

LPP

INTERIM FINANCIAL STATEMENT FOR Q4 2016 of LPP SA GROUP

GDAŃSK, 23rd FEBRUARY 2017

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1. Selected consolidated financial data of LPP SA Group

Selected consolidated financial data	4Q 2016	4Q 2015	4Q 2016	4Q 2015
	01.01.2016- 31.12.2016 in thousand PLN	01.01.2015- 31.12.2015	01.01.2016- 31.12.2016 in thousand EUR	01.01.2015- 31.12.2015
Revenues	6 020 633	5 130 353	1 375 925	1 225 949
Operating profit (loss)	229 299	502 689	52 403	120 123
Pre-tax profit (loss)	196 957	414 368	45 012	99 017
Net profit (loss)	175 940	351 320	40 208	83 951
Profit (Loss) per ordinary share (in PLN / EUR)	96.83	193.87	22.13	46.33
Net cash flows from operating activities	718 211	253 888	164 136	60 669
Net cash flows from investing activities	-181 388	-415 526	-41 453	-99 294
Net cash flows from financing activities	-393 849	201 162	-90 008	48 070
Total net cash flows	142 974	39 524	32 675	9 445

Selected consolidated financial data	2016	2015	2016	2015
	31.12.2016 in thousand PLN	31.12.2015	31.12.2016 in thousand EUR	31.12.2015
Total assets	3 680 473	3 565 169	831 933	836 600
Long-term liabilities	269 296	344 083	60 872	80 742
Short-term liabilities	1 275 669	1 331 347	288 352	312 413
Equity	2 135 508	1 889 739	482 710	443 445
Share capital	3 679	3 662	832	859
Weighted average number of ordinary shares	1 816 932	1 812 145	1 816 932	1 812 145
Book value per ordinary share (in PLN / EUR)	1 175.34	1 042.82	265.67	244.71
Declared or paid dividend per share (in PLN / EUR)	33.00	32.00	7.46	7.51

2. Consolidated statement of financial position of LPP SA Group

Statement of financial position	As at the end of:	
	31.12.2016	31.12.2015
ASSETS		
Non-current assets	1 840 593	1 796 996
1. Fixed assets	1 292 853	1 258 751
2. Intangible assets	43 507	37 342
3. Goodwill	209 598	209 598
4. Trademark	77 508	77 508
5. Investments in subsidiaries	136	136
6. Investments in other entities	0	1 626
7. Receivables and loans	6 180	5 914
8. Deferred tax assets	144 075	139 194
9. Pre-payments	66 736	66 927
Current assets	1 839 880	1 768 173
1. Inventory	1 164 671	1 319 735
2. Trade receivables	165 866	115 086
3. Income tax receivables	75 185	47 017
4. Other receivables	30 723	35 210
5. Loans	91	128
6. Pre-payments	37 591	26 550
7. Cash and cash equivalents	365 753	224 447
TOTAL assets	3 680 473	3 565 169

Statement of financial position	As at the end of:	
	31.12.2016	31.12.2015
EQUITY AND LIABILITIES		
Equity	2 135 508	1 889 739
1. Share capital	3 679	3 662
2. Treasury shares	-43 318	-43 306
3. Share premium	251 393	235 074
4. Other reserves	1 608 298	1 323 736
5. Foreign currency translation reserve	-115 316	-228 757
6. Retained earnings	430 772	599 330
- profit (loss) from previous years	254 832	248 010
- net profit (loss) for the current period	175 940	351 320
7. Minority capital	0	0
Long-term liabilities	269 296	344 083
1. Bank loans and borrowing	195 033	284 253
2. Provisions for employee benefits	2 711	2 179
3. Deferred tax liabilities	5 932	7 085
4. Accruals	65 575	50 566
5. Other financial liabilities	45	0
Short-term liabilities	1 275 669	1 331 347
1. Trade and other liabilities	878 277	721 394
2. Income tax liabilities	7 449	3 042
3. Bank loans and borrowing	315 111	561 074
4. Provisions	34 639	17 774
5. Special funds	0	227
6. Accruals	40 193	27 836
TOTAL equity and liabilities	3 680 473	3 565 169

3. Consolidated income statement of LPP SA Group

Consolidated income statement	YTD	4Q 2016	YTD	4Q 2015
	01.01.2016- 31.12.2016	01.10.2016- 31.12.2016	01.01.2015- 31.12.2015	01.10.2015- 31.12.2015
Continuing operations				
Revenues	6 020 633	1 854 990	5 130 353	1 575 027
Cost of goods sold	3 085 374	911 851	2 387 524	712 250
Gross Profit (loss) on sales	2 935 259	943 139	2 742 829	862 777
Other operating income	39 379	18 287	24 231	7 748
Selling costs	2 404 387	638 838	2 012 420	557 332
General and administrative costs	203 480	59 819	179 247	51 587
Other operating costs	137 472	60 828	72 704	26 246
Operating profit (loss)	229 299	201 941	502 689	235 360
Financial income	1 307	-8 049	1 981	47
Financial costs	33 649	13 632	90 302	42 055
Pre-tax profit (loss)	196 957	180 260	414 368	193 352
Income tax	21 017	22 064	63 048	21 045
Net profit (loss)	175 940	158 196	351 320	172 307
Net profit (loss) attributable to:				
Shareholders of parent company	175 940	158 196	351 320	172 307
Minority interest	0	0	0	0
Other comprehensive income				
Currency translation on foreign operations	113 441	56 170	-44 381	-22 833
Total comprehensive income	289 381	214 366	306 939	149 474

