LPP SA

CONSOLIDATED ANNUAL REPORT FOR 2017

SOCIALLY RESPONSIBLE COMPANY

POLISH COMPANY

FAMILY-RUN COMPANY

SOCIALLY RESPONSIBLE COMPANY

- Ethical
- Manufacturing responsibly
- Caring for workplaces
- Giving support to its employees and partners
- Environmentally friendly

POLISH COMPANY

- Our roots are in Poland
- All strategic decisions are made in Poland
- All our concepts are designed in Poland
- Our brand concepts have been made in Poland
- We pay all due taxes in Poland
- Our key shareholders live in Poland

FAMILY-RUN COMPANY

- Created and managed by Polish entrepreneurs – partners from student years
- Family-based capital and determination to preserve *status quo*
- Stability and long-term vision matched with large investments is at the heart of our development instead of consuming profit,
- The welfare of the company and its people is more important than the company's short-term profits


LPP
SERVED
KATE
MOSS
reserved.com
LONDON GENERAL TRANSPORT SERVICES LTD
No. 18 MERTON HIGH STREET
LONDON
SW19 1DN
ULW12460KGS

Contents

The Reserved store at the prestigious Oxford Street in West End London

01

Letter from the President of the Management Board to the Shareholders

Dear Shareholders,

For LPP, the year 2017 was undoubtedly the best year in the company's history. It was a period in which the market success of our five brands was reflected in a higher than average level of turnover, never seen before in the 27-year history of LPP.

We have reached this achievement thanks to the commitment and passion of 25 thousand of our employees creating this company. The 17-percent increase in revenues, which this year exceeded PLN 7 bln, proves also that a Polish socially responsible family-run company is capable of succeeding in difficult current market conditions. In the past year, our perseverance and determination in satisfying even the most demanding customers let us yield together a net profit of PLN 441 mln, which was 150% higher that the results earned a year before. This is great success for all of us.

Ethics, a responsible manufacturing process and care for our employees, contracting parties and the environment have always been, and will be, the cornerstones of our philosophy, and we expressed those values also in the past year. Yet, we have not been satisfied with the success we have achieved so far. In 2017, we continued our hard research and development work having engaged talented young people who help us to create in Poland the concepts of our brands and successfully implement them on new markets. We sincerely want LPP to be a contemporary developing company with Polish roots, with our added value being its strength.

I consider the last year to be successful also thanks to landmark decisions we made at that time. The debut of the Polish flagship Reserved brand on the demanding British market was a great chance for us to promote Polish creative ideas in Western Europe. Just like our every other flagship store, the one in Great Britain has been created with joint efforts of our experts and Polish subcontractors. In 2017, we successfully started business activity on two other markets, namely in Serbia and Belarus. Today, our portfolio of already 1743 stores available in 20 countries in Europe and the Middle East exceeds in total the area of 1 million m^2. Today, the creativity of Polish LPP designers is known in the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Bulgaria, Romania, Croatia, Belarus, Serbia, Russia, Ukraine as well as in Germany and Great Britain. The Reserved stores are available for our customers even in the Middle East, Egypt, Kuwait, Qatar and United Arab Emirates. In 2018, the area of our stores may increase even by another 100 thousand m^2.

We are planning to expand our operations further – to the markets in Kazakhstan and Slovenia, and also to open new franchise stores in Israel. These are new markets where we will be offering our brand collections.

Year by year, our exports operations become more and more efficient. Last year, their value exceeded PLN 3 bln, constituting almost a half of sales revenues of the LPP CG. We are proud that, owing to the above, Polish creative ideas boost Polish economy, proving the effectiveness of a Polish family-run company, whose achievements become known to a growing. number of recipients in and outside the European continent. We want to continue this process and, consequently, contribute to the budget of the Polish economy as this is the place we come from. During only the last 7 years, thanks to our operations, we contributed to the state budget over PLN 4 bln in all taxes paid. In 2017 only, that amount exceeded PLN 800 mln.

We want to continue expanding our worldwide chain of stores and boost Polish exports. During the last 7 years, we spent already PLN 2.7 bln for that purpose, and, by the end of 2020, we plan to have invested another PLN 1 bln to satisfy the needs and tastes of a growing number of recipients even in far parts of the world. In 2017 only, we spent PLN 370 mln on developing the traditional sales network.

25+

years of the Company's history

PLN 7 bln

of revenue

25 000

jobs

We set ambitious goals for 2018. They comprise improvement of trade margins, further dynamic growth of e-commerce and a 10% y/y increase in retail space.

The year 2017 was a breakthrough also thanks to the great success we achieved in online sales, which doubled within only the last 12 months. Our expansion in this area has proven that our decision to develop this sales channel was sound, giving us the possibility of reaching even more customers of our Polish brands. Today, online stores of LPP brands operate on 11 European markets and, in 2018, we plan to start our operations on five new markets. I am convinced that the strategy of increasing the availability of our brands for customers is the right direction in terms of LPP's development.

I think that, last year, we succeeded to convince all, that is both our customers and shareholders, that stability, responsibility and care for stakeholders are of more importance for us than short-term profits. We will carefully and diligently cherish these values also next year. What we focus on is enhancing skills and the manufacturing process as well as improving the textile industry having regard for the welfare and satisfaction of our business partners. That is why, next year, we want to significantly increase our expert staff by hiring specialists in IT, e-commerce, logistics and product departments. Our priority will be talented designers, technologists and graphic designers whose creativity and innovative talents will enable us to start operating successfully on new markets, still caring for the needs of our domestic customers. Last year, in recognition of our clients' needs, we focused on developing the omnichannel since the speed of delivery and ensuring flexible sales terms for our products is of major importance. Therefore, our next year's efforts will be devoted to further hard work on new IT technologies which, in our opinion, are the future of retail sales.

An ancillary element of this plan was our steps taken to develop distribution centres. We opened a distribution centre in Stryków, in Central Poland, on the crossing of main Polish highways, and another one also in Russia near Moscow, being one of the most rapidly developing markets in our portfolio. Due to the strengthening of the logistics network and its further expansion in 2018, we will be able to meet the requirements of our e-commerce clients and significantly speed up deliveries of products ordered online. To confirm the viability of LPP's development in this area, we show the last year's results on online sales, totalling PLN 361 mln, i.e. 108% more compared with 2016. We expect that, next year, growth dynamics may be at a similar level and, consequently, we will double the record made in 2017.

I am convinced that our results, stability and perseverance, reflected in the figures you will learn from this report, will give sufficient proof that we seriously care for the interests of our shareholders and the satisfaction of our customers. I do believe that the decisions we have made so far will give you grounds to acknowledge that a company like LPP is a valuable and responsible Polish partner with a promising future, and that maintaining further relations with LPP is an asset, not only in financial terms.

Marek Piechocki, President of the Management Board of LPP SA

02

Non-Financial Information

F

FIRE–FUELLED

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

A

AMBITION–DRIVEN

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

S

SOCIALLY–RESPONSIBLE

We care for our closer and further surroundings. We support our employees and partners. We listen to their needs to act in harmony with nature.

T

TEAM–ORIENTED

The opinion of each team member is just as important. We treat everyone as we would like to be treated ourselves. Respect, justice and tolerance are our guideposts of action.

”

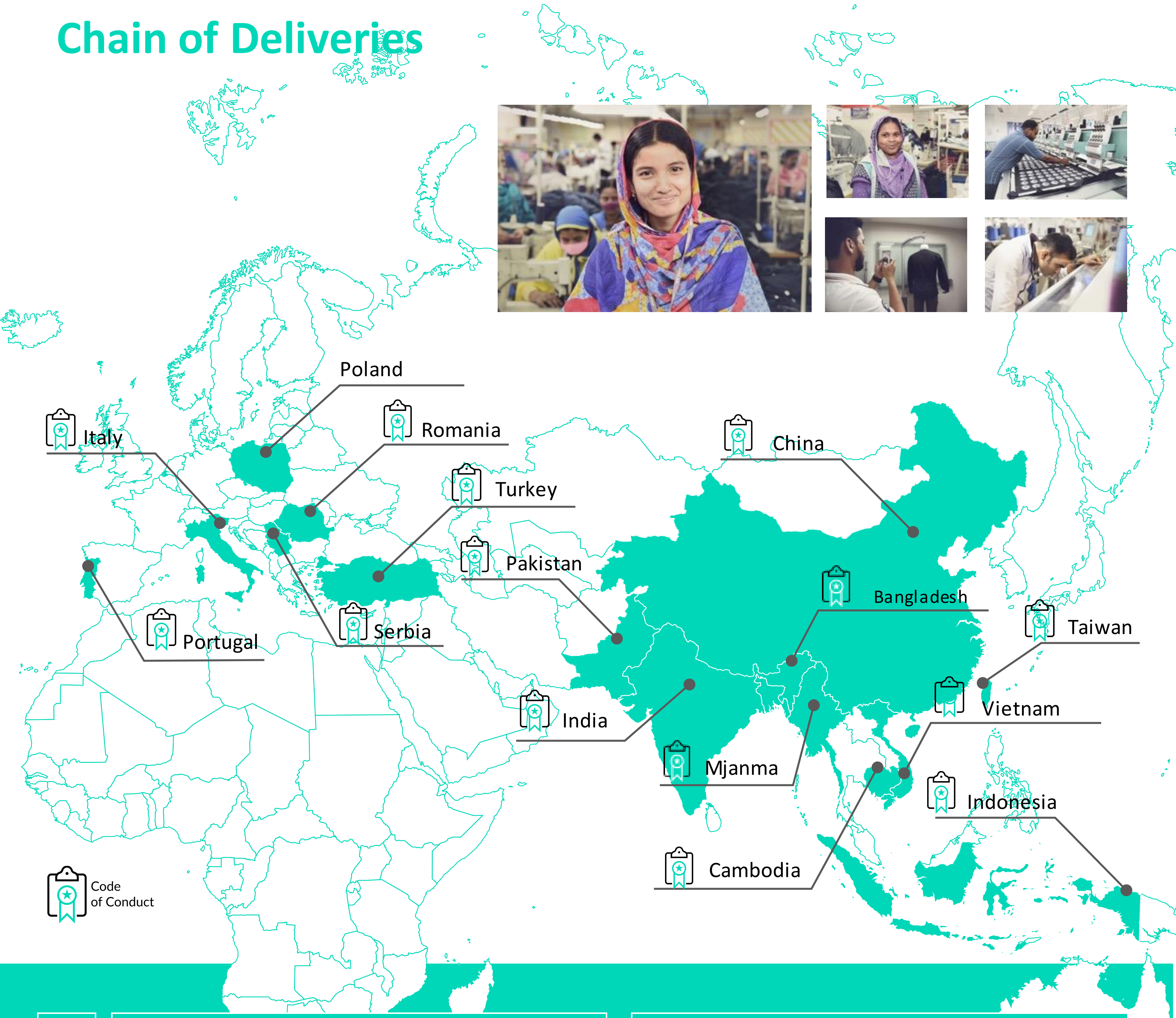
OUR MISSION

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

OUR VISION

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

Chain of Deliveries



POLAND

72
suppliers in Poland

11.2%
of Mohito collections originate from Poland

BANGLADESH

SGS

Employment terms and conditions

Salaries

ACCORD
on Fire and Building Safety in Bangladesh

Building's structure

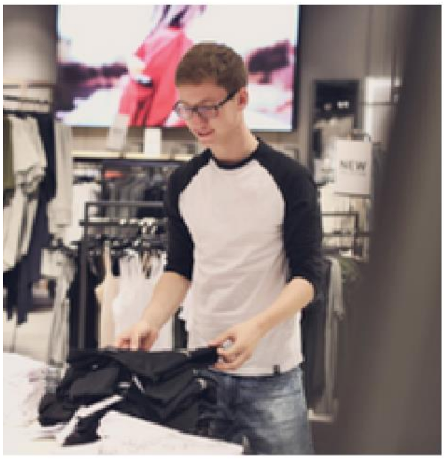
Electricity

Fire safety

Code of Conduct

The Code of Conduct serves as the basis for our actions in the chain of deliveries. It sets forth the requirements to be observed by suppliers. Its wording incorporates global guidelines for safety at work, decent conditions and a wage policy.

- The wage policy and formal employment requirements
- The unconditional ban to employ children and regulations governing employment of youth workers
- Voluntariness of work
- Freedom of association
- Equal treatment of all workers
- Health and work safety standards
- Suppliers' environmental duties



We invest in the development of youngsters from Pomerania who are about to take their first steps on the job market. The project is addressed to those from children's care homes who are beginning their adult lives.

PIERWSZA
PRZYMIARKA

The "First Fitting" is a pilot programme for young people at risk of social exclusion, which is financed and implemented by LPP in cooperation with the Foundation for Social Innovation.

LPP TEAM

PLN 250 000
for investments

37
starts in triathlons

11
the numer of sports competitions in which the most active sportsman took part

LPP TEAM for KIDS

160
employees in action

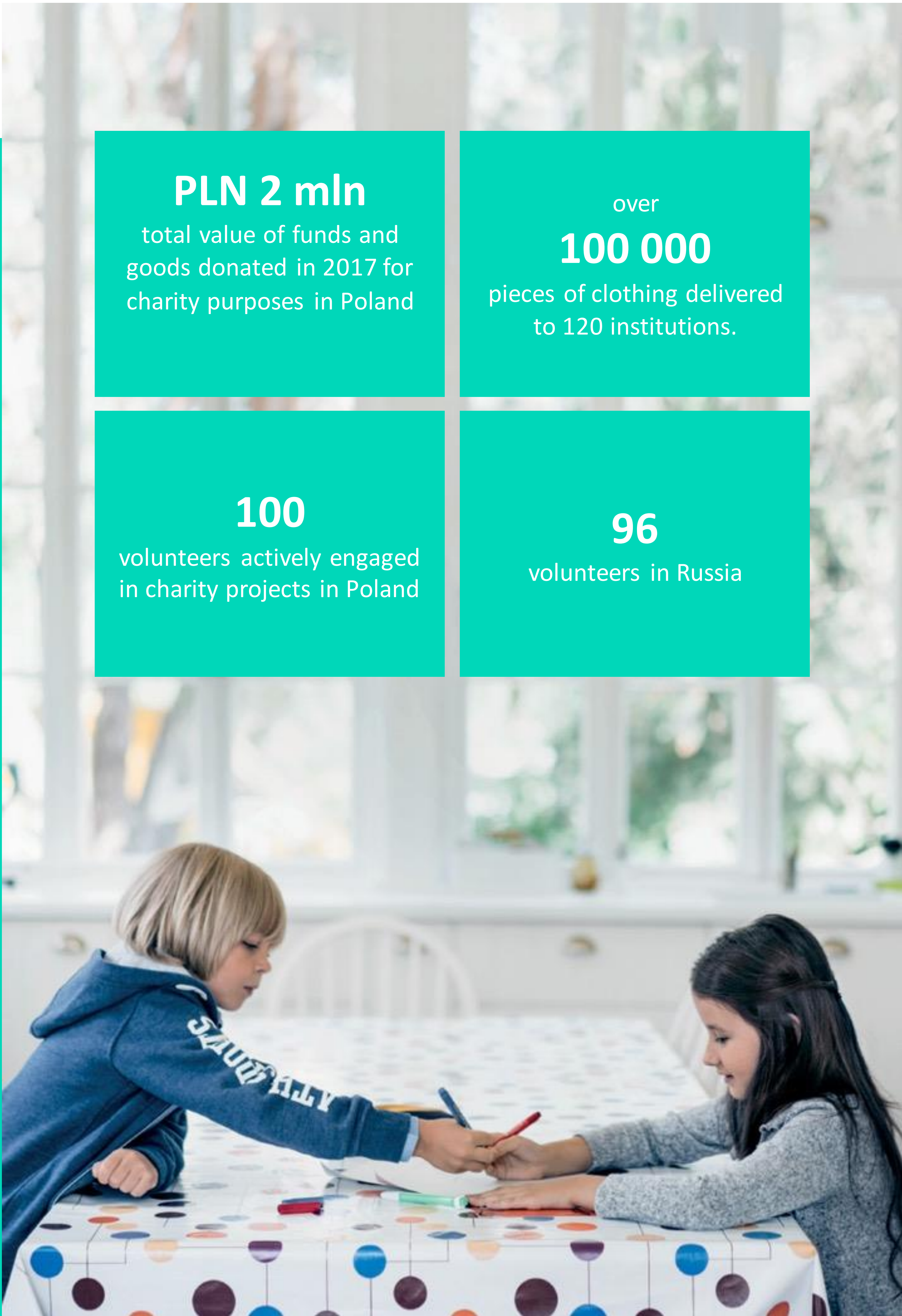
3 mln
calories burnt

PLN 35 000
collected for children's homes in Gdańsk and Cracow

LPP Ambassador Programme

The appointment of LPP Ambassadors is aimed at starting cooperation between students in chosen Polish cities and the HR department responsible for sales network issues. The project's goal is to develop a positive image of LPP's portfolio brands and the Company as an attractive employer in selected higher schools and at universities and to:

- promote current job offers for positions in LPP's store chain,
- reach out to a wider group of prospective work candidates for LPP's chain stores,
- enable students and graduates to get to know the Company from inside.



PLN 2 mln
total value of funds and goods donated in 2017 for charity purposes in Poland

over
100 000
pieces of clothing delivered to 120 institutions.

100
volunteers actively engaged in charity projects in Poland

96
volunteers in Russia

03

Selected Financial Data of the LPP SA Capital Group

Selected financial data of the LPP SA CG

Selected consolidated financial data*	In PLN thousand		In EUR thousand	
	2017	2016	2017	2016
	01.01-31.12	01.01-31.12	01.01-31.12	01.01-31.12
Revenues	7 029 425	6 019 046	1 656 048	1 375 562
Operating profit (loss)	578 434	226 421	136 272	51 745
Pre-tax profit (loss)	563 671	194 078	132 794	44 354
Net profit (loss)	440 774	174 775	103 841	39 942
Profit (loss) per ordinary share	241.36	96.19	57.87	21.98
Net cash flows from operating activities	893 185	718 176	210 424	164 128
Net cash flows from investing activities	-383 934	-181 354	-90 450	-41 446
Net cash flows from financing activities	-359 872	-393 849	-84 781	-90 008
Total net cash flows	149 379	142 973	35 192	32 674

*data converted at the PLN/EUR exchange rate: 2017: 4.2447; 2016: 4.3757

Selected consolidated financial data*	In PLN thousand		In EUR thousand	
	2017	2016	2017	2016
	01.01-31.12	01.01-31.12	01.01-31.12	01.01-31.12
Total assets	4 206 819	3 677 932	1 008 612	831 359
Long-term liabilities	233 140	267 254	55 897	60 410
Short-term liabilities	1 530 248	1 275 947	366 887	288 415
Equity	2 443 446	2 134 731	585 832	482 534
Share capital	3 705	3 679	888	832
Weighted average number of ordinary shares	1 826 537	1 816 932	1 826 537	1 816 932
Book value per share	1 337.75	1 174.91	320.73	265.58
Declared or paid dividend per share	35.74	33.00	8.42	7.46

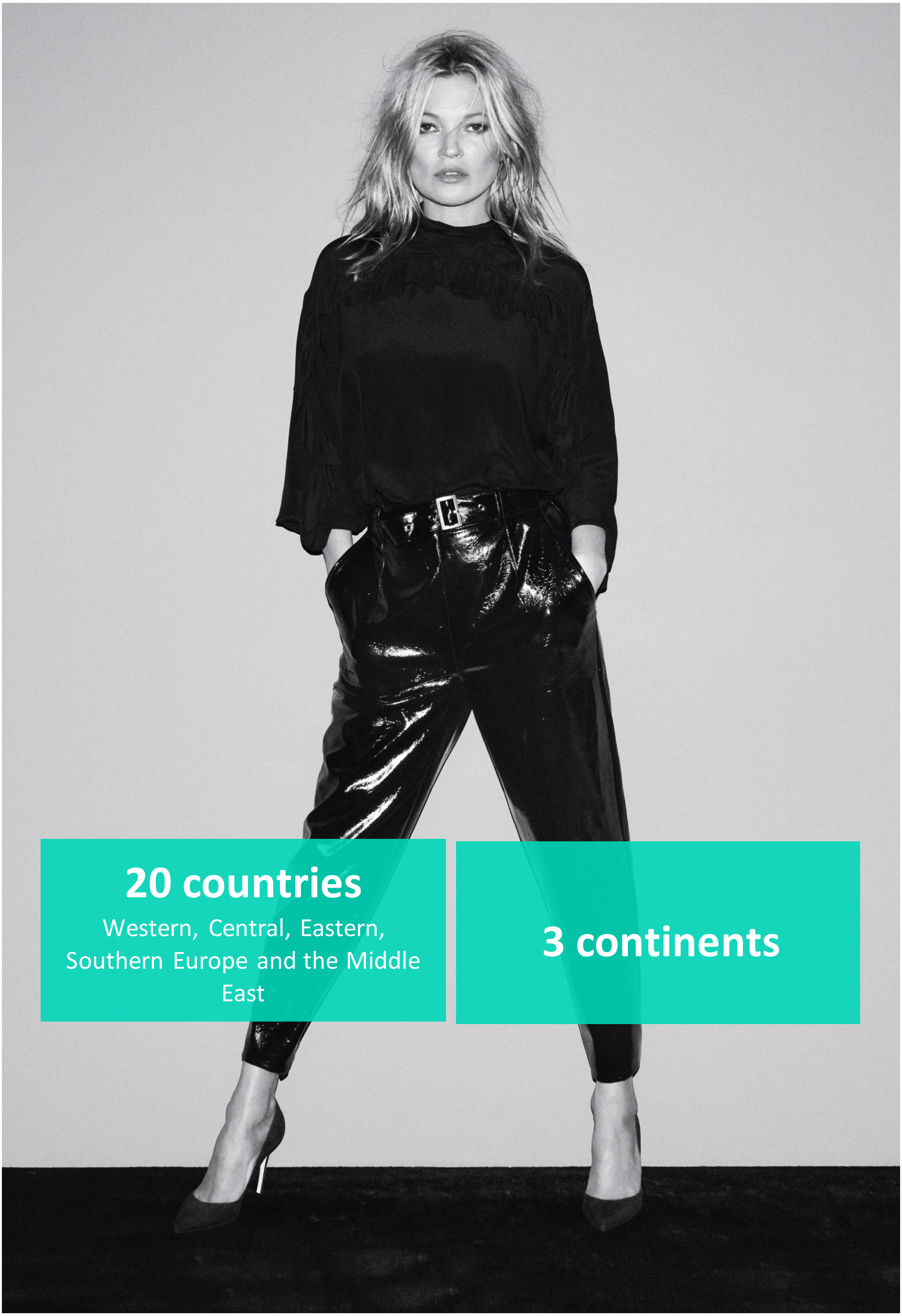
* data converted at the PLN/EUR exchange rate: 2017: 4.1709; 2016: 4.4240

Global Success of the New Reserved Collection

04

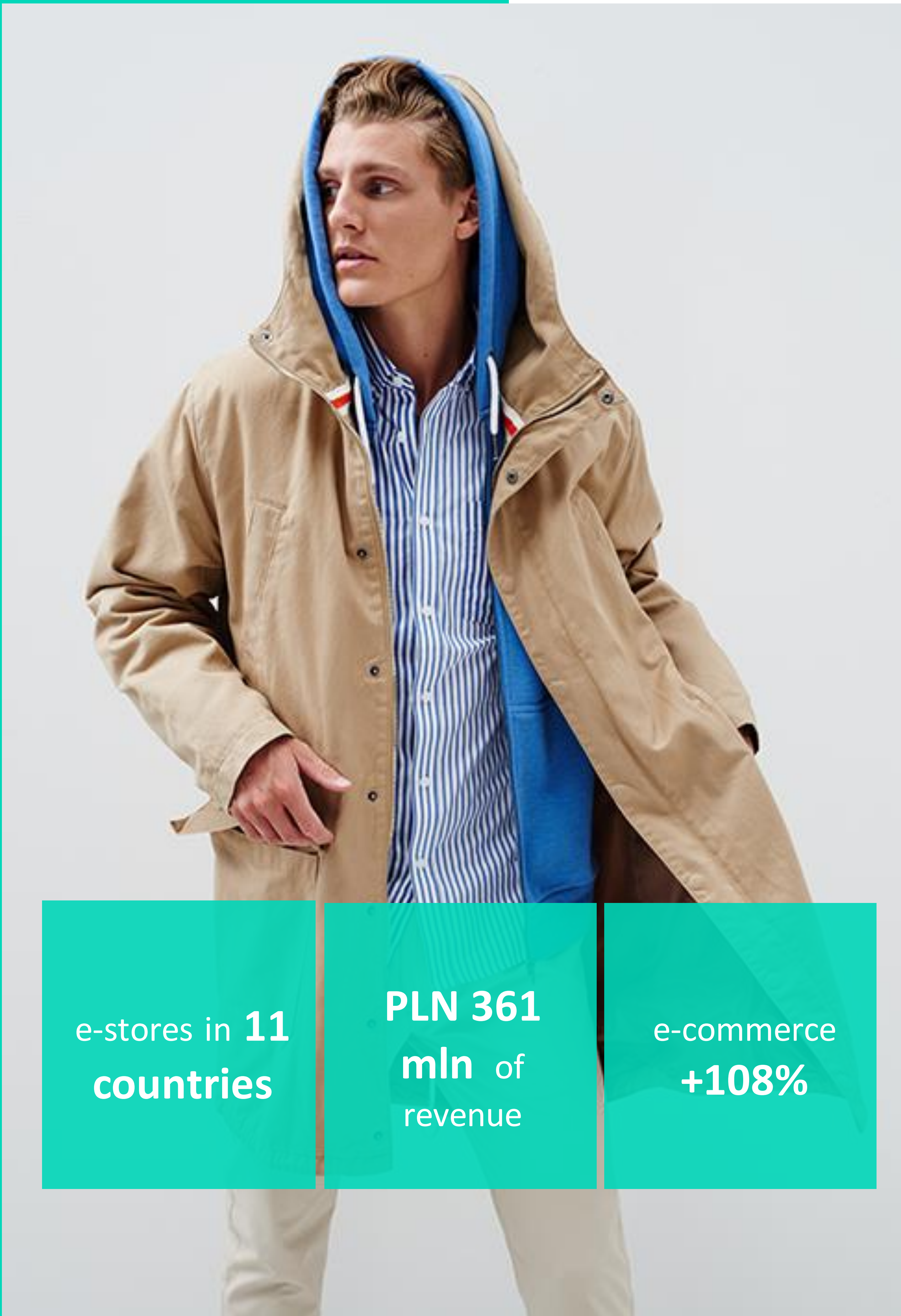
Management Board's Report on the Operations of the LPP SA CG, Including a Declaration of Corporate Governance for 2017

(with due consideration of disclosure requirements for the Report on the Operations of the Parent Company for the said period)


20 countries
Western, Central, Eastern, Southern Europe and the Middle East
3 continents

+17%
in the CG's sales

+10%
LFL


e-stores in 11 countries
PLN 361 mln of revenue
e-commerce +108%

1. Introduction

This Report of the Management Board on the operations of the LPP SA Capital Group for 2017 incorporates information the scope of which has been set forth in §§ 91-92 of the Regulation of the Minister of Finance, dated 19 February 2009, on current and interim information provided by issuers of securities [...] (the Regulation).
Under § 83 subparagraph 7 of the Regulation, this report comprises also disclosures required for the Report on the operations of the Parent Company, referred to in § 91 subparagraph 1 point 4 of the Regulation.
The consolidated annual report, comprising consolidated financial statements and this report on the operations, was drawn up under § 91 and § 92 in connection with § 82 subparagraph 1 point 3 and § 82 subparagraph 2 of the Regulation.
The rules for drawing up annual financial statements have been provided for in subsequent notes to these statements.

