

LPP

INTERIM FINANCIAL STATEMENT FOR Q3 2016 of LPP SA GROUP

GDAŃSK, NOVEMBER 2016

RESERVED

 TALLINDER

M O H I T O

 myhouse

CROPP

sinsay

TABLE OF CONTENTS

1. Selected consolidated financial data of LPP SA Group	2
2. Consolidated statement of financial position of LPP SA Group	3
3. Consolidated statement of the results and other total revenue of LPP SA Group	5
4. Consolidated statement of changes in the equity of LPP SA Group	6
5. Consolidated cash flow statement of LPP SA Group	7
6. Selected financial data of LPP SA	9
7. Statement of financial position of LPP SA	10
8. Statement of the results and other total revenue of LPP SA	12
9. Statement of changes in the equity of LPP SA	13
10. Cash flow statement of LPP SA	14
Notes to the condensed consolidated financial statements for Q3 2016	16

1. Selected consolidated financial data of LPP SA Group

Selected consolidated financial data	3Q 2016	3Q 2015	3Q 2016	3Q 2015
	01.01.2016- 30.09.2016	01.01.2015- 30.09.2015	01.01.2016- 30.09.2016	01.01.2015- 30.09.2015
	in thousand PLN		in thousand EUR	
Revenues	4 165 643	3 555 326	953 498	854 954
Operating profit (loss)	27 358	267 329	6 262	64 285
Pre-tax profit (loss)	16 697	221 016	3 822	53 148
Net profit (loss)	17 744	179 013	4 062	43 047
Profit (Loss) per ordinary share (in PLN / EUR)	9.77	98.79	2.24	23.75
Net cash flows from operating activities	178 780	-11 241	40 922	-2 703
Net cash flows from investing activities	-142 093	-290 549	-32 524	-69 869
Net cash flows from financing activities	5 457	238 138	1 249	57 265
Total net cash flows	42 144	-63 652	9 647	-15 306

Selected consolidated financial data	2016	2015	2016	2015
	30.09.2016	31.12.2015	30.09.2016	31.12.2015
	in thousand PLN		in thousand EUR	
Total assets	3 752 448	3 565 169	870 234	836 600
Long-term liabilities	292 258	344 083	67 778	80 742
Short-term liabilities	1 547 214	1 331 347	358 816	312 413
Equity	1 912 976	1 889 739	443 640	443 445
Share capital	3 670	3 662	851	859
Weighted average number of ordinary shares	1 816 049	1 812 145	1 816 049	1 812 145
Book value per ordinary share (in PLN / EUR)	1 053.37	1 042.82	244.29	244.71
Declared or paid dividend per share (in PLN / EUR)	33.00	32.00	7.65	7.51

2. Consolidated statement of financial position of LPP SA Group

Statement of financial position	As at the end of:		
	3Q 2016 30.09.2016	3Q. 2015 30.09.2015	the previous year 31.12.2015
ASSETS			
Non-current assets	1 797 790	1 664 330	1 796 996
1. Fixed assets	1 260 259	1 149 045	1 258 751
2. Intangible assets	38 753	36 224	37 342
3. Goodwill	209 598	209 598	209 598
4. Trademark	77 508	77 508	77 508
5. Investments in subsidiaries	136	136	136
6. Investments in other entities	1 571	1 956	1 626
7. Receivables and loans	6 541	5 752	5 914
8. Deferred tax assets	140 041	132 951	139 194
9. Pre-payments	63 383	51 160	66 927
Current assets	1 954 658	1 742 238	1 768 173
1. Inventory	1 438 251	1 335 973	1 319 735
2. Trade receivables	112 755	186 575	115 086
3. Income tax receivables	66 529	41 610	47 017
4. Other receivables	34 425	34 985	35 210
5. Loans	81	88	128
6. Pre-payments	36 722	23 130	26 550
7. Cash and cash equivalents	265 895	119 877	224 447
TOTAL assets	3 752 448	3 406 568	3 565 169

Statement of financial position	As at the end of:		
	3Q 2016 30.09.2016	3Q. 2015 30.09.2015	the previous year 31.12.2015
EQUITY AND LIABILITIES			
Equity	1 912 976	1 739 666	1 889 739
1. Share capital	3 670	3 662	3 662
2. Treasury shares	-43 315	-43 302	-43 306
3. Share premium	243 233	235 074	235 074
4. Other reserves	1 608 298	1 323 133	1 323 736
5. Foreign currency translation reserve	-171 486	-205 924	-228 757
6. Retained earnings	272 576	427 023	599 330
- profit (loss) from previous years	254 832	248 010	248 010
- net profit (loss) for the current period	17 744	179 013	351 320
7. Minority capital	0	0	0
Long-term liabilities	292 258	360 573	344 083
1. Bank loans and borrowing	223 515	320 347	284 253
2. Provisions for employee benefits	2 806	2 218	2 179
3. Deferred tax liabilities	5 314	4 848	7 085
4. Accruals	60 613	33 152	50 566
5. Other financial liabilities	10	8	0
Short-term liabilities	1 547 214	1 306 329	1 331 347
1. Trade and other liabilities	808 452	687 429	721 394
2. Income tax liabilities	1 942	0	3 042
3. Bank loans and borrowing	689 355	586 420	561 074
4. Other financial liabilities	0	21	0
5. Provisions	22 638	14 222	17 774
6. Special funds	0	626	227
7. Accruals	24 827	17 611	27 836
TOTAL equity and liabilities	3 752 448	3 406 568	3 565 169

3. Consolidated income statement of LPP SA Group

	YTD	3Q 2016	YTD	3Q 2015
Consolidated income statement	01.01.2016- 30.09.2016	01.07.2016- 30.09.2016	01.01.2015- 30.09.2015	01.07.2015- 30.09.2015
Continuing operations				
Revenues	4 165 643	1 488 400	3 555 326	1 261 499
Cost of goods sold	2 173 523	787 768	1 675 274	598 275
Gross Profit (loss) on sales	1 992 120	700 632	1 880 052	663 224
Other operating income	21 092	7 401	16 483	6 022
Selling costs	1 765 549	616 432	1 455 088	504 889
General and administrative costs	143 661	45 793	127 660	41 892
Other operating costs	76 644	41 006	46 458	15 655
Operating profit (loss)	27 358	4 802	267 329	106 810
Financial income	9 356	-1 941	1 934	663
Financial costs	20 017	6 107	48 247	15 017
Pre-tax profit (loss)	16 697	-3 246	221 016	92 456
Income tax	-1 047	3 248	42 003	12 736
Net profit (loss)	17 744	-6 494	179 013	79 720
Net profit (loss) attributable to:				
Shareholders of parent company	17 744	-6 494	179 013	79 720
Minority interest	0	0	0	0
Other comprehensive income				
Currency translation on foreign operations	57 271	-14 447	-21 548	-66 016
Total comprehensive income	75 015	-20 941	157 465	13 704