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		-18							-18
Distribution of profit for 2014				225 908	-283 896				-57 988
Contribution by minority shareholders				3 231				-3 231	0
Shares-based payments				2 392					2 392
Transactions with owners	0	-18	0	231 531	-283 896	0	0	-3 231	-55 614
Net profit (loss) for 2015						351 320			351 320
Currency translation on foreign operations							-44 381		-44 381
As at 31 December 2015	3 662	-43 306	235 074	1 323 736	248 010	351 320	-228 757	0	1 889 739
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		-12							-12
Distribution of profit for 2015				284 562	-344 498				-59 936
Purchase of shares	17		16 319						16 336
Shares-based payments									0
Transactions with owners	17	-12	16 319	284 562	-344 498	0	0	0	-43 612
Net profit (loss) for 2016						175 940			175 940
Currency translation on foreign operations							113 441		113 441
As at 31 December 2016	3 679	-43 318	251 393	1 608 298	254 832	175 940	-115 316	0	2 135 508

5. Consolidated cash flow statement of LPP SA Group

Cash flow statement	YTD	4Q 2016	YTD	4Q 2015
	01.01.2016- 31.12.2016	01.10.2016- 31.12.2016	01.01.2015- 31.12.2015	01.10.2015- 31.12.2015
A. Cash flows from operating activities - indirect method				
I. Pre-tax profit (loss)	196 957	180 260	414 368	193 352
II. Total adjustments	521 254	359 171	-160 480	71 777
1. Amortisation	267 381	70 102	223 555	61 691
2. Foreign exchange (gains) losses	-5 464	724	-15 392	-28 335
3. Interest and dividends	22 253	5 069	18 338	5 234
4. (Profit) loss on investing activities	19 033	-2 293	18 219	9 747
5. Income tax paid	-59 239	-30 698	-127 987	-28 983
6. Change in provisions	16 837	11 952	-1 331	3 859
7. Change in inventories	211 200	296 633	-381 692	-3 592
8. Change in receivables	-34 457	-41 865	6 530	-8 602
9. Change in short-term liabilities, excluding loans and borrowing	76 718	26 736	151 812	67 051
10. Change in prepayments and accruals	-5 925	6 021	-45 370	-6 992
11. Other adjustments	12 917	16 790	-7 162	699
III. Net cash flows from operating activities	718 211	539 431	253 888	265 129
B. Cash flows from investing activities				
I. Inflows	90 514	45 076	75 353	27 703
1. Disposal of intangible and fixed assets	90 255	45 053	74 358	27 655
2. From financial assets, including:	259	23	995	48
a) in related parties	130	0	182	0
- dividends	130	0	182	0
b) in other entities	129	23	813	48
- repayment of loans	121	23	303	42
- interest	8	0	510	6
3. Other investing inflows	0	0	0	0
II. Outflows	271 902	84 371	490 879	152 681
1. Purchase of intangible and fixed assets	271 849	84 369	490 627	152 595
2. For financial assets, including:	53	2	252	86
a) in related parties	0	0	0	0
- loans granted	0	0	0	0
b) in other entities	53	2	252	86
- loans granted	53	2	252	86
3. Other investing outflows	0	0	0	0
III. Net cash flows from investing activities	-181 388	-39 295	-415 526	-124 978

C. Cash flows from financing activities				
I. Inflows	16 336	-135 215	364 819	3 790
1. Proceeds from issuance of shares	16 336	8 168	0	0
2. Loans and borrowing	0	-143 383	364 819	3 790
3. Other inflows from financial activities	0	0	0	0
II. Outflows	410 185	264 091	163 657	40 765
1. Cost of maintaining of treasury shares	12	3	18	4
2. Dividends and other payments to owners	59 936	0	57 989	0
3. Repayment of loans and borrowing	328 683	259 452	87 111	35 354
4. Payment of liabilities arising from financial leases	0	0	0	0
5. Interest	21 554	4 636	18 539	5 407
6. Other outflows from financing activities	0	0	0	0
III. Net cash flows from financing activities	-393 849	-399 306	201 162	-36 975
D. Total net cash flows	142 974	100 830	39 524	103 176
E. Balance sheet change in cash, including:	141 306	99 858	40 918	104 570
- change in cash due to foreign exchange differences	-1 668	-972	-4 934	-148
F. Opening balance of cash	223 053	265 197	183 529	119 877
G. Closing balance of cash, including:	366 027	366 027	223 053	223 053
- restricted cash	0	0	227	227

6. Selected financial data of LPP SA

Selected financial data	4Q 2016	4Q 2015	4Q 2016	4Q 2015
	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015	01.01.2016- 31.12.2016	01.01.2015- 31.12.2015
	in thousand PLN		in thousand EUR	
Revenues	4 740 059	4 335 753	1 083 269	1 036 072
Operating profit (loss)	6 609	248 455	1 510	59 371
Pre-tax profit (loss)	299 730	381 908	68 499	91 261
Net profit (loss)	280 437	344 347	64 090	82 285
Profit (Loss) per ordinary share (in PLN / EUR)	154.35	190.02	35.27	45.41
Net cash flows from operating activities	388 032	62 590	88 679	14 957
Net cash flows from investing activities	50 993	-205 745	11 654	-49 165
Net cash flows from financing activities	-393 427	201 091	-89 912	48 053
Total net cash flows	45 598	57 936	10 421	13 844