2. Operating Information

2.1. Composition of the LPP SA Capital Group

The LPP SA Capital Group is composed of 5 Polish companies (including the Parent Company) and 20 foreign companies.
The consolidated financial statements of the CG, covering the period between 1 January and 31 December 2017, include separate results of LPP SA and the results of foreign subsidiaries listed below:

LPP Estonia OU	LPP Slovakia SRO
LPP Czech Republic SRO	LPP Fashion Bulgaria EOOD
LPP Hungary KFT	Gothals LTD
LPP Latvia LTD	LPP Croatia DOO
LPP Lithuania UAB	LPP Deutschland GMBH
LPP Ukraina AT	IPMS Management Services FZE
Re Trading OOO	LPP Reserved UK LTD
LPP Romania Fashion SRL	LLC Re Development
LPP Bulgaria EOOD	LLC Re Street
LPP Reserved doo Beograd	P&L Marketing&Advertising Agency SAL

The financial statements of the Capital Group do not incorporate the consolidation of Polish subsidiaries of LPP SA due to the irrelevance of data. This is compliant with the Accounting Policy adopted by the Group.

2.2. Information on the basic operations of the LPP Capital Group

LPP SA, as a parent company, is involved in the design and distribution of clothing in Poland and the countries of Central, Western and Eastern Europe, in the Balkans and the Middle East. The Group companies being consolidated are involved in the distribution of goods under the Reserved, Cropp, House, Mohito and Sinsay brands outside Poland. Three domestic subsidiaries are engaged in the lease of real properties where the stores of Reserved, Cropp, House and Mohito are operated. One domestic subsidiary, LPP Retail Sp. z o.o., is engaged in the handling of domestic stores.
Clothing is the basic commodity sold by the LPP SA Capital Group companies. Footwear, bags and clothing accessories are sold as products supplementing the basic offer of the Capital Group companies.
Designs of clothing are prepared in the LPP design offices located in Gdańsk (in the registered office of the Parent Company), Cracow and Warsaw, and then transferred to the purchasing department which orders the production of specific models, cooperating in this respect with manufacturing plants in Poland and abroad (in, among others, China and Bangladesh).
Production in China is distributed through 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 manufacturing plants in terms of adequate working conditions and respect for human rights.
The Capital Group also generates revenues from the sale of services (these are, in total, revenues of the Parent Company, covering mainly services relating to know-how on the operation of brand stores by domestic contracting parties).
An additional object of business in the Group is the management of the Reserved, Cropp, House, Mohito and Sinsay trademarks, including their protection, activities aimed at increasing their value, the granting of licences for use etc. The companies Gothals Limited in Cyprus and IPMS in UAE were established for that purpose. The company P&L Marketing & Advertising SAL with its registered office in Lebanon is in charge of supervision of franchise stores in the Middle East and marketing activity in the said region.

The main distribution channels guaranteeing the development of the Capital Group are chains of Reserved, Cropp, House, Mohito and Sinsay stores and on-line stores of each of the above-listed brands. Individual customers are the recipients of products both in regular and online stores.

Source of revenues	2016		2017		Change
	in PLN '000	Share in sales volume %	in PLN '000	Share in sales volume %	%
Sales of trading commodities	5 997 444	99.6%	7 005 440	99.7%	16.8%
Sales of services	21 602	0.4%	23 985	0.3%	11.0%
Total	**6 019 046**	**100.0%**	**7 029 425**	**100.0%**	**16.8%**

Poland	Estonia	Czech Rep.	Lithuania	Latvia	Hungary	Russia	Ukraine	Great Britain	Egypt
Bulgaria	Slovakia	Qatar	UAE	Germany	Croatia	Romania	Serbia	Belarus	Kuwait

2.3. Information on supply sources and sales markets

The majority of companies manufacturing goods for LPP SA have their registered offices in China. Purchases made in 2017 in that country amounted for approx. 52.6%, and in other Asian countries – for approx. 39.2%. Furthermore, the Company purchased goods from Turkish (approx. 4.7%) and Polish manufacturers (approx. 1.6%).
The value of purchases made from a single manufacturer did not exceed 10% of sales.

China	Far East (Bangladesh, Pakistan, India)	Turkey	Poland	Other	TOTAL
52.6%	39.2%	4.7%	1.6%	1.9%	100%

Recipients of the goods of LPP SA are located in Poland and abroad (subsidiaries and non-affiliated entities).
LPP SA sold goods in 30.7% on foreign markets, with 97.5% of goods being sold to subsidiaries building the chains of Reserved, Cropp, House, Mohito and Sinsay stores in their area and are supplied with trading commodities by LPP SA. A share of one of the recipients affiliated with LPP SA exceeded 10% of the Company's sales in 2017. That company was Re Trading OOO, a Russian subsidiary. The sale to that company amounted to PLN 726 million, which accounted for 12.9% of revenues of LPP SA.
The share of other recipients did not exceed 10% of sales of LPP SA.
Export sales to entities not belonging to the LPP SA Capital Group in 2017 was PLN 43 358 thousand, which constituted 0.8% of revenues of LPP SA.
The Company's major non-affiliated exports customers are companies from Belarus, Russia and the Middle East.
Presented below are the main directions in LPP exports sales.

Country	2016		2017	
	Exports amount in PLN '000	Share in exports in %	Exports amount in PLN '000	Share in exports in %
Belarus	2 379	5.4%	15 210	35.1%
Egypt	6 475	14.8%	7 120	16.4%
Russia	7 474	17.1%	2 212	5.1%
Qatar	10 902	25.0%	7 796	18.0%
Kuwait	4 948	11.3%	3 852	8.9%
United Arab Emirates	3 897	8.9%	3 295	7.6%
Saudi Arabia	4 695	10.8%	1 570	3.6%
Other	2 899	6.6%	2 303	5.3%
Total	**43 669**	**100.0%**	**43 358**	**100.0%**

Revenues from the sales of products, goods and materials, disclosed in the consolidated financial statements, have been earned by individual CG companies in the following amounts (excluding intra-Group sales):

Country	01.01-31.12.2016		01.01-31.12.2017	
	Sales revenues in PLN thousand	Share in %	Sales revenues in PLN thousand	Share in %
Poland	3 511 449	58.3%	3 906 007	55.6%
Czech Republic	278 735	4.6%	343 184	4.9%
Slovakia	172 095	2.9%	208 324	3.0%
Hungary	76 349	1.3%	114 611	1.6%
Lithuania	93 622	1.6%	112 067	1.6%
Latvia	73 902	1.2%	83 863	1.2%
Estonia	88 896	1.5%	98 807	1.4%
Russia	1 043 698	17.3%	1 261 703	17.9%
Ukraine	225 547	3.7%	269 580	3.8%
Belarus	0	0.0%	11 125	0.2%
Bulgaria	58 296	1.0%	61 693	0.9%
Romania	111 015	1.8%	178 148	2.5%
Croatia	60 448	1.0%	73 451	1.0%
Serbia	0	0.0%	4 152	0.1%
Germany	193 553	3.2%	262 184	3.7%
Great Britain	0	0.0%	16 387	0.2%
Middle East	31 442	0.5%	24 139	0.3%
Total:	**6 019 046**	**100.0%**	**7 029 425**	**100.0%**

-

DESIGNING

▼

MANUFACTURING

▼

LOGISTICS

▼

STORES

▼

CLIENTS

200+ designers	**700+** total number of people making collections of 5 brands
90% of goods produced in Asian countries	**1 000+** suppliers
Possibility of sending to stores up to **1.5 mln** products daily	**The largest** and the most state-of-the-art textile logistics centre in Central and Eastern Europe
1 740+ stores	**20 countries** and 3 continents: Europe, Asia, Africa
688 mln store visitors in 2017	**170 mln** pieces of clothing and accessories sold in 2017

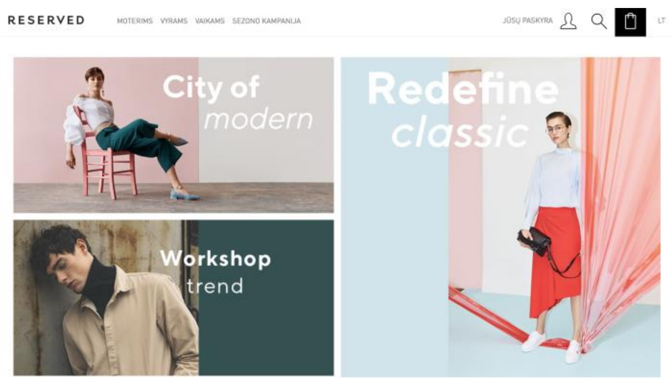
2.4. Information on important events, agreements material for the Issuer's business, including insurance, partnership and cooperation agreements

03.2017

Opening of the Reserved stores in Hamburg and Cologne – the seventeenth and eighteenth store on the German market

04.2017

Contract signed with Arvato Polska on the outsourcing of logistics services for the e-commerce channel for: Reserved, House, Mohito and Sinsay



04.2017

Launching of on-line stores of all five brands in Lithuania, Latvia and Estonia

04.2017

Contract signed with SGS on audits in Asian factories

04.2017

First Reserved, Cropp and House stores in Minsk, Belarus

05.2017

Opening of the Reserved store in Berlin – the nineteenth store on the German market

06.2017

Start of securitisation of the level of foreign exchange rates for payments in USD in supplier relations

08.2017

First store in Serbia

08.2017

Franchise-partner agreement signed with H&O Fashion Chains Ltd with its registered office in Israel, under which, in 2018, first Reserved stores will be opened in Israel

09.2017

Debut of the first Reserved store in London and the online store in Great Britain

12.2017

LPP SA became member of the Family Business Network

12.2017

A new Reserved store opened as the Open to Public concept in the Złote Tarasy shopping centre, in Warsaw

2017

Other agreements concluded in 2017:
246 lease agreements (including annexes prolonging the agreements) with retail space distributors in shopping centres in Poland and abroad.
Bank loan agreements and annexes to existing loan agreements. Detailed information on these agreements has been made public and published in current reports (CR 06/2017, CR 10/2017, CR 27/2017, CR 28/2017, CR 29/2017, CR 48/2017, CR 53/2017).
Agreement on insurance guarantees for payment of customs liabilities and the insurance contract – a comprehensive insurance policy covering all property of the LPP SA CG, including real property, goods, plant and equipment.

The Group has no knowledge on agreements concluded between shareholders, affecting its operations.

2.5. Transactions with associates

All transactions entered into by the Issuer with associates in the reporting period were concluded on arm's length basis.
Detailed information on transactions with associates is given in the financial statements of LPP SA (points 30.1 and 30.2).


1 mln m2 of space
1 743 stores

3. Description of financial position

3.1. Basic economic and financial figures of the LPP Capital Group

The basic tasks carried out by the Capital Group in 2017 were as follows:

1) sales revenues of the LPP SA Capital Group amounted to PLN 7 029 million and were higher by 17% than those achieved in 2016. The dynamic increase in the Group's revenues was gained owing to larger retail space, positive LFL and high dynamics in online sales.
2) In 2017, the CG generated net profit of approx. PLN 441 mln, which is approx. 152% higher than in 2016 (approx. PLN 175 mln).
3) The total selling area in brand stores increased by approx. 80 thousand sq.m. (approx. 8.7%). At the end of 2017, the total retail selling area in the entire LPP SA Capital Group amounted to approx. 1 000.6 thousand sq.m., including approx. 486.6 thousand sq.m. outside Poland.

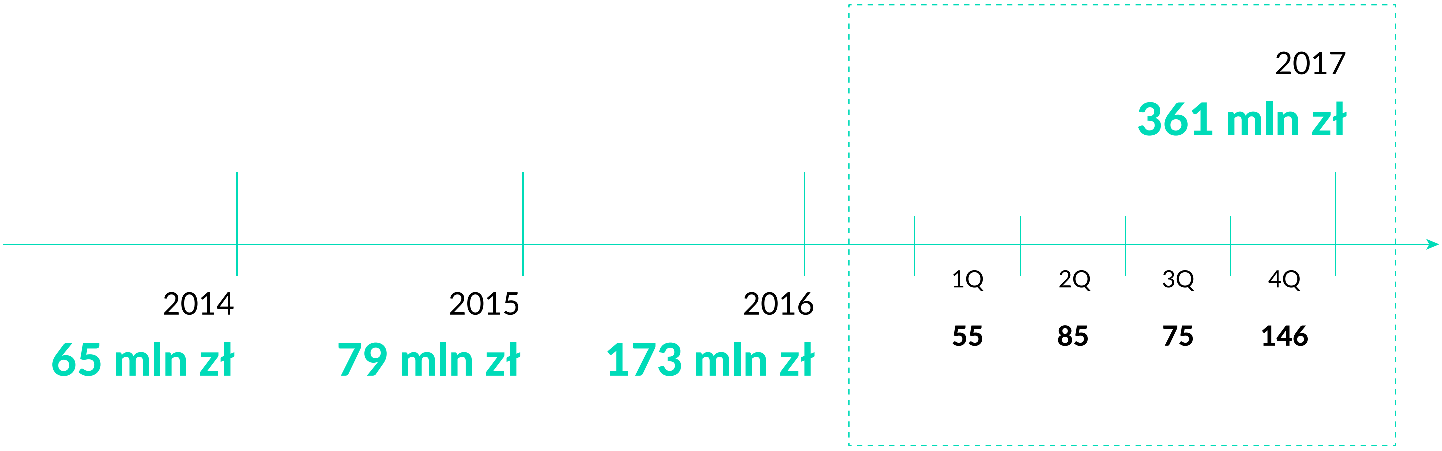
	2016		2017		Change in area
Chain	**Area (thousand m2)**	**Number of stores**	**Area (thousand m2)**	**Number of stores**	**%**
Reserved	509.1	461	562.3	468	10.5%
Cropp	120.4	379	127.2	381	5.7%
House	105.7	330	110.6	333	4.7%
Mohito	99.1	290	103.8	294	4.7%
Sinsay	69.8	198	84.6	233	21.2%
Tallinder	4.1	9	0.0	0	-100.0%
Outlet	12.6	36	12.1	34	-4.1%
Total	**920.7**	**1 703**	**1 000.6**	**1 743**	**8.7%**

4) Results generated by the LPP SA Capital Group in 2017 depended primarily on the performance of five retail sales networks: Reserved, Cropp, House, Mohito and Sinsay, with the majority of revenues and profits being generated by Reserved stores. However, the highest revenue growth rate was recorded by Sinsay and Reserved.

	2016		2017		Change
Distribution channel	**Area (thousand m2)**	**Number of stores**	**Area (thousand m2)**	**Number of stores**	**%**
Reserved brand stores	2 692 885	44.7%	3 159 506	44.9%	17.3%
Cropp brand stores	914 873	15.2%	1 063 935	15.1%	16.3%
House brand stores	767 149	12.7%	805 339	11.5%	5.0%
Mohito brand stores	736 789	12.2%	828 577	11.8%	12.5%
Sinsay brand stores	460 869	7.7%	610 215	8.7%	32.4%
Tallinder brand stores	12 116	0.2%	1 145	0.0%	-90.6%
E-commerce	173 142	2.9%	360 826	5.1%	108.4%
Exports*	43 669	0.7%	43 358	0.6%	-0.7%
Other	217 553	3.6%	156 525	2.2%	-28.1%
Total	**6 019 046**	**100.0%**	**7 029 425**	**100.0%**	**16.8%**

* Exports to entities not affiliated with LPP SA

5) In 2017, the LPP SA Capital Group earned PLN 361 mln on online sales, which was 5.1% of the Group's sales. Approx. 71% of online sales were generated in Poland.



Basic economic and financial figures and their changes in comparison with the previous year:

Item	2016 (in PLN thousand)	2017 (in PLN thousand)	Change %
Revenues	6 019 046	7 029 425	16,8%
Gross profit on sales	2 933 810	3 719 966	26,8%
Profit from sales	325 004	620 027	90,8%
Operating profit	226 421	578 434	155,5%
Pre-tax profit	194 078	563 671	190,4%
Net profit	174 775	440 851	152,2%
Equity	2 134 731	2 443 446	14,5%
Liabilities and provisions for liabilities:	1 543 201	1 763 388	14,3%
Long-term liabilities	267 254	233 140	-12,8%
Short-term liabilities:	1 275 947	1 530 248	19,9%
- bank loans	*315 111*	*56 496*	*-82,1%*
- trade liabilities	*881 064*	*1 322 628*	*50,1%*
Non-current assets	1 838 664	1 919 694	4,4%
Current assets	1 839 268	2 287 125	24,3%
Inventories	1 164 135	1 472 537	26,5%
Short-term receivables	271 788	255 366	-6,0%
Trade receivables	165 389	199 648	20,7%

+17%
revenues

+155%
EBIT

+152%
net profit


52.9%
gross margin

3.2. Assets and liabilities

Assets of the LPP Capital Group

The assets of the LPP SA Capital Group comprise two major components: (1) fixed assets being store fixtures and equipment, in the amount of PLN 1 348 mln, and (2) inventories of trading commodities in the amount of PLN 1 473 mln as at the end of 2017. The value of fixed assets will increase along with development of the sales network and the increase in the number of stores. The volume of inventories depends on the size of retail space and increases as subsequent stores are being opened, including online stores. At the same time, the company works on diminishing its financial engagement in inventories by reducing store replenishment and, simultaneously, by accelerating goods rotation which should translate into an increased efficiency of operations.

Liabilities of the LPP Capital Group

The LPP SA Capital Group pursues a conservative liabilities management policy aimed at maintaining a safe financing structure i.e. maintaining an over 50% share of equity capital in liabilities (at the end of 2017, the share of equity capital in liabilities was 58%, with equity capital amounting to PLN 2 443 mln). The LPP SA Capital Group finances its operations also with liabilities owed to suppliers (aiming at prolonging a liabilities turnover cycle) and employing investment and current bank loans. At the end of 2017, the balance of bank loans was PLN 198 mln and was lower by PLN 312 mln compared with the balance as at the end of the preceding year.

3.3. Monetary position

The LPP SA Capital Group applies a centralised liquidity management model: the Parent Company (LPP SA) purchases goods and distributes them to subsidiaries and, next, subsidiaries pay the parent company for those goods in a local currency. LPP SA is vested with decision-making capacities in terms of the flow of receivables, foreign currency exchange and the incurring of financial liabilities. The basic goal of the Finance Department of LPP SA is the safeguarding of liquidity, solvency and bank debt management. As at the end of 2017, the LPP CG held PLN 515 mln in cash, with the balance of bank loans in the amount of PLN 198 mln, which means that a net debt was PLN 317 mln compared with a net debt of PLN 144 mln in the preceding year.

3.4. Profitability ratios

Profitability ratios presented in the table have been calculated as follows:

a) gross profit margin on sales – gross profit on sales divided by revenues from sales of goods and services;
b) operating profit margin – operating profit divided by revenues from sales of goods and services;
c) Return on Sales – net profit divided by revenues from sales of goods and services,
d) Return on Assets – net profit divided by average assets during the financial year;
e) Return on Equity – net profit divided by average equity during the financial year.

	2016	2017	Change
Volume	%	%	p.p.
Gross profit margin on sales	48.7%	52.9%	4.2
Operating profit margin	3.8%	8.2%	4.5
Return on sales (ROS)	2.9%	6.3%	3.4
Return on assets (ROA)	4.8%	11.2%	6.4
Return on equity (ROE)	8.7%	19.3%	10.6

3.5. Liquidity ratios

Liquidity ratios were calculated as follows:

a) current ratio – current assets divided by the carrying amount of short-term liabilities;
b) quick ratio – current assets less inventory divided by the carrying amount of short-term liabilities;
c) inventory turnover ratio (days) – average inventory divided by costs of goods and products sold and multiplied by the number of days in a given period;
d) receivables turnover ratio (days) – average trade receivables divided by revenues from sales and multiplied by the number of days in a given period;

e) trade liabilities turnover ratio (days) – average trade liabilities divided by costs of goods and products sold and multiplied by the number of days in a given period.

Volume	2016	2017	Change in %
Current liquidity ratio	1.4	1.5	7.1%
Quick liquidity ratio	0.5	0.5	0.0%
Inventory turnover (days)	147	145	-1.4%
Receivables turnover (days)	9	9	0.0%
Trade payables turnover (days)	95	122	28.4%

3.6. Asset management ratios

The ratios were calculated as follows:

a) fixed assets to equity ratio – shareholders' equity divided by fixed assets;
b) total debt – long- and short-term payables divided (including provisions for liabilities) by the balance sheet total;
c) short-term debt ratio – short-term debt divided by the balance sheet total;
d) long-term debt ratio – long-term debt divided by the balance sheet total.

	2016	2017	Change
Volume	%	%	p.p.
Fixed assets to equity ratio	116.1%	127.3%	11.2
Total debt ratio	42.0%	41.9%	0.0
Short-term debt ratio	34.7%	36.4%	1.7
Long-term debt ratio	7.3%	5.5%	-1.7

3.7. Basic economic and financial figures of LPP SA, the Parent Company

The basic tasks carried out by LPP in 2017 were as follows:

1) sales revenues of LPP SA amounted to PLN 5 624 million and were higher by 18.6% than those achieved in 2016,
2) in 2017, LPP SA generated net profit of approx. PLN 491 million. This is by 75.4% more than in 2016 (approx. PLN 280 million),
3) Results generated by the LPP SA Capital Group in 2017 depended primarily on the performance of five retail sales networks: Reserved, Cropp, House, Mohito and Sinsay, with the majority of revenues and profits being generated by Reserved stores. However, the highest revenue growth rate was recorded by store chains of Sinsay, Reserved and Mohito.

Basic economic and financial figures and their changes in comparison with the previous year:

	2016	2017	Change
Item	(in PLN thousand)	in PLN thousand)	%
Revenues	4 740 877	5 623 900	18.6%
Gross profit on sales	1 769 372	2 296 305	29.8%
Profit from sales	23 193	255 391	1 001.2%
Operating profit	5 662	231 639	3 991.1%
Pre-tax profit	297 634	595 549	100.1%
Net profit	280 071	493 427	76.2%
Equity	2 092 846	2 547 402	21.7%
Liabilities and provisions for liabilities:	1 401 123	1 580 938	12.8%
Long-term liabilities	244 476	197 213	-19.3%
Short-term liabilities:	1 156 647	1 383 725	19.6%
- bank loans	*315 111*	*56 496*	*-82.1%*

Item	2016 (in PLN thousand)	2017 in PLN thousand)	Change %
- trade liabilities	*792 684*	*1 215 568*	*53.3%*
Non-current assets	2 095 664	2 420 080	15.5%
Current assets	1 398 305	1 708 260	22.2%
Inventories	832 586	1 102 972	32.5%
Short-term receivables	387 838	343 290	-11.5%
Trade receivables	294 500	313 210	6,4%

The increase by 18.6% in sales revenues was achieved by increasing sales in all retail chains.
A gross margin reached 40.8% and was higher by 3.5 percentage points than last year.
The profit on sales increased by over 1,000%.
The operating profit amounted to PLN 231 639 thousand (increase by 3 991.1% compared with 2016), and the operating profit margin amounted to 4.1% (last year, it was, respectively, PLN 5 662 thousand and 0.1%).
The pre-tax profit was higher compared with the previous year by 100.1% and amounted to PLN 595 549 thousand.
The net profit generated in 2017 amounted to PLN 493 427 thousand and was higher compared with the previous year (PLN 280 071 thousand) by 76.2%. The resulting net profit margin amounted to 8.8% (in 2016, profitability was 5.9%).
The equity of LPP SA increased by 21.7% in 2017. It was mainly due to the transfer of profit to equity.
Long-term liabilities decreased by 19.3%, while short-term liabilities increased by 19.6% compared with 2016.

3.8. Factors and extraordinary events affecting profit or loss

In 2017, there were no unusual factors affecting profit or loss on the operations of the LPP SA CG.

3.9. Financial agreements

3.9.1. Loans and borrowings taken out

Information on bank loans taken out as at 31 December 2017 and their maturity dates is given in the financial statements of LPP SA (point 24) and the financial statements of the LPP SA CG (point 23).

3.9.2. Loans granted

Information on loans granted is given in the financial statements of LPP SA (point 19.1) and the financial statements of the LPP SA CG (point 18.1).

3.9.3. Guarantees granted and received

Guarantees

In the reporting period, the LPP SA CG granted the following guarantees within the Group:

Description	Amount (PLN thousand)
Promissory note guarantee issued to Orlen for a single business entity	22
Guarantee for Amur Sp. z o.o.	7 678
Guarantee for BBK SA	894
Guarantee for DP and SL Sp. z o.o.	1 358
Guarantee for Re Trading OOO	17 448
Guarantee for LPP Estonia OU	1 143
Guarantee for LPP Romania Fashion SRL	2 077
Guarantee for LPP Ukraina AT	4 485
Guarantee for LPP Czech Republic SRO	16 436
Guarantee for Reserved GmbH	13 546

Description	Amount (PLN thousand)
Guarantee for LPP Latvia LTD	2 825
Guarantee for LPP Bulgaria EOOD	2 486
Guarantee for LPP Fashion Bulgaria EOOD	494
Guarantee for LPP Slovakia SRO	4 525
Guarantee for LPP Lithuania UAB	414
Guarantee for LPP Hungary KFT	5 584
Guarantee for LPP Croatia DOO	9 122
Guarantee for LPP Reserved DOO Beograd	872
In total	91 409

In 2017, the LPP SA Capital Group received no guarantees, and only LPP SA granted guarantees to its subsidiaries.
No guarantees were granted by subsidiaries. Subsidiaries received the above-mentioned guarantees from the Parent Company only.

Bank guarantees
In 2017, the LPP SA Capital Group used bank guarantees to secure payment of rent for the leased premises in which brand stores, offices and a warehouse are located. The Capital Group applied for banking guarantees to secure lease agreements in which the Company is lessee and those in which the Company's associates are lessees.
As at 31 December 2017, the total value of bank guarantees issued upon request and at the responsibility of LPP SA amounted to PLN 260 312 thousand, of which:
- guarantees issued to secure agreements concluded by LPP SA amounted to PLN 75 764 thousand,
- guarantees issued to secure agreements concluded by consolidated associates amounted to PLN 182 964 thousand,
- guarantees issued to secure warehouse and office space lease agreements concluded by LPP SA amounted to PLN 1 584 thousand.

In 2017, the Company also received guarantees as a collateral for payments from a contracting party. As at 31 December 2017, the value of guarantees received was PLN 36 522 thousand.
Apart from the above-mentioned guarantees and bank guarantees, the companies of the LPP SA Capital Group have no major off-balance sheet items.

3.10. Issue of securities

In 2017, the remaining part of subscription warrants of the A series was converted to shares of the L series in the share capital of LPP SA. As a result of the conversion, the Company issued, in total, 13 132 bearer shares of the L series. Following the said issue, the Issuer's share capital amounts to PLN 3 704 846 and is divided into 350 000 registered shares and 1 502 423 bearer shares. Consequently, the total number of votes at the general meeting is 3 233 445 (the Company has also 18 978 treasury shares based on which voting rights may not be exercised, therefore, the said votes were not included in the total number of votes at the General Meeting of Shareholders).
The new shares of the L series constitute 1.06% of the Issuer's share capital and give 0.4% of the total number of votes at the General Meeting of Shareholders.
The shares of the L series were dematerialised, admitted to trading and, subsequently, introduced to trading on the stock exchange in September 2017, as informed by the Company in the following reports: CR 38/2017, CR 42/2018.

3.11. Financial result forecast

No financial result forecasts were published.

3.12. Financial asset management

The LPP SA Capital Group fulfils all relevant obligations against the State and contracting parties on an on-going basis. The basic business model consisting in retail sales allows to receive immediate payments for goods sold. Proceeds generated and bank loan agreements concluded safeguard in full the discharge of liabilities incurred.

3.13. Information on financial instruments

3.13.1. Description of financial risk, including price change risk and credit risk, risk of serious disruption of cash flows and financial liquidity loss, to which the entity is exposed

In line with the International Accountancy Standards on the detailed principles for the recognition, measurement, disclosure and presentation of financial instruments, the following financial instruments were identified by the LPP SA Capital Group:

- borrowings granted,
- bank loans taken out,
- bank deposits,
- derivatives transactions – forward foreign exchange contracts aimed at managing foreign exchange risk involved in the purchase of trading commodities abroad.

The Group also identified embedded derivatives related to:
- retail space lease agreements for operated brand stores, with rent calculated based on foreign exchange rates,
- receivables in foreign currencies, relating to the sales of trade commodities to foreign contracting parties.