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

Statement of changes in equity	Share capital	Treasury shares	Share premium	Other reserves	Profit (loss) from previous years	Profit (loss) for the current period	Foreign currency translation reserve	Minority capital	Equity TOTAL
As at 1 January 2015	3 662	-43 288	235 074	1 092 205	531 906	0	-184 376	3 231	1 638 414
- adjustments due to errors from previous years									0
As at 1 January 2015 after adjustments	3 662	-43 288	235 074	1 092 205	531 906	0	-184 376	3 231	1 638 414
Treasury shares purchases		-8							-8
Distribution of profit for 2014				225 908	-283 896				-57 988
Contribution by minority shareholders				3 231				-3 231	0
Shares-based payments				1 789					1 789
Transactions with owners	0	-14	0	230 928	-283 896	0	0	-3 231	-56 213
Net profit (loss) for 3Q 2015						179 013			179 013
Currency translation on foreign operations							-21 548		-21 548
As at 30 September 2015	3 662	-43 302	235 074	1 323 133	248 010	179 013	-205 924	0	1 739 666
As at 1 January 2016	3 662	-43 306	235 074	1 323 736	599 330	0	-228 757	0	1 889 739
- adjustments due to errors from previous years									0
As at 1 January 2016 after adjustments	3 662	-43 306	235 074	1 323 736	599 330	0	-228 757	0	1 889 739
Treasury shares purchases		-6							-6
Distribution of profit for 2015				284 562	-344 498				-59 936
Purchase of shares	8		8 159						8 167
Shares-based payments									0
Transactions with owners	8	-9	8 159	284 562	-344 498	0	0	0	-51 778
Net profit (loss) for 3Q 2016						17 744			17 744
Currency translation on foreign operations							57 271		57 271
As at 30 September 2016	3 670	-43 315	243 233	1 608 298	254 832	17 744	-171 486	0	1 912 976

5. Consolidated cash flow statement of LPP SA Group

Cash flow statement	YTD	3Q 2016	YTD	3Q 2015
	01.01.2016- 30.09.2016	01.07.2016- 30.09.2016	01.01.2015- 30.09.2015	01.07.2015- 30.09.2015
A. Cash flows from operating activities - indirect method				
I. Pre-tax profit (loss)	16 697	-3 246	221 016	92 456
II. Total adjustments	162 083	104 654	-232 257	-131 867
1. Amortisation and depreciation	197 279	68 068	161 864	55 807
2. Foreign exchange gains (losses)	-6 188	43	12 943	1 715
3. Interest and dividends	17 184	5 660	13 104	3 844
4. Profit (loss) on investing activities	21 326	17 785	8 472	1 447
5. Income tax paid	-28 541	-920	-99 004	-26 110
6. Change in provisions	4 885	-828	-5 190	-1 435
7. Change in inventories	-85 433	-5 442	-378 100	-202 075
8. Change in receivables	7 408	-4 388	15 132	-1 262
9. Change in short-term liabilities, excluding loans and borrowing	49 982	40 585	84 761	44 072
10. Change in prepayments and accruals	-11 946	-8 381	-38 378	-3 359
11. Other adjustments	-3 873	-7 528	-7 861	-4 511
III. Net cash flows from operating activities	178 780	101 408	-11 241	-39 411
B. Cash flows from investing activities				
I. Inflows	45 438	18 919	47 649	8 852
1. Disposal of intangible and fixed assets	45 202	18 950	46 703	8 016
2. From financial assets, including:	236	-31	946	836
a) in related parties	130	-52	182	182
- dividends	130	-52	182	182
b) in other entities	106	21	764	654
- repayment of loans	98	21	261	166
- interest	8	0	503	488
3. Other investing inflows	0	0	0	0
II. Outflows	187 531	62 108	338 198	108 811
1. Purchase of intangible and fixed assets	187 480	62 108	338 032	108 811
2. For financial assets, including:	51	0	166	0
a) in related parties	0	0	0	0
- loans granted	0	0	0	0
b) in other entities	51	0	166	0
- loans granted	51	0	166	0
3. Other investing outflows	0	0	0	0
III. Net cash flows from investing activities	-142 093	-43 189	-290 549	-99 959

C. Cash flows from financing activities				
I. Inflows	151 551	71 041	361 029	173 014
1. Proceeds from issuance of shares	8 168	0	0	0
2. Loans and borrowing	143 383	71 041	361 029	173 014
3. Other inflows from financial activities	0	0	0	0
II. Outflows	146 094	82 272	122 891	69 476
1. Cost of maintaining of treasury shares	9	3	14	6
2. Dividends and other payments to owners	59 936	59 936	57 988	57 988
3. Repayment of loans and borrowing	69 231	16 704	51 757	7 252
4. Payment of liabilities arising from financial leases	0	0	0	0
5. Interest	16 918	5 629	13 132	4 230
6. Other outflows from financing activities	0	0	0	0
III. Net cash flows from financing activities	5 457	-11 231	238 138	103 538
D. Total net cash flows	42 144	46 988	-63 652	-35 832
E. Balance sheet change in cash, including:	41 448	46 695	-63 652	-35 832
- change in cash due to foreign exchange differences	696	293	-4 786	-2 832
F. Opening balance of cash	223 053	218 209	183 529	155 709
G. Closing balance of cash, including:	265 197	265 197	119 877	119 877
- restricted cash	0	0	431	431

6. Selected financial data of LPP SA

Selected financial data	3Q 2016	3Q 2015	3Q 2016	3Q 2015
	01.01.2016- 30.09.2016	01.01.2015- 30.09.2015	01.01.2016- 30.09.2016	01.01.2015- 30.09.2015
	in thousand PLN		in thousand EUR	
Revenues	3 407 678	3 031 764	780 003	729 052
Operating profit (loss)	-66 737	109 408	-15 276	26 309
Pre-tax profit (loss)	73 593	215 004	16 845	51 702
Net profit (loss)	71 029	196 102	16 258	47 157
Profit (Loss) per ordinary share (in PLN / EUR)	39.11	108.22	8.95	26.02
Net cash flows from operating activities	-7 040	-93 920	-1 611	-22 585
Net cash flows from investing activities	-49 537	-173 966	-11 339	-41 834
Net cash flows from financing activities	5 864	238 125	1 342	57 262
Total net cash flows	-50 713	-29 761	-11 608	-7 157

Selected financial data	2016	2015	2016	2015
	30.09.2016	31.12.2015	30.09.2016	31.12.2015
	in thousand PLN		in thousand EUR	
Total assets	3 632 541	3 420 825	842 426	802 728
Long-term liabilities	266 834	317 752	61 882	74 563
Short-term liabilities	1 490 069	1 246 687	345 563	292 547
Equity	1 875 638	1 856 386	434 981	435 618
Share capital	3 670	3 662	851	859
Weighted average number of ordinary shares	1 816 049	1 812 145	1 816 049	1 812 145
Book value per ordinary share (in PLN / EUR)	1 032.81	1 024.41	239.52	240.39
Declared or paid dividend per share (in PLN / EUR)	33.00	32.00	7.65	7.51

