LPP

FACTBOOK 2015

GLOBAL ASPIRATIONS

We are an international retail company based in Gdansk with over 20 years of experience in designing and selling clothes and accessories.

We own six fashion brands:
RESERVED, Cropp, House, MOHITO, SiNSAY, Tallinder.

c.1,630 stores

17 countries
on 3 continents

c. 21,500 employees

EUR 1 billion
revenues annually

91 million clothing items sold annually

RESERVED TALLINDER MOHITO house CROPP sinsay

RESERVED, SS16

LPP

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GROUP OVERVIEW

Vision, mission and *values* inspire us in our everyday work and influence the way we function. *Mission* determines the role and the purpose of LPP existence, while *vision* defines our ambitions and sets the direction in which we are heading.

Values describe the manner in which LPP employees behave, regardless of their position. Values are like a DNA code. They not only influence the way we function as an organization but also determine our approach to customers, employees, business partners and all our stakeholders.

OUR MISSION

We help our customers to realize their dreams through the way they look and feel.

OUR VISION

Passion drives us forward, making our company the top fashion retailer in the world.

SINSAY, SS16

LPP

WE ARE:

FIRE–FUELLED

We are full of energy. We are passionate about our business, our brands and our customers. We are proud to be part of LPP.

AMBITION–DRIVEN

We seek new challenges every day and strive for excellence. We dare for more. We expect the unexpected.

SUCCESS–FOCUSED

We keep developing ourselves to improve the results. We run the extra mile. We achieve our goals.

TALENT–BASED

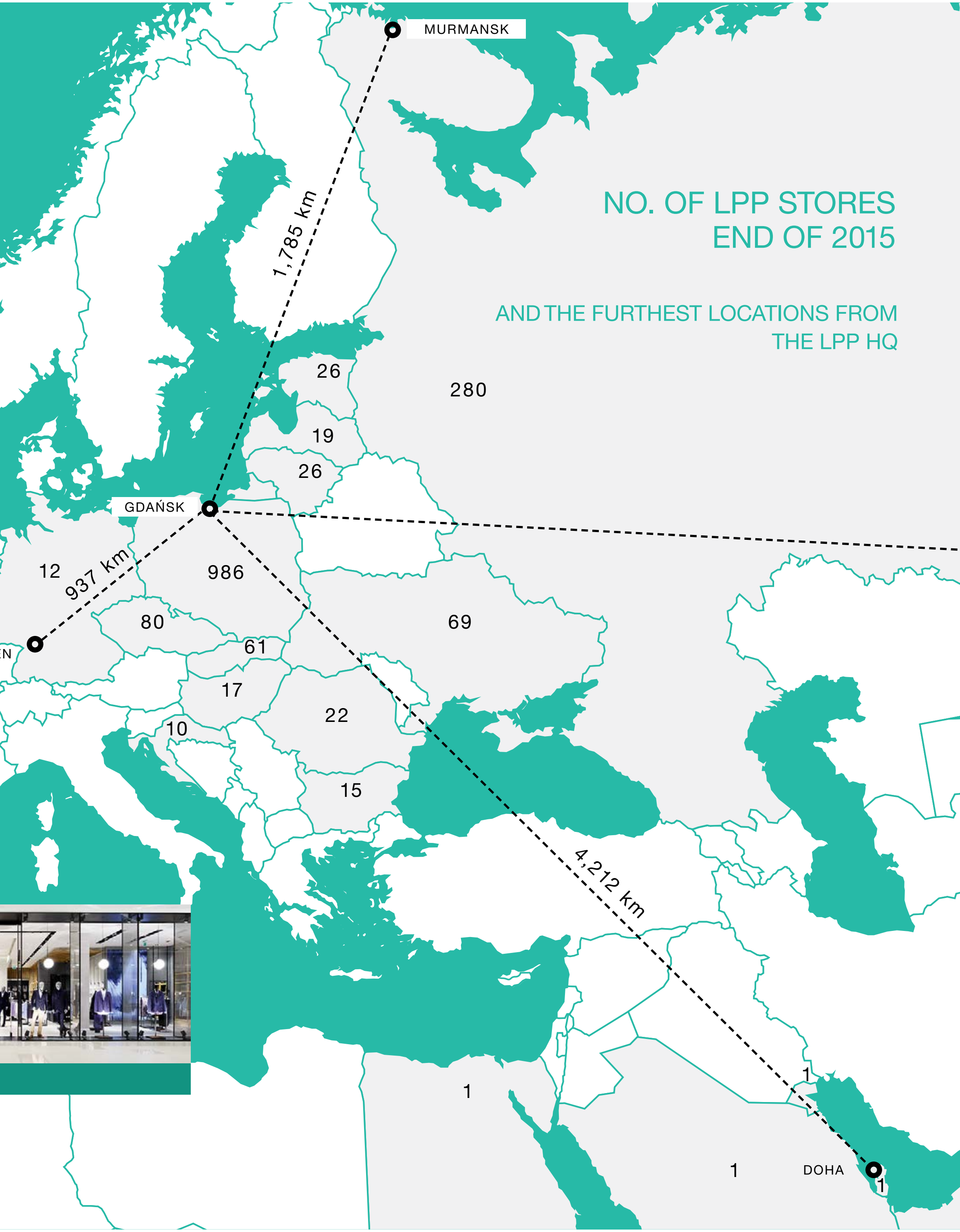
We enable talents to grow. We appreciate the best in people. We treat others the way we want to be treated.

LPP ON THE WORLD STAGE

A GLOBAL CLOTHING RETAILER

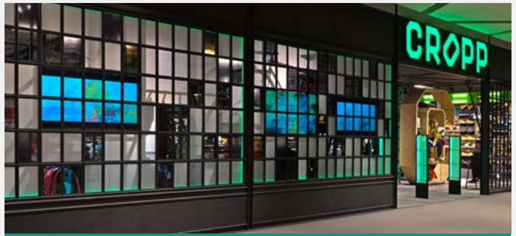
LPP is successfully developing on the core Polish market and consistently expanding on foreign markets.

Following the entry into Germany, Croatia and the Middle East, at the end of 2015 we were present in 17 countries on 3 continents.



RESERVED, Germany, Stuttgart

Tallinder, Warsaw, Poland

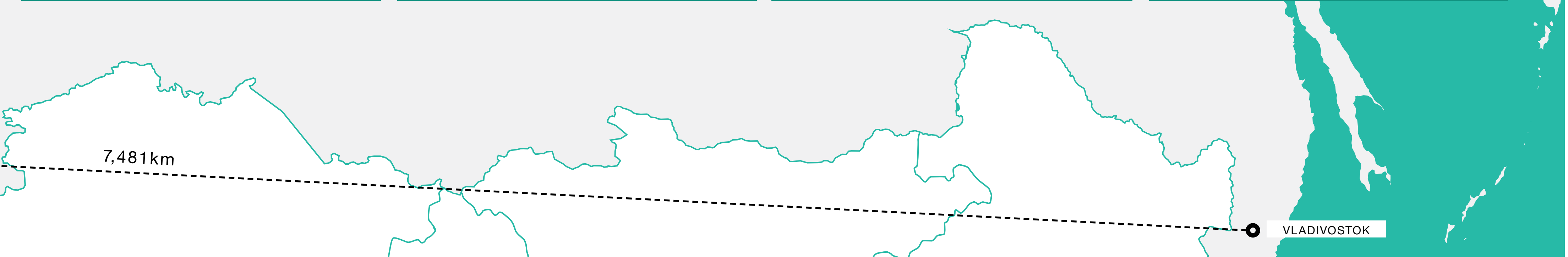


Cropp, Hungary, Budapest

House, Poland, Warsaw

MOHITO, Croatia, Zagreb

SiNSAY, Poland, Warsaw



POLAND	
RESERVED:	237
Cropp:	217
House:	208
MOHITO:	164
SiNSAY:	127
Outlets:	33

CZECH R.	
RESERVED:	26
Cropp:	22
House:	15
MOHITO:	12
SiNSAY:	5

SLOVAKIA	
RESERVED:	20
Cropp:	18
House:	15
MOHITO:	4
SiNSAY:	3
Outlets:	1

HUNGARY	
RESERVED:	10
Cropp:	2
House:	1
MOHITO:	3
SiNSAY:	1

LITHUANIA	
RESERVED:	7
Cropp:	7
House:	5
MOHITO:	4
SiNSAY:	3

LATVIA	
RESERVED:	8
Cropp:	3
House:	2
MOHITO:	5
SiNSAY:	1

ESTONIA	
RESERVED:	8
Cropp:	6
House:	4
MOHITO:	6
SiNSAY:	2

RUSSIA	
RESERVED:	81
Cropp:	70
House:	49
MOHITO:	60
SiNSAY:	18
Outlets:	2

UKRAINE	
RESERVED:	20
Cropp:	19
House:	14
MOHITO:	11
SiNSAY:	4
Outlets:	1

BULGARIA	
RESERVED:	5
Cropp:	3
House:	3
MOHITO:	4

ROMANIA	
RESERVED:	9
Cropp:	3
House:	1
MOHITO:	5
SiNSAY:	4

CROATIA	
RESERVED:	2
Cropp:	2
House:	2
MOHITO:	2
SiNSAY:	2

GERMANY	
RESERVED:	12

EGYPT	
RESERVED:	1

QATAR	
RESERVED:	1

KUWAIT	
RESERVED:	1

SAUDI ARABIA	
RESERVED:	1

HISTORY

1991

Creation of Mistral company by

Marek Piechocki
CEO

- Present in the retail business since 1989
- CEO of LPP since 2000
- The Best-Performing CEO according to Harvard Business Review (2013)

and

Jerzy Lubianiec
CHAIRMAN of SUPERVISORY BOARD

- 1991–1997 ran Mistral company as a sole trader (LPP's predecessor)
- 1995–2000 CEO of LPP
- Since 2000 Chairman of the Supervisory Board of LPP

1994

First designed clothes

1991-1993

Sale of goods imported from Asia

1995

Mistral transformed into

1997

Opening of offices in Shanghai

1998

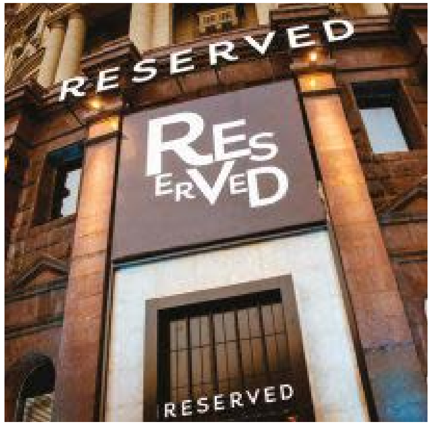
Launch of RESERVED – first retail store opened

2001

IPO on the Warsaw Stock Exchange (debut at PLN 48.4 share price)

2002

Start of international expansion (Russia, Czech Republic, Estonia, Hungary, Latvia)



2004

Launch of Cropp brand

2003

Further international expansion (Lithuania, Ukraine, Slovakia)

Creation of ESOTIQ brand

2005

Launch of the modern logistics center in Pruszcz Gdański

2008

2008

Acquisition of Artman, owner of House and MOHITO brands

Further international expansion (Romania, Bulgaria)

2008

2010

Payment of first dividend

Divesture of ESOTIQ brand

2010/11

Launch of SiNSAY brand

2013

2014

Entry into MSCI and WIG20 indices

New countries: Germany, Croatia

2014

Middle East entry (Egypt, Qatar, Kuwait, Saudi Arabia)

2015

Launch of Tallinder brand; new country in ME: United Arab Emirates.

2016

3. BRANDS

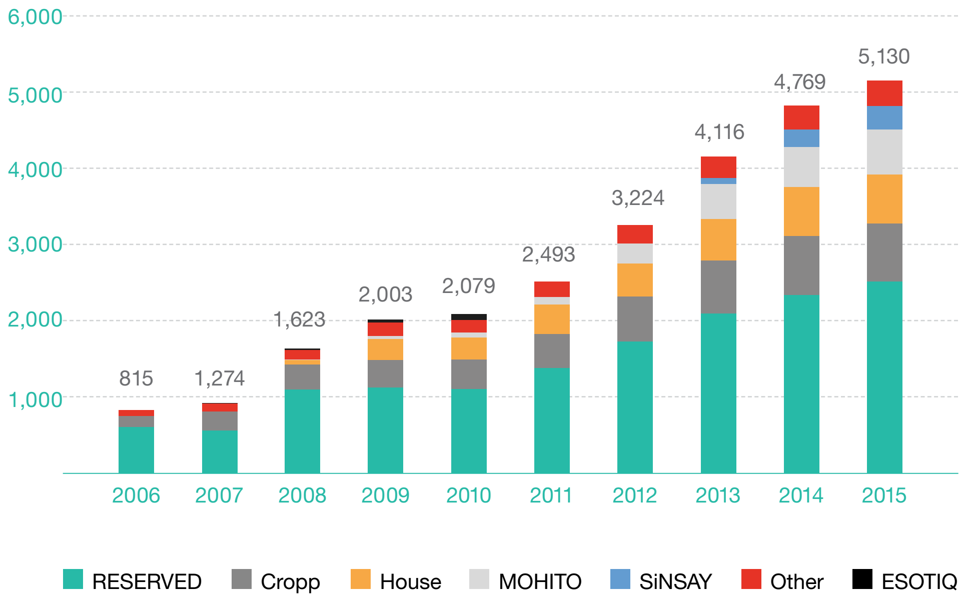
Our brands are our value and we put a lot of effort not only in creating but also in developing them. Each of our five brands stands out from the others, offering not only different types of clothes, but different prices, stores and shopping experience.

	MAINSTREAM					UP-MARKET
	RESERVED	CROPP	house	MOHITO	sinsay	TALLINDER
KEY BRAND FEATURES	Fast fashion brand with broad customer base.	Casual streetwear brand offering also international labels.	Urban fashion brand with folk and vintage elements.	Comfort and elegance for business and informal meetings.	Clothes for every day inspirations and original party outfits.	High quality clothing for more demanding customers.
TARGET CUSTOMERS	Women, men, children.	Teenagers (boys and girls).	Teenagers (boys and girls).	Young women.	Teenagers (girls only).	Men and women.
YEAR OF LAUNCH	1998	2004	2001 (at LPP since 4Q08)	2008 (at LPP since 4Q08)	2013	1Q16
COUNTRIES/ REGIONS PRESENT	CEE, SEE, Baltic, CIS, Germany, ME	CEE, SEE, Baltic, CIS	CEE, SEE, Baltic, CIS	CEE, SEE, Baltic, CIS	CEE, Baltic, CIS, SEE (excl. BGN)	Expansion initiated in Poland
# STORES FLOORSPACE	449 461.3k m2	372 114.5k m2	319 99.7k m2	280 94.5k m2	170 59.7k m2	Target: 30 stores in Poland
AVERAGE STORE SIZE	1,027 m2	308 m2	313 m2	337 m2	351 m2	450 m2

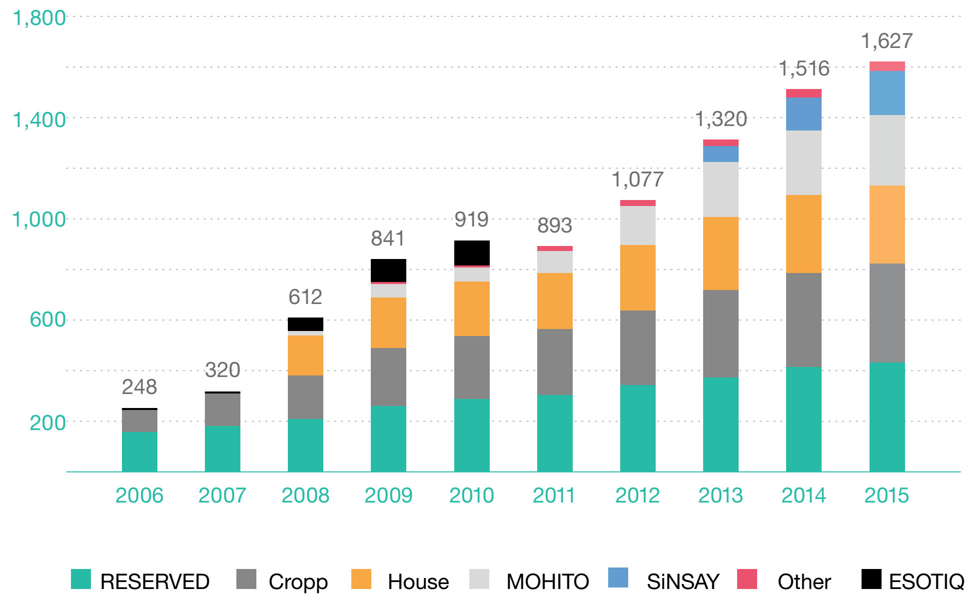
REVENUES BY BRANDS

PLN m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues (PLN m)	**815**	**1,274**	**1,623**	**2,003**	**2,079**	**2,493**	**3,224**	**4,116**	**4,769**	**5,130**
RESERVED	601	921	1,087	1,114	1,099	1,368	1,714	2,074	2,311	2,434
Cropp	138	250	335	364	382	447	580	687	771	790
House	-	-	58	276	294	378	437	546	634	673
MOHITO	-	-	5	40	62	104	259	456	523	586
SiNSAY	-	-	-	-	-	-	-	74	225	329
Other	76	100	120	175	166	196	233	279	306	318
ESOTIQ	0	3	19	34	76	-	-	-	-	-

REVENUES BY BRANDS (PLN m)



STORES BY BRANDS



RESERVED, SS16

3.1. RESERVED BRAND

RESERVED

KEY BRAND FEATURE	Fast fashion brand broad customer base
TARGET CUSTOMER	Women, men, children
YEAR OF LAUNCH	1998
# STORES	449
# MARKETS	17
TARGET STORE	2,500 m2

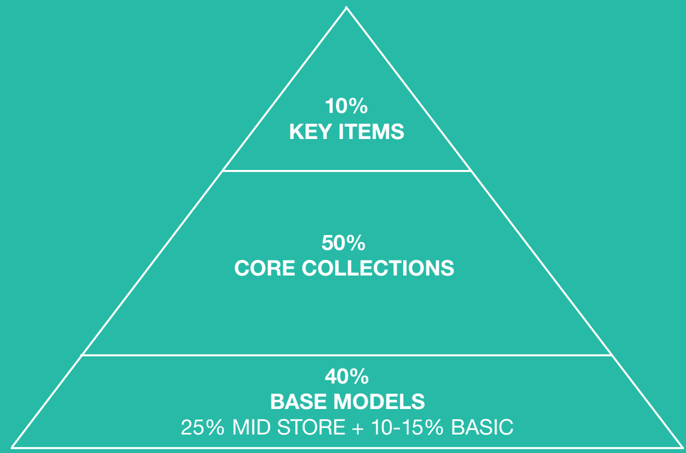
RESERVED is our anchor brand. It is a fast fashion brand offering clothes for a broad range of customers: men, women and children. The intention is to answer all the needs of the customer, starting from everyday clothes, through smart casual clothes for work and ending with party outfits.

The brand is mainstream-priced with the average price tag reaching PLN 52 in 2015. The offer consists in 40% from base, while the remaining portion is made up of clothes with a different degree of the latest trends and must-haves. We continue to expand average store space to accommodate room for growing number of lines within collections. In 2015 we launched a sports line with clothes for running and training as well as a city line for trend setters.

The brand was established in 1998. Even though the development started in Poland, foreign development followed. At the end of 2015, the brand was present in 17 countries.

RESERVED brand also co-operates with well-known designers and top models. Over the past years star collections for RESERVED brand have been prepared both by top Polish designers like Gosia Baczynska and Paprocki & Brzozowski and international celebrities like Georgia May Jagger. The latter was the face of RESERVED in AW14/15 and SS15 collections. We also do not forget about men and additionally focus on youngers, with Brooklyn Beckham advertising our SS15 collection.

COLLECTION SPLIT



BRAND ESSENCE

Brand person

Trendy, fashionable, metropolitan, chic, dynamic and creative.

STORE CONCEPT

The new store concept encompasses the latest design trends. New RESERVED stores have an open storefront and fitting rooms as well as openwork walls allowing for a deep view into the store. There are no dedicated zones. The atmosphere is created by straight profile furniture and led lightning.

SUB-LINES

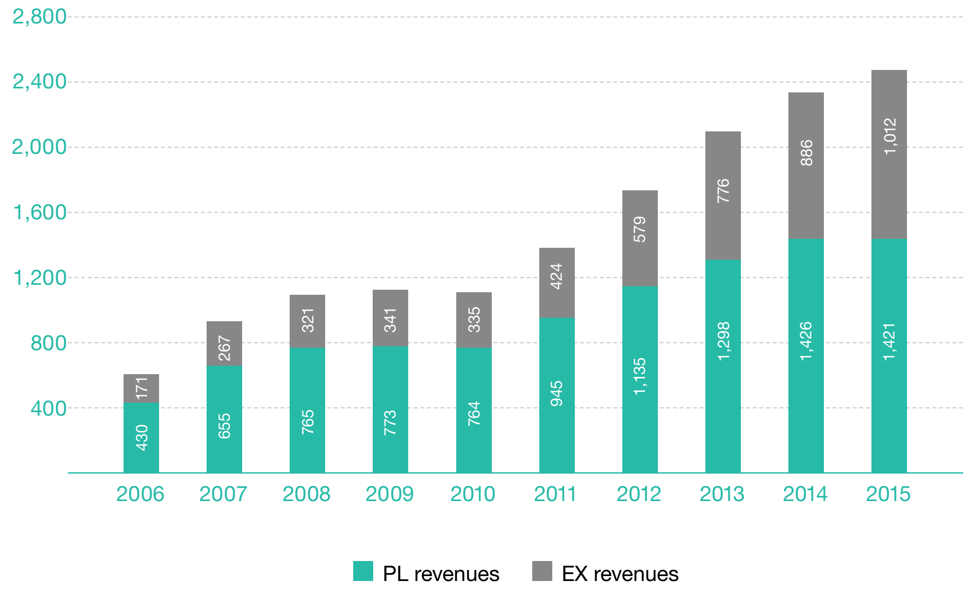
Selected lines that can be found within RESERVED collections:

- Young Fashion Lab (YFL) for fashion followers, collection inspired by the latest trends from catwalks,
- Modern Line for customers appreciating a more formal look and business look,
- Street Line is a mix of street fashion with novelties from fashion shows,
- BE ACTIVE sports collection, with practical but fashionable sports clothes.

