increase	0	136	0	0	0	0	136
- decrease	0	774	0	0	0	0	774
6) Impairment write-offs at the end of period	0	797	0	0	0	0	797
Total closing balance net value of fixed assets	42 813	480 925	146 734	1 537	149 798	13 087	834 894

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18.2. Intangible assets

Changes in intangible assets in the period from 01.01.2016 to 30.06.2016

	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 period	11 163	64 515	63 118	3 919	79 597
- increase	0	4 390	4 390	6 711	11 101
- decrease	0	0	0	4 376	4 376
a) Gross value of intangible assets at the end of period	11 163	68 905	67 508	6 254	86 322
c) Accumulated depreciation (amortisation) at the beginning of period	3 200	42 123	41 645	0	45 323
- planned depreciation write-offs	1 172	3 315	3 146	0	4 487
- decrease	0	0	0	0	0
d) Accumulated depreciation (amortisation) at the end of period	4 372	45 438	44 791	0	49 810
Total closing balance net value of intangible assets	6 791	23 469	22 717	6 255	36 512

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Changes in intangible assets in the period from 01.01.2015 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 period	4 755	57 536	56 822	6 464	68 755
- increase	6 408	11 614	10 932	15 504	33 526
- decrease	0	4 635	4 635	18 048	22 683
a) Gross value of intangible assets at the end of period	11 163	64 515	63 119	3 920	79 598
c) Accumulated depreciation (amortisation) at the beginning of period	1 902	41 485	41 241	0	43 387
- planned depreciation write-offs	1 298	5 274	5 040	0	6 572
- decrease	0	4 635	4 635	0	4 635
d) Accumulated depreciation (amortisation) at the end of period	3 200	42 124	41 646	0	45 324
Total closing balance net value of intangible assets	7 963	22 391	21 473	3 920	34 274

18.3. Investments in subsidiaries

The value of shares in subsidiaries, additional equity contributions for subsidiaries at their purchase price and valuation write-offs as at 30.06.2016 as well as comparative data are presented in the following tables.

Description of the subsidiary as at 30.06.2016	Shares	Additional equity contributions	Amount of the impairment write-off	Carrying value of shares as at 30.06.2016
Foreign companies	277 312	983 058	403 114	857 256
Domestic companies	149	0	12	137
Total	277 461	983 058	403 126	857 393

Description of the subsidiary as at 31.12.2015	Shares	Additional equity contributions	Amount of the impairment write-off	Carrying value of shares as at 31.12.2015
Foreign companies	387 140	757 734	437 464	707 410
Domestic companies	149		12	137
Total	387 289	757 734	437 476	707 547

In the first half of 2016, the increase in the value of investments in subsidiaries was affected by additional equity contributions for companies in Germany and Russia.

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18.4. Revaluation write-offs of assets

Revaluation write-offs of shares:

	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015	from 01.01.2015 to 31.12.2015
Opening balance	437 476	432 498	432 498
Inventory write-offs included as cost in the period	25 335	19 687	112 460
Reversed write-offs in the period	59 685	78 566	107 482
Closing balance	**403 126**	**373 619**	**437 476**

Revaluation write-offs of loans:

	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015	from 01.01.2015 to 31.12.2015
Opening balance	33	4 791	4 791
Inventory write-offs included as cost in the period	0	0	0
Reversed write-offs in the period	2	4 752	4 758
Closing balance	**31**	**39**	**33**

Revaluation write-offs of inventory:

	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015	from 01.01.2015 to 31.12.2015
Opening balance	7 018	2 924	2 924
Inventory write-offs included as cost in the period	3 122	804	4 156
Reversed write-offs in the period	428	62	62
Closing balance	**9 712**	**3 666**	**7 018**

Revaluation write-offs of receivables:

	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015	from 01.01.2015 to 31.12.2015
Opening balance	24 457	24 711	24 711
Inventory write-offs included as cost in the period	6 904	39 239	40 565
Reversed write-offs in the period	20 055	16 125	40 819
Closing balance	**11 306**	**47 825**	**24 457**

18.5 Earnings per share

Earnings per share (EPS) ratio is calculated by dividing net profit by the weighted average number of ordinary shares in the period.
Calculation of EPS is presented below:

	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015	from 01.01.2015 to 31.12.2015
Net profit (loss) for the current period	96 145	135 618	344 347
Weighted average number of ordinary shares	1 816 049	1 812 145	1 812 145
Profit (loss) per share	52.94	74.84	190.02
Diluted profit (loss) per share	52.63	74.14	188.42