7. Statement of financial position of LPP SA

Statement of financial position	As at the end of:		
	3Q 2016 30.09.2016	3Q. 2015 30.09.2015	the previous year 31.12.2015
ASSETS			
Non-current assets	2 029 848	1 737 415	1 865 472
1. Fixed assets	793 852	741 898	834 894
2. Intangible assets	35 984	33 132	34 274
3. Goodwill	179 618	179 618	179 618
4. Investments in subsidiaries	913 914	677 070	707 547
5. Receivables and loans	1 695	1 553	1 650
6. Deferred tax assets	102 719	103 394	106 972
7. Pre-payments	2 066	750	517
Current assets	1 602 693	1 559 895	1 555 353
1. Inventory	1 008 549	975 111	954 211
2. Trade receivables	443 782	497 852	417 435
3. Income tax receivables	57 651	33 884	35 750
4. Other receivables	14 333	14 514	17 344
5. Loans	79	83	112
6. Pre-payments	16 197	14 031	16 990
7. Cash and cash equivalents	62 102	24 420	113 511
TOTAL assets	3 632 541	3 297 310	3 420 825

Statement of financial position	As at the end of:		
	3Q 2016 30.09.2016	3Q. 2015 30.09.2015	the previous year 31.12.2015
EQUITY AND LIABILITIES			
Equity	1 875 638	1 707 542	1 856 386
1. Share capital	3 670	3 662	3 662
2. Treasury shares	-43 315	-43 302	-43 306
3. Share premium	243 233	235 074	235 074
4. Other reserves	1 601 021	1 316 006	1 316 609
5. Retained earnings	71 029	196 102	344 347
- profit (loss) from previous years	0	0	0
- net profit (loss) for the current period	71 029	196 102	344 347
Long-term liabilities	266 834	338 075	317 752
1. Bank loans and borrowing	223 515	320 347	284 253
2. Provisions for employee benefits	2 123	1 701	26 380
3. Deferred tax liabilities	3 543	3 024	1 790
4. Accruals	37 643	13 003	5 329
5. Other financial liabilities	10		
Short-term liabilities	1 490 069	1 251 693	1 246 687
1. Trade and other liabilities	768 767	643 974	654 814
2. Bank loans and borrowing	689 353	586 009	560 661
3. Provisions	12 399	8 158	8 642
4. Special funds	0	431	227
5. Accruals	19 550	13 121	22 343
TOTAL equity and liabilities	3 632 541	3 297 310	3 420 825

8. Income statement of LPP SA

	YTD	3Q 2016	YTD	3Q 2015
Income statement	01.01.2016- 30.09.2016	01.07.2016- 30.09.2016	01.01.2015- 30.09.2015	01.07.2015- 30.09.2015
Revenues	3 407 678	1 219 549	3 031 764	1 113 056
Cost of goods sold	2 166 125	816 868	1 778 872	652 807
Gross Profit (loss) on sales	1 241 553	402 681	1 252 892	460 249
Other operating income	31 194	5 398	31 366	9 839
Selling costs	1 041 332	353 659	903 464	313 061
General and administrative costs	241 985	85 193	206 875	73 041
Other operating costs	56 167	32 620	64 511	9 835
Operating profit (loss)	-66 737	-63 393	109 408	74 151
Financial income	207 108	62 040	207 180	58 892
Financial costs	66 778	27 548	101 584	71 651
Pre-tax profit (loss)	73 593	-28 901	215 004	61 392
Income tax	2 564	-3 785	18 902	908
Net profit (loss)	71 029	-25 116	196 102	60 484
Other comprehensive income	71 029	-25 116	196 102	60 484
Total comprehensive income	71 029	-25 116	196 102	60 484

9. Statement of changes in the equity of LPP SA

Statement of changes in equity	Share capital	Treasury shares	Share premium	Other reserves	Profit (loss) from previous years	Profit (loss) for the current period	Equity TOTAL
As at 1 January 2015	3 662	-43 288	235 074	1 088 309	283 896	0	1 567 653
- adjustments due to errors from previous years							0
As at 1 January 2015 after adjustments	3 662	-43 288	235 074	1 088 309	283 896	0	1 567 653
Treasury shares purchases		-14					-14
Distribution of profit for 2014				225 908	-283 896		-57 988
Shares-based payments				1 789			1 789
Transactions with owners	0	-14	0	227 697	-283 896	0	-56 213
Net profit (loss) for 3Q 2015						196 102	196 102
As at 30 September 2015	3 662	-43 302	235 074	1 316 006	0	196 102	1 707 542
As at 1 January 2016	3 662	-43 306	235 074	1 316 609	344 347	0	1 856 386
- adjustments due to errors from previous years							0
As at 1 January 2016 after adjustments	3 662	-43 306	235 074	1 316 609	344 347	0	1 856 386
Treasury shares purchases		-9					-9
Distribution of profit for 2015				284 412	-344 347		-59 935
Purchase of shares	8		8 159				8 167
Transactions with owners	8	-9	8 159	284 412	-344 347	0	-51 777
Net profit (loss) for 3Q 2016						71 029	71 029
As at 30 September 2016	3 670	-43 315	243 233	1 601 021	0	71 029	1 875 638

10. Cash flow statement of LPP SA

Cash flow statement	YTD	3Q 2016	YTD	3Q 2015
	01.01.2016- 30.09.2016	01.07.2016- 30.09.2016	01.01.2015- 30.09.2015	01.07.2015- 30.09.2015
A. Cash flows from operating activities - indirect method				
I. Pre-tax profit (loss)	73 593	-28 901	215 004	61 392
II. Total adjustments	-80 633	37 870	-308 924	-174 289
1. Amortisation and depreciation	112 269	37 961	93 982	32 010
2. Foreign exchange gains (losses)	-6 193	74	12 942	1 721
3. Interest and dividends	-89 353	-29 340	-109 007	-57 929
4. Profit (loss) on investing activities	-24 895	10 838	-304	60 831
5. Income tax paid	-21 998	-322	-93 183	-21 791
6. Change in provisions	4 091	64	-2 840	-180
7. Change in inventories	-54 697	31 458	-262 825	-145 230
8. Change in receivables	-75 990	-29 946	-15 587	-52 161
9. Change in short-term liabilities, excluding loans and borrowing	81 193	18 443	71 706	10 256
10. Change in prepayments and accruals	-5 060	-1 360	-5 597	-2 419
11. Other adjustments	0	0	1 789	603
III. Net cash flows from operating activities	-7 040	8 969	-93 920	-112 897
B. Cash flows from investing activities				
I. Inflows	151 431	53 445	167 794	71 337
1. Disposal of intangible and fixed assets	44 658	18 475	45 171	8 975
2. From financial assets, including:	106 773	34 970	122 623	62 362
a) in related parties	106 667	34 948	122 335	62 182
- interest and dividends	106 667	34 948	122 335	62 182
b) in other entities	106	22	288	180
- interest	8	0	27	14
- repayment of loans	98	22	261	166
3. Other investing inflows	0	0	0	0
II. Outflows	200 968	70 808	341 760	94 306
1. Purchase of intangible and fixed assets	80 894	20 334	205 933	47 347
2. For financial assets, including:	120 074	50 474	135 827	46 959
a) in related parties	120 023	50 474	135 661	46 959
- purchase of shares	120 023	50 474	135 661	46 959
b) in other entities	51	0	166	0
- loans granted	51	0	166	0
3. Other investing outflows	0	0	0	0
III. Net cash flows from investing activities	-49 537	-17 363	-173 966	-22 969

