LPP SA CAPITAL GROUP

CONSOLIDATED CONDENSED INTERIM REPORT
FOR H1 2018

Contents

01

Statement of the Management Board

In line with the Regulation of the Minister of Finance of 29 March 2018 on current and interim information provided by issuers of securities and on the conditions for recognising information required under the law of a non-member state as equivalent, the Management Board of LPP SA declares that:

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

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

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

Management Board of 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, 31 AUGUST 2018


PLN 3.6 BLN
THE CG'S SALES
+18.3%
THE CG'S SALES

02

Selected Consolidated Interim Financial Data

for 6 months ended 30 June 2018

	in PLN thousand		in EUR thousand	
	H1 2018	H1 2017	H1 2018	H1 2017
	01.01.2018-30.06.2018	01.01.2017-30.06.2017	01.01.2018-30.06.2018	01.01.2017-30.06.2017
Revenues	3 630 088	3 067 748	856 254	722 265
Operating profit (loss)	194 023	98 626	45 766	23 220
Pre-tax profit (loss)	193 093	97 475	45 546	22 949
Net profit (loss)	101 360	56 149	23 908	13 220
Net cash flows from operating activities	471 251	348 916	111 157	82 148
Net cash flows from investing activities	-427 317	-187 036	-100 794	-44 035
Net cash flows from financing activities	82 634	-90 644	19 491	-21 341
Total net cash flows	126 568	71 236	29 854	16 772

	in PLN thousand		in EUR thousand	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Total assets	4 737 718	4 330 828	1 086 234	1 038 344
Long-term liabilities	322 364	324 377	73 910	77 771
Short-term liabilities	1 910 961	1 563 020	438 133	374 744
Equity	2 504 408	2 443 446	574 195	585 832
Share capital	3 705	3 705	849	888
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Weighted average number of ordinary shares	1 833 445	1 820 313	1 833 445	1 820 313
Profit (loss) per ordinary share	55.28	30.90	13.04	7.27
Book value per share	1 365,96	1 133,51	313,18	268,19
Declared or paid dividend per share	40.00	35.74	9.17	8.46

03

Consolidated Condensed Interim Financial Statements

We hereby approve the consolidated condensed interim financial statements of the LPP SA Capital Group for the period of 6 months ended 30 June 2018, comprising the consolidated condensed interim statement of financial position, with assets and liabilities totalling PLN 4 737 718 thousand, the consolidated condensed interim statement of comprehensive income, with comprehensive income totalling PLN 129 635 thousand, the consolidated condensed interim statement of changes in equity, indicating an increase in the share capital by PLN 60 962 thousand, the consolidated condensed interim cash flow statement, indicating an increase in net cash by PLN 126 568 thousand, as well as notes describing significant accounting principles and other explanatory data.

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, 31 AUGUST 2018

Consolidated condensed interim statement of financial position as at 30 June 2018

Statement of financial position (in PLN thousand)	Note	As at: 30.06.2018	31.12.2017 (transformed)	30.06.2017 (transformed)
ASSETS				
Non-current assets		**2 128 586**	**2 041 365**	**1 886 071**
1. Fixed assets	11	1 558 529	1 478 164	1 346 074
2. Intangible assets	12	72 029	64 071	52 150
3. Goodwill		209 598	209 598	209 598
4. Trademark		77 508	77 508	77 508
5. Other financial assets		8 063	4 937	4 697
6. Deferred tax assets		150 219	151 335	136 821
7. Prepayments		52 640	55 752	59 223
Current assets		**2 609 132**	**2 289 463**	**2 146 285**
1. Inventory	13	1 490 477	1 475 187	1 481 597
2. Trade and other receivables		169 636	199 648	134 752
3. Income tax receivables		6 265	6 394	22 084
4. Receivables and loans		1 679	1 755	1 660
5. Other financial assets	14	204 037	0	0
6. Other non-financial assets		38 757	47 569	36 194
7. Prepayments		46 823	44 120	35 093
8. Cash and cash equivalents	15	651 458	514 790	434 905
TOTAL assets		**4 737 718**	**4 330 828**	**4 032 356**

Statement of financial position (in PLN thousand)	Notes	As at: 30.06.2018	31.12.2017 (transformed)	30.06.2017 (transformed)
EQUITY AND LIABILITIES				
Equity		**2 504 408**	**2 443 446**	**2 063 346**
1. Share capital	16	3 705	3 705	3 679
2. Treasury shares		-43 334	-43 334	-43 325
3. Share premium		277 631	277 631	251 393
4. Other reserves		2 248 732	1 823 453	1 823 041
5. Currency translation on foreign operations		-179 892	-208 167	-176 994
6. Retained earnings		197 566	590 158	205 552
- profit (loss) from previous years		96 206	149 307	149 307
- net profit (loss) for the current period		101 360	440 851	56 245
Non-controlling interest capital		**-15**	**-15**	**-35**
Long-term liabilities		**322 364**	**324 377**	**316 151**
1. Bank loans and borrowings	19	115 223	141 824	168 469
2. Employee liabilities	17	753	751	3 037
3. Deferred tax liabilities		0	31	14
4. Accruals		206 289	181 690	144 549
5. Other long-term liabilities		99	81	82
Short-term liabilities		**1 910 961**	**1 563 020**	**1 652 894**
1. Trade and other liabilities		1 396 487	1 325 278	1 216 451
2. Contract liabilities		14 090	0	0
3. Dividend liabilities	20	73 342	0	65 531
4. Employee liabilities	17	56 059	43 572	27 765
5. Income tax liabilities		124 888	53 462	27 401
6. Bank loans and borrowings	19	172 651	56 496	255 432
7. Provisions	18	17 151	9 944	9 058
8. Accruals		56 293	74 268	51 256
TOTAL equity and liabilities		**4 737 718**	**4 330 828**	**4 032 356**

PLN 101.4 MLN

THE CG'S NET PROFIT

+80.5%

THE CG'S NET PROFIT

Consolidated condensed interim statement of comprehensive income for 6 months ended 30 June 2018

Comprehensive income statement (in PLN thousand)	H1		Q2	
	2018	2017 (transformed)	2018	2017 (transformed)
	01.01-30.06	01.01-30.06	01.04-30.06	01.04-30.06
Continuing operations				
Revenue	3 630 088	3 067 748	2 049 736	1 705 433
Cost of goods sold	1 692 801	1 476 198	825 282	734 493
Gross profit (loss) on sales	**1 937 287**	**1 591 550**	**1 224 454**	**970 940**
Other operating income	13 872	11 805	7 718	3 968
Selling costs	1 459 159	1 321 795	757 166	661 670
General costs	252 945	141 247	134 483	82 152
Other operating costs	45 032	41 687	28 768	23 495
Operating profit (loss)	**194 023**	**98 626**	**311 755**	**207 591**
Financial income	6 769	8 658	-10 318	6 990
Financial costs	7 699	9 809	5 157	5 609
Pre-tax profit (loss)	**193 093**	**97 475**	**296 280**	**208 972**
Income tax	91 733	41 326	90 151	35 795
Net profit (loss) on continuing operations	**101 360**	**56 149**	**206 129**	**173 177**
Net profit attributable to:				
Shareholders of the parent company	101 360	56 245	206 129	173 273
Non-controlling interests	0	-96	0	-96
Other comprehensive income				
Items transferred to profit or loss				
Currency translation on foreign operations	28 275	-62 066	26 535	-60 832
Total comprehensive income	**129 635**	**-5 917**	**232 664**	**112 345**
Attributable to:				
Shareholders of the parent company	129 635	-5 913	232 664	112 349
Non-controlling interests	0	-4	0	-4

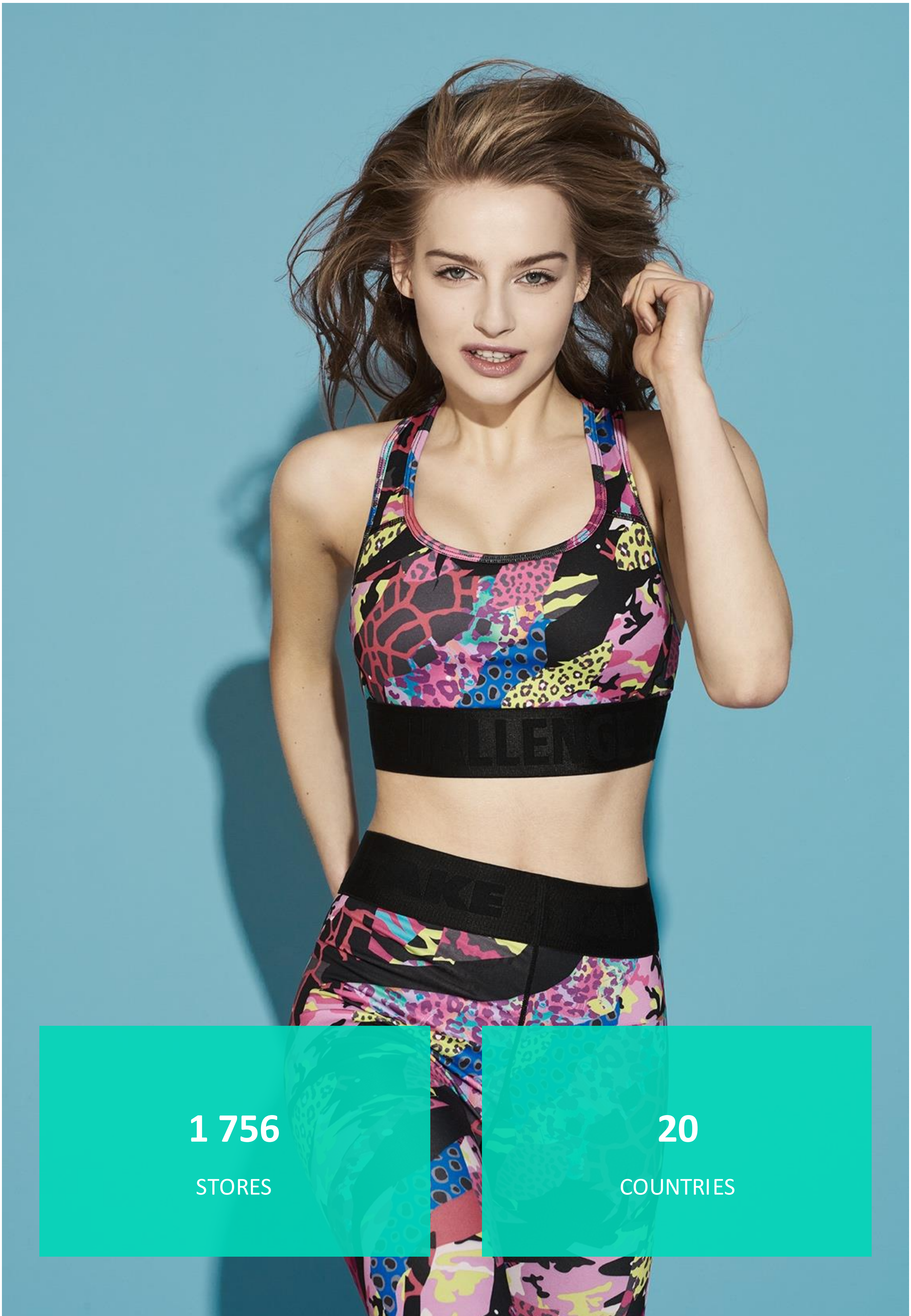
Consolidated condensed interim statement of changes in equity for 6 months ended 30 June 2018

Statement of changes in equity (in PLN thousand)	Share capital	Treasury shares	Share premium	Other reserves	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 2018	**3 705**	**-43 334**	**277 631**	**1 823 453**	**-208 167**	**590 158**	**0**	**2 443 446**	**-15**	**2 443 431**
Division of profit for 2017	0	0	0	420 610	0	-493 952	0	-73 342	0	-73 342
Remuneration paid in shares	0	0	0	4 669	0	0	0	4 669	0	4 669
Transactions with owners	**0**	**0**	**0**	**425 279**	**0**	**-493 952**	**0**	**-68 673**	**0**	**-68 673**
Net profit for H1 2018	0	0	0	0	0	0	101 360	101 360	0	101 360
Currency translation on foreign operations	0	0	0	0	28 275	0	0	28 275	0	28 275
Balance as at 30 June 2018	**3 705**	**-43 334**	**277 631**	**2 248 732**	**-179 892**	**96 206**	**101 360**	**2 504 408**	**-15**	**2 504 393**
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	-7	0	0	0	0	0	-7	0	-7
Division of profit for 2016	0	0	0	214 743	0	-280 273	0	-65 530	0	-65 530
Contribution by non-controlling shareholders	0	0	0	0	0	0	0	0	61	61
Consolidation of a subsidiary	0	0	0	0	0	-27	0	-27	0	-27
Transactions with owners	**0**	**-7**	**0**	**214 743**	**0**	**-280 300**	**0**	**-65 564**	**61**	**-65 503**
Net profit for H1 2017	0	0	0	0	0	0	56 245	56 245	-96	56 149
Currency translation on foreign operations	0	0	0	0	-62 066	0	0	-62 066	0	-62 066
Balance as at 30 June 2017	**3 679**	**-43 325**	**251 393**	**1 823 041**	**-176 994**	**149 307**	**56 245**	**2 063 346**	**-35**	**2 063 311**

Consolidated condensed interim cash flow statement for 6 months ended 30 June 2018