Selected financial data	2016	2015	2016	2015
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	in thousand PLN		in thousand EUR	
Total assets	3 494 233	3 420 825	789 836	802 728
Long-term liabilities	246 520	317 752	55 723	74 563
Short-term liabilities	1 154 501	1 246 687	260 963	292 547
Equity	2 093 212	1 856 386	473 149	435 618
Share capital	3 678	3 662	831	859
Weighted average number of ordinary shares	1 816 932	1 812 145	1 816 932	1 812 145
Book value per ordinary share (in PLN / EUR)	1 152.06	1 024.41	260.41	240.39
Declared or paid dividend per share (in PLN / EUR)	33.00	32.00	7.46	7.51

7. Statement of financial position of LPP SA

Statement of financial position	As at the end of:	
	31.12.2016	31.12.2015
ASSETS		
Non-current assets	2 098 724	1 865 472
1. Fixed assets	801 524	834 894
2. Intangible assets	40 537	34 274
3. Goodwill	179 618	179 618
4. Investments in subsidiaries	981 097	707 547
5. Receivables and loans	1 667	1 650
6. Deferred tax assets	92 292	106 972
7. Pre-payments	1 989	517
Current assets	1 395 509	1 555 353
1. Inventory	833 122	954 211
2. Trade receivables	291 569	417 435
3. Income tax receivables	73 490	35 750
4. Other receivables	19 366	17 344
5. Loans	83	112
6. Pre-payments	20 437	16 990
7. Cash and cash equivalents	157 442	113 511
TOTAL assets	3 494 233	3 420 825

Statement of financial position	As at the end of:	
	31.12.2016	31.12.2015
EQUITY AND LIABILITIES		
Equity	2 093 212	1 856 386
1. Share capital	3 678	3 662
2. Treasury shares	-43 317	-43 306
3. Share premium	251 393	235 074
4. Other reserves	1 601 021	1 316 609
5. Retained earnings	280 437	344 347
- profit (loss) from previous years	0	0
- net profit (loss) for the current period	280 437	344 347
Long-term liabilities	246 520	317 752
1. Bank loans and borrowing	195 033	284 253
2. Provisions for employee benefits	2 222	1 790
3. Deferred tax liabilities	4 048	5 329
4. Accruals	45 172	26 380
5. Other financial liabilities	45	
Short-term liabilities	1 154 501	1 246 687
1. Trade and other liabilities	789 506	654 814
2. Bank loans and borrowing	315 111	560 661
3. Provisions	18 943	8 642
4. Special funds		227
5. Accruals	30 941	22 343
TOTAL equity and liabilities	3 494 233	3 420 825

8. Income statement of LPP SA

Income statement	YTD	4Q 2016	YTD	4Q 2015
	01.01.2016- 31.12.2016	01.10.2016- 31.12.2016	01.01.2015- 31.12.2015	01.10.2015- 31.12.2015
Revenues	4 740 059	1 332 381	4 335 753	1 303 988
Cost of goods sold	2 970 095	803 970	2 522 715	743 843
Gross Profit (loss) on sales	1 769 964	528 411	1 813 038	560 145
Other operating income	44 638	13 445	51 054	19 687
Selling costs	1 407 333	366 002	1 246 433	342 968
General and administrative costs	337 906	95 921	293 725	86 850
Other operating costs	62 754	6 587	75 479	10 967
Operating profit (loss)	6 609	73 346	248 455	139 047
Financial income	367 407	160 300	296 415	89 234
Financial costs	74 286	7 508	162 962	61 378
Pre-tax profit (loss)	299 730	226 138	381 908	166 903
Income tax	19 293	16 729	37 561	18 658
Net profit (loss)	280 437	209 409	344 347	148 245
Other comprehensive income	280 437	209 409	344 347	148 245
Total comprehensive income	280 437	209 409	344 347	148 245

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		-18					-18
Distribution of profit for 2014				225 908	-283 896		-57 988
Shares-based payments				2 392			2 392
Transactions with owners	0	-18	0	228 300	-283 896	0	-55 614
Net profit (loss) for 2015						344 347	344 347
As at 31 December 2015	3 662	-43 306	235 074	1 316 609	0	344 347	1 856 386
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		-11					-11
Distribution of profit for 2015				284 412	-344 347		-59 935
Purchase of shares	16		16 319				16 335
Transactions with owners	16	-11	16 319	284 412	-344 347	0	-43 611
Net profit (loss) for 2016						280 437	280 437
As at 31 December 2016	3 678	-43 317	251 393	1 601 021	0	280 437	2 093 212