C. Cash flows from financing activities				
I. Inflows	151 536	71 025	361 029	175 879
1. Loans and borrowing	143 368	71 025	361 029	175 879
2. Proceeds from issuance of shares	8 168	0	0	0
3. Other inflows from financial activities	0	0	0	0
II. Outflows	145 672	81 836	122 904	72 321
1. Cost of maintaining of treasury shares	9	3	14	6
2. Repayment of loans and borrowing	68 809	16 269	51 769	10 067
3. Interest	16 918	5 628	13 132	4 259
4. Other outflows from financing activities - dividends	59 936	59 936	57 989	57 989
III. Net cash flows from financing activities	5 864	-10 811	238 125	103 558
D. Total net cash flows	-50 713	-19 205	-29 761	-32 308
E. Balance sheet change in cash, including:	-51 409	-19 499	-29 761	-32 308
- change in cash due to foreign exchange differences	696	294	140	-522
F. Opening balance of cash	112 117	80 610	54 181	56 728
G. Closing balance of cash, including:	61 404	61 404	24 420	24 420
- restricted cash	0	0	431	431

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR Q3 2016

1. About LPP SA Capital Group

LPP SA Capital Group (Capital Group, Group) consists of:

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

There is no parent company in relation to LPP SA.

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

No.	Company name	Registered office	Control acquisition date
1.	LPP Retail Sp. z o.o.	Gdańsk, Poland	26.09.2001
2.	DP&SL Sp. z o.o.	Gdańsk, Poland	26.09.2001
3.	IL&DL Sp. z o.o.	Gdańsk, Poland	26.09.2001
4.	AMUR Sp. z o.o.	Gdańsk, Poland	09.05.2003
5.	LPP Estonia OU	Tallinn, Estonia	29.04.2002
6.	LPP Czech Republic S.R.O.	Prague, Czech Republic	16.09.2002
7.	LPP Hungary KFT	Budapest, Hungary	18.10.2002
8.	LPP Latvia LTD	Riga, Latvia	30.09.2002
9.	LPP Lithuania UAB	Vilnius, Lithuania	27.01.2003
10.	LPP Ukraina AT	Peremyshliany, Ukraine	23.07.2003
11.	RE Trading OOO	Moscow, Russia	12.02.2004
12.	LPP Romania Fashion SRL	Bucharest, Romania	12.08.2007
13.	LPP Bulgaria EOOD	Sofia, Bulgaria	14.08.2008
14.	LPP Slovakia S.R.O.	Banska Bystrica, Slovakia	30.10.2008
15.	LPP Fashion Bulgaria LTD	Sofia, Bulgaria	26.08.2011
16.	Gothals Limited	Nicosia, Cyprus	22.07.2011
17.	LPP Croatia D.O.O.	Zagreb, Croatia	22.01.2014
18.	LPP Deutschland GmbH	Hamburg, Germany	03.03.2014
19.	IPMS Management Services FZE	Ras Al Khaimah, UAE	15.07.2015
20.	LPP Reserved UK LTD	Altrincham, UK	15.10.2015
21.	LLC Re Development	Moscow, Russia	22.04.2016
22.	LLC Re Street	Moscow, Russia	02.09.2016

The dominance of LPP SA in the subsidiaries, due to its almost 100% stake in subsidiaries' capital and in the total number of votes, is immediate.

The consolidated financial statements of the Group for the period from 1 January to 30 September 2016 comprise separate results of LPP SA and the results of the following subsidiaries:

- LPP Estonia OU
- LPP Czech Republic SRO
- LPP Hungary KFT
- LPP Latvia LTD
- LPP Lithuania UAB
- LPP Ukraina AT
- Re Trading OOO
- LPP Romania Fashion SRL
- LPP Bulgaria LTD

- LPP Slovakia SRO
- LPP Fashion Bulgaria LTD
- Gothals LTD
- LPP Croatia DOO
- LPP Deutschland GmbH
- IPMS Management Services FZE
- LPP Reserved UK LTD
- LLC Re Development
- LLC Re Street

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

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

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

- in the Capital Group's balance sheet total – 0.01%
- in the Group's sales revenue and finance revenue – 0.18%

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

LPP SA is a company involved in the design and distribution of clothing in Poland and the countries of Central, Eastern and Western Europe as well as of the Middle East. The Group companies are involved in the distribution of goods under the RESERVED, Cropp, House, MOHITO and SiNSAY brands outside Poland. Clothing is basically the only product sold by the Group companies. Footwear, bags and clothing accessories are sold as products supplementing the basic offer of the Capital Group companies.

Clothing designs are prepared in the design office located in the registered office of LPP SA in Gdańsk and in the design office in Kraków, and then transferred to the purchasing department which orders the production of certain models, cooperating in this respect with companies in Poland and abroad, including in China and Bangladesh. Production in China is managed by the Company's trading office in Shanghai, while the Company's trading office in Dhaka is responsible for coordinating and supervising production in Bangladesh. A major task of the office in Bangladesh is the regular auditing of production plants in terms of adequate working conditions and respect for human rights.

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

The additional business activity of the Capital Group involves the management of the rights to RESERVED, Cropp, House, MOHITO and SiNSAY trademarks, including their protection, activities aimed at increasing their value, granting licenses to use, etc. Gothals Limited in Cyprus and IPMS in UAE was established to that effect.

Four domestic subsidiaries are engaged in the rental of real properties where the stores of Cropp, RESERVED, House and MOHITO are run.

2. The basis for the preparation of these condensed consolidated financial statements and information on the changes in the applied accounting policies

The Group's report for Q3 2016 comprises the condensed consolidated financial statements and selected explanatory data included in these Notes as well as condensed financial statements of the parent company, in accordance with IAS 34 "Interim Financial Reporting".

The accounting policy applied to prepare these statements is in all material respects compliant with the policy adopted for the preparation of the consolidated annual financial statements of the LPP SA Capital Group for the financial year 2015, in accordance with International Financial Reporting Standards.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2015.

In the current reporting period, there was a change in respect of presenting cash for employee benefits.

As of January 2016, cash for employee benefits was excluded from data presented in the Consolidated Financial Statements as funds not owned by the LPP SA Capital Group.

As at 31 December 2015, cash for employee benefits totalled PLN 227 thousand.

If new rules had been applied, the Cash item on the asset side and the Employee Benefits item on the liability side in the Consolidated Financial Statements drawn up as at 31 December 2015 would have been adjusted by the amount of PLN 227 thousand.

Comparative data has not been changed due to its minor impact on the Financial Statements of the LPP SA Capital Group.

3. Achievements of LPP SA Capital Group in the reporting period

Key achievements of the Group in Q3 2016:

1. The number of stores and commercial space

In Q3 2016, the LPP SA Capital Group continued expanding the chain of stores of all of its brands (approx. 15.3 thousand sq. m. of new space). A particularly dynamic growth took place in the EU (stores opened in Germany, including a 3.5 thousand sq. m. flagship store in Munich), Russia (11 new stores) and in the Balkans (next new stores in Bulgaria and Romania, of a total area of 11.3 thousand sq. m.).