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18.6. Provisions

The value of provisions included in the condensed separate financial statements of LPP SA and their changes in different periods were as follows:

	Provision for pensions and similar benefits	Provision for unpaid remuneration	Provision holiday leaves not taken
For the period from 01.01.2016 to 30.06.2016			
Opening balance	1 790	4 336	4 305
- provisions established	1 994	6 568	5 898
- provisions reversed	1 790	4 337	4 305
Closing balance	1 994	6 567	5 898
For the period from 01.01.2015 to 30.06.2015			
Opening balance	1 504	7 683	3 513
- provisions established	1 622	411	4 501
- provisions reversed	1 504	4 177	3 513
Closing balance	1 622	3 917	4 501
For the period from 01.01.2015 to 31.12.2015			
Opening balance	1 504	7 683	3 513
- provisions established	1 790	830	4 305
- provisions reversed	1 504	4 176	3 513
Closing balance	1 709	4 337	4 305

18.7. Income tax

The main components of income tax of LPP SA for the period from 01.01.2016 to 30.06.2016, and for the comparative period, are presented in the table below.

	from 01.01.2016 to 30.06.2016	from 01.01.2015 to 30.06.2015
Current income tax	667	13 802
Deferred income tax	5 682	4 192
Total	**6 349**	**17 994**

18.8 Transactions with affiliated entities

The affiliates of LPP SA include:

- domestic and foreign companies in which LPP SA has control through direct ownership of their shares,
- persons included in the key management personnel of LPP SA and close members of their families,
- entities controlled or significantly influenced by members of the key personnel or their close family members, within the meaning pursuant to IAS 24.

18.8.1. Key personnel

The key management personnel of LPP SA includes members of the management board and supervisory board of the parent entity.

The value of services provided by the key management personnel for the period from 1 January to 30 June 2016 amounted to PLN 3 025 thousand.

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18.8.2. Transactions with affiliated entities

Affiliated entities	Liabilities as at 30.06.2016	Receivables as at 30.06.2016	Sales revenues in 1 H 2016	Cost of sales in 1 H 2016
Polish subsidiaries – total	255	1	7	5 428
Foreign subsidiaries	59 328	354 336	579 593	497 625
Total	**59 583**	**354 337**	**579 600**	**503 053**

Affiliated entities	Liabilities as at 30.06.2015	Receivables as at 30.06.2015	Sales revenues in 1 H 2015	Cost of sales in 1 H 2015
Polish subsidiaries – total	133	12	7	5 472
Foreign subsidiaries	56 520	351 490	449 425	396 295
Total	**56 653**	**351 502**	**449 432**	**401 767**

19. Approval for publication

The interim condensed financial statements for the 6 months ended 30.06.2016 (along with comparable data) were authorised for publication by the Management Board of LPP SA on 25 August 2016.

The 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, 25 August 2016

Interim report on the activities of LPP SA Capital Group for the first half of 2016

1. Activities of LPP SA Capital Group for the period 01.01.2016 – 30.06.2016

The main activities carried out in the first half of 2016

1. The number of stores and commercial space

There were started 59 stores with a total area of 30 thousand square meters, thereby increasing the total area of stores to around 872.7 thousand square meters (1 686 stores), of which 658 stores of 396 thousand square meters were abroad. The total retail area compared with June 2015 increased by approx. 12.1%.

As at 30.06.2016	Number of stores	Increase y/y	Area in '000 m2	Increase y/y
RESERVED	447	+18	473.8	13.8%
Cropp	388	+6	117.8	5.6%
House	343	+13	104.8	8.4%
MOHITO	284	+16	95.9	7.6%
SiNSAY	179	+29	63.1	20.4%
Tallinder	8	+8	3.7	n/a
Outlets	37	+2	13.8	10.8%
Total LPP Group	**1 686**	**+92**	**872.7**	**12.1%**

2. Sales broken down by brand

In the first half of 2016, the stores of individual brands provided the sales as presented in the table below.

	Sales in Q1 2016	Sales in Q2 2016	Sales in 1 H 2016
RESERVED	537 693	666 366	1 204 059
Cropp	167 449	232 287	399 736
House	134 111	188 855	322 966
MOHITO	149 538	183 376	332 914
SiNSAY	88 180	117 303	205 483
Tallinder	688	3 077	3 765
Outlet	24 658	30 070	54 728

3. Sales in comparable stores

Revenues from sales in comparable stores (LFL) in the first half of 2016 increased by 5.7%, while in the second quarter of 2016 by 6.6% (excluding changes in exchange rates of local currencies in countries where LPP SA operates).