Cash flow statement (in PLN thousand)	01.01-30.06.2018	01.01-30.06.2017
A. Cash flows from operating activities – indirect method		
I. Pre-tax profit (loss)	193 093	97 475
II. Total adjustments	278 158	251 441
1. Amortisation and depreciation	170 098	147 438
2. Foreign exchange gains (losses)	-33 098	-854
3. Interest and dividends	2 693	7 381
4. Profit (loss) on investing activities	-933	4 702
5. Income tax paid	-20 349	-45 140
6. Change in provisions and employee benefits	19 219	387
7. Change in inventories	-5 950	-341 149
8. Change in receivables and other assets	41 553	61 240
9. Change in short-term liabilities, excluding bank loans and borrowings	81 879	428 968
10. Change in prepayments and accruals	3 236	8 571
11. Other adjustments	19 810	-20 103
III. Net cash flows from operating activities	**471 251**	**348 916**
B. Cash flows from investing activities		
I. Inflows	248 765	14 536
1. Disposal of intangible and fixed assets	48 324	14 324
2. From financial assets, including:	441	212
a) in associates	0	165
- interest and dividends	0	165
b) in other entities	441	47
- repayment of loans granted	37	47
- other inflows from financial assets	404	0
3. Other investing inflows	200 000	0
II. Outflows	676 082	201 572
1. Purchase of intangible and fixed assets	287 042	201 542
2. For financial assets, including:	40	30
a) in associates	0	0
b) in other entities	40	30
- loans granted	40	30
3. Other investing outflows	389 000	0
III. Net cash flows from investing activities	**-427 317**	**-187 036**
C. Cash flows from financing activities		
I. Inflows	114 236	86
1. Proceeds from issuance of shares	0	78
2. Loans and borrowings	114 236	8
3. Other inflows from financing activities	0	0
II. Outflows	31 602	90 730
1. Cost of maintenance of treasury shares	0	7
2. Dividends and other payments to owners	0	0
3. Repayment of loans and borrowings	27 776	83 169
4. Financial lease liabilities paid	0	0
5. Interest	3 826	7 554
6. Other financial outflows	0	0
III. Net cash flows from financing activities	**82 634**	**-90 644**

Cash flow statement (in PLN thousand)	01.01-30.06.2018	01.01-30.06.2017
D. Total net cash flows	**126 568**	**71 236**
E. Balance sheet change in cash, including:	**136 668**	**69 152**
- change in cash due to foreign currency translation	10 100	-2 084
F. Opening balance of cash	**515 405**	**366 026**
G. Closing balance of cash	**641 973**	**437 262**



1 756

STORES

20

COUNTRIES

04

Additional Information and Explanatory Notes to the Consolidated Condensed Interim Financial Statements

for the period from 1 January 2018 to 30 June 2018

1. Overview

The LPP SA Capital Group ("Capital Group", "Group", "CG") is composed of LPP SA ("Parent Company", "Company") and its subsidiaries.

The Group's consolidated condensed interim financial statements cover the period of 6 months ended 30 June 2018 and comprise comparative data for the period of 6 months ended 30 June 2017 and as at 31 December 2017. The comprehensive income statement and notes thereto comprise also data for Q2 i.e. for the period of 3 months ended 30 June 2018 and comparative data for the period of 3 months ended 30 June 2017 – this data has neither been reviewed nor audited by a statutory auditor.

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.

These interim financial statements of the Group for 6 months ended 30 June 2018 have been approved by the Management Board of LPP SA for publishing on 31 August 2018.

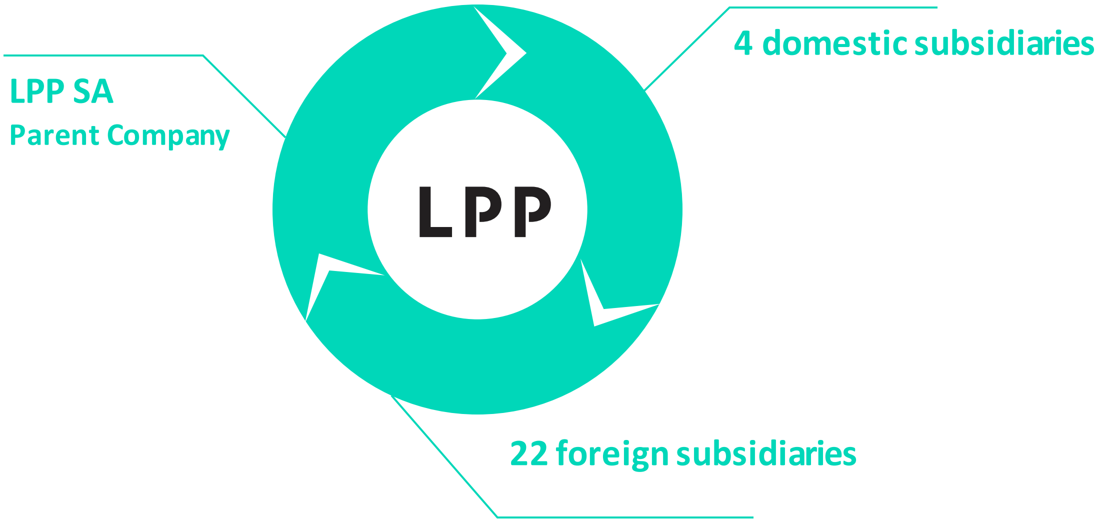
2. Changes in the composition of the Group

During 6 months ended 30 June 2018, there were changes in the composition of the Group as compared to 31 December 2017 due to the establishment of new subsidiaries:

- LPP Kazakhstan LLP with its registered office in Almaty;
- Reserved Fashion, Modne Znamke DOO with its registered office in Ljubljana.

These companies handle the distribution of products in Kazakhstan and Slovenia.

On 25 May 2018, the General Meeting of Shareholders adopted a resolution on the granting of a consent for the sale of an organised part of the enterprise of LPP SA, currently operating under Promostars brand, by contributing it as an in-kind contribution to a subsidiary of the LPP SA CG.



3. Basis for preparation of the consolidated condensed interim financial statements and key accounting principles

3.1. Basis for preparation

These consolidated condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34"), approved by the European Union.

The consolidated condensed interim financial statements do not contain all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2017, approved for publishing on 12 March 2018.

The currency of these consolidated condensed interim financial statements is Polish Zloty and, unless provided otherwise, all amounts are expressed in PLN thousand.

In the periods covered by these consolidated condensed financial statements, the following PLN/EUR exchange rates fixed by the National Bank of Poland were applied to convert selected financial data:

- exchange rate as at the last day of the reporting period: 30.06.2018 - PLN/EUR 4.3616, 31.12.2017 – PLN/EUR 4.1709, and 30.06.2017 – PLN/EUR 4.2265,
- average exchange rate for the period, calculated as an arithmetic average of the rates as at the last day of each month in a given period: 01.01-30.06.2018 – PLN/EUR 4.2395, 01.01.-30.06.2017 – PLN/EUR 4.2474,

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

3.2. Accounting principles

These consolidated condensed interim financial statements were prepared in accordance with the accounting principles presented in the Group's last consolidated financial statements for the year ended 31 December 2017, except for new or amended standards and interpretations applied, which govern annual periods commencing on and after 1 January 2018.

The Group applied for the first time IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9 *Financial Instruments* ("IFRS 9"). As required under IAS 34, the Group disclosed a description of the type and the effects of accounting principles hereinbelow.

Other new or amended standards and interpretations applicable for the first time in 2018 have no major impact on the Group's consolidated interim financial statements.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 repeals IAS 11 *Construction Contracts,* IAS 18 *Revenue* and related interpretations and applies to all contracts with customers, except for those covered by other standards. The new standard implements the so-called Five-Step Model for recognising revenue arising from contracts with customers. According to IFRS 15, revenue is reported in the amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services.

In order to apply IFRS 15, the Management Board of the parent company is required to make judgments at each of the five steps of the implemented model.

The Group implemented IFRS 15 as of the date of the standard's entry into force, having applied a modified retrospective method.

Due to the implementation of IFRS 15, the Group changed the presentation of settlements related to the operation of stores and, at present, these settlements are shown in costs in net amounts.

The Capital 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. According to the standard, if the contract provides for a single performance obligation – the sale of goods, then revenue is recognised at a certain point in time when the customer gains control over the goods. Due to the application of this principle, in the previous periods, the Group recorded no changes in the then applied accounting policy and disclosed no differences in revenue recognition compared to previous periods. Due to the applied product return policy, the Group reduced the value of revenue with the estimated cost of such returns. According to IFRS 15, this methodology will be continued.
2. Sale of gift cards	So far, the Group presented the sale of gift cards in prepayments/accruals. According to IFRS 15, the manner of presentation has changed and, currently, amounts received from customers are presented in contract liabilities.
3. Requirements for presentation and disclosure of information	According to IFRS 15, the Group presented revenue gained from contracts with customers, broken down by categories reflecting the manner in which economic factors affect the nature, amount and uncertainty of revenue and cash flows (Note 6).

IFRS 9 *Financial Instruments*

IFRS 9 replaced IAS 39 *Financial Instruments*: *Recognition and Measurement* and applies to annual periods commencing on and after 1 January 2018. IFRS 9 addresses three areas related to financial instruments: classification and measurement, impairment and hedge accounting.

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

1. Classification and measurement	The implementation of IFRS 9 in the area of classification and measurement had no major impact on the Group's statement of financial position and equity. All financial assets measured so far at fair value will remain to be measured in the same way. Trade receivables are maintained to gain cash flows arising from a contract, and the Group does not sell trade receivables as part of factoring arrangements – they will remain to be measured at amortised cost through financial result.

2.	Impairment	The Group has no trade receivables requiring an increase in an impairment write-off as currently applied.
3.	Hedge accounting	The Group applies no hedge accounting, and, therefore, this part of the standard does not apply.

Other

Interpretation to IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

According to this interpretation, the date of the transaction, for the purpose of determining an exchange rate to be applied on initial recognition of the related asset, expense or income, is the day of initial recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of an advance consideration. If there are multiple payments or receipts in advance, the date of transaction is established for each payment or receipt.

This interpretation does not substantially affect the Group's consolidated condensed interim financial statements.

Amendments to IAS 40 *Transfers of Investment Property*

These amendments specify when an entity transfers a property, including property under construction, to, or from, investment property. It is explained that a change of use occurs if property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

These amendments do not substantially affect the Group's consolidated condensed interim financial statements.

Amendments to IFRS 2 *Classification and Measurements of Share-Based Payment Transaction*

The International Accounting Standards Board has published amendments to IFRS 2 to clarify the following areas: recognition of the conditions for acquisition of rights and conditions other than those for the acquisition of rights in the measurement of cash-settled share-based payment transactions, reporting of share-based payments settled net of tax withholdings, reporting of modifications of share-based payment transactions from cash-settled to equity-settled.

These amendments do not substantially affect the Group's consolidated condensed interim financial statements.

Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

These amendments enable entities pursuing insurance activity to defer the effective date of IFRS 9 by 1 January 2021. Due to such deferral, entities interested may further prepare financial statements in accordance with the applicable standard i.e. IAS 39.

These amendments do not apply to the Group.

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*, being part of *Annual Improvements to IFRS Standards 2014-2016 Cycle*

These amendments specify that an entity being an organisation managing high-risk capital, mutual fund, trust fund or other similar entity, including an insurance fund involving investments, may decide to measure an investment in an associate or joint venture at fair value through financial result according to IFRS 9. The entity makes a choice separately for each associate or joint venture at initial recognition of the associate or joint venture. If the entity not being an investment entity itself holds interest in the associate or joint venture being investment entities, then such entity may, applying the equity method, decide to keep measuring at fair value as applied by such associate or joint venture being investment entities, the interest of the associate or joint venture being investment entities, held in subsidiaries. Such choice is made separately for each associate or joint venture as at the date a) of initial recognition of such associate or joint venture being an investment entity; b) on which such associate or joint venture becomes an investment entity; c) on which such associate or joint venture being an investment entity becomes a parent company.

These amendments do not substantially affect the Group's consolidated condensed interim financial statements.

Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards,* being part of *Annual Improvements to IFRS Standards 2014-2016 Cycle*

Short-term exemptions from the application of other IFRS, provided for in sections E3-E7 IFRS 1, have been deleted.

These amendments do not substantially affect the Group's consolidated condensed interim financial statements.

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

3.3. Error corrections and change in accounting principles

The consolidated condensed financial statements comprise no corrections of errors from previous years.

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

- Change in presentation of transactions involving sales of outlays in third-party premises

Since January 2018, the sale of outlays in third-party premises has been presented as follows:

a) outlays in third-party premises are shown in fixed assets and depreciated in the usability period,

b) the value of a net sale invoice for such outlays is reported in full in prepayments/accruals and settled over time throughout contract duration.

So far, the Group presented the net value of such transaction in prepayments/accruals and settled it over time.

Data for 2017 and as at 30 June 2017 has been transformed, with values given in the table below.

- Change in presentation of a deferred tax asset and liability

Since January 2018, the value of a deferred tax asset and liability is shown in the statement of financial position, in an amount netted in respect of specific companies, and not separately for assets and liabilities as before.

Data for 2017 and as at 30 June 2017 have been transformed, with values given in the table below.

- Change in presentation of licence liabilities

Since 2018, licence liabilities are presented in trade liabilities, without adjusting the value of inventories as before.

Data for 2017 and as at 30 June 2017 have been transformed, with values given in the table below.

- Change in presentation of revaluation write-offs on inventories

Since January 2018, revaluation write-offs on inventories have been presented in the comprehensive income statement, in the cost of goods sold. Previously, this value was shown in other operating costs.

Data for the 6-month period in 2017 has been transformed, with values given in the table below.

At the same time, changes were made in the presentation of data as at 30 June 2017 as well as 31 December and 1 January 2017 in the statement of financial position and the comprehensive income statement for 6 months ended 30 June 2017, due to changes implemented in 2017. All changes are given in the table below.