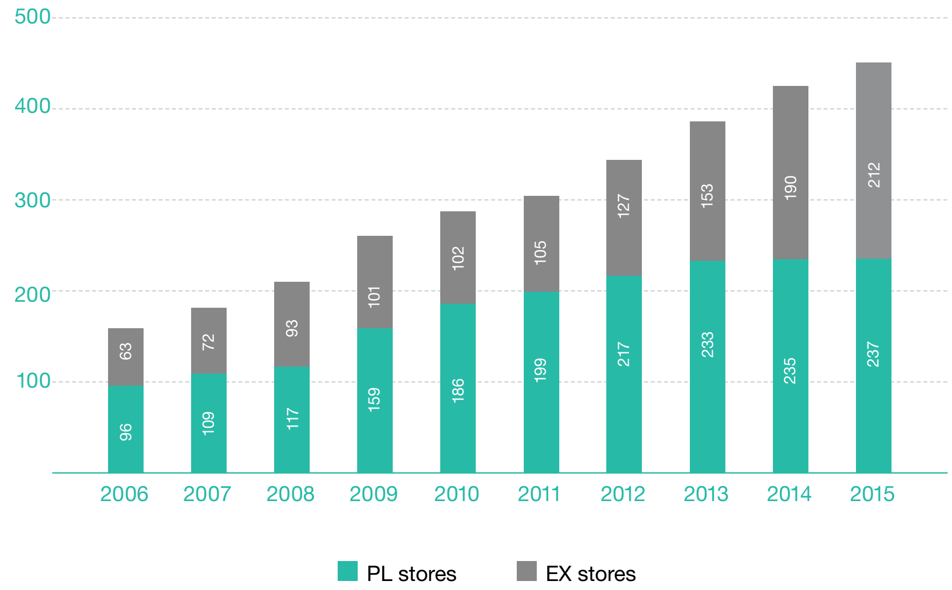
RESERVED – BASIC FIGURES

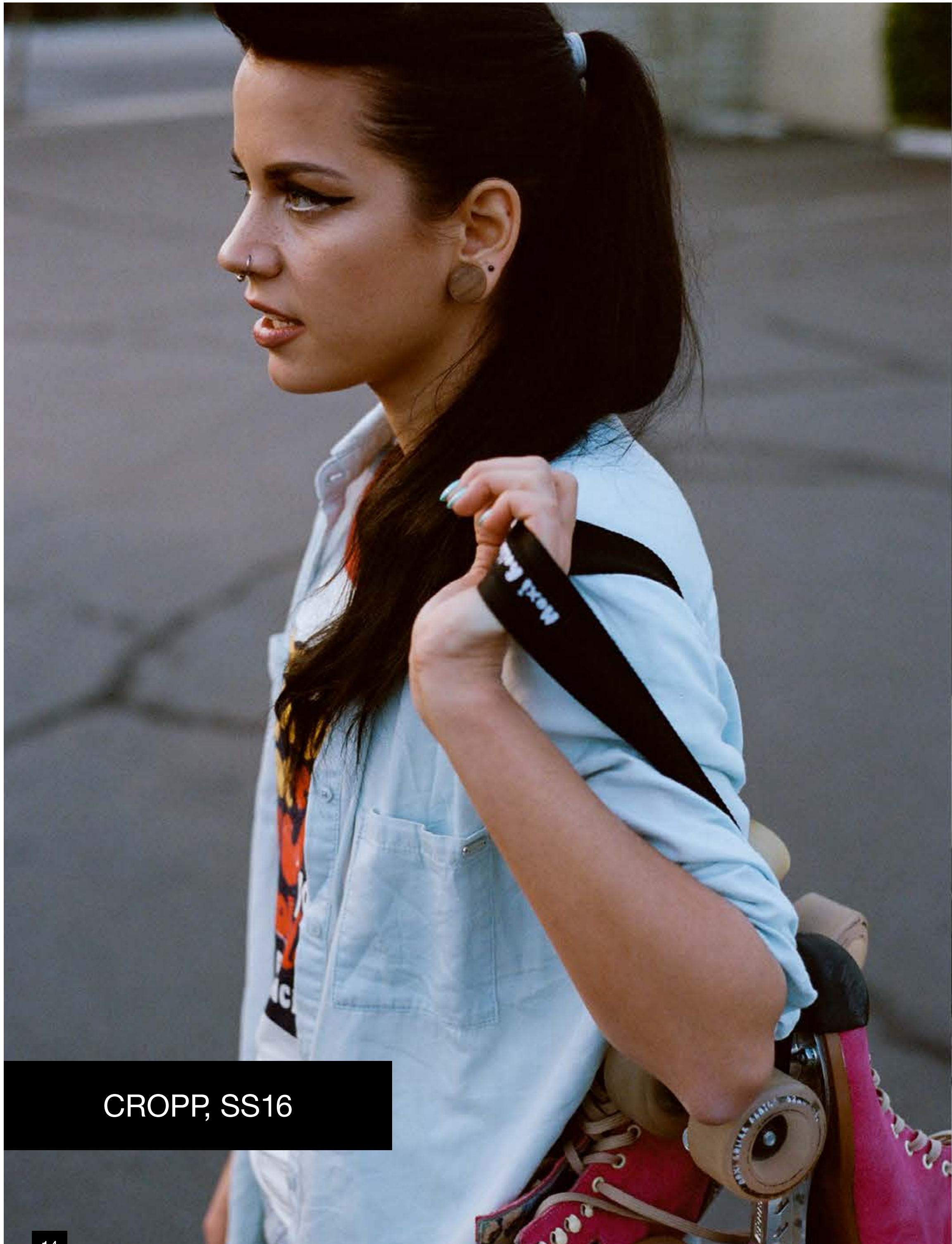
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues (PLN m)	**601**	**921**	**1,087**	**1,114**	**1,099**	**1,368**	**1,714**	**2,074**	**2,311**	**2,434**
No. of stores	159	181	210	260	288	304	344	386	425	449
Store size (m2)	609	627	685	677	687	697	733	835	917	1,027
Floorspace (eop, ths m2)	97	114	144	176	198	212	252	322	390	461
Sales/m2 monthly	575	731	720	596	496	566	628	617	547	483
% of floorspace in PL	61%	60%	56%	60%	63%	65%	62%	59%	54%	50%
No. of countries	8	8	9	10	10	10	10	11	13	17

RESERVED – REVENUES (PLN m)



RESERVED – STORES





CROPP, SS16

3.2. Cropp BRAND

CROPP

KEY BRAND FEATURES	Casual streetwear brand, offering international labels
TARGET CUSTOMER	Teenagers (boys and girl)
YEAR OF LAUNCH	2004
# STORES	372
# MARKETS	12
TARGET STORE	450 m2

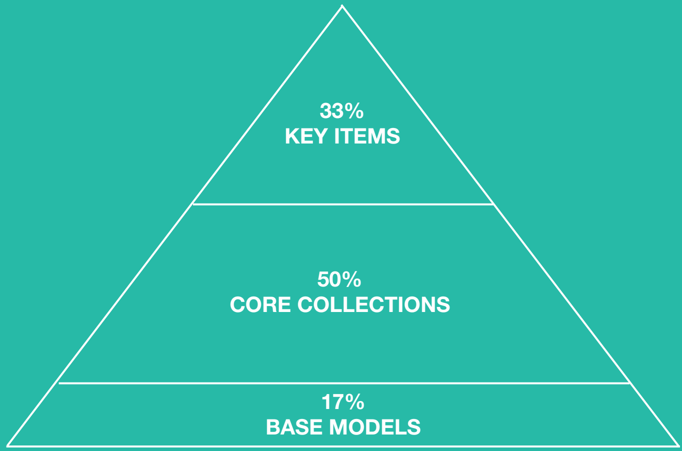
Cropp is the first brand for teenagers developed in-house by LPP. The launch took place in 2004. It is a casual streetwear brand which apart from own broad offer also sells international labels. The offer is aimed at both boys and girls.

The brand is also mainstream priced, with 2015 average price tag at PLN 50. Cropp brand is strongly oriented on street style fashion. The most trendy items and must-haves constitute as much as 33% of overall collection, while strict base models take up only 17%, leaving the remaining portion for core collection.

With an average store size of 308 m2, Cropp stores are three times smaller than these of the RESERVED. The brand is developed internationally via company-owned stores mostly. Cropp is currently present in 12 countries.

The advertising model chosen is aimed at the target group. Cropp brand is a partner of various artistic and street art events. The most recent examples include the following projects: (1) Cropp Artist, collection created by young artists, (2) Cropp Kultowe, a film festival during which 47 films were shown and 5,000 people attended; (3) Boombox Kids, collection inspired by the world of dance and the golden age of tape recorders music; and (4) Cropp Baltic Games, cooperation with CEE's largest skate event.

COLLECTION SPLIT



BRAND ESSENCE

Mad Style Crew
Fearless and independent people.

Brand persons
Provocative, funny, inspiring, positive but controversial.

Brand persons skills
Street art, music, street dance, parkour, graffiti, photography, travelling, tattoos.

Brand persons sports
Basketball, watersports, BMX, jogging skateboarding, longboard.

STORE CONCEPT

The shopping space is designed in the form of squat, garage and industrial halls.

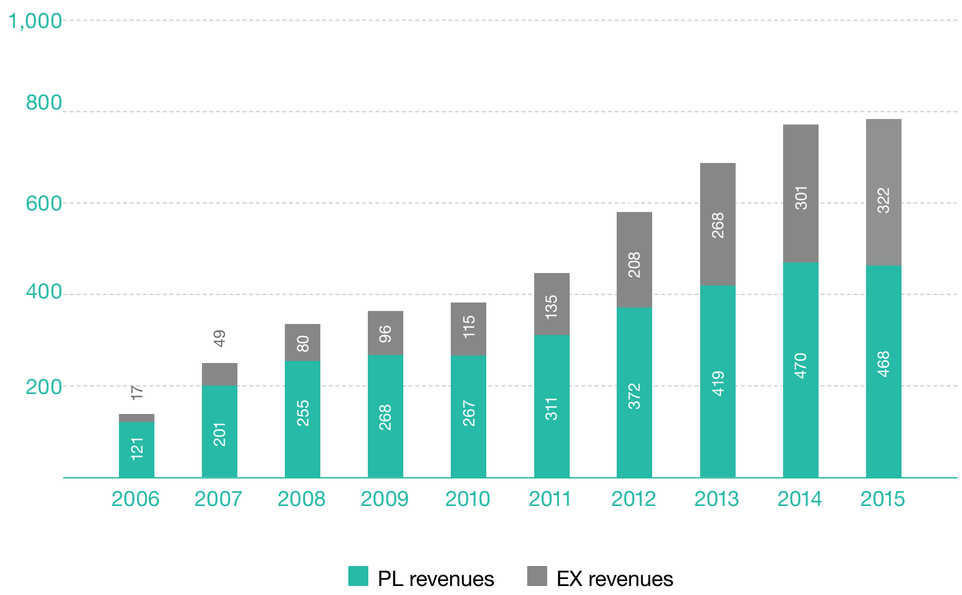
Cropp stores also encompass special relax zones with PlayStation and tablets with Wi-Fi.

Shop window displays are equipped with modern multimedia.

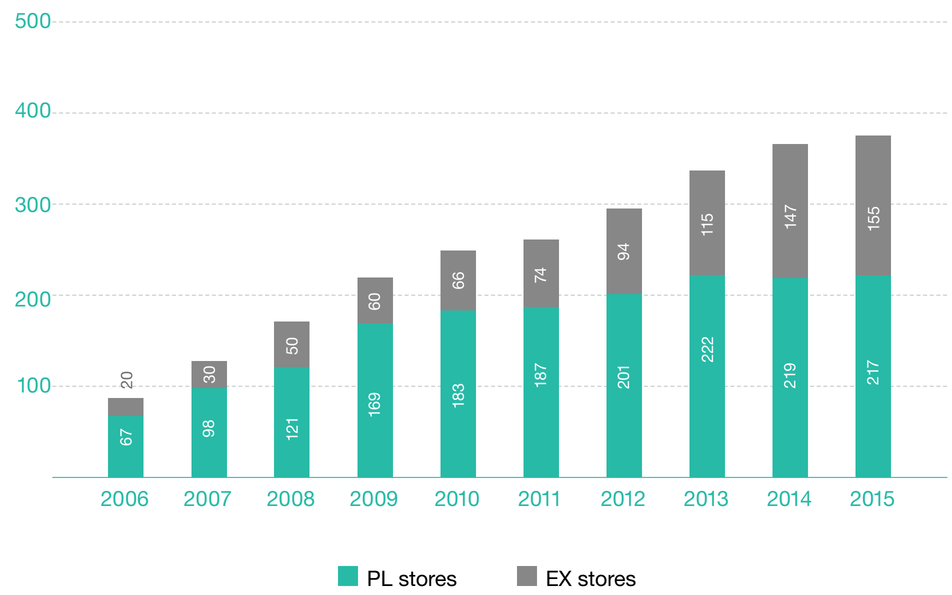
Cropp – BASIC FIGURES

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues (PLN m)	**138**	**250**	**335**	**364**	**382**	**447**	**580**	**687**	**771**	**790**
No. of stores	87	128	171	229	249	261	295	337	366	372
Stores size (m^2)	240	217	223	219	224	228	244	269	288	308
Floorspace (eop. ths m^2)	21	28	38	50	56	59	72	91	105	114
Sales/m^2 monthly	629	862	875	698	607	651	756	725	647	591
% of floorspace in PL	76%	74%	67%	68%	69%	67%	62%	60%	55%	55%
No. of countries	6	7	9	10	10	10	10	10	12	12

Cropp – REVENUES (PLN m)



Cropp – STORES



House, SS16

3.3. House BRAND

KEY BRAND FEATURES	Urban fashion brand with folk and vintage elements
TARGET CUSTOMER	Teenagers (boys and girls)
YEAR OF LAUNCH	2001 (at LPP since 4Q08)
# STORES	319
# MARKETS	12
TARGET STORE	450 m2

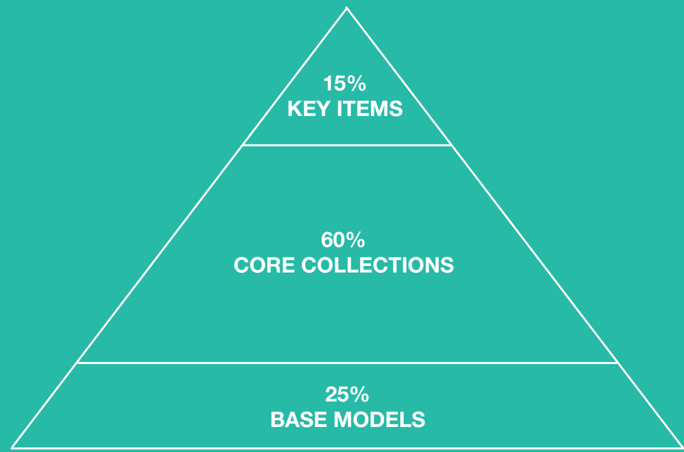
The House brand is a teenager-oriented brand, for both boys and girls. Even though the brand exists from 2001, it has been acquired along with Artman merger. It differentiates itself from Cropp in that it is oriented on urban fashion and has folk and vintage elements. It puts an emphasis on music and is oriented on students and people going to their first work, aged 18-25 and living in the city.

House is a mainstream priced brand. 2015 average price tag came in at PLN 48. The brand is a niche one thus its stores are typically of 313 m2 of size. The brand is developed internationally. House stores can now be found in 12 countries, as the brand entered the Hungarian market in 2015.

Advertising is oriented on alternative musical events. House is a partner of several artistic events and a music festivals sponsor. Key fashion items and must-haves constitute 15% of collection. The universal models take up some 25% of the collection, while the remaining portion constitutes the core which mixes latest trends with customers tastes take up 60%.

Target customer is a creative person, interested in the world and willing to differentiate itself from the others. The urban heritage style is targeted at people who love music and music festivals and who look at details in their clothing. The street & style line is oriented at people who like experimenting and going to clubs, fast fashion, fashion followers. In terms of women, casual fashion line is oriented at girls who like playing with fashion and underlining their individuality. The street chic girls line is oriented at mainstream girls, combining fast fashion with sport elements.

COLLECTION SPLIT



BRAND ESSENCE

Brand persons
Optimistic and authentic young adult.
A self-confident music lover.
A stylish, modern and open-minded person.

Brand persons
Young, creative, original, spontaneous, honest with her/himself, curious of the world, standing out from the crowd.

Brand persons music
Club, electric, guitar.

STORE CONCEPT

The interior of the store is inspired by music instruments and possesses many music and art related details.

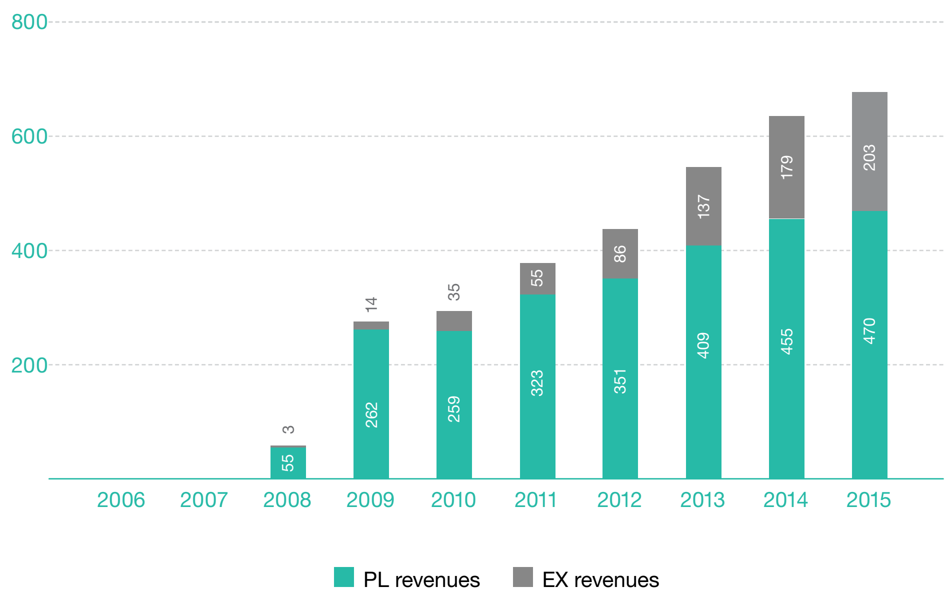
A fresh look is obtained by usage of wooden elements and glass and metal lamps.

Store decorations include: 3D metal elements, paper or wood letters, glass bottles and plants.

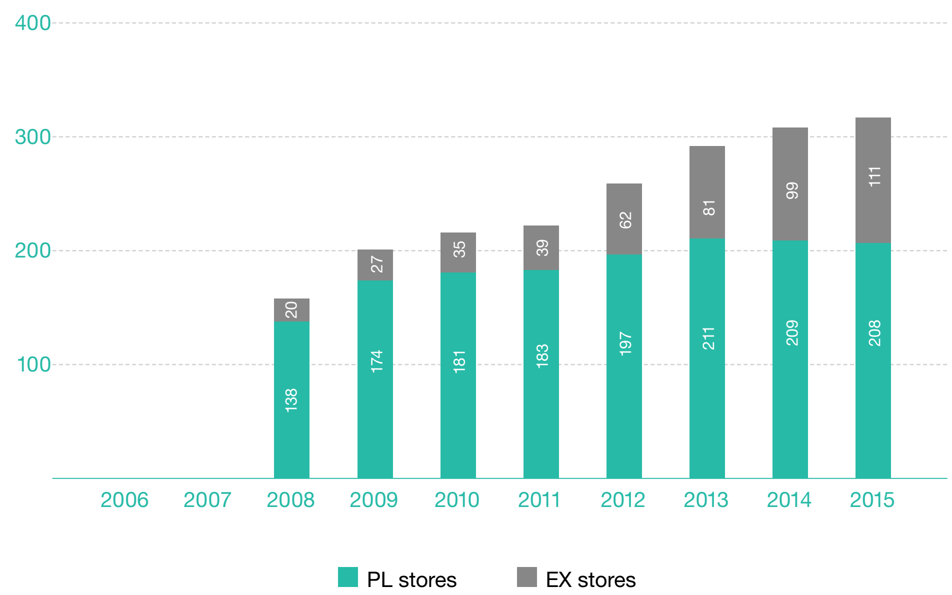
House – BASIC FIGURES

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues (PLN m)	**-**	**-**	**58**	**276**	**294**	**378**	**437**	**546**	**634**	**673**
No. of stores	-	-	158	201	216	222	259	292	308	319
Stores size (m^2)	-	-	217	217	223	230	247	275	291	313
Floorspace (eop. ths m^2)	-	-	34	44	48	51	64	80	90	100
Sales/m^2 monthly	-	-	990	648	535	633	654	652	612	579
% of floorspace in PL	-	-	74%	79%	82%	80%	73%	69%	64%	62%
No. of countries	-	-	4	9	10	10	9	9	10	12

House – REVENUES (PLN m)



House – STORES



MOHITO, SS16

3.4. MOHITO BRAND

MOHITO

KEY BRAND FEATURES	Comfort and elegance; business and casual
TARGET CUSTOMER	Young women
YEAR OF LAUNCH	2008 (at LPP since 4Q08)
# STORES	280
# MARKETS	12
TARGET STORE	450 m2

MOHITO is another brand (after House) acquired along the Artman merger. The brand was developed in 2008 and is aimed at women solely. The target customer is young woman starting her career, in need of smart casual but fashionable clothes.

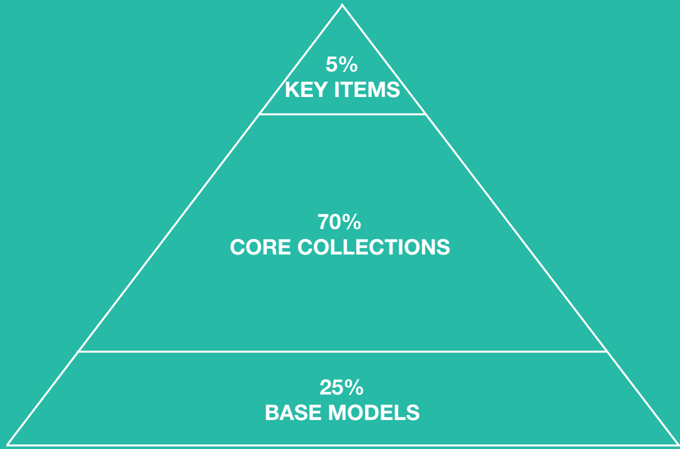
Out of all five mainstream brands, MOHITO has the highest price tag, reaching PLN 79 in 2015. It is oriented at women who can pay a bit more than average for extra detail.

As the brand is oriented on soft office collections, about 30% of the items are highly fashionable must-haves. The core collection constitutes as much as 70% of the garments sold (highest proportion among LPP's current brands), while base is just 25%.

The stores are approximately 337 m2 in size and the brand being actively developed abroad. Although currently the brand is present in 12 countries, this should increase in the future. Due to its growth potential, the brand is scheduled for Middle East development in the medium-term.

The advertising is based on top models with Polish origins. In AW14/15 Anja Rubik created a star collection for MOHITO, while in SS16 Anna Jagodzinska was the face of MOHITO.

COLLECTION SPLIT



BRAND ESSENCE

Brand person
MOHITO is a brand developed for self-confident women who value original, feminine and urban elegance.

Brand idea
Emphasize feminity at work and after hours.
MOHITO is sensual, fashionable and modern but not infantile and promiscuous.

STORE CONCEPT

The store concept relates to elegance and beauty. The centre of the store is bright surrounded by a darker environment. The store has a separate display area for exclusive collection. Strong direct lighting makes the customer feel as part of the catwalk show, before entering the dressing room sectioned.

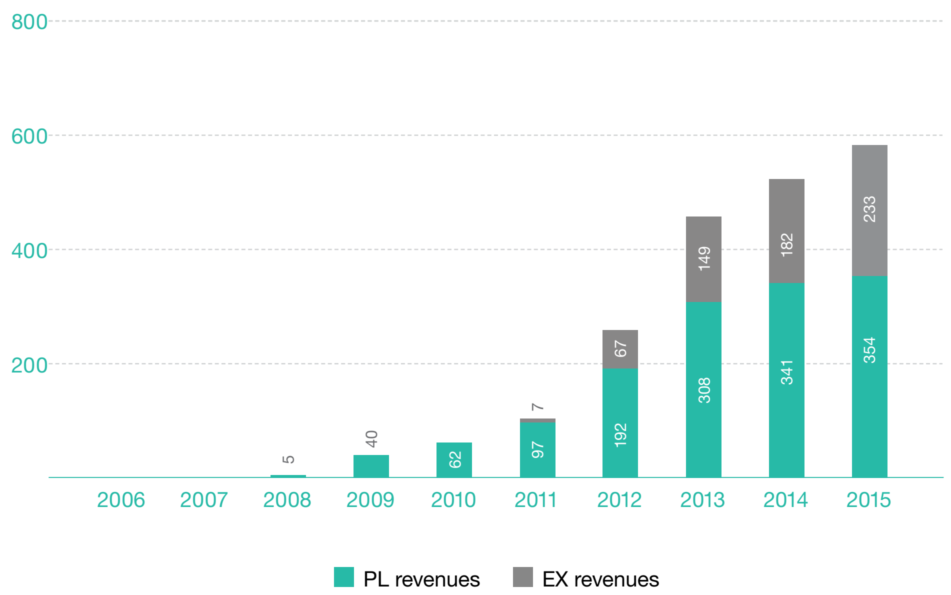
SUB-LINES

- Regular line – elegant clothing.
- After hours – casual clothing.
- Gold label & Exclusive Line – highly fashionable clothing of superior quality. Highier quality is ensured by the use of silk, suede and cashmere mix.
- Athleisure – activewear with fashion twist.

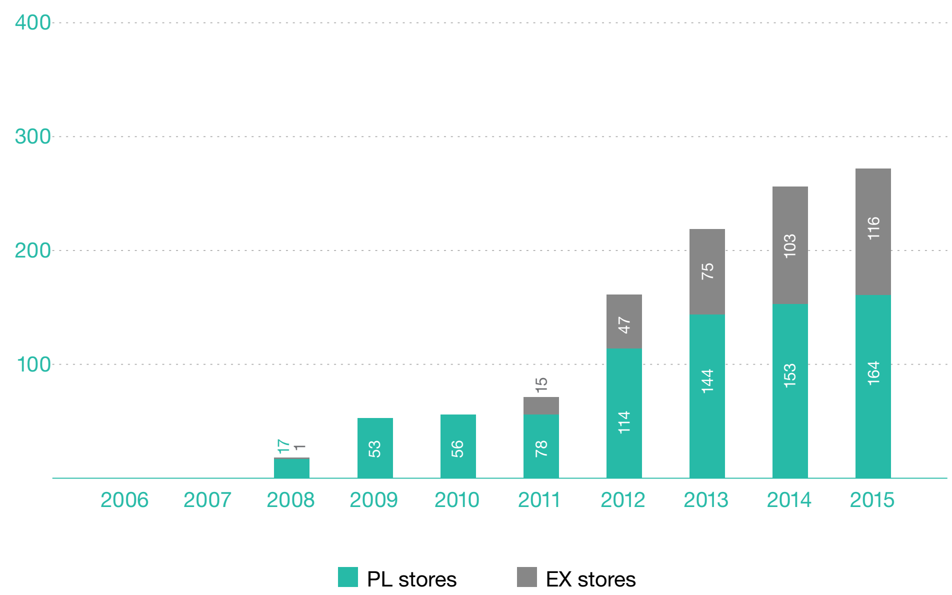
MOHITO – BASIC FIGURES

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues (PLN m)	**-**	**-**	**5**	**40**	**62**	**104**	**259**	**456**	**523**	**586**
No. of stores	-	-	18	53	56	93	161	219	256	280
Stores size (m²)	-	-	199	178	180	186	242	301	323	337
Floorspace (eop. ths m²)	-	-	4	9	10	17	39	66	83	94
Sales/m² monthly	-	-	881	552	527	733	843	759	583	549
% of floorspace in PL	-	-	95%	100%	100%	87%	67%	62%	56%	55%
No. of countries	-	-	2	1	1	7	8	9	12	12

MOHITO – REVENUES (PLN m)



MOHITO – STORES



SiNSAY, SS16

3.5. SiNSAY BRAND

KEY BRAND FEATURES	Every day clothes and original party outfits
TARGET CUSTOMER	Teenagers (girls only)
YEAR OF LAUNCH	2013
# STORES	170
# MARKETS	11
TARGET STORE	450 m2

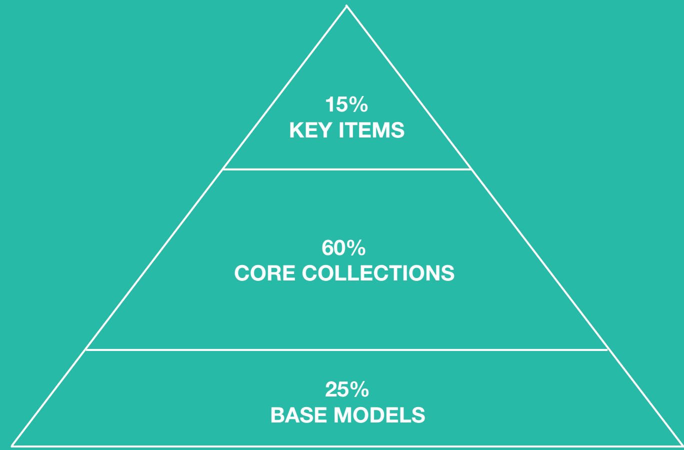
SiNSAY is the youngest brand in our portfolio. It was launched in 2013. Similarly to MOHITO, the brand is targeted at women only, yet the target group is much younger. SiNSAY offers everyday clothes and original party outfits for teenagers (age 16-19), mostly in high schools in large or medium-sized towns.