Embedded derivatives are not measured and shown in the balance sheet, which is compliant with IAS on the detailed principles for the recognition, measurement, disclosure and presentation of financial instruments.

3.13.2. Description of goals set, and methods of financial risk management adopted, by the entity

FINANCIAL LIQUIDITY RISK	The business model adopted by the Issuer (sale of goods for cash to an end-purchaser) guarantees that the Company will generate, on a constant basis, day-to-day cash proceeds, and that the Company will not be dependent on single large recipients. Liquidity management consists in goods management and in determining adequate prices and margins and in the strict auditing of costs and expenses. The Company's liquidity is audited by way of day-to-day monitoring of the balance of bank accounts, the creation of cash flow forecasts for monthly periods and the planning of cash flows between subsidiaries and LPP SA.
CREDITWORTHINESS RISK	The priority of the Management Board of LPP SA in the finance area is the earning by the Capital Group of profit in an amount enabling the daily handling of credit liabilities and ensuring funds for the Issuer's further development. LPP makes endeavours to maintain borrower's creditworthiness at a high level – by paying, on a day-to-day basis, all its liabilities, by increasing sales and optimising costs, and by adequate future planning to recognize beforehand any upcoming hazards. Financial ratios, including debt ratios, are monitored.
RISK IN GUARANTEES GRANTED	Guarantees granted by LPP relate to the lease of, mainly, retail space and, to a lesser extent, office and warehouse space or to the operations of subsidiaries, in which LPP holds 100% shares and controls their business. Consequently, the risk in guarantees granted is being reduced to the minimum.
INVESTMENT RISK	The Company invests in ventures falling within the scope of its competencies, which increases success probability, with the only major investments being as follows: - development of the chain of own stores, - development of foreign sales networks, - construction of the Logistics Centre. At the same time, LPP SA avoids investments in other business sectors and investments in financial instruments on the capital market.
INTEREST RATE RISK	Bank loans taken out by LPP are charged with variable interest rate depending on changes in market interest rates. According to the Management Board, based on the analysis of changes in interest rates in previous periods, any potential increase of this parameter, determining the costs of bank loans taken out, may not substantially affect the financial results achieved.
CURRENCY RISK	The basic settlement currency for a majority of transactions involving the purchase of trade commodities is USD. A minor part of settlements in that respect is made in EUR. The majority of sales proceeds is earned in PLN. Therefore, the Company has decided to start hedging the USD/PLN exchange rate by entering into forward contracts for payments in USD to suppliers. The transactions are aimed at minimising foreign exchange differences in financial operations (that is below operating profit). Apart from the currency risk involved in the settlement currency applied for purchasing trade commodities, there is also a risk related to the settlement of rents under retail space lease agreements in EUR.

Apart from the currency risk, the LPP SA Capital Group does not apply any risk-hedging instruments within the above-mentioned scope.

3.14. Investments

3.14.1. Capital investments

Apart from engagement in subsidiaries and investments made in other entities to the extent provided for in the financial statements of LPP SA (point 18) and in the financial statements of the LPP SA CG (point 17), the Issuer has no capital investments.

3.14.2. Capital expenditure

In 2017, capital expenditure (CAPEX) amounted to PLN 441 mln, i.e. by approx. 62% more than in 2016, mainly due to capital expenditure incurred on the development of brand stores in Poland and abroad.

"

high sales dynamics in comparable stores (success of the Reserved collection)

3.14.3. Assessment of the possibility of carrying out investment plans and methods for their financing

In 2018, the Issuer plans to spend PLN 520 mln on capital expenditure (CAPEX), appropriating PLN 350 million for investing in the store chain (modernisation and construction of new stores), PLN 95 million for expanding the head office and PLN 75 million for logistics. Investments in the expansion of the store chain will be financed by the Issuer from own funds. For head office and logistics investments, the Issuer will appropriate funds deriving from relevant bank loans.
In the years 2018-2020, total infrastructure expenses are planned to reach PLN 720 mln, while store outlays will amount to PLN 1 bln.

New Logistics Centre PLN 350 mln

New offices in Gdańsk PLN 290 mln

New office in Cracow PLN 36 mln

4. Operating strategy, development perspectives as well as risks and threats

4.1. External and internal factors substantially affecting the Issuer's development

The basic tasks of the Capital Group, the implementation of which will determine its future position, are as follows:

a) developing online sales,
b) creating and expanding a competitive store chain in Europe, with stores opened in new countries,
c) building brand strength for Reserved, Mohito, Cropp, House and Sinsay,
d) increasing business profitability and effectiveness.

The achievement of the Issuer's strategic tasks and goals will depend on numerous internal and external factors (representing both opportunities and threats).

4.1.1. Internal factors

Market strategy of the LPP SA CG

The Capital Group is focused on the designing and distribution of clothing as well as on building its brand by outsourcing many activities. The LPP SA Capital Group does not have its own manufacturing capacities, which facilitates significant reduction of fixed costs. The entire clothing production is outsourced to contracting parties mainly from the Far East. Consequently, all Group's investments are aimed at increasing its commercial potential, maintaining a competitive advantage on the market, creating own distribution network, building a positive image of the Capital Group on the clothing market and gaining consumers that are loyal to the Capital Group and its products. Apart from investments in the chain of regular stores, LPP invests also in e-commerce development, opening online stores in subsequent countries and increasing the functionality of online sales.

The development strategy for Reserved, the flagship brand, involves actions undertaken with a view to maintaining the brand's prestige in the customers' eyes, yet still keeping it in the mass clothing segment.

Market position of the LPP SA CG

The volume of sales revenues generated by the LPP SA Capital Group reflects its high position on the domestic clothing market, with its market share of approx. 11%.

At the end of 2017, the LPP Capital Group had a network of 1 743 stores in Poland and abroad, selling products of all brands, with total retail space of approx. 1 000,6 thousand sq.m.

As planned for 2018, new stores will be opened and, therefore, the total retail space will increase by approx. 10%.

Logistics

The Capital Group has a chain of stores in Poland and abroad, to which it supplies goods every couple of days, dispatching them from the Logistics Centre in Pruszcz Gdański or from ancillary warehouses. At the same time, a Russian subsidiary of LPP uses the services of an external logistics operator near Moscow, covering the warehousing and transportation of goods to stores in Russia.

Due to the development of the sales network and considering the capacities of the Logistics Centre in Pruszcz in terms of handling the needs of the Capital Group by approx. 2020, the Company has decided to build another Logistics Centre at the cost of approx. PLN 350 mln to be incurred in the years 2019-2020.

In order to support the development of online sales, LPP SA signed a contract with Arvato Polska, a leader in complex outsourcing solutions, on logistics services for the e-commerce channel of four brands: Reserved, House, Mohito and Sinsay. Owing to such cooperation, the Company will facilitate quicker deliveries of products to online customers in Poland and abroad from a dedicated warehouse of Arvato in Central Poland and obtain access to e-commerce logistics. Additionally, LPP SA signed a contract with the above-mentioned external logistics operator for handling e-commerce orders throughout Russia.

Ambitious plans for the development of the sales network of the LPP SA CG and the simultaneous need to maintain continuity and timeliness of deliveries have forced it to plan the future construction of at least two new logistics centres: in Great Britain and South Europe.

Development of online sales

Adapting to the prevailing trend related to changes in customers' behaviour and increasing popularity of online shopping, the LPP SA Capital Group has been dynamically developing its sales through this channel. Initially, the Company launched online stores for all its brands in Poland, and, subsequently, it started launching online stores abroad.

At the end of 2017, the Issuer had online stores in eleven countries.

As planned for 2018, online stores will be launched on five new markets: Croatia, Slovenia, Serbia, Bulgaria and Ukraine.

Key personnel

The employment of qualified and dedicated staff guarantees that a company will have an adequate market offer and an adequate customer approach and that it will be successful on the market. However, there is also a risk that a company will be made excessively dependent on several key persons or a specialised group of employees with unique skills in a given branch.

As regards LPP, the Company's key personnel comprise its Management Board (by virtue of their experience, market expertise and branch-specific knowledge) as well as clothing design specialists, graphic designers and purchase specialists.

The retention of key personnel is to be achieved by way of an incentive plan developed by LPP and by investing in employees by offering professional training, talent acquisition and development of skills, setting career paths and facilitating promotion within LPP structures.

To minimise somehow the risk, described above, in 2017, the Company opened a new design office in Warsaw, thus procuring additional creative employees who had been earlier discouraged by a prospective change of their place of residence, considering the location of the Company's registered office.

Company's renown

The Company may be exposed to the risk of loss of renown due to assigning work to suppliers from the third world countries and inadequate use of third-party copyright, for example when using photos during the manufacturing process without licences purchased.

LPP SA minimises the said risk by:

- having joined the Accord on Fire and Building Safety in Bangladesh,
- having created an internal unit within the Company's structure, dedicated to the auditing of working conditions and safety in suppliers' plants,
- having changed the model of cooperation with independent agents, consisting in the placing of orders for products with certified suppliers only,
- having created internal procedures for purchases of photographs and graphic licences.

4.1.2. External factors

Macroeconomic factors – the pace of economic growth in Poland and in countries where the stores of the LPP SA Capital Group are operated

The economic situation in countries in which the LPP SA Capital Group sales its products and the situation in countries in which the plants manufacturing goods for the Issuer as located is of major importance for the Company's standing. The economic increase or decrease in countries in which the company's stores are operated translates proportionately into an increase or decrease in the sales of goods. The economic increase or decrease in countries in which goods are manufactured may translate into an increase or decrease in manufacturing costs.

The Company aims at minimising the said risk as follows:

- sale of goods on numerous markets – risk diversification into many countries with a diversified macroeconomic situation, sale of goods under several brands to distribute risk onto several age groups,
- purchase of goods by ordering their manufacturing with many manufacturers in several countries, including mainly countries with lower manufacturing costs (China, Bangladesh), through long-term cooperation with selected suppliers, which facilitates negotiating advantageous prices of goods.

The LPP SA CG increases its presence on all markets in which the stores of the Capital Group are already operated and opens new online stores. At present, the most important issue is to start business in the countries of Western Europe, where LPP intends to build awareness of the Reserved brand. The building of a global brand will give the Company the possibility of further expansion and sales increase. Apart from own stores, LPP supports the development of franchise stores - currently in the Middle East countries and Belarus.

Currency exchange rates

The basic settlement currency in most transactions involving purchases of trade commodities is USD. A minor part of settlements in this respect is made in EUR.

The majority of sales proceeds is generated in PLN. The instability of the exchange rate of the Polish zloty vs. USD and EUR is a risk which increases along with acceleration of changes in foreign exchange rates (PLN/USD).

In addition to foreign exchange risk involved in the settlement currency used for purchasing trade commodities, there is also a risk associated with the fact of settling retail space rents in EUR. Large fluctuations of the Russian rouble and the Ukrainian hryvnia also have a significant impact on the financial results.

Information on foreign exchange risk is presented in point 32.3 of the financial statements of the LPP SA CG.

Changes in fashion affecting the attractiveness of products offered

The key success factor for a clothing company is sensing changes in fashion trends and offering the range of goods meeting current consumer preferences.

The LPP SA Capital Group pays great attention specifically to fashion. Analysing the continuously changing trends, the design department adapts them to meet consumer needs to continue offering desirable products at very good price-quality ratio. To fulfil their tasks, the designers participate in trade fairs around the world, have knowledge of professional literature and information on issues related to fashion, available on the Internet.

Since there is a strong correlation between the clothing industry and fashion trend changes, the LPP SA Capital Group, observing customers' changing preferences, introduces every year new groups of products, aiming to anticipate market needs.

LPP clothing designs are developed by several teams of designers, and their work is organised so as to minimise the influence of a single designer over entire collections.

The Company brings special attention to those issues, being aware of their enormous impact on the results of its operations.

Changes in consumer's behaviour

At the time of free access to new communications and information technologies, changes take place in the behaviour of a contemporary customer who uses more often and more willingly all techniques available, including the Internet and mobile devices, while purchasing clothes.

Today, a consumer applying modern technologies makes very quick purchase decisions, often based on other users' reviews. Informal sources of information (Internet forums, blogs, social media) are of major importance.

In the decision-making process, an e-consumer has access to an enormous number of offers, often with global coverage, being able to compare product information, and that increases clients' awareness and their expectation level. Clients' requirements increase as they have a growing knowledge of products they buy, searching for products ranked the highest by other users. Clients expect high-quality products and high-level service. They do not want to wait long for trendy clothes and, simultaneously, more and more often pay attention to the manufacturing process and the country of origin. At the time of common Internet access, they more and more often submit also non-purchase reviews. The new generation of consumers is at the same time the recipient and creator of marketing information in the Internet.

At present, the success of clothing companies is based on the knowledge of changes in today's consumers' way of thinking about clothing purchases. The LPP CG is aware of changes taking place and takes action aimed at meeting the requirements of today's clients of the clothing market by, among others, developing online sales, adjusting store websites to mobile devices, shortening the duration of specific processes in the clothing distribution chain, specifically the time for deliveries of goods purchased online, by offering advantageous terms and conditions for products returns and by having regard for its renown and positive image.

Competitors

As barriers to the clothing market entry are low, competitiveness may increase. At the same time, on the Polish and European clothing markets, there are many entities operating, including world leaders in this business sector.

LPP analyses the activity of its competitors. It monitors their financial result, development of their sales networks and their product and price offer.

The Company focuses on competing with other entities by offering high-quality products at affordable prices and a diversified product offer, with special emphasis on the trendiness of collections offered.

Legal changes and law amendments

Considering the specific features of the Polish legal system, an important risk for the dynamics and development of the Company's business may be law amendments or changes in construing the provisions of law, in particular, in respect of commercial and tax laws and laws governing financial markets. The introduction of a prospective retail sales tax and the implementation of a ban for Sunday trade may adversely affect the operations of the LPP Capital Group.

4.2. Perspectives for the development of the economic activity of the LPP SA Capital Group

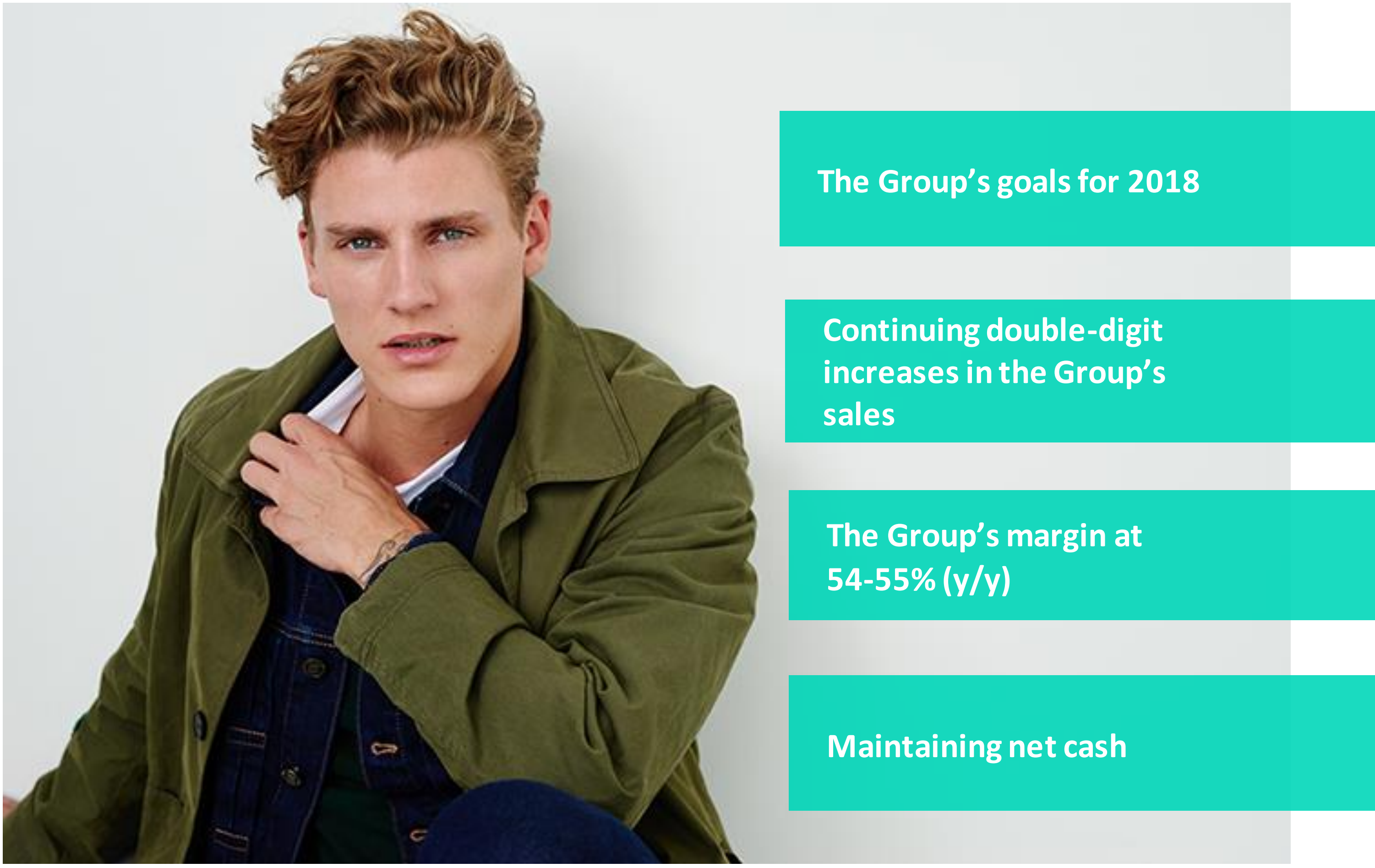
The long-term development strategy of the LPP SA Capital Group assumes the strengthening of its current position on the markets where the Group companies are already operating and the expansion into new geographic areas such as Western Europe, the Balkans and the Middle East. The Company intends to continue its foreign expansion by starting its operations in at least one new country per year.

According to the assumptions made, the perspectives for the development of the Capital Group's business in 2018 involve the following:

- entering new geographic markets, i.e. Israel (franchise stores), Slovenia and Kazakhstan (own stores),
- selective development in Poland,
- accelerating growth in Europe (in particular, in Southern and Eastern Europe),
- continuing CIS development,
- restoring increases in figures generated in the Middle East.

In 2018, the Issuer expects that its retail space will increase by approx. 10% compared with 2017, it plans to open 50 new brand stores and envisages to increase the sales range of Sinsay, the youngest brand in its portfolio.

Along with developing sales through the traditional channel, the Capital Group expects also to increase online sales. As planned for 2018, new online stores will be launched in Serbia, Croatia, Slovenia, Bulgaria and Ukraine, and the sales through this channel will double compared with the preceding year. The sales network is to be expanded simultaneously with activities aimed at increasing operating efficiency in each area.



5. Corporate information and declaration on corporate governance

5.1. Application of corporate governance principles

The Management Board of the Issuer declares that, in 2017, the Company applied corporate governance principles attached as Enclosure to Resolution No 26/1413/2015 of the Supervisory Board of the Warsaw Stock Exchange, dated 13 October 2016, titled "Best Practice for GPW Listed Companies 2016" (Corporate Governance Principles), published in a website dedicated to good practice for companies listed on the stock exchange Giełda Papierów Wartościowych w Warszawie SA, operated by Giełda Papierów Wartościowych w Warszawie SA, at website address: https://www.gpw.pl/lad_korporacyjny_na_gpw.

The Management Board of LPP SA declares that the Company and its governing bodies applied in 2017 recommendations and detailed principles provided for in the new Collection of Good Practice for GPW Listed Companies 2016, except for:

■ Recommendation IV.R.2 – conducting of a general meeting using electronic communication means (real-life broadcast of the general meeting, real-time bilateral communication, exercise of the right to vote during a general meeting either in person or through a plenipotentiary).

The Company does not apply the said recommendation.

The above-mentioned recommendation is not applied by the Company as its implementation would involve a technical risk. The giving to shareholders of an option to communicate in the course of the general meeting without being present at the meeting, using electronic communication means, involves both technical and legal hazards for the proper and efficient conduct of the general meeting. In particular, the above brings about a real risk of technical interference preventing continuous bilateral communication with shareholders present in venues other that the meeting room. Therefore, the Company may not guarantee the reliability of technical infrastructure.

At the same time, in the Company's opinion, the currently applicable rules for participation in general meetings facilitate the proper and effective exercise of rights attached to shares and sufficiently secure the interests of all shareholders.

Furthermore, the Company has not been informed of any expectations of shareholders in respect of conducting the General Meeting of Shareholders using electronic communication means.

■ Recommendation VI.R.1 – the remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

The Company does not apply the said recommendation.

The Company has not implemented any remuneration policy. However, LPP does not exclude future application of the said rule.

■ Recommendation VI.R.2 – the remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

The Company does not apply the said recommendation.

The Company has not implemented any remuneration policy. However, LPP SA does not exclude future application of the said rule.

■ Detailed principle I.Z.1.20 – Display on a corporate website of an audio or video recording of a general meeting.

The Company does not apply the said principle.

The Company does not plan to make an audio or video recording of a general meeting and display it on its website. In the Company's opinion, the manner in which general meetings have been documented so far ensures transparency of the Company's operations and safeguards the rights of all shareholders.

In particular, the Company makes available the wording of resolutions adopted, in the form of current reports and website publications.

Additionally, detailed data on voting results and objections, if any, raised against adopted resolutions is made available in the same form. Consequently, investors may obtain the knowledge of the material parts of, and matters discussed at, a general meeting.

However, the Company does not exclude future application of the said principle.

■ Detailed principle IV.Z.2. – companies should ensure publicly available real-time broadcasts of general meetings.

The Company does not apply the said principle.

The Company does not plan to provide real-time broadcasts of general meetings. In the Company's opinion, the manner in which general meetings have been documented so far ensures transparency of the Company's operations and safeguards the rights of all shareholders.
In particular, the Company makes available the wording of resolutions adopted, in the form of current reports and website publications.

Additionally, detailed data on voting results and objections, if any, raised against adopted resolutions is made available in the same form. Consequently, investors may obtain the knowledge of the material parts of, and matters discussed at, a general meeting.

However, the Company does not exclude future application of the said principle.

■ Detailed principle VI.Z.4. – publishing, in the report on the operations, of a report on the remuneration policy.

The Company does not apply the said principle.

The Company will not publish a report on its remuneration policy due to the fact that no such policy has been implemented. However, LPP SA does not exclude future application of the said principle.

5.2. Description of internal control and risk management systems in relation to the process of preparing financial statements and consolidated financial statements

LPP SA has implemented a well-functioning internal control system, adapted to its needs and characteristics, which provides for the following:
■ complete revenue invoicing,
■ appropriate cost control,
■ efficient use of resources and assets,
■ accuracy and reliability of financial information included in financial statements and interim reports,
■ adequate protection of sensitive information and prevention of uncontrolled outflow of information from the company,
■ effective and prompt identification of irregularities,
■ identification of, and appropriate response to, significant risks.

Elements of the internal control system within LPP SA include:
■ control activities taken at all levels and in all units of the Company, based on procedures (permits, authorizations, verifications, reconciliation, review of operational activities, distribution of duties) ensuring compliance with guidelines of the Company's Management Board and, at the same time, enabling to identify and take actions necessary to minimise errors and risks for the Company,
■ Workflow Guide - proper records and documentation circulation control system (to ensure compliance of account records with accounting evidence),
■ suitably qualified controlling personnel,
■ division of duties excluding a possibility that one employee performs an action associated with execution and documentation of a business transaction from the beginning to the end,
■ inventory manual, specifying the rules for the use, storage and stock-taking of assets,
■ principles for balance sheet amortisation of intangible and tangible fixed assets,
■ IT system - the Company's accounting books are kept based on the computerised Integrated Enterprise Management System AWEK at the Company's headquarters, which provides credibility, reliability and accuracy of processed information. Access to AWEK information resources is limited to authorised personnel, for performance of their duties only.
■ accounting policy, taking into account the principles of the International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and related interpretations published in the form of implementing regulations of the European Commission,
■ electronic system for document processing (invoices, elements of employee documentation, commissioning of equipment purchases, payment orders, etc.).

The audit of the financial statements, carried out by an independent statutory auditor, is an essential element of internal control in the process of preparing the Company's financial statements, both separate and consolidated.
The statutory auditor is appointed by the LPP Supervisory Board. The tasks of the independent auditor include reviewing semi-annual statements and the audit of annual financial statements, controlling their accuracy and compliance with accounting principles.
Three departments are responsible for preparing the financial statements, i.e. accounting, finance and investor relations departments headed, respectively, by the Chief Accountant, the Chief Financial Officer and the Investor Relations Manager. Before submitting the financial statements to the independent statutory auditor, the Chief Financial Officer, responsible for the financial reporting process on behalf of the Management Board, verifies them for completeness and correctness of all economic events.

In LPP SA, the strategy and business plan performance is reviewed semi-annually. This is due to cycles occurring in the clothing trade. After closing the first half of the year, senior and middle management staff, with the participation of the finance department, review the Company's financial results. The operating results of the Company, individual business units or even individual stores are analysed each month.
Internal control and closely related risk management in relation to financial reporting processes are matters of daily interest for the Company's governing bodies. LPP SA analyses business risk factors related to company operations. An important role in this respect is also played by the management staff, being responsible for controlling the activities of their departments, including identification and assessment of risks associated with the process of preparing the financial statements in an accurate, reliable manner and in compliance with the law.

5.3. Shares and shareholders

5.3.1. Shareholding structure

The LPP SA shareholding structure as at 31 December 2017.

Shareholder	Number of shares held	Share in the share capital	Number of votes at the GM	Share in the total number of votes at the GM	Nominal value of shares
Marek Piechocki	175 497	9.5%	875 493	27,1%	350 994
Jerzy Lubianiec	174 999	9.4%	874 995	27,1%	349 998
Forum TFI SA*	195 050	10.5%	195 058	6,0%	390 100
Treasury shares**	18 978	1.0%	0	0,0%	37 956
Other shareholders	1 287 899	69.5%	1 287 899	39,8%	2 575 789
Total	**1 852 423**	**100.0%**	**3 233 445**	**100,0%**	**3 704 846**

*Forum TFI SA manages the funds of Forum 64 Closed-End Investment Fund (entity affiliated with Mr Jerzy Lubianiec, shareholder of LPP SA) and Forum 65 Closed-End Investment Fund (entity affiliated with Mr Marek Piechocki, shareholder of LPP SA).
** LPP SA may not exercise voting rights at the GM, attached to 18 978 shares, as these are treasury shares of LPP SA.

5.3.2. Shares held by key management and supervisory officers

As at 31 December 2017, key management and supervisory officers held the following shareholdings in the Company:

Shareholder	Number of shares held	Number of votes at the GM
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
Piotr Piechocki – Member of the Supervisory Board	14	14
Antoni Tymiński – Member of the Supervisory Board	11	11

Key management and supervisory officers hold no shares in any associates.

5.3.3. Information on agreements which may give grounds for future changes in proportions of shareholdings held by current shareholders

In the reporting period, an incentive plan was implemented for key management officers of the Parent Company for the years 2017-2018.
As part of the said plan, if the terms and conditions provided for in the Rules for the incentive plan are met, the Company will offer its participants (management officers) the acquisition of the shares in LPP SA (from treasury shares) at a price equal to their nominal value, with the reservation that the total number of shares offered may not exceed 600.
The Company has implemented no employee share control system.
Subject to the above-mentioned information, the Company has no knowledge on any agreements which could give grounds for any future changes in proportions of shareholdings held by current shareholders and bondholders.

5.3.4. Treasury shares

In 2017, the LPP SA CG purchased no treasury shares.

5.3.5. Share quotations

The shares in LPP SA have been quoted on the main market of the Warsaw Stock Exchange (WSE) since 2001.
On the debut date, the price of the Company's shares was PLN 48.00. The lowest value of the Company's shares in the history of listings was recorded by LPP SA on 18 May 2001: PLN 47.00, and the highest value was recorded on 4 September 2014: PLN 10 100.00.
In 2017, the prices of LPP SA shares were between PLN 5 090.00 and PLN 9 062.96 (at closing prices). The share quotation during the last session (at closing prices) in 2016 was PLN 5 673.60, and a year later the price amounted to PLN 8 910,00.
Net earnings per ordinary share were PLN 241.36 at the end of 2017, and a year before - PLN 96.19.