Following the implementation of changes in presentation, adjustments given below were made in financial data as at 31 December 2017.

Changes during 12 months of 2017	Value in PLN thousand	Data approved	Data transformed
Sale of outlays in third-party premises	130 594	Accruals (liabilities)	Fixed assets
Sale of outlays in third-party premises	312	Prepayments (short-term assets)	Accruals (liabilities)
Sale of outlays in third-party premises	1 627	Prepayments (long-term assets)	Accruals (liabilities)
Licence liabilities	2 650	Inventories	Trade liabilities
Deferred tax	7 296	Deferred tax liabilities	Deferred tax assets

Changes were made also in financial data as at 30 June 2017.

Changes during 6 months of 2017	Value in PLN thousand	Data approved	Data transformed
Revaluation write-offs on inventories	14 492	Other operating income	Cost of goods sold
Revaluation write-offs on inventories	7 917	Other operating costs	Cost of goods sold
Revaluation write-offs on receivables	134	Other operating income	Other operating costs
Revaluation write-offs on fixed assets	1 668	Other operating costs	Other operating income
Provision for product returns	5 725	Accruals	Provisions
State budget receivables	36 194	Loans and receivables	Other non-financial assets
Sale of outlays in third-party premises	97 540	Accruals (liabilities)	Fixed assets
Sale of outlays in third-party premises	182	Prepayments (short-term assets)	Accruals (liabilities)
Sale of outlays in third-party premises	1 131	Prepayments (long-term assets)	Accruals (liabilities)
Licence liabilities	1 383	Inventories	Trade liabilities
Deferred tax	5 524	Deferred tax liabilities	Deferred tax assets

Simultaneously, adjustments of financial data as at 1 January 2017 were presented.

Changes as at 1 January 2017	Value in PLN thousand	Data approved	Data transformed
Sale of outlays in third-party premises	100 544	Accruals (liabilities)	Fixed assets
Sale of outlays in third-party premises	165	Prepayments (short-term assets)	Accruals (liabilities)
Sale of outlays in third-party premises	1 228	Prepayments (long-term assets)	Accruals (liabilities)
Licence liabilities	2 423	Inventories	Trade liabilities
Deferred tax	3 890	Deferred tax liabilities	Deferred tax assets

4. Seasonality of operations

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

5. Operating segments

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

Revenues and financial results regarding geographical segments for the period from 1 January 2018 to 30 June 2018 and for a comparable period are given in tables below.

The period of 6 months ended 30 June 2018

in PLN thousand	European Union countries	Other countries	Consolidation adjustments	Values not attributed to segments	Total
External sales	2 834 824	795 264	0	0	3 630 088
Sales between segments	456 885	0	-456 885	0	-
Other operating income	8 554	5 318	0	0	13 872
Total revenue	**3 300 263**	**800 582**	**-456 885**	**0**	**3 643 960**
Total operating costs, including	2 840 282	770 143	-458 465	252 945	3 404 905
Cost of sale of goods between segments	339 729	0	-339 729	0	-
Other operating costs	32 886	12 146	0	0	45 032
Segment result	**427 095**	**18 293**	**1 580**	**-252 945**	**194 023**

Financial income	6 769
Financial costs	7 699
Profit before tax	193 093
Income tax	91 733
Net profit from continuing operations	**101 360**

The period of 6 months ended 30 June 2017

in PLN thousand	European Union countries	Other countries	Consolidation adjustments	Values not attributed to segments	Total
External sales	2 358 653	709 095	0	0	3 067 748
Sales between segments	358 286	2 278	-360 564	0	-
Other operating income	7 531	3 596	0	678	11 805
Total revenue	**2 724 470**	**714 969**	**-360 564**	**678**	**3 079 553**
Total operating costs, including	2 538 910	613 708	-354 625	141 247	2 939 240
Cost of sale of goods between segments	304 894	0	-304 894	0	-
Other operating costs	23 316	18 371	0	0	41 687
Segment result	**162 244**	**82 890**	**-5 939**	**-140 569**	**98 626**
Financial income					8 658
Financial costs					9 809
Profit before tax					97 475
Income tax					41 326
Net profit from continuing operations					**56 149**

6. Revenue from contracts with customers

The table below specifies revenue from contracts with customers, broken down by categories reflecting the manner in which economic factors affect the nature, amount, payment date and uncertainty of revenue and cash flows.

in PLN thousand	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Type of sale		
Sale of goods	3 627 074	3 057 659
Sale of services	3 014	10 089
Total:	**3 630 088**	**3 067 748**
Brand		
Reserved	1 649 007	1 376 928
Cropp	496 720	442 355
House	392 497	339 495
Mohito	374 697	395 874
Sinsay	344 539	260 719
E-commerce	309 386	139 651
Other	63 242	112 726
Total:	**3 630 088**	**3 067 748**

Trade and other receivables

The LPP Group sells clothes and accessories to customers in its own stores and online in Poland and abroad, with payments made in cash or by credit/debit cards. Due to this business model, the balance of receivables is relatively law. Trade receivables comprise wholesale settlements, rent advances and credit/debit card settlements. As at 30 June 2018, the value of credit/debit card settlements was PLN 47 682 thousand.

Revaluation write-offs

During 6 months ended 30 June 2018, the Group recognised changes in revaluation write-offs on receivables in respect of all receivables or assets under contracts with customers.

Changes made in the current period and in the comparative period are given in the table below.

Revaluation write-offs on receivables (in PLN thousand)	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
Opening balance	16 665	15 941
Write-offs made in the period	1 395	2 271
Write-offs reversed in the period	1 059	383
Currency translation	-368	96
Closing balance	**16 633**	**17 925**

7. Cost of goods sold

In the current reporting period, there was a change in presentation of revaluation write-offs on inventories. Previously, the values of changes in revaluation write-offs were presented in other operating income or costs. As of 1 January 2018, this value is shown in the cost of goods sold.

The presentation of revaluation write-offs on inventories in the cost of goods sold is a standard practice in the retail sector, applied by a majority of entities, including the largest international companies competing with LPP SA. This change shows that LPP follows the worldwide standards of the retail sector, also in respect of financial reporting.

A detailed division of elements comprised in the total value of the cost of goods sold is given in the table below.

	01.01-30.06.2018	01.01-30.06.2017 (transformed)
Cost of goods sold (in PLN thousand)	2018	2017
Cost of goods and services sold	1 652 637	1 482 773
Revaluation write-off on inventories	40 164	-6 575
Total cost of goods sold	**1 692 801**	**1 476 198**

8. Financial income

	01.01.-30.06.2018	01.01.-30.06.2017 (transformed)
Financial income (in PLN thousand)	2018	2017
Interest	1 061	2 877
Measurement of participation units in funds	1 189	0
Dividends	0	165
Other financial income, including:	4 519	5 616
- currency translation balance	4 485	5 432
Total financial income	**6 769**	**8 658**

9. Income tax

The main components of the Group's income tax liability for the period from 1 January to 30 June 2018 and for a comparative period are given in the table below.

Income tax (in PLN thousand)	01.01.-30.06.2018 2018	01.01.-30.06.2017 2017
Current income tax	90 126	38 746
Deferred income tax	1 607	2 580
Total	**91 733**	**41 326**

The reconciliation of income tax on the gross financial result before tax at the statutory tax rate, with income tax shown in the financial result for the periods from 1 January to 30 June 2018 and for 2017, is given in the table below.

Income tax (in PLN thousand)	01.01-30.06.2018 2018	01.01-30.06.2017 2017
Gross profit/loss before tax	193 093	97 475
Tax at the Polish statutory rate of 19% (2017: 19%)	**36 688**	**18 520**
Effect of inter-country tax rate differences	-1 071	-5 338
Adjustments of current tax from previous years	-768	0
Income tax provision	23 449	22 500
Permanent differences	19 229	-5 149
Tax at source (irrecoverable)	7 200	0
Absence of an asset for tax loss (Germany, Great Britain)	7 006	10 793
Income tax (liability) recognised in profit or loss	**91 733**	**41 326**

The value of income tax was increased in Q2 2018 with a provision amounting to PLN 23 449 thousand for potential tax risks from previous years. As at 30 June 2018, the total value of the provision for tax risks amounted to PLN 68.8 mln. A detailed description of the reason for making such provision is provided for in Note 23.2.

10. Earnings per share

The earnings per share (EPS) ratio is calculated by dividing the net profit attributable to the Parent Company's shareholders by the weighted average number of ordinary shares existing in a given period.

The calculation of EPS is given below.

Earnings per share (in PLN thousand)	01.01.2018 30.06.2018	01.04.2018 30.06.2018	01.01.2017 30.06.2017	01.04.2017 30.06.2017
Profit (loss) for the current period attributable to shareholders of the parent company	101 360	206 129	56 245	173 273
Weighted average number of ordinary shares	1 833 445	1 833 445	1 820 313	1 820 313
Diluted number of ordinary shares	1 834 415	1 834 415	1 829 094	1 829 094
Profit (loss) per share	55.28	112.43	30.90	95.19
Diluted profit (loss) per share	55.25	112.37	30.75	94.73

11. Tangible fixed assets

- Purchase and sale

During 6 months ended 30 June 2018, the Group purchased tangible fixed assets totalling PLN 215 014 thousand (during 6 months ended 30 June 2017: PLN 80 601 thousand). Those were mainly investments related to the construction of new stores and the commenced construction of a new part of the logistics centre in Pruszcz Gdański and the purchase of land for the construction of a new logistics centre in Brześć Kujawski.

During 6 months ended 30 June 2018, the Group sold tangible fixed assets of a net value of PLN 1 412 thousand (during 6 months ended 30 June 2017: PLN 5 116 thousand), reaching a net sales loss of PLN 201 thousand (2017: profit of PLN 678 thousand).

- Impairment write-offs

In the period ended 30 June 2018, the Group recognised an additional impairment write-off on fixed assets, totalling PLN 6 906 thousand due to non-profitability and early closure of stores in Poland and the planned closure of a store in Ludwigsburg, Germany (in the same period last year: PLN 1 532 thousand). At the same time, in 2018, the impairment write-off totalling 3 413 thousand was used (in the same period last year, a write-off totalling PLN 17 125 thousand was reversed, partially by using it – PLN 14 688 thousand and by way of reversal due to the lack of prerequisites – PLN 2 437 thousand). In the comprehensive income statement, the establishment of an impairment write-off totalling PLN 6 906 thousand was shown in other operating costs.

- Contractual obligations to purchase tangible fixed assets

As at the balance sheet date, the Group had contractual obligations to purchase tangible fixed assets totalling PLN 296 357 thousand.

The said amount comprised the following:
1) obligations related to the construction of LPP stores – PLN 35 101 thousand,
2) obligations under contracts on the expansion of logistics centres – PLN 156 730 thousand,
3) obligations under contracts on the construction of office buildings – PLN 104 536 thousand.

In comparative periods, this value was as follows:
- 30 June 2017 – PLN 73 367 thousand,
- 31 December 2017 - PLN 155 418 thousand.

12. Intangible assets

- Purchase and sale

During 6 months ended 30 June 2018, the Group purchased intangible assets totalling PLN 14 990 thousand (during 6 months ended 30 June 2017: PLN 14 189 thousand).

During 6 months ended 30 June 2018 and in a comparative period in 2017, the Group sold no intangible assets.

- Impairment write-offs

In the period ended 30 June 2018 and in the same period last year, the Group recognised no impairment write-off on intangible assets. The same applies to the reversal of impairment write-offs on intangible assets in the current period. However, in the preceding year, an impairment write-off totalling PLN 2 305 thousand was used.

13. Inventories

In the period of 6 months ended 30 June 2018, the Group wrote down the value of inventories to a recoverable value of PLN 40 164 thousand (during 6 months ended 30 June 2017: PLN - 6 575 thousand). This amount was recognised in the cost of goods sold. The value write-down concerned goods from previous seasons and the current collection, which lost their commercial or useful value.

Revaluation write-off on inventories is coherent with the applied goods management policy, introduced by LPP SA in December 2016. In semi-annual periods, the same write-off measurement algorithm is applied, consisting of several elements: (1) the estimated percentage of current season's collections (as regards the write-off as at the end of June 2018, this is the Autumn/Winter 2018 collection), which will not be sold in stores – usually 3 to 4% of the collection, (2) division of the unsold part of the collection into goods designated for further resale in outlet stores operated by LPP and goods to be resold to external entities, (3) the sale price expected to be gained for old goods, specified as a percentage of the goods purchase price.

At the same time, in semi-annual periods, the Group analyses progress in the sales of collections from previous seasons and, depending on the clearance sales level, it either reverses or makes provisions.

14. Other financial assets

In the reporting period, the Group acquired participation units in money market funds. As at 30 June 2018, the value of participation units was PLN 189 785 thousand, comprising the value of acquired units on the purchase date, in the amount of PLN 189 000 thousand, and their measured value, in the amount of PLN 785 thousand. In the cash flow statement, in investing activities, the Group reports the acquisition in the amount of PLN 389 000 thousand and the amortization of funds amounting to PLN 200 000 thousand. The measured value of PLN 381 thousand is recognised in operating activities, in interest and dividends. The value of profit earned from amortised units amounted to PLN 404 thousand and was reported in investing activities, in other inflows from financial assets. The measurement of the above-mentioned instruments is at level 1 of the fair value hierarchy in respect of participation units in funds quoted at the regulated market and at level 2 of the fair value hierarchy in respect of participation units in unquoted funds.

The remaining value in other financial assets stems from positive measurement of USD/PLN forward contracts, which, as at 30 June 2018, amounted to PLN 14 252 thousand. The measurement of the above-mentioned instruments is at level 2 of the fair value hierarchy.