The brand is mainstream priced yet has the lowest average price tag (PLN 28 in 2015), so that it is affordable for the target group.

Due to its young target group, as much as 15% of the collection is constituted by highly fashionable items and must-haves, while the core collection (fashion for every day) takes up 60%, leaving the universal base with a 25% stake.

The brand still has sizeable development potential, as there are only 170 stores in 11 countries. The stores are of c.350 m2 size, suited for the taste of teenagers. So is the brand advertising, aimed at social media and young artists. A young popular Polish singer Margaret designed a star collection for SiNSAY AW15/16.

COLLECTION SPLIT



BRAND ESSENCE

Brand persons
Girls who are loud, beautiful, expressive and have their character.
A good bad girl.

Ideas important to brand persons
Look, freedom, friendship, holidays, social media, music and fashion.

STORE CONCEPT

Fresh and edgy interiors, yet monochromatic to differentiate these from the colourful clothes sold.

Selling area is divided into white and black parts (depiction of good and bad girl) which clash and diffuse in the fitting rooms.

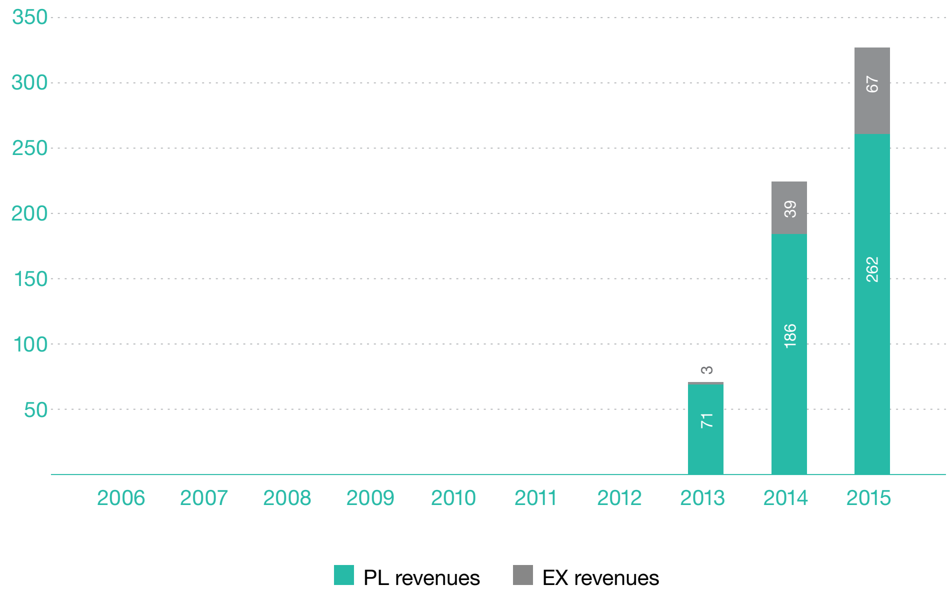
Usage of innovative materials and decorative LED lighting.

Most wanted garments are presented on mannequins and emphasized by dichroic foil screens behind them.

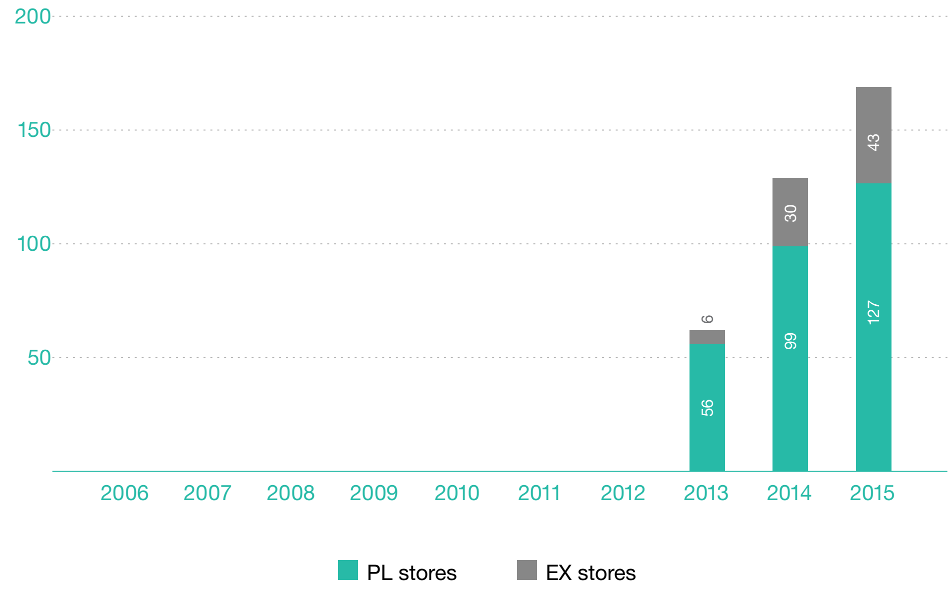
SiNSAY – BASIC FIGURES

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues (PLN m)	-	-	-	-	-	-	-	**74**	**225**	**329**
No. of stores	-	-	-	-	-	-	-	62	129	170
Stores size (m²)	-	-	-	-	-	-	-	325	338	351
Floorspace (eop. ths m²)	-	-	-	-	-	-	-	20	44	60
Sales/m² monthly	-	-	-	-	-	-	-	670	584	531
% of floorspace in PL	-	-	-	-	-	-	-	89%	75%	73%
No. of countries	-	-	-	-	-	-	-	4	10	11

SiNSAY – REVENUES (PLN m)



SiNSAY – STORES



TALLINDER, AW 15/16

3.6. TALLINDER BRAND

TALLINDER

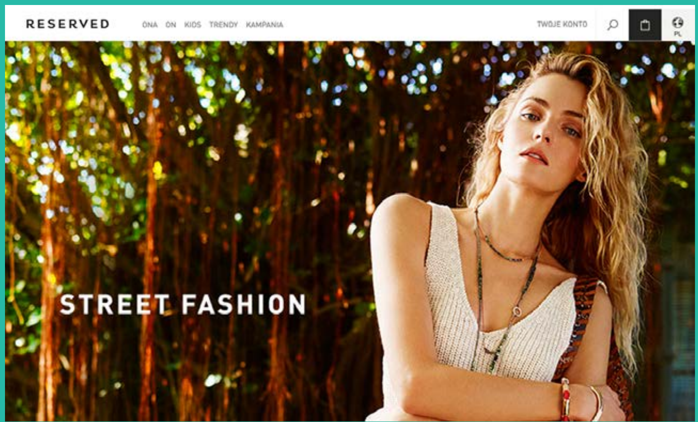
KEY BRAND FEATURES	High quality clothing
TARGET CUSTOMER	More demanding men and women
YEAR OF LAUNCH	1Q16
# STORES	Target: 30 stores in Poland
# MARKETS	Expansion initiated in Poland
TARGET STORE	450 m2

Tallinder is the first up-market brand in our portfolio, allowing us to benefit from growing affluence of customers both in Poland and in other markets present. As a result, the price tag of the brand is much higher than at the remaining brands. We believe it could reach PLN 300 in 2016 (almost 6 times the price tag of RESERVED).

The up-market touch means that the brand is going to be oriented on more demanding customers, looking for more traditional universal cut of high quality materials rather than the season must-haves. Naturally, the target customers, men and women, are going to be of 30+ age.

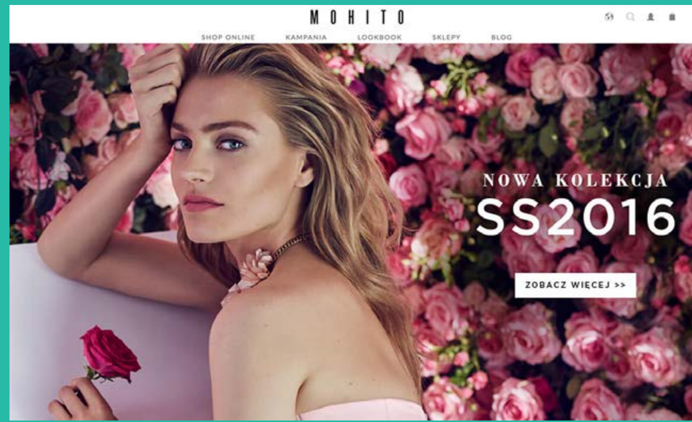
First Tallinder stores were opened in 1Q16. As it has been the case with our other brands, the expansion was initiated in Poland. The target is to have 30 stores on our domestic market, in top quality locations. If the concept proves successful, we would like to launch the brand abroad as well. Tallinder stores are to have an average size of 450 m2.

TOP LPP ON-LINE STORES

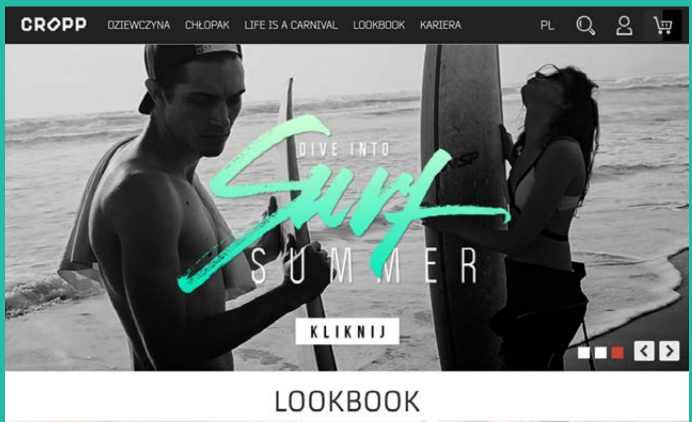


www.reserved.com

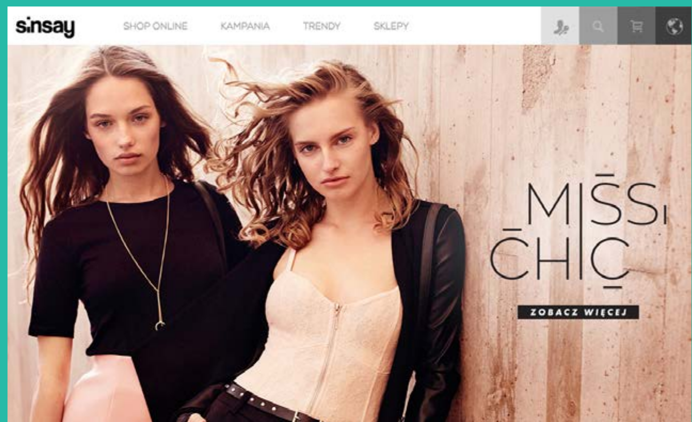
www.house.pl



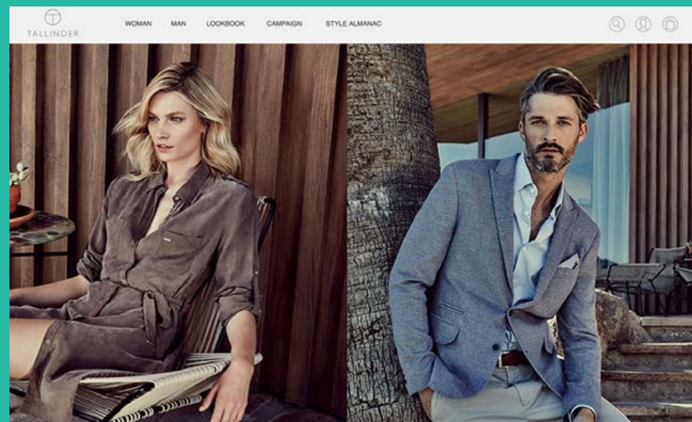
www.mohito.com



www.cropp.com



www.sin-say.com



www.tallinder.com

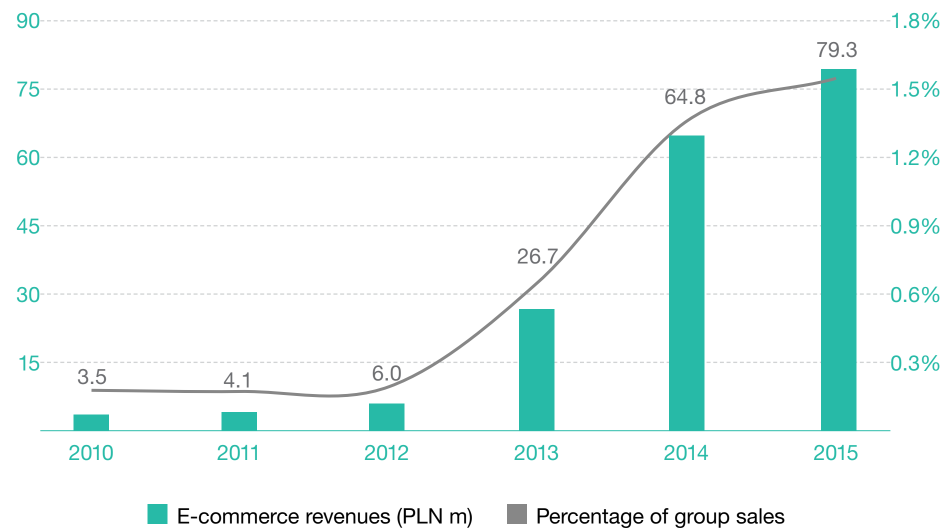
4. E-COMMERCE

Even though the majority of our business is brick-and-mortar, we accelerate investments in on-line operations, as this is where our customers are going. In 2015 on-line sales constituted 1.6% of our group revenues. We would like this proportion to increase to 7-8% by 2020.

Our e-commerce strategy is based on single brand e-stores as opposed to multibrand e-stores. All our six brands have high-quality internet stores. The most recognised is the RESERVED on-line store which got awarded as the number one single brand e-store in fashion category by Polish daily - Rzeczpospolita (April 2015).

The majority of our e-commerce revenues comes from Poland. However, apart from domestic development, we invest in internet stores abroad. So far our investments have concentrated on the RESERVED brand whose on-line stores operate in Czech Republic, Slovakia, Romania, Hungary and Germany. By the end of 2016 we also plan to open on-line stores of Cropp, House, MOHITO and SiNSAY in those 5 foreign markets.

E-COMMERCE REVENUES



DEVELOPMENT OF LPP'S E-COMMERCE ABROAD

2014 JULY
on-line store in Germany
RESERVED
GERMANY

2015 MAY
on-line store in Czech Republic
RESERVED
CZECH REPUBLIC

2015 OCT
on-line store in Slovakia
RESERVED
SLOVAKIA

2015 NOV
on-line store in Romania
RESERVED
ROMANIA

2016 FEB
on-line store in Poland
TALLINDER
POLAND

2016 MAR
on-line store in Hugary
RESERVED
HUNGARY

4Q16
target to open on-line stores of four brands
FOUR BRANDS
CZECH REPUBLIC, SLOVAKIA, HUNGARY, ROMANIA AND GERMANY

5. REGIONS

Our five brands are present in six regions, differing from one another with the level of affluence, population, climate and culture. Those regions have been chosen either due to their geographical proximity or abundant growth possibility or customer affluence.

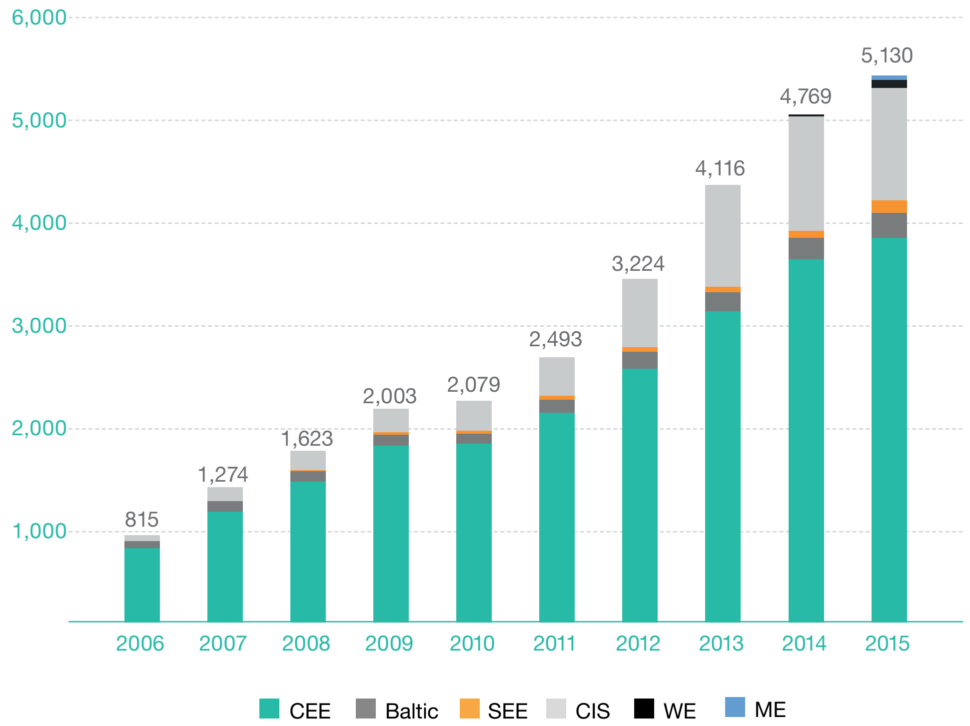
We believe we will be successful on the developing and early stage markets as the price-to-quality ratio offering in our stores meets the customers' expectations.

	MATURITY		DEVELOPING		EARLY STAGE	
DEVELOPMENT STAGE	**CEE**	**BALTIC**	**CIS**	**SEE**	**WE**	**ME**
COUNTRIES PRESENT	Poland, Czech Republic, Hungary, Slovakia	Lithuania, Latvia, Estonia	Russia, Ukraine	Bulgaria, Romania, Croatia	Germany	Egypt, Qatar, Kuwait, Saudi Arabia
BRANDS	RESERVED, Cropp, House, MOHITO, SiNSAY	RESERVED, Cropp, House, MOHITO, SiNSAY	RESERVED, Cropp, House, MOHITO, SiNSAY	RESERVED, Cropp, House, MOHITO, SiNSAY	RESERVED	RESERVED
# COUNTRIES PRESENT	4	3	2	3	1	4
# STORES FLOORSPACE	1,144 544.7k m2	71 38.2k m2	349 193.9k m2	47 34.1k m2	12 27.1k m	4 5.5k m2
TYPE OF STORES	Own (majority), franchise	Own	Own (majority), franchise	Own	Own	Franchise

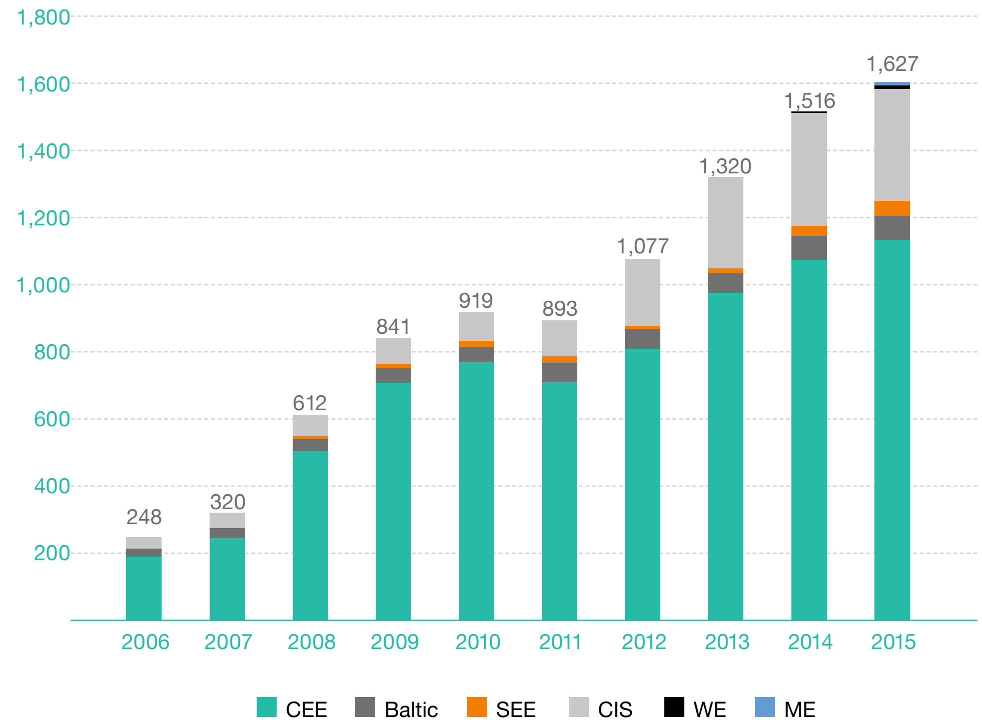
REVENUES BY REGIONS

PLN m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	**815**	**1,274**	**1,623**	**2,003**	**2,079**	**2,493**	**3,224**	**4,116**	**4,769**	**5,130**
CEE	698	1,043	1,329	1,660	1,679	1,973	2,382	2,927	3,414	3,634
Poland	642	955	1,218	1,526	1,565	1,835	2,213	2,701	3,080	3,228
Other CEE	56	87	111	135	114	138	169	225	334	406
Baltic	65	105	102	101	91	120	162	186	200	222
CIS	52	127	182	216	279	359	638	952	1,076	1,025
Russia	38	108	155	188	237	305	549	787	884	836
Ukraine	14	18	26	28	41	54	88	165	192	188
SEE	-	-	11	26	31	40	42	52	65	134
WE	-	-	-	-	-	-	-	-	15	94
ME	-	-	-	-	-	-	-	-	-	23

REVENUES BY REGIONS (PLN m)



STORES BY REGIONS



5.1. CEE REGION

The CEE region comprises of Poland, Czech Republic, Slovakia and Hungary. Poland has been our first market and is by far the most important market currently, generating c.65% of group revenues. Development in Czech Republic and Hungary was gradual and took place via company-owned stores, while Slovakia was developed via franchise until April 2014. The CEE region is a mature market for us. Still, development can take place via a new brand and with selected new shopping mall openings.

CEE REGION OVERVIEW

CEE REGION – STORES & FLOORSPACE BY COUNTRY

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**190**	**245**	**504**	**708**	**770**	**709**	**809**	**976**	**1,075**	**1,144**
Poland	165	218	445	650	715	659	745	886	943	986
Other CEE	25	27	59	58	55	50	64	90	132	158
Floorspace (ths m2)	**89**	**105**	**170**	**221**	**246**	**259**	**309**	**409**	**475**	**545**
Poland	75	90	144	196	222	237	279	366	414	465
Other CEE	14	15	26	26	24	22	30	43	62	80

CEE REGION – STORES

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**190**	**245**	**504**	**708**	**770**	**709**	**809**	**976**	**1,075**	**1,144**
RESERVED	119	133	147	190	213	223	246	266	286	293
CROPP	69	101	132	180	195	198	214	241	256	259
House	-	-	155	190	197	198	216	235	233	239
MOHITO	-	-	18	53	56	78	117	154	167	183
SiNSAY	-	-	-	-	-	-	-	60	105	136
Outlets	-	-	-	7	9	12	16	20	28	34
ESOTIQ	2	11	52	88	100	-	-	-	-	-

CEE REGION – FLOORSPACE

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Floorspace (ths. m2)	**89**	**105**	**170**	**221**	**246**	**259**	**309**	**409**	**475**	**545**
RESERVED	72	83	101	126	142	153	177	216	248	281
CROPP	16	21	28	37	41	43	48	60	68	75
House	-	-	34	41	43	44	51	62	64	71
MOHITO	-	-	4	9	10	15	27	44	51	59
SiNSAY	-	-	-	-	-	-	-	19	35	47
Outlets	-	-	-	2	3	4	6	8	10	12
ESOTIQ	0	1	4	6	7	-	-	-	-	-

5.2. POLAND

Poland is our anchor market and is going to remain one over the next years. Although dependency has fallen from 79% in 2006 to 63% in 2015, yet the market remains the center of our interest and profits.

The dominance of the domestic market results from:

- the highest number of stores (986 in 2015);
- development of each new brand starting on the core market;
- the highest sales per square meter as a consequence of strong brand recognition.

Development of company owned stores started in 1998 with RESERVED stores. Currently, stores of all brands are present in Poland in best shopping malls and highstreets. Poland is also the market where sales per sqm are the highest due to strong brand recognition, consequence of first entry and the scale of the network.