4. Online sales

In the first half of 2016, LPP SA Capital Group generated revenue from online sales accounting for about 2.6% of the Group's revenues.
In the second quarter, online sales accounted for 4.3% of revenues from Polish stores and 2.7% of Group sales.
At the end of the first half of the year, the Company owned online stores in Poland of each of the six brands, and RESERVED stores in 6 countries.
Revenues from online sales in the first half of each year are presented in the table below.

1 H 2013	1 H 2014	1 H 2015	1 H 2016
8 544	28 531	35 424	68 589

5. Revenues from sales in the Group companies

In the second quarter and first half of 2016, the best sales growth was achieved in the European Union. Revenues from sales generated by the Group companies operating in individual countries (in PLN '000) are presented in the table below.

Country	1 H 2016	1 H 2015	Semi-annual change (%)	2Q 2016	2Q 2015	Quarterly change (%)
Poland	1 608 262	1 468 446	9.5%	892 976	810 101	10.2%
- including revenues from the Middle East	*16 375*	*9 088*	*80.2%*	*6 887*	*5 638*	*22.2%*
Estonia	40 053	34 130	17.4%	22 003	19 766	11.3%
Latvia	33 879	28 977	16.9%	18 691	16 826	11.1%
Czech Republic	116 987	90 673	29.0%	65 001	52 989	22.7%
Hungary	32 347	19 787	63.5%	17 243	11 180	54.2%
Lithuania	41 727	34 151	22.2%	22 995	19 891	15.6%
Ukraine	103 753	81 348	27.5%	57 429	44 653	28.6%
Russia	459 317	406 420	13.0%	273 076	238 833	14.3%
Romania	39 584	17 467	126.6%	20 421	11 035	85.1%
Germany	77 086	29 045	165.4%	43 692	18 128	141.0%
Croatia	24 975	13 114	90.4%	14 540	8 516	70.7%
Bulgaria	26 123	18 511	41.1%	14 041	10 216	37.4%
Slovakia	73 149	51 757	41.3%	40 304	29 116	38.4%
Total	**2 677 243**	**2 293 827**	**16.7%**	**1 502 413**	**1 291 251**	**16.4%**

Region	1 H 2016	1 H 2015	Semi-annual change (%)	2Q 2016	2Q 2015	Quarterly change (%)
Poland	1 608 262	1 468 446	9.5%	892 976	810 101	10.2%
Other European Union countries	505 911	337 613	49.8%	278 932	197 664	41.1%
Russia and Ukraine	563 070	487 768	15.4%	330 505	283 486	16.6%
Total	**2 677 243**	**2 293 827**	**16.7%**	**1 502 413**	**1 291 251**	**16.4%**

6. Sales per m2

LPP's sales per m2 in the first half of 2016 increased by 3.5% compared to the previous year. This indicator, calculated as a whole of the Capital Group sales divided by the average number of meters operating in a given period, is one of the most important indicators in the retail industry.

Sales / m2 / month in PLN	1 H 2016	1 H 2015	Semi-annual change (%)	2Q 2016	2Q 2015	Quarterly change (%)
Sales/m2	522	505	3.5%	580	567	2.3%

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7. Basic figures showing the effects of the Capital Group's functioning

Sales revenues in the first half of 2016 increased by 16.7% compared to the same period last year, mainly due to very good sales in the younger brands - Cropp, House, Mohito and Sinsay. Geographically, LPP achieved the highest sales growth in Germany, Romania and Croatia. The increase in sales is also due to the increase in retail space - approx. 12% year on year.
Trade margin increased in value by 6.1%, whereas in percentages it fell from 53.0% to 48.2%, mainly due to higher USD/PLN rate (the company acquires 90% of clothing by paying in USD), and because of the price pressure resulting from actions of the biggest competitors.
Operating expenses increased by 20.4%, and a significant share of these costs were expenses incurred for the operation of retail outlets. The costs of operation of stores increased due to the increase in rents for the lease of the store area, which resulted from an increase in the EUR/PLN rate and the increase in wages. There was also an increase in the operating costs of the head office due to expansion of eCommerce departments, increased logistics costs (depreciation of the new logistics centre, increase in volume of transport - including expensive foreign shipments), increased marketing costs and increased employment in the sectors dealing with the product (mainly RESERVED). As a result, LPP Capital Group recorded a decrease in net profit in the first half of 2016 by 75.6% to PLN 24 238 thousand.