As compared to Q3 2015, the largest nominal increase in space was recorded by the RESERVED brand, while the growth dynamics was the largest in the SiNSAY brand – approx. 19% y/y.

At the end of Q3 2016, the LPP SA Capital Group had 1 668 stores in 18 countries, of a total area of 888 thousand sq. m.

As at 30.09.2016	Number of stores	Increase y/y	Q3 2015	Q3 2016	Increase y/y
			Area in '000 m ²	Area in '000 m ²	
RESERVED	449	+12	435.7	487.2	11.8%
Cropp	375	+13	109.1	116.7	6.9%
House	326	+15	95.2	103.8	9.1%
MOHITO	288	+17	90.3	97.6	8.1%
SiNSAY	185	+28	54.8	65.2	18.9%
Tallinder	8	+8	0	3.7	n/m
Outlets	37	+1	13.6	13.8	1.2%
Total GK LPP	1 668	+94	798.8	888.0	11.2%

2. Sales broken down by brand

In Q3 2016, RESERVED stores generated sales of PLN 661 million, while Cropp stores - PLN 246 million. Sales generated in Q3 totalled PLN 192 million in MOHITO stores, PLN 189 million in House stores and PLN 120 million in SiNSAY stores. The Tallinder brand generated sales of PLN 4 million.

In Q3 2016, for the first time, the foreign sales of the RESERVED brand exceeded the domestic sales.

	Sales 3Q 2015 in mln PLN	Sales 3Q 2016 in mln PLN	Increase y/y
RESERVED	560	661	18.0%
Cropp	217	246	13.4%
MOHITO	151	192	27.2%
House	170	189	11.1%
SiNSAY	83	120	45.1%
Tallinder	0	4	n/m

3. Sales in comparable stores

In Q3 2016, sales revenues in LFL stores (excluding changes in local currency exchange rates in countries where the Group companies operate) increased by 9.2%, and YTD by 7%.

In Q3 2016, the highest two-digit positive LFL sales growth took place in Russia, Ukraine, Romania, Croatia and Bulgaria. In the same quarter, a positive LFL growth was recorded in Germany.

4. Online sales

In Q3 2016, the Company gained revenues of PLN 31.6 million from the online sales, which constituted 2.1% of the Capital Group's sales. Approx. 90% of the online sales were generated domestically.

Online sale in mln PLN			
Q1-Q3 2013	Q1-Q3 2014	Q1-Q3 2015	Q1-Q3 2016
15.2	41.4	49.4	100.2

Online sale in mln PLN			
Q1 2016	Q2 2016	Q3 2016	Total
27.4	41.2	31.6	100.2

5. Revenues from sales in the Group companies

Revenues from sales generated by the Group companies operating in individual countries (in PLN '000) are presented in the table below

Name	Country	Revenue in Q3 2016	% share in Q3 2016	Revenues from 01.01.2016 till 30.09.2016	% share in period from 01.01.2016 till 30.09.2016
LPP SA	Poland	842 857	56.6%	2 451 119	58.8%
- including revenues from the Middle East		9 933'		26 308'	
LPP Estonia OU	Estonia	24 394	1.6%	64 447	1.5%
LPP Latvia Ltd	Latvia	19 711	1.3%	53 590	1.3%
LPP Czech Republic SRO.	Czech Republic	63 310	4.3%	180 296	4.3%
LPP Hungary Kft.	Hungary	15 253	1.0%	47 600	1.1%
LPP Lithuania UAB	Lithuania	25 273	1.7%	67 000	1.6%
LPP Ukraina	Ukraine	58 834	4.0%	162 587	3.9%
Re Trading OOO	Russia	291 835	19.6%	751 152	18.0%
LPP Romania Fashion SRL	Romania	26 360	1.8%	65 944	1.6%
LPP Deutschland GmbH	Germany	48 320	3.2%	125 407	3.0%
LPP Croatia	Croatia	16 477	1.1%	41 452	1.0%
LPP Bulgaria EOOD	Bulgaria	18 043	1.2%	44 166	1.1%
LPP Slovakia SRO	Slovakia	37 735	2.5%	110 883	2.7%
Total		1 488 400	100.0%	4 165 643	100.0%

6. Sales per m2

LPP's sales per m2 in Q3 of 2016 increased by 6% compared to the previous year.

Sales / m2 / month	Q3 2015	Q3 2016	Change (%)
in PLN			
Sales/m2	535	567	6.0%

7. Capital expenditures

In Q3 2016, capital expenditures (CAPEX) were PLN 62 million, which is 43% less compared to Q3 of the preceding year due to a lower number of new openings and completion of the investment in the Company's registered office.

8. Inventory level per m2

Inventory level and its optimisation is an important element of working capital management - important is the observation of inventory per m2 over time. Inventory consists of the goods in the stores, the goods in the warehouse and merchandise in transit - from the manufacturer to the logistics centre. The Company strives to minimise inventory and at the same time to maintain sufficient product to maximise sales.

In Q3 2016, the inventory level per m2 was lower compared to Q3 2015, with the decrease resulting from a new clearance-sale policy and changes in the inventory management policy (less inventory in stores).

Inventory per m2	Q1	Q2	Q3	Q4
2014	1 383	1 443	1 527	1 355
2015	1 516	1 507	1 684	1 575
2016	1 621	1 669	1 634	-

Other significant events in 2016:

1. On 1 July 2016, LPP SA and HSBC Bank Polska SA signed an annex to the agreement on letters of credit line dated 1 July 2015. Under the annex, the current availability period was extended (CR 39/2016).
2. On 8 August 2016, the Company signed a franchise cooperation agreement for the opening of the first store in Belarus. Under the agreement, in the first half of 2017, the first RESERVED store in Belarus will open in the Galleria Minsk Mall (CR 43/2016).
3. On 6 September 2016, Mr Hubert Komorowski, Vice-President of the Company's Management Board, resigned from his position as Member of the Management Board of LPP SA (CR 45/2016).
4. On 6 September 2016, the Company decided to abandon the development of the Tallinder brand. The said decision was caused by financial results which substantially diverged from the adopted budget (CR 46/2016). In the financial plan for 2016, for the Tallinder brand, the Company assumed the sales in the amount of PLN 1,000 per sq. m. and a loss of PLN 1 million. The generated sales reached approx. PLN 340 per sq. m. monthly, while the financial loss in 2016 will reach approx. PLN 20 million. To close the said brand, the costs for Q3 2016 provide for write-downs and provisions amounting to PLN 24.6 million. As at the date of drawing up this report, 9 Tallinder stores are operated, to be closed by the end of February 2017.
5. On 30 September 2016, LPP SA and Raiffeisen Bank Polska SA signed an annex to the debt limit agreement dated 12 July 2002. Under the annex, the current availability period was extended (CR 48/2016).

4. Factors and events, especially of extraordinary nature, with significant impact on the consolidated financial results

The space growth and positive sales in LFL stores resulted in an 18% increase in sales revenues in Q3 2016 as compared to those gained a year ago. A gross margin was reduced from 52.6% a year ago to 47.1% in the period discussed, which was the reason for significant clearance sales of the SS16 collection in July and August 2016.