Looking at the number of stores, maturity (but not saturation) has been reached with RESERVED, Cropp and House brands. Further development is going to be oriented on entering new shopping malls and best highstreet locations. We still see domestic development potential with MOHITO and SiNSAY brands, which have not yet crossed the 200 store hurdle. Thus, further development of those brands is planned. On top, in 1Q16 we launched domestic developement of our sixth brand Tallinder (the first up-market brand in our portfolio).

STORES IN POLAND
(END OF 2015)

POLAND – STORES

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**165**	**218**	**445**	**650**	**715**	**659**	**745**	**886**	**943**	**986**
RESERVED	96	109	117	159	186	199	217	233	235	237
CROPP	67	98	121	169	183	187	201	222	219	217
House	-	-	138	174	181	183	197	211	209	208
MOHITO	-	-	17	53	56	78	114	144	153	164
SiNSAY	-	-	-	-	-	-	-	56	99	127
Outlets	-	-	-	7	9	12	16	20	28	33
ESOTIQ	2	11	52	88	100	-	-	-	-	-

POLAND – FLOORSPACE

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Floorspace (ths. m2)	**75**	**90**	**144**	**196**	**222**	**237**	**279**	**366**	**414**	**465**
RESERVED	59	68	81	106	124	138	156	189	209	233
CROPP	16	21	25	34	38	40	45	55	58	63
House	-	-	30	37	39	41	46	55	57	62
MOHITO	-	-	3	9	10	15	26	41	46	52
SiNSAY	-	-	0	0	0	0	0	18	33	44
Outlets	-	-	-	2	3	4	6	8	10	12
ESOTIQ	0	1	4	6	7	-	-	-	-	-

5.3. OTHER CEE

We have a strong position in other CEE region, by which we understand Czech Republic, Slovakia and Hungary. Combined, those three countries have a smaller population and potential than Poland. All five mainstream brands are present in Czech Republic where maturity has been reached. Further growth could take place via selected new locations, network optimization and emphasis on brand awareness. At the end of 2015, all five mainstream brands were also present in Hungary. Slovak development took place differently. As the market was the smallest out of those three countries, development took place via franchise stores (RESERVED and Cropp stores were operated by a Slovak Koba compa ny). Later, along with Artman acquisition, we took over House Slovak stores. Only in April 2014, we acquired the franchisee Koba along with 35 stores (12ths m2 of floorspace). We still see development potential in Slovakia.

LOCATION OF STORES IN OTHER CEE (EXCL. POLAND)
(END OF 2015)

OTHER CEE REGION (EXCL. POLAND) – STORES & FLOORSPACE BY COUNTRY

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**25**	**27**	**59**	**58**	**55**	**50**	**64**	**90**	**132**	**158**
Czech Republic	19	21	38	38	36	32	43	66	73	80
Slovakia	-	-	12	11	11	10	12	13	48	61
Hungary	6	6	9	9	8	8	9	11	11	17
Floorspace (ths m2)	**14**	**15**	**26**	**26**	**24**	**22**	**30**	**43**	**62**	**80**
Czech Republic	10	12	19	19	17	15	21	33	37	43
Slovakia	-	-	2	2	2	2	3	4	18	25
Hungary	3	3	5	5	4	4	5	7	7	12

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OTHER CEE REGION (EXCL. POLAND) – STORES

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**25**	**27**	**59**	**58**	**55**	**50**	**64**	**90**	**132**	**158**
RESERVED	23	24	30	31	27	24	29	33	51	56
CROPP	2	3	11	11	12	11	13	19	37	42
House	-	-	17	16	16	15	19	24	24	31
MOHITO	-	-	1	-	-	-	3	10	14	19
SiNSAY	-	-	-	-	-	-	-	4	6	9
Outlets	-	-	-	-	-	-	-	-	-	1
ESOTIQ	-	-	-	-	-	-	-	-	-	-

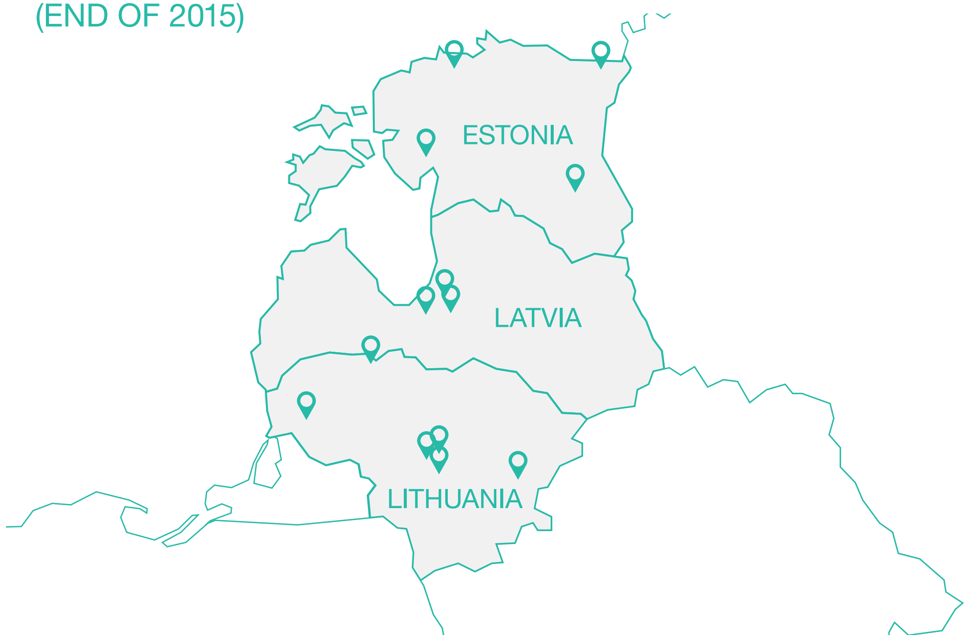
OTHER CEE REGION (EXCL. POLAND) – FLOORSPACE

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Floorspace (ths. m2)	**14**	**15**	**26**	**26**	**24**	**22**	**30**	**43**	**62**	**80**
RESERVED	13	14	19	20	17	16	21	27	39	48
CROPP	0	1	3	3	3	3	3	6	10	12
House	-	-	3	3	3	3	4	6	6	9
MOHITO	-	-	0	-	-	-	1	3	5	7
SiNSAY	-	-	-	-	-	-	-	1	2	3
Outlets	-	-	-	-	-	-	-	-	-	0
ESOTIQ	-	-	-	-	-	-	-	-	-	-

5.4. BALTIC REGION

The Baltic region by which we understand Lithuania, Latvia and Estonia is the second one after CEE where we have reached maturity. We are in all countries of the region. We can see medium to long-term potential for entry into new shopping malls and with the new brand, yet the targets are now set at efficiency improvements. All Baltic countries are now in Eurozone, however their macroeconomic situation is also linked to its neighbour Russia. In current times of hardship in Russia, its citizens tend to conduct purchases domestically rather than abroad, leaving only the domestic demand as the key driver in Baltic countries.

LOCATION OF STORES IN BALTIC REGION
(END OF 2015)



BALTIC REGION – STORES & FLOORSPACE BY COUNTRY

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**25**	**30**	**36**	**43**	**44**	**59**	**59**	**58**	**70**	**71**
Lithuania	8	11	16	19	19	26	25	23	25	26
Latvia	8	8	8	10	10	15	14	16	19	19
Estonia	9	11	12	14	15	18	20	19	26	26
Floorspace (ths m2)	**13**	**15**	**18**	**21**	**22**	**24**	**24**	**27**	**36**	**38**
Lithuania	5	7	8	10	10	10	10	11	12	14
Latvia	4	4	4	5	5	6	6	7	11	11
Estonia	4	4	5	7	7	8	8	9	14	14

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BALTIC REGION – STORES

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**25**	**30**	**36**	**43**	**44**	**59**	**59**	**58**	**70**	**71**
RESERVED	19	21	22	23	23	24	24	24	24	23
CROPP	6	9	11	13	13	17	16	15	16	16
House	-	-	3	7	8	10	9	8	11	11
MOHITO	-	-	-	-	-	8	10	10	14	15
SiNSAY	-	-	-	-	-	-	-	1	5	6
Outlets	-	-	-	-	-	-	-	-	-	-
ESOTIQ	-	-	-	-	-	-	-	-	-	-

BALTIC REGION – FLOORSPACE

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Floorspace (ths m2)	**13**	**15**	**18**	**21**	**22**	**24**	**24**	**27**	**36**	**38**
RESERVED	11	13	15	16	16	16	16	18	22	23
CROPP	1	2	3	3	3	4	4	4	5	5
House	-	-	1	2	2	3	2	2	3	3
MOHITO	-	-	-	-	-	1	2	3	4	5
SiNSAY	-	-	-	-	-	-	-	0	2	2
Outlets	-	-	-	-	-	-	-	-	-	-
ESOTIQ	-	-	-	-	-	-	-	-	-	-

5.5. CIS REGION

The CIS is the Commonwealth of Independent States, i.e. the countries of the former Soviet Union. Currently, we are only present in Russia and Ukraine. Expansion in Russia was originated in 2002, i.e. only four years after the start of the first RESERVED store in Poland. Now the region is the second most important one after CEE, contributing c.20% of group revenues. The CIS expansion so far took place in three stages: (1) first was development in the European part of Russia and in Ukraine, (2) the second stage was accelerated expansion especially in Eastern or Asian part of Russia and to a smaller extent in Ukraine, along with appearing possibilities of shopping malls openings in towns with more than 1 million inhabitants; and (3) the slowdown in expansion that we have been experiencing since mid-2014 following the geopolitical issues between Russia and Ukraine. We see long-term potential on the Russian market, yet are concerned about Ukraine. As a result, we now target 10% p.a. floorspace development in Russia but do not foresee growth in Ukraine. In 2017 we see potential to open franchise stores in Belarus and Kazakhstan. In August 2016 we signed a franchise agreement for up to three stores to be opened in Belarus' capital city Minsk.

LOCATION OF STORES IN CIS REGION (END OF 2015)

CIS REGION – STORES & FLOORSPACE BY COUNTRY

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**33**	**45**	**64**	**77**	**85**	**106**	**198**	**272**	**336**	**349**
Russia	28	39	55	63	65	84	159	219	267	280
Ukraine	5	6	9	14	20	22	39	53	69	69
Floorspace (ths m2)	**17**	**22**	**32**	**38**	**43**	**51**	**94**	**142**	**180**	**194**
Russia	13	20	28	32	34	42	76	117	146	158
Ukraine	3	3	4	6	9	9	17	26	34	36

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CIS REGION – STORES

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**33**	**45**	**64**	**77**	**85**	**106**	**198**	**272**	**336**	**349**
RESERVED	21	27	36	40	43	49	69	89	99	101
CROPP	12	18	25	31	34	40	63	78	88	89
House	-	-	-	3	7	11	33	47	60	63
MOHITO	-	-	-	-	-	6	33	53	68	71
SiNSAY	-	-	-	-	-	-	-	1	17	22
Outlets	-	-	-	-	-	-	-	4	4	3
ESOTIQ	-	-	3	3	1	-	-	-	-	-

CIS REGION – FLOORSPACE

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Floorspace (ths m2)	**17**	**22**	**32**	**38**	**43**	**51**	**94**	**142**	**180**	**194**
RESERVED	14	18	25	28	32	36	55	81	97	103
CROPP	3	4	6	8	9	11	19	25	30	32
House	-	-	-	1	2	3	10	16	21	22
MOHITO	-	-	-	-	-	1	10	19	25	26
SiNSAY	-	-	-	-	-	-	-	0	7	9
Outlets	-	-	-	-	-	-	-	1	1	2
ESOTIQ	-	-	0	0	0	-	-	-	-	-

5.6. SEE REGION

The second of two developing regions that we are present in is the SEE region which we understand as the Balkan region. We have entered Romania in 2008 and Bulgaria in 2009, as CIS region was given priority due to higher growth potential. However, the entry was followed by a prolonged economic crisis. As a result, the financial performance of our stores has been disappointing for many years (some were turned into outlets, some were closed; at the end 2012 there were 11 stores versus 19 at the end of 2011). This changed in 2014, when the economic situation improved and new quality floorspace became available. At the end of 2013 we had 14 stores in Romania and Bulgaria, while 2014 marked the entry to Croatia and the overall store number increased to 31. We plan development in all of those countries. In Romania we have a fresh start, with the new management in place and new opening possibilities. We are looking at Serbia for growth opportunities.

LOCATION OF STORES IN SEE REGION (END OF 2015)

SEE REGION – STORES & FLOORSPACE BY COUNTRY

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**-**	**-**	**8**	**13**	**20**	**19**	**11**	**14**	**31**	**47**
Bulgaria	-	-	0	2	8	7	6	9	15	15
Romania	-	-	8	11	12	12	5	5	11	22
Croatia	-	-	-	-	-	-	-	-	5	10
Floorspace (ths m2)	**-**	**-**	**5**	**7**	**11**	**10**	**7**	**10**	**23**	**34**
Bulgaria	-	-	0	1	5	4	4	7	11	11
Romania	-	-	5	6	6	6	3	3	7	15
Croatia	-	-	-	-	-	-	-	-	4	7

LPP

SEE REGION – STORES

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**-**	**-**	**8**	**13**	**20**	**19**	**11**	**14**	**31**	**47**
RESERVED	-	-	5	7	9	8	5	7	12	16
CROPP	-	-	3	5	7	6	2	3	6	8
House	-	-	-	1	4	3	1	2	4	6
MOHITO	-	-	-	-	-	1	1	2	7	11
SiNSAY	-	-	-	-	-	-	-	-	2	6
Outlets	-	-	-	-	-	1	2	-	-	-
ESOTIQ	-	-	-	-	-	-	-	-	-	-

SEE REGION – FLOORSPACE

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Floorspace (ths m2)	**-**	**-**	**5**	**7**	**11**	**10**	**7**	**10**	**23**	**34**
RESERVED	-	-	4	6	8	7	4	8	15	22
CROPP	-	-	1	1	2	2	1	1	2	3
House	-	-	-	0	1	1	0	1	2	3
MOHITO	-	-	-	-	-	0	0	1	3	4
SiNSAY	-	-	-	-	-	-	-	-	1	2
Outlets	-	-	-	-	-	0	1	-	-	-
ESOTIQ	-	-	-	-	-	-	-	-	-	-

5.7. WE REGION

The Western Europe although geographically close to Poland, was not our priority in the past. Firstly, because we saw more opportunities in the East and we thought that 'war on two fronts' was unlikely to change. Secondly, we thought that the competitive landscape in the West was unlikely to change dramatically, while in the East we were starting from the same point as our international competition.

Along with geopolitical issues in the CIS and withholding the expansion there, we thought the right time had come to set the foothold on the Western European markets. The most appealing elements of WE markets are high customer affluence, sizeable population and high quality floorspace (both in terms of highstreets and shopping malls).

The first country that we have entered is Germany. German entry is unique for us, due to several reasons: (1) the country was first entered via internet store (in July 2014) and only later (September 2014) the first brick-and-mortar store followed; (2) the stores are sizeable (twice the size of an average RESERVED store) allowing for the display of the full range of our collections; (3) we started by opening flagships on highstreets instead of shopping mall floorspace only and (4) the start was marked by cooperation with international star, Georgia May Jagger. We believe this approach is going to be successful in the medium- to long-term. We had 12 stores operating in Germany at the end of 2015. Within 3 years since launch, we plan to have 20 stores in Germany, with further development being dependent on their financial performance.

Step-by-step, we pursue further WE expansion. We have signed a conditional agreement to open RESERVED flagship store in the centre of London, on Oxford Street. The store should be launched in 4Q17.

LOCATION OF STORES IN WESTERN EUROPE
(END OF 2015)

WE REGION – STORES & FLOORSPACE IN GERMANY

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**12**
RESERVED	-	-	-	-	-	-	-	-	4	12
Floorspace (ths m2)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8**	**27**
RESERVED	-	-	-	-	-	-	-	-	8	27

WE REGION – STORES & FLOORSPACE

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**12**
Germany	-	-	-	-	-	-	-	-	4	12
Floorspace (ths m2)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8**	**27**
Germany	-	-	-	-	-	-	-	-	8	27

5.8. ME REGION

The Middle East is the region we have entered most recently. The expansion was initiated in 1Q15. The development takes place via franchise stores with the openings run by our franchise partner Azadea.

Franchise operations mean that we sell to our franchise partner as to a wholesaler, i.e. without the retail margin. However, the benefit is that we do not bear capex for store openings. Our offering for the Middle East encompasses almost all the items that are available in other countries, however the mix and proportions are different, taking climate and cultural differences into account. The offer is targeted not only at the Middle East citizens but also at tourists.

The Middle East region is a diverse one. We started our expansion in Egypt, in Cairo. The second market was Qatar and then Kuwait, which have much lower populations than Egypt, yet much higher affluence. Saudi Arabia was the fourth country entered in 2015, while at the beginning of 2016 we launched our first store in United Arab Emirates. Further countries in the region are on our expansion list and we would like to have more than one store in each of these countries. Currently, only RESERVED brand is being developed. In the medium-term, also the MOHITO and SiNSAY brands are scheduled for Middle East expansion. Our intention is to have 30 RESERVED, 20 MOHITO and 20 SiNSAY franchise stores in the region within 6 years since launch.

LOCATION OF STORES IN THE MIDDLE EAST
(END OF 2015)

ME REGION – STORES & FLOORSPACE BY COUNTRY

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4**
Egypt	-	-	-	-	-	-	-	-	-	1
Kuwait	-	-	-	-	-	-	-	-	-	1
Qatar	-	-	-	-	-	-	-	-	-	1
Saudi Arabia	-	-	-	-	-	-	-	-	-	1
Floorspace (ths m2)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5**
Egypt	-	-	-	-	-	-	-	-	-	2
Kuwait	-	-	-	-	-	-	-	-	-	1
Qatar	-	-	-	-	-	-	-	-	-	1
Saudi Arabia	-	-	-	-	-	-	-	-	-	2

ME REGION – STORES BY BRAND

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of stores	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4**
RESERVED	-	-	-	-	-	-	-	-	-	4
Floorspace (ths m2)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5**
RESERVED	-	-	-	-	-	-	-	-	-	5

6. VALUE CHAIN

We create value for our customers by offering them interesting designs matching their tastes at attractive prices and in high quality stores. The value chain is managed by a calendar which points when works on collection should start and when the goods should hit the stores.

DESIGN	PRODUCTION	LOGISTICS	STORE	CONSUMER
200+ employees in designing departments 36,000 types of clothing items annually	> 500 suppliers 90% goods sourced from Asia	2 logistics centers > 1 million products sent every day in high season	c.1,630 stores 17 markets on-line store in 5 countries	511 million visitors annually 91 million items of clothing sold annually

6 TO 9 MONTHS PRODUCTION LEAD

Note: The duration of the production cycle varies depending on the model, size of the order and country of production. Our models reflect the latest trends (the so-called must-haves) and are designed and manufactured in no more than 6 weeks. The rest of the collection is manufactured in approx. 90-100 days.

6.1. DESIGN

Our added value lies in designing the clothes that we sell. Our designers – an approximately 200-strong team (including support staff) – are an important personnel. They originate mostly from various art schools in Poland, among other from Gdansk, Warsaw, Poznan, Cracow or Lodz. We run two designing centres, one in Gdansk (in our headquarters, responsible for RESERVED, Cropp, SiNSAY and the new brand) and one in Cracow (responsible for House and MOHITO). We are now in the process of establishing the third centre, this time in Warsaw. We search for the most talented people, co-operate with design schools and run employer branding projects, in order to find most creative and suited individuals.

The designing process is quite a complex one and starts several months before the clothes hit the stores. Our designers look for inspirations in all possible places:

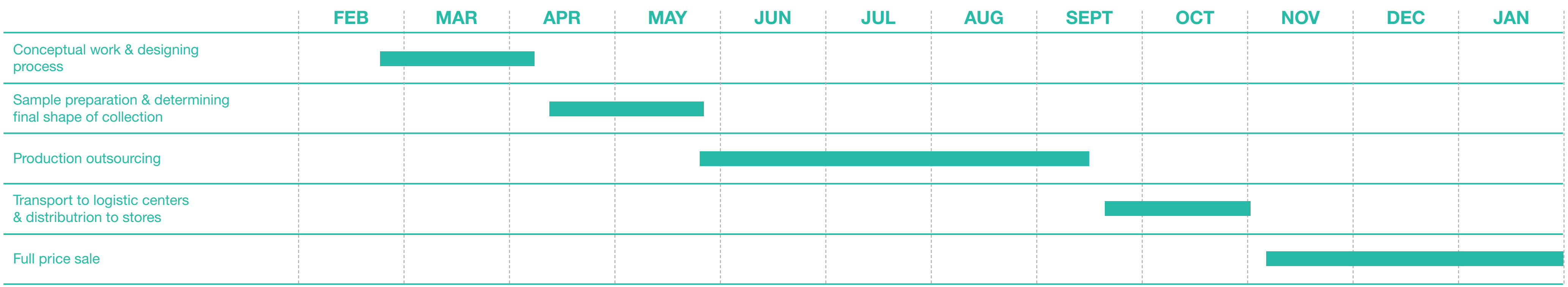
- fashion fairs – by participating in numerous fashion fairs and closely watching the catwalks, mostly abroad but also domestically;
- fashion catalogues and lookbooks – studying publications aiming to predict the main trends in upcoming seasons;
- browsing the internet – monitoring fashion-devoted internet portals or blogs;
- market research – conducted on selected groups in order to improve customer understanding;
- sales analysis – the top-quality IT systems enables to capture trends and shows what types of garments customers of all five brands prefer (fabric, texture, colour and style).

Individual ideas of designers are summed up and collection books are prepared by combined forces of designers, purchase department, product managers and heads of departments. As a result, a detailed documentation of each planned model is created, which not only takes the design but also available fabrics into account.

Once a piece of clothing has been designed, a sample garment has to be created. First sample garments appear after 4 to 5 weeks. Once all the samples have been obtained, a so called Mile Stone Meeting (MSM) is organised with all interested parties and the samples are judged. This encompasses checking whether they fit the design, whether the cut is a proper one and assessing the quality of fabrics and the usefulness of the design in real life. The samples are prepared in various sizes and these are also verified. After the MSM, comments are sent to the suppliers.

We prepare two main collections for all our brands: Spring/Summer (SS) and Autumn/Winter (AW) and each season consists of two phases. Phases are then split into intakes, whose number depends on the brand. The collections are structured so as to incorporate: a base (a set of universal clothing), core (a mix of latest trends with types of garment that customers want to wear) and key items (must-haves, most fashionable items). It is the degree of these trends that differs depending on the brand.

EXAMPLE: AUTUMN/WINTER COLLECTION FROM FAR EAST



6.2. PRODUCTION

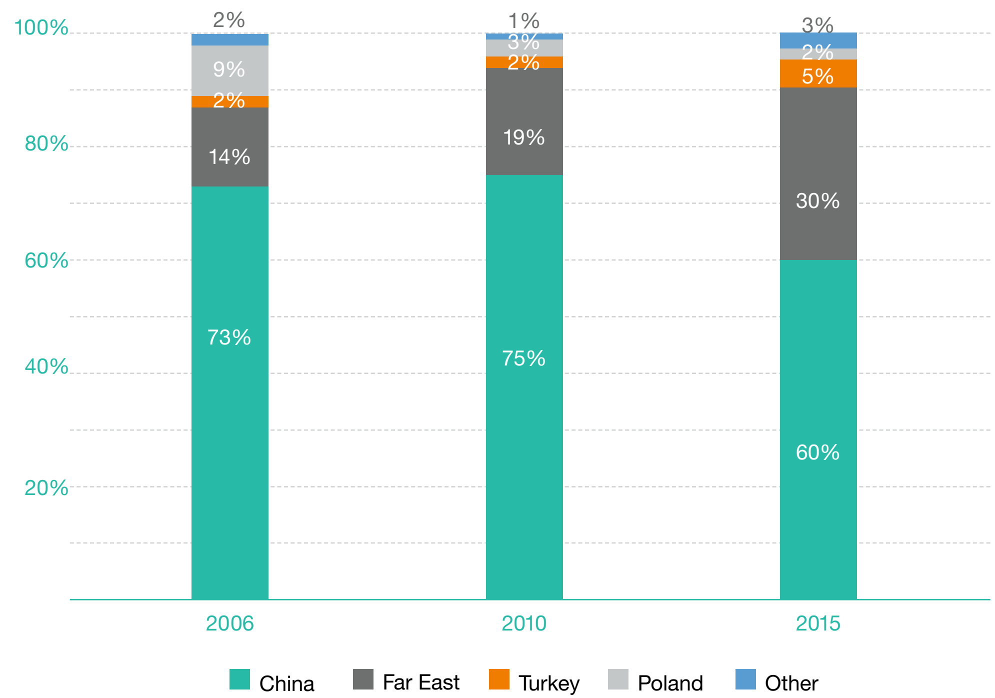
We run a lean business model and thus do not own factories. Production is sourced mostly to the Far East. China constitutes c.60% of our supplies while the remaining Far East countries c.30%. These are Bangladesh, India, Cambodia or Vietnam. 5% of our production is sourced from Turkey, with Poland being a minimal contribution. We believe that the sourcing structure should remain relatively stable in the upcoming seasons, though the launch of the new brand may result in a mild shift towards Europe from 2016. We will continue to look for favourable new sourcing countries.