15. Cash and cash equivalents

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

in PLN thousand	30.06.2018	30.06.2017
Cash and cash equivalents recognised in the statement of financial position at hand and in the bank:	651 458	434 905
Adjustments:		
Currency translation from balance sheet valuation of cash in foreign currency	-9 485	2 357
Cash and cash equivalents recognised in the consolidated cash flow statement	**641 973**	**437 262**

16. Share capital

The issued share capital of the Group is the share capital of the Parent Company.

As at 30 June 2018, the share capital amounted to PLN 3 705 thousand, with no change compared to 31 December 2017. It was divided into 1 852 423 shares of a nominal value of PLN 2 per share.

As at 30 June 2018, the shareholding structure in the Parent Company was as follows:

Shareholder	Number of shares	Share in the share capital	Number of votes 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)
**Voting rights at the GM, attached to 18 978 shares, may not be exercised as these are treasury shares of LPP SA.

17. Employee benefits

The value of employee benefits shown in the consolidated condensed financial statements and their changes in specific periods are as follows.

Employee benefits (in PLN thousand)	Long-term provision for retirement and similar benefits	Short-term provision for unpaid remuneration	Short-term provision for unused holiday leave
As at 1 January 2018	**751**	**21 172**	**22 400**
- provision made	2	23 985	41 297
- provision used	0	19 360	0
- provision reversed	0	0	33 435
As at 30 June 2018	**753**	**25 797**	**30 262**
As at 1 January 2017	**2 711**	**10 531**	**17 955**
- provision made	5 518	6 467	28 067
- provision used	0	10 531	0
- provision reversed	5 192	0	24 724
As at 30 June 2017	**3 037**	**6 467**	**21 298**

18. Provisions

The value of provisions disclosed in the consolidated condensed financial statements and their changes in specific periods were as follows.

Provisions (in PLN thousand)	Provision for product returns	Other provisions
As at 1 January 2018	**7 818**	**2 126**
- provision made	12 017	5 134
- provision reversed	7 818	2 126
As at 30 June 2018	**12 017**	**5 134**
As at 1 January 2017	**4 566**	**2 698**
- provision made	5 725	3 333
- provision reversed	4 566	2 698
As at 30 June 2017	**5 725**	**3 333**

19. Bank loans

As at 30 June 2018 and as at 31 December 2017, the value of bank loans was as follows.

Bank (in PLN thousand)	Use of bank loans as at 30 June 2018		Use of bank loans as at 31 December 2017	
	in PLN thousand	Currency in thousands	in PLN thousand	Currency in thousands
PKO BP SA	96 918	-	107 446	-
PKO BP SA	45 811	-	55 970	-
Pekao SA	26 934	-	34 006	-
Citibank Bank Handlowy	33	-	74	-
Raiffeisen Bank Polska SA	0	-	21	-
BGŻ BNP Paribas Bank Polska SA	6 787	-	803	-
Ukrsibbank	20 847	UAH 146 500	0	-

Bank (in PLN thousand)	Use of bank loans as at 30 June 2018		Use of bank loans as at 31 December 2017	
	in PLN thousand	Currency in thousands	in PLN thousand	Currency in thousands
AO Raiffeisen Bank	30 414	RUB 509 448	0	-
Citibank Russia	60 130	RUB 1 007 192	0	-
Total	**287 874**		**198 320**	
Long-term bank loans	115 223		141 824	
Short-term bank loans	172 651		56 496	

Additionally, as at 30 June 2018, the Group had trade liabilities amounting to PLN 487 000 thousand towards HSBC Polska SA and BZWBK SA, arising from supplier financing programmes.

20. Dividends paid and offered for payment

In H1 2018, LPP SA paid no dividend to its shareholders. At the same time, in the reporting period i.e. on 25 May 2018, by resolution no 21, the General Meeting of Shareholders of LPP SA resolved to designate part of the profit generated in 2017, amounting to PLN 73 342 480, for payment of a dividend. The dividend date was set for 24 August 2018, and the dividend payment date was set for 14 September 2018. As at the date of adoption of the said resolution, the value of the dividend per share was PLN 40.00.

21. Contingent assets and liabilities

In H1 2018, the LPP SA Capital Group companies used banking guarantees to secure payment of rent for space leased to operate brand stores as well as office and warehouse facilities.

As at 30 June 2018, the total value of banking guarantees issued upon request and at the responsibility of LPP SA amounted to approx. PLN 279 853 thousand, divided as follows:

PLN 83 242 thousand	guarantees issued to secure agreements concluded by LPP SA
PLN 190 178 thousand	guarantees issued to secure agreements concluded by consolidated associates
PLN 6 433 thousand	guarantees issued to secure warehouse and office space lease agreements

In H1 2018, the Parent Company also received guarantees as a collateral for payments from a contracting party. As at 30 June 2018, the value of such guarantees was PLN 25 170 thousand. As at 30 June 2018, the value of sureties granted by the Parent Company amounted to PLN 105 835 thousand. The said value increased compared to the balance as at 31 December 2017 by PLN 14 424 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 to guarantee payment of rent by entities of the LPP SA Capital Group. In the reporting period, the neither Issuer nor its subsidiary granted any sureties for bank loans or credits or any guarantees – jointly to a single entity or such entity's subsidiary, of a value exceeding 10.0% of the Issuer's equity.

22. Transactions with associates

The Group's associates include:

- Polish and foreign companies controlled by the Group companies based on direct shareholdings,

- key management officers of the LPP SA Capital Group and their close family members,

- entities controlled or significantly influenced by key management officers or their close family members within the meaning provided for in IAS 24.

22.1. Key management officers

The Group recognises members of the Parent Company's Management Board and the Supervisory Board as key management officers.

In the period from 1 January to 30 June 2018, short-term benefits of members of the Parent Company's Management Board amounted to PLN 4 302 thousand.

The remuneration of each key management officer is given in the table below.

First name and surname (in PLN thousand)	Position	30 June 2018	30 June 2017
Marek Piechocki	President of the Management Board	1 512	968
Przemysław Lutkiewicz	Vice-President of the Management Board	930	645
Jacek Kujawa	Vice-President of the Management Board	930	645
Sławomir Łoboda	Vice-President of the Management Board	930	645

In the period from 1 January to 30 June 2018, short-term benefits of members of the Parent Company's Supervisory Board amounted to PLN 77 thousand.

The remuneration of each member of the Supervisory Board is given in the table below.

First name and surname (in PLN thousand)	Position	30 June 2018	30 June 2017
Wojciech Olejniczak	Member of the SB	14	10
Piotr Piechocki	Member of the SB	10.5	0
Magdalena Sykuła	Member of the SB	17.5	0
Antoni Tymiński	Member of the SB	17.5	0
Miłosz Wiśniewski	Member of the SB	17.5	0
Jerzy Lubianiec	Chairman of the SB	0	40
Maciej Matusiak	Member of the SB	0	10
Krzysztof Olszewski	Member of the SB	0	10
Dariusz Pachla	Member of the SB	0	22

23. Events after the balance sheet date and other substantial changes

23.1. Change of the shareholding structure of the Parent Company

On 20 July 2018, there was a change of shares in the total number of votes at the General Meeting of Shareholders. Shares held by two major shareholders i.e. Marek Piechocki and Jerzy Lubianiec (CR no 16/2018) were transferred to the Semper Simul Foundation and the Sky Foundation. The shares in the Company, held by the above-mentioned major shareholders, and the shares held by two funds managed by TFI Forum SA were transferred to the said foundations.

Due to the above, as at 31 August 2018, the new shareholding structure of the Parent Company is 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
Semper Simul Foundation*	319 208	17,2%	1 019 208	31,5%	638 416
Sky Foundation**	226 338	12,2%	926 338	28,6%	452 676
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**

*The Semper Simul Foundation is associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR).
**The Sky Foundation is associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act).
*** Voting rights at the GM, attached to 18 978 shares, may not be exercised as these are treasury shares of LPP SA.

23.2. Litigation

With reference to information provided in earlier interim and current reports on the pending tax audit procedure carried out in respect of settlement of CIT for 2012, LPP SA 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. Regardless of the above, as requested by the Customs and Fiscal Office for the Pomorskie Voivodeship in Gdynia, the Company submitted documents on income tax settlements for 2011 and 2013.

By the date of publishing the enclosed financial statements, there were no other events after the balance sheet date, requiring any additional disclosures, apart from those specified above.

24. Approval for publication

These condensed interim financial statements for six months ended 30 June 2018 (with comparable data) were approved for publishing by the Management Board of LPP SA on 31 August 2018.

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, 31 AUGUST 2018

+10.8%

SPACE

+121.5%

E-COMMERCE

05

Selected Separate Condensed Interim Financial Data

for 6 months ended 30 June 2018

	In PLN thousand		In EUR thousand	
	H1 2018	H1 2017	H1 2018	H1 2017
	01.01-30.06.2018	01.01-30.06.2017	01.01-30.06.2018	01.01-30.06.2017
Revenues	2 885 619	2 441 995	680 651	574 939
Operating profit (loss)	115 217	3 884	27 177	914
Pre-tax profit (loss)	227 573	30 520	53 679	7 186
Net profit (loss)	147 548	7 640	34 803	1 799
Net cash flows from operating activities	359 741	300 795	84 855	70 819
Net cash flows from investing activities	-265 106	-161 628	-62 532	-38 053
Net cash flows from financing activities	-25 203	-90 730	-5 945	-21 361
Total net cash flows	69 432	48 437	16 377	11 404

	In PLN thousand		In EUR thousand	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Total assets	4 510 465	4 219 353	1 034 131	1 011 617
Long-term liabilities	248 655	265 242	57 010	63 593
Short-term liabilities	1 635 533	1 406 709	374 985	337 267
Equity	2 626 277	2 547 402	602 136	610 756
Share capital	3 705	3 705	849	888
	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Weighted average number of ordinary shares	1 833 445	1 820 313	1 833 445	1 820 313
Profit (loss) per ordinary share	80.48	4.20	18.98	0.99
Book value per share	1 432.43	1 117.91	328.42	264.50
Declared or paid dividend per share	40.00	35.74	9.17	8.46

06

Separate Condensed Interim Financial Statements

We hereby approve the separate condensed interim financial statements of LPP SA for 6 months ended 30 June 2018, comprising the separate condensed interim statement of financial position, with assets and liabilities totalling PLN 4 510 465 thousand, the separate condensed interim statement of comprehensive income, with comprehensive income totalling PLN 147 548 thousand, the separate condensed interim statement of changes in equity, indicating an increase in equity by PLN 78 875 thousand, the separate condensed interim cash flows statement, indicating an increase in net cash by PLN 69 432 thousand, as well as notes incorporating the description of significant accounting principles and other explanatory data.

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, 31 AUGUST 2018

Separate condensed interim statement of financial position as at 30 June 2018

Statement of financial position (in PLN thousand)	Notes	As at: 30.06.2018	31.12.2017 (transformed)	30.06.2017 (transformed)
ASSETS				
Non-current assets		**2 609 758**	**2 508 755**	**2 270 969**
1. Fixed assets	8	960 552	918 958	837 556
2. Intangible assets	9	69 151	61 028	49 247
3. Goodwill		179 618	179 618	179 618
4. Investments in subsidiaries	10	1 318 381	1 271 189	1 111 201
5. Receivables and loans		1 932	1 536	1 563
6. Deferred tax assets		79 441	76 355	91 006
7. Prepayments		683	71	778
Current assets		**1 900 707**	**1 710 598**	**1 583 817**
1. Inventory	11	1 127 640	1 105 622	1 152 341
2. Trade and other receivables		210 487	313 210	172 679
3. Income tax receivables		0	6 075	18 443
4. Receivables and loans		1 669	1 732	1 660
5. Other financial assets	12	204 037	0	0
6. Other non-financial assets		20 062	22 273	17 459
7. Prepayments		16 568	20 974	17 440
8. Cash and cash equivalents		320 244	240 712	203 795
TOTAL assets		**4 510 465**	**4 219 353**	**3 854 786**

Statement of financial position (in PLN thousand)	Notes	As at: 30.06.2018	31.12.2017 (transformed	30.06.2017 (transformed)
EQUITY AND LIABILITIES				
Equity		**2 626 277**	**2 547 402**	**2 034 947**
1. Share capital	14	3 705	3 705	3 678
2. Treasury shares		-43 334	-43 334	-43 325
3. Share premium		277 631	277 631	251 393
4. Other reserves		2 240 727	1 815 973	1 815 561
5. Retained earnings		147 548	493 427	7 640
- profit (loss) from previous years		0	0	0
- net profit (loss) for the current period		147 548	493 427	7 640
Long-term liabilities		**248 655**	**265 242**	**264 495**
1. Bank loans and borrowings		115 223	141 824	168 469
2. Employee liabilities	15	733	733	2 579
3. Accruals		132 600	122 604	93 365
4. Other long-term liabilities		99	81	82
Short-term liabilities		**1 635 533**	**1 406 709**	**1 555 344**
1. Trade and other liabilities		1 362 326	1 218 218	1 222 045
2. Contract liabilities		11 207	0	0
3. Employee liabilities	15	32 096	28 456	13 168
4. Income tax liabilities		119 429	45 335	22 500
5. Bank loans and borrowings		61 260	56 496	255 430
6. Provisions	16	7 530	5 254	5 208
7. Accruals		41 685	52 950	36 993
TOTAL equity and liabilities		**4 510 465**	**4 219 353**	**3 854 786**

GOALS FOR 2018:

CONTINUATION OF TWO-DIGIT INCREASES IN THE CG'S SALES

THE CG'S MARGIN BETWEEN 54%-55% (INCREASE Y/Y)

MAINTAINING NET CASH

Separate condensed interim statement of comprehensive income for 6 months ended 30 June 2018