The basic figures showing the results of the Group's functioning and achieved margins in the second quarter and first half of 2016 are presented in the following tables.

Amount	1 H 2016	1 H 2015	Semi-annual change (%)	2Q 2016	2Q 2015	Quarterly change (%)
Revenues from sales	2 677 243	2 293 827	16.7%	1 502 412	1 291 251	16.4%
Gross sales profit	1 291 488	1 216 828	6.1%	749 717	673 386	11.3%
General sales and administrative costs	1 246 985	1 035 967	20.4%	651 696	523 501	24.5%
EBITDA (operating profit + depreciation)	151 767	266 576	-43.1%	152 733	192 494	-20.7%
Operational profit	22 556	160 519	-85.9%	86 465	136 816	-36.8%
Net profit	24 238	99 293	-75.6%	89 818	136 628	-34.3%

Margin (%)	1 H 2016	1 H 2015	2Q 2016	2Q 2015
Gross sales profit	48.2%	53.0%	49.9%	52.1%
EBITDA	5.7%	11.6%	10.2%	14.9%
Operational	0.8%	7.0%	5.8%	10.6%
Net	0.9%	4.3%	6.0%	10.6%

8. Capital expenditures

Capital expenditures (mainly construction of new stores and modernisation of the stores previously open) in the first half of 2016 amounted to PLN 125 340 thousand and they were lower than the previous year by 45% due to the completion of the investment in the logistics centre and modernisation of the Company's head office in Gdańsk.
Planned capital expenditure for the entire 2016 will amount to approx. PLN 370 000 thousand, of which PLN 270 000 thousand will be spent on the construction of new stores, PLN 40 000 thousand on the modernisation of the already operating stores and PLN 60 000 thousand on the construction of another LPP office in Gdańsk.

9. Operating expenses

Operating expenses of LPP Capital Group include own stores costs, franchise stores costs and head office costs (head office in Gdańsk, Kraków and offices of foreign subsidiaries). In the first half of 2016, the Group recorded an increase in the cost of own stores by 20%, mainly due to the increase in personnel costs resulting from the increase in wages in stores and employment growth. The unfavourable exchange rate of EUR to PLN caused an increase in rents (most rents are denominated in EUR). The costs of head office also escalated due to the increase in employment in the eCommerce department, employment growth and wage increases in product sectors, as well as an increase in the cost of logistics (commissioning and depreciation of the new logistics centre). Operating expenses broken down by individual cost centres are presented in the table below.

Costs	1 H 2016	1 H 2015	Semi-annual change (%)	2Q 2016	2Q 2015	Quarterly change (%)
Costs of own stores	930 011	773 588	20%	483 281	395 542	22%
- rentals	452 165	382 253	18%	234 173	195 518	20%
- staff	254 755	199 876	27%	133 935	100 397	33%
- other	223 091	191 459	17%	115 173	99 627	16%
Costs of franchise stores	67 508	70 018	-4%	37 473	38 456	-3%
Costs of head office	249 466	192 361	30%	130 942	89 502	46%
Total costs	**1 246 985**	**1 035 967**	**20%**	**651 696**	**523 501**	**24%**
Costs PLN/m2/month	*245*	*233*	*5%*	*254*	*230*	*10%*

10. Inventory level per m2

Inventory level and its optimisation is an important element of working capital management - important is the observation of inventory per m2 over time. Inventory consists of the goods in the stores, the goods in the warehouse and merchandise in transit - from the manufacturer to the logistics centre. The Company strives to minimise inventory and at the same time to maintain sufficient product to maximise sales. At the end of the first half of 2016, the inventory level per m2 was higher by 11% - mainly due to the increase of the rate of USD to PLN - the Company buys majority of the goods in Asia, where the settlement currency is USD.

Inventory per m2	1Q	2Q	3Q	4Q
2014	1 383	1 443	1 527	1 355
2015	1 516	1 507	1 684	1 572
2016	1 621	1 669	-	-

11. The Company's debt

The Company has credit lines in 6 banks in the total amount of PLN 1.6 billion, which uses to cover bank guarantees, letters of credit for trade financing or as a revolving loan. Additionally, the Company uses long-term funding to finance the construction of a logistics centre, stores or head office buildings. Due to the seasonality of sales the Company increased financing with a purchase loan in the first and third quarter - to finance inventories and reduce lending in the second and fourth quarters, during periods of regular sales. The Company strives to minimise the level of debt in order to maintain financial security. The following table shows the level of net debt in PLN '000 - i.e. the sum of loans less balance of cash.