Sourcing in the Far East is supervised by our offices in Shanghai (China, opened in 1997) and in Dhaka (Bangladesh, opened in 2015). Shanghai office is run by natives mostly and employs over 100 people. The office is responsible for quality checks, finding new suppliers, supporting production and negotiating contracts. Our new office in Dhaka currently deals with quality checks among Bangladesh suppliers, conducts audits of workers safety and working conditions of the factories, in which LPP's clothes are produced.

The production process is dependent on the outcome of the designing process. Once designs have been approved, an Ordering Application is created in LPP's IT system. It indicates the amount of pieces to be produced for each model, in which stores the clothing is to be sold as well as the required delivery dates. These are sent to the purchasing department which is responsible: 1) for negotiating the best prices for these parameters and 2) for confirmation of delivery dates. After this, orders are sent to suppliers which need to confirm their receipt and terms via a sales confirmation document. Only then, can the production process begin.

A Far East producer typically needs approx. 3 months to produce goods, but 1 to 1.5 months is needed to produce the fabrics. At this stage final product documentation is confirmed. Once the production has been completed, the supplier files for a quality control. Production lead time is much shorter if European countries are the sourcing partners. In such situations the cycle takes around 40 days. It usually refers to must-have collections. Information about responsible production processes can be found in Corporate Governance and CSR chapter later in this document.

CHANGES IN PRODUCTION SPLIT



6.3. LOGISTICS

Once the goods are produced, they need to be delivered to our distribution centres and later to stores. The suppliers ship them in containers (majority of goods; journey takes between 30 to 40 days) or use road or air transport (limited to emergency measures).

The goods are sent directly to one of two logistics centres used. The first one (larger and more important) is located in Pruszcz Gdanski (near Gdansk, Poland, where headquarters are located) while the second one is near Moscow (Russia). On average the goods spent some two weeks in a logistics centre where they are repacked and sent to stores. Depending on the suppliers, the goods are either sent packed by type (eg. trousers in all sizes) or as pre-packs (specific number of items in specific sizes and colours) or cross-docs (allowing for fast delivery to stores). Once the goods are in the logistics centre, they are repacked for each of the stores possessed.

90% goods sourced from Asia

10% delivery from Europe

100 containers per week

LOGISTICS CENTERS

In Poland (owned)

The largest and most modern in CEE of its kind

Services all LPP stores excl. Russia

66,000 m2 floorspace

Sufficient for development until 2020

In Russia (rented)

9,500 m2 floorspace

Services 90% of goods in Russian stores

>1m pieces of clothes sent daily in high season

Center prepares orders for c.900 stores simultaneously

Deliveries to stores take place every day, yet a store obtains new goods on average every 2 to 3 days. We do not own transportation vehicles. The logistics process is outsourced to couriers. The Moscow centre supplies Russian stores, while to all other countries goods are delivered from Pruszcz Gdanski. The two possessed logistics centres differ from one another. The Pruszcz Gdanski centre is owned and is located on a plot of land owned by LPP. The location in Gdansk proximity is highly convenient for the marine transportation used. The centre's size was expanded in 2015. When built in 2007, the centre had 30.5 ths m2, while its expansion added 35.5 ths m2. The Moscow centre, on the contrary, is rented only and the number of m2 rented depends on the season (typically it is 9,500m2). 90% of goods that are delivered to Russia are sourced from this centre.

LOGISTICAL PARAMETERS	MINILOAD PARAMETERS
6,000,000 units sent a week (1,200,000 a day)	370,000 storage positions for boxes (target 600,000)
120,000 cardboard boxes sent a week (24,000 a day)	18m high storage
120 containers accepted a week	17 alleys / 120m
780 people employed in the warehouse	2,400 operations an hour

LPP's headquarters

6.4. SELLING

We aim to make the overall shopping experience of our customers as pleasant, interesting and efficient as possible. We focus on several items:

STORE WINDOWS – these are one of our first contacts with potential customers and help them decide whether to enter the store or not. While setting up displays we tend to focus on most fashionable items and must-haves. Shop windows are regularly changed. These also inform the customer that discounts or sell-offs are available.

STORES – we continue to upgrade our stores so that these have a modern and attractive design matching the clothes sold (e.g. electronic displays in Cropp, MOHITO and RESERVED). The size of the stores differs from brand to brand, with the largest floorspace being available at RESERVED stores. The intention is to fit all the necessary items and display them in an attractive and easy to find way. On average our stores are modernised every 7 years.

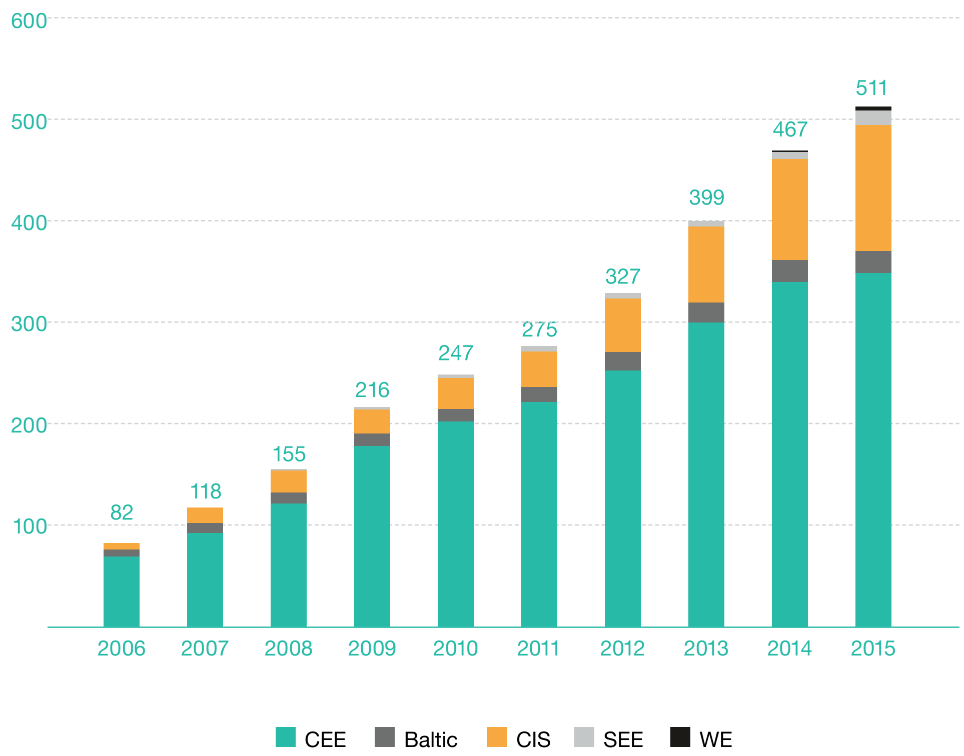
STORE PERSONNEL – we want our personnel to be visible and supportive for our clients yet not overwhelming. Our staff is responsible for cashiers, displays, finding the garments for the clients and accepting any possible complaints and warranties.

MUSIC AND SENSE – we have music across all stores and across all brands. Aroma is used in our MOHITO stores and in selected Cropp, House and Tallinder stores. Tests are currently run at selected SiNSAY stores.

On top of brick-and-mortar stores, we also have on-line stores built on modern and scalable IT platform.

TRAFFIC – indicates how many customers have visited our stores. Number of customers is measured at each of our stores, both domestically and abroad.

TRAFFIC DATA BY REGION
(annual number of visitors in millions)



TOP MODELS IN LPP'S CAMPAIGNS

Anja Rubik
Autumn/Winter 2014/2015
MOHITO

Georgia May Jagger
Autumn/Winter 2014/2015, Spring/Summer 2015
RESERVED

Anna Jagodzińska
Spring/Summer 2016
MOHITO

Cara Delevingne
Spring/Summer 2013
RESERVED

Brooklyn Beckham
Spring/Summer 2015
RESERVED

Frida Gustavsson
Spring/Summer 2014
RESERVED

6.5. ADVERTISING

We aim to attract as many customers as possible, as traffic is the key to our success and growth in value. Growing conversion rates and average ticket sales are what we strive for at all our brands.

Due to diversity of our brands, people in all ages and sizes are our customers and target customers. As a result, we use various types of advertising to communicate with our customers:

- Billboards with top-models (in 2015 the most important billboard campaign encompassed Georgia May Jagger for RESERVED, while in 2016 for promoting new brand Tallinder);
- Star collections designed by international or local celebrities (Polish singer Margaret created a star collection for SiNSAY AW15/16 while Anja Rubik MOHITO AW14/15 star collection). MOHITO SS16 collection included items designed by Anna Jagodzińska.
- TV advertising (used in the past in Poland, currently not pursued and not planned);
- Internet advertising and social media (we want to be present with our clothes on the most important fashion blogs and in the internet media, where we show pictures of our collections and short films on our brands and collections). All our brands have dedicated profiles on Facebook, YouTube and Instagram.

We also monitor what the customers purchase. A detailed sales analysis conducted by types of clothes, cities, countries, sizes and colours is a useful tool in determining the shapes of future collections.

In 2015 our marketing budget stood at PLN 59m, i.e. c. 1% of group revenues.

LPP's SELECTED FASHION CAMPAIGNS

SS08
Paprocki&Brzozowski (star collections created by Polish designers)

AW08/09
Gosia Baczyńska (star collections created by Polish designer)

AW10/11
Anna Jagodzińska, Karmen Pedaru

SS11/ AW11/12
Magdalena Frąckowiak / Sasha Pivovarowa

SS12 / AW12/13
Anna Vialicyna / Julia Stegner

SS13 / AW13/14
Cara Delevingne / Freja Beha Erichsen

SS14/ AW14/15
Frida Gustavsson / Georgia May Jagger

AW 14/15
Anja Rubik

SS15 women/ men
Georgia May Jagger, Elizabeth Jagger, Jerry Hall / Brooklyn Beckham

AW15/16
Georgia May Jagger star collection

SS16
Anna Jagodzińska

7. BUSINESS MODEL

Below we present an in-depth description of our business model and details on how our financial results are generated.

7.1. REVENUES

The revenues we generate are made up of two parts: the retail and the wholesale one. The retail portion is generated in our stores (including internet operations). The wholesale part is made up of sales to franchisees and sale of promotional clothing.

7.1.1. RETAIL

Retail sales encompass revenues of our five brands: RESERVED, Cropp, House, MOHITO and SiNSAY as well as our internet operations. The scale of revenues depends on: (1) the scale of the retail network and (2) average sales per m2 recorded.

Network size

The network size is a derivate of number of stores and their average floorspace. For forecasting purposes the scale of the network is better to be looked at from the perspective of square meters of floorspace than number of stores, as the square meters decide on the level of selected costs of stores. The network size is generated by multiplying the number of stores by average store size. We look at our floorspace through the perspective of brands possessed, as these differ in terms of store size. Even though the networks of RESERVED, Cropp and House have a similar number of stores, the floorspace of RESERVED dominates in terms of square meters. Over the past years, the average store size has been expanding, accommodating for growing number of items within collections. We believe such a situation is going to continue.

The development targets of brands are set at the country level. Such an approach allows to judge further expansion potential. It is our intention to be in the best shopping malls and the most important highstreets. Naturally, the lower the number of stores and the higher the affluence of customers, the more abundant the growth

GROUP REVENUES

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues (PLN m)	815	1,274	1,623	2,003	2,079	2,493	3,224	4,116	4,769	5,130
YoY growth	-	56%	27%	23%	4%	20%	29%	28%	16%	8%
Revenues/m2 monthly (PLN)	644	819	704	674	572	610	675	664	589	536
YoY growth	-	27%	-14%	-4%	-15%	7%	11%	-2%	-11%	-9%
Retail revenues (PLN m)	739	1,175	1,500	1,845	1,936	2,368	3,060	3,948	4,624	5,017
YoY growth	-	59%	28%	23%	5%	22%	29%	29%	17%	8%
Wholesale revenues (PLN	76	100	123	159	143	125	164	169	145	114
YoY growth	-	31%	23%	29%	-10%	-13%	31%	3%	-14%	-22%

perspectives are within selected towns, cities and countries. We do not set ourselves saturation targets, however see more expansion opportunities on the new markets entered.

Sales per sqm

Sales per square meter are best calculated on average floorspace and looked at on an average monthly basis. This indicator shows the average performance of all LPP's stores opened in the reporting period, both the mature and the new ones. Typically, it takes a new store up to 36 months to mature and start generating target turnover levels of a mature store. Break-even point is reached after 12 to 24 months. Due to stronger brand awareness maturity is easier to reach domestically than abroad. In times of fast floorspace expansion, the sales per sqm ratio may be falling. Then, the performance of the network is judged by LFLs (like-for-like, same store sales).

LFLs are the key indicator of our business' success. For the last three years, we measure these at stores that have been the same as a year before (i.e. have not changed their floorspace, have not undergone upgrades) and have been in operation for the past 12 months (without a break longer than 7 days). Calculations are conducted in local currencies, i.e. without taking into account changes in currencies in countries in which LPP's stores are run. Earlier the definition encompassed stores in operations for the past 12 months.

LFLs are dependent on many factors, both internal and external ones. Internal factors include: the quality of collections and the degree to which these suit the customers' tastes, the pricing policy and price to quality ratio but also the proximity of other stores in the neighbourhood (cannibalization). External factors include traffic to shopping centres and stores, average ticket sales, number of pieces purchased by customers.

We actively work on LFLs levels. The actions that we undertake include: (1) increasing the number of types of items within collections, (2) working to have the must-haves in the stores, (3) constantly upgrading the quality of floorspace (new store concepts), (4) investing in advertising and (5) conducting well-thought promotions.

7.1.2. WHOLESALE

Our revenues not only comprise of retail but also from wholesale. The two most important sources of wholesale revenues are:

Franchise revenues – sales to our Middle East franchisee, sales of Russian and Ukrainian subsidiaries to wholesale operators;

Promostars – offer for business customers with promotional clothes (includes T-shirts, sweaters, trousers, jackets, hats etc).

GROUP LFLs

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
LFLs	-4.1%	41.9%	5.5%	-13.0%	-9.5%	15.7%	11.3%	5.6%	-2.5%	0.6%

7.2. GROSS MARGIN

Gross profit is the amount of money that remains in the company after taking into account the costs of goods sold. These include production costs, customs duties and shipping the goods to our logistics centres.

The largest cost is the cost of suppliers. We do not own factories and thus try to look for the most attractive sources of clothes and accessories among third parties. Such an approach gives us flexibility to react to changing macroeconomic conditions and lowers cash outlflows (no construction capex needed). China has been our most important supplier since the company's inception. However, we have not produced in the same place over the years. Our offices in Shanghai, supervising the production, are constantly on the lookout for new suppliers or better offers, taking the growing production quantities into account. Although China is our most important sourcing partner, we also produce at other Far East countries. The key reason is growing prices in China and its orientation on more sophisticated and value added production (e.g. we do not source simple T-shirts from China). Other countries that we produce in are: Bangladesh, India, Vietnam or Cambodia. Overall, the Far East constitutes c. 90% of our supplies. The rest is almost entirely split between Poland and Turkey.

2015 CUSTOMS DUTIES BY COUNTRIES

Bangladesh	0%	India	9.6%	Pakistan	0%
Cambodia	0%	Indonesia	9.6%	Thailand	12%
China	12%	Myanmar	0%	Vietnam	12%

The production countries are important as some of them bear exports duties, aimed at protecting the EU markets. The customs duty reaches 12% from China and Vietnam. There are none relating to Bangladesh. Details can be found in the table below. Once manufactured, goods are transported to our logistics centres. Please note that customs duties are also important while selling goods abroad, e.g. to Russia and Ukraine.

The geographical divergence exposes us not only to customs duties but also to FX risks. The purchases from the Far East are denominated in US$ mostly, while our revenues are linked to zloty and euro in majority. We do not hedge the purchases and try to include any changes in PLN/US$ in prices for the end customers. Appreciation of zloty to US$ is thus favourable for us and we can split the benefit with our customers. However, depreciation of zloty versus US$ increases our costs of purchase and we try to at least partially transfer this additional cost onto the end customer. Due to the lead time from the Far East taking between 6-9 months, the PLN/US$ exchange rate lagged by two quarters is a good proxy of our gross profit margin trends. That it because prices of goods sourced in the Far East are set up while ordering them based on our FX rates forecasts. Price tags are printed in the Far East. Thus, changing price tags requires manual re-labelling of all the goods affected. That is conducted only in rare cases of strong currency movements in our logistics centre.

The relationship between zloty and US$ is however not that easy transferable, as consumer demand has to be taken into account. In times of economic slowdown or strong competition, it has been and may be hard for us to increase prices. Also, the level of inventory needs to be taken into account as well as our push-out policy (clothes have to be sold within the season they belong to; if not sold, these are transferred to outlets). In 1H15 our gross profit margin suffered due to the need to reduce excessive inventory, following lower-than-anticipated demand in the CIS region. Since 2H15 we have not been able to transfer increased costs in US$ (following PLN depreciation to US$) onto prices in Poland due to strong competitive pressure.

Thus, the most important reasons why the reported gross profit margin (usually between 55%-58%) differs from our desired gross profit margin (also called initiation margin or first price margin) of 65% to 70% include: 1) consumer demand and 2) FX movements. During the sell-off season we cut prices first by 30%, then by 50% and a 70% discount is offered last, resulting in an average gross profit margin on the sold-out clothes of c.40%.

For analytical purposes, apart from percentage margin, the gross profit should also be looked at in nominal per square meter level. This ratio is superior to sales per square meter as it takes also the pricing and discount policy into account.

GROSS PROFIT MARGIN

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gross profit (PLN m)	447	753	965	1,058	1,133	1,424	1,827	2,409	2,793	2,743
YoY growth	-	68.6%	28.2%	9.6%	7.1%	25.6%	28.3%	31.9%	15.9%	-1.8%
Gross profit/ m2 monthly (PLN)	353	484	419	356	312	367	403	405	356	293
YoY growth	-	37%	-14%	-15%	-12%	18%	10%	0%	-12%	-18%
Gross profit margin	54.8%	59.1%	59.5%	52.8%	54.5%	57.1%	56.7%	58.5%	58.6%	53.5%
USD/PLN average rate	3.10	2.77	2.41	3.12	3.02	3.23	3.26	3.16	3.15	3.77

7.3. SG&A COSTS

Apart from COGS our costs also comprise of SG&A costs (selling and general administration costs). However, we believe that our business model is easier to understand if we split the operating costs into costs of stores and costs of headquarters. However, for managerial purposes we look at costs at the per sqm basis and suggest a similar approach while analysing and forecasting our results. We are constantly working on improving the SG&A/m2 ratio on a monthly basis. These have reached PLN 300 in 2012 while PLN 234 in 2015. Costs of stores dominate over costs of headquarters. Costs of stores took up 81% of 2015 SG&A costs, leaving 19% for HQ.

One of the characteristics of our business is a high operating leverage. 30% of our SG&A costs are variable while as much as 70% are fixed, i.e. this portion of operating costs does not change along with changes in revenues. The high operating leverage is favourable for us in moments of positive LFLs and growing sales, as the positive effect on EBIT is more than proportional. However, in times of slowdown and falling LFLs the operating leverage is working against us, requiring cost reductions to maintain EBIT levels.

Costs of stores comprise of two elements: costs of own stores and costs of franchise stores. Costs of franchise stores are constituted by the proportion of turnover that is paid by us to franchisees to cover for their costs. Costs of own stores are best looked at per sqm per month basis. The costs of own stores can be divided into three parts: rental costs, HR costs and other costs of own stores.

Rental costs (48% of 2015 costs of own stores) are typically denominated in euro (72%), however other currencies also appear (US$ 13%, mostly in CIS) as well as RUB, PLN and CZK (15%). The rental formulas tend to be complex and include a fixed and a floating element. The contracts we sign tend to have a fixed floor value which is paid until a certain level of store revenue is reached. Once the stipulated threshold is crossed, a certain percentage of turnover is paid to the landlord. As a result, we share to a larger extent with our landlord in times of economic prosperity, yet we have to cope with fixed cost in times of slowdown. We are currently in the process of rental renegotiations, both domestically and abroad.

SG&A COSTS

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
SG&A costs (PLN m)	391	567	731	863	928	1,070	1,361	1,759	2,148	2,192
YoY growth	-	45%	29%	18%	8%	15%	27%	29%	22%	2%
SG&A/m2 monthly (PLN)	309	365	317	290	255	276	300	296	274	234
YoY growth	-	18%	-13%	-8%	-12%	8%	9%	-1%	-8%	-14%
% of sales	48%	45%	45%	43%	45%	43%	42%	43%	45%	43%
Costs of stores (PLN m)	265	370	499	648	745	833	1,075	1,423	1,731	1,780
YoY growth	-	40%	35%	30%	15%	12%	29%	32%	22%	2%
Costs of headquarters (PLN m)	126	197	232	215	187	237	286	336	417	411
YoY growth	-	56%	18%	-7%	-13%	27%	21%	17%	24%	2%

Personnel costs (26% of 2015 costs of own stores) are costs of employees working in our stores, both domestically and abroad. We try to optimize the number of employees per store. Although this differs from brand to brand (large RESERVED stores versus medium size of other brands) on average there are 13 people per store. Their remuneration consists of a fixed and a variable portion, with the fixed portion being usually the minimum wage while the variable portion depending on the revenues of the store. We often recruit students to our stores for whom this is the first job.

Other costs of stores (26% of costs of own stores in 2015) include many items like energy, security, payment card commission, out of which the largest part (half of the whole amount) is depreciation. Capex for the stores is depreciated over a 7-year period. Other items include banking provisions for cards, security of the stores, costs of media and electricity.

Costs of headquarters are all other costs not related directly to costs of stores. These include the costs of the management, accounting department, marketing, designing clothes and supervision over their production as well as logistics, i.e. the cost of shipping the goods from the logictics centres to stores. This cost lines also included development costs of the new Tallinder brand.

Please note that the group's overall HR costs are not directly shown in the operating cost split. While showing the number of group employees, we take into account: 1) employees of the Gdansk headquarters, Pruszcz Gdanski logistics centre and Cracow offices, 2) employees of our foreign subsidiaries (foreign offices including Shanghai and foreign stores personnel) and 3) the personnel of Polish stores. However, the personnel of Polish stores is not treated as our employees in financial statements, as these people are not directly employed by us. Within the group's operating cost structure, costs of own employees can be found under HR costs line, while costs of personnel in Polish stores constitute part of third party services.

Group's HR costs also include the costs of stock option programs for the management. These are based on shares and aim to align the goals of shareholders (growth in value) with the goals of the management. There have been several of these since LPP's inception. The highest impact on EBIT took place due to the last three programs, which resulted in a c.PLN 24m EBIT charge over 2011-15 period.

EMPLOYEES DATA

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
No. of group employees	3,643	4,845	5,343	6,739	7,880	9,277	12,014	15,854	19,970	21,563
Employees in Poland	2,775	3,745	3,973	5,281	5,847	6,762	8,198	10,515	12,767	13,894
office & warehouse	786	1,055	1,297	1,413	1,353	1,380	1,370	1,651	2,039	2,200
stores	1,989	2,690	2,676	3,868	4,494	5,382	6,828	8,864	10,728	11,694
Employees abroad	868	1,101	1,371	1,458	2,034	2,515	3,816	5,339	7,203	7,669
office	153	174	211	208	241	266	331	383	455	454
stores	715	927	1,160	1,250	1,793	2,249	3,485	4,956	6,748	7,215

7.4. EBIT

EBIT is generated by the difference between gross profit per sqm and SG&A costs per sqm. Thus, maximization of this amount is our key focus. We do it bothways: 1) aiming to maximize gross profit per sqm and 2) minimizing costs per sqm.

However, the operating profit also needs to be adjusted for the other operating line, which has been and is going to remain a negative contributor. The key reason behind the negative result are the inventory losses (thefts and damages of goods in the stores).

EBIT

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EBIT (PLN m)	49	175	215	181	199	343	454	616	609	503
YoY growth	-	255%	23%	-16%	10%	72%	32%	35%	-1%	-17%
EBIT margin	6%	14%	13%	9%	10%	14%	14%	15%	13%	10%

7.5. NET FINANCIALS LINE

There are two key elements influencing the net financials line, interest paid on debt and foreign exchange differences.

7.5.1. INTEREST PAYMENTS

The interest payments are a consequence of the level of debt and net interest payments depend on the scale of net debt. Over the past years we have used different sources of funding, including bank loans as well as convertible bonds. Currently, only bank loans are used. The level of short-term debt, used to finance ongoing operations, is higher than the long-term indebtedness which largely consists of loans taken to finance logistics centre and headquarters expansion. Short-term financing cost is more favourable than the long-term one. Financial costs line also includes provisions and fees for the banks.

7.5.2. FX DIFFERENCES

The interest payments are a consequence of the level of debt and net interest payments depend on the scale of net debt. Over the past years we have used different sources of funding, including bank loans as well as convertible bonds. Currently, only bank loans are used. The level of short-term debt, used to finance ongoing operations, is higher than the long-term indebtedness which largely consists of loans taken to finance logistics centre and headquarters expansion. Short-term financing cost is more favourable than the long-term one. Financial costs line also includes provisions and fees for the banks.

Those receivables constitute a form of financing for the subsidiaries, which is safer than local currency debt. However, they expose the parent company and the group to FX risk and the fluctuations of zloty versus the regional currencies result in FX gains or losses. We plan to continue with the policy.

So far we have made one important exception – in 2Q14 we converted the Russian rubble denominated receivables into the equity of our subsidiary. The aim was to lower the scale of volatility the depreciation of Russian rubble would have on the group's earnings in the following years. The aim has been achieved. We do not plan more such transactions for the time being. However, we point out that historically when we faced negative equity at selected foreign subsidiaries (e.g. Hungary, Romania, Czech Republic) receivables from them had been converted into equity.