Comprehensive income statement (in PLN thousand)	H1		Q2	
	2018	2017 (transformed)	2018	2017 (transformed)
	01.01-30.06	01.01-30.06	01.04-30.06	01.04-30.06
Revenue	2 885 619	2 441 995	1 542 934	1 328 276
Cost of goods sold	1 648 674	1 486 071	792 877	750 432
Gross profit (loss) on sales	**1 236 945**	**955 924**	**750 057**	**577 844**
Other operating income	6 262	8 107	3 699	3 734
Selling costs	807 193	743 691	419 273	374 295
General costs	298 394	199 972	157 514	113 126
Other operating costs	22 403	16 484	13 534	5 393
Operating profit (loss)	**115 217**	**3 884**	**163 435**	**88 764**
Financial income	117 399	71 613	75 029	24 922
Financial costs	5 043	44 977	2 558	15 697
Pre-tax profit (loss)	**227 573**	**30 520**	**235 906**	**97 989**
Income tax	80 025	22 880	73 456	22 024
Net profit (loss)	**147 548**	**7 640**	**162 450**	**75 965**
Total comprehensive income	**147 548**	**7 640**	**162 450**	**75 965**

Separate condensed interim statement of changes in equity for 6 months ended 30 June 2018

Statement of changes in equity (in PLN thousand)	Share capital	Treasury shares	Share premium	Other reserves	Profit (loss) from previous years	Profit (loss) for the current period	TOTAL equity
Balance as at 1 January 2018	**3 705**	**-43 334**	**277 631**	**1 815 973**	**493 427**	**0**	**2 547 402**
Remuneration paid in shares	0	0	0	4 669	0	0	4 669
Division of profit for 2017	0	0	0	420 085	-493 427	0	-73 342
Transactions with owners	**0**	**0**	**0**	**424 754**	**-493 427**	**0**	**-68 673**
Net profit for H1 2018	0	0	0	0	0	147 548	147 548
Balance as at 30 June 2018	**3 705**	**-43 334**	**277 631**	**2 240 727**	**0**	**147 548**	**2 626 277**
As at 1 January 2017	**3 678**	**-43 317**	**251 393**	**1 601 021**	**280 071**	**0**	**2 092 846**
Treasury share purchases		-8					-8
Division of profit for 2016				214 540	-280 071		-65 531
Transactions with owners	**0**	**-8**	**0**	**214 540**	**-280 071**	**0**	**-65 539**
Net profit for H1 2017						7 640	7 640
Balance as at 30 June 2017	**3 678**	**-43 325**	**251 393**	**1 815 561**	**0**	**7 640**	**2 034 947**

Separate condensed interim cash flow statement for 6 months ended 30 June 2018

Cash flow statement (in PLN thousand)	01.01.2018-30.06.2018	01.01.2017-30.06.2017
A. Cash flows from operating activities – indirect method		
I. Pre-tax profit (loss)	227 573	30 520
II. Total adjustments	132 168	270 275
1. Amortisation and depreciation	90 398	78 823
2. Foreign exchange gains (losses)	-33 264	-891
3. Interest and dividends	-105 309	-61 538
4. Profit (loss) on investing activities	-9 856	29 601
5. Income tax paid	-6 060	-27 151
6. Change in provisions and employee benefits	6 017	-4 207
7. Change in inventories	-21 793	-318 372
8. Change in receivables and other assets	92 045	163 496
9. Change in short-term liabilities, excluding bank loans and borrowings	112 525	412 498
10. Change in prepayments and accruals	2 795	-1 984
11. Other adjustments	4 670	0
III. Net cash flows from operating activities	**359 741**	**300 795**
B. Cash flows from investing activities		
I. Inflows	356 011	83 230
1. Disposal of intangible and fixed assets	48 063	14 197
2. From financial assets, including:	107 948	69 033
a) in associates	107 513	68 986
- interest and dividends	107 513	68 986
- other	0	0
b) in other entities	435	47
- interest and other inflows from financial assets	404	0
- repayment of loans granted	31	47
3. Other investing outflows	200 000	0
II. Outflows	621 117	244 858
1. Purchase of intangible and fixed assets	184 886	105 012
2. For financial assets, including:	47 232	139 846
a) in associates	47 192	139 816
- purchase of shares	47 192	139 816
b) in other entities	40	30
- loans granted	40	30
3. Other investing outflows	388 999	0
III. Net cash flows from investing activities	**-265 106**	**-161 628**
C. Cash flows from financing activities		
I. Inflows	5 911	0
1. Loans and borrowings	5 911	0

Cash flow statement (in PLN thousand)	01.01.2018-30.06.2018	01.01.2017-30.06.2017
2. Proceeds from issuance of shares	0	0
3. Other inflows from financing activities	0	0
II. Outflows	31 114	90 730
1. Cost of maintenance of treasury shares	0	7
2. Repayment of bank loans and borrowings	27 777	83 169
3. Interest	3 337	7 554
4. Other outflows from financing activities – dividends paid to owners	0	0
III. Net cash flows from financing activity	**-25 203**	**-90 730**
D. Total net cash flows	**69 432**	**48 437**
E. Balance sheet change in cash, including:	**79 532**	**46 353**
- change in cash due to foreign currency translation	10 100	-2 084
F. Opening balance of cash	**241 327**	**157 716**
G. Closing balance of cash:	**310 759**	**206 153**

DYNAMIC DEVELOPMENT OF SINSAY

Goal for 2018: exceeding 100 thousand m2

07

Additional Information and Explanatory Notes to the Separate Condensed Interim Financial Statements

for the period from 1 January to 30 June 2018

1. Overview

LPP SA (further referred to as "LPP", "Company") is a joint-stock company with publicly traded shares.

The Company is recorded in the register of entrepreneurs of the National Court Register in the District Court for Gdańsk-North in Gdańsk, 7th Economic Division, under number KRS 0000000778. The Parent Company holds REGON statistical identification number 190852164.

The Company's registered office is located at ul. Łąkowa 39/44 in Gdańsk (80-769).

LPP SA is a company involved in the designing and distribution of clothing in Poland, the countries of Central, Eastern and Western Europe and in the Middle East. The Group's basic products are sold under the following trademarks: Reserved, Cropp, House, Mohito and Sinsay.

2. Basis for preparation and accounting principles

2.1. Basis for preparation

These separate condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, approved by the European Union ("IAS 34").

The condensed interim financial statements of LPP SA do not contain all the information and disclosures required in the annual financial statements and should be read in conjunction with the separate financial statements for the year ended 31 December 2017, approved for publishing on 12 March 2018.

The currency of these condensed interim financial statements is Polish Zloty and, unless provided otherwise, all amounts are expressed in PLN thousand.

In these statements, data for 6 months has undergone an interim review by a statutory auditor. The Group's consolidated condensed interim financial statements cover the period of 6 months ended 30 June 2018 and comprise comparative data for the period of 6 months ended 30 June 2017 and as at 31 December 2017. The comprehensive income statement and notes thereto comprise also data for Q2 i.e. for the period of 3 months ended 30 June 2018 and comparative data for the period of 3 months ended 30 June 2017 – this data has neither been reviewed nor audited by a statutory auditor.

In the periods covered by these separate condensed financial statements, the following PLN/EUR exchange rates fixed by the National Bank of Poland were applied to convert selected financial data:

- exchange rate as at the last day of the reporting period: 30.06.2018 - PLN/EUR 4.3616, 31.12.2017 – PLN/EUR 4.1709, and 30.06.2017 – PLN/EUR 4.2265,

- average exchange rate for the period, calculated as an arithmetic average of the rates as at the last day of each month in a given period: 01.01-30.06.2018 – PLN/EUR 4.2395, 01.01.-30.06.2017 – PLN/EUR 4.2474,

These condensed interim financial statements were prepared based on the assumption that the Company will remain a going concern in the foreseeable future. As at the date of approval of these condensed financial statements for publishing, there are no circumstances that could pose a threat to the continued operation of LPP SA.

2.2. Accounting principles

These condensed interim financial statements were prepared in accordance with the accounting principles presented in last separate financial statements of LPP SA for the year ended 31 December 2017, except for new or amended standards and interpretations applied, which govern annual periods commencing on and after 1 January 2018.

The Company applied for the first time IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9 *Financial Instruments* ("IFRS 9"). As required under IAS 34, the Company disclosed a description of the type and the effects of accounting principles hereinbelow.

Other new or amended standards and interpretations applicable for the first time in 2018 have no major impact on the Company's consolidated interim financial statements.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 repeals IAS 11 *Construction Contracts,* IAS 18 *Revenue* and related interpretations and applies to all contracts with customers, except for those covered by other standards. The new standard implements the so-called Five-Step Model for recognising revenue arising from contracts with customers. According to IFRS 15, revenue is reported in the amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods and services.

In order to apply IFRS 15, the Management Board of LPP SA is required to make judgments at each of the five steps of the implemented model.

The Company implemented IFRS 15 as of the date of the standard's effective date, having applied a modified retrospective method.

Due to the implementation of IFRS 15, the Company changed the presentation of settlements related to the operation of stores and, at present, these settlements are shown in net amounts in costs.

LPP SA pursues business activity in the following areas:

1. Sale of goods	The Company pursues business activity covering mainly the sale of goods, including retail sales in on-site and online stores and as well as wholesale. According to the standard, if the contract provides for a single performance obligation – the sale of goods, then revenue is recognised at a certain point in time when the customer gains control over the goods. Due to the application of this principle in the previous periods, the Company recorded no changes in the then applied accounting policy and disclosed no differences in revenue recognition compared to previous periods. Due to the applied product return policy, the Company reduces the value of revenue with the estimated cost of such returns. According to IFRS 15, this methodology will be continued.
2. Sale of gift cards	So far, the Company presented the sale of gift cards in prepayments/accruals. According to IFRS 15, the manner of presentation has changed and, currently, amounts received from customers are presented in contract liabilities.

IFRS 9 *Financial Instruments*

IFRS 9 replaced IAS 39 *Financial Instruments*: *Recognition and Measurement* and applies to annual periods commencing on and after 1 January 2018. IFRS 9 addresses three areas related to financial instruments: classification and measurement, impairment and hedge accounting.

The Company applied IFRS 9 from the standard's effective date, without transforming comparative data.

1. Classification and measurement	The implementation of IFRS 9 in the area of classification and measurement had no major impact on LPP's statement of financial position and equity. As previously, all financial assets measured so far at fair value will remain to be measured in the same way. Trade receivables are maintained to gain cash flows arising from a contract, and the Company does not sell trade receivables as part of factoring arrangements – they will remain to be measured at amortised cost through financial result.
2. Impairment	LPP SA has no trade receivables requiring an increase in an impairment write-off as currently applied.
3. Hedge accounting	The Company applies no hedge accounting, and, therefore, this part of the standard does not apply.

Other

Interpretation to IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

According to this interpretation, the date of the transaction, for the purpose of determining an exchange rate to be applied on initial recognition of the related asset, expense or income, is the day of initial recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of an advance consideration. If there are multiple payments or receipts in advance, the date of transaction is established for each payment or receipt.

This interpretation does not substantially affect the separate condensed interim financial statements of LPP SA.

Amendments to IAS 40 *Transfers of Investment Property*

These amendments specify when an entity transfers a property, including property under construction, to, or from, investment property. It is explained that a change of use occurs if property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

These amendments do not substantially affect the separate condensed interim financial statements of LPP SA.

Amendments to IFRS 2 *Classification and Measurements of Share-Based Payment Transaction*

The International Accounting Standards Board has published amendments to IFRS 2 to clarify the following areas: recognition of the conditions for acquisition of rights and conditions other than those for the acquisition of rights in the measurement of cash-settled share-based payment transactions, reporting of share-based payments settled net of tax withholdings, reporting of modifications of share-based payment transactions from cash-settled to equity-settled.

These amendments do not substantially affect the separate condensed interim financial statements of LPP SA.

Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

These amendments enable entities pursuing insurance activity to defer the effective date of IFRS 9 by 1 January 2021. Due to such deferral, entities interested may further prepare financial statements in accordance with the applicable standard i.e. IAS 39.

These amendments do not apply to the Company.

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*, being part of *Annual Improvements to IFRS Standards 2014-2016 Cycle*

These amendments specify that an entity being an organisation managing high-risk capital, mutual fund, trust fund or other similar entity, including an insurance fund involving investments, may decide to measure an investment in an associate or joint venture at fair value through financial result according to IFRS 9. The entity makes a choice separately for each associate or joint venture at initial recognition of the associate or joint venture. If the entity not being an investment entity itself holds interest in the associate or joint venture being investment entities, then such entity may, applying the equity method, decide to keep measuring at fair value, as applied by such associate or joint venture being investment entities, the interest of the associate or joint venture being investment entities, held in subsidiaries. Such choice is made separately for each associate or joint venture as at the date a) of initial recognition of such associate or joint venture being an investment entity; b) on which such associate or joint venture becomes an investment entity; c) on which such associate or joint venture being an investment entity becomes a parent company.

These amendments do not substantially affect the separate condensed interim financial statements of LPP SA.

Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards,* being part of *Annual Improvements to IFRS Standards 2014-2016 Cycle*

Short-term exemptions from the application of other IFRS, provided for in sections E3-E7 IFRS 1, have been deleted.

These amendments do not substantially affect the separate condensed interim financial statements of LPP SA.

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

2.3. Error corrections and change in accounting principles

The separate condensed financial statements comprise no corrections of errors from previous years.

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

- Change in presentation of transactions involving sales of outlays in third-party premises

Since January 2018, the sale of outlays in third-party premises has been presented as follows:

a) outlays in third-party premises are shown in fixed assets and depreciated in the usability period,

b) the value of a net sale invoice for such outlays is reported in full in prepayments/accruals and settled over time throughout contract duration.