	1 H 2016	1 H 2015	Change (%)
Short-term loans	619 234	556 137	11%
Long-term loans	239 638	182 842	31%
Cash	-219 200	-155 709	41%
Net debt	**639 672**	**583 270**	**10%**

Other significant events in 1 H 2016:

1. On 11 January 2016, LPP SA and Bank Handlowy in Warsaw SA signed annexes: to the credit agreement in the current account (multi-purpose line) concluded on 13 December 2011 and to the agreement on revolving line for opening letters of credit concluded on 13 December 2011. Under those annexes the current period of use was extended (RB 3/2016).
2. On 14 January 2016, LPP SA and BGŻ BNP Paribas SA signed an annex to the multi-purpose credit line agreement concluded on 14 April 2004. Under the annex the credit limit was increased and the current period of use was extended (RB 4/2016).
3. On 17 March 2016, Mr. Piotr Dyka, Vice-President of the Company's Management Board, filed his resignation, as of that day, from the position of the Member of the Management Board of LPP SA (RB 12/2016).
4. On 22 June 2016, LPP SA and Bank Polska Kasa Opieki SA signed an annex to the loan agreement (multi-purpose line) of 13 August 2004, under which the aggregate limit of use of individual products was specified to the amount of PLN 330 million and the period of use of each product was extended (RB 35/2016).
5. On 23 June 2016, LPP SA received information from PKO BP SA that the period of use of the loan within the limit of a multi-purpose line was extended for another annual period, i.e. until 23 June 2017 (RB 36/2016).
4. On 30 June 2016, LPP SA and BGŻ Paribas SA signed an annex to the loan agreement (multi-purpose line) of 14 April 2004, under which the aggregate limit of use of individual products was specified to the amount of PLN 330 million and the amount of use of each product was amended (RB 37/2016).
7. On 10 May 2016, the Supervisory Board passed a resolution recommending to the Annual General Meeting of LPP SA to adopt the incentive programme for the key managers of the Company based on the use of own shares acquired in 2008. The programme was put to the vote at the Annual General Meeting of LPP SA, which took place on 17 June 2016. (RB 22/2016). Not later than 90 (ninety) days from adopting the resolution, the Supervisory Board will establish detailed regulations of the Incentive Programme, taking into account the provisions of the resolution.

2. Basic factors influencing growth opportunities; risks and threats

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

a) developing and expanding the competitive network of brand stores in Poland, Central and Eastern Europe, Western Europe and the Middle East, as well as entry into new countries: Belarus, Kazakhstan and Serbia;
b) building strong clothing brands;
c) developing online sales;
d) increasing the business profitability and effectiveness.

Development of the Capital Group's strategic tasks and goals will depend on many internal and external factors that represent both opportunities and risks.

Internal factors

a) Market strategy of LPP SA Capital Group

LPP SA Capital Group is focused on designing and distribution of clothing as well as building its brand while outsourcing many activities to third parties. The Capital Group does not have its own manufacturing capacity and does not intend to develop its own manufacturing plants.
Outsourcing of production can significantly reduce fixed costs and provides access to modern and changing technologies that are used by suppliers constantly improving their manufacturing capacity. Accordingly, the Group's investments are directed at increasing the commercial potential, maintaining a competitive advantage in the market, creating its own distribution network, gaining consumers that are loyal to the Capital Group and its products.
Throughout 2016, the Company plans to increase retail space by 9% to 920 thousand m2, and the planned CAPEX is the amount of PLN 370 000 thousand.
In 2017, the Company plans to open stores, in cooperation with the franchisee, in Belarus and Kazakhstan as well as its own stores in Serbia and the flagship store at Oxford Street in London.

b) The risk of increased competition - market position of LPP SA Capital Group

Low barriers to entry clothing trade may increase the competition. At the same time many entities, including companies of the world industry leaders, operate on the clothing market in Poland and abroad.
Marketing activities carried out over the years, concerning individual brands belonging to LPP SA, have resulted in a high level of their recognition among the target group of customers.
Expansion of sales network, which is based on the selection of the most attractive locations, certainly increases the chances of strengthening the position in the markets.
The volume of sales revenues allow to consider LPP SA Capital Group as one of the key players in the market. As the market is very fragmented (LPP's share in Polish market amounts to approx. 13% and in other countries it amounts to no more than 4%), there is still a chance to increase the sales.
However, competition in the industry where the Capital Group operates is significant and gets stronger with the development of online sales.

c) The risk of changes in fashion - extending and renewing the offer for customers