As at 29 December 2017, shares in LPP SA were constituents of the following stock exchange indices:

1. WIG-Poland – a national index comprising only shares in Polish companies listed on the main market of the WSE, which meet basic criteria for being index constituents. The share of LPP SA in WIG-Poland was 3.5%.
2. WIG20 – an index calculated on the basis of the value of the portfolio of 20 largest and most liquid companies from the main market of the WSE. LPP SA has been a constituent of the said index since 2014, with its share amounting to 5.3%.
3. WIG30 – index comprising 30 largest and most liquid companies listed on the main market of the WSE. The share of LPP SA in WIG30 was 4.9%.
4. WIG-Clothes – a sub-sector index including WIG constituents which simultaneously belong to the "clothes and cosmetics" sector. The share of LPP in WIG-Clothes was 53.9%.
5. MSCI Poland Index – an index including over 20 key companies listed at the WSE. LPP SA has been a constituent of the said index since 2014.

5.3.6. Share-related limitations and shareholders with special control rights

The shareholders with shareholdings conferring the right to more than 15% at the General Meeting exercise their voting rights up to 15% of votes regardless of the number of votes arising from the shares held. Two shareholders, who have been managing the company for many years, Mr. Jerzy Lubianiec and Mr. Marek Piechocki, hold each directly 174 999 shares of the B series and indirectly 1 share of the B series, preferred in terms of voting rights, with a single share giving right to 5 votes at the General Meeting of Shareholders. In addition, shares of the said shareholders are not covered by the statutory limitation described above, limiting voting rights only up to 15% of votes at the General Meeting of Shareholders regardless of the number of shares held. The above-mentioned provisions of the Articles of Association give the dominant position to the two shareholders indicated above.
Subject to the information given above, there are no other securities giving any special control rights.
Limitations on transferring the ownership title to securities apply to registered shares.
The sale or pledging of registered shares requires the Company's consent. Permits for selling or pledging shares are granted by the Supervisory Board in writing, otherwise being null and void, within 14 days from the date of application. If the Company refuses to give the permit, it should designate another buyer and define the date and place of payment of the price within 30 days. If, within the above-mentioned time-frame, the Company does not indicate another buyer, shares may be sold without any limitations.

5.4. Governing bodies

5.4.1. LPP Management Board

Composition of the Management Board as at 31 December 2017	
	■ 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

In 2017, there were no changes in the composition of the Management Board.

Rules for appointing and dismissing key management officers and the scope of competence of the Management Board

The Management Board consists of two to six members, including the President, and from one to five Vice-Presidents. The number of members is determined by the Supervisory Board.

Members of the Management Board are appointed for a term of five years and dismissed by the Supervisory Board.

The scope of competence of, and rules of procedure for, the Management Board of LPP SA are set forth in the following documents:

- LPP SA Articles of Association (available on the Company's website),
- Management Board By-Laws (available on the Company's website),
- Commercial Companies Code.

The Management Board is responsible for any and all matters not falling within the scope of competence of other governing bodies of LPP SA.

The Management Board is not entitled to make decisions on the issue or buy-out of shares.

Agreements with key management officers, providing for a compensation

No agreements were concluded with key management officers, which would provide for a compensation in case of their resignation or dismissal from their position otherwise than on solid grounds or if they are recalled or dismissed as a result of the issuer's merger by acquisition.

Remuneration of key management officers

Values of all remunerations of key management and supervisory officers are given in point 30.3 of the financial statements of LPP SA.

5.4.2. LPP Supervisory Board

Composition of the Supervisory Board as at 31 December 2017	
	■ Jerzy Lubianiec – Chairman of the Supervisory Board ■ Wojciech Olejniczak – Vice-Chairman of the Supervisory Board ■ Piotr Piechocki – Member of the Supervisory Board ■ Magdalena Sekuła - Member of the Supervisory Board ■ Antoni Tymiński - Member of the Supervisory Board ■ Miłosz Wiśniewski – Member of the Supervisory Board

During the financial year, changes were made in the composition of the Supervisory Board, consisting in the dismissal of all previous members, i.e. Jerzy Lubianiec, Maciej Matusiak, Wojciech Olejniczak, Krzysztof Olszewski and Dariusz Pachla, and the appointment to the Board of the following persons: Jerzy Lubianiec, Wojciech Olejniczak, Piotr Piechocki, Magdalena Sekuła, Antoni Tymiński and Miłosz Wiśniewski (CR 45/2017).

The scope of competence of, and the rules of procedure for, the Supervisory Board of LPP SA are set forth in the following documents:

- LPP SA Articles of Association (available on the Company's website),
- By-Laws of the Supervisory Board (available on the Company's website),
- Commercial Companies Code.

Supervisory Board Committees

In the financial year 2017, within the Supervisory Board, the Audit Committee was established, being composed of:
Antoni Tymiński – Chairman of the Audit Committee
Jerzy Lubianiec – Vice-Chairman of the Audit Committee
Magdalena Sekuła – Member of the Audit Committee
Piotr Piechocki – Member of the Audit Committee
Miłosz Wiśniewski – Member of the Audit Committee

The Audit Committee composed of the above-mentioned persons meets the independence criteria and other requirements set forth in Article 129 of the Act of 11 May 2017 on Statutory Auditors, Audit Companies and Public Supervision (Journal of Laws of 2017, item 1089).

The tasks of the Audit Committee comprise the following:

- monitoring the financial reporting process and provision of recommendations aimed at ensuring diligence of the said process in the Company;
- monitoring the effectiveness of internal control and audit systems and the risk management system in the Company, including in terms of financial reporting;
- monitoring performance of financial audit activities in the Company, in particular the carrying out of an audit by an audit company, with due consideration of any and all motions and findings of the Audit Supervision Commission, arising from a control procedure carried out in the audit company;
- control and monitoring of the independence of a statutory auditor and an audit company, specifically in cases where the audit company provides non-audit services to the Company;
- informing the Supervisory Board of audit results and explaining how such audit has contributed to the reliability of the Company's financial reporting and what was the Committee's role in the audit procedure;
- assessing the independence of a statutory auditor;
- granting consent for using services other the audit of financial statements, provided by an audit company or a statutory auditor and permissible according to the Policy, referred to in point 9 below;
- developing a policy for selecting an audit company for audit purposes;
- developing a policy for the provision of permissible non-audit services by an audit company carrying out the audit, entities affiliated with such audit company and a member of the audit company's group;
- determining a procedure for choosing an audit company by the Company;
- providing the Supervisory Board with recommendations in accordance with Article 130(1)(8), 130(2) and 130(3) of the Act;
- verifying work performance of a person (entity) performing the duties of statutory auditor, in particular, by contacting the statutory auditor in the course of auditing the financial statements of the Company and its subsidiaries to discuss the advancement of works and clarify any doubtful issues and reservations of the statutory auditor in terms of the applied accounting policy or internal control systems;
- discussing with the Company's statutory auditors the features and scope of the annual report and periodical reviews of financial statements;
- reviewing the Company's periodical and annual (separate and consolidated) financial statements audited, focusing, in particular, on:
  - any and all changes in the accounting standards, principles and practice,
  - main areas to be audited,
  - key adjustments resulting from the audit,
  - compliance with applicable accounting and reporting laws;
- informing the Company's Supervisory Board of audit results and explaining how the audit has contributed to the reliability of the Company's financial reporting and the Committee's role in the audit procedure;
- issuing opinions for the Supervisory Board on termination of the agreement with an entity authorised to audit the Company's financial statements;
- granting consent for appointment and dismissal by the Management Board of a person performing in the Company a key function covering internal audit duties;
- monitoring the compliance system applicable in the Company.

If there is no separate internal audit position in the Company, the Audit Committee (or the Supervisory Board if it performs the duties of the Audit Committee) evaluates every year whether there is a need for separating such position.

5.5. Operation of the General Meeting, its powers, description of shareholders' rights and the way of their exercise

Convening the General Meeting of Shareholders

1) The General Meeting of Shareholders may be convened as ordinary or extraordinary meeting.

2) The General Meeting of Shareholders is held in Gdańsk, Warsaw, Sopot or Pruszcz Gdański, at the place designated by the Management Board.

3) The Ordinary General Meeting is held within six months after the end of a financial year.

4) The Extraordinary General Meeting is convened by the Management Board upon its own initiative, at the request of the Supervisory Board and upon a written request of shareholders representing one twentieth of the share capital.

5) The fact of convening the General Meeting, stating the date (day, hour) and place, is announced by the Management Board on the Company's website, in the manner provided for providing current information and in accordance with the provisions on public offering and the terms and conditions for introducing financial instruments to an organised trading system, and on public limited companies.

Scope of competence of the General Meeting

1) Examining and approving financial statements and reports of the Management Board on the operations of LPP SA for the previous year.

2) Taking all decisions relating to claims for redressing damage suffered during the establishment of LPP SA or its management or supervision.

3) Adopting a resolution on the distribution of profits or covering losses.

4) Discharging members of the LPP SA governing bodies from the performance of their duties.

5) Adopting a resolution on the issue of bonds, including convertible bonds.

6) Amending the Articles of Association.

7) Adopting resolutions on the merger, transformation, dissolution and liquidation of LPP SA.

8) Adopting resolutions on the sale and lease of the enterprise and establishing beneficial ownership.

9) Examining and deciding on motions submitted by the Supervisory Board.

10) Deciding on other matters falling within the scope of competence of the General Meeting under the Commercial Companies Code and the Company's Articles of Association.

Sessions of the General Meeting of Shareholders

1) The General Meeting is opened by the Chairman of the Supervisory Board or a person authorised by him, who then holds the elections for Chairperson of the General Meeting.

2) The person opening the General Meeting takes action aimed at immediate election for Chairperson of the General Meeting, who directs the works of the GM and ensures efficient and proper conduct of the session.

3) The General Meeting adopts resolutions on items put on the agenda only.

4) Draft resolutions proposed for adoption by the General Meeting and other relevant issues are presented to the shareholders together with reasons and the opinion of the Supervisory Board.

5) The course of the General Meeting is recorded by a notary public.

Voting

1) Voting at the General Meeting is open. Secret voting takes place when electing governing bodies and on requests to dismiss the Company's governing bodies or liquidators or to make them accountable, and in personal matters. In addition, secret voting is held upon request of at least one shareholder or his/her/its representative.

2) The General Meeting may appoint a three-person ballot counting committee, whose duties include ensuring the proper conduct of each voting, supervising computer service (if a vote takes place using electronic technology) as well as reviewing and announcing the results.

3) Each share gives right to one vote at the General Meeting. In the case of a series B preferred share, one share gives right to five votes at the GM.

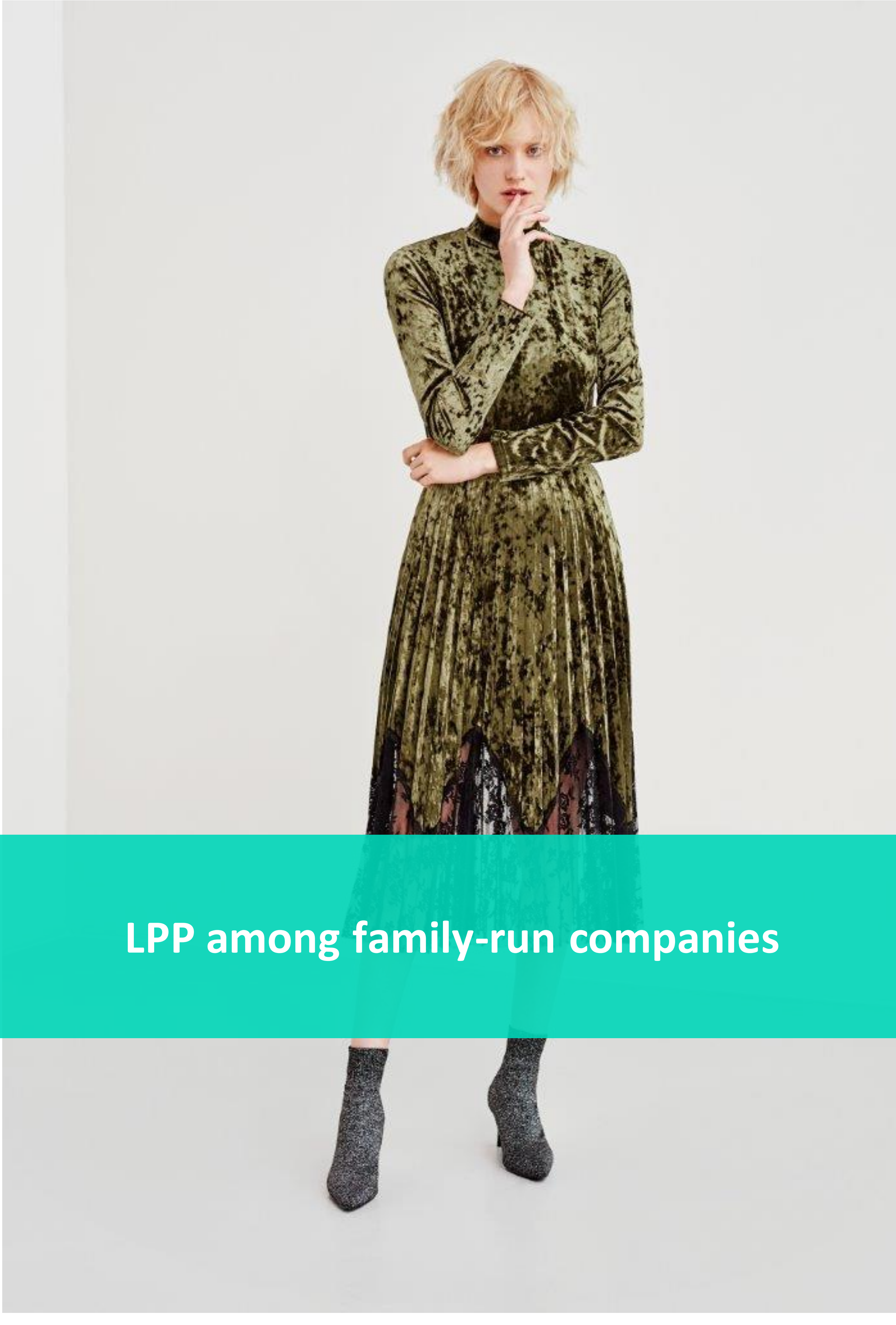
4) The Chairperson announces voting results, which are then recorded in the session minutes.

5.6. Description of rules for amending the Issuer's Articles of Association

Any amendment to the Company's Articles of Association requires a resolution of the General Meeting.

5.7. Description of a diversity policy applied to the Issuer's administrative, management and supervisory bodies in terms of aspects including age, gender or education and professional experience, goals of such diversity policy, the manner of policy execution and its effects in a given reporting period; if the Issuer does not apply any such policy, reasons for such a decision shall be given in the statement

The Management Board of LPP SA Group is aware of the importance and the need to ensure diversity in terms of gender, education, age and experience among all employees of the company due to the conviction of the important impact of this approach on the efficiency of the entire business and the company's position among customers, its employees as well as other stakeholders.
In managing a rich and diverse portfolio of clothing brands and also because of the nature of its business, the LPP Group naturally strengthens its company culture and work environment based on respect and appreciation of individual differences of individual team members. In this way, the personal potential of each employee contributes to the development of the company as a whole and its individual clothing brands.
Any actions taken by the company in the area of employment guarantee equal opportunities in access to development opportunities and career advancement. The overriding principle of the company is to be guided by objective substantive criteria and professionalism when selecting employees for various job functions within the organisation. At the same time, the company's governing bodies strive at preventing any discriminatory behaviour.
Our commitment to the diversity policy is manifested in the development and implementation of the company's mission and values, in which building a competitive advantage is based on fostering the development of individual talents of employees and treating them with due dignity and respect, regardless of skin colour, religion, sex, age, nationality, sexual orientation, citizenship, marital status, political opinion or disability.



LPP among family-run companies

6. Supplementary information

6.1. Proceedings before a court or a competent arbitration authority

Neither LPP SA nor any of its subsidiaries is a party to any proceedings before a court, a competent arbitration authority or a public administration body, involving liabilities or receivables of a single or total value exceeding 10% of the equity of LPP SA.
At the same time, LPP SA informs that, due to a tax audit procedure carried out since 2015 by the Tax and Fiscal Office in Gdynia (further referred to as "TAO"), of which the Issuer informed in preceding quarterly reports, on 5 February 2018, the Company received the decision of the Director of the Fiscal Administration Chamber in Gdańsk, repealing the decision of the 1st-instance authority, i.e. the Head of the Customs and Fiscal Office in Gdynia, and referring the case for re-examination, requiring the said authority to supplement evidence material.
Both in previous years and at present, the Company has incurred expenses connected with sub-licences for the use of trademarks contributed in kind to a subsidiary with its registered office in Cyprus (Gothals LTD), which, as stated in the recently repealed decision, was recognised as overstatement by the Company of revenue earning costs for 2012 and served as the basis for determining by the tax authority of an additional tax liability of PLN 16 391 thousand (sixteen million three hundred and ninety one thousand Polish zlotys) for the said period, together with interest due.
The Company awaits the issuance of a new decision in the case in question by the 1st-instance tax authority, upholding its current standpoint that, in the Company's opinion, it correctly calculated its corporate income tax for 2012 and duly classified as revenue earning costs the expenses which, under applicable laws, could be recognised as such.
Having analysed settlements related to licence fees for the use of trademarks, referred to above, the Company created, as at 31 December 2017, a provision for potential tax risks, in the total amount of PLN 45 335 thousand.

6.2. Information on key achievements in research and development

In the reporting period, the LPP SA Capital Group conducted research and development works in three main areas:

- product research and development – 810 designers and other persons engaged in the product preparation process, making 40 thousand new designs per year, with over 75% of them being manufactured,
- research covering development of customers' purchase perceptions and experience – 40 architects and coordinators are engaged in works involving the design and implementation of new solutions applied in stores of specific brands. This team tests on the average 100 experimental solutions per year.
- research covering new technology and development of sales methods, mainly e-commerce – 250 programmers test and implement technical solutions aimed at increasing the effectiveness of the sales of Reserved and other brands in a more and more quickly changing retail sales environment.

6.3. Information on the business sponsorship, charity or similar policy

In 2017, there were implemented numerous community programmes and employee volunteering projects in all the Company's branches. Due to the increase in community engagement, the Company started works aimed at systematising the forms and manner of operation in this area. The Company has drawn up and made available, on its website, the rules for cooperation with non-governmental organizations. A special mailbox has been created for contacts with social beneficiaries. The Company has adopted a sustainable development strategy for the years 2017-2019, which specifies in detail the goals of sponsorship and charity activities.

Projects and numbers:

■ PLN 2 mln was the value of funds and goods donated by the Company in 2017 for charity purposes in Poland, including over 100 thousand pieces of clothing of a value of near PLN 1.6 mln delivered to 250 institutions. In addition to support provided on a permanent basis for 21 years, this year, the Company became engaged in support in connection with the natural disaster in the Kaszuby region and Tuchola Forest. LPP donated clothing and gift cards to our stores to children from the disaster area.

■ the "First Fitting" - 16 persons leaving foster homes have been trained by LPP employees in the area of work search, CV writing and having a job interview. Some of the participants have been employed as trainees in LPP's sales network. The "First Fitting" programme is an investment in the development of young people at the beginning of their professional careers. This project is implemented together with the Social Innovation Foundation.

■ 42 scholarships have been awarded to children supported by the Orphans Fund operated by the Hospice Foundation.

■ In 2017, LPP became a strategic partner of the FETA International Street Theatre Festival. Every year, shows performed near the Issuer's head office attract thousands of viewers. This is one of the largest and most highly acclaimed festivals of this type in Europe.

■ Employee volunteering programme. The employees of LPP willingly initiate and become engaged in giving a helping hand by self-organised collections and by taking part in actions organized by the Company. It is our tradition to organize every year collections before Christmas to support a selected initiative. Last year, our employees painted cardboard Santa Clauses which were subsequently purchased by LPP and delivered as Christmas decorations to organisations cooperating with the Company. Additionally, the employees made goods and decorations for a Christmas fair. Consequently, in those projects, we collected PLN 117 000, appropriated as support for the employees or their relatives tackling serious diseases.

Last year, before Christmas, the employees engaged in the employee volunteering programme supported also patients of children's hospitals in Gdańsk and Cracow, making fairy tale paintings in canteens and distributing gifts dressed as Santa Clauses.

■ In August 2017, the Management Board decided to adopt the LPP Sustainable Development Strategy based on 4 pillars: our environment, our rules, our employees and our product. This strategy comprises also the goals related to the sponsorship and charity activities, including, among others, the analysis of perception of community actions initiated by LPP.

In 2017, in LPP, there were two positions dedicated to CSR management in the Company: CSR Coordinator responsible for the execution of the CSR strategy and non-financial reporting and Senior CSR Specialist responsible for community engagement and employee volunteering issues.

The LPP sustainable development strategy for the years 2017-2019, recognising the goals of sponsorship and charity activities

6.4. Information on the entity authorised to audit financial statements

On 8 June 2017, LPP SA concluded with Ernst&Young Audyt Polska Sp. z o.o. sp.k the agreement on the audit of the annual financial statements of the Company and the LPP SA Capital Group for the year 2017 and on the review of interim financial statements of the Company and the LPP SA Capital Group for the above-mentioned year. The agreement will expire upon completion of service provision.

The fee of the entity authorised to audit and review the financial statements for the financial year amounted to:

1) PLN 148 thousand plus VAT for auditing the financial statements for the period from 1 January 2017 to 31 December 2017, giving opinion on it and preparing the audit report and for auditing the consolidated financial statements of the Capital Group for the period from 1 January 2017 to 31 December 2017, giving opinion on it and preparing the audit report;
2) PLN 79 thousand plus VAT for reviewing the interim financial statements for the period from 1 January 2017 to 30 June 2017 and preparing the review report and for reviewing the consolidated interim financial statements for the period from 1 January 2017 to 30 June 2017 and preparing the review report.

The entity authorised to audit the financial statements for 2016 was Grant Thornton Polska Sp. z o.o. Sp.k, with which LPP SA signed the agreement on 30 June 2014 on the audit of the financial statements of LPP and the LPP CG for the years 2015 and 2016.

The fee of the said entity authorised to audit and review the financial statements for 2016 amounted to:

1) PLN 60 thousand plus VAT for auditing the financial statements for the period from 1 January 2016 to 31 December 2016, giving opinion on it and preparing the audit report;
2) PLN 30 thousand plus VAT for auditing the Capital Group's consolidated financial statements for the period from 1 January 2016 to 31 December 2016, giving opinion on it and preparing the audit report;
3) PLN 30 thousand plus VAT for reviewing the interim financial statements for the period from 1 January 2016 to 30 June 2016 and preparing the review report,
4) PLN 20 thousand plus VAT for reviewing the consolidated interim financial statements for the period from 1 January 2016 to 30 June 2016 and preparing the review report.

The Issuer issued no invoices to entities authorised to audit financial statements except for those covering the services related to their audit and review.

Management Board of LPP SA:

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

05

Consolidated financial statements

We hereby approve the consolidated financial statements of the LPP SA CG for the financial year ended 31 December 2017, comprising the statement of financial position, with assets and liabilities totalling PLN 4 206 819 thousand, the comprehensive income statement, with comprehensive income totalling PLN 347 535 thousand, the statement of changes in equity, showing an increase in equity by PLN 308 700 thousand, the cash flows statement, showing an increase in net cash by PLN 149 379 thousand, as well as notes incorporating the description of significant accounting principles and other explanations.

Management Board of LPP SA:

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

GDAŃSK, 12 MARCH 2018

Consolidated comprehensive income statement for the year ended 31 December 2017

Consolidated comprehensive income statement (in PLN thousand)	Notes	Year ended 31.12.2017	Year ended 31.12.2016
		2017	2016 (restated)
Continuing operations			
Revenue	9.1.	7 029 425	6 019 046
Cost of goods sold		3 309 459	3 085 236
Gross profit (loss) on sales		**3 719 966**	**2 933 810**
Other operating income	9.2.	35 770	25 436
Selling costs	9.4.	2 751 848	2 405 007
General costs	9.4.	348 091	203 799
Other operating costs	9.2.	77 363	124 019
Operating profit (loss)		**578 434**	**226 421**
Financial income	9.3.	4 754	1 307
Financial costs	9.3.	19 517	33 650
Pre-tax profit (loss)		**563 671**	**194 078**
Income tax	10	122 897	19 303
Net profit (loss) on continuing operations		**440 774**	**174 775**
Net profit attributable to:			
Shareholders of the parent company		440 851	174 775
Non-controlling interests		-77	0
Other comprehensive income			
Items transferred to profit or loss			
Currency translation on foreign operations		-93 239	113 829
Total comprehensive income		**347 535**	**288 604**
Attributable to:			
Shareholders of the parent company		348 093	288 604
Non-controlling interests		-558	0
Weighted average number of ordinary shares		1 826 537	1 816 932
Profit (loss) per ordinary share		241.36	96.19

Consolidated statement of financial position as at 31 December 2017

Statement of financial position (in PLN thousand)	Notes	31 December 2017	31 December 2016
		2017	2016 (restated)
Non-current assets		**1 919 694**	**1 838 664**
1. Fixed assets	13	1 347 570	1 291 338
2. Intangible assets	15	64 071	43 511
3. Goodwill	16	209 598	209 598
4. Trademark	15	77 508	77 508
5. Investments in subsidiaries	17	101	136
6. Receivables and loans	18.1.	4 836	6 180
7. Deferred tax assets	10.3.	158 631	143 657
8. Prepayments	27	57 379	66 736
Current assets		**2 287 125**	**1 839 268**
1. Inventory	19	1 472 537	1 164 135
2. Trade receivables	20	199 648	165 389
3. Receivables from income tax		6 394	75 274
4. Receivables and loans	18.1.	1 755	1 666
5. Other non-financial assets	18.2.	47 569	29 459
6. Prepayments	27	44 432	37 592
7. Cash and cash equivalents	21	514 790	365 753
TOTAL assets		**4 206 819**	**3 677 932**
Equity		**2 443 446**	**2 134 731**
1. Share capital	22.1.	3 705	3 679
2. Treasury shares		-43 334	-43 318
3. Share premium	22.2.	277 631	251 393
4. Other reserves	22.3.	1 823 453	1 608 298
5. Currency translation on foreign operations		-208 167	-114 928
6. Retained earnings		590 158	429 607
- profit (loss) from previous years		149 307	254 832
- net profit (loss) for the current period		440 851	174 775
Non-controlling interest capital		**-15**	**0**
Long-term liabilities		**233 140**	**267 254**
1. Bank loans and borrowings	23	141 824	195 033
2. Employee liabilities	24	751	2 711
3. Deferred tax liabilities	10.3.	7 327	3 890
4. Accruals	27	83 157	65 575
5. Other long-term liabilities		81	45
Short-term liabilities		**1 530 248**	**1 275 947**
1. Trade and other liabilities	26	1 322 628	881 064
2. Income tax liabilities		53 462	7 449
3. Bank loans and borrowings	23	56 496	315 111
4. Employee liabilities	24	43 572	28 486
5. Provisions	25	9 944	9 687
6. Accruals	27	44 146	34 150
TOTAL equity and liabilities		**4 206 819**	**3 677 932**