So far, the Company presented the net value of such transaction in prepayments/accruals and settled it over time.

Data for 2017 and as at 30 June 2017 has been transformed, with values given in the table below.

- Change in presentation of a deferred tax asset and liability

Since January 2018, the value of a deferred tax asset and liability is shown in the statement of financial position, in an amount netted, and not separately for assets and liabilities as before.

Data for 2017 and as at 30 June 2017 have been transformed, with values given in the table below.

- Change in presentation of licence liabilities

Since 2018, licence liabilities are presented in trade liabilities, without adjusting the value of inventories as before.

Data for 2017 and as at 30 June 2017 has been transformed, with values given in the table below.

- Change in presentation of revaluation write-offs on inventories

Since January 2018, revaluation write-offs on inventories have been presented in the comprehensive income statement, in the cost of goods sold. Previously, this value was shown in other operating costs.

Data for the 6-month period in 2017 has been transformed, with values given in the table below.

At the same time, changes were made in the presentation of data as at 30 June 2017 as well as 31 December and 1 January 2017 in the statement of financial position and the comprehensive income statement for 6 months ended 30 June 2017, due to changes implemented in 2017. All changes are given in the table below.

Following the implementation of changes in presentation, adjustments given below were made in financial data as at 31 December 2017.

Changes during 12 months of 2017	Value in PLN thousand	Data approved	Data transformed
Sale of outlays in third-party premises	95 274	Accruals (liabilities)	Fixed assets
Sale of outlays in third-party premises	312	Prepayments (short-term assets)	Accruals (liabilities)
Sale of outlays in third-party premises	1 627	Prepayments (long-term assets)	Accruals (liabilities)
Licence liabilities	2 650	Inventories	Trade liabilities
Deferred tax	4 972	Deferred tax liabilities	Deferred tax assets

Changes were made also in financial data as at 30 June 2017.

Changes during 6 months of 2017	Value in PLN thousand	Data approved	Data transformed
Revaluation write-offs on inventories	230	Other operating income	Cost of goods sold
Revaluation write-offs on receivables	1 067	Other operating costs	Other operating income
Revaluation write-offs on investments	22 340	Other operating costs	Other operating income
Provision for product returns	5 029	Accruals	Provisions
State budget receivables	17 459	Loans and receivables	Other non-financial assets
Sale of outlays in third-party premises	66 677	Accruals (liabilities)	Fixed assets
Sale of outlays in third-party premises	182	Prepayments (short-term assets)	Accruals (liabilities)
Sale of outlays in third-party premises	1 131	Prepayments (long-term assets)	Accruals (liabilities)
Licence liabilities	1 383	Inventories	Trade liabilities
Deferred tax	3 673	Deferred tax liabilities	Deferred tax assets

Simultaneously, adjustments of financial data as at 1 January 2017 were presented.

Changes as at 1 January 2017	Value in PLN thousand	Data approved	Data transformed
Sale of outlays in third-party premises	68 793	Accruals (liabilities)	Fixed assets
Sale of outlays in third-party premises	165	Prepayments (assets)	Accruals (liabilities)
Sale of outlays in third-party premises	1 228	Prepayments (assets)	Accruals (liabilities)
Licence liabilities	2 423	Inventories	Trade liabilities
Deferred tax	2 005	Deferred tax liabilities	Deferred tax assets

3. Seasonality of operations

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

4. Cost of goods sold

In the current reporting period, there was a change in presentation of revaluation write-offs on inventories. Previously, the values of changes in revaluation write-offs were presented in other operating income or costs. As of 1 January 2018, this value is shown in the cost of goods sold.

The presentation of revaluation write-offs on inventories in the cost of goods sold is a standard practice in the retail sector, applied by a majority of entities, including the largest international companies competing with LPP SA. This change shows that LPP follows the worldwide standards of the retail sector, also in respect of financial reporting.

A detailed division of elements comprised in the total value of the cost of goods sold is given in the table below.

Cost of goods sold (in PLN thousand)	01.01-30.06.2018 2018	01.01-30.06.2017 (transformed) 2017
Cost of goods sold	1 634 112	1 486 301
Revaluation write-off on inventories	14 562	-230
Total cost of goods sold	**1 648 674**	**1 486 071**

5. Financial income

Financial income (in PLN thousand)	01.01.-30.06.2018 2018	01.01.-30.06.2017 (transformed) 2017
Interest	2 006	231
Dividends	107 484	69 084
Profit from the sale of investments	0	0
Other financial income, including:	7 909	2 298
- currency translation balance	7 909	2 298
Total financial income	**117 399**	**71 613**

6. Income tax

The main components of the income tax liability of LPP SA for the period from 1 January to 30 June 2018 and for a comparative period are given in the table below.

Income tax (in PLN thousand)	01.01.-30.06.2018 2018	01.01.-30.06.2017 2017
Current income tax	83 112	24 000
Deferred income tax	-3 087	-1 120
Total	**80 025**	**22 880**

The reconciliation of income tax on the gross financial result before tax at the statutory tax rate, with income tax shown in the financial result for the periods from 1 January to 30 June 2018 and for 2017, is given in the table below.

Income tax (in PLN thousand)	01.01-30.06.2018 2018	01.01-30.06.2017 2017
Gross profit/loss before tax	227 573	30 520
Tax at the Polish statutory rate of 19% (2017: 19%)	**43 239**	**5 799**
Adjustments of current tax from previous years	**-609**	**1 501**
Income tax provision	**23 449**	**22 500**
Permanent differences	6 746	-6 920
Other – tax at source (irrecoverable)	7 200	0
Income tax (liability) recognised in profit or loss	**80 025**	**22 880**

The value of income tax was increased in Q2 2018 with a provision amounting to PLN 23 449 thousand for potential tax risks from previous years. As at 30 June 2018, the total value of the said provision amounted to PLN 68.8 mln. A detailed description of the reason for making such provision is provided for in Note 19.2.

7. Earnings per share

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

The calculation of EPS is given below.

Earnings per share (in PLN thousand)	01.01.2018 30.06.2018	01.04.2018 30.06.2018	01.01.2017 30.06.2017	01.04.2017 30.06.2017
Profit (loss) for the current period attributable to shareholders of the parent company	147 548	162 450	7 640	75 965
Weighted average number of ordinary shares	1 833 445	1 833 445	1 820 313	1 820 313
Diluted number of ordinary shares	1 834 415	1 834 415	1 829 094	1 829 094
Profit (loss) per share	80.48	88.60	4.20	41.73
Diluted profit (loss) per share	80.43	88.56	4.18	41.53

8. Tangible fixed assets

- Purchase and sale

During 6 months ended 30 June 2018, the Company purchased tangible fixed assets totalling PLN 104 893 thousand (during 6 months ended 30 June 2017: PLN 44 700 thousand). Those were mainly investments related to the construction of new stores and the commenced construction of a new part of the logistics centre in Pruszcz Gdański and the purchase of land for the construction of a new logistics centre in Brześć Kujawski.

During 6 months ended 30 June 2018, the Company sold tangible fixed assets of a net value of PLN 99 thousand (during 6 months ended 30 June 2017: PLN 4 944 thousand), reaching a net sales profit of PLN 91 thousand (2017: PLN 192 thousand).

- Impairment write-offs

In the period ended 30 June 2018, the LPP SA recognised an additional impairment write-off on fixed assets, totalling PLN 3 885 thousand, due to non-profitability and early closure of stores (in the same period last year, there were no impairment write-offs). At the same time, in 2018, the impairment write-off totalling 2 447 thousand was used (in the same period last year, a write-off totalling PLN 16 440 thousand was reversed, partially by using it – PLN 14 003 thousand and by way of reversal due to the lack of prerequisites – PLN 2 437 thousand). In the comprehensive income statement, the establishment of an impairment write-off totalling PLN 3 885 thousand was shown in other operating costs.

- Contractual obligations to purchase tangible fixed assets

As at the balance sheet date, LPP SA had contractual obligations to purchase tangible fixed assets totalling PLN 273 698 thousand.

The said amount comprised the following:

4) obligations related to the construction of LPP stores – PLN 35 101 thousand,
5) obligations under contracts on the expansion of logistics centres – PLN 156 730 thousand,
6) obligations under contracts on the construction of office buildings – PLN 104 536 thousand.

In comparative periods, this value was as follows:

- 30 June 2017 – PLN 66 677 thousand,
- 31 December 2017 - PLN 131 060 thousand.

9. Intangible assets

- Purchase and sale

During 6 months ended 30 June 2018, the Company purchased intangible assets totalling PLN 14 847 thousand (during 6 months ended 30 June 2017: PLN 13 834 thousand).

During 6 months ended 30 June 2018 and in a comparative period in 2017, the Company sold no intangible assets.

- Impairment write-offs

In the period ended 30 June 2018 and in the same period last year, LPP SA recognised no impairment write-off on intangible assets. The same applies to the reversal of impairment write-offs on intangible assets in the current period. However, in the preceding year, an impairment write-off totalling PLN 2 305 thousand was used.

10. Investments in subsidiaries

The value of shares in subsidiaries and additional equity contributions in subsidiaries at their purchase price and relevant changes in specific periods are given in table below.

Investments in subsidiaries (in PLN thousands)	Shares	Additional equity contributions
Balance as at 1 January 2018	**359 561**	**1 176 169**
- increase	47 192	0
- decrease	0	0
Balance as at 30 June 2018	**406 753**	**1 176 169**
Balance as at 1 January 2017	**298 472**	**1 012 522**
- increase	18 221	148 366
- decrease	0	0
Balance as at 30 June 2017	**316 695**	**1 160 888**

The value of revaluation write-offs on shares and additional equity contributions in subsidiaries as well as relevant changes in specific periods are given in table below.

Revaluation write-off (in PLN thousand)	Revaluation write-off on shares	Revaluation write-off on additional equity contributions
Balance as at 1 January 2018	**84 141**	**180 400**
- increase	0	0
- decrease	0	0
Balance as at 30 June 2018	**84 141**	**180 400**
Balance as at 1 January 2017	**91 482**	**239 561**
- increase	2 091	55 587
- decrease	473	21 866
Balance as at 30 June 2017	**93 100**	**273 282**

In the reporting period, the value of shares increased.

The increase in the value of shares resulted from the increase of equity in companies in Great Britain and Serbia and from the establishment of new companies, with capital injections, in Slovenia and Kazakhstan.

11. Inventories

In the period of 6 months ended 30 June 2018, the Company wrote down the value of inventories to a recoverable value of PLN 14 562 thousand (during 6 months ended 30 June 2017: PLN - 230 thousand). This amount was recognised in the cost of goods sold. The value write-down concerned goods from previous seasons and the current collection, which lost their commercial or useful value.

12. Other financial assets

In the reporting period, the Company acquired participation units in money market funds. As at 30 June 2018, the value of participation units was PLN 189 785 thousand, comprising the value of acquired units on the purchase date, in the amount of PLN 189 000 thousand, and their measured value, in the amount of PLN 785 thousand. In the cash flow statement, in investing activities, the Company reports the acquisition in the amount of PLN 389 000 thousand and the amortization of funds amounting to PLN 200 000 thousand. The measured value of PLN 381 thousand is recognised in operating activities, in interest and dividends. The value of profit earned from amortised units amounted to PLN 404 thousand and was reported in investing activities, in other inflows from financial assets. The measurement of the above-mentioned instruments is at level 1 of the fair value hierarchy in respect of participation units in funds quoted at the regulated market and at level 2 of the fair value hierarchy in respect of participation units in unquoted funds.

The remaining value in other financial assets stems from positive measurement of USD/PLN forward contracts, which, as at 30 June 2018, amounted to PLN 14 252 thousand. The measurement of the above-mentioned instruments is at level 2 of the fair value hierarchy.

13. Revaluation write-offs on other assets

Revaluation write-offs on loans (in PLN thousand)	01.01.2018 -30.06.2018	01.01.2017- 30.06.2017
Opening balance	27	29
Write-offs recognised as cost in the period	0	0
Write-offs reversed in the period	0	1
Closing balance	**27**	**28**

Revaluation write-offs on receivables (in PLN thousand)	01.01.2018-30.06.2018	01.01.2017-30.06.2017
Opening balance	6 284	6 651
Write-offs recognised as cost in the period	498	1 120
Write-offs reversed in the period	257	1 425
Closing balance	**6 525**	**6 346**

14. Share capital

As at 30 June 2018, the Company's share capital amounted to PLN 3 705 thousand, with no change compared to 31 December 2017. It was divided into 1 852 423 shares of a nominal value of PLN 2 per share.

As at 30 June 2018, the shareholding structure in the Parent Company was as follows.

Shareholder	Number of shares	Share in the share capital	Number of votes 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	9.5%	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)

**Voting rights at the GM, attached to 18 978 shares, may not be exercised as these are treasury shares of LPP SA.

15. Employee benefits

The value of employee benefits shown in the separate condensed financial statements and their changes in specific periods are as follows.

Employee benefits (in PLN thousand)	Long-term provision for retirement and similar benefits	Short-term provision for unpaid remuneration	Short-term provision for unused holiday leave
As at 1 January 2018	**733**	**21 172**	**7 284**
- provision made	0	23 683	25 984
- provision used	0	21 172	0
- provision reversed	0	0	24 855
As at 30 June 2018	**733**	**23 683**	**8 413**
As at 1 January 2017	**2 222**	**10 388**	**5 100**
- provision made	5 060	6 463	13 474
- provision used	0	10 388	0
- provision reversed	4 703	0	11 869
As at 30 June 2017	**2 579**	**6 463**	**6 705**

16. Provisions

The value of provisions disclosed in the separate condensed financial statements of LPP SA and their changes in specific periods were as follows.