The clothing market is characterised by a wide variety of customer expectations and is closely correlated with changes in fashion trends. The key factor in clothing company's success is the sense of changes in fashion trends and offering the range of goods meeting the current consumer needs. Therefore, LPP SA pays much attention to fashion. Design department is constantly observing the changing trends and adapts them to meet the customer needs so as to continue to offer desirable products at a very good price-quality ratio. In order to fulfil their tasks, designers participate in trade fairs around the world, benefit from the professional literature and information on issues related to fashion available on the Internet.
LPP SA Capital Group, by observing the changing preferences of customers, introduces new product groups, or new brands. In the first half of 2016, a new brand of the Company - TALLINDER, the first in the premium segment, had its debut. LPP Capital Group is planning to develop this brand - 30 stores in 3 years.
In response to the disappointing results of the RESERVED brand, the Company took steps to improve the performance of its leading brand. The activities covering such processes include:
- improvement of the product (size, patterns, finishes),
- plans to open a design office in Warsaw,
- employment of a creative director with international experience dedicated to the RESERVED brand,
- changes in logistics by adjusting the offer to the specificity of the stores,
- effective management of a team of people working on the product and enhance cooperation with suppliers.

d) The risk of unsuccessful location of a store

The Group's development strategy provides for the rapid expansion of the sales network. Opening new stores carries the risk that some of the locations prove to be unsuccessful. This may result in not meeting the projected level of revenues, which in turn will affect the Capital Group's financial performance.
The Group reduces the risk of unsuccessful locations due to good market recognition and a detailed analysis of each potential new location. Number of owned stores also reduces the impact of a single location on the financial position of the Capital Group.

e) Logistics

The Parent Company has a modern logistics centre in Pruszcz Gdański (expanded in 2014 and 2015), which allows for completion of an appropriate amount of packages of clothing for stores in such a way that on one hand they can always offer a wide range of products for customers and on the other hand the amount of goods stored in the warehouse of the logistics centre is as small as possible. Organisational solutions used in this facility allow to quickly increase productivity through the use of an additional production line in case of a substantial increase in demand caused by the development of the sales network.
In addition, Russian LPP uses an external logistics operator with its own logistics centre near Moscow that provides the Company with warehouse and transport services.

f) Online sales

Adapting to the prevailing trend related to the increasing popularity of online shopping, the Parent Company has launched online stores of all of its brands. In the reporting period, online sales were made both in Poland and abroad.

The Company plans to adopt measures to further develop this sales channel by improving mobile sales platforms and supply logistics. In the second half of 2016, LPP will open stores of brands such as House, MOHITO, Cropp, SiNSAY in five new countries, i.e. the Czech Republic, Slovakia, Hungary, Romania and Germany.
By 2020, the Company plans to increase the share of online sales to 7-8% of the sales of the entire Group.

g) Optimisation of the operating costs of LPP SA Capital Group

To ensure the high level of LPP SA Capital Group's performance and productivity, there are taken actions aimed at reducing and adjusting costs to the changing market situation. The main area of cost optimisation are of the lease of retail space, which constitute 50% of the total costs associated with the operation of stores.

External factors

a) The risk associated with the economic slowdown in Poland and countries where the Capital Group's stores operate

The economic situation of the countries where LPP SA Capital Group sells its products and the situation of the countries in which there are factories producing goods for LPP is crucial for the Company's situation. Growth or economic decline in the countries where the Company's stores are located translates in direct proportion to the increase or decrease in sales of goods. In contrast, growth or economic decline in the countries where the production of goods is located may translate into an increase or decrease in production costs.

b) Foreign exchange rates - currency risk

Most purchases of goods by LPP SA Capital Group is associated with foreign exchange payments and most of them are settled in USD, while small part in EUR.
The majority of receipts from sales is obtained in PLN. Instability of the Polish currency in relation to USD and EUR is a risk. However, given the specific type of the Company’s business, it is possible to partially transfer the risk of increase in USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.
In addition to foreign exchange settlements of acquisition of goods, there is another area where the EUR exchange rate has an impact on the costs incurred by LPP SA Capital Group. This is namely the majority of settlements related to lease agreements of premises where products on the retail market are sold.
Large fluctuations of the Russian rouble and the Ukrainian hryvnia also have a significant impact on the financial results. The changes in the rates of RUB and UAH to USD expose the Company to the risk of significant exchange rates differences and have a negative effect on trade margin in Russia and Ukraine.