An increase in SG&A expenses resulted from higher costs of stores and the headquarters. In selling costs and other operating costs for Q3, the Company comprised provisions and write-downs for closing the Tallinder brand, in a total amount of PLN 24.6 mln, which resulted in the operating profit being generated in the amount of PLN 4.8 million i.e. 96% less than the one gained a year ago (PLN 106.8 million).

The balance of revenues and financial expenses in Q3 was negative.

Consequently, in Q3 2016, the Capital Group recorded a net loss of PLN 6.5 million (compared to the net profit of PLN 79.7 million in Q3 2015).

5. Explanations of the seasonal or cyclical nature of the LPP SA Capital Group's operations in the reporting period

The seasonal nature of sales affects the entire clothing market both in Poland and abroad. The 3rd quarter of a calendar year comprises two months (July and August) during which there is a traditional clearance sale of the spring and summer collection. Usually, that process results in gaining a gross margin that is lower than the average annual sales margin in the entire quarter.

6. Information on revaluation write-downs of inventories to net realisable value and reversal of write-downs

Detailed information is included in Note 35.1.

7. Information on impairment losses of financial assets, property, plant and equipment, intangible assets, or other assets, and reversal thereof

Detailed information is included in Note 35.1.

8. Information on the establishment, increase, use and reversal of provisions

Detailed information is included in Note 35.4.

9. Information on deferred tax liabilities and assets

Detailed information is contained in Note 35.6.

10. Information on material purchase and sale transactions related to property, plant and equipment

No such transactions were effected in the reporting period.

11. Information on material obligations related to the purchase of property, plant and equipment

No such obligations were incurred in the reporting period.

12. Information on material litigation issues

No such transactions were effected in the reporting period.

13. Indication of adjustments for prior period errors

No such adjustments were made in the reporting period.

14. Information on changes in economic and business conditions, which have a significant impact on the fair value of the company's financial assets and financial liabilities

No such changes occurred in the reporting period.

15. Information on non-repayment of loans or borrowings or breach of any material provisions of facility or loan agreements

There were no such events in the reporting period.

16. Information on one or more transactions effected by the issuer or its subsidiary with related parties, if considered material, whether individually or collectively, and have been effected on terms other than on arm's length basis

No such transactions were effected in the reporting period.

17. For financial instruments measured at fair value - information on the change of the method of determination

Not applicable.

18. Information on changes in the classification of financial assets as a result of changes of these assets or their use

Not applicable.

19. Division into operating segments - revenues and results of individual segments

The LPP SA Capital Group is involved in one type of business activity (one trade segment regarded as the core one). A division into two geographical segments was applied: activity within and outside the European Union. The division into geographical segments was based on the criterion of location of the Group's assets. Revenue and results attributable to particular segments in Q3 2016 and the comparable period are presented in Note 35.7.

20. Information on the issue, redemption and repayment of debt and equity securities

There were no such events in the reporting period.

21. Information on the dividend paid (or declared), in total and per share, broken down into ordinary and preference shares

Under the decision of the AGM, a part of the profit generated in 2015 in the amount of PLN 59 935 557 was allocated for the dividend, which corresponds to PLN 33.00 per one authorised share. Ordinary shares were allocated the amount of PLN 48 385 557 and the preferred shares - PLN 11 550 000. The date on which the list of shareholders entitled to receive dividends for 2015 was determined was 5 September 2016, and the dividend payment date was 21 September 2016.

22. Date of approval of the financial statements for issue

These financial statements were approved for publication by the Management Board of the Parent Company on 14 November 2016.

23. Events which occurred after the balance sheet date, not included in the financial statements, and which may significantly affect future financial results of LPP SA Capital Group

No such events occurred.

24. Effects of changes in the LPP SA Capital Group's structure, including as a result of mergers, acquisition or sale of the Capital Group companies, long-term investments, as well as division, restructuring and discontinuation of operations

In the reporting period, LPP SA gained control over LLC Re Development (22 April 2016) and LLC Re Street (2 September 2016). Apart from the above, there were no other changes in the structure of of the issuer's Capital Group.

25. Changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year

In Q3 2016, LPP SA and its subsidiaries benefited from bank guarantees to secure the payment of rent for the leased space for retail purposes and office space.

As at 30 September 2016, the total value of bank guarantees granted at the request and on the responsibility of LPP SA amounted to PLN 272 902 thousand, of which:

- a) guarantees granted to secure agreements concluded by LPP SA - PLN 80 930 thousand,
- b) guarantees granted to secure agreements executed by consolidated related parties amounted to PLN 189 998 thousand,
- c) guarantees granted to secure agreements executed by non-consolidated related parties amounted to PLN 1 666 thousand,
- d) guarantees granted to secure storage space lease agreements concluded by LPP SA - PLN 309 thousand.

In Q3 2016, the Company also received guarantees. These guarantees were collateral from the counterparty payments, their value as at 30 September 2016 amounted to PLN 22 614 thousand.

In the reporting period the Parent Company provided guarantees; their value as at 30 September 2016 amounted to PLN 108 364 thousand and increased compared to 31 December 2015 by PLN 2 791 thousand.

26. Estimates concerning future liabilities under lease agreements

The Group companies are parties to lease agreements under which they use retail premises where RESERVED, Cropp, House, MOHITO, SiNSAY and Tallinder brand stores are located.

Total future payments (minimum and conditional) under lease agreements, estimated as at 30 September 2016, are as follows:

- payables maturing within 12 months after the balance sheet date PLN 797 177 thousand
- payables with the maturity date from 12 months to 5 years from the balance sheet date PLN 2 285 616 thousand
- payables maturing within more than 5 years from the balance sheet date PLN 1 534 309 thousand

27. Position of the Management Board on the feasibility of the annual consolidated results forecasts

The Company did not publish any forecasts of annual results.

28. Shareholders directly or indirectly holding, through subsidiaries, at least 5% of the total number of votes at the General Meeting of Shareholders of LPP SA as at the date of submission of the quarterly report, and changes in the structure of ownership of major shareholdings of LPP SA after the date of submission of the previous quarterly report

Shareholding structure of the parent company as at the date of submission of the report for Q3 2016:

Shareholder	Number of shares held	Number of votes at the AGM	Share in the total number of votes at the AGM	Share in the share capital
Marek Piechocki	175 497	875 493	27.2%	9.5%
Jerzy Lubianiec	174 999	874 995	27.2%	9.5%
Forum TFI SA	200 730	200 738	6.2%	10.9%
Treasury shares	18 978	0	0.0%	1.0%
Other shareholders	1 265 087	1 265 087	39.4%	69.0%
Total	1 839 291	3 220 313	100.0%	100.0%

In the period following the submission of the previous quarterly report i.e. the one for the 1st half of 2016, due to the exercise of rights to exchange 4,084 subscription warrants of the A series for ordinary bearer shares, there was a change in the structure of ownership of major shareholdings. Due to the said change, the share of Mr Marek Piechocki, the shareholder, in the number of votes decreased by 0.1 percentage point and the share in the total number of votes of other shareholders increased by 0.1 percentage point. New shares constitute 0.2% of the Issuer's share capital and 0.1% of the total number of votes at the AGM (CR 50/2016).