Provisions (in PLN thousand)	Provision for product returns	Other provisions
As at 1 January 2018	**5 254**	**0**
- provision made	6 697	833
- provision reversed	5 254	0
As at 30 June 2018	**6 697**	**833**
As at 1 January 2017	**3 668**	**2 423**
- provision made	5 029	0
- provision reversed	3 668	2 244
As at 30 June 2017	**5 029**	**179**

17. Dividends paid and offered for payment

In H1 2018, LPP SA paid no dividend to its shareholders. At the same time, in the reporting period i.e. on 25 May 2018, by Resolution no 21, the General Meeting of Shareholders of LPP SA resolved to designate part of the profit generated in 2017, amounting to PLN 73 342 480, for payment of a dividend. The dividend date was set for 24 August 2018, and the dividend payment date was set for 14 September 2018. As at the date of adoption of the said resolution, the value of the dividend per share on LPP SA was PLN 40.00.

18. Transactions with associates

The associates of LPP SA include:

- Polish and foreign companies controlled by LPP SA based on direct shareholdings,
- key management officers of the LPP SA Capital Group and their close family members,

- entities controlled or significantly influenced by key management officers or their close family members within the meaning provided for in IAS 24.

18.1. Key management officers

The Group recognises members of the Parent Company's Management Board and the Supervisory Board as key management officers.

In the period from 1 January to 30 June 2018, short-term benefits of members of the Parent Company's Management Board amounted to PLN 4 302 thousand.

The remuneration of each key management officer is given in the table below.

First name and surname (in PLN thousand)	Position	30 June 2018	30 June 2017
Marek Piechocki	President of the Management Board	1 512	968
Przemysław Lutkiewicz	Vice-President of the Management Board	930	645
Jacek Kujawa	Vice-President of the Management Board	930	645
Sławomir Łoboda	Vice-President of the Management Board	930	645

In the period from 1 January to 30 June 2018, short-term benefits of members of the Parent Company's Supervisory Board amounted to PLN 77 thousand.

The remuneration of each member of the Supervisory Board is given in the table below.

First name and surname (in PLN thousand)	Position	30 June 2018	30 June 2017
Wojciech Olejniczak	Member of the SB	14	10
Piotr Piechocki	Member of the SB	10.5	0
Magdalena Sykuła	Member of the SB	17.5	0
Antoni Tymiński	Member of the SB	17.5	0
Miłosz Wiśniewski	Member of the SB	17.5	0
Jerzy Lubianiec	Chairman of the SB	0	40
Maciej Matusiak	Member of the SB	0	10
Krzysztof Olszewski	Member of the SB	0	10
Dariusz Pachla	Member of the SB	0	22

18.2. Transactions with associates

Associates (in PLN thousand)	Liabilities as at 30.06.2018	Receivables as at 30.06.2018	Sales revenues in the period 01.01-30.06.2018	Purchases in the period 01.01-30.06.2018
Domestic subsidiaries	31 698	2 846	5	184 479
Foreign subsidiaries	54 461	109 948	911 711	122 889
Total	**86 159**	**112 794**	**911 716**	**307 368**

Associates (in PLN thousand)	Liabilities as at 30.06.2017	Receivables as at 30.06.2017	Sales revenues in the period 01.01-30.06.2017	Purchases in the period 01.01-30.06.2017
Domestic subsidiaries	50 419	694	1 366	29 680
Foreign subsidiaries	35 819	186 975	731 211	103 524
Total	**86 238**	**187 669**	**732 577**	**133 204**

The figures given in the tables above present only mutual transactions between LPP SA and subsidiaries, and they are shown from the Parent Company's perspective.

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

All the transactions with associates are concluded on market terms.

Revenues related to domestic subsidiaries are derived from the rental of office space for the purpose of their business operations and business-related services, while revenues gained by foreign subsidiaries arise from the sale of goods and services.

Purchases from domestic subsidiaries involve the rental of real properties for operating Cropp, Reserved, Mohito and House stores and business-related services. Purchases from foreign subsidiaries involve only the costs of trademark use.

19. Events after the balance sheet date and other substantial changes

19.1. Change in the shareholding structure of the Parent Company

On 20 July 2018, there was a change of shares in the total number of votes at the General Meeting of Shareholders. Shares held by two major shareholders i.e. Marek Piechocki and Jerzy Lubianiec (CR no 16/2018) were transferred to the Semper Simul Foundation and the Sky Foundation. The shares in the Company, held by the above-mentioned major shareholders, and the shares held by two funds managed by TFI Forum SA were transferred to the said foundations.

Due to the above, as at 31 August 2018, the new shareholding structure of the Parent Company is as follows.

Shareholder	Number of shares	Share in the share capital	Number of votes the GM	Share in the total number of votes at the GM	Nominal value of shares
Semper Simul* Foundation	319 208	17.2%	1 019 208	31.5%	638 416
Sky Foundation**	226 338	12.2%	926 338	28.6%	452 676
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**

*The Semper Simul Foundation is associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR).
**The Sky Foundation is associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act).
*** Voting rights at the GM, attached to 18 978 shares, may not be exercised as these are treasury shares of LPP SA.

19.2. Litigation

With reference to information provided in earlier interim and current reports on the pending tax audit procedure carried out in respect of settlement of CIT for 2012, LPP SA 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.

Regardless of the above, as requested by the Customs and Fiscal Office for the Pomorskie Voivodeship in Gdynia, the Company submitted documents on income tax settlements for 2011 and 2013.

By the date of publishing the enclosed financial statements, there were no other events after the balance sheet date, requiring any additional disclosures, apart from those specified above.

20. Approval for publication

These condensed interim financial statements for six months ended 30 June 2018 (with comparable data) were approved for publishing by the Management Board of LPP SA on 31 August 2018.

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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, 31 AUGUST 2018


+12.3%
LFL
DYNAMIC LFL SALES INCREASES IN RESERVED

08

Consolidated Interim Report on the Operations of the LPP SA Capital Group LPP SA

1. Operations of the LPP SA Capital Group from 1 January to 30 June 2018

Main operations carried out in H1 2018

1. Number of stores and retail space

At the end of H1 2018, the CG had 1 756 stores (46 stores more tha a year before), having the total area of approx. 1 034.2 thousand sq. m., with 771 stores of an area of 516.2 thousand sq. m. located abroad. Compared to June 2017, the total retail area increased by 10.8%.

As at 30.06.2018	Number of stores	Change y/y (%)	H1 2018 Area in thousand m2	H1 2018 Area in thousand m2	Change y/y (%)
Reserved	463	+5	582.2	520.8	11.8%
Cropp	382	-4	130.1	121.9	6.7%
House	335	-3	113.0	106.6	6.0%
Mohito	294	+6	105.5	99.3	6.3%
Sinsay	253	+49	92.8	72.5	28.1%
Outlets	29	-7	10.6	12.6	-15.9%
LPP CG total	**1 756**	**+46**	**1 034.2**	**933.7**	**10.8%**

2. Sales broken by brand

In H1 2018, the largest nominal sales increases were generated by Reserved. Such good result was attained by the brand owing to collections highly recognised by customers and consistent space increases (the opening of new brand stores and the expansion of existing stores). In H1 2018, the highest dynamics was recorded by Sinsay. Such good result was attained by the brand owing to successful collections and consistent space increases (new stores both in Poland and abroad). In H1 2018, two brands i.e. Reserved and Cropp generated more revenue abroad than domestically.

Sales in stores of specific brands and in the online channel, generated in H1 2018 and in Q2 2018, are given in tables below.

	Sales in H1 2018 (PLN mln)	Sales in H1 2017 (in PLN mln)	Change y/y (%)
Reserved	1 649	1 377	19.8%
Cropp	497	442	12.3%
House	392	339	15.6%
Mohito	375	396	-5.3%
Sinsay	345	261	32.1%
E-commerce	309	140	121.5%
Other	63	113	-43.9%

	Sales in Q2 2018 (PLN mln)	Sales in Q2 2017 (in PLN mln)	Change y/y (%)
Reserved	921	763	20.8%
Cropp	287	254	12.9%
House	223	181	23.1%
Mohito	212	212	0.1%
Sinsay	202	149	36.3%
E-commerce	179	85	110.6%
Other	26	62	-58.8%

3. Sales in LFL stores

In H1 2018, sales revenue in like-for-like (LFL) stores in local currencies increased by 12.3%, with a 14.6% increase in Q2 2018.

In H1 2018, all brands showed positive LFL growths, except Mohito. The largest growths in LFL stores were recorded by Reserved, which reflects successful activities aimed at improving the said brand's collections, undertaken in preceding quarters.

In the reporting period, in all countries in which the CG operates its own brand stores, LFL sales was a positive figure. The highest two-digit LFL growths were recorded by stores in Romania, Hungary and Ukraine.

4. Online sales

In H1 2018, the LPP SA CG generated revenue of PLN 309.4 mln from online sales i.e. 121.5% more than a year ago. This revenue yield 8.5% of the Group's revenue and 9.9% of domestic revenue.

The three-digit growths in online sales were continued to be generated owing to the development of e-stores outside Poland, marketing expenses (cooperation with fashion bloggers and influencers) and changes in customers' habits (due to the trading ban on specific Sundays, Polish customers more and more often purchase goods online).

Revenues from online sales in H1 2018 and Q2 2018 are given in the table below (in PLN mln).

	H1 2018	H1 2017	Change y/y (%)	Q2 2018	Q2 2017	Change y/y (%)
Sales in PLN mln	309.4	139.7	121.5%	178.5	84.8	110.6%

5. Sales revenues broken down by country and region

Revenues from sales generated by the Group companies operating in specific countries are given in tables below (in PLN thousand).

	H1 2018	H1 2017	Change y/y (%)	Q2 2018	Q2 2017	Change y/y (%)
Poland	1 959 932	1 691 808	15.8%	1 092 695	942 435	15.9%
Czech Republic	183 166	138 595	32.2%	103 993	78 471	32.5%
Slovakia	110 488	88 244	25.2%	63 974	49 527	29.2%
Hungary	74 711	45 215	65.2%	42 880	25 926	65.4%
Lithuania	59 220	47 520	24.6%	34 986	26 404	32.5%
Latvia	45 421	36 219	25.4%	26 665	20 215	31.9%
Estonia	56 731	42 986	32.0%	32 456	23 725	36.8%
Russia	635 315	595 933	6.6%	356 353	325 418	9.5%
Ukraine	150 155	116 681	28.7%	90 754	63 621	42.6%
Belarus*	6 327	5 593	13.1%	2 678	5 593	-52.1%
Bulgaria	36 803	26 665	38.0%	22 171	14 864	49.2%
Romania	108 591	72 528	49.7%	62 433	40 004	56.1%
Croatia	39 322	31 221	25.9%	24 160	17 829	35.5%
Serbia	9 794	-	-	7 060	-	-
Germany	125 816	115 237	9.2%	71 465	65 798	8.6%
Great Britain	19 829	-	-	10 749	-	-
Middle East*	8 467	13 305	-36.4%	4 263	5 605	-23.9%
Total	**3 630 088**	**3 067 748**	**18.3%**	**2 049 736**	**1 705 433**	**20.2%**

	H1 2018	H1 2017	Change y/y (%)	Q2 2018	Q2 2017	Change y/y (%)
Poland	1 959 932	1 691 808	15,8%	1 092 695	942 435	15.9%
Other European countries	869 892	644 429	35,0%	502 993	362 761	38.7%
Russia, Ukraine, Belarus*	791 797	718 207	10,2%	449 785	394 631	14.0%
Middle East*	8 467	13 305	-36,4%	4 263	5 605	-23.9%
Total	**3 630 088**	**3 067 748**	**18,3%**	**2 049 736**	**1 705 433**	**20.2%**

* Revenues in the Middle East countries and Belarus are those generated by franchise stores.

6. Sales per m2

In H1 2018, sales per m2 of the LPP CG increased by 5.3% compared to the preceding year (this indicator is calculated as the entire CG retail sales divided by an average number of meters operating in a given period).

	H1 2018	H1 2017	Change y/y (%)	Q2 2018	Q2 2017	Change y/y (%)
Retail sales m2/month in PLN	577	548	5.3%	631	603	4.7%

7. Operating costs

The operating costs of the LPP Capital Group include the costs of own stores, the costs of franchise stores and head office costs. The latter comprise, among others, costs of the head office in Gdańsk, offices in Cracow and Warsaw, the offices of foreign subsidiaries and logistics costs. In H1 2018, the Group recorded an increase in operating costs by 17.0%, mainly due to the increase in head office costs resulting from the increased costs of logistics, e-commerce and marketing.

	H1 2018	H1 2017	Change y/y (%)	Q2 2018	Q2 2017	Change y/y (%)
Total costs (in PLN mln)	1 712	1 463	17.0%	892	744	19.9%
Total costs per m2/month	288	268	7.3%	297	271	9.4%

8. Basic figures showing the results of CG's operations

In H1 2018, sales revenues increased by 18.3% compared to the same period last year mainly due to very good sales in both business channels, i.e. traditional stores (specifically Sinsay and Reserved) and e-commerce. The sales increase in traditional stores resulted from the increase retail space – by 10.8% y/y and positive dynamics in sales/m2. The increase in online sales resulted from the geographical growth and marketing outlays. Geographically, the LPP Group achieved the highest sales growth in Hungary, Romania and Bulgaria.

In H1 2018, the trade margin increased in value by 1.5 pp., while in percentages it increased from 51.9% to 53.4% as a result of advantageous foreign exchange trends and successful spring-summer collections of the majority of brands, including the flagship Reserved brand.