c) Interest rate risk

Interest rate risk is associated with continuous use of bank loans by the Group as well as, although to a lesser extent, with granted loans. Bank credits with floating interest rate create cash flow risk. In the opinion of the Issuer's Management Board, a change in interest rates will not affect significantly the performance of LPP SA.

d) The risk of changes in customs and tax regulations

Customs and tax regulations have a significant impact on the functioning of the Group. Changes in this area can affect significantly the operations of the issuer's Group.
LPP SA purchases clothing and currently most of the imports comes from Asia. The introduction of import quotas and prohibitive customs duties could affect the Issuer's revenues by reducing the margins. Changes in economic conditions in this regard will affect all businesses operating in this industry and the very probability of this risk is low due to the stable customs policy of the European Union.
At the same time the introduction of tax on large stores in Poland may affect the functioning of the issuer and poses a potential risk. The estimated cost is PLN 13-15 million in 2016, and approx. PLN 40 million in 2017.

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e) The risk of shortening the time for trade

The Group's brand stores are located in shopping malls. As there have been attempts to introduce regulations to limit the time for trade in the malls, there is the risk of shortening the time of sales of the Capital Group's products from seven to six days a week (currently trade prohibition concerns legal holidays).
This limitation could result in the reduction in sales revenues and financial results of the Issuer's Group.
This factor may also have an impact on other businesses in this market.

f) The risk associated with weather conditions

In the business during one season there may occur positive or negative effect of weather conditions, which may influence the increase/decrease in sales, and hence, the increase/decrease of the Capital Group's margins. However, in the long term weather and climatic factors do not affect the Group's development.

3. The effects of changes in the structure of the economic entity, including a business combination, acquisition or sale of economic entities, acquisition or sale of the Issuer's capital group entities, long-term investments, division, restructuring and discontinued operations

On 22 April 2016, LPP brought under its control the company Re Development LLC, based in Moscow, Russia. Apart from the above, during the reporting period, there were no other changes in the organisation of the Capital Group of the issuer.

4. The position of the Management Board regarding the possibility of achieving previously published forecast results for the year, in view of the results presented in the interim report in relation to forecast results

Forecasts for 2016 were not published.

5. Indication of shareholders holding directly or indirectly through subsidiaries at least 5% of total votes at the AGM of the issuer as at the date of the report submission along with the number of shares held by those shareholders, their percentage share in share capital, resulting number of votes and their percentage share in total votes at the AGM and an indication of changes in the ownership structure of large blocks of the issuer's shares in the period from the submission of the previous report

Ownership structure of the share capital of LPP SA as at the date of presenting the report is shown in the table below.

Shareholder	Number of shares	Number of votes at the AGM	Share in the total number of votes at the AGM	Share in the share capital	Nominal value of the shares
Marek Piechocki	175 497	875 493	27.2%	9.6%	350 994
Jerzy Lubianiec	174 999	874 995	27.2%	9.5%	349 998
Forum TFI SA	200 730	200 738	6.2%	10.9%	401 460
Treasury shares	18 978	18 978	0.0%	1.0%	37 956
Other shareholders	1 265 003	1 265 003	39.3%	68.9%	2 530 006
Total	**1 835 207**	**3 216 229**	**100.0%**	**100,0%**	**3 670 414**

There were no changes in the ownership of significant blocks of shares in the period since the previous report (report for Q1 2016).

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6. Summary of the held number of the issuer's shares or rights to them by the persons managing and supervising the issuer as at the date of the report submission, along with the indication of changes in ownership during the period from the previous report submission, separately for each person

Shareholder	Number of shares	Number of votes at the AGM
Marek Piechocki - President of the Management Board	175 497	875 493
Jacek Kujawa - Vice-President of the Management Board	153	153
Hubert Komorowski - Vice President of the Management Board	172	172
Sławomir Łoboda - Vice-President of the Management Board	102*	102
Jerzy Lubianiec - Chairman of the Supervisory Board	174 999	874 995
Dariusz Pachla - Member of the Supervisory Board	500	500

* Based on the rectification obtained from Mr. Sławomir Łoboda. The Company explains that due to misinterpretation of the data in the previous periodic reports (including the report for Q1 2016) it was indicated that the said person held 51 shares of the Company entitling to the same number of votes (the nominal value of PLN 102), while the said person's actual volume of shares from the moment he was appointed to the Company's Management Board was 102 shares entitling to the same number of votes and has not changed.

Following the submission of the last report (report for Q1 2016), no changes in the ownership structure of LPP SA shares held by members of the Issuer's Management Board and the Supervisory Board occurred.