Consolidated cash flow statement for the year ended 31 December 2017

Cash flow statement (in PLN thousand)	Notes	2017 year ended 31.12.2017	2016 (restated) year ended 31.12.2016
A. Cash flows from operating activities – indirect method			
I. Pre-tax profit (loss)		563 671	194 078
II. Total adjustments		329 514	524 098
1. Amortisation and depreciation		293 429	267 381
2. Foreign exchange gains (losses)		414	-5 679
3. Interest and dividends		8 673	22 253
4. Profit (loss) on investing activities		6 383	20 661
5. Income tax paid		-92 385	-59 239
6. Change in provisions and employee benefits	24,25	15 356	16 461
7. Change in inventories	19	-353 991	211 737
8. Change in receivables and non-financial assets	18,20	-38 654	-35 769
9. Change in short-term liabilities, excluding bank loans and borrowings	26	493 905	79 976
10. Change in prepayments and accruals	27	29 987	-6 582
11. Other adjustments		-33 603	12 898
III. Net cash flows from operating activities		**893 185**	**718 176**
B. Cash flows from investing activities			
I. Inflows		57 712	90 530
1. Disposal of intangible and fixed assets		57 442	90 255
2. From financial assets, including:		266	275
a) in associates		165	130
- interest and dividends		165	130
b) in other entities		101	145
- interest		4	8
- repayment of loans		97	137
3. Other investing inflows		4	0
II. Outflows		441 646	271 884
1. Purchase of intangible and fixed assets		441 596	271 831
2. For financial assets, including:		50	53
a) in associates		0	0
b) in other entities		50	53
- loans granted		50	53
3. Other investing outflows		0	0
III. Net cash flows from investing activities		**-383 934**	**-181 354**
C. Cash flows from financing activities			
I. Inflows		26 264	16 336
1. Loans and borrowings		0	0
2. Proceeds from issuance of shares		26 264	16 336
3. Other inflows from financing activities		0	0
II. Outflows		386 136	410 185
1. Cost of maintenance of treasury shares		16	12
2. Dividends and other payments to owners		65 527	59 936
3. Repayment of bank loans and borrowings		308 979	328 683
4. Interest		11 614	21 554
5. Other outflows from financing activities – financial lease		0	0

Cash flow statement (in PLN thousand)	Notes	2017 year ended 31.12.2017	2016 (restated) year ended 31.12.2016
III. Net cash flows from financing activity		**-359 872**	**-393 849**
D. Total net cash flows		149 379	142 973
E. Balance sheet change in cash, including:		149 037	141 306
- change in cash due to foreign currency translation		-342	-1 667
F. Opening balance of cash		**366 026**	**223 053**
G. Closing balance of cash, including:		**515 405**	**366 026**
- of limited disposability		0	0

Consolidated statement of changes in equity for the year ended 31 December 2017

Statement of changes in equity (in PLN thousand)	Share capital	Treasury shares	Share premium	Other capitals	Currency translation on foreign operations	Profit (loss) from previous years	Profit (loss) for the current period	Equity attributable to the parent company	Minority interests	TOTAL equity
Balance as at 1 January 2017	**3 679**	**-43 318**	**251 393**	**1 608 298**	**-114 928**	**429 607**	**0**	**2 134 731**	**0**	**2 134 731**
Treasury share purchases	0	-16	0	0	0	0	0	-16	0	-16
Distribution of profit for 2016	0	0	0	214 747	0	-280 273	0	-65 526	0	-65 526
Share issue	26	0	26 238	0	0	0	0	26 264	0	26 264
Consolidation of a subsidiary	0	0	0	0	0	-27	0	-27	0	-27
Contribution by non-controlling shareholders	0	0	0	0	0	0	0	0	62	62
Remuneration paid in shares	0	0	0	408	0	0	0	408	0	408
Transactions with owners	**26**	**-16**	**26 238**	**215 155**	**0**	**-280 300**	**0**	**-38 897**	**62**	**-38 835**
Net profit (loss) for 2017	0	0	0	0	0	0	440 851	440 851	-77	440 774
Currency translation on foreign operations	0	0	0	0	-93 239	0	0	-93 239	0	-93 239
Balance as at 31 December 2017	**3 705**	**-43 334**	**277 631**	**1 823 453**	**-208 167**	**149 307**	**440 851**	**2 443 446**	**-15**	**2 443 431**
Balance as at 1 January 2016	**3 662**	**-43 306**	**235 074**	**1 323 736**	**-228 757**	**599 330**	**0**	**1 889 739**	**0**	**1 889 739**
Treasury share purchases		-12						-12	0	-12
Distribution of profit for 2015				284 562		-344 498		-59 936	0	-59 936
Share issue	17		16 319					16 319	0	16 319
Transactions with owners	**17**	**-12**	**16 319**	**284 562**	**0**	**-344 498**	**0**	**-43 612**	**0**	**-43 612**
Net profit (loss) for 2016							174 775	174 775	0	174 775
Currency translation on foreign operations					113 829			113 829	0	113 829
Balance as at 31 December 2016	**3 679**	**-43 318**	**251 393**	**1 608 298**	**-114 928**	**254 832**	**174 775**	**2 134 731**	**0**	**2 134 731**

Accounting Principles (Policies) and Additional Explanatory Notes

1. Overview

The LPP SA Capital Group (“CG”, “Group”) is composed of LPP SA (“Parent Company”, “Company”) and its subsidiaries (note 2). The Group’s consolidated financial statements cover the year ended 31 December 2017 and incorporates comparative data for the year ended 31 December 2016.

The Parent Company is recorded in the register of entrepreneurs of the National Court Register kept by the District Court for Gdańsk-North in Gdańsk, 7th Economic Division of the National Court Register, under number KRS 0000000778.

The Parent Company and the Group companies have been established for an unlimited period of time.

The Group’s basic scope of business is:

- retail sale of clothing,
- wholesale of clothing.

2. Composition of the Group

The Group is composed of LPP SA and the following subsidiaries:

No	Company name	Registered office	Shareholding 31 December 2017
1.	LPP Retail Sp. z o.o.	Gdańsk, Poland	100%
2.	DP&SL Sp. z o.o.	Gdańsk, Poland	100%
3.	IL&DL Sp. z o.o.	Gdańsk, Poland	100%
4.	AMUR Sp. z o.o.	Gdańsk, Poland	100%
5.	LPP Estonia OU	Tallinn, Estonia	100%
6.	LPP Czech Republic SRO	Prague, the Czech Republic	100%
7.	LPP Hungary KFT	Budapest, Hungary	100%
8.	LPP Latvia LTD	Riga, Latvia	100%
9.	LPP Lithuania UAB	Vilnius, Lithuania	100%
10.	LPP Ukraina AT	Peremyshliany, Ukraine	100%
11.	RE Trading OOO	Moscow, Russia	100%
12.	LPP Romania Fashion SRL	Bucharest, Romania	100%
13.	LPP Bulgaria EOOD	Sofia, Bulgaria	100%
14.	LPP Slovakia SRO	Bańska Bystrzyca, Slovakia	100%
15.	LPP Fashion Bulgaria EOOD	Sofia, Bulgaria	100%
16.	Gothals LTD	Nicosia, Cyprus	100%
17.	LPP Croatia DOO	Zagreb, Croatia	100%
18.	LPP Deutschland GMBH	Hamburg, Germany	100%
19.	IPMS Management Services FZE	Ras Al Khaimah, UAE	100%
20.	LPP Reserved UK LTD	Altrincham, UK	100%
21.	LLC Re Development	Moscow, Russia	100%
22.	LLC Re Street	Moscow, Russia	100%
23.	LPP Reserved doo Beograd	Belgrad, Serbia	100%
24.	P&L Marketing&Advertising Agency SAL	Beirut, Lebanon	97.32%

As at 31 December 2017 and as at 31 December 2016, the share in the total number of votes, held by the Group in subsidiaries, is equal to the Group's shareholdings in those entities and has not changed compared with the preceding year.

In the reporting period, the Group was joined by P&L Marketing & Advertising SAL in Lebanon, being in charge of supervision of franchise stores in the Middle East and marketing activity in the said region.

3. Composition of the Management Board of the Parent Company

In the reporting period and by the date of approving these financial statements, the composition of the Management Board remained unchanged.

4. Approval of the financial statements

These consolidated financial statements were approved by the Management Board of LPP SA for publishing on 12 March 2018.

Composition of the Parent Company's Management Board as at 31 December 2017:

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

5. Critical accounting estimates and assumptions

5.1. Professional judgment

The preparation of the Group's consolidated financial statements requires the Management Board of the Parent Company to make judgments, estimates and assumptions affecting presented revenues, costs, assets and liabilities and additional notes as well as disclosures regarding contingent liabilities. Uncertainty over these assumptions and estimates may, in the future, result in major adjustments in balance sheet values of assets and liabilities.

While applying accounting principles, the Management Board made the following judgments affecting to the largest extent the presented balance sheet values of assets and liabilities.

- Classification of lease agreements

The Group classifies lease as operating or financial lease based on the assessment of the extent in which risk and benefits arising from the possession of a leased object are attributable to the lessor and to the lessee. This assessment is based on the economic substance of each transaction.

The Group has concluded lease agreements for retail space to operate brand stores.

5.2. Uncertainty over estimates and assumptions

Basic assumptions for the future and other key sources of uncertainties, occurring as at the balance sheet date, involving a major risk of adjustments in the values of assets and liabilities in the next financial year, are given below.

The methodology employed for determining estimated values is based on the best knowledge of the Management Board of the Parent Company and is in line with IFRS requirements. Assumptions and estimates made may be changed due to future events resulting from market changes or changes beyond the Group's control.

The estimates of the Parent Company's Management Board, affecting the values disclosed in the financial statements, refer to the following:

- depreciation rates

The value of depreciation rates is determined based on the estimated economic useful life of property, plant and equipment and intangible assets. Each year, based on current estimates, the Group verifies the economic useful life applied.

- percentage of returns of goods sold in the reporting period, to be made in the next reporting period

Due to the fact that customers make product claims and return goods purchased in brand stores, sales revenues are updated by adjusting the estimated cost of returns. Based on historical data, a percentage rate reflecting the ratio of product returns versus the sales volume is estimated. At the end of each reporting period, this ratio is re-estimated.

- revaluation write-off on assets

As at each balance sheet date, the Group assesses whether there is objective evidence for permanent impairment of a asset or a group of assets. The Group treats individual retail sales units as cash generating units and, at their level, estimates such impairment, if any. Furthermore, as estimated by the Group, the initial phase of the store's operations lasts 3 years (5 years in the countries of Western Europe), during which newly opened stores may generate losses. After that period, the Group analyses the profitability of individual retail sales units. In case of identifying stores without any promising perspectives for improving results within a given time-frame, the CG makes a decision on an impairment write-off on assets assigned to such an unprofitable store.

If there is such objective evidence and a need to make the write-off in question, the Group determines an estimated recoverable value of an asset and makes an impairment write-off in an amount equal to a difference between the recoverable value and the balance sheet value. An impairment loss is recognised in the profit and loss statement in the current period in which it was identified.

- valuation of provisions for retirement and pension benefits

The Group makes a provision for future liabilities arising from retirement and pension benefits, applying actuarial methods. Assumptions made in this respect are presented in note 24. A change in financial indices serving as the basis for the estimate, i.e. an increase in the discount rate by 0.5 p.p. and a decrease in the remuneration index by 0.5 p.p. would result in the decrease of the provision by PLN 104 thousand.

- future tax results taken into account when calculating deferred income tax assets

The Group recognises a deferred income tax asset based on the assumption that, in the future, tax profit will be generated allowing for its application.

- assumptions made for reviewing trademark and goodwill impairment

Intangible assets with an unspecified useful life are annually tested for impairment. The assumptions made in this respect are discussed in note 16.

Methods for determining estimated values are applied on a continuous basis versus the previous reporting period.

The following estimated amounts were changed (in line with the methodology employed):

- the estimated economic useful life of property, plant and equipment – applicable to outlays in third-party facilities (determination of a new depreciation period after modernisation),
- future tax results taken into account when determining deferred income tax assets,
- sales adjustment ratio related to product returns to be made in the next reporting period,
- valuation of the provision for retirement and pension benefits,
- assumptions made for reviewing trademark and goodwill impairment,
- uncertainty over tax settlement.

The Group's tax settlements are subject to tax audit. Due to the fact that, in case of numerous transactions, the construing of tax laws may differ from that applied by the Management Board in the utmost good faith, amounts disclosed in the financial statements may be changed at a later time upon their final determination by authorities authorised to carry out tax audits. Similar changes may affect, depending on future interpretations of tax authorities, the possibilities of employing tax benefits disclosed in the financial statements in the form of deferred income tax assets.

On 15 July 2016, the Tax Ordinance was amended to give recognition to the General Anti-Abuse Rule (GAAR). GAAR is intended to prevent the creation and use of artificial legal arrangements to avoid payment of tax in Poland. Under new regulations, a substantially higher degree of judgment will be required to be made when assessing the effects of individual transactions.

GAAR should be applied to transactions concluded after its entry into force and to transactions effected before its entry into force, yet involving benefits gained after the said date or those still gainable. Following implementation of the said provisions, Polish fiscal control authorities will be able to question the arrangements and agreements entered into by taxpayers, such as group restructuring and reorganisation.

The Group recognises and measures current and deferred tax assets or liabilities satisfying the criteria of IAS *Income Taxes* based on tax profit (loss), taxable basis, unsettled tax losses, unused tax reliefs and tax rates, wuth due regard of the assessment of uncertainty over tax settlements.

If there is any uncertainty over the extent in which a tax authority will approve specific tax settlements for a given transaction, the Group recognizes such settlements in due recognition of such uncertainty.

6. Basis for preparation of the consolidated financial statements

Pursuant to the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2018, item 395), as of 1 January 2005, LPP SA presents its consolidated financial statements based on International Financial Reporting Standards (IFRS), approved by the EU (IFRS EU).

These consolidated financial statements have been drawn up in accordance with the historical cost accounting model, except for financial instruments measured at fair value.

These consolidated financial statements have been drawn up based on the assumption that the Group remains a going concern in the foreseeable future. As at the date of approval of these financial statements, there is no evidence indicating that the Group will be unable to continue its operations as a going concern.

These statements are presented in PLN, and, unless given otherwise, all figures are given in PLN thousand.

6.1. Declaration of compliance with IFRS

The presented consolidated financial statements cover the period between 1 January 2017 and 31 December 2017. Comparative data is presented for the period between 1 January 2016 and 31 December 2016.

These consolidated financial statements have been drawn up in line with the International Financial Reporting Standards (IFRS) approved by the European Union, covering standards and interpretations approved by the International Accounting Standards Board.

No standard or interpretation has been voluntarily adopted early in these financial statements.

6.2. New standards and interpretations published, yet not in force

The following standards and interpretations had been published by the International Accounting Standards Board, yet did not enter into force before 31 December 2017.

Standard/interpretation	Effective date
New IFRS 9 *Financial Instruments*	annual periods beginning on or after 1 January 2018 published on 24 July 2014
New IFRS 14 *Regulatory Deferral Accounts*	annual periods beginning on or after 1 January 2016 published on 30 January 2014 as decided by the European Commission, the approval process for the standard in its initial form will not commence before the standard is published in its final wording; not approved by the EU by the date of approval of these financial statements
IFRS 15 *Revenue from Contracts with Customers,* covering amendments to IFRS 15 *Effective Date of IFRS 15*	annual periods beginning on or after 1 January 2018 published on 28 May 2014
Amendment to IFRS 10 and IAS 28 *Investments in Associates and Joint Ventures*	no date for entry into force – voluntary application published on 11 September 2014 the EU approval procedure suspended

Standard/interpretation	Effective date
Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	annual periods beginning on or after 1 January 2018 published on 12 September 2016
IFRS 16 *Leases*	annual periods beginning on or after 1 January 2019 published on 13 January 2016
Explanations to IFRS 15 *Revenue from Contracts with Customers*	annual periods beginning on or after 1 January 2018 published on 12 April 2016
First-Time Adoption of International Financial Reporting Standards (amendments to IFRS 1), being part of *Annual Improvements to IFRS Standards 2014-2016 Cycle*	annual periods beginning on or after 1 January 2018 published on 8 December 2016
Investments in Associates and Joint Ventures (Amendments to IAS 28), being part of *Annual Improvements to IFRS Standards 2014-2016 Cycle*	annual periods beginning on or after 1 January 2018 published on 8 December 2016
Classification and Measurements of Share-Based Payment Transaction (Amendments to IFRS 2)	annual periods beginning on or after 1 January 2018 published on 20 June 2016
IFRIC 22 *Foreign Currency Transactions and Advance Consideration*	annual periods beginning on or after 1 January 2018 published on 8 December 2016 not approved by the EU by the date of approval of these financial statements
IFRS 17 *Insurance Contracts*	annual periods beginning on or after 1 January 2021 published on 18 May 2017 not approved by the EU by the date of approval of these financial statements
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	annual periods beginning on or after 1 January 2019 published on 12 October 2017 not approved by the EU by the date of approval of these financial statements
Transfers of Investment property (Amendments to IAS 40)	annual periods beginning on or after 1 January 2018 published on 8 December 2016 not approved by the EU by the date of approval of these financial statements
IFRIC 23 *Uncertainty over Income Tax Treatments*	annual periods beginning on or after 1 January 2019 published on 7 June 2017 not approved by the EU by the date of approval of these financial statements
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	annual periods beginning on or after 1 January 2019 published on 12 October 2017 not approved by the EU by the date of approval of these financial statements
Annual Improvements to IFRS Standards 2015-2017 Cycle	annual periods beginning on or after 1 January 2019 published on 12 December 2017 not approved by the EU by the date of approval of these financial statements
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	annual periods beginning on or after 1 January 2019 published on 7 February 2018 not approved by the EU by the date of approval of these financial statements

In the opinion of the Management Board of the Parent Company, except for IFRS 16, the above-mentioned standards will not substantially affect the accounting policy applied so far.

6.3. New standards and interpretations published, yet not in force

- Implementation of IFRS 15

IFRS 15 *Revenue from Contracts with Customers,* issued in May 2014 and amended in April 2016, provides a five-step model to be applied for recognition of revenue resulting from contracts with customers. According to IFRS 15, revenues are recognized in the amount of a consideration to which the entity expects to be entitled in exchange for the transfer of promised goods and services to the customer.

The new standard applies to annual reporting periods beginning on or after 1 January 2018.

The Group plans to adopt IFRS 15 from the date of the standard's entry into force, applying full retrospective method.

The Group pursues business activity in the following areas:

1. Sale of goods

The Group pursues business activity covering mainly the sale of goods, including retail sales in on-site and online stores and as well as wholesale.

As assessed by the Group, the impact of adopting IFRS 15 for the treatment of revenue and the financial results of the Capital Group, generated from such sales, will be immaterial. Revenue will be recognised at a specific time, i.e. when the customer gains control over the goods, as currently in place.

Due to the applied product return policy, the Group reduces the value of revenue with the estimated cost of such returns. According to IFRS 15, this methodology will be continued.

Consequently, the Group expects that IFRS 15 will not affect the consolidated financial statements for 2017.

2. Sale of goods and services

The Group sells services to a minor extent. Such services include mainly know-how on the operation of brand stores by domestic contracting parties and the lease of transportation means.

The Group holds the view that the customer receives and, at the same time, gains benefits from a service rendered, while the service is being provided. Therefore, the Group transfers control and, consequently, executes the performance obligation over time. Thus, according to IFRS 15, the Group will continue to recognise sales revenue over time.

Consequently, the Group expects that IFRS 15 will not affect the consolidated financial statements for 2017.

3. Requirements for presentation and disclosure of information

IFRS 15 introduces new requirements for presentation and disclosure of information. As assessed by the Group, the impact of certain disclosures will be material.

Additionally, according to IFRS 15, the Group presents revenue from contracts with customers, divided by categories which reflect the way in which economic factors affect the nature, amount of, payment term for, and uncertainty over, revenue and cash flows.

- Implementation of IFRS 9

In July 2014, the International Accounting Standards Board published IFRS 9 *Financial Instruments*. IFRS 9 applies to annual periods beginning on or after 1 January 2018 r, with possible early application.

The Group plans to apply IFRS 9 from the standard's effective date, without transforming comparative data.

In 2017, the Group assessed the impact of implemented IFRS 9 on accounting principles applied by the Group in relation to the Group's operations or financial results.

This assessment is based on correctly available information and may undergo changes resulting from rational and provable additional information obtained in the period in which the Group will apply IFRS 9 for the first time.

The Group does not expect that implementation of IFRS 9 will substantially affect the statement of financial position and equity.

1. Classification and measurement

The Group does not expect that IFRS 9 will substantially affect the statement of financial position and equity in terms of classification and measurement. It is expected that all financial assets measured so far at fair value will still be measured that way.

Trade receivables are maintained to create cash flows resulting from a contract, and the Group does not factor trade receivables – they will still be measures at amortised cost through profit or loss.

2. Impairment

As assessed by the Group, it has no trade receivables requiring an increase in an impairment write-off compared with current figures.

3. Hedging accounting

The Group applies no hedging accounting and, therefore, this part of the standard does not apply.

- Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued IFRS 16 *Leases*.

IFRS 16 implements a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. At the effective date, the lessee recognizes an asset arising from the right to control the use of the underlying asset and the liability arising from the lease, reflecting it obligation to make lease payments.

The lessee recognises separately the depreciation of the asset arising from the right to control the use and interest on the lease liability.

As assessed by the Group, the new IFRS will substantially affect the Group's statement of financial position.

As part of its operations, the Group rents premises for selling its goods. At present, the rental is recognised in the financial statements as operating lease.

Following the principles introduced by IFRS 16, the Group will have to recognise assets and liabilities arising from contracts of this type in the statement on financial position.

Following application of IFRS 16, the Group expects that the value of lease assets and liabilities will increase substantially.

The value of minimum future fees is an estimate showing how liabilities would have increased if the standard had been adopted as at the balance sheet date. This value is described in note 14. The value accumulated in the note may differ from the amount which will be finally recognised in the statement.

Assets and liabilities recognised will be settled in a way differing from the settlement of operating lease. At present, lease payments are settled on the straight-line basis. It is expected that rental assets will be settled also on the straight-line basis, with liabilities settled applying the effective interest rate, which will result in the increase of charges in the period following conclusion or modification of a rental agreement and its decrease over time.

7. Key accounting principles

The key accounting principles applied when preparing these consolidated financial statements are given in relevant subsequent notes.

These principles were applied in all presented years on a continuous basis.

7.1. Conversion of items denominated in foreign currencies

The functional currency of the Parent Company and the presentation currency of the Capital Group is PLN.

The functional currency of foreign subsidiaries is their local currency.

Foreign exchange differences from conversion are recognised, respectively, in financial income or costs.

As at the balance sheet date, assets and liabilities of foreign subsidiaries are converted to the Group's presentation currency according to an exchange rate of the National Bank of Poland, applicable on the balance sheet date. Their comprehensive income statements are converted according an average weighted exchange rate for a given financial period. Foreign exchange differences arising from currency translation are recognised in other comprehensive income and accumulated in a separate equity item.

At the time of transfer of a foreign entity, foreign exchange differences accumulated in the equity of a given foreign entity are recognised in profit or loss.

For balance sheet measurement, the following foreign exchange rates have been applied.

	EUR	CZK	BGN	HUF	RUB	UAH	HRK	RON	RSD	GBP
2017	4.1709	0.1632	2.1326	0.013449	0.0604	0.1236	0.5595	0.8953	0.0354	4.7001
2016	4.4240	0.1637	2.2619	0.014224	0.0680	0.1542	0.5853	0.9749	-	5.1445

Average weighted exchange rates for specific financial periods were as follows.

	EUR	CZK	BGN	HUF	RUB	UAH	HRK	RON	RSD	GBP
2017	4.2514	0.1622	2.1740	0.0137	0.0643	0.1406	0.5693	0.9283	0.0356	4.7698
2016	4.3757	0.1618	2.2372	0.014034	0.0598	0.1542	0.5808	0.9739	-	5.3355

7.2. Principles of consolidation

These consolidated financial statements comprise the financial statements of LPP SA and the financial statements of its subsidiaries, drawn up on a case-by-case basis for the year ended 31 December 2017, except for the following domestic subsidiaries:

- DP&SL Sp.z o.o.
- IL&DL Sp. z o.o.
- AMUR Sp. z o.o.

Domestic subsidiaries of LPP SA were not consolidated as their financial data is immaterial. This is in line 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 with the financial statements of the parent company. In particular, the balance sheet total, sales revenues from sales and financial operations of the entity which, for the financial period, are lower than 1% of balance sheet total and revenues of the parent company are regarded as insignificant.

The non-consolidation of the financial statements of those companies does not adversely affect the fair and true view of the Group's property and financial standing and its financial result.

Financial statements of subsidiaries are prepared based on accounting standards applicable in specific countries, however, for consolidation purposes, their financial data has been transformed to ensure that the consolidated financial statemnst are drawn up based on uniform accounting principles. Adjustments are implemented to eliminate any discrepancies in the accounting principles applied.

All material balances and transactions between the Group companies, including unrealised profit from intra-Group transactions, have been eliminated in full.

Subsidiaries are consolidated in the period from the date on which the Group take control of them, and cease to be consolidated on the date such control expires. The Parent Company exercises control over a subsidiary if:

- it has power over such entity,
- it is exposed to variable returns, or holds the rights to variable returns, arising from its engagement in a given entity,
- it may use its powers to shape the value of returns generated.

The Group verifies the exercise of control over other entities in cases where there might be a change in at least one condition for exercising the same.

8. Changes in applied accounting principles

Accounting principles applied for preparing these consolidated financial statement are coherent with those applied when drawing up the Group's financial statements for the year ended 31 December 2016, except for those given below.

The amendments to IFRS, given below, are applied in these financial statements as at their effective date, yet they did not have a major impact on the presented and disclosed financial information or did not apply to transactions concluded by the Group:

- Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"

These amendments specify the issues involving negative temporary differences relating to debt instruments measured at fair value, estimation of probable future taxable profit and assessment whether profit generated allows for realization of temporary negative differences. These amendments are applied retrospectively.

- Amendments to IFRS 12 "Disclosure of Interest in Other Entities"

These amendments specify that an entity makes a choice in respect of measurement at fair value through profit and loss in in line with IFRS 9 for investments in an associate or joint venture, held by an organization managing high-risk capital or a similar entity, separately for each associate or joint venture, on initial recognition.

- Amendments to IAS 7 "Disclosure Initiative"

Following these amendments, an entity is required to disclose information enabling users of financial statements to assess changes in liabilities from financing activities. It is not required to provide comparative information for preceding periods.

The Group made no decision on early application of any standard, interpretation or amendment published, yet not in force under the EU provisions.

At the same time, the Group made several changes in presenting data in the financial statements.

- Change in presentation of the provision for unused holiday leaves

Since January 2017, the provision for unused holiday leaves is recognised in item "Remuneration" by type. In previous years, it was disclosed as "Change in the balance of products", in a separate item of an additional note. When disclosed by function, there was no change in presentation and, as previously, the said provision in disclosed in the comprehensive income statement, in selling costs and general costs.

At the same time, the provision for unused holiday leaves is presented differently in the statement of financial position.

At present, this value is disclosed as "Employee liabilities" in short-term liabilities, and not in Provisions, as before.

Data for 2016 in the statement of financial position was transformed, with values shown in the table below.

- Change in presentation of a retirement provision

Since January 2017, the retirement provision is presented in "Remuneration" by type. When disclosed by function, it is presented, respectively, in selling and general costs. In previous years, it was disclosed in other operating expenses. As the values disclosed in the expenses for 2016 are immaterial, the Group has not transformed the financial statement in that respect.

- Change in presentation of the provision for employee benefits

In the current reporting period, in the statement of financial position, the Group made changes in the presentation of the provision for employees benefits. Instead of presenting it in "Provisions", it is presented in "Employee liabilities".

Data for 2016 in the statement of financial position was transformed, with values shown in the table below.

- Change in the presentation of the provision for product returns

In the statement of financial position, the Group made changes also in the presentation of the provision for product returns. Instead of presenting it in "Accruals", it is presented in "Provisions".

Data for 2016 in the statement of financial position was transformed, with values shown in the table below.

- Change in presentation of revaluation write-offs on assets

The change in presentation of revaluation write-offs on assets consisted in the compensation of operating and financial income and costs in a single item.

Previously, the creation and reversal of a revaluation write-off was shown in separate items in, respectively, costs and income. At present, such operations will be shown in the comprehensive income statement on balance, and not separately for assets and liabilities, as previously.

Data for 2016 in the statement of financial position was transformed, with values shown in the table below.

- Change in presentation of other receivables and loans

In the statement of financial position, the Group made a change in the presentation of other receivables and loans, separating state budget receivables from other receivables, which were increased with the value of loans.