10. Cash flow statement of LPP SA

Cash flow statement	YTD	4Q 2016	YTD	4Q 2015
	01.01.2016- 31.12.2016	01.10.2016- 31.12.2016	01.01.2015- 31.12.2015	01.10.2015- 31.12.2015
A. Cash flows from operating activities - indirect method				
I. Pre-tax profit (loss)	299 730	226 138	381 908	166 904
II. Total adjustments	88 302	168 935	-319 318	-10 394
1. Amortisation	150 897	38 628	128 476	34 494
2. Foreign exchange(gains) losses	-5 679	514	-15 392	-28 334
3. Interest and dividends	-189 284	-99 931	-164 364	-55 357
4. (Profit) loss on investing activities	-93 694	-68 798	4 961	5 265
5. Income tax paid	-43 634	-21 636	-114 974	-21 791
6. Change in provisions	10 733	6 642	-2 267	573
7. Change in inventories	120 471	175 169	-241 925	20 900
8. Change in receivables	68 086	144 075	-5 122	10 465
9. Change in short-term liabilities, excluding loans and borrowing	71 309	-9 885	90 311	18 605
10. Change in prepayments and accruals	-903	4 157	-1 414	4 183
11. Other adjustments	0	0	2 392	603
III. Net cash flows from operating activities	388 032	395 073	62 590	156 510
B. Cash flows from investing activities				
I. Inflows	291 140	139 707	254 585	86 791
1. Disposal of intangible and fixed assets	79 345	34 686	70 920	25 749
2. From financial assets, including:	211 795	105 021	183 665	61 042
a) in related parties	211 667	105 000	183 335	61 000
- interest and dividends	211 667	105 000	183 335	61 000
b) in other entities	128	21	330	42
- interest	8	0	27	0
- repayment of loans	120	21	303	42
3. Other investing inflows	0	0	0	0
II. Outflows	240 147	39 179	460 330	118 570
1. Purchase of intangible and fixed assets	120 071	39 177	290 289	84 356
2. For financial assets, including:	120 076	2	170 041	34 214
a) in related parties	120 023	0	169 789	34 128
- purchase of shares	120 023	0	0	34 128
b) in other entities	53	2	252	86
- loans granted	53	2	252	86
3. Other investing outflows	0	0	0	0
III. Net cash flows from investing activities	50 993	100 528	-205 745	-31 779

C. Cash flows from financing activities				
I. Inflows	16 336	8 168	364 748	3 719
1. Loans and borrowing	0	0	364 748	3 719
2. Proceeds from issuance of shares	16 336	0	0	0
3. Other inflows from financial activities	0	0	0	0
II. Outflows	409 763	407 458	163 657	40 753
1. Cost of maintaining of treasury shares	12	3	18	4
2. Repayment of loans and borrowing	328 261	402 819	87 111	35 342
3. Interest	21 554	4 636	18 539	5 407
4. Other outflows from financing activities - dividends	59 936	0	57 989	0
III. Net cash flows from financing activities	-393 427	-399 290	201 091	-37 034
D. Total net cash flows	45 598	96 311	57 936	87 697
E. Balance sheet change in cash, including:	43 930	95 339	59 330	89 091
- change in cash due to foreign exchange differences	-1 668	-972	1 394	1 254
F. Opening balance of cash	112 117	61 404	54 181	24 420
G. Closing balance of cash, including:	157 715	157 715	112 117	112 117
- restricted cash	0	0	227	227

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR Q4 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,
- 19 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 SRO	Prague, Czech Republic	16.09.2002
7.	LPP Hungary KFT	Budapest, Hungary	18.10.2002
8.	LPP Latvia LTD	Riga, Latvia	30.09.2002
9.	LPP Lithuania UAB	Vilnius, Lithuania	27.01.2003
10.	LPP Ukraine 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 SRO	Banska Bystrica, Slovakia	30.10.2008
15.	LPP Fashion Bulgaria EOOD	Sofia, Bulgaria	26.08.2011
16.	Gothals LTD	Nicosia, Cyprus	22.07.2011
17.	LPP Croatia DOO	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
23.	LPP Reserved DOO Beograd	Belgrade, Serbia	26.12.2016

The dominance of LPP SA in the subsidiaries, due to its 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 31 December 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 Ukraine AT
- Re Trading OOO
- LPP Romania Fashion SRL

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

The consolidated financial statements of the Capital Group for the period from 1 January to 31 December 2016 do not comprise the consolidation of the subsidiary LPP Reserved doo Beograd with its registered office in Serbia as the said company conducts no operating activity yet.

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 – 0.02%
- in the Group's sales revenue and finance revenue – 0.16%

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, in the design office in Kraków and Warsaw, 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 Q4 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.

In 2016, LPP SA also changed its goods management policy for the entire LPP SA Capital Group.

The Group has two regular sales seasons: (1) March – June for the SS collection, and (2) September – December for the AW collection. The regular sales period is followed by the clearance sales period.

Before changing the goods management policy, after the end of the regular sales, the Group conducted in stores, at the same time, clearance sales of the goods from both the current and previous collection which had been once again brought to stores from a warehouse for the clearance sales period.

The date of commencing clearance sales stemmed from the Issuer's decision made based on the market situation and the volume of stock held and could be different for each of the brands. Most often, the clearance sales period lasted 2 months and its end date was a result of an earlier adopted date for introducing a new collection to stores.

The level of prices of goods being sold off was determined based on the minimum level of the sales margin in a given month.

Unsold goods from the collection being sold off were returned once again to a warehouse where, subsequently, they were divided into two types of goods i.e. goods for outlet stores and goods for another clearance sales. The quantity of warehoused unsold goods depended on the outcome of the clearance sales in stores.