We calculate FX differences at each balance sheet date, i.e. their level changes every quarter. The balance sheet items, apart from intra-group financing that expose us to currency risk are mostly foreign-denominated liabilities i.e. payments for goods ordered. It is our policy not to hedge and we plan to continue with it.

NET FINANCIALS

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net financials (PLN m)	-1	-9	-2	-42	-18	-12	-30	-92	-149	-88
Financial income	7	2	18	3	11	14	2	2	3	2
Financial costs	-8	-11	-20	-45	-29	-26	-32	-94	-152	-90

7.6. TAXES

Taxes in the income statement consist of current and deferred taxation. Current taxation is the amount of income taxes payable for the period. It consists of sum of the taxes paid by all the subsidiaries of LPP group. It is important to note that the tax bases are not cumulated and tax is paid in each of the countries present. Thus, a loss in one country does not offset income earned in another country.

Deferred taxation is an accounting adjustment aimed to match the tax effect of transactions to the relevant accounting period. Thus, deferred taxes line estimates future tax consequences of transactions and events recognised in the financial statements of current and previous periods. We have both permanent and temporary differences between the accounting and tax treatment. Permanent differences result from some types of the costs not being allowed by tax office (eg. entertainment, penalties and fines) and temporary ones (different methods of depreciation of assets for the purpose of financial statements and tax accounting).

However, it should be noted that one of the sources of differences between the tax in financial statements and tax paid (visible in cash flow) is the simplified method of taxes paid, chosen by us in 2005. The normal tax advances method requires calculation of advances based on monthly earnings. The simplified method allows to pay monthly advances based on T-2 audited earnings and an equal monthly instalment is paid each month. The difference is than corrected in March and paid to the tax office.

2015 TAX RATES BY COUNTRIES

Poland	19%	Lithuania	15%	Ukraine	18%
Czech Republic	19%	Latvia	15%	Bulgaria	10%
Slovakia	22%	Estonia	20%	Romania	16%
Hungary	10%	Russia	20%	Cyprus	12.5%

TAXES

PLN m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Taxes	9	31	46	35	43	62	70	91	-22	63
Current taxation	13	34	43	47	40	64	72	97	95	56
Deferres taxation	-4	-3	3	-13	4	-3	-2	-6	-117	7
Effective tax rate	19%	19%	21%	25%	24%	19%	17%	17%	-5%	15%

We would like to underline that the differences between taxes accrued and paid do not result from foreign exchange differences treatment. In 2010 we changed the treatment of foreign exchange differences, switching tax method for accounting method. The tax method allows only the realised foreign exchange gains or losses to be included in the tax base (based on which taxes are calculated). The accounting method allows both realised and unrealised foreign exchange differences to be included in the tax base of the company. The Polish CIT law obliges us to use this method for three years before we can change this. So far we are satisfied with our decision.

Please also bear in mind that the level of taxation visible in P&L and paid is impacted by trademarks amortisation. These result from the currently taking place process of the trademarks of LPP's all five brands returning to Poland, reversing our earlier moves. The shift was initiated in July 2011 when the trademarks of RESERVED and Cropp were transferred to our subsidiary in Cyprus and later to our subsidiary in United Arab Emirates. It was a first step towards the globalization of our brands and change of the functional structure of LPP to enter markets of China and other Asian countries. At the beginning of 2014 the same fully legal move was made in relation to House, MOHITO and SiNSAY brands. However, the plans of streamlining our capital group and changes in strategy (entering Western Europe instead of Asian countries), led us to the decision to bring all the trademarks back to Poland. The decision was taken in 2014 and is being gradually executed. The decision has been approved by the June 2015 AGM and the cross-border merger is being finalized. As a result, LPP will be the sole entity having the rights to its trademarks, while a simplified organizational structure should bring cost synergies.

7.7. NET PROFIT

The level of net profit is a derivative of all the actions described above. On top, historically we recorded a small level of minorities which had to be taken out from the group net income. This resulted from the parent company not having a 100% stake in some of small subsidiaries. Between 2012 and 2014 the level of minorities shown was related to our subsidiary in United Arab Emirates. Along with streamlining of the group's structures, the situation no longer takes place.

NET INCOME

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net income (PLN m)	39	135	167	105	137	269	352	431	480	351
YoY growth	-	243%	24%	-38%	31%	96%	31%	22%	11%	-27%
Net margin	5%	11%	10%	5%	7%	11%	11%	10%	10%	7%

7.8. CASH CYCLE

The net working capital and the cash conversion cycle are important cash flow elements that show the performance and characteristics of our business model.

Net working capital is defined as trade receivables plus inventories minus trade liabilities. Once these are translated into days, the formula defines a cash conversion cycle. Please note that in calculations we use a 365 day year and average values of inventory, receivables and liabilities.

Due to a long lead time of production in the Far East, the net working capital takes away from our operating cash flows. This is because we sell the inventory slower than we pay our liabilities. However, overall our business model generates cash, despite this NWC drag, due to high gross profit and operating margins.

Trade receivables include receivables from our clients. As a vast majority of our clients are retail customers, the related receivables turnover is very short, ranging up to 2 days maximum if credit card not cash is used as a payment mode. However, the trade receivables line also includes receivables related to the wholesale business. These are responsible for the receivables days ratio ranging 10 days on average. As we do not use pre-payments while ordering goods from the Far East, these do not affect the trade receivables line.

Inventory consists of three elements: (1) goods in transit – from factories to the final port (FOB, i.e. Free on Board, method used), (2) goods in the warehouse, (3) goods in stores. The nominal level of inventory has been growing and may continue to do so. This results from ongoing network expansion – each new store increases the demand for working capital as more goods need to be ordered. Thus, it is more practical to look at inventory from a per square meter perspective. For analysis we use end-of-period group floorspace with exception of the ME franchise stores. This ratio has been relatively stable in the past though appreciating US$ versus zloty puts a pressure on working capital and increases the value of inventory held and inventory ratios. Over the past years inventory days have oscillated around 190 days.

The level of liabilities depends on Far East purchases. Half of settlements with suppliers is conducted in the form of a letter of credit. We also use other payment modes like documentary collection and bank transfers. Goods are ordered 3-4 months in advance of their shipment and the latter takes up to 30-40 days to Poland. Our liabilities cycle oscillates around 100 days.

CASH CYCLE

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net working capital (PLN m)	149	169	289	176	207	331	309	421	538	713
Receivables	36	46	75	78	96	114	130	163	177	115
Inventory	230	290	463	323	424	595	656	805	979	1,320
Liabilities	118	167	248	225	313	378	478	548	619	721

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Cash cycle (days)	128	94	107	74	56	72	66	60	70	84
Receivables (days)	15	12	14	14	15	15	14	13	13	10
Inventory (days)	199	182	209	152	144	174	163	156	165	176
Liabilities (days)	86	100	115	91	104	118	112	110	108	102

Note: In calculations we use a 365 day year and average values of inventory, receivables and liabilities.

7.9. CAPEX

SPLIT OF CAPEX

Apart from net working capital, capex is our most important cash outflow. Capital expenditure incurred can be divided into three areas:

Capex on stores: Outlays include costs of setting up new stores in shopping malls and highstreets as well as costs of refurbishing and upgrades. The majority of outlays is conducted for new stores. Maintenance capex constitutes c.10% of all store capex spending. Our capex spending is reduced by fit-outs from shopping mall developers (described below). Over the past years our target capex was set at PLN 2,500/m2 (without fit-outs). Now this number is closer to PLN 3,000/m2 and may go up in the future along with more openings in Western Europe. It should also be noted that capex per sqm meter is calculated not on net additions (difference in end-of-period values) but on gross floorspace additions (not made public).

Capex on logistics: This capex is oriented on the Pruszcz Gdanski distribution centre. There were two waves of the outlays. The first when the new logistics centre was built. The second one, when the logistics centre was expanded (finished in 2Q15). Construction cost PLN 120m, while expansion PLN 177m.

Other capex: The latter includes, among others, spending for refurbishing of headquarters and land parcels for further growth.

LPP

FIT-OUTS

Fits-outs are a form of compensation for investment in stores given to us by shopping mall operators and developers. In general these constitute a reduction of capex and should be looked at combined with the capex levels shown as outflow in the investing cash flow.

We show fit-outs in three places in our financial statements:

- A small proportion of fit-outs comes back to us in cash.
- A large portion of fit-outs is booked as a cash inflow in the investing cash flow.
- The remaining portion of fit-outs is booked as a gain on sale of assets. Until the end of 2014 this gain constituted part of other operating income. From 2015 the accounting treatment changed, and the gain is depreciated over the useful life of the store (7 years) and treated as a reduction in rentals. Due to a sizeable scale of rentals, the change has a very limited impact on our profitability.

HEADQUARTERS

Our headquarters have not changed since the company's inception. These are located in Gdansk at Łąkowa street. On top, we rent some additional floorspace in Gdansk to accommodate all personnel. In Poland, we also have offices in Pruszcz Gdanski and Cracow.

Our Gdansk headquarters have been expanded and revitalised. The project was initiated mid-2013 while finalised in September 2015. The refurbished space includes a restaurant and fitness for employees as well as showers and changing rooms for those commuting by bicycles.

We already know the new floorspace is not enough and works are underway to conduct further expansion of our offices. Nearby land plots have been purchased. First stage of the new project is to be accomplished in December 2016. Contrary to current modernised floorspace, the new buildings are to be built from scratch.

CAPEX

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Capex (PLN m)	63	98	253	95	101	129	288	542	551	489
Stores	56	66	127	77	87	109	272	455	386	392
Logistics	1	18	88	2	1	8	4	56	100	31
Other	6	14	38	16	13	12	13	30	65	66
YoY growth	-	56%	158%	-62%	6%	28%	123%	88%	2%	-21%
% of sales	8%	8%	16%	5%	5%	5%	9%	13%	12%	10%

7.10. NET DEBT VERSUS DIVIDEND

We use debt in financing our growth in order to: 1) speed-up our development, 2) increase ROE and 3) lower WACC (weighted average cost of capital). Short-term debt is used to finance net working capital charges and store openings. Long-term debt is related to longer tenure projects, mostly financing of logistics centre expansion and refurbishing of the headquarters and financing new store openings. Historically, debt was also used to acquire our competitor Artman. Currently, we use bank debt and do not have any corporate bonds outstanding. Our banking exposure is split into several large banks in Poland. Bank debt at the level of subsidiaries is rarely taken.

Due to cash generation of the business, over the majority of years, the net debt levels have remained and still are at low levels. Current net debt/EBITDA oscillates around 1x EBITDA versus 2.5x proportion being a safe level, in our opinion. Still, it is our aim to reduce indebtedness. Usage of debt and fast floorspace growth have not stopped us from dividend payments. The first dividend was paid from 2009 earnings in 2010. Dividend per share has grown at a 2010-14 CAGR of 17%, picking up from PLN 50 to PLN 93.6. The external turbulences in 2014 and 2015 have led us to the decision to cut the dividend payment in 2015 (DPS of PLN 32 from 2014 earnings) and in 2016 (DPS of PLN 33 from 2015 earnings).

NET DEBT

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net debt (PLN m)	**105**	**31**	**464**	**228**	**272**	**173**	**27**	**209**	**399**	**621**
Cash and equivalents	31	53	90	197	96	117	159	149	184	224
Long-term debt	11	28	306	343	278	86	125	184	204	284
Short-term debt	124	57	247	82	91	204	61	174	378	561
Net debt/EBITDA (x)	**1.2**	**0.1**	**1.6**	**0.8**	**0.9**	**0.4**	**0.0**	**0.3**	**0.5**	**0.9**
Dividends (PLN m)	-	-	-	-	86	135	140	154	170	58
YoY growth	-	-	-	-	-	56%	4%	10%	10%	-66%

Note: Dividends are shown under the year paid. PLN 60m dividend from 2015 earnings is going to be paid on 21 September 2016.

7.11. GOODWILL

The goodwill and trademark values recognized on our balance sheet relate to acquisitions of Artman SA (majority) and Slovak franchisee (Koba AS).

As purchase of Artman SA in 2008 encompassed taking private a WSE-listed competitor, a controlling premium had to be offered to minority investors to de-list the target. Given the sizeable scale of cost synergies generated from acquisition of two additional brands (House and MOHITO), the value allocated to goodwill and trademark has not changed over the years, even though an impairment test had been conducted annually. We do not see risk of write-offs in the foreseeable future. Should we cancel goodwill out, our tangible equity still remains sizably in the black.

GOODWILL

PLN m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Intangible assets	13	12	14	13	11	12	18	20	29	37
Goodwill	-	-	184	184	184	184	184	184	210	210
Trademark	-	-	78	78	78	78	78	78	78	78
Equity	272	406	565	686	734	909	1,211	1,496	1,638	1,890
Tangible equity	258	393	290	412	462	637	932	1,215	1,323	1,565
Assets	534	697	1,426	1,362	1,426	1,614	1,932	2,492	2,934	3,565

Note: Tangible equity is calculated as total consolidated equity minus all intangibles.

8. STRATEGY

Our strategy has not altered over the past years. We aim to grow, expanding both in terms of number of brands possessed as well as number of countries present. We aim to become a global company with our brands being recognized all over the world.

8.1 EXPANSION BY BRANDS

It is our strategy to continue to grow by developing new brands. The intention is to capture new customers, achieve economies of scale during the design and sourcing process and increase the leverage while negotiating the level of rentals and fit-outs as well as the quality of floorspace with the shopping mall operators. On top, it allows us to develop niches within a selected price range and helps us target customers with different affluence. Furthermore, new brands diversify the fashion risk, especially the risk borne by the largest RESERVED brand.

Our past performance shows that we have been able to execute our strategy effectively. Even though we started only with the RESERVED brand in 1998, we have successfully developed Cropp, ESOTIQ (divested, management buyout) and SiNSAY. Two brands have been acquired along with the Artman merger (House and MOHITO).

EXPANSION BY BRANDS

1998 | RESERVED

▼

2004 | Cropp

▼

2005 | ESOTIQ (divested 2010/11)

▼

2008 | House, MOHITO (acquisition)

▼

2013 | SiNSAY

▼

2016 | Tallinder

Our brands have different customers, starting with children (part of RESERVED, RE Kids), through teenagers (Cropp, House, SiNSAY) and ending with more mature customers (MOHITO and RESERVED).

All these brands are in the mainstream part of the retail market. We now diversify away from the mainstream pricing and plan to benefit from growing customer affluence within the majority of regions we are present in. In February 2016 we launched our first up-market brand, Tallinder, which offers classical designs made of high quality materials. For the time being, we do not have plans for yet another brand launch.

8.2 EXPANSION BY COUNTRIES

Growth by number of brands would not be complete if it had not been for development by countries. The key intention is to diversify the performance of the group from the anchor Polish market and gain exposure to higher-growth-potential or more affluent countries. It is our long-term target to have all the brands in all countries present. The strategy is gradually put into practice. A new market is typically tested with the broad RESERVED brand, while in later stages the remaining brands are added. Such a situation currently takes place in the Western Europe and in the Middle East.

We are currently present in six geographical areas on three continents. Each of the markets is at a different stage of development and has different growth prospects. The Central and Eastern Europe (CEE) consisting of Poland, Czech Republic, Slovakia and Hungary is a mature market for us, due to early entry. A similar situation takes place in the Baltic region, encompassing Lithuania, Latvia and Estonia. Growth on both these markets could come from new brands, selected new openings and work on efficiency of existing operations.

We see higher growth potential in CIS and SEE. The situation in CIS (Commonwealth of Independent States) is different. Due to geopolitical issues development in Russia and Ukraine has been put on hold in 2015. Although we do not plan active openings in Ukraine in 2016, we plan a 10% p.a. growth in Russia from 2016. We see long-term growth potential in this country, due to large number of towns with population above 1 million. In 2017 we plan to enlarge the number of CIS countries present and launch franchise operations in Belarus and Kazakhstan. We are present only in three countries of South Eastern Europe (Bulgaria, Romania and Croatia) leaving the potential to expand in these and enter new countries like Serbia.

The highest growth potential lies in two markets at early stage of development – Western Europe and the Middle East. In Western Europe so far we are only present in Germany. We are looking at France and Austria, we await BEP in Germany before taking decision on further moves. We are also on the look-out for a venue for flagships. We take London/UK, Milan/Italy and Paris/France into account. In 4Q17 we are going to open our first flagship in London, at Oxford Street. At the end of 2015 we were present in four Middle East countries. In 1Q16 we entered UAE and see potential four up to four more countries.

EXPANSION BY COUNTRIES

1998 | POLAND

2002 | RUSSIA, LATVIA, ESTONIA, CZECH REPUBLIC, HUNGARY

2003 | UKRAINE, SLOVAKIA, LITHUANIA

2014 | CROATIA, GERMANY

2015 | EGYPT, QATAR, KUWAIT, SAUDI ARABIA

2016 | UNITED ARAB EMIRATES

2017 | UK, BELARUS, KAZAKHSTAN, SERBIA

9. FINANCIALS

CONSOLIDATED INCOME STATEMENT

PLN m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	815	1,274	1,623	2,003	2,079	2,493	3,224	4,116	4,769	5,130
COGS	368	521	658	945	946	1,069	1,397	1,707	1,977	2,388
Gross profit	**447**	**753**	**965**	**1,058**	**1,133**	**1,424**	**1,827**	**2,409**	**2,793**	**2,743**
SG&A costs	391	567	731	863	928	1,070	1,361	1,759	2,148	2,192
Costs of sales	342	498	637	773	837	968	1,228	1,605	1,943	2,012
G&A costs	49	70	93	90	91	102	132	154	205	179
Other operating line	-6	-10	-20	-14	-6	-10	-12	-34	-35	-48
Other operating income	5	5	9	28	23	21	28	34	46	24
Other operating costs	11	16	28	42	28	31	40	68	81	73
EBIT	**49**	**175**	**215**	**181**	**199**	**343**	**454**	**616**	**609**	**503**
Net financials	-1	-9	-2	-42	-18	-12	-30	-92	-149	-88
Financial income	7	2	18	3	11	14	2	2	3	2
Financial costs	8	11	20	45	29	26	32	94	152	90
Taxes	9	31	46	35	43	62	70	91	-22	63
Minorities & discontinued operations	0	0	0	0	0	0	2	2	2	0
Net income	**39**	**135**	**167**	**105**	**137**	**269**	**352**	**431**	**480**	**351**
Depreciation	41	50	66	96	96	95	109	148	194	224
EBITDA	**90**	**225**	**281**	**277**	**295**	**439**	**563**	**764**	**803**	**726**

LPP

CONSOLIDATED INCOME STATEMENT, YOY DYNAMICS

PLN m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	-	56%	27%	23%	4%	20%	29%	28%	16%	8%
COGS	-	41%	26%	44%	0%	13%	31%	22%	16%	21%
Gross profit	**-**	**69%**	**28%**	**10%**	**7%**	**26%**	**28%**	**32%**	**16%**	**-2%**
SG&A costs	-	45%	29%	18%	8%	15%	27%	29%	22%	2%
Costs of sales	-	45%	28%	21%	8%	16%	27%	31%	21%	4%
G&A costs	-	41%	33%	-4%	1%	12%	29%	17%	33%	-13%
Other operating line	-	78%	92%	-28%	-59%	78%	15%	189%	2%	38%
Other operating income	-	14%	57%	226%	-20%	-9%	34%	22%	36%	-47%
Other operating costs	-	49%	80%	50%	-33%	9%	28%	72%	19%	-10%
EBIT	**-**	**255%**	**23%**	**-16%**	**10%**	**72%**	**32%**	**35%**	**-1%**	**-17%**
Net financials	-	750%	-84%	2,613%	-57%	-34%	151%	203%	63%	-41%
Financial income	-	-76%	1,099%	-84%	259%	27%	-84%	6%	28%	-34%
Financial costs	-	44%	82%	126%	-36%	-11%	27%	190%	62%	-41%
Taxes	-	246%	47%	-24%	26%	43%	13%	30%	-124%	-387%
Minorities & discontinued operations	-	n/m	n/m	164%	-100%	n/m	268%	22%	22%	-100%
Net income	**-**	**243%**	**24%**	**-38%**	**31%**	**96%**	**31%**	**22%**	**11%**	**-27%**
Depreciation	-	20%	33%	45%	0%	-1%	14%	36%	31%	15%
EBITDA	**-**	**150%**	**25%**	**-1%**	**6%**	**49%**	**28%**	**36%**	**5%**	**-10%**

CONSOLIDATED BALANCE SHEET

PLN m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Non-current assets	**218**	**288**	**767**	**740**	**710**	**745**	**910**	**1,232**	**1,516**	**1,797**
Tangible fixed assets	194	258	469	442	420	448	599	897	1,039	1,259
Intangible assets	13	12	14	13	11	12	18	20	29	37
Goodwill	0	0	184	184	184	184	184	184	210	210
Trademark	0	0	78	78	78	78	78	78	78	78
Investments in subsidiaries	1	1	1	1	0	0	0	0	0	0
Other investments	0	0	0	0	0	1	1	10	2	2
Receivables and loans	0	4	2	1	1	5	9	13	6	6
Deferred tax assets	9	13	20	22	16	19	23	30	144	139
Pre-payments	0	0	0	0	0	0	0	0	9	67
Current assets	**316**	**409**	**660**	**622**	**716**	**869**	**1,022**	**1,260**	**1,417**	**1,768**
Inventory	230	290	463	323	424	595	656	805	979	1,320
Trade receivables	36	46	75	78	96	114	130	163	177	115
Receivables from income tax	0	0	0	0	1	2	5	17	11	47
Other receivables	14	15	26	15	23	31	60	97	46	35
Loans	2	2	0	1	0	0	0	12	0	0
Other financial assets	0	0	0	0	69	0	0	0	0	0
Pre-payments	3	3	6	7	7	10	11	16	20	27
Cash and cash equivalents	31	53	90	197	96	117	159	149	184	224
Total assets	**534**	**697**	**1,426**	**1,362**	**1,426**	**1,614**	**1,932**	**2,492**	**2,934**	**3,565**

CONSOLIDATED BALANCE SHEET

PLN m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Equity	**272**	**406**	**565**	**686**	**734**	**909**	**1,211**	**1,496**	**1,638**	**1,890**
Share capital	3	3	3	4	4	4	4	4	4	4
Treasury shares	0	0	-49	-49	-49	-49	-49	-49	-43	-43
Additional paid-in capital	232	275	108	108	108	150	235	235	235	235
Other capital	0	0	328	512	548	562	657	860	1,092	1,324
Foreign exchange differences from subsidiaries	0	0	-3	1	-1	-5	-3	-4	-184	-229
Retained earnings	35	128	177	110	124	244	365	447	532	599
Profit (loss) from previous years	-4	-7	9	5	-13	-25	13	16	52	248
Net profit (loss) for the current period	39	135	168	105	137	269	352	431	480	351
Minority interest	0	0	0	0	0	3	3	3	3	0
Long-term liabilities	**16**	**33**	**322**	**348**	**281**	**89**	**131**	**192**	**211**	**344**
Bank loans	11	28	306	227	156	86	125	184	204	284
Other financial liabilities	0	0	0	116	122	0	0	0	0	0
Provisions for employee benefits	0	1	1	0	1	1	1	3	2	2
Provision for deferred income tax	4	5	15	1	2	2	4	5	5	7
Other long-term liabilities	0	0	0	4	0	0	0	0	0	0
Accruals	0	0	0	0	0	0	0	0	0	51
Short-term liabilities	**247**	**258**	**539**	**328**	**411**	**615**	**590**	**803**	**1,085**	**1,331**
Trade and other liabilities	118	167	248	225	313	378	478	548	619	721
Income tax liabilities	2	23	31	14	1	12	19	38	38	3
Bank loans	124	57	247	76	87	118	61	174	378	561
Other financial liabilities	0	0	0	6	4	86	0	0	0	0
Provisions	1	9	8	3	3	15	20	25	20	18
Special funds	0	0	0	0	0	0	0	0	0	0
Accruals	1	2	4	3	4	7	12	19	29	28
Total liabilities	**534**	**697**	**1,426**	**1,362**	**1,426**	**1,614**	**1,932**	**2,492**	**2,934**	**3,565**

CONSOLIDATED CASH FLOW STATEMENT

PLN m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Pre-tax profit (loss)	**48**	**166**	**213**	**139**	**181**	**331**	**424**	**524**	**460**	**414**
Total adjustments	28	7	-18	179	17	-77	57	-15	33	-160
Amortisation and depreciation	41	50	66	96	96	95	109	148	194	224
Income tax paid	-14	-12	-39	-65	-53	-53	-56	-92	-91	-128
Net working capital	-6	-42	-67	128	-43	-145	-22	-96	-127	-223
- Change in inventories	-60	-63	-122	127	-103	-159	-72	-178	-259	-382
- Change in receivables	-12	-15	-15	18	-28	-17	-103	-82	52	7
- Change in liabilities	66	36	69	-17	88	31	153	165	80	152
Change in provisions	1	8	2	-3	0	13	5	8	0	-1
Other adjustments	5	4	20	22	15	12	21	17	58	-31
Net operating cash flow	**76**	**173**	**195**	**318**	**197**	**254**	**481**	**509**	**493**	**254**
Investing inflows	2	3	7	25	62	95	31	49	88	75
Capex	-63	-98	-253	-95	-101	-129	-288	-542	-551	-491
Other investing outflows	-2	-1	-332	-2	-92	-5	-3	-25	-13	0
Investing cash flow	**-63**	**-97**	**-577**	**-71**	**-131**	**-40**	**-261**	**-518**	**-476**	**-416**
Financing inflows	9	19	635	164	15	6	4	220	283	365
Interest bearing debt	9	19	598	164	15	3	4	220	283	365
Other	0	0	37	0	0	3	0	0	0	0
Financing outflows	-19	-72	-216	-304	-183	-200	-182	-220	-265	-164
Treasury shares	0	0	-49	0	0	0	0	0	0	0
Dividends	0	0	0	0	-86	-135	-140	-154	-170	-58
Interest bearing debt	-13	-66	-149	-280	-75	-46	-23	-52	-79	-87
Other	-6	-6	-19	-24	-22	-19	-20	-14	-17	-19
Financing cash flow	**-10**	**-53**	**418**	**-139**	**-168**	**-194**	**-178**	**-1**	**17**	**201**

CONSOLIDATED RATIOS

PLN m	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Gross profit margin	54.8%	59.1%	59.5%	52.8%	54.5%	57.1%	56.7%	58.5%	58.6%	53.5%
EBITDA margin	11.0%	17.7%	17.3%	13.8%	14.2%	17.6%	17.5%	18.6%	16.8%	14.2%
EBIT margin	6.1%	13.8%	13.2%	9.0%	9.6%	13.8%	14.1%	15.0%	12.8%	9.8%
Net income margin	4.8%	10.6%	10.3%	5.2%	6.6%	10.8%	10.9%	10.5%	10.1%	6.8%
ROE	14.5%	33.2%	29.6%	15.3%	18.7%	29.6%	29.1%	28.8%	29.3%	30.6%
Cash cycle (days)	128	94	107	74	56	72	66	60	70	84
receivables	15	12	14	14	15	15	14	13	13	10
inventory	199	182	209	152	144	174	163	156	165	176
liabilities	86	100	115	91	104	118	112	110	108	102
Net debt/ EBITDA	1.2	0.1	1.6	0.8	0.9	0.4	0.0	0.3	0.5	0.9
Net debt/ equity	0.4	0.1	0.8	0.3	0.4	0.2	0.0	0.1	0.2	0.3

10. OUTLOOK

We plan to develop two-ways: by growing number of brands and by adding new floorspace. We have a successful track record of launching new brands.