Currently, state budget receivables are presented in item "Other non-financial assets". Last year, they were shown in "Receivables and loans" (change in naming: lat year – "Other receivables").

The remaining value of receivables was increased with the amount of loans and presented in "Receivables and loans" (change in naming: last year - "Other receivables" and "Loans").

Following the changes in presentation, the following adjustments were made in financial data as at 31 December 2016:

Changes in 2016	Value in PLN thousand	Data approved	Data transformed
Provision for unused holiday leaves	17 955	Provisions	Employee liabilities
Provision for employee benefits	10 531	Provisions	Employee liabilities
Provision for product returns	4 566	Accruals	Provisions
Revaluation write-offs on inventories	11 933	Other operating costs	Other operating income
Revaluation write-offs in receivables	1 218	Other operating costs	Other operating income
Revaluation write-offs on fixed assets	837	Financial costs	Financial income
State budget receivables	29 459	Receivables and loans	Other non-financial assets

Moreover, changes were also made as at 1 January 2016:

Changes in 2016	Value in PLN thousand	Data approved	Data transformed
Provision for unused holiday leaves	13 437	Provisions	Employee liabilities
Provision for employee benefits	4 337	Provisions	Employee liabilities
Provision for product returns	3 911	Accruals	Provisions
State budget receivables	35 210	Receivables and loans	Other non-financial assets

9. Revenue and costs

9.1. Revenue from sale

ACCOUNTING POLICY

Revenue from sale is measured in a probable amount of the Group's gainable economic benefits related to a given transaction and when the amount of revenue may be reliably assessed. Revenue is recognised at fair value of amounts paid or payable, reduced with bonuses and VAT.

Revenue from sales of goods and materials

Revenue from sale of goods and materials are recognised if a major risk and benefits arising from the ownership title to goods is transferred to the buyer.

Due to the fact that customers make product claims and return products purchased in brand stores, sales revenues are updated by adjusting the estimated cost of returns. The value of the said provision is given in note 25.

Revenue from sales of services

The revenues from the sale of services cover the following:

- sale of services provided to franchisees operating Polish brand stores: know-how, marketing and telecommunications services;
- sale of services covering support for the operation of retail stores to foreign franchisees;
- lease by LPP SA of own means of transportation, sublease of real property, design services.

	Year ended	Year ended
Sale revenues (in PLN thousand)	**31 December 2017**	**31 December 2016**
Revenues from sales of services	23 985	21 602
Revenues from sales of goods and materials	7 005 440	5 997 444
Total sales revenues	**7 029 425**	**6 019 046**

9.2. Other operating income and costs

ACCOUNTING POLICY

Other operating income and costs comprise income on, and costs of, operations other than the Group's basic operations, for example profit or loss on the sale of fixed assets, fines and charges, donations, revaluation write-offs etc.

	Year ended	Year ended (transformed)
Other operating income (in PLN thousand)	**31 December 2017**	**31 December 2016**
Profit from the disposal of non-financial fixed assets	6 521	0
Subsidies	0	398
Other operating income, including:	29 249	25 038
- revaluation write-offs on inventories net	7 147	0
Total other operating income	**35 770**	**25 436**

Other operating costs (in PLN thousand)	Year ended 31 December 2017	Year ended (transformed) 31 December 2016
Loss on disposal of non-financial assets	0	838
Revaluation of non-financial assets, including:	2 243	57 696
- fixed assets net	1 969	16 156
- intangible assets net	0	2 820
- inventories net	274	3 571
- receivables net	0	35 149
Other, including:	75 120	65 485
- losses on current and fixed assets	66 608	59 571
Total operating costs	**77 363**	**124 019**

9.3. Financial income and costs

Financial income (in PLN thousand)	Year ended 31 December 2017	Year ended (transformed) 31 December 2016
Interest, including:	4 541	854
- on deposits	3 462	547
- on loans and receivables	234	307
- state budget interest	845	0
Dividends	165	176
Profit from the disposal of investments	0	4
Other, including:	48	273
- disposal of liabilities	0	272
Total financial income	**4 754**	**1 307**

Financial costs (in PLN thousand)	Year ended 31 December 2017	Year ended (transformed) 31 December 2016
Interest, including:	12 315	22 596
- on bank loans	11 698	22 442
Revaluation of investments, including	0	167
- revaluation write-offs on shares net	0	167
Other, including:	7 202	10 887
- balance of foreign exchange differences	4 332	7 261
- commissions on bank loans	2 870	3 626
Total financial costs	**19 517**	**33 650**

9.4. Costs by type

Costs by type (in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Depreciation	293 429	267 381
Consumption of materials and energy	183 844	152 051
Outsourced services	1 718 405	1 581 650
Taxes and fees	28 245	20 709
Remuneration	581 109	388 993
Social insurance and other benefits, including:	126 955	76 367
- retirement contribution	13 070	10 349
Other costs by type	167 952	120 860
Total costs by type	**3 099 939**	**2 608 011**

The reconciliation of costs by nature and function is given in the table below.

Costs by type (in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Costs by type, including:	3 099 939	2 608 011
Change in products	0	795
Items recognised in selling costs	2 751 848	2 405 007
Items recognised in general costs	348 091	203 799

9.5. Costs of depreciation, employee benefits and inventories

Items recognised in the own cost of sales (in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Measurement of inventories at net sale price	3 309 459	3 084 098
Estimated returns from customers	185	655
Total	**3 309 644**	**3 084 753**

Items recognised in the cost of sale (in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Depreciation of fixed assets	255 884	237 015
Depreciation of intangible assets	2 757	2 829
Costs of inventory consumption for advertising purposes	14 854	14 855
Costs of employee benefits	631 978	416 157
Total	**905 473**	**670 856**

Items recognised in general costs (in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Depreciation of fixed assets	26 452	20 610
Depreciation of intangible assets	8 335	6 927
Costs of employee benefits	69 187	46 091
Total	**103 974**	**73 628**

Items recognised in other operating costs (in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Inventory deficits	53 415	48 092
Liquidated inventories	2 724	3 220
Donations	1 852	1 648
Revaluation write-offs on inventories	0	35 149
Total	**57 991**	**88 109**

10. Income tax

ACCOUNTING POLICY

Obligatory burdens on the financial result comprise current and deferred income tax not recognised in other comprehensive income or directly in equity.

The current tax due is calculated on the basis of the tax result in a given financial year. Estimate changes referring to previous years are recognised as an adjustment of the amount due for the current year. Tax due is calculated based on tax rates applicable in a given financial year.

Deferred tax is calculated applying the balance sheet method as tax to be paid or returned in the future based on differences between the balance sheet values of assets and liabilities and the corresponding tax values applied to determine the tax base.

Provision for deferred tax is made for all positive taxable temporary differences, while the deferred tax asset is recognised to the extent that the recognised negative temporary differences may be likely deducted from future tax profits.

The main components of income tax for 2017 and a comparative period are given below.

Income tax (in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Current income tax	135 007	26 596
Deferred income tax	-12 110	-7 293
Total income tax	**122 897**	**19 303**

10.1. Effective interest rate

The reconciliation of income tax on the financial result before tax according to a statutory tax rate with the income tax presented in the financial result for the period from 1 January to 31 December 2017 and for 2016 is given in the table below.

Income tax (in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Profit/loss before taxation	563 671	194 078
Tax at statutory rate applicable in Poland 19% (2016: 19%)	**107 097**	**36 875**
Effect of tax rate differences between countries	-32 962	-16 092
Adjustments of current tax from previous years	**1 501**	**0**
Income tax provision	**45 335**	**0**
Permanent differences	1 206	-2 125
Other	720	645
Income tax (burden) recognised in profit or loss	**122 897**	**19 303**

Income tax was increased with the income tax provision of PLN 45 335 thousand. The reason for creating such provision is specified in detail in note 28.2.

Income tax is calculated based on the following tax rates.

Poland	Russia	Serbia	Lithuania	Latvia	Ukraine	Hungary	Estonia	Czech. Rep.	Bulgaria	Slovakia	Romania	Croatia	Cyprus
19%	20%	15%	15%	15%	18%	9%	0%	19%	10%	21%	16%	18%	2.5%

10.2. Deferred income tax

Deferred income tax recognised in the financial result for the period from 1 January to 31 December 2017 and for 2016 resulted from the following items:

Deferred income tax assets (in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Difference between balance sheet and tax depreciation of fixed assets	-1 116	10 453
Depreciation of trademarks	-5 346	-5 345
Revaluation of inventories	395	-701
Revaluation of trade receivables	126	-149
Margin on goods unsold outside the Group	9 672	-6 091
Margin on the sale of investments	1 152	4 442
Tax loss	47	-433
Unpaid remuneration and surcharges	9 972	1 366
Provision for product returns	76	221
Estimated expenses	-1 107	-56
Other temporary differences	1 104	756
Exchange differences from currency translation	627	-360
Total	**15 602**	**4 103**

Deferred income tax liabilities (in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Difference between balance sheet and tax depreciation of intangible and fixed assets	616	-1 287
Rent estimate	2 850	-1 077
Adjustments received in the following year	0	-692
Accrued interest on bank loans	-15	-162
Outstanding damages	-13	29
Other	0	-6
Exchange differences from currency translation	54	5
Total	**3 492**	**-3 190**

10.3. Deferred tax assets and liabilities

The value of deferred tax assets and liabilities recognised in the statement of financial position results from titles and figures given in the table below.

Deferred tax assets (in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Difference between balance sheet and tax depreciation of fixed assets	21 929	23 045
Depreciation of trademarks	90 878	96 224
Revaluation of inventories	1 934	1 539
Revaluation of trade receivables	375	249
Margin on goods unsold outside the Group	15 620	5 948
Margin on the sale of investments	11 501	10 349
Tax loss	47	0
Unpaid remuneration and surcharges	12 986	3 014
Provision for product returns	1 162	1 086
Estimated expenses	0	1 107
Other temporary differences	2 199	1 096
Total	**158 631**	**143 657**

Deferred tax liabilities (in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Difference between balance sheet and tax depreciation of intangible and fixed assets	4 269	3 653
Outstanding damages	147	160
Accrued interest on loans and borrowings	61	77
Rent estimate	2 850	0
Total	**7 327**	**3 890**

11. Earnings per share

ACCOUNTING POLICY

The earnings per share (EPS) ratio is calculated by dividing net profit for a given period by the weighted average number of issued ordinary shares in LPP SA in a given period.

Diluted earnings per share are calculated by dividing net profit for a given period by the weighted average number of ordinary shares existing during the period, adjusted by the number of ordinary shares which would be issued upon conversion of all dilutive, prospective capital instruments to ordinary shares.

The calculation of the EPS and diluted earnings per share is given below.

(in PLN thousand)	Year ended 31 December 2017	Year ended 31 December 2016
Number of shares in the denominator in the formula		
Weighted average number of ordinary shares	1 826 537	1 816 932
Dilutive effect of warrants convertible into shares	0	8 093
Diluted weighted average number of ordinary shares	1 826 537	1 825 025
Earnings per share		
Net profit (loss) for the current period, attributable to shareholders of the parent company	440 851	174 775
Profit (loss) per share	241.36	96.19
Diluted profit (loss) per share	241.36	95.77

12. Dividends paid and offered for payment

ACCOUNTING POLICY

Dividends are recognised at the time of determining the rights of eligible shareholders or stockholders.

The dividend on ordinary shares for 2016, paid on 20 September 2017, amounted to PLN 65 527 thousand (for 2015: paid on 21 September 2016: PLN 59 936 thousand).

The dividend's value per ordinary share paid for 2016 amounted to PLN 35.74 (for 2015: PLN 33).

Currently, the Management Board of LPP SA plans to recommend payment of a dividend for 2017.

13. Tangible fixed assets

ACCOUNTING POLICY

Tangible fixed assets are initially carried at the purchase price increased with all costs directly related to the purchase and necessary for adapting the asset to the working condition for its intended use. Costs incurred after the date when the fixed asset was put into use, such as costs of maintenance and repairs, are charged into the financial result as they are incurred.

As at the balance sheet date, PP&E are measured at cost less accumulated depreciation and impairment write-offs.

Depreciation is made by the Capital Group on the straight-line basis. Fixed assets are depreciated over their pre-determined expected useful life. This period is revised annually.

Depreciation rates for specific groups of fixed assets are as follows.

Asset group	Depreciation rate
Buildings, premises, civil engineering works, including:	2.5-50%
Outlays in third-party facilities	14.28%
Devices and machinery	2.5-50%
Transportation means	10-25%
Other fixed assets, including:	10-40%
Furniture	20%

The value of fixed assets is also periodically tested for impairment, if any, resulting from any events or changes in the business environment or within the Company, which could cause an impairment of these assets below their current book value.

When fixing depreciation rates for individual PP&E, the Company determines whether there are any components of such an asset, the purchase price of which is important as compared with the purchase price of the entire asset, and whether the usability period for these components is different from the usability period for the remaining part of the asset.

Fixed assets in progress – as at the balance sheet date, they are carried in the total amount of costs directly related to their acquisition or production, less impairment write-offs.

A given item of PP&E may be removed from the statement of financial position after its sale or when no economic benefits of the asset's further use are expected. Profits or losses arising from the sale, liquidation or cessation of the us e of fixed assets are specified as a difference between sales revenue and their net value and are recognised in the result in other operating income or cost.

External financing costs are capitalised as part of costs of production of fixed assets and intangible assets. External financing costs comprise interest calculated applying the effective interest rate method and foreign exchange differences involved in external financing, up to the amount corresponding to the adjustment of the interest cost.

Changes in fixed assets (by type) in the period from 1 January 2017 to 31 December 2017

(in PLN thousand)	Land	Buildings, facilities, civil engineering structures	Plant and machinery	Transportation means	Other fixed assets	Fixed assets in progress	Advances for fixed assets	Fixed assets, total
Opening balance gross value of fixed assets	42 814	1 381 621	375 415	9 461	546 688	22 843	0	2 378 842
- foreign exchange differences	0	-35 939	-6 546	-309	-23 769	-621	0	-67 184
- increase	0	186 940	52 935	2 727	104 830	360 840	22 399	730 671
- decrease	0	75 949	21 721	1 205	31 624	340 064	0	470 563
Closing balance gross value of fixed assets	**42 814**	**1 456 673**	**400 083**	**10 674**	**596 125**	**42 998**	**22 399**	**2 571 766**
Opening balance accumulated depreciation (amortisation)	0	593 485	182 753	6 273	285 296	0	0	1 067 807
- foreign exchange differences	0	-13 352	-4 446	-146	-14 131	0	0	-32 075
- depreciation	0	138 816	49 046	1 145	93 330	0	0	282 337
- decrease	0	53 754	20 191	1 012	26 330	0	0	101 287
Closing balance accumulated depreciation (amortisation)	**0**	**665 195**	**207 162**	**6 260**	**338 165**	**0**	**0**	**1 216 782**
Opening balance impairment write-offs	0	14 653	575	0	4 469	0	0	19 697
- increase	0	4 777	73	0	50	0	0	4 900
- decrease	0	12 232	560	0	4 391	0	0	17 183
Closing balance impairment write-offs	**0**	**7 198**	**88**	**0**	**128**	**0**	**0**	**7 414**
Total closing balance net value of fixed assets	**42 814**	**784 280**	**192 833**	**4 414**	**257 832**	**42 998**	**22 399**	**1 347 570**

Impairment write-offs – items in the comprehensive income statement	Amount
- increase – other operating costs, revaluation of non-financial assets	1 969

Changes in fixed assets (by type) in the period from 1 January 2016 to 31 December 2016

(in PLN thousand)	Land	Buildings, facilities, civil engineering structures	Plant and machinery	Transportation means	Other fixed assets	Fixed assets in progress	Fixed assets, total
Opening balance gross value of fixed assets	42 814	1 221 195	334 086	9 088	443 952	25 495	2 076 630
- foreign exchange differences	0	49 036	8 498	278	26 009	962	84 783
- increase	0	164 541	42 762	1 686	96 002	251 714	556 705
- decrease	0	53 151	9 931	1 591	19 275	255 328	339 276
Closing balance gross value of fixed assets	**42 814**	**1 381 621**	**375 415**	**9 461**	**546 688**	**22 843**	**2 378 842**
Opening balance accumulated depreciation (amortisation)	0	470 275	141 144	6 160	196 959	0	814 538
- foreign exchange differences		27 752	5 589	233	17 720	0	51 294
- depreciation	0	126 981	45 298	1 073	84 273	0	257 625
- decrease	0	31 523	9 278	1 193	13 656	0	55 650
Closing balance accumulated depreciation (amortisation)	**0**	**593 485**	**182 753**	**6 273**	**285 296**	**0**	**1 067 807**
Opening balance impairment write-offs	0	3 183	10	0	148	0	3 341
- increase	0	12 173	576	0	4 512	0	17 261
- decrease	0	703	11	0	191	0	905
Closing balance impairment write-offs	**0**	**14 653**	**575**	**0**	**4 469**	**0**	**19 697**
Total closing balance net value of fixed assets	**42 814**	**773 483**	**192 087**	**3 188**	**256 923**	**0**	**1 291 338**

Impairment write-offs – items in the comprehensive income statement	Amount
- increase – other operating costs, revaluation of non-financial assets	16 156

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In 2017, the Group made impairment write-offs on intangible fixed assets relating to unprofitable stores for PLN 4 900 thousand (2016: PLN 17 261 thousand).

In the same period, revaluation write-offs made a year before were used to a major extent, in the amount of PLN 17 183 thousand (2016: PLN 905 thousand), due to the closing of Tallinder stores.

As at the end of 2017, the Company had contractual obligations to acquire tangible fixed assets of PLN 155 418 thousand (2016: PLN 32 235 thousand).

As at the balance sheet date, there were limitations in the disposal of real property in Pruszcz Gdański and Gdańsk due to investment loans. A detailed description is provided in note 23.

14. Leased assets

ACCOUNTING POLICY

Finance lease agreements under which substantially all risks and benefits arising from the possession of a leased object are transferred to the Group are recognised in assets and liabilities as at the lease commencement date. The value of assets and liabilities is measured as at the lease commencement date based on the lower of the following values: fair value of the fixed asset being the leased object or the current value of the minimum lease fees.

The minimum lease fees are divided into financial costs and the reduction in the balance of an unpaid lease-based liability in a way facilitating the obtaining of a fixed interest rate for the unpaid liability balance. Conditional lease payments are recognized in the costs of the period in which they were incurred.

Fixed assets used under finance lease agreements are depreciated according to the same rules as those applied to the Group's own assets. However, if there is no satisfactory assurance that the lessee will obtain the ownership title before the end of the lease term, a given asset is depreciated for a shorter of two periods, i.e. the lease term or the usage period.

Lease agreements under which the lessor retains substantially all risks and benefits resulting from the ownership of the leased object are qualified as operating lease agreements.

Operating lease fees are recognised as costs applying the straight-line method for the lease term unless another systematic method better reflects the way in which the Group's benefits are spread in time.

Conditional lease payments are recognised as cost in the period in which they become due and payable.

LPP SA and its subsidiaries are parties to retail space lease agreements under which they use space to operate brand stores.

The provisions of lease agreements are standard ones. Apart from the rent, these agreements usually provide for contingent rent if a specific level of revenues in a given store is exceeded, given as a percentage value of such revenues. The agreements contain also adjustment clauses under which the value of rent is matched with statistical price indices. Some of them contain provisions permitting prolongation of a lease agreement for a subsequent period, leaving a decision in that respect to the lessee.

Additionally, the Group has concluded long-term lease agreements for transportation means. These agreements contain provisions on monthly instalments only, without any contingent payments or sublease payments.

The lessee has the right to terminate a lease agreement with a 30-day notice. Agreements do not contain any limitations relating, for example, to dividends, additional debt or additional lease agreements.

As at 31 December 2017 and as at 31 December 2016, future minimum lease payments under non-cancellable operating leases are as follows.

Specification (in PLN thousand)	31 December 2017	31 December 2016
Within 1 year	1 031 455	874 892
From 1 to 5 years	2 984 223	2 537 948
Above 5 years	1 295 813	1 453 483
Total minimum lease payments*	**5 311 491**	**4 866 323**

***the said amounts involve contractual rent payments – they were not discounted.**

15. Intangible assets

ACCOUNTING POLICY

Intangible assets include patents and licenses, computer software, costs of brand store concepts and other intangible assets meeting criteria set forth in IAS 38.

As at the balance sheet date, intangible assets are disclosed at their purchase price or their manufacturing cost, less depreciation and impairment wite-offs. Intangible assets with a determined useful life are depreciated on the straight-line basis for the period of their economic usability. Useful lives of specific intangible assets are verified annually.

The applied depreciation rates for specific groups of intangible assets are as follows.

Asset group	Depreciation rate
Costs of completed store development works	20%
Acquired concessions, patents, licences and similar assets	10-50%

Intangible assets with unspecified useful lives are not depreciated but they are tested for impairment annually.

Costs of brand store development costs

The Group's companies carry out development projects related to the design and construction of model showrooms.

Outlays directly associated with such store development works are recognised as intangible assets.

Outlays made for development works carried out as part of a given venture are transferred to a subsequent period if one may consider that they will be recovered in the future. Future benefits are assessed based on the principles provided for in IAS 36.

Upon initial recognition of outlays for store development works, the historical cost model is applied, according to which assets are recognised at their purchase prices or their manufacturing cost less accumulated depreciation and accumulated impairment write-offs. Completed works are depreciated applying the straight-line method over an expected benefit-gaining period lasting five years.

The key intangible asset is the House trademark recognised in the statement of financial position under a separate item of fixed assets "Trademark". Its balance sheet value as at 31 December 2017 was PLN 77 508 thousand (2016: PLN 77 508 thousand).

The useful life of the said asset is unspecified.

In the current reporting period, the Group carried out an annual impairment test involving this asset. According to test results, no impairment write-off was required for the asset in question.

The detailed analysis is given below.

The recoverable value of cash-generating units to which a value was assigned was determined on the basis of their value in use, applying the royalty relief method.

Detailed assumptions for the estimates are as follows.

House trademark – valued by the royalty relief method, based on the determination of the charges that would have to be paid by an external company for the privilege of using the brand. This fee is usually determined as a percentage of revenues:

- the estimate is based on sales generated by clothing under the House brand, which amounted to PLN 837 mln in 2017 (retail sale and wholesale) and was higher by 183.78% as compared with the turnover for 12 months (November 2007-October 2008), adopted for the initial balance sheet measurement,

- royalty fee amounting to 3% of turnover was adopted,

- the capitalisation rate adopted for the valuation applying CAPM (the forecast period is not defined here because it is based on the perpetual rent model) amounted to 11% and consisted of several elements:

  - risk-free rate – 1.59%, equal to the profitability of 52-week treasury bills

  - annual inflation rate – 2%

  - risk premium – 7.50%

These assumptions are based on profitability parameters of 52-week treasury bills as at the balance sheet date and a published expected inflation rate. They were included in the valuation carried out according to the model drawn up by an expert determining the value of the House trademark. This value was initially recognised in the statement of financial position (thus, the assumptions are consistent with external sources of information).

Upon review, it was established that the trademark's value exceeds the carrying value of these intangible assets as at the balance sheet date, and, therefore, there was no need for making any impairment write-offs.

Changes in intangible assets in 2017 and in a comparative period are specified in tables below.

Changes in intangible assets in the period from 1 January 2017 to 31 December 2017

(in PLN thousand)	Costs of completed development works	Acquired concessions, patents, licenses and similar assets, including:		Intangible assets in progress	Total
		Total	Computer software		
Opening balance gross value of intangible assets	12 583	80 050	76 526	13 018	105 651
- foreign exchange differences	0	-250	-247	0	-250
- increase	0	22 426	22 280	31 176	53 602
- decrease	2 392	872	544	21 934	25 198
Closing balance gross value of intangible assets	**10 191**	**101 354**	**98 015**	**22 260**	**133 805**
Opening balance accumulated depreciation (amortisation)	5 425	53 895	51 584	0	59 320
- foreign exchange differences	0	-354	-354	0	-354
- planned depreciation write-offs	2 151	8 941	8 652	0	11 092
- decrease	359	-35	-91	0	324
Closing balance accumulated depreciation (amortisation)	**7 217**	**62 517**	**59 973**	**0**	**69 734**
Opening balance impairment write-offs	2 033	787	514	0	2 820
- decreases	2 033	787	514	0	2 820
Closing balance impairment write-offs	**0**	**0**	**0**	**0**	**0**
Total closing balance net value of intangible assets	**2 974**	**38 837**	**38 042**	**22 260**	**64 071**

Changes in intangible assets in the period from 1 January 2016 to 31 December 2016

(in PLN thousand)	Costs of completed development works	Acquired concessions, patents, licenses and similar assets, including:		Intangible assets in progress	Total
		Total	Computer software		
Opening balance gross value of intangible assets	11 163	72 182	68 650	3 919	87 264
- foreign exchange differences	0	483	483	5	488
- increase	1 420	8 179	8 179	18 730	28 329
- decrease	0	794	786	9 636	10 430
Closing balance gross value of intangible assets	**12 583**	**80 050**	**76 526**	**13 018**	**105 651**
Opening balance accumulated depreciation (amortisation)	3 200	46 722	44 726	0	49 922
- foreign exchange differences	0	425	425	0	425
- planned depreciation write-offs	2 225	7 531	7 211	0	9 756
- decrease	0	783	778	0	783
Closing balance accumulated depreciation (amortisation)	**5 425**	**53 895**	**51 584**	**0**	**59 320**
Opening balance impairment write-offs	0	0	0	0	0
- increases	2 033	787	514	0	2 820
Closing balance impairment write-offs	**2 033**	**787**	**514**	**0**	**2 820**
Total closing balance net value of intangible assets	**5 125**	**25 368**	**24 428**	**13 018**	**43 511**

In 2017, impairment write-offs made a year before were used to a major extent, in the amount of PLN 2 820 thousand, due to the closing of Tallinder stores.

16. Goodwill

ACCOUNTING POLICY

Goodwill is initially recognised at cost and is calculated as a difference between the two values:

- the sum of a consideration for the control, non-controlling interests and fair value of blocks of shares held in the acquired entity before the acquisition date, and
- the fair value of the entity's identifiable acquired net assets.

The excess of the sum calculated as given above over the fair value of the entity's identifiable acquired net assets is recognised in the assets of the separate statement of the financial position as goodwill. Goodwill represents a payment made by the acquiring company expecting future economic benefits from assets which may not be identified individually or recognised separately.

As at the reporting date, goodwill is measured at the cost of purchase less accumulated impairment write-offs made so far and deductions for the disposal of part of shares to which it was previously assigned. Impairment write-offs up to the value assigned to a cash-generating unit (unit group) are not reversible.

Goodwill is reviewed for impairment before the end of the reporting period in which the merger occurred, and then in each subsequent annual reporting period. If there are any prerequisites for impairment, the impairment test is carried out before the end of each reporting period in which such prerequisites occurred.

In the current reporting period, the goodwill presented in the consolidated statement of financial position did not change as compared with the previous year. It was created as a result of the following transactions:

- merger of LPP SA and Artman SA in July 2009, for the amount of PLN 183 203 thousand;

- acquisition of UAB House Plius upon merger of LPP SA and Artman SA, for the amount of PLN 406 thousand,
- purchase of the shares in Koba AS with its registered office in Slovakia in April 2014, for the amount of PLN 25 989 thousand.

As at 31 December 2017, the goodwill did not change and amounted to PLN 209 598 thousand.

Changes in goodwill are presented in the table below.

Gross value (in PLN thousand)	2017	2016
As at 1 January	209 598	209 598
Increases	0	0
Decreases	0	0
As at 31 December	**209 598**	**209 598**

Impairment write-offs (in PLN thousand)	2017	2016
As at 1 December	0	0
As at 31 December	0	0

Net value (in PLN thousand)	2017	2016
As at 1 December	209 598	209 598
As at 31 December	209 598	209 598

According to IAS 36 and the accounting policy, as at 31 December 2017, an impairment test was carried out for the value of Artman of a balance sheet value of PLN 183 203 thousand, and for the value of Koba of a balance sheet value of PLN 25 989 thousand.