According to the new goods management policy introduced in the LPP SA Group from the second half of 2016, the date of commencing clearance sales complies with a clearance sales time-schedule and is the same for all brands. The end of clearance sales is strictly related to, and dependent on, the achieved targeted level of selling off the old collection, which is monitored daily. The prices of goods being sold off are changed as needed until an expected clearance sales target is reached. This means that the Group does not set a targeted margin level in the clearance sales period. New collections are introduced to stores as needed and regardless of the process in the clearance sales of the preceding collection. Goods unsold during clearance sales are removed to the warehouse and, subsequently, transferred to outlet stores or to an external recipient. The major purpose of clearance sales will be to regain cash invested in the stock, at a lowest logistic cost i.e. without unnecessary packing, transporting and storing of goods from old collections.

Due to a low commercial value of goods unsold during clearance sales, after the said period, these goods will not be reintroduced to stores to avoid any adverse impact on the brands' image.

The Group will make revaluation write-downs for goods being sold off and older goods depending on their designation and geographic location:

- goods in Poland, designated for outlet stores, will be sold at a positive margin, which means that there will no write-down,
- for goods in Poland, not designated for outlet stores, there will be a write-down of 60% of their value. The value of the write-down stems from the pricelist of an external recipient.

- for goods in EU companies, there will be a write-down of 60% of their value. The value of the write-down stems from the pricelist of an external recipient,
- for goods in the Russian company, there will be a write-down of 50% of their value. The value of the write-down being different than the one for the EU countries stems from a different pricelist of an external recipient operating in the territory of Russia.
- goods in the Ukrainian company will be sold in the chain of local outlet stores, which means that there will be no write-down.

Differences in write-downs made for goods from old collections before and after introduction of the new goods management policy are as follows:

Write-down at the end of the period Stock - season	Previous methodology Write-down	New methodology (since 31.12.2016) Write-down*
AW Current (AW 0)	0%	60%**
SS Current (SS 0)	0%	60%
AW -1	0%	60%
SS -1	10%	60%
AW-2	30%	60%
SS -2	30%	60%
AW -3	100%	not applicable ***
SS -3	100%	not applicable ***
Older	100%	not applicable ***

*) a write-down for goods which will not be introduced to outlet stores; no write-down for goods for outlet stores

**) a write-down applied to the amount of the goods' estimated value remaining after clearance sales

***) the Company should not have goods older than two seasons

The new goods management model was introduced by the Company from the second half of 2016, while the new rule for making revaluation write-downs applied to the goods' value was applied for the first time in respect of the value as at 31 December 2016. As at 31 December 2016, the said value amounted to PLN 57 621 thousand and increased by PLN 34 932 thousand as compared to the amount as at the end of 2015.

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

Key achievements of the Group in Q4 2016:

1. The number of stores and commercial space

In Q4 2016, the LPP SA Capital Group continued expanding the chain of stores of all of its brands (approx. 32.8 thousand sq. m. of new space). There was a dynamic growth of space in Europe (in Slovakia and Hungary), in Poland (openings of stores of all brands) and in CIS countries.

As compared to Q4 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. 17% y/y.

At the end of Q4 2016, the LPP SA Capital Group had 1 703 stores in 18 countries, of a total area of 921 thousand sq. m.

As at 31.12.2016	Number of stores	Increase y/y	Q4 2015	Q4 2016	Increase y/y
			Area in '000 m ²	Area in '000 m ²	
RESERVED	461	+12	461.3	509.1	10.4%
Cropp	379	+7	114.5	120.4	5.2%
House	330	+11	99.7	105.7	6.0%
MOHITO	290	+10	94.5	99.1	4.9%
SiNSAY	198	+28	59.7	69.8	16.9%
Tallinder	9	+9	0	4.1	n/m
Outlets	36	-1	13.8	12.6	-8.6%
Total GK LPP	1 703	+76	843.5	920.7	9.2%

2. Sales broken down by brand

In Q4 2016, RESERVED stores generated sales of PLN 828 million, while Cropp stores - PLN 269 million. Sales generated in Q4 totalled PLN 211 million in MOHITO stores, PLN 245 million in House stores and PLN 135 million in SiNSAY stores. The Tallinder brand generated sales of PLN 5 million. The highest nominal sales growth in Q4 2016 was generated by the RESERVED and MOHITO brands while the fastest growing brand in the portfolio was SiNSAY.

	Sales 4Q 2015 in mln PLN	Sales 4Q 2016 in mln PLN	Increase y/y
RESERVED	754	828	9.8%
Cropp	234	269	14.7%
MOHITO	175	211	20.9%
House	216	245	13.2%
SiNSAY	105	135	29.0%
Tallinder	0	5	n/m

3. Sales in comparable stores

Sales revenues in LFL stores (excluding changes in local currency exchange rates in countries where the Group companies operate) in every month of Q4 were positive, in Q4 2016 increased by 5.1%, and in 2016 by 6.4%.

In Q4 2016, the highest two-digit positive LFL sales growth took place in Russia, Ukraine, Romania, Czech and Hungary.

4. Online sales

In Q4 2016, the Company gained revenues of PLN 73.0 million from the online sales, which constituted 3.9% of the Capital Group's sales. Approx. 80% of the online sales were generated domestically.