29. Structure of ownership of LPP SA shares or rights attached to shares held by members of the Issuer's Management Board and the Supervisory Board as at the date of submission of the quarterly report, including changes in the shareholding structure subsequent to the date of submission of the previous quarterly report, separately for each member of the Management Board and the Supervisory Board

The structure of the holding of shares of LPP SA for managers and supervisors, as at the date of the report for Q3 2016.

Shareholder	Number of shares held	Number of votes at the AGM
Marek Piechocki - President of the Management Board	175 497	875 493
Jacek Kujawa - Vice President of the Management Board	153	153
Przemysław Lutkiewicz - Vice President of the Management Board	10	10
Sławomir Łoboda - Vice President of the Management Board	102	102
Jerzy Lubianiec - Chairman of the Supervisory Board	174 999	874 995
Dariusz Pachla - Member of the Supervisory Board	500	500

In the period following the submission of the previous quarterly report (the one for the 1st half of 2016), there were two changes in the structure of the holding of LPP SA shares by persons in charge of the management of the Issuer. These changes consist in the resigning by Mr Hubert Komorowski, one of Board Members holding the Issuer's shares, from his position in the Management Board (CR 45/2016), and, consequently, in the lack of duty to notify of shares held, and in the purchase of shares by another Board Member, Mr Przemysław Lutkiewicz (CR 47/2016).

30. Information on legal proceedings

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

The Company also informs that it is currently in the course of a tax audit conducted by the Tax Control Office in Gdańsk, which concerns the reliability of the stated tax bases and accuracy of the calculation and payment of income tax from legal persons for 2012. At the date of approval of these financial statements of LPP SA the result or the date of completion of the audit procedure is not known, while LPP SA explains that in the past this type of proceedings conducted against LPP SA or its subsidiaries have not resulted in any significant consequences. However, due to the entry into force in July 2016 of new rules, under which the Tax Law has introduced legislation on tax avoidance and due to the fact that these rules also apply to the tax consequences arising from events and transactions that have taken before the date of their entry into force, LPP SA wishes to draw attention to the risk of a different assessment of the current state of the facts by the tax authority and, consequently, the possibility of challenging the settlement of the Company's license fees

paid by the Company to the licensor (Gothals Ltd, under Cypriot law) for the right to use the verbal and graphic trademarks RESERVED and Cropp and their related additional marks.

As announced by the Company in CR 28/2011 of 22 July 2011 and 29/2011 of 22 July 2011 under the relevant agreements, the Company transferred the rights to the trademark to Gothals Ltd in exchange for shares in the share capital of Gothals Ltd. Cypriot company, Gothals Ltd, transferred the said trademarks to Jaradi Limited, a company under the law of the United Arab Emirates, based in Dubai, in exchange for all the shares in the share capital of that company. Under a license agreement Jaradi Limited gave Gothals Ltd the right to use these trademarks. Based on the above, Gothals Ltd granted to LPP SA a sub-license for the full use of trademarks for RESERVED and Cropp. In exchange for the right to use the trademark, LPP SA paid (and continues to do so) royalty fees to Gothals Ltd.

In May 2015, the Company announced its intention to conduct a cross-border merger of LPP SA as the acquiring company and Gothals Ltd as the acquired company. The process of merger is in progress.

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

A further key stages and the results of the audit procedure to inform the LPP SA will be the mode of publication of the relevant reports.

31. Transactions with related entities

31.1. Key management personnel

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

Short-term employee benefits received by the key management personnel in the period from 1 January to 30 September 2016 amounted to PLN 3 201 thousand, of which PLN 3 088 thousand was received by members of the Management Board and PLN 113 thousand was received by members of the Supervisory Board.

31.2. Transactions with affiliated entities

In the reporting period, the issuer did not enter into any transactions with the related parties for the transfer of rights and obligations.

Transactions between the parent company and its foreign subsidiaries are excluded from the consolidated financial statements and are not presented in the table.

Amounts presented in the table below show only intercompany transactions between LPP SA and Polish non-consolidated subsidiaries, and are presented from the parent company's perspective.

Related entities	Receivables as at 30/09/2016	Liabilities as at 30/09/2016	Revenue for the period I-IX 2016	Expenses for the period I-IX 2016
Domestic companies	71	148	11	7 655

Data presented as liabilities of LPP SA are receivables of related parties, and expenses correspond to revenue of related parties.

All related party transactions were concluded on an arm's length basis. Revenue from domestic companies is generated on the lease of office space for the purposes of operation of these companies.

Expenses related to the domestic subsidiaries concern the rental of property where Cropp, RESERVED, MOHITO and House are run.

32. Information on guarantees and sureties

In the reporting period, companies from the issuer's Capital Group did not grant any credit or loan sureties or guarantees to its entity or subsidiary, whose total value would be the equivalent of at least 10% of the issuer's equity.

Detailed information on contingent liabilities are presented in Note 25 hereto.

33. Additional information relevant for the evaluation of staff, property and financial situation, financial result of the LPP SA Capital Group and information relevant for the evaluation of the ability of the issuer's Capital Group to perform its obligations

The report contains basic information relevant for the evaluation of the situation of the issuer's Capital Group. In the opinion of the Management Board, there are no threats to the ability of the Capital Group to perform its obligations.

34. Factors that are likely to affect the results generated by LPP SA Capital Group in the next quarter or thereafter (according to LPP SA)

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

- a) Economic situation in Poland and in countries where the stores of LPP SA Capital Group operate, especially in Russia and Ukraine.
- b) USD/EUR exchange rate, and RUB/UAH exchange rate.
- c) Possible ban on Sunday trading and introduction of taxation on large stores.
- d) Pressure on SG&A expenses per sq.m., in particular on staff expenses.
- e) Development of the sales network of RESERVED, Cropp, House, MOHITO and SiNSAY brands. Further expansion on the German, Russian and Ukrainian markets, and, in 2017, also in Belarus, Kazakhstan, Serbia and Great Britain. In 2016, there are plans to increase the area of the store chain by 9% i.e. by approx. 75 thousand sq.m. The CAPEX planned in 2016 amounts to approx. PLN 310 million (PLN 270 million for new stores, PLN 40 million for modernisation), which is 37% less y/y due to the slower increase in retail space. The CAPEX planned for 2017 is PLN 430 million (increase by 39% y/y due to the growth in retail space and expenditures for expanding the Company's registered office – PLN 80 million). Gross margin profit planned for 2017: 52-53%. The company plans double-digit floorspace growth in 2017: 11% y/y.
- f) Development of e-commerce: in 2016, 4 new brands online (Cropp, House, MOHITO, SiNSAY) in 5 new countries: the Czech Republic, Slovakia, Hungary, Romania, Germany, and, in 2017, RESERVED online in Russia, Ukraine and Great Britain. The Company aims at reaching by 2020 online sales constituting 7-8% of the Group's sales.
- g) Works aimed at improving the RESERVED brand (product, logistics and management improvements).