The recoverable value of cash-generating units to which goodwill is allocated was determined based on their value in use, applying the discounted cash flow (DCF) model.

Detailed assumptions for estimates are as follows:

Value of Artman – estimated applying the DCF method for cash flows generated by House retail stores acquired from Artman in 2008 (by acquiring shares in Artman). The valuation was based on the following assumptions:

- period covering estimated cash flows 15 years (2018-2032), without recognising the residual value,
- annual forecasts for revenues and costs in 2017 (in line with the Company's budget) and subsequent years increase at a pace around the inflation rate,
- revenues and costs forecasted for stores acquired together with ARTMAN and still in operation (31 own stores and 16 franchise stores),
- Increase in the annual sales of stores tested – at a level similar to 2017, i.e. approx. 8%, and the expected fixed level of 8% in subsequent years,
- operating costs of stores tested – maintaining approx. 2% of the increase in costs per m2 in subsequent years,
- costs of the House trade department, the House product manufacturing department and the House brand marketing – increasing by 2% each year and attributable to tested stores in the proportion of the number of stores acquired (and operating) at the time of the merger to all House stores,
- in the forecast period, a discount rate is variable and calculated based on weighted average capital cost (WACC). In 2017, the WACC rate was 10.08% and will remain unchanged by 2032.

The above-mentioned parameters comply with experience gained so far (for costs-sales assumptions) and coherent with information originating from external sources for other figures.

Value of Koba – estimated applying the DCF method for cash flows generated by Reserved and Cropp retail stores acquired from Koba in 2014 (by acquiring shares in Koba). The valuation was based on the following assumptions:

- period covering estimated cash flows 15 years (2018-2032), without recognising the residual value,

- annual forecasts for revenues and costs in 2017 (in line with the Company's budget) and subsequent years increase at a pace around the inflation rate,
- revenues and costs forecasted for stores acquired together with Koba and still in operation (31 own stores),
- increase in the annual sales of stores tested – at a sales level similar to 2017, i.e. approx. 8% in subsequent years,
- operating costs of stores tested – maintaining the increase of approx. 2% in subsequent years,
- in the forecast period, a discount rate is variable and calculated based on weighted average capital cost (WACC). In 2017, the WACC rate was 10.08% and will remain unchanged by 2032.

As a result of the tests carried out, it was found that no impairment write-offs were required.

17. Investments in subsidiaries

ACCOUNTING POLICY

In the Group, there are shares in non-consolidated domestic subsidiaries.

Shares in subsidiaries are measured at cost less impairment write-offs.

The purchase price comprises the price due to the seller, exclusive of deductible VAT, and costs directly related to the purchase and adjustment of a given asset to a condition enabling its use or introduction to trading.

In case of impairment, an impairment write-off is charged to financial operating costs. If the cause for recognition of a revaluation write-off expires, the initial investment value is reinstated by referring the amount reversed to the financial operating income account. Reinstatement of value may be either full or partial. Write-offs are presented in the comprehensive income statement in net amounts.

As at 31 December 2017, the value of shares in subsidiaries amounted to PLN 101 thousand (2016: PLN 136 thousand).

In the opinion of the Management Board of the Parent Company, the financial data of non-consolidated subsidiaries are irrelevant for the consolidated financial statements. In 2017, the total value of assets of non-consolidated subsidiaries constituted 0.01% of the Group's assets, and the total value of revenues from sales of these companies constituted 0.07% of the Group's revenues.

18. Other assets

18.1. Loans and receivables

Loans and receivables (in PLN thousand)	31 December 2017	31 December 2016 (transformed)
Fixed assets:		
Other receivables	4 756	6 076
Loans granted	80	104
Other long-term financial assets	**4 836**	**6 180**
Current assets		
Other receivables	1 675	1 575
Loans granted	80	91
Other short-term financial assets	**1 755**	**1 666**
Other financial assets in total	**6 591**	**7 846**

Loans granted are measured at depreciated cost, applying the effective interest rate method. Due to the absence of an active market, it was assumed that the carrying value of loans is equal to their fair value.

As at 31 December 2017, loans granted in PLN amounted to PLN 126 thousand (2016: PLN 166 thousand); loans granted in EUR amounted to PLN 16 thousand and those granted in HUF amounted to PLN 18 thousand (2016: PLN 29 thousand).

Loans in PLN were charged at the interest rate of 6%. The maturity dates for loans in PLN fall between 2018 and 2021.

Loans in EUR and HUF are interest-free according to local laws and are granted for a period from one to six years.

A change in the carrying value of loans and related impairment write-offs is as follows.

Changes in the carrying value (in PLN thousand)	2017	2016
As at 1 January	195	269
Loans granted during the period	66	53
Calculation of interest	8	12
Repayment of loans and interest	111	137
Impairment write-off	2	4
Other changes (exchange rate differences)	0	-6
As at 31 December	**160**	**195**

Impairment write-off (in PLN thousand)	2017	2016
As at 1 January	29	33
Write-offs included as cost in the period	0	0
Reversed write-offs in the period	2	4
As at 31 December	**27**	**29**

18.2. Other non-financial assets

ACCOUNTING POLICY

Other non-financial assets include state budget receivables, except for corporate income tax receivables constituting a separate item in the financial statements, and other benefits not recognised as financial instruments. The most important item is VAT-related receivables.

This value may be adjusted with a revaluation write-off if there are prerequisites for doing so.

Carrying value (in PLN thousand)	31 December 2017	31 December 2016 (transformed)
Current assets		
State budget receivables	44 752	26 983
Other receivables	2 817	2 476
Other short-term non-financial assets	**47 569**	**29 459**
Other non-financial assets in total	**47 569**	**29 459**

As at 31 December 2017, the value of other receivables was adjusted with a revaluation write-off amounting to PLN 592 thousand (2016: PLN 579 thousand).

Changes in the value of revaluation write-offs in the reporting period and a comparative period are given in the table below.

Revaluation write-off (in PLN thousand)	2017	2016
As at 1 January	579	432
Write-offs made in the period	13	147
Reversed write-offs in the period	0	0
As at 31 December	**592**	**579**

19. Inventories

ACCOUNTING POLICY

As at the balance sheet date, inventories are measured at acquisition cost not exceeding their net sale prices.

The following items as recognised as inventories:

- trade commodities,
- materials (fabrics and sewing accessories) purchased and delivered to external contracting parties for processing purposes,
- IT consumables related to the operation, maintenance and development of the computer network,
- spare parts for devices in the logistics centre,
- advertising materials.

Trade commodities in domestic warehouses are recorded in quantities and in terms of value and valuated :

- in case of imported goods – at purchase cost comprising the purchase price, costs of transportation outside and inside Poland to the first unloading point in Poland and customs duties; the following foreign exchange rate is applied to convert the value in a foreign currency:
- the one resulting from a customs document,
- the one applicable on the day preceding the date of purchase invoice issuance in case of deliveries made directly to Russia,
- in case of goods purchased in Poland – at cost; purchase-related costs are charged directly to operating costs when incurred as their value is immaterial.

Trade commodities sold from RESERVED, Cropp, House, MOHITO and SiNSAY collections are valued at average weighted prices.

Trade commodities in bonded warehouses are valued at cost comprising a purchase price and the costs of transportation outside and inside Poland to the first unloading point in Poland.

The value of goods delivered from bonded warehouses (moved to local warehouses or sold directly abroad) is measured based on the detailed identification of goods for individual lots delivered to bonded warehouses.

The Parent Company's trade commodities in transit are valued applying purchase prices increased with the costs of transportation outside and inside Poland, known at the time of preparing the statement of financial position. As regards imported goods in transit, the Company applies a selling exchange rate applicable on the balance sheet date in Citi Handlowy SA.

Inventories with trading and useful value impaired are written off according to the following rule:

- goods designated for outlet stores – will be sold at a positive margin, which means that there will no write-off,
- for goods not designated for outlet stores, there will be a write-off of 65% of their value,

Increases in the value of a write-off in the period are shown in the financial statements in other operating costs, while decreases are shown in other operating revenues.

Write-offs in the comprehensive income statement are presented in net amounts.

The most important item in the Capital Group's inventories is trade commodities. The structure of inventories is given in the table below.

Inventories (in PLN thousand)	31 December 2017	31 December 2016
Materials	13 668	8 068
Goods	1 458 869	1 156 067
Total	**1 472 537**	**1 164 135**

Due to the valuation of outlet goods not to be delivered to outlet stores, the Group, according to the write-off policy, made in the reporting period relevant inventory write-offs in the financial statements.

Changes in value in the reporting period and a comparative period are given in the table below.

Revaluation write-off (in PLN thousand)	2017	2016
As at 1 January	57 865	22 689
Inventory write-offs in the period	10 879	47 082
Reversed write-offs in the period	18 027	11 933
Exchange rate differences	2 957	27
As at 31 December	**53 674**	**57 865**

20. Trade receivables

ACCOUNTING POLICY

Trade receivables are measured and shown in originally invoiced amounts, with due consideration of a write-off on doubtful receivables.

Such write-off is valuated in cases where the collection of a full amount is no longer probable.

Short-term receivables are valued in amounts payable due to negligible discounting.

Detailed information on the structure of the Group's short-term receivables is given in the table below.

Trade receivables (in PLN thousand)	31 December 2017	31 December 2016
Trade receivables net	199 648	165 389
Revaluation write-offs on trade receivables	16 046	15 333
Trade receivables gross	**215 694**	**180 722**

Changes in the value of revaluation write-offs in the reporting period and a comparative period are given in the table below.

Revaluation write-off (in PLN thousand)	2017	2016
As at 31 January	15 333	12 764
Write-offs made in the period	2 515	4 642
Reversed write-offs in the period	1 210	2 446
Foreign exchange differences	-592	373
As at 31 December	**16 046**	**15 333**

21. Cash and cash equivalents

ACCOUNTING POLICY

Cash and cash equivalents comprise cash in hand and at bank, demand deposits and short-term highly liquid investments (up to 3 months).

The balance of cash and cash equivalents, shown in the cash flow statement, is adjusted for exchange rate differences from the balance sheet valuation of cash in a foreign currency.

The fair value of cash and cash equivalents as at 31 December 2017 was PLN 514 790 thousand (2016: PLN 365 753 thousand).

As at 31 December 2017, the Group had unemployed loans of PLN 999 150 thousand (2016: PLN 794 719 thousand), in respect of which all requirements had been met.

Cash (in PLN thousand)	31 December 2017	31 December 2016
Cash in hand and at bank	436 693	297 973
Other	78 097	67 780
Total	**514 790**	**365 753**

For the purpose of preparing the cash flow statement, the Capital Group classifies cash in the manner adopted for presenting financial position. The difference in the value of cash shown in the statement of financial position and the cash flow statement is affected by the following:

Cash (in PLN thousand)	31 December 2017	31 December 2016
Cash and cash equivalents in the statement of financial position	514 790	365 753
Adjustments:		
Exchange differences from balance sheet valuation of cash in foreign currency	615	273
Cash and cash equivalents recognised in CF	**515 405**	**366 026**

22. Share and other capital

ACCOUNTING POLICY

According to the Articles of Association of LPP SA and a record made in the National Court Register, the stated capital is shown in the nominal value of issued shares.

Shares acquired in the Parent Company and retained reduce the equity. Treasury shares are measured at cost of purchase.

Capital from the sale of shares above their nominal value is created from the surplus of the issue price above the shares' nominal value, decreased with share issue costs.

Other capital comprises:

- spare capital,
- capital from settling the merger transaction and
- capital component of convertible bonds,
- reserve capital.

The value of the spare capital comprises:

- profit brought forward from previous years, qualified based on decision of General Meetings of Shareholders,
- remunerations paid in shares, awarded in compliance with the incentive programme for specific persons.

The capital from settling the merger transaction was created at the time of settling goodwill arising upon acquisition of Artman SA.

22.1. Stated capital

As at 31 December 2017, the stated capital of LPP SA amounted to PLN 3 705 thousand. It was divided into 1 852 423 shares of a nominal value of PLN 2 per share.

The table below shows a total number of shares divided into separate issues.

Series/issue	Type of share	Type of privilege	Type of limitation on rights attached to shares	31 December 2017	31 December 2016
A	bearer	ordinary	none	100	100
B	registered	preferred	none	350 000	350 000
C	bearer	ordinary	none	400 000	400 000
D	bearer	ordinary	none	350 000	350 000
E	bearer	ordinary	none	56 700	56 700
F	bearer	ordinary	none	56 700	56 700
G	bearer	ordinary	none	300 000	300 000
H	bearer	ordinary	none	190 000	190 000
I	bearer	ordinary	none	6 777	6 777
J	bearer	ordinary	none	40 000	40 000
K	bearer	ordinary	none	80 846	80 846
L	bearer	ordinary	none	21 300	8 168
Total number of shares				**1 852 423**	**1 839 291**

All issued shares are paid up in full.

Registered shares held by Marek Piechocki, Jerzy Lubianiec and Forum 64 Closed-End Investment Fund and Forum 65 Closed-End Investment Fund, in a total number of 350 000, are preferred in terms of voting rights at the General Meeting of Shareholders. Each registered share gives 5 votes.

The LPP SA shareholding structure as at 31 December 2017 was as follows.

Shareholder	Number of shares held	Share in the share capital	Number of votes at the GM	Share in the total number of votes at the GM	Nominal value of shares
Marek Piechocki	175 497	9.5%	875 493	27.1%	350 994
Jerzy Lubianiec	174 999	9.4%	874 995	27.1%	349 998
Forum TFI SA*	195 050	10.5%	195 058	6.0%	390 100
Treasury shares**	18 978	1.0%	0	0.0%	37 956
Other shareholders	1 287 899	69.5%	1 287 899	39.8%	2 575 798
Total	**1 852 423**	**100.0%**	**3 233 445**	**100.0%**	**3 704 846**

*Forum TFI SA manages the funds of Forum 64 Closed-End Investment Fund (entity affiliated with Mr Jerzy Lubianiec, shareholder of LPP SA) and Forum 65 Closed-End Investment Fund (entity affiliated with Mr Marek Piechocki, shareholder of LPP SA).
** LPP SA may not exercise voting rights at the GM, attached to 18 978 shares, as these are treasury shares of LPP SA.

In the reporting period, there was a change in the ownership structure of the share capital of LPP SA, of which the Company informed in CR 33/2017.

The share capital of LPP SA was increased by PLN 26 264 due to the exercise of the rights to convert 13 132 subscription warrants of the A series to ordinary bearer shares of the L series.

22.2. Share premium

This item is a separated value of spare capital, resulting from the surplus at the sale of shares beyond their nominal value, with the carrying value of PLN 277 631 thousand (2016: PLN 251 393 thousand).

22.3. Other capital

The values of specific types of capital are given in the table below.

Type of capital (in PLN thousand)	31 December 2017	31 December 2016
Spare capital	1 795 030	1 579 761
Capital from settling a merger transaction	-1 410	-1 410
Capital component of convertible bonds	12 290	12 290
Reserve capital	17 543	17 543
Total	**1 823 453**	**1 608 298**

The spare capital, presented under equity as at 31 December 2017, was created mainly from net profit brought forward from previous years and following the measurement of remunerations paid in shares.

The structure of the spare capital is as follows.

Type of spare capital (in PLN thousand)	31 December 2017	31 December 2016
Created under statutory law based on the write-off from profit or loss	1 349	1 335
Created according to the Articles of Association based on write-off from profit or loss	1 759 552	1 544 819
Created from remunerations paid in shares	34 129	33 721
Total	**1 795 030**	**1 579 875**

23. Bank loans and borrowings

ACCOUNTING POLICY

On initial recognition, all credit and loan instruments and debt securities are measured at fair value reduced with the costs of obtaining a credit or loan instrument.

Following initial recognition, all credit and loan instruments and other debt instruments are measured at depreciated cost applying the effective interest rate method.

Revenues and costs are measured in profit or loss at the time of removing a liability from the balance sheet and as a result of settlement of an effective interest rate.

As at 31 December 2017, the debt arising from bank loans was as follows.

Bank	Use of bank loans as at 31 December 2017		Bank loan cost	Maturity date
	In PLN thousand	Currency in thousands		
PKO BP SA	107 446		wibor 1 m + bank's margin	31.12.2022
PKO BP SA	55 970		wibor 1 m + bank's margin	04.08.2020
Pekao SA	34 006		wibor 1 m + bank's margin	30.09.2020
Citibank Bank Handlowy	74		wibor 1 m + bank's margin	10.01.2020
Raiffeisen Bank Polska SA	21		wibor 1 m + bank's margin	30.11.2018
BGŻ BNP Paribas Bank Polska SA	803		wibor 1m +bank's margin	30.01.2019
Total	**198 320**			

Bank loans amounting to PLN 198 320 thousand included:

- long-term loans in the amount of PLN 141 824 thousand,
- short-term loans in the amount of PLN 56 496 thousand (including PLN 55 321 thousand as part of long-term investment loans to be repaid within 12 months after the balance sheet date).

Long-term loans outstanding as at 31 December 2017 were as follows:

- PLN 84 447 thousand – investment loan designated for the construction of the logistics centre in Pruszcz Gdański,
- PLN 35 479 thousand - investment loan designated for financing the development of the sales network,
- PLN 21 898 thousand - investment loan designated for the modernisation of the registered office of LPP SA.

As at 31 December 2016, the debt arising from loans was as follows.

Bank	Use of bank loans as at 31 December 2016		Bank loan costs	Maturity date
	in PLN '000	currency in '000		
PKO BP SA	139 982		wibor 1 m + bank's margin	31.12.2022
PKO BP SA	76 262		wibor 1 m + bank's margin	04.08.2020
PKO BP SA	232		wibor 1 m + bank's margin	23.06.2017
Pekao SA	44 816		wibor 1 m + bank's margin	30.09.2020
Pekao SA	153 617		wibor 1 m + bank's margin	30.06.2017
Citibank Bank Handlowy	25 536		wibor 1 m + bank's margin	11.01.2018
Raiffeisen Bank Polska SA	3 806		wibor 1 m + bank's margin	30.11.2017
BGŻ BNP Paribas Bank Polska SA	65 893	USD 5	libor 1m +bank's margin	30.01.2017
Total	**510 144**			

Bank loans amounting to PLN 510 144 thousand included:

- long-term loans in the amount of PLN 195 033 thousand,
- short-term loans in the amount of PLN 315 111 thousand (including PLN 66 027 thousand as part of long-term investment loans to be repaid within 12 months after the balance sheet date).

Detailed information on bank loans is given below.

Bank	Type of loan /credit line	Loan amount and currency		Security
		in '000	currency	
PKO BP SA	Multi-purpose and multi-currency credit line	280 000	PLN	2 blank promissory note, current account and currency account deductions clause
PKO BP SA	Investment loan	166 000	PLN	ordinary and capped mortgage, assignment of receivables under insurance policy, blank promissory note, current account deductions clause
PKO BP SA	Investment loan	100 000	PLN	contractual mortgage, assignment of receivables under insurance policy, blank promissory note, current account deductions clause
Pekao SA	Multi-purpose and multi-currency credit line	330 000	PLN	blank promissory note, power of attorney in respect of accounts
Pekao SA	Investment loan	60 000	PLN	contractual mortgage, assignment of receivables under insurance policy, blank promissory note, power of attorney in respect of bank accounts held in Pekao SA
BGŻ BNP Paribas Bank Polska SA	Multi-purpose and multi-currency credit line	330 000	PLN	Blank promissory note with a promissory note declaration and statement on submission to enforcement
Raiffeisen Bank Polska SA	Multi-purpose and multi-currency credit line	180 000	PLN	Blank promissory note with a promissory note declaration and statement on submission to enforcement, power of attorney in respect of accounts
Citibank Bank Handlowy	Multi-purpose and multi-currency credit line	174 000	PLN	Blank promissory note with a promissory note declaration and statement on submission to enforcement
Citibank Bank Handlowy	Revolving line for opening letters of credit	50 700	PLN	Blank promissory note
Citibank Bank Handlowy	Revolving line for stand-by letters of credit	40 000	PLN	Blank promissory note
HSBC	Letters of credit line	30 000	USD	Blank promissory note with a promissory note declaration and statement on submission to enforcement, power of attorney in respect of accounts

In the reporting period, as regards bank loans taken out, the Group neither was in default with payments nor breached the terms and conditions of contract.

24. Employee benefits

ACCOUNTING POLICY

According to remuneration schemes, the Group's employees have the right to retirement and pension benefits paid as one-off payments when an employee retires. The value of the said benefits depends on the duration of work and the employee's average remuneration. The Group creates a provision for future retirement-related liabilities in order to allocate costs to relevant periods.

Until 2016, the said value was estimated by the Group independently, applying a method involving the duration of work, gender and the value of current remuneration. In previous years, it was assumed that the discount for provisions for retirement benefits corresponded to the expected rate of increase in remunerations and was shown in the non-current part of the statement. Starting from 2017, this rule has been changed and the current value of such liabilities is calculated by an independent actuary. The accumulated liabilities equal discounted future payments, with due consideration of employee rotation, and relate to the period until the balance sheet date. Demographic and employee rotation information is based on historical data. This value is shown in the non-current part of the statement of financial position.

Re-evaluation of liabilities arising from employee benefits and involving specified benefit schemes, covering actuarial profit or loss, is recognised in other comprehensive income, without later reclassification to profit or loss.

Furthermore, the Group creates provisions for future liabilities arising from unused holiday leave and unpaid remuneration, comprising also bonuses for the current period to be disbursed in the next reporting period. These liabilities are shown in the current part of the statement.

As at the balance sheet date, the Capital Group has the following categories of liabilities related to employee benefits in the statement of financial position:

- long-term – PLN 751 thousand (2016: PLN 2 711 thousand),
- short-term – PLN 43 572 thousand (2016: PLN 28 486 thousand).

The liabilities and changes in the reporting period are listed in the table below.

Employee benefits (in PLN thousand)	Retirement benefits	Unpaid remunerations	Unused holiday leave
As at 1 January 2017	2 711	10 531	17 955
- provisions made	8 505	23 058	18 411
- provisions reversed	10 465	12 417	13 966
As at 31 December 2017	**751**	**21 172**	**22 400**

In the reporting period, the provision for unpaid remuneration increased substantially due to the estimation of a bonus for the second half of 2017, to be disbursed in Q1 2018. At the same time, due to a change in calculation of provisions for retirement and pension benefits applying actuarial methods, the value of retirement benefits decreased compared with the preceding period.

25. Provisions

ACCOUNTING POLICY

Provisions are created when the Group has a duty arising from past events and when it is probable that the exercise of the said duty will affect economic benefits, and that the amount of such liability may be reliably estimated. Costs relating to a given provision are shown in the Group's profit or loss, decreased with any and all returns.

Considering that the main distribution channel is retail sale and, to a lesser extent, wholesale and having regard of the product return phenomenon given recognition in the Group's policy, the value of a provision for product returns by customers is measured at each balance sheet date. As each brand has a separate product return policy, this estimate is made based on the percentage of returns, determined by reference to the previous quarter.

The provision for liquidation costs is calculated by the Group in the amount of costs incurred so far for services of this type.

Provisions and changes in the reporting period are listed in the table below.

Provisions (in PLN thousand)	Provision for product returns	Provision for liquidation costs	Other provisions
As at 1 January 2017	4 566	2 423	2 698
- provisions made	21 993	0	1 108
- provisions reversed	18 741	2 423	1 680
As at 31 December 2017	**7 818**	**0**	**2 126**

In 2017, the Group used the provisions made last year for liquidation and disassembly costs and prospective liquidated damages related to early termination of lease agreements for the Tallinder brand, in the amount of PLN 2 423 thousand.

The increase in the provision for product returns results from the increased volume of sales in the Group.

26. Trade and other liabilities

ACCOUNTING POLICY

Short-term trade liabilities are shown in the amount payable and recognised according to IAS 39 as financial liabilities measured at amortised cost.

Other non-financial liabilities cover, in particular, liabilities owed to the tax office as VAT. Other non-financial liabilities are shown in the amount payable.

Short-term liabilities (in PLN thousand)	31 December 2017	31 December 2016
Trade payables	1 096 548	719 395
Other financial liabilities	8 204	0
Financial liabilities according to IAS 39	**1 104 752**	**719 395**
Payables due under taxes and other benefits	174 927	147 455
Other non-financial liabilities	42 949	14 214
Non-financial liabilities	**217 876**	**161 669**
Total short-term liabilities	**1 322 628**	**881 064**

The increase of over 50% in the value of trade liabilities as compared with the preceding year stems, first of all, from the increase in the volume of the Group's operations and prolongation of payment terms. As part of effective financial operations, the Parent Company has signed reversed factoring agreements. As at 31 December 2017, LPP SA delivered to the factor domestic and foreign invoices of the value of PLN 186 782 thousand and USD 49 100 thousand (2016: PLN 49 368 thousand).

In the current period, LPP SA signed with banks forward contracts. As at 31 December 2017, LPP SA made a valuation of non-performed contracts as at that date, the results of which are shown in item "other financial liabilities", in the amount of PLN 8 204 thousand.

The increase in other non-financial liabilities results mainly from unpaid remunerations due to their payment date falling at the beginning of the next month.

27. Prepayments and accruals

ACCOUNTING POLICY

In item "prepayments and accruals", in the assets column, the Capital Group presents prepaid expenses relating to future reporting periods, including, first of all, rents.

In item "prepayments and accruals", in the liabilities column of the statement of financial position, income of future periods and profit/loss on the sale of the fit-out in stores are presented.

Fit-out resale results from the conclusion of a lease agreement, being a form of reimbursement of costs incurred to adjust the showroom to conduct sales. According to SIC 15, this kind of bonus should be deferred, on the straight-line basis, during the term of the agreement, by adjusting lease payments.

Prepayments – assets (in PLN thousand)	31 December 2017	31 December 2016
Long-term		
Commissions for intermediaries	50 576	60 055
Loss on sale of investments	5 217	5 806
Rent	1 407	0
Software supervision	0	733

Other long-term prepayments	179	142
Total long-term prepayments	**57 379**	**66 736**
Short-term		
Rent	21 729	18 740
Commissions for intermediaries	6 107	6 474
Insurance	3 228	3 830
Real property tax	3 140	0
Software supervision	631	1 172
Loss on sale of investments	2 605	2 224
Licence fees, subscription fees, Internet domains	3 929	3 391
Power supply costs	508	412
Other short-term prepayments	2 555	1 349
Total short-term prepayments	**44 432**	**37 592**

Accruals – liabilities (in PLN thousand)	**31 December 2017**	**31 December 2016 (transformed)**
Long-term		
Profit on sales of investments	60 739	53 870
Subsidies for lease agreements	12 698	11 705
Deferred rent	7 926	0
Other sale	1 794	0
Total long-term accruals	**83 157**	**65 575**
Short-term		
Sales based on gift cards and vouchers	18 236	16 586
Profit on sales of investments	22 964	14 609
Subsidies for lease agreements	1 702	2 428
Other sale	1 244	527
Total short-term accruals	**44 146**	**34 150**

Prepayments on assets increased, first of all, due to the increase in the volume of the Group's operations and, consequently, due to the increase in running costs and those settled over time.

In the reporting period, accruals shown in liabilities also increased mainly due to the increase in the sale of investments in third-party facilities, with profit or loss on such sale settled over time.

28. Assets and contingent liabilities

In 2017, the LPP SA Capital Group companies used bank guarantees to secure payment of rent for the leased premises in which brand stores are operated.

As at 31 December 2017, the total value of bank guarantees issued upon request and at the responsibility of LPP SA amounted to PLN 260 312 thousand, of which:

- guarantees issued to secure agreements concluded by LPP SA amounted to PLN 75 764 thousand,
- guarantees issued to secure agreements concluded by consolidated associates amounted to PLN 182 964 thousand,
- guarantees issued to secure warehouse and office space lease agreements concluded by LPP SA amounted to PLN 1 584 thousand.

In 2017, the Parent Company also received guarantees as a collateral for payments from a contracting party. The value of guarantees received is PLN 36 522 thousand.

In the reporting period, the Parent Company granted guarantees amounting to PLN 91 411 thousand as at 31 December 2017. The said value decreased compared with the balance as at 31 December 2016 by PLN 18 537 thousand.