Online sale in mln PLN			
Q1-Q4 2013	Q1-Q4 2014	Q1-Q4 2015	Q1-Q4 2016
26.7	64.8	79.3	173.1

Online sale in mln PLN				
Q1 2016	Q2 2016	Q3 2016	Q4 2016	Total
27.4	41.2	31.6	73.0	173.1

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 Q4 2016	% share in Q4 2016	Revenues from 01.01.2016 till 31.12.2016	% share in period from 01.01.2016 till 31.12.2016
LPP SA	Poland	1 091 743	58.9%	3 542 861	58.8%
- including revenues from the Middle East		5 134		31 442	
LPP Estonia OU	Estonia	24 449	1.3%	88 896	1.5%
LPP Latvia LTD	Latvia	20 313	1.1%	73 902	1.2%
LPP Czech Republic SRO	Czech Republic	99 954	5.4%	280 250	4.7%
LPP Hungary KFT	Hungary	28 749	1.5%	76 349	1.3%
LPP Lithuania UAB	Lithuania	26 621	1.4%	93 622	1.6%
LPP Ukraina AT	Ukraine	62 960	3.4%	225 547	3.7%
Re Trading OOO	Russia	292 648	15.8%	1 043 800	17.3%
LPP Romania Fashion SRL	Romania	45 071	2.4%	111 015	1.8%
LPP Deutschland GmbH	Germany	68 146	3.7%	193 553	3.2%
LPP Croatia DOO	Croatia	18 996	1.0%	60 448	1.0%
LPP Bulgaria EOOD	Bulgaria	14 129	0.8%	58 296	1.0%
LPP Slovakia SRO	Slovakia	61 212	3.3%	172 095	2.9%
Total		1 854 990	100.0%	6 020 633	100.0%

6. Sales per m2

LPP's sales per m2 in Q4 of 2016 increased by 7.9% compared to the previous year.

Sales / m2 / month	Q4 2015	Q4 2016	Change (%)
in PLN			
Sales/m2	631	680	7.9%

7. Capital expenditures

In Q4 2016, capital expenditures (CAPEX) were PLN 84 million, which is 45% less compared to Q4 of the preceding year due to a lower number of new openings and prolongation of payment terms for construction suppliers by the first quarter of 2017.

8. Inventory level per m2

The 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 Q4 2016, the inventory level per m2 was lower compared to Q4 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	1 275

Other significant events in Q4 2016:

1. On 25 October 2016, the Company submitted an early repayment request in respect of the investment credit facility extended by PKO Bank Polski SA under the agreement dated 13 August 2008 (CR 51/2016).
2. On 28 October 2016, the Company 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 53/2016).
3. On 27 December 2016, a subsidiary LPP Reserved doo Beograd with its registered office in Belgrade was registered (CR 59/2016).
4. In Q4 2016, the Issuer sold all shares held in the Bank of Cyprus. These shares were owned by a subsidiary of LPP SA i.e. Gothals with its registered office in Cyprus. The shares had been subscribed to following a resolution adopted by the Cypriot government in order to save the financial standing of Cyprus. As a result of the said resolution, the funds kept by LPP SA on 23 March 2013 on the bank accounts operated by the Bank of Cyprus were converted into A-class shares in the said bank. The Group held shares in the Bank of Cyprus, the value of which was PLN 10 366 thousand at the time of the acquisition transaction and PLN 1 516 thousand at the time of their disposal due to a decrease in the share price.
5. In Q4 2016, the Issuer sold the stock from the old collection of a value of PLN 138 million for PLN 26 million. The recipient of the goods was an international company which specializes in the trading in out-of-season clothing. This stock will be sold on markets where the LPP Group does not conduct its activity. The operation involving the sale of the old collection to an external entity is a result of the new goods management policy.

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 Q4 2016 as compared to those gained a year ago. A gross margin was reduced from 54.8% a year ago to 50.8% in the period discussed, which was caused by the operation involving the sale of the goods from the old collection to an external entity.

An increase in SG&A expenses resulted from higher costs of stores and the headquarters, which resulted in the operating profit being generated in the amount of PLN 201.9 million i.e. 14% less than the one gained a year ago (PLN 235.4 million).

The balance of revenues and financial expenses in Q4 was negative.

Consequently, in Q4 2016, the Capital Group recorded a net profit of PLN 158.2 million (compared to the net profit of PLN 172.3 million in Q4 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 is a feature of the entire clothing market both in Poland and abroad. The fourth quarter of a calendar year is considered the best quarter for companies operating in this branch. Consequently, also this year, as in preceding years, the companies of the LPP SA Capital Group gained the highest profits during the quarter covered by this report.

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 and effected on terms other than at 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 Q4 2016 and the comparable period are presented in Note 35.8.

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

In Q4 2016, part of subscription warrants of the A series were converted into shares of the L series in the share capital of LPP SA. Due to the said conversion, 4 084 bearer shares of the L series were issued. After the said issue, the Issuer's share capital amounts to PLN 3 678 582 and is divided into 350 000 registered shares and 1 489 291 bearer shares. Consequently, the total number of votes at the general meeting is 3 220 313 (the Company has also 18 978 equity shares giving no voting rights and, therefore, votes attached to those shares have not been included in the total number of votes at the General Meeting of Shareholders).

The new shares of the L series constitute 0.2% of the Issuer's share capital and 0.1% of the total number of votes at the Issuer's general meeting (CR 50/2016).