7. Indication of the proceedings before courts, arbitration or public administration authorities

Neither LPP SA or its subsidiaries are a party to the proceedings before the court, competent authority for arbitration or public administration body concerning liabilities or debts, the value of which individually or jointly exceed 10% of the equity of LPP SA.

The Company also informs that it is currently in the course of a tax audit conducted by the Tax Control Office in Gdańsk, which concerns the reliability of the stated tax bases and accuracy of the calculation and payment of income tax from legal persons for 2012. At the date of approval of these financial statements of LPP SA the result or the date of completion of the audit procedure is not known, while LPP SA explains that in the past this type of proceedings conducted against LPP SA or its subsidiaries have not resulted in any significant consequences. However, due to the entry into force in July 2016 of new rules, under which the Tax Law has introduced legislation on tax avoidance and due to the fact that these rules also apply to the tax consequences arising from events and transactions that have taken before the date of their entry into force, LPP SA wishes to draw attention to the risk of a different assessment of the current state of the facts by the tax authority and, consequently, the possibility of challenging the settlement of the Company's license fees paid by the Company to the licensor (Gothals Ltd, under Cypriot law) for the right to use the verbal and graphic trademarks RESERVED and Cropp and their related additional marks.
As announced by the Company in RB 28/2011 of 22 July 2011 and 29/2011 of 22 July 2011 under the relevant agreements, the Company transferred the rights to the trademark to Gothals Ltd in exchange for shares in the share capital of Gothals Ltd. Cypriot company, Gothals Ltd, transferred the said trademarks to Jaradi Limited, a company under the law of the United Arab Emirates, based in Dubai, in exchange for all the shares in the share capital of that company. Under a license agreement Jaradi Limited gave Gothals Ltd the right to use these trademarks. Based on the above, Gothals Ltd granted to LPP SA a sub-license for the full use of trademarks for RESERVED and Cropp. In exchange for the right to use the trademark, LPP SA paid (and continues to do so) royalty fees to Gothals Ltd.
In May 2015, the Company announced its intention to conduct a cross-border merger of LPP SA as the acquiring company and Gothals Ltd as the acquired company. The process of merger is in progress.

In the course of the audit procedure, referred to above, the Tax Control Office in Gdańsk is examining, among others, transactions between related parties of LPP SA and the possibility of offsetting the cost of deductible income tax from legal entities above the said royalty fees. The Company believes that license fees paid to

Gothals Ltd were and are economically feasible and such position is maintained by LPP SA in the audit proceedings.
A further key stages and the results of the audit procedure to inform the LPP SA will be the mode of publication of the relevant reports.

8. Information on the conclusion by the issuer or its subsidiary of one or more transactions with affiliated entities, if individually or collectively they are significant and have been concluded under other than market terms and conditions

In the reporting period, there were no transactions with affiliated entities other than those indicated in Note 16.2 to the interim condensed consolidated financial statements for the first half of 2016.

9. Information on granting by the issuer or its subsidiary credit or loan sureties or guarantees - to single entity or its subsidiary if the total value of existing sureties or guarantees is equivalent to at least 10% of the equity of the issuer, stating the name of the entity to which sureties or guarantees were granted, the total amount of credits or loans that in full or particular part were assured or guaranteed, the period for which the sureties or guarantees were granted, financial conditions on which they were given and the nature of the relationship between the issuer and the entity taking the credit or loan

In the reporting period, there were no such events.

10. Other information that in the issuer's opinion is relevant for the evaluation of staff, property and financial situation, financial result and their changes as well as information relevant for the evaluation of the feasibility of commitments implementation by the issuer

The report contains basic information essential for the evaluation of the situation of the issuer's capital group. In the opinion of the Management Board, currently there are no threats to the implementation of the commitments of the Capital Group.

11. Identification of factors which, according to the issuer, will affect its results within at least the next half-year

The basic factors which will affect the results achieved in the nearest future include:

a) economic situation in Poland and in countries where the Group's stores operate, especially in Russia and Ukraine,
b) USD/EUR exchange rate, and the Russian rouble to Ukrainian hryvnia exchange rate,
c) assessment of the autumn-winter collection by customers,
d) improving the product of the RESERVED brand,
e) introduction of taxation of large stores,
f) development of online sales,
g) development of the sales network of RESERVED, Cropp, House, MOHITO, SiNSAY and Tallinder - the goal for the end of 2016 is to increase the number of stores of the Group to 1 700 (y/y increase of 4%), and increase of retail space to 919 thousand m2 (y/y increase of 9%).

The 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, 25 August 2016