We have in-house developed the RESERVED brand. In 2004, we launched the teenage oriented Cropp brand. In 2005 we have launched the underwear ESOTIQ brand, divested to its management at the end of 2010. Along with the Artman merger we have obtained the House and MOHITO brands. In 2013, we have successfully launched the girls-oriented SiNSAY brand. 1Q16 marked the start of our sixth brand, Tallinder, the first one in the upper part of the retail market, with high quality clothes and more traditional cuts. We see potential for some 30 stores of 450 m2 in Poland. Once successful domestically, the brand would also be earmarked for international development.

We are present in several regions, each having different growth opportunities. In 2016 we plan to have 919.7ths m2, up 9.0% YoY. The growth in majority is to come from opening of company-owned stores versus franchise stores.

Central Eastern Europe

In Poland, development of the more mature RESERVED, Cropp and House brands is going to depend on new shopping malls openings. We see potential for more dynamic add-ons in MOHITO and SiNSAY brands as well as with the new brand. In other countries from the Central Eastern Europe region like Czech Republic, Slovakia and Hungary we feel we have reached a maturity stage.

Baltic

Similarly to CEE region, we think that the Baltic markets like Lithuania, Latvia and Estonia are relatively mature ones. There, we plan to focus on sales efficiency rather than on new openings.

Commonwealth of Independent States

We still see development potential in the CIS markets, i.e. Russia and Ukraine, looking at the population of both countries and the amount of high quality shopping mall floorspace available. Due to uncertain geopolitical situation, we are unlikely to resume development in Ukraine. However, we plan to grow floorspace in Russia by come 10% p.a. in upcoming years. On top, 2017 is going to mark the start our Belarus and Kazakhstan franchise expansion.

South Eastern Europe

We are growing optimistic about the South Eastern Europe region. So far we are only present in three countries: Bulgaria, Romania and Croatia, leaving sizeable upside in terms of number of countries in the long-term. We see significant improvement in our Romanian operations. New management, new store openings and improved macroeconomic situation, have all led to a new start in this high-growth potential market, which we plan to continue in the medium-term. Romanian openings should dominate over the Bulgarian and Croatian ones. We are looking at growth opportunities in Serbia.

Western Europe

The only country in Western Europe that we are present in is Germany (launch in 2H14). We envisage continuation of high-quality store openings (at least 2,000 m2) both in shopping malls and on high-streets. So far the only brand present in Germany is RESERVED. Once its success is proven, we are likely to deploy other brands for development. We plan to have 20 stores in Germany within 3 years since entry. Further growth should take place once these reach a BEP. In the medium-term, we also plan to enter other Western European markets. We are also actively looking for flagship space in the UK (especially London) but also in Italy (Milan) and France (Paris). In 2017 our Berlin and London flagship stores should be opened. However, growth in Western Europe is not going to be oriented only on stores. In 4Q16 we plan to launch on-line stores of Cropp, House, MOHITO and SiNSAY in Germany.

Middle East

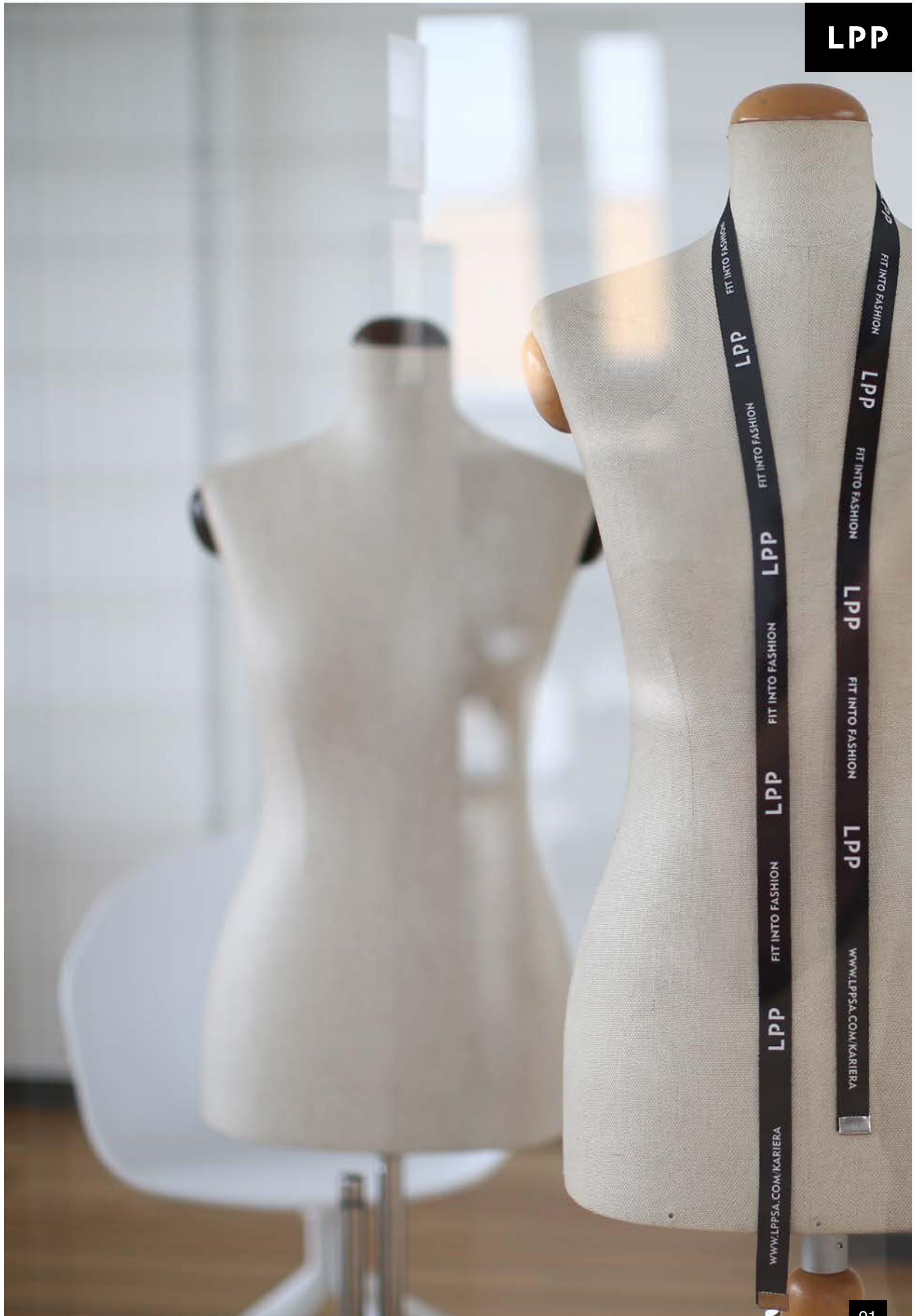
We plan to continue our expansion on the Middle East market via franchise stores. In 2016 we opened our first store in UAE (United Arab Emirates). We will also continue to open stores in countries, we are already present in. In the medium-term, more countries in the region should be entered (our franchise agreement stipulates 4 more countries apart from UAE such as Bahrain, Jordan, Lebanon and Oman). Similarly to Germany, so far only RESERVED stores have been opened, leaving upside potential for other brands. We are in an advanced stage of preparations for the launch of MOHITO and SiNSAY brands in the Middle East. Within six years from entry we should not only have 30 RESERVED stores but also 20 MOHITO and 20 SiNSAY stores. Cropp and House brands are not scheduled for ME development.

FLOORSPACE DEVELOPMENT TARGETS

	2014	2015	YoY growth	2016	YoY growth
RESERVED	**389.7**	**461.3**	**18.4%**	**508.0**	**10.1%**
CEE	247.9	281.0	13.4%	300.7	7.0%
BALTIC	22.1	23.0	3.8%	23.0	0.0%
CIS	96.6	103.1	6.8%	108.1	4.8%
SEE	15.5	21.7	40.3%	30.9	42.6%
WE	7.6	27.1	254.3%	37.7	39.3%
ME	0.0	5.5	n/m	7.6	38.3%
Cropp	**105.4**	**114.5**	**8.7%**	**120.2**	**5.0%**
CEE	68.4	74.9	9.6%	77.3	3.2%
BALTIC	4.9	4.9	0.0%	5.1	4.6%
CIS	30.0	31.7	5.6%	34.0	7.2%
SEE	2.2	3.1	41.3%	3.9	27.6%
WE	0.0	0.0	n/m	0.0	n/m
ME	0.0	0.0	n/m	0.0	n/m
House	**89.6**	**99.7**	**11.3%**	**105.2**	**5.5%**
CEE	63.8	71.5	12.0%	73.7	3.1%
BALTIC	3.4	3.4	0.0%	3.4	0.0%
CIS	20.9	22.4	7.1%	24.3	8.9%
SEE	1.6	2.6	58.9%	3.8	48.5%
WE	0.0	0.0	n/m	0.0	n/m
ME	0.0	0.0	n/m	0.0	n/m
MOHITO	**82.8**	**94.5**	**14.1%**	**98.7**	**4.5%**
CEE	50.8	58.8	15.7%	59.9	2.0%
BALTIC	4.5	5.0	11.4%	5.4	7.2%
CIS	24.8	26.2	5.6%	27.7	5.5%
SEE	2.7	4.5	68.1%	5.8	28.5%
WE	0.0	0.0	n/m	0.0	n/m
ME	0.0	0.0	n/m	0.0	n/m

	2014	2015	YoY growth	2016	YoY growth
SiNSAY	**43.7**	**59.7**	**36.7%**	**69.4**	**16.3%**
CEE	34.8	46.8	34.6%	51.8	10.7%
BALTIC	1.6	2.0	22.8%	2.5	25.8%
CIS	6.6	8.6	30.8%	11.2	30.3%
SEE	0.7	2.3	235.2%	3.9	69.9%
WE	0.0	0.0	n/m	0.0	n/m
ME	0.0	0.0	n/m	0.0	n/m
Tallinder	**0.0**	**0.0**	**n/m**	**4.4**	**n/m**
CEE	0.0	0.0	n/m	4.4	n/m
BALTIC	0.0	0.0	n/m	0.0	n/m
CIS	0.0	0.0	n/m	0.0	n/m
SEE	0.0	0.0	n/m	0.0	n/m
WE	0.0	0.0	n/m	0.0	n/m
ME	0.0	0.0	n/m	0.0	n/m
Outlet	**11.3**	**13.8**	**21.3%**	**13.8**	**0.0%**
CEE	9.9	11.8	19.5%	11.8	0.0%
BALTIC	0.0	0.0	n/m	0.0	n/m
CIS	1.5	2.0	33.4%	2.0	0.0%
SEE	0.0	0.0	n/m	0.0	n/m
WE	0.0	0.0	n/m	0.0	n/m
ME	0.0	0.0	n/m	0.0	n/m

Total by geographical regions	2014	2015	YoY growth	2016	YoY growth
CEE	475.5	544.7	14.6%	579.6	6.4%
BALTIC	36.4	38.2	4.7%	39.3	2.9%
CIS	180.3	193.9	7.5%	207.2	6.9%
SEE	22.6	34.1	50.9%	48.3	41.7%
WE	7.6	27.1	254.3%	37.7	39.3%
ME	0.0	5.5	n/m	7.6	38.3%
TOTAL FLOORSPACE	**722.5**	**843.5**	**16.7%**	**919.7**	**9.0%**



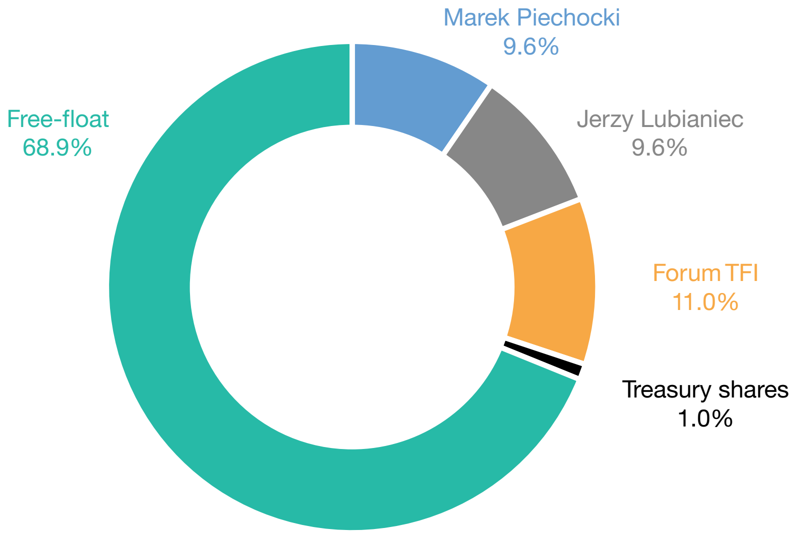
11. PRESENCE ON WARSAW STOCK EXCHANGE

LPP has been listed on the WSE since 2001. Within those years, due to our consistent and well-executed growth strategy, we have advanced from a mid-cap company to a WIG20 blue-chip, attracting not only Polish but also international investors.

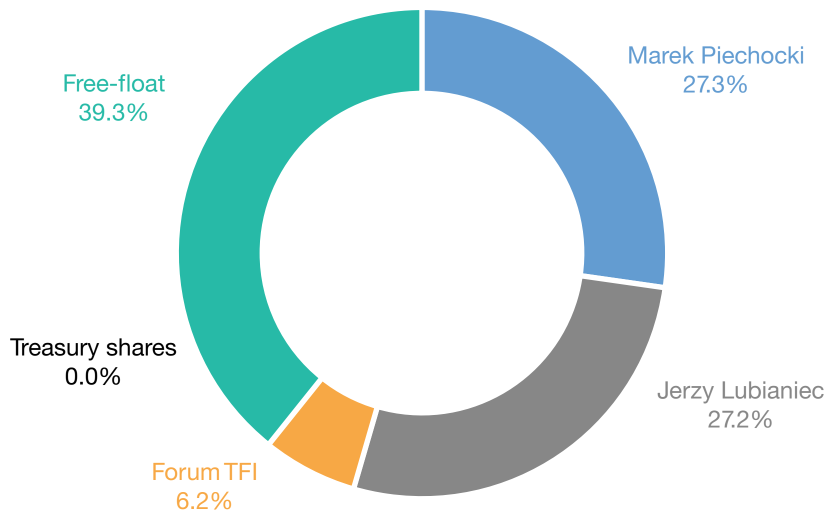
11.1. SHAREHOLDER STRUCTURE

LPP continues to be controlled via its founders, Marek Piechocki and Jerzy Lubianiec who possess a long-term development vision. Both founders hold ordinary and privileged shares (1 to 5 in votes) as well as have a direct and indirect involvement (the latter via a Forum TFI fund; earlier Monitor Limited). Effectively, the founders control c.30% of equity and c.61% of votes, leaving a high 69% free-float. The company holds a c.1% of its equity in treasury shares, which are used for the purpose of stock option plans.

SHAREHOLDERS BY EQUITY – 31.12.2015



SHAREHOLDERS BY VOTES – 31.12.2015



LPP's stock performance shows the success story of the company since its debut on the Warsaw Stock Exchange (WSE).

In 2001 a successful IPO of G series shares took place. New investors subscribed for 300,000 shares, each for PLN 48 issue price. In 2003 the company issued new H series shares. The investors subscribed for 190,000 shares at issuing price of PLN 265. The funds gathered from both issues were used to develop the network of RESERVED stores and investments in IT systems.

The highest LPP share price on WSE was PLN 10,100 reached in 2014. Despite the high price for the share, no split is considered, as due to the changes in Polish Commercial Code the 1 to 5 privilege in voting rights could be at stake.

TICKERS		PERFORMANCE AS OF 31.12.2015	
WSE	LPP	1Y	-21%
BLOOMBERG	LPP PW	3Y	+22%
REUTERS	LPPP.WA	5Y	+157%

LPP'S SHARE PRICE: From IPO until end-2015

LPP'S SHARE PRICE SUMMARY

PLN	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Share price eop	740	2,669	1,140	1,590	2,165	2,016	4,550	9,000	7,235	5,555
Min cob	475	700	925	932	1,640	1,803	1,960	4,406	7,235	5,230
Max cob	830	2,685	2,635	1,668	2,255	2,371	4,800	9,477	10,100	8,099
EPS basic	23.08	79.10	99.01	61.28	79.48	154.08	198.77	239.18	264.98	193.87
DPS	0	0	0	0	50.0	76.9	77.4	85.1	93.6	32.0
Dividend yield	0.0%	0.0%	0.0%	0.0%	2.3%	3.8%	1.7%	0.9%	1.3%	0.6%
Payout ratio	0%	0%	0%	0%	83%	98%	52%	44%	39%	12%
Weighted average number of shares	1,703,500	1,703,500	1,691,857	1,726,514	1,728,879	1,746,800	1,780,848	1,809,725	1,809,725	1,812,145

Note: Prices from www.gpwinfostrefa.pl. Cob stands for close of business. Dividends shown under the year in which they were paid. DPS of PLN 33 to be paid out from 2015 earnings in 2016.

11.3. INDEX PRESENCE

LPP's successful business model has been reflected in increased interest of foreign institutional shareholders in the stock. Along with rising earnings and growing share price, the liquidity of the shares has also augmented. Domestically, LPP is a member of WIG20 and WIG30 indices. WIG20 is the most important index on the WSE. LPP has entered the index in March 2014 and currently is the sole clothing retailer in it. Currently, LPP has a c.4.3% weight in WIG20. WIG30 is the index of the most liquid companies on the WSE, introduced in September 2013. LPP has been its member since inception and currently holds a c.4.1%

Apart from domestic indices, LPP is also a member of three important foreign indices. Firstly, since August 2014 LPP has been a member of MSCI Poland index, the key benchmark index for foreign financial institutions investing in Poland. LPP's shares are also present in three FTSE indices: All-World Index, Emerging Index and Global-Style Index. FTSE indices are tracked e.g. by ETFs. On top, since March 2016 LPP's shares are also part of CECE Index created by the Vienna Stock Exchange.

11.4. AWARDS

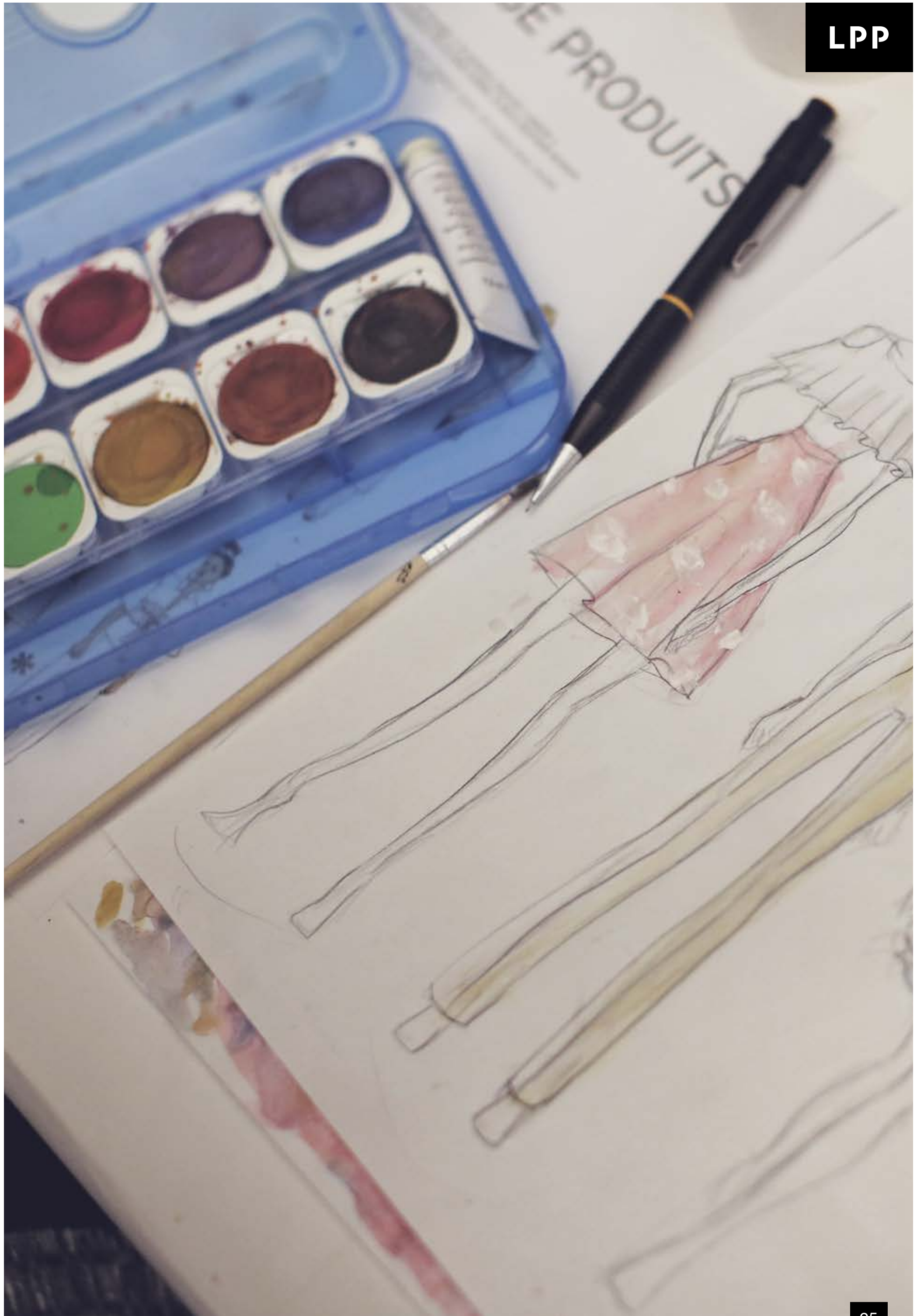
We have always strived to run an open dialogue with our shareholders and stakeholders. We are pleased that our company has been awarded several times awarded by its shareholders and financial media

SELECTED AWARDS RELATED TO INVESTOR RELATIONS:

- Number 1 in the Investor Relations category in the ranking run by Parkiet (Polish financial newswire) in 2014 and in 2015.
- The Company of the Year title in the ranking Puls Biznesu (Polish financial newswire) in 2014, 2012 and 2011.
- mWIG40 Company of the Year title in the ranking run by Parkiet in 2012.

SELECTED AWARDS RELATED TO BUSINESS:

- Number 31 in the Most Innovative Growth Companies' ranking 2015 awarde by US Forbes Magazine granted to 100 companies worldwide.
- The most dynamically growing company in the Pomeranian region by Forbes in 2014.
- The Brand of the Year in the Trade category granted by Ministry of Economy and Rzeczpospolita daily in 2014.
- The CEE Retail Award, The Fashion Retailer of the Year 2011.
- The Best of European Business in the Growth category in 2008.



12. CORPORATE GOVERNANCE AND CSR

GENERAL SHAREHOLDER MEETING

- appoints Supervisory Board members
- approves annual financial statements
- grants discharge to the Management and Supervisory Board members

appoints

SUPERVISORY BOARD

- consists of 5 to 6 members
- appointed for a 5 year term
- appoints Management Board
- serves as an Audit Committee

AUDIT COMMITTEE

- review of the financial statements
- assessment of the financial standing
- control and assessment of the internal audit reports
- evaluation of development strategy

appoints

MANAGEMENT BOARD

- consists of 2 to 6 members
- appointed for a 5 year term
- CEO can represent the company by himself
- additionally two management board members and management board member and legal representative can sign binding agreements

12.1. CORPORATE GOVERNANCE

Corporate governance and transparency are of key importance for us.