Shares of the L series has been dematerialised and admitted and, subsequently, introduced to trading on the stock exchange in February 2017 (CR 5/2017 and CR 08/2017).

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

There were no such events in the reporting period.

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 22nd February 2017.

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

On 20 January 2017, the Issuer received from the Tax Audit Office (*Urząd Kontroli Skarbowej*) in Gdańsk the analysis of evidence material, being the outcome of the tax audit carried out by the said Office since 2015 in respect of the reliability of declared tax bases and the correctness of calculation and payment of CIT for 2012. Detailed information on the said issue is provided for in item 30.

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 (26 December 2016), LPP SA gained control over a newly incorporated company LPP Reserved doo Beograd with its registered office in Belgrade, Serbia. LPP SA is a founder and sole shareholder of the said subsidiary.

In December 2016, the company P&L Marketing & Advertising Agency S.A.L was incorporated in Lebanon. As at 31 December 2016, the said company was not a subsidiary and it was not a member of the LPP SA Capital Group.

At present, a procedure is being conducted for registering an increase of the said company's share capital, with a majority of the shares to be subscribed to following the said increase by Gothals LTD, a subsidiary of LPP SA. Therefore, P&L Marketing & Advertising Agency S.A.L in Lebanon will become a member of the LPP SA Capital Group. The said company will be engaged in supervising franchise stores in the Middle East and in the marketing activity in that region.

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 Q4 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 31 December 2016, the total value of bank guarantees granted at the request and on the responsibility of LPP SA amounted to PLN 261 218 thousand, of which:

- a) guarantees granted to secure agreements concluded by LPP SA - PLN 77 927 thousand,
- b) guarantees granted to secure agreements executed by consolidated related parties amounted to PLN 181 262 thousand,
- c) guarantees granted to secure agreements executed by non-consolidated related parties amounted to PLN 1 720 thousand,
- d) guarantees granted to secure storage space lease agreements concluded by LPP SA - PLN 309 thousand.

In Q4 2016, the Company also received guarantees. These guarantees were collateral from the counterparty payments, their value as at 31 December 2016 amounted to PLN 21 908 thousand.

In the reporting period the Parent Company provided guarantees; their value as at 31 December 2016 amounted to PLN 110 903 thousand and increased compared to 31 December 2015 by PLN 9 953 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 31 December 2016, are as follows:

- payables maturing within 12 months after the balance sheet date PLN 873 646 thousand
- payables with the maturity date from 12 months to 5 years from the balance sheet date PLN 2 536 618 thousand
- payables maturing within more than 5 years from the balance sheet date PLN 1 453 483 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 Q4 2016:

Shareholder	Number of shares held	Share in the share capital	Number of votes at the AGM	Share in the total number of votes at the AGM
Marek Piechocki	175 497	9.5%	875 493	27.2%
Jerzy Lubianiec	174 999	9.5%	874 995	27.2%
Forum TFI SA	200 730	10.9%	200 738	6.2%
Treasury shares	18 978	1.0%	0**	0.0%
Other shareholders	1 269 087	69.0%	1 269 087	39.4%
Total	1 839 291	100.0%	3 220 313	100.0%

*Forum TFI SA manages Forum 64 Closed-End Investment Fund (an entity affiliated with Mr Jerzy Lubianiec, a shareholder of LPP SA) and Forum 65 Closed-End Investment Fund (an entity affiliated with Mr Marek Piechocki, a shareholder of LPP SA). The funds managed by Forum TFI SA hold directly 195 050 shares in LPP SA and indirectly 5 680 shares in LPP SA.

** 18 978 shares in LPP SA give no right to vote at the General Meeting of Shareholders as these are equity shares of LPP SA

In the period following the submission of the previous quarterly report i.e. the one for Q3 2016, there was a change in major shareholdings in LPP SA, of which the Company notified in CR 60/2016 on 27 December 2016.

FORUM 64 Closed-End Investment Fund managed by FORUM TFI acquired from its subsidiary i.e. Hoja SCSp with its registered office in Luxembourg 51 338 book-entry shares and 1 registered share, that is in total 51 339 shares in the Company.

FORUM 65 Closed-End Investment Fund managed by FORUM TFI acquired from its subsidiary i.e. Quarter SCSp with its registered office in Luxembourg 143 710 book-entry shares and 1 registered share, that is in total 143 711 shares in the Company.

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 Q4 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

Additionally, the Issuer's managing officers hold rights to subscribe to 13,132 shares of the L series, arising from the possibility of converting subscription warrants of the A series into shares in LPP SA.

In the period following the submission of the previous quarterly report (the one for Q3 2016), there were no changes in the structure of the holding of LPP SA shares by the Issuer's managing or supervising officers.

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.

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

At the same time, the Company informs that, due to a tax audit procedure carried out since 2015 by the Tax Audit Office (*Urząd Kontroli Skarbowej*) in Gdańsk (further referred to as "TAO"), of which the Issuer informed in preceding quarterly reports, on 20 January 2017, the Company received the analysis of evidence material collected during the audit procedure covering the reliability of declared tax bases and correctness of calculation and payment of CIT for 2012.

In the current report dated 20 January 2017 (CR 04/2017), the Company informed of the maximum amount of tax with interest with which it could potentially be charged in case of issuance by the TAO of a decision based on the findings adopted by the TAO in the said analysis.