In the opinion of the Management Board of the Parent Company, any outflow of funds disclosed under off-balance sheet/contingent liabilities is very unlikely. The majority of these liabilities are related to guarantees securing payment of rent by entities of the LPP SA Capital Group.

28.1. Litigation

Neither LPP SA nor any of its subsidiaries is a party to any proceedings before a court, a competent arbitration authority or a public administration body, involving liabilities or receivables of a single or total value exceeding 10% of the equity of LPP SA.

28.2. Tax settlements

With reference to information provided in earlier interim and current reports (such as CR 4/2017 and CR 26/2017) on the pending tax audit procedure carried out in respect of settlement of CIT for 2012, LPP SA informs that the Company received the decision of the Director of the Fiscal Administration Chamber in Gdańsk, dated 31 December 2018, repealing the decision of the 1st-instance authority, i.e. the Head of the Customs and Fiscal Office in Gdynia, and referring the case for re-examination, indicating the requirement for the said authority to supplement evidence material.

Both in previous years and at present, the Parent Company has expenses connected with sub-licences for the use of trademarks contributed in kind to a subsidiary with its registered office in Cyprus (Gothals LTD), which, as stated in the recently repealed decision, was recognised as overstatement by the Company of revenue earning costs for 2012 and served as the basis for determining by the tax authority of an additional tax liability of PLN 16 391 thousand (sixteen million three hundred and ninety one thousand Polish zlotys) for the said period, together with interest due.

The Company awaits the issuance of a new decision in the case in question by the 1st-instance tax authority, upholding its current standpoint that, in the Company's opinion, it correctly calculated its corporate income tax for 2012 and duly classified as revenue earning costs the expenses which, under applicable laws, could be recognised as such.

Having analysed settlements related to licence fees for the use of trademarks, referred to above, the Company created, as at 31 December 2017, a provision for potential tax risks, in the total amount of PLN 45 335 thousand.

29. Information on subsidiaries

29.1. Transactions with entities in which LPP SA has direct shareholdings

No	Associates (in PLN thousand)	Liabilities as at 31 December 2017	Receivables as at 31 December 2017	Revenues in 2017	Expenses in 2017
1.	DP&SL Sp.z o.o.	0	0	4	3 732
2.	IL&DL Sp. z o.o.	0	205	4	1 768
3.	Amur Sp. z o.o.	0	0	4	0
Total		**0**	**205**	**12**	**5 500**

No	Associates (in PLN thousand)	Liabilities as at 31 December 2016	Receivables as at 31 December 2016	Revenues in 2016	Expenses in 2016
1.	DP&SL Sp.z o.o.	94	0	4	8 565
2.	IL&DL Sp. z o.o.	0	0	4	3 169
3.	Amur Sp. z o.o.	0	0	4	189
4.	LPP Retail Sp. z o.o.	0	0	4	0
Total		**94**	**0**	**16**	**11 923**

The figures given in the table reflect only mutual transactions between LPP SA and associates and are presented from the Parent Company's perspective.

Data presented as liabilities of LPP SA are receivables in associates, while expenses are revenues of given companies.

All transactions with associates were concluded on arm's length basis.

Revenue from domestic companies is earned from the lease of office space for the purposes of their operation.

Expenses related to the domestic subsidiaries involve the lease of real properties where Cropp, RESERVED, MOHITO and House stores are operated.

Payment terms agreed for subsidiaries are between 45 and 120 days.

29.2. Transactions with associates through key management officers

In 2017, LPP SA entered into transactions with BBK SA, controlled by members of key management personnel. These transactions mainly involved the lease of retail space in “Wars&Sawa” commercial centre, with a minor involvement of the sale of trade commodities.

No	Associates (in PLN thousand)	Liabilities as at 31 December 2017	Receivables as at 31 December 2017	Revenues in 2017	Expenses in 2017
1.	BBK SA	0	30	637	0
Total		**0**	**30**	**637**	**0**

No	Associates (in PLN thousand)	Liabilities as at 31 December 2016	Receivables as at 31 December 2016	Revenues in 2016	Expenses in 2016
1.	BBK SA	0	4	586	0
Total		**0**	**4**	**586**	**0**

29.3. Remuneration of key management officers of the Parent Company

The key management officers of LPP SA are members of the Management Board and the Supervisory Board.

The Management Board members received remuneration for their functions served both in LPP SA and in its subsidiary P&L Marketing & Advertising Agency SAL.

The value of short-term benefits of members of the Management Board of the Parent Company, including remunerations and cash bonuses, received between 1 January and 31 December 2017, amounted to PLN 7 184 thousand (2016: PLN 2 995 thousand).

Remunerations shown separately for each key management officer were as follows.

First name and surname (in PLN thousand)	Position	Year ended 31 December 2017	Year ended 31 December 2016
Marek Piechocki	President of the Management Board	2 369	765
Przemysław Lutkiewicz	Vice-President of the Management Board	1 605	548
Piotr Dyka*	Vice-President of the Management Board	0	191
Hubert Komorowski**	Vice-President of the Management Board	0	471
Jacek Kujawa	Vice-President of the Management Board	1 605	510
Sławomir Łoboda	Vice-President of the Management Board	1 605	510

*Piotr Dyka, Vice-President of the Management Board, resigned from his position as member of the Management Board of LPP SA on 17 March 2016. The remuneration shown covers the period of his sitting on the Company’s Board.
**Hubert Komorowski, Vice-President of the Management Board, resigned from his position as member of the Management Board of LPP SA on 6 September 2016. The remuneration shown covers the period of his sitting on the Company’s Board.

The value of short-term benefits of members of the Supervisory Board of the Parent Company, received between 1 January and 31 December 2017, amounted to PLN 210 thousand (2016: PLN 184 thousand).

Remunerations shown separately for each member of the Supervisory Board were as follows.

First name and surname (in PLN thousand)	Position	Year ended 31 December 2017	Year ended 31 December 2016
Jerzy Lubianiec	Chairman of the Supervisory Board **	100	80
Maciej Matusiak	Member of the Supervisory Board *	15	20
Wojciech Olejniczak	Member of the Supervisory Board **	17	20
Krzysztof Olszewski	Member of the Supervisory Board *	15	20
Dariusz Pachla	Member of the Supervisory Board *	35	44
Piotr Piechocki	Member of the Supervisory Board **	7	0
Magdalena Sekuła	Member of the Supervisory Board **	7	0
Antoni Tymiński	Member of the Supervisory Board **	7	0
Miłosz Wiśniewski	Member of the Supervisory Board *	7	0

*Dismissed on 20 October 2017.
**Appointed on 20 October 2017.

29.4. Share-based payments to key management officers of the Parent Company

ACCOUNTING POLICY

The Company's Management Board receives share-based bonuses under relevant resolutions. The transaction cost is measured by reference to fair value as at the date of awarding such rights. The value of remuneration for work of management officers is specified indirectly by reference to the fair value of financial instruments vested. The fair value of options is measured as at the vesting date, taking into consideration also non-market vesting conditions such as the attainment of an expected financial result, when determining the fair value of share options.

The remuneration cost and, on the other side, an increase in equity is measured based on the best available estimates on the number of options to be vested in a given period. When determining the number of options to be vested, non-market vesting conditions are taken into account. The Company adjusts the said estimates if, based on later information, the number of options vested differs from earlier estimates. Adjustments of estimates, relating to the number of options vested, are shown in the profit or loss for the current period, without making adjustments to previous periods.

The value of share-based employee benefits payable, awarded to members of the Parent Company's Management Board for 2017, amounted to PLN 408 thousand. This disbursement depends on the consolidated result generated in 2017.

30. Events after the balance sheet date

According to IAS 10, events after the balance sheet date include all events occurring between the balance sheet date and the date on which the financial statements were approved for publication.

By the date of publishing the enclosed financial statements, there were no events after the balance sheet date, requiring any additional disclosures.

31. Financial risk management

The Group is exposed to numerous risks associated with financial instruments.

Risks affecting the Capital Group include:

- credit risk,
- liquidity risk and
- market risk including currency risk and interest rate risk.

In the operations of the LPP Capital Group, main financial instruments are bank loans (note 23). Their main objective is to provide financing for the operations of the entire Capital Group. Moreover, the Group holds other financial instruments established in the course of its business operations. Those mainly include cash and deposits (note 21), trade receivables (note 20), loans granted (note 18.1.) and trade payables (note 26).

Furthermore, the Parent Company enters into transactions involving derivatives, namely forward contracts. This transaction is aimed at managing currency risk occurring in the course of business activity.

The Management Board of the Parent Company verifies and agrees the rules for managing each type of risk.

According to IFRS 7, LPP SA has analysed risks related to financial instruments, affecting the Capital Group.

31.1. Credit risk

The maximum credit risk is reflected by the balance sheet value of trade receivables and loans and guarantees granted.

Balance sheet values of the above-mentioned financial assets are given in the table below.

Items (in PLN thousand)	31 December 2017	31 December 2016
Loans	160	195
Trade receivables	199 648	165 389
Cash and cash equivalents	514 790	365 753
Total	**714 598**	**531 337**

The Group constantly monitors the amounts owed by clients and to creditors, analysing credit risk individually or as part of specific classes of assets. Furthermore, as part of credit risk management, LPP SA enters into transactions with contracting parties whose creditworthiness has been confirmed.

One of the key items is receivables and their analysis is given in tables below.

The concentration of credit risk related to trade receivables as at 31 December 2017 is presented in the table below.

	Share %
Client	**Share of receivables in total receivables**
Network 360 LTD	7.88%
Customers with dues not exceeding 5% of total receivables	92.12%
Total gross trade receivables	**100.0%**

The classification of gross trade receivables by overdue period as at 31 December 2017 and 31 December 2016 is given in the table below.

Gross trade receivables (in PLN thousand)	31 December 2017	31 December 2016
Not overdue	192 432	166 422
Overdue up to one year	22 064	11 077
Overdue for over one year	1 198	3 223
Total	**215 694**	**180 722**

The increase in non-overdue and overdue trade receivables in the current reporting period results solely from the increased volume of the Group's operations.

No hedging instruments for the above financial risks and no hedge accounting are applied by LPP SA and its subsidiaries.

31.2. Liquidity risk

The Group's objective is to maintain a balance between continuity and flexibility of funding by using funding sources such as overdrafts or investment credit facilities.

Compared to the previous year, credit exposure of the Group decreased significantly due to timely repayment of investment credit instalments and reduction of a current debt. At the same time, the Company has taken out no new investment credit facilities.

A detailed description of the financial position of the Group in terms of loans extended is presented in note 23.

As at the balance sheet date, the Group's financial liabilities fell within the following maturity ranges.

Bank credit facilities (in PLN thousand)	31 December 2017	31 December 2016
Up to one month	5 561	254 587
From one to three months	9 260	9 260
From three months to a year	41 675	41 675
Above one year	141 824	141 824
In total	**198 320**	**510 144**

Liquidity risk must also include trade liabilities.

The classification of gross trade liabilities by overdue period as at 31 December 2017 and 31 December 2016 is presented in the table below.

Gross trade liabilities (in PLN thousand)	31 December 2017	31 December 2016
Not overdue	1 055 348	680 042
Overdue up to one year	40 483	38 818
Overdue for over one year	717	535
Total	**1 096 548**	**719 395**

The increase in the value of trade liabilities stems, first of all, from the increase in the volume of the Group's operations and prolongation of payment terms.

31.3. Currency risk

The Group is exposed to currency risk arising from transactions concluded. Such risk occurs when the Parent Company sells or purchases goods in currencies other than its valuation currency. In LPP, the basic settlement currency in most transactions involving purchases of trade commodities is USD. Approx. 98% of transactions concluded by LPP SA are denominated in foreign currencies other than the reporting currency, while 69% of sales in the Parent Company is denominated in such reporting currency.

In addition to currency risk involved in the settlement currency used for purchasing trade commodities, there is also a risk associated with the fact of settling retail space rents in EUR.

As at 31 December 2017, the Group's financial assets and liabilities are denominated in two main foreign currencies, converted into PLN applying a closing exchange rate as at the balance sheet date, which are of importance for the statements, are given in the table below.

Items (in PLN thousand)	Values expressed in		Value after conversion
	USD	EUR	
Cash	18 420	15 260	33 680
Trade receivables	3 492	1 042	4 534
Trade liabilities	732 079	31 943	764 022

Since the main cost for the Parent Company is purchases of trade commodities, made mainly in USD, LPP SA started using for this currency hedging derivative instruments (forward contracts) to hedge the risk involved in exchange rate fluctuations. By taking such action, LPP SA is capable of adjusting to a major extent foreign exchange losses adversely affecting the Group's result. As at 31 December 2017, the value of forward contracts amounted to PLN 8 204 thousand and was shown as other financial liabilities in item "trade and other liabilities" (note 26).

Valuation of forward contracts (in PLN thousand)	31 December 2017	31 December 2016
Citi Bank Handlowy	4 184	0
Bank Pekao SA	4 020	0
Total	**8 204**	**0**

The sensitivity of gross profit (loss) to rational and probable USD and EUR exchange rate fluctuations, with assumed steadiness of other factors, is shown in the table below.

Balance sheet items	Increase/decrease in the foreign exchange rate	Effect on profit/loss
31 December 2017 – USD	+5%	-28 762
	-5%	28 762
31 December 2016 – USD	+5%	-16 189
	-5%	16 189
31 December 2017 – EUR	+5%	-633
	-5%	633
31 December 2016 – EUR	+5%	662
	-5%	-663

When analysing the impact of the change in USD exchange rates in 2017, it is required to take into account forward instruments used by the Parent Company. Following the assumptions made, LPP SA hedges approx. 70% purchase transactions in the said currency.

31.4. Interest rate risk

The interest rate risk is related to the continuous use by LPP SA of debt financing based on a variable value of Wibor rates and, to a minor extent, to loans granted. Bank credit facilities with a variable interest rate involve the cash flow risk. The Management Board of the Parent Company holds the view that a change in interest rates, if any, will have no major impact on the results earned by the Capital Group.

The tables below present the analysis of impact of interest rate changes on the comprehensive income statement. This analysis covers the financial items of the statement of the Group's financial position as at the balance sheet date.

Interest rate risk

	+/- 75 basis points of the interest rate		
Balance sheet items (in PLN thousand)	Value	Effect on profit/loss	Effect on profit/loss
Financial assets			
Loans	160	1	-1
Cash	514 790	3 861	-3 861
Effect on financial assets before taxation		*3 862*	*-3 862*
Tax (19%)		-734	734
Effect on financial assets after taxation		*3 127*	*-3 127*
Financial liabilities			
Bank credits	198 320	-1 487	1 487
Effect on financial liabilities before taxation		*-1 487*	*1 487*
Tax (19%)		283	283
Effect on financial liabilities after taxation		-1 204	*- 1 204*
Total		***1 923***	***- 1 923***

As at 31 December 2017, the Group's net profit would have been higher by PLN 1 923 thousand if the interest rates in PLN, EUR and USD had been higher by 75 basis points, assuming that all the remaining parameters remained unchanged. This result is due to a substantially higher balance of cash compared with existing bank credit facilities.

32. Fair values of the Company's assets and liabilities

Fair value if defined as an amount for which, at arm's length basis, a given asset could be exchanged, and a liability could be discharged, between well-informed unrelated interested parties. As regards financial instruments for which there is an active market, their fair value is determined based on parameters deriving from the active market (sales and purchase prices). As regards financial instruments for which there is no active market, their fair value is determined on the basis of valuation techniques, where model input data is variables deriving from active markets (exchange rates, interest rates).

In the Group's opinion, the carrying value of financial assets and liabilities is close to the fair value.

33. Financial instruments

ACCOUNTING POLICY

Each contract establishing a financial asset for one party and, at the same time, a financial liability or capital instrument for the other party is a financial instrument.

A financial asset or liability is recognised in the statement of financial position if the Company becomes a party to that instrument. Standardised purchase and sale transactions involving financial assets and liabilities are recognised as at the transaction date.

A financial asset is derecognised from the statement of financial position when rights to economic benefits and risks arising from the contract have been exercised or executed, have expired or the Group has waived them.

The Group derecognises a financial liability from the statement of financial position upon its expiry, that is when the obligation specified in the contract has been discharged, cancelled or expired.

As at the acquisition date, the Capital Group values financial assets and liabilities at fair value, i.e. most often at fair value of a payment made (for assets) or a payment received (for liabilities).

As at the balance sheet date, financial assets and liabilities are valued in line with the principles specified below.

Financial assets

For the purposes of valuation following initial recognition, financial assets other than hedging derivatives are classified by the Group in the following categories:

- loans and receivables,
- financial assets measured at fair value through profit or loss,
- financial assets kept by their maturity date and
- financial assets available for sale.

These categories define the principles for valuation as at the balance sheet date and for the recognition of profits and losses from the measurement in profit or loss or in other comprehensive income. Profits and losses recognised in the financial result are presented as financial revenues or costs, except for revaluation write-offs on trade receivables, disclosed as other operating expenses.

All financial assets, except for those measured at fair value through profit or loss, are assessed as at each balance sheet date due to existence of prerequisites for value impairment. Any prerequisites for value impairment are reviewed for each category of financial assets separately, as given below.

Loans and receivables

Loans granted and receivables are non-derivative financial assets, with fixed or identifiable payments, which are not quoted on an active market.

Loans and receivables are measured at amortised cost, applying the effective interest rate method. It was assumed that short-term receivables are measured at amounts expected to be received, as the effect of discounting future receipts would be negligible.

They are recognised as current assets if their maturity date does not exceed 12 months from the balance sheet date. Loans granted and receivables with maturity dates exceeding 12 months from the balance sheet date are recognised as fixed assets.

If there are objective prerequisites for a loss arising from the impairment of value of loans and receivables measured at amortised cost, then the impairment write-off is equal to the difference between the asset's carrying value and the current value of estimated future cash flows. The asset's carrying value is reduced with the impairment write-off, which is disclosed in the financial costs in respect of loans, and in other operating costs in respect of receivables.

When such prerequisites expire and the situation improves, it is required to reverse, in full or in part, the write-off created depending on the assessment made. The write-off reversal is recognised in profit or loss to the extent in which, as at the reversal date, the asset's carrying value does not exceed its amortised cost.

Revaluation write-offs of receivables and loans are made as follows:

- disputable receivables (amounts claimed in pending court proceedings and amounts due from debtors put into liquidation or in bankruptcy) – write-offs in the total amount receivable,

- other receivables – write-offs made based on a case-by-case review and assessment of both the situation and the risk of a potential loss.

Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or identifiable payments and with fixed maturity, which the Group intends, and is able, to hold to maturity, except for assets classified as loans and receivables.

Financial assets held to maturity are measured at amortised cost, applying the effective interest rate method. If there is any evidence for possible impairment of investments held to maturity, assets are measured at current value of estimated future cash flows. Changes in the balance sheet value, including impairment write-offs, are recognised in profit or loss.

Financial assets measured at fair value through profit and loss

Financial assets measured at fair value through profit and loss include assets classified as designated for trading or, upon initial recognition, for valuation at fair value through profit and loss, due to the fulfilment of the criteria set forth in IAS 39.

Instruments in this category are measured at fair value, and the measurement results are recognised in profit or loss.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets designated as available for sale or not classified in any of the above-mentioned categories of financial assets.

In this category, the Company recognises shares in companies other than subsidiaries or associates.

All other financial assets available for sale are measured at fair value.

Profits and losses on valuation are recognised as other comprehensive income and accumulated in revaluation capital from financial assets available for sale, except for impairment write-offs recognised in profit or loss. Profit or loss comprises also interest which would be recognised at the valuation of these financial assets at amortised cost based on the effective interest rate method.

Financial liabilities

Financial liabilities other than hedging derivatives are recognised under the following items of the statement of financial position:

- bank loans and borrowings,

- trade and other liabilities.

Upon initial recognition, financial liabilities are valued at amortised cost based on an effective interest rate, except for financial liabilities designated for trading or indicated as measured at fair value through profit or loss (derivatives other than hedging instruments). Short-term trade liabilities are measured based on the amount payable due to immaterial discount effects.

Derivative financial instruments

Derivatives employed by the Parent Company to hedge the risk related to foreign exchange fluctuations are, first of all, forward contracts. These derivatives are measured at fair value and presented as assets if their value is positive, or as liabilities if their value is negative.

Profit and loss on changes in the fair value of derivatives which fail to satisfy accounting principles is recognized directly in net profit or loss for the financial year.

The fair value of currency forwards is determined by reference to current forward rates applied for contracts of similar maturity.

The value of financial assets presented in the consolidated statement of financial position relates to the following categories of financial instruments defined in IAS 39:

1. loans and receivables (L&R)
2. financial assets measured at fair value through profit or loss (AFV)
3. financial assets available for sale (AAS)

	As at 31 December 2017	
Fixed assets (in PLN thousand)	**L&R**	**In addition to IAS 39**
Loans and receivables	4 836	0

	As at 31 December 2017	
Current assets (in PLN thousand)	**L&R**	**In addition to IAS 39**
Trade receivables	222 047	0
Loans and receivables	1 755	0
Cash and cash equivalents	514 790	

	As at 31 December 2016	
Fixed assets (in PLN thousand)	**L&R**	**In addition to IAS 39**
Loans and receivables	6 180	0

	As at 31 December 2016	
Current assets (in PLN thousand)	**L&R**	**In addition to IAS 39**
Trade receivables	165 389	0
Loans and receivables	1 666	0
Cash and cash equivalents	365 753	

The value of financial liabilities presented in the statement of financial position refers to one of the categories of financial instruments specified in IAS 39 as financial liabilities measured at amortised cost (LAC) and to financial liabilities measures at fair value through profit or loss.

	As at 31 December 2017		
Long-term liabilities (in PLN thousand)	**LAC**	**Fair value**	**In addition to IAS 39**
Loans and borrowings	141 824	0	0

	As at 31 December 2017		
Short-term liabilities (in PLN thousand)	**LAC**	**Fair value**	**In addition to IAS 39**
Trade liabilities	1 096 548	0	0
Other financial liabilities (forward contracts)	0	8 204	0
Other liabilities	0	0	217 876
Loans and borrowings	56 496	0	0

Long-term liabilities (in PLN thousand)	As at 31 December 2016	
	LAC	In addition to IAS 39
Loans and borrowings	195 033	0

Short-term liabilities (in PLN thousand)	As at 31 December 2016	
	LAC	In addition to IAS 39
Trade liabilities	719 395	0
Other liabilities	0	161 669
Loans and borrowings	315 111	0

34. Segments

Financial results and other information on geographical segments for the period from 1 January 2017 to 31 December 2017 and for a comparative period are given in the tables below.

2017 (in PLN thousand)	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
External sales	5 493 990	1 535 435	0	0	7 029 425
Inter-segment sales	887 584	0	(887 58	0	0
Other operating income	18 997	16 773	0	0	35 770
Total revenue	**6 400 571**	**1 552 208**	**(887 584)**	**0**	**7 065 195**
Total operating costs, including	5 564 732	1 348 347	(851 772)	348 091	6 409 398
Costs of inter-segment sales	695 208	0	(695 208)		0
Other operating costs	46 555	30 808	0		77 363
Segment result	**789 284**	**173 053**	**(35 812)**	**348 091**	**578 434**
Financial income					4 754
Financial costs					19 517
Profit before taxation					**563 671**
Income tax					122 897
Net profit attributable to shareholders of the parent company					**440 851**
Net profit attributable to non-controlling entities					**(77)**

2017 (in PLN thousand)	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
Segment assets	3 571 240	691 003	(214 215)	0	4 048 028
Unallocated assets across the group	0	0	0	158 791	158 791
Consolidated total assets	**3 571 240**	**691 003**	**(214 215)**	**158 791**	**4 206 819**
Segment liabilities	1 492 279	218 280	(152 818)	0	1 557 741
Unallocated liabilities across the group	0	0	0	205 647	205 647
Consolidated total liabilities	**1 492 279**	**218 280**	**(152 818)**	**205 647**	**1 763 388**

Other disclosures	EU Member States	Other countries
Segment capital expenditures	313 947	127 649
Segment depreciation	231 457	61 972
Impairment write-offs	4 426	876
Reversal of impairment write-offs	0	10 216
Other non-cash expenses	47 288	27 832

2016	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
External sales	4 865 748	1 153 298	0	0	6 019 046
Inter-segment sales	649 505	636	(650 14	0	-
Other operating income	21 572	3 864	0	0	25 436
Total revenue	**5 536 825**	**1 157 798**	**(650 141)**	**0**	**6 044 482**
Total operating costs, including	5 023 983	1 148 161	(681 901)	203 799	5 694 042
Costs of inter-segment sales	560 400	636	(561 036)	0	-
Other operating costs	64 050	59 131	0	838	124 019
Segment result	**448 792**	**(50 130)**	**31 760**	**(204 637)**	**226 421**
Financial income					1 307
Financial costs					33 650
Profit before taxation					**194 078**
Income tax					19 303
Net profit					**174 775**

2016	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
Segment assets	3 006 100	592 318	(64 338)	0	3 534 080
Unallocated assets across the group	0	0	0	143 852	143 852
Consolidated total assets	**3 006 100**	**592 318**	**(64 338)**	**143 852**	**3 677 932**
Segment liabilities	964 314	102 223	(37 370)	0	1 029 167
Unallocated liabilities across the group	0	0	0	514 034	514 034
Consolidated total liabilities	**964 314**	**102 223**	**(37 370)**	**514 034**	**1 543 201**

Other disclosures	EU Member States	Other countries
Segment capital expenditures	212 887	58 943
Segment depreciation	216 212	51 169
Impairment write-offs	19 915	37 781
Reversal of impairment write-offs	0	0
Other non-cash expenses	48 058	19 427

35. Capital management

The Group manages capital with the aim of ensuring the Capital Group's capacity to continue its operations and the expected rate of return for shareholders and other entities interested in the financial position of the Capital Group.

The Group analyses the indices assessing its financial position, which are presented and described in detail in the Management Board's report on the operations of the Capital Group.

36. Employment structure

In the year ended 31 December 2017, average employment (own work posts) in the entire Capital Group was 16 408 people (2016: 9 582 people). Adding outsourced employees, the total number of staff members is approx. 25 000 people.

37. Information on the fee of the statutory auditor or an entity authorised to audit the financial statements of the Parent Company

The fee of the entity authorised to audit the financial statements, paid or due for the year ended 31 December 2017 and 31 December 2016, broken down by types of services, is given in the table below.

Gross trade liabilities (in PLN thousand)	Year ended 31 December 2017**	Year ended 31 December 2016*
Obligatory audit of the annual financial statements	234	90
Other certification services	0	0
Other services	0	0
Total		

*Reference is made to Ernst&Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Spółka Komandytowa
**Reference is made to Grant Thornton Spółka z ograniczoną odpowiedzialnością Spółka Komandytowa

Management Board of LPP SA:

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

06

Statement of the Management Board

In line with the Regulation by the Minister of Finance dated 19 February 2009 on current and interim information provided by issuers of securities, the Management Board of LPP SA hereby declares that:

- to the best of the Board's knowledge, the annual consolidated financial statements for the financial year 2017 and comparative data have been prepared in line with accounting principles currently in effect and present a true and fair view of the assets, the financial standing and the financial result of LPP SA in the periods presented, and that the report of the Management Board on the operations of the LPP SA Capital Group in 2017 presents a true and fair view of the development, achievements and the standing of the LPP SA Capital Group and LPP SA, including a description of basic risks and threats,

- the entity authorised to audit financial statements, which audited the annual consolidated financial statements of the LPP SA Capital Group and the separate financial statements of LPP SA, was appointed in line with applicable legal provisions currently in effect. This entity and statutory auditors, who performed the audits, satisfied all requirements to prepare an impartial and independent report on the audited annual financial statements, pursuant to the applicable provisions of law and professional standards.

Additionally, the Management Board of LPP SA declares that, in May 2018, LPP SA will publish the first integrated report titled "Let's Get Closer", which will provide comprehensive information on the Issuer. The integrated report meets the requirements set forth in the Accounting Act and, being a separate document, is recognised as a statement on non-financial information.

Management Board of LPP SA:

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


KIDS
WOMEN
MEN
PLN 3 BLN
exports
PLN 800 MLN
taxes paid


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