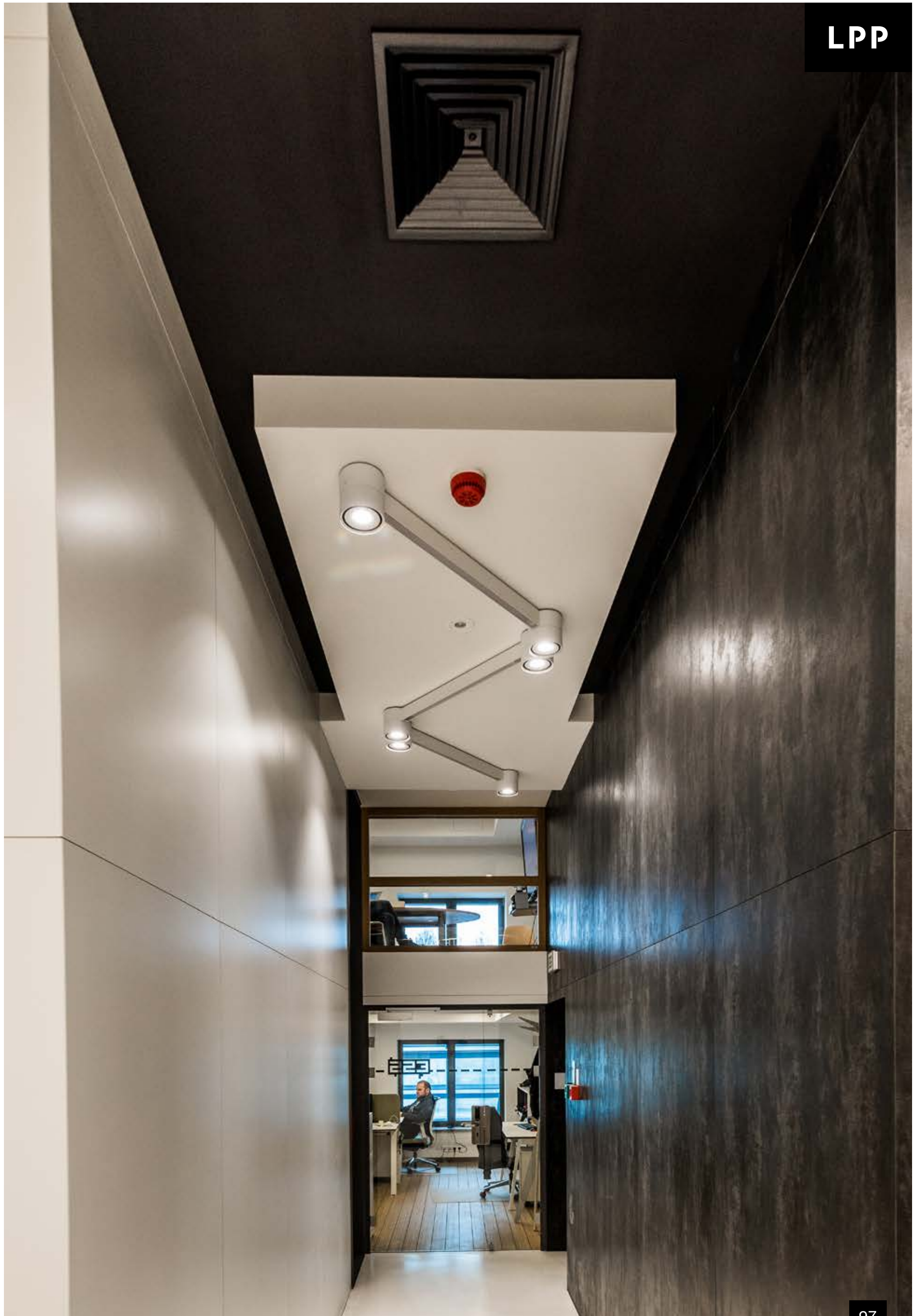
There are three levels on which corporate governance is exercised, the general shareholders' meeting, the supervisory board and the management board.

The general shareholders' meeting takes place at least once a year. It appoints the supervisory board of the company, approves the consolidated and non-consolidated financial statements as well as grants discharge to the actions of management and supervisory board members.

According to our bylaws, the supervisory board consists of between 5 to 6 members. It is appointed for a 5-year term. The board appoints and supervises the actions of the management board and serves as an audit committee. The audit committee performs several functions: reviews the financial statements, assesses the financial standing of the company and the group, supervises the internal audit department and evaluates the development strategy of the group.

The bylaws also define the role and responsibilities of the management board. The latter can consist of between 2 to 6 members. The management board members are appointed concurrently for a joint 5-year term. The last joint appointment took place on June 14, 2013. The composition of the management board has been stable until the end of 2014. From 2015 an evolutionary change took place at the CFO post. Dariusz Pachla resigned and was replaced by his deputy, Przemyslaw Lutkiewicz. In October 2015 the management board was expanded by Sławomir Łoboda, responsible for new floorspace acquisition and legal issues. In 2016, Piotr Dyka, responsible for the RESERVED brand, resigned from his post.

The CEO can represent the company by himself. Contracts binding for the company can also be signed by two management board members and one management board member and one legal representative.



12.2. MANAGEMENT BOARD

MAREK PIECHOCKI

CEO & FOUNDER

Marek Piechocki (55), one of LPP's two founders, has been involved with the retail industry since 1989. He is a graduate of the Civil Engineering Faculty at the Gdansk University of Technology. In 1991 together with Jerzy Lubianiec he founded a Mistral company, activities of which were transferred into LPP in 1995. He has been the CEO of LPP since 2000.

As Chief Executive Officer, Marek Piechocki is responsible for all aspects of the company's operations. He manages the domestic and foreign strategic investment projects, contributes to new brands creation and participates in rental negotiations with the largest property developers on the market. He is currently responsbile for Cropp, RESERVED and Tallinder brands. In 2013 he was awarded the title of The Best-Performing CEO by Harvard Business Review in 2013.

HUBERT KOMOROWSKI

Deputy CEO

Hubert Komorowski (39) has worked for LPP since 2000, advancing from a store manager to RESERVED trading director. Since mid-2008 he supervised LPP's merger with Artman and held managerial posts at LPP's subsidiaries. Currently, he is in charge of domestic and foreign development of House, MOHITO and SiNSAY brands.

Hubert Komorowski is a graduate of the Marketing and Management Faculty at the Finance and Management University in Warsaw. He also completed PhD studies at the Warsaw School of Economics

PRZEMYSŁAW LUTKIEWICZ

CFO

Przemysław Lutkiewicz (45) started his career at LPP in 2008 as a Financial Controller. He was responsible for creation of a controlling department and implementation of IT management tools at LPP Group. Przemysław Lutkiewicz has been the Chief Financial Officer of LPP Group since 2015.

Przemysław Lutkiewicz is not only a graduate of Gdynia Maritime University and Gdansk University but also accomplished Postgraduate Studies at Gdansk University of Technology. He started his career in 1994 at Powszechny Bank Kredytowy SA. Between 1995 and 2008, he worked for PolCard SA / First Data Polska SA, where he advanced form the post of a Financial Planning and Reporting Unit Manager to a Financial Planning and a Finance and Controlling Director. In 2006- 2007, he was a member of the Management Board and Chief Financial Officer of First Data Polska SA. Between 2007-2008, he was involved with establishing First Data's Shared Services Centre in Gdansk, serving as Finance and Controlling Director.

JACEK KUJAWA
Deputy CEO

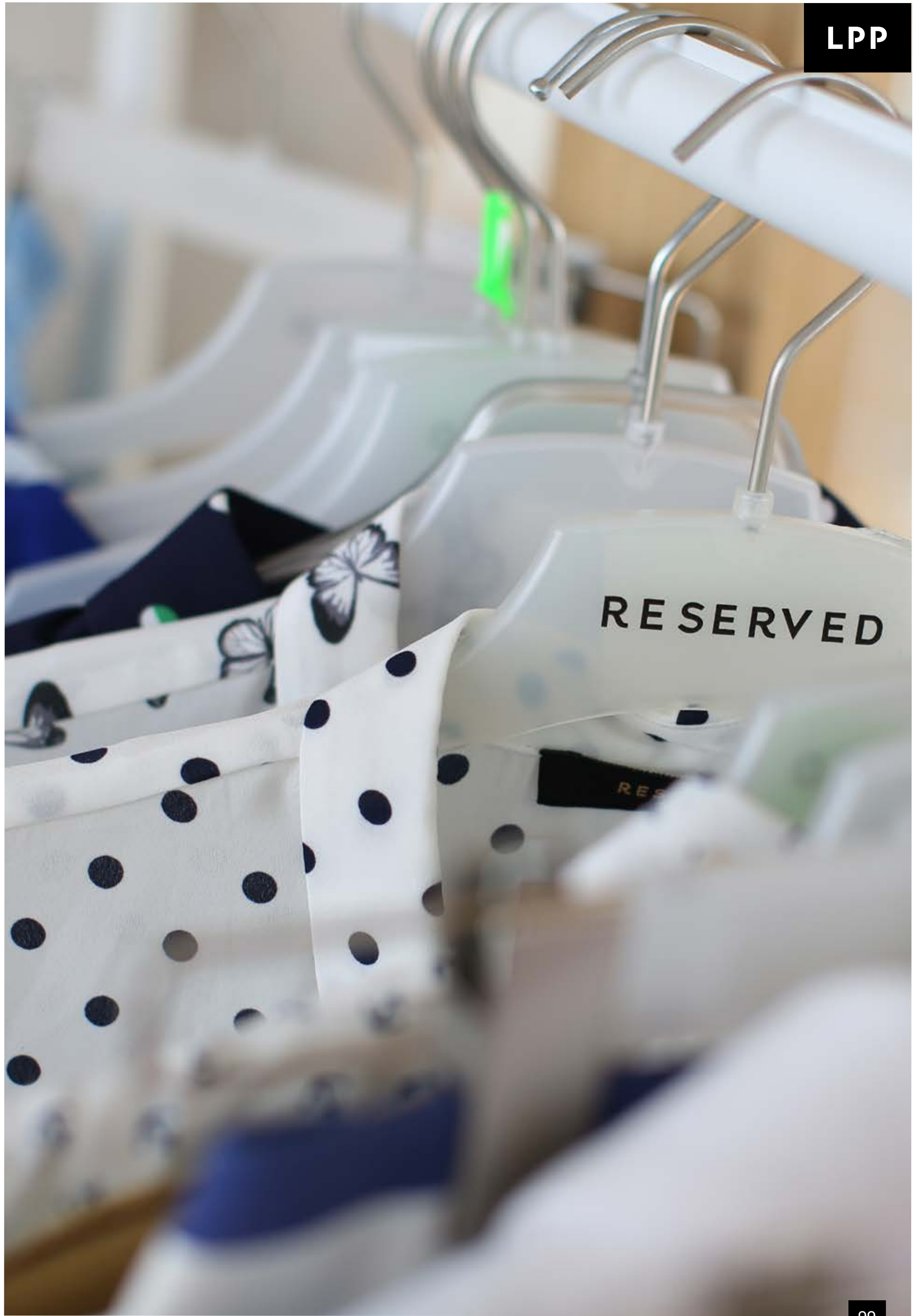
Jacek Kujawa (42) has been employed at LPP since 2004. Initially, he held the position of IT Director, responsible for implementation of Business Intelligence and Point of Sale systems. He was also in charge of IT systems' integration during the LPP and Artman merger. As a management board member, Jacek Kujawa supervises administration, logistic and IT aspects of LPP's operations. His duties encompassed, among others, coordination of the Pruszcz Gdanski logistics centre expansion on the basis of world's best standards of logistic solutions. Jacek Kujawa is also responsible for LPP's e-commerce development.

Before joining LPP, between 1999 and 2004, Jacek Kujawa has been employed at Wirtualna Polska. He graduated from the IT faculty at the Gdansk University of Technology.

SŁAWOMIR ŁOBODA
Deputy CEO

Sławomir Łoboda (51) has been cooperating with LPP since 1997. Initially, as a Managing Partner at an external legal company, he provided legal counselling for LPP. Since 2005, in addition to managing LPP legal services, he has been responsible for acquiring new retail space and store development. The latter are going to remain his responsibilities as a management board member. During his cooperation with LPP, he has completed a number of significant projects, including creation of a franchise network, taking the company public, merger with Artman SA, disposal of the ESOTIQ brand and development of LPP's store network.

Sławomir Łoboda is a graduate of the Law Faculty at the University of Gdansk.




RESERVED
KIDS
WOMEN
MEN

12.3. SUPERVISORY BOARD

JERZY LUBIANIEC
Chairman & Founder

Jerzy Lubianiec (56) is the co-founder of LPP and a graduate of Gdansk University of Technology. Between 1991 and 1997 he has been running Mistral company. Jerzy Lubianiec has been the CEO of LPP (Mistral's successor) between 1995 and 2000. Later on he became the Chairman of the Supervisory Board of LPP, supporting the development of the group.

DARIUSZ PACHLA
Member

Dariusz Pachla (55) also has a long history with LPP. Between 1991 and 1995 he was employed at Mistral, while from 1995 he became a manager at LPP. In 2000, he became a management board member of LPP and its Chief Financial Officer. He has held that position until his resignation, effective as of the end of 2014. As LPP's CFO, he has been responsible for running Investor Relations. Dariusz Pachla is a graduate of Szczecin University of Technology and Szczecin University.

WOJCIECH OLEJNICZAK
Member

Wojciech Olejniczak (60) has been a supervisory board member since 1999. Concurrently, he has held the post of CEO at LPP Tex, a company where both Marek Piechocki and Jerzy Lubianiec are shareholders (equal stakes). The company in no aspect competes with LPP. Before joining the supervisory board, Wojciech Olejniczak participated in LPP's operations. Between 1991 and 1996, he was a partner at Mistral company and a management board member of LPP between 1996-1997

MACIEJ MATUSIAK
Independent Member

Maciej Matusiak (49) has been a member of LPP's supervisory board since 2004. Simultaneously, he is a CEO of Artemis Investment llc. Maciej Matusiak is and has been a member of various supervisory boards. He is a graduate of Lodz University of Technology. Maciej Matusiak has a stock broker license awarded by the Polish SEC (KNF) and an international CFA title (Chartered Financial Analyst). He started his career as an equity analyst.

KRZYSZTOF OLSZEWSKI
Independent Member

Krzysztof Olszewski (55) has been a member of LPP's supervisory board since 2004. Since 1993, he has been acting as a sole trader, advising on real estate valuations. Simultaneously, he is a shareholder in Fasco llc. Krzysztof Olszewski holds various charters, including real estate appraiser, real estate intermediary and tax advisor.

12.4. CORPORATE SUSTAINABILITY AND RESPONSIBILITY (CSR)

We want to produce our clothes responsibly, taking the benefit of all our stakeholders into account. Not only do we follow our Code of Conduct, but also effectively supervise places from which sourcing takes place.

April 2015 marked the approval of our updated Code of Conduct, setting up detail and strict requirements for our suppliers. These include, among others, emphasis on workers' safety in factories in which we produce, obligation to provide a decent pay to employees, introduction of a maximum 48-hours of work per week and paid overtime. On top, we do not produce in factories in which children below 15 years old are employed.

Although we diligently choose our suppliers, we also supervise them (there is a separate audit department for factories). We run two foreign offices, one in Shanghai, overseeing the Chinese production and the newly established Dhaka offices, supervising production in Bangladesh.

The safety of workers is important to us. LPP was the first Polish retail company which joined the international Alliance aimed at improving the safety of workers in Bangladesh, so called ACCORD (Accord on Fire and Building Safety in Bangladesh). The Alliance was formed in October 2013 by over 100 retail companies and NGOs (non-government organizations) and affects over 1,600 factories and over 2 million workers. It was signed for 5 years during which several actions are to be taken to improve the safety and conditions of Bangladesh employees. All of the Bangladesh factories from which we source our clothes are members of ACCORD.

Apart from workers' safety, we also put an increasing attention to the materials, from which our clothes are produced, thus answering the needs voiced by our customers. Since November 2014 we no longer use angora (i.e. rabbit fur) in our garments. In December 2015 we introduced organic cotton to our RESERVED brand collections. Organic cotton has two areas of application: (1) products containing organic cotton, and (2) products made in the organic process. Although the latter is now a small proportion of our collections, we plan to grow it in future.

Over the last several years we have realised a few dozen of social projects together with our partners. We regularly co-operate with non-governmental organizations which support children and adults in a difficult situation. We donate money and LPP products to our social partners. We support in particular the Pomeranian region where the headquarters of the company and the distribution centre are situated and Cracow where LPP branch operates. So far we have supported about 800 social care facilities by donating clothing for around 50,000 people. The total annual value of LPP products which are donated is around PLN 1 million. We also take part in educational projects.

CORPORATE VOLUNTEERING

The corporate volunteering in LPP had its beginnings in 2010 and the idea came from the people employed at the company's headquarters.

The projects conducted encompass:

- Rodzinny Gdansk Foundation supporting local community families organising a temporary stay for children. So far we have renovated and arranged rooms in four social care centres. Over 130 LPP employees participated in this project.
- Fashion Show with orphans during language camps organised by the Gdansk branch of the Project Management Institute. Since 2013 the Fashion Shows organised by LPP employees allow its young participants to feel like true models on catwalks. After the shows the children receive the RESERVED Kids clothes they were presenting.
- Since 2010 our employees raise money for selected support organisations and with the financial support of LPP they prepare Christmas presents for those in need.
- LPP conducted various projects supporting community centre near Gdansk headquarters. On Children's Day we organised a workshop during which we taught the children how to design T-shirt prints and the chef of our on-site company canteen unveiled some of his culinary secrets. Cropp graphic designer showed the children how to create a graphic and RESERVED Kids employees invited the children to participate in a fashion show.

EDUCATIONAL PROJECTS

LPP as a leader in the clothing industry and one of the major employers in the sector, is engaged in education and creative development of young Polish designers. We focus on training students and providing them with the opportunity to get to know the practical aspects of the work in the clothing industry under the watchful eye of our experts. We organise designing workshops for students from art schools (e.g. Gdansk and Cracow) to enable future designers to familiarise with the process of creating collections for a network of shops with an international reach. As the company is expanding we continuously search for new talented designers who would like to work for us. An internship in our company often turns into a beginning of a professional career and close cooperation with LPP. Around 30% of those who did an internship at our company stay with us.

One of the educational projects LPP was involved in were the series of „White Shirt" and „Little Black Dress" meetings organised as a joint project of LPP and the School of Form from Poznan. These workshops were dedicated to second year students of fashion design. During the workshops conducted by RESERVED designers, the participants take part in all stages of product creation – in the three previous editions students designed their own white shirts and the result of a joint work of the fourth edition which ended in June 2015 is the collection of the so-called little black dresses. Such events give future fashion industry employees a unique opportunity to confront their theoretical knowledge with market reality and see how it is to work in a globally operating clothing company.

13. RISK FACTORS

There are several internal and external factors that can influence our performance. Below we present the most important risk factors, in our opinion.

13.1. INTERNAL RISK FACTORS

BUSINESS MODEL RISK

Our business model is based on designing and selling clothes yet we do not own production factories. That means we outsource our production to third parties, making our business model a lean one. This approach allows us to source from the most modern factories and be elastic in terms of countries of supply. However, that also poses risks for the quality and conditions in which we produce.

FASHION RISK

We aim to foresee the upcoming trends and include these in our collections. We attend the fashion fairs, search the streets and internet and aim to be close to our customers. However, it can still happen that we are going to miss the trends or are not going to include some must-haves into our collections. We aim to diversify this risk by having different brands with different target groups, level of fashion and price tags.

EFFICIENCY OF LOGISTICS RISK

As timely delivery of collections to our logistics centre and to our stores is of high importance, we constantly improve our logistics base. We aim to diversify in terms of geographical location of our logistics centres: the most important one is in Pruszcz Gdanski, but we also operate a Moscow-based one, to which delivery takes place directly from China. Also, we outsource the logistics from our distribution centres to stores to external couriers. In that way we do not have to own the fleet necessary to deliver new clothes and accessories to all our stores every 2 to 3 days.

RISK OF SUPPLIERS

As we do not own production facilities, we are dependent on our suppliers, mostly from the Far East. Firstly, we diversify this risk through increasing number of suppliers and expanding the number of countries from which we source. We have over 500 suppliers and none of them has more than 5% of our supplies. Secondly, we run scorings and assessments of our suppliers, to eliminate the untrustworthy ones and assure ongoing deliveries. Sourcing from the Far East is also supervised by our offices in Shanghai (China, opened in 1997) and in Dhaka (Bangladesh, opened in 2015).

RISK OF LOSING KEY PERSONNEL

Employees are of high importance to us and our business. We bear a risk of losing our key designers, both in our Gdansk and Cracow offices. Even though the team consists of some 200 people, departure of key people could result in lower quality of collections designed. To mitigate this risk and bring new blood on board, we are opening our third design centre, this time in Warsaw. We also treat our merchandise and purchasing department as key employees. There is also a risk that we fail to keep our top management which consists of highly qualified personnel. To mitigate it, we offer our employees high quality working conditions (e.g. new headquarters in Gdansk), training and ability to develop within our group structures. On top, we run stock option programs designed at retaining our management. Similarly to other retail players, on an everyday basis we face the risk of rotation of personnel in our stores.

13.2. EXTERNAL RISK FACTORS

MACROECONOMIC RISK

We are a retail company and our revenues and margins depend on the propensity of consumers to spend their money. Thus, in times of economic prosperity, we have a greater likelihood of achieving above average results. In times of economic slowdown, we may be affected by reductions in spending on clothing which is a non-necessity. However, a trade down effect should be taken into account. We believe that our brands offer good value for money, thus in times of economic hardship consumers who used to purchase more expensive goods could turn to our stores. We diversify this by operating on various markets with different affluence levels and operating several brands aimed at different customer groups.

FX RISK

Another very important external risk factor results from our dependency on foreign currencies. This results from the scale of foreign currency revenues not being matched by the foreign currency costs. In 2015 only 37% of our revenues were denominated in foreign currencies versus 98% of COGS and 58% of SG&A costs. As we report our numbers in Polish zloty, we are a natural beneficiary of zloty appreciation versus other currencies, especially US$ and euro. We do not hedge this risk as there are no financial instruments available mitigating this risk in the long-term.

UNFAVOURABLE WEATHER RISK

It is also worth emphasizing that the weather itself presents an external risk factor. Although we operate largely in one geography, we face the need to sell clothes within the seasons. Thus, cold and rainy spring or summer is not favourable to SS collection sales. In such cases consumers tend to purchase the most necessary items, the impulse purchases are rarer. A similar situation takes place in terms of Autumn/Winter collections, though due to higher average ticket prices of AW than SS the situation is a more dangerous one for our financial performance.

RISK OF UNFAVOURABLE LAW CHANGES

The regulatory environment has a significant impact on various aspects of our business. We are a sizeable importer of goods from the Far East thus any potential introduction of import quotas or pick-up in customs duties could negatively impact the gross profit margin recorded. We are also exposed to a risk of increased taxation on our core Polish market. One of the risks has materialized and from September 2016 we are going to pay an additional turnover tax on domestic revenues. Also, our domestic stores tend to be situated within shopping malls. Introduction of bill banning shopping malls from operations on Sunday could thus negatively impact our results. One of the ways in which we diversify the latter are investments into e-commerce, as our on-line stores are open 24/7.

RISK OF COMPETITION

We believe that the retail clothing market is a highly competitive one regardless on the market we operate on. The high level of competition results from the fragmentation of the market, with many players having sizeable brand portfolios. On majority of markets present we face international competition. In Poland, we are one of the leading players, with a c.13% market share. Our market share in other countries present does not exceed 4%. The level of competition also varies between brands. We see stronger competition in our mainstream RESERVED brand than in the more niche Cropp and House. We analyse the actions of our competitors and compete by offering our customers a favourable price to quality ratio.

DISCLAIMER

This Factbook (the "Factbook") was prepared by LPP SA (the "Company") with a due care. Still, it may contain certain inconsistencies or omissions. The Factbook does not contain a complete or thorough financial analysis of the Company and does not present its standing or prospects in a comprehensive or in-depth manner. Therefore, anyone who intends to make an investment decision with respect to the Company should rely on the information disclosed in the official reports of the Company, published in accordance with the laws applicable to the Company. This Factbook was prepared for information purposes only and does not constitute an offer to buy or to sell any financial instruments. The Factbook may contain ‚forward-looking statements'. However, such statements cannot be treated as assurances or projections of any expected future results of the Company. Any statements concerning expectations of future financial results cannot be understood as guarantees that any such results will actually be achieved in future. The expectations of the Management Board are based on their current knowledge and depend on many factors due to which the actual results achieved by the Company may differ materially from the results presented in this document. Many of those factors are beyond the awareness and control of the Company or the Company's ability to foresee them. Neither the Company, nor its directors, officers, advisors, nor representatives of any such persons are liable on account of any reason resulting from any use of this Factbook. Additionally, no information contained in this Factbook constitutes any representation or warranty of the Company, its officers or directors, advisors or representatives of any of the above persons. The Factbook and the forward-looking statements speak only as at the date of this Factbook. These may not be indicative of results or developments in future periods. The Company does not undertake any obligation to review, to confirm or to release publicly any revisions to any forward-looking statements to reflect events that occur or circumstances that arise after the date of this Factbook.

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LPP SA
Łąkowa 39/44
80-769 Gdańsk

www.lppsa.com