35. Notes to the condensed consolidated financial statements

35.1. Revaluation write-downs of assets

The values of some assets presented in the consolidated financial statements prepared as at 30 September 2016 are adjusted by revaluation write-downs. Detailed information on the amounts of the write-downs reported as at the last day of the reporting period and changes in the period are presented in the table below.

	Tangible fixed assets	Inventories	Receivables, loans and shares
As at 01.01.2016	3 341	22 689	13 196
increase	17 984	8 103	1 681
decrease	361	1 595	1 222
As at 30.09.2016	20 964	29 197	13 655

In the reporting period, there was a substantial increase in revaluation write-downs of tangible fixed assets and intangible assets.

The increase in revaluation write-downs was caused by the decision of the Management Board of the dominant company to abandon further development of the Tallinder brand (CR 46/2016).

Therefore, the value of revaluation write-downs was estimated for the following balance sheet items:

- tangible fixed assets;
- intangible assets;
- inventories in stores.

The value of revaluation write-downs of tangible fixed assets was calculated in the amount of undepreciated expenditures made for constructing Tallinder stores, determined as at 30 September 2016.

As at 30 September 2016, in the accounting books of LPP SA, for the Tallinder brand only, the value of undepreciated expenditures in the premises owned by other entities was PLN 15 165 thousand.

Additionally, a revaluation write-down was made for the value of intangible assets concerning the Tallinder brand.

As at the balance sheet date, the value of undepreciated intangible assets for which the 100% revaluation write-down was made amounted to PLN 2 819 thousand.

Furthermore, another item concerning the Tallinder brand was also verified i.e. stock inventories.

Following a detailed analysis made by trade, planning and logistics departments and covering both inventories kept by the Company as at the balance sheet date and those ordered yet not received, it was determined that a write-down should be made in the amount of PLN 2 923 thousand.

It was assumed that, by the end of January 2017, goods will be sold with a decreased margin yet with no loss for the Company.

The value of inventories which should remain as at 1 February 2017 was calculated and a write-down was made for 100% of the estimated value.

35.2. Receivables

The value of the write-down comprises:

revaluation write-down of receivables and claimed receivables from customers: PLN 12 282 thousand

revaluation write-down of doubtful receivables: PLN 932 thousand

revaluation write-down of receivables from employees and other: PLN 441 thousand

35.3. Cash

For the purpose of drawing up a cash flow statement, the Capital Group classifies cash in the manner adopted for presenting its financial standing. The following items affect the difference in the value of cash shown in the financial statement and the cash flow statement:

	30.09.2016
Cash and its equivalents shown in the financial statement	265 895
<i>Adjustments:</i>	
Exchange rate differences from the balance sheet valuation of cash denominated in foreign currencies	698
Cash and its equivalents shown in the CFS	265 197

35.4 Provisions

The value of provisions recognised in the consolidated financial statements and their changes in the reporting period are as follows:

	Provision for pensions and similar benefits	Provision for unpaid remuneration	Provision for liabilities	Provision for unused annual leaves
As at 01.01.2016	2 179	4 337	0	13 437
provisions established	2 806	3 174	3 455	15 278
provisions reversed	2 179	3 606	0	13 437
As at 30.09.2016	2 806	3 905	3 455	15 278

In the reporting period, a provision was made for future liabilities. This provision relates to the decision of the Management Board of the dominant company to abandon further development of the Tallinder brand (CR 46/2016).

The dominant company made the following provisions in connection with the future closing of the Tallinder brand:

- for disassembly costs – PLN 1 226 thousand,
- for early termination penalties – PLN 2 229 thousand,
- for restructuring-related employee payments due to the closing of workplaces – PLN 206 thousand.

The provision made for future liquidation costs which will arise in the period of closing Tallinder stores was calculated in the amount of costs paid so far for services of this type.

The provision for early termination penalties, if any, was assessed in accordance with relevant contractual provisions stemming from lease contracts.

The provision for restructuring-related employee payments due to the closing of workplaces was assessed in accordance with the requirements provided for in the Act on Specific Rules for Terminating Employment Relationships with Employees for Reasons not Resting with Employees.

35.5. Income tax

Major components of income tax of LPP SA Capital Group for the period from 01.01.2016 to 30.09.2016 and comparative period are presented in the table below.

	from 01.01.2016 until 30.09.2016	from 01.01.2015 until 30.09.2015
Current income tax	4 837	30 880
Deferred income tax	- 5 886	11 123
Total	-1 047	42 003

35.5. Deferred tax assets and liabilities

At the end of the reporting period, the deferred tax assets and liabilities were presented in the consolidated financial statements.

The components thereof are presented in the tables below.

Deferred income tax assets	30.09.2016
Amortisation of fixed and intangible assets	113 092
Tax loss	1 324
Margin on goods unsold outside the Group	10 122
Margin from the sale of investments	8 335
Revaluation of inventories	2 917
Revaluation of receivables	305
Commodity returns	433
Employee leave	957
Remuneration and surcharges	754
Severance pays	403
Other	1 339
Total	140 041
Deferred tax liabilities	30.09.2016
Amortisation of intangible assets	5 000
Outstanding damages	207
Other	107
Total	5 314

35.6 Exchange rate differences

The consolidated profit and loss account drawn up as at 30 September 2016 presents an excess of taxable foreign exchange differences over deductible foreign exchange differences of PLN 8 712 thousand.

35.7. Operating segments

Revenues and financial results concerning geographical segments for the period between 1 January 2016 and 30 September 2016 and for the comparable period are presented in the tables below.

2016

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	3 251 904	913 739			4 165 643
Intersegmental sales	541 466		-541 466		-
Other operating income	15 741	5 351			21 092
Total revenues	3 809 111	919 090	-541 466	0	4 186 735
Total operating costs, including	3 634 346	861 334	-556 608	143 661	4 082 733
Costs of intersegmental sales	460 945		-460 945		-
Other operating costs	56 568	20 076			76 644
Segment results	118 197	37 680	15 142	-143 661	27 358
Financial income				9 356	9 356
Financial costs				20 017	20 017
Profit/loss before tax					16 697
Income tax					-1 047
Net profit/loss					17 744

2015

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	2 795 406	759 920			3 571 809
Intersegmental sales	442 723		-442 723		-
Other operating income	11 439	4 509		535	16 483
Total revenues	3 283 630	764 429	-476 785	535	3 571 809
Total operating costs, including	2 919 261	683 991	-472 890	127 660	3 258 022
Costs of intersegmental sales	365 644		-365 644		
Other operating costs	31 723	14 735			46 458
Segment results	332 646	65 703	-3 895	-127 125	267 329
Financial income				1 934	1 934
Financial costs				48 247	48 247
Profit/loss before tax					221 016
Income tax					42 003
Net profit/loss					179 013

36. Notes to the separate financial statements of LPP SA

As a result of estimation of the balance sheet value of assets invested in foreign subsidiaries (shares, additional contributions, loans and receivables) in the period from January to September 2016, relevant changes and asset revaluation were recognised in the separate balance sheet. These changes were included both in finance revenue and costs and in operating revenue and costs.

In the reporting period, assets increased by PLN 43 839 thousand.

This change reported in the respective items of the separate financial statements of LPP SA has no impact on the amounts presented in the consolidated financial statements.