On 6 February 2017, the Issuer filed a letter with the TAO, in which the Issuer presented its standpoint on the analysis of evidence material, made by the TAO.

The Company's Management Board holds the view that LPP SA has correctly settled income tax and that there are no prerequisites for the TAO to issue a decision charging the Company with an additional tax liability for 2012.

The audit procedure has not been completed yet due to the works carried out by the TAO in order to determine the facts of the case.

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 31 December 2016 amounted to PLN 3 408 thousand, of which PLN 3 224 thousand was received by members of the Management Board and PLN 184 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 31.12.2016	Liabilities as at 31.12.2016	Revenue for the period I-XII 2016	Expenses for the period I-XII 2016
Domestic companies	1	94	15	9 742

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 2017, there are plans to increase the area of the store chain by 11.7% i.e. by approx. 107.8 thousand sq.m. The CAPEX planned in 2017 amounts to approx. PLN 440 million, which is approx. 60% y/y more due to the quicker increase in retail space (planned expenditures of PLN 380 million for stores and PLN 60 million for the headquarters). The Group's gross margin in 2017 is planned at 52-53%.
- f) Development of e-commerce: in 2017, the Issuer plans to launch online RESERVED stores on 6 new markets: in Russia, Ukraine, Lithuania, Latvia, Estonia 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 31 December 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	18 381	46 865	5 162
decrease	837	11 933	2 446
As at 31.12.2016	20 885	57 621	15 912

In 2016, 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 parent company to abandon further development of the Tallinder brand at the end of Q3 2016 (CR 46/2016).

Therefore, the value of revaluation write-downs was estimated for tangible fixed assets and intangible assets.

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 31 December 2016.

As at 31 December 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 14 914 thousand.

Additionally, a 100% revaluation write-down was made in respect of the value of undepreciated intangible assets relating to the Tallinder brand, in the amount of PLN 2 819 thousand.

Due to the change in the management policy applied to goods from preceding collections, described in detail in item 2, revaluation write-downs applied to the value of goods have been also increased. As at 31 December 2016, the said value amounted to PLN 57 621 thousand.

35.2. Receivables

The value of the write-down comprises:

revaluation write-down of receivables and claimed receivables from customers: PLN 14 827 thousand

revaluation write-down of doubtful receivables: PLN 506 thousand

revaluation write-down of receivables from employees and other: PLN 579 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:

	31.12.2016
Cash and its equivalents shown in the financial statement	365 575
<i>Adjustments:</i>	
Exchange rate differences from the balance sheet valuation of cash denominated in foreign currencies	452
Cash and its equivalents shown in the CFS	366 027

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	2 711	12 924	5 551	18 700
provisions reversed	2 179	6 873	0	13 437
As at 31.12.2016	2 711	10 388*	5 551	18 700

*This provision relates to the bonus for the second half of 2016, payable in Q1 2017.

In 2016, a provision was made for future liabilities. This provision mainly stems from the decision of the Management Board of the parent company, made in Q3 2016, to abandon further development of the Tallinder brand (CR 46/2016). The value of provisions relating to Tallinder amounts to PLN 3 455 thousand.

The parent 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 31.12.2016 and comparative period are presented in the table below.

	from 01.01.2016 until 31.12.2016	from 01.01.2015 until 31.12.2015
Current income tax	32 128	56 053
Deferred income tax	- 11 111	6 995
Total	21 017	63 048

35.6. 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	31.12.2016
Amortisation of fixed and intangible assets	119 313
Margin on goods unsold outside the Group	5 948
Margin from the sale of investments	10 349
Revaluation of inventories	1 633
Revaluation of receivables	323
Commodity returns	915
Employee leave	969
Remuneration and surcharges	2 031
Severance pays	422
Cost estimates	1 253
Other	919
Total	144 075
Deferred tax liabilities	31.12.2016
Amortisation of intangible assets	5 701
Outstanding damages	157
Other	74
Total	5 932

35.7 Exchange rate differences

The consolidated profit and loss account drawn up as at 31 December 2016 presents an excess of taxable foreign exchange differences over deductible foreign exchange differences of PLN 7 261 thousand.

35.8. Operating segments

Revenues and financial results concerning geographical segments for the period between 1 January 2016 and 31 December 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	4 867 335	1 153 298	0	0	6 020 633
Intersegmental sales	649 505	636	-650 141	0	-
Other operating income	35 515	3 864	0	0	39 379
Total revenues	5 552 355	1 157 798	-650 141	0	6 060 012
Total operating costs, including	5 023 501	1 148 161	-681 901	203 480	5 693 241
Costs of intersegmental sales	560 400	636	-561 036	0	-
Other operating costs	77 503	59 131	0	838	137 472
Segment results	451 351	-50 130	31 760	-204 318	229 299
Financial income				1 307	1 307
Financial costs				33 649	33 649
Profit/loss before tax					196 957
Income tax					21 017
Net profit/loss					175 940

2015

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

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 December 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 99 753 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.

The Management Board of LPP SA:

Marek Piechocki	President of the Management Board
Przemysław Lutkiewicz	Vice-President of the Management Board
Jacek Kujawa	Vice-President of the Management Board
Sławomir Łoboda	Vice-President of the Management Board

Gdansk, 22nd February 2017