Operating costs increased by 17.0%, with growth values lower than the increase in sales. Store operation costs increased in H1 2018 only by 9.1% y/y mainly due to space development. The costs of operation of the head office increased by 46.5% y/y mainly due to dynamic e-commerce growths (higher logistics costs).

In H1 2018, the CG recorded decreased net financial costs as a result of lower interest and charges (reduced indebtedness), having also lower financial revenues (lower profit on foreign exchange differences).

Consequently, in H1 2018, the LPP CG recorded an increase in net profit by 80.5% to PLN 101 360 thousand.

Basic figures showing the results of the Group's operations and margins achieved in H1 and Q2 2018 are given in tables below.

	H1 2018	H1 2017	Change y/y (%)	Q2 2018	Q2 2017	Change y/y (%)
Revenues from sales	3 630 088	3 067 748	18.3%	2 049 736	1 705 433	20.2%
Gross sales profit	1 937 287	1 591 550	21.7%	1 224 454	970 940	26.1%
General sales and administrative costs	1 712 104	1 463 042	17.0%	891 649	743 822	19.9%
EBITDA	364 121	246 064	48.0%	397 404	281 244	41.3%
Operating profit	194 023	98 626	96.7%	311 755	207 591	50.2%
Net profit	101 360	56 149	80.5%	206 129	173 177	19.0%

Margin (%)	H1 2018	H1 2017	Q2 2018	Q2 2017
Gross sales margin	53.4%	51.9%	59.7%	56.9%
EBITDA	10.0%	8.0%	19.4%	16.5%
Operating	5.3%	3.2%	15.2%	12.2%
Net	2.8%	1.8%	10.1%	10.2%

9. Capital expenditures

In H1 2018, the Group's capital expenditures amounted to PLN 287 mln, being higher than a year ago by approx. 42% due to higher expenditures for brand stores and the costs related to distribution centres i.e. expansion of the logistics centre in Pruszcz Gdański and the first expenditures made for the distribution centre in Brześć Kujawski.

10. Inventory per m2

The inventory level and its optimisation are important elements of working capital management – it is important to observe inventory per m2 over time. The Group's inventory consists of goods in stores, warehoused goods and merchandise in transit - from the manufacturer to a logistics centre. The CG strives to minimise inventory and, at the same time, maintain a sufficient product volume to maximise sales. At the end of H1 2018, the inventory level per m2 was lower by 9.2% mainly due to a decrease in the USD/PLN exchange rate as LPP buys the majority of goods in Asia, where settlements are made in USD, and due to positive feedback from customers and very good sales of products at regular prices.

	30.06.2018	30.06.2017	Change y/y (%)
Inventory (PLN mln)	1 490	1 482	0.5%
Inventory per m2 in PLN	1 458	1 606	-9.2%

11. Debt

LPP has credit lines in 6 banks in the total amount of PLN 1.3 billion, utilised for bank guarantees, letters of credit for trade financing or as a revolving loan. Additionally, the Group has a long-term debt extended to finance the expansion of the logistics centre and the head office. Due to the seasonality of sales, LPP increases the financing of purchases with a bank loan in the first and third quarter to finance inventories, and reduces lending in the second and fourth quarters, during periods of regular sales. The Company strives to minimise the level of debt in order to maintain financial security. At the same time, due to strong operating cash flows, at the end of H1 2018, the Group had PLN 651.5 mln in cash. Consequently, at the end of H1 2018, the Group showed net cash of a value substantially exceeding the result for H1 2017. The following table shows the level of net debt in PLN thousand i.e. the sum of loans less balance of cash.

	H1 2018	H1 2017	Change y/y (%)
Short-term loans	172 651	255 432	-32.4%
Long-term loans	115 223	168 469	-31.6%
Cash	-651 458	-434 905	49.8%
Net debt	-363 584	-11 004	n/m

Major events in H1 2018 and in the period preceding publication of this report

01.2018

In January, the Company signed annexes to the liability limit agreement with Bank Handlowy w Warszawie SA (CR 3/2018) and BGŻ BNP Paribas SA (CR 4/2018).

02.2018

In February, in Belarus, the Capital Group opened three new franchise stores (2 House stores and one Sinsay store). The total area of brand stores is 1 800 m2.

02.2018

In February, the LPP SA CG launched its fifth e-store in Russia - for Cropp.

03.2018

In March, a new Reserved campaign starring supermodel Cindy Crawford was launched.

05.2018

In May, the LPP CG published its first report on the CSR strategy and activities in this area.

05.2018

In May, new Sinsay brand stores were opened both in Poland and abroad (for example, in Ukraine and Serbia).

06.2018

In June, the Fashion Tech conference was held to sum up LPP's investments in new technologies in the entire supply chain.

07.2018

In July, the LPP CG made a decision to construct another distribution centre to be located in Brześć Kujawski.

07.2018

The founders of LPP transferred their property to foundations to preserve LPP's identity as Polish family-run company.

08.2018

In August, the LPP CG opened, as part of cooperation with its franchise partner H&O Fashion Chains, the first Reserved brand store in Israel. The brand store of an area of 730 m2 is located in a commercial centre in Tel Aviv.

2. Basic factors affecting growth opportunities; risks and threats

The achievement by the LPP Capital Group of its strategic tasks and goals will be affected by numerous internal and external factors representing opportunities, yet also risks and threats.

Internal risk factors

BUSINESS MODEL RISK	**Risk:** The activity of the LPP SA Capital Group is focused on designing and distribution of clothing as well as building its brands. The Capital Group has no own manufacturing capacities and does not plan to develop its own manufacturing plants, and it outsources manufacturing activities to professional entities in different parts of the world. Outsourcing enables effective production placement and gives access to modern and changing technologies. The Group chooses suppliers not only based on the price offered but also based on the scope of their offer, advancement of machinery and the ethical treatment of workers. Accordingly, the Group's investments are directed at creating its own distribution network and at e-commerce, logistics, development and technology as well as attracting consumers loyal to the Capital Group and its products. **Actions:** The Management Board of LPP makes sure that the Group is not dependent on any of 1 000 cooperating suppliers (none of them has exceeded the threshold of 5% of annual purchases). Additionally, on a regular basis, the CG evaluates its suppliers, who are supervised by the LPP office in Shanghai, China (established in 1997), and in Dhaka, Bangladesh (established in 2015).
RISK OF CHANGES IN FASHION TRENDS	**Risk:** The clothing market is characterised by a wide variety of customer expectations and is closely correlated with changes in fashion trends. A key factor in a clothing company's success is the sense of changes in fashion trends and the adjustment of its product range to current consumer needs. **Actions:** The CG pays significant attention to fashion, constantly increasing its product team which is currently comprised of over 250 designers. In total, over 700 persons work in the product

	development department. Each brand has a separate design team following fashion trends in the brand's target group. Designers and persons engaged in the process of collection creation not only participate in exhibitions and fairs worldwide but also follow trends in the Internet (including social media) and street fashion in the most popular fashion capitals i.e. Paris, New York, Seoul, Tokyo. Inspirations found and world trends are used in the process of collection creation and, therefore, the risk of unsuccessful collections is reduced.
RISK OF UNSUCCESSFUL STORE LOCATION	**Risk:** The Group's development strategy provides for the rapid expansion of its sales network. The opening of new stores involves the risk that specific locations may prove to be unsuccessful. This may result in a failure to meet a projected revenue level, which, in consequence, may adversely affect the Group's financial performance. **Actions:** The Group reduces the risk of unsuccessful locations owing to good market surveillance and a detailed analysis of each potential new location. At present, the CK optimises the development of its sales network. On one hand, locations with unsatisfactory sales level are closed upon contract termination, and, on the other hand, stores in good locations are expanded to offer customers full collections. The Group undertakes optimisation activities both in Poland and abroad, on each market where is has operated for more than 5-7 years.
RISK OF INEFFECTIVE LOGISTCS	**Risk:** The dynamic development of the Group's retail space and online sales requires investments in logistics improvements. The task of the logistics team is to quickly gather a relevant number of clothing dispatches to stores and, directly, to customers making online orders, with simultaneous minimisation of the quantity of goods in distribution centres. Along with the planned increase of the Group's sales, there is an increased risk that that the current logistics system in the distribution centre in Pruszcz Gdański will enable the handling of the Group's needs by approx. 2020 only. **Actions:** As this issue is of vital importance, the Management Board of LPP gives it a high priority, consistently introducing new solutions required. The largest foreign market i.e. the Russian market is handled by a separate distribution centre near Moscow. There are dedicated separate distribution centres for online sales in Poland and Russia. As regards 4 brands, LPP decided that, with a view to handling logistics services for the e-commerce channel in Poland, it will cooperate with Arvato Polska, a leader in comprehensive outsourcing solutions in logistics. To meet increasing demand in the Balkan countries and to ensure the development of both traditional and online sales network in this region, the CG has decided to lease in 2019 a distribution centre in Romania, which will provide services to online customers in the southern part of Europe. Additionally, in Poland, LPP will construct a new distribution centre in Brześć Kujawski (Kujawsko-Pomorskie Voivideship). Owing to the investment of an area of 100 thousand m2, the Company will be able to double its current warehouse space. Ultimately, the new centre will be dedicated to handling traditional stores of Reserved, the flagship brand. Expenditures planned for that purpose in the years 2018-2022 will amount to PLN 400 mln. At the same time, works are continuously carried out to improve IT systems in logistics. One of the solutions is the implementation of the Warehouse Management System (WMS), an innovative system facilitating the operation of the distribution centre .
RISK OF SALES MIGRATION FROM TRADITIONAL STORES TO THE INTERNET	**Risk:** The increase in the popularity of online purchases results in a global trend reflecting sales migration from traditional stores to online stores. This tendency puts pressure on sales in traditional stores, the majority of which generate fixed costs, and, consequently, affects the Group's profitability. **Actions:** Adjusting to the current tendency involving the increase in the popularity of online shopping, the Group operates up-to-date online stores of all of its brands and continuously takes actions aimed at further development of this sales channel. The CG gradually opens online stores both on the markets where it has launched its traditional stores and in other EU countries, improves mobile sales platforms and supply logistics. By the end of 2018, the CG plans to be operating online on 17 markets (taking into account the operations of the franchisee in the Middle East), reaching 35 countries by the end of 2019. By 2021, the Company plans to increase the share of online stores to 20%. At the same time, the Group takes actions aimed at levelling out technological differences between traditional and online stores and at combining sales channels into an omnichannel.

RISK OF LOSS OF KEY EMPLOYEES	**Risk:** The Group employs over 25 thousand employees which are indispensable to carry out its basic operations in an effective and profitable way. In particular, the Group faces the risk of losing key management officers, persons involved in the designing and preparation of collections and high rotation of employees. There is also a risk that the Group will not be able to attract new talents. **Actions:** The Management Board of LPP takes numerous actions aimed at reducing this risk. Key management officers take part in a share-based incentive programme. The Group puts emphasis on friendly working conditions – employees are offered employment contracts and work in a friendly environment earning market salaries.

External risk factors

MACROECONOMIC RISK	**Risk:** The economic situation in countries where the LPP SA Capital Group sells its products and the situation in countries where factories manufacturing goods for LPP are located are crucial for the Company's standing. The revenues and margins of the CG depend on the economic situation of households and consumption inclinations. An economic growth or decline in countries where the Company's brand stores are located may translate into an increase or decrease in consumers' spending, including clothing expenses. Furthermore, an economic growth or decline in countries where the manufacturing of goods is located may translate into an increase, decrease or stabilisation of manufacturing costs. **Actions:** Each of five LPP brands is addressed to a wide group of consumers at affordable prices. The CG focuses on offering products with an advantageous price-quality ratio. Although this will not safeguard the CG against adverse effects of a potential economic slowdown, yet it may minimise such adverse effects. The risk is also being reduced by developing the Group's operations in different countries on different continents (at the end of H1, brand stores of LPP were located in 20 countries on 3 continents), with further development to be achieved in subsequent quarters.
FOREIGN EXCHANGE RISK	**Risk**: An adverse change in currency exchange poses substantial risk for the CG. In 2017, only 44% of revenue was denominated in foreign currencies, the costs of goods purchases – in 98%, and general sales and administrative costs – in 58%. The highest FX exposure of the Group concerns USD and EUR. The USD exposure is related to the location of goods production and purchases (mainly Asian countries), while the EUR exposure is related to rent payments for stores. Due to the fact that Russia and Ukraine yield approx. 20% of sales, the CG has also a substantial RUB and UAH exposure. The Group reports financial results in PLN. Consequently, the strong position of PLN against USD and EURO has a positive impact on LPP's margins, while its weak position against key currencies reduces the Group's profitability. **Actions:** Due to the relevance of the foreign exchange risk, in June 2017, the Company 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).
RISK OF CHANGES IN CUSTOMS AND TAX REGULATIONS	**Risk**: Customs and tax regulations have a significant impact on the Group's activity. Therefore, changes in this area may significantly affect the operations of the CG. The Group is exposed to changes in customs laws due to the scale of imports, specifically from Asian countries. The introduction of potential import quotas and heavy customs duties could result in the reduction of the Group's margins. The introduction of possible legal changes in each of the countries where the Group is present may result in the requirement to incur additional costs or reduce revenue, thus adversely affecting the Group's profitability. An example of such potential risk is the prospective implementation of turnover tax on large stores in Poland, which could adversely affect the operation of LPP and poses a potential risk (at present, law enforcement has been suspended). Another example of law amendments is gradual introduction, from March 2018, of a Sunday trading ban in Poland. In the first year, the law permits trading on the first and last Sunday each month, during the

	second year – on one Sunday a month, with a total Sunday trading ban to be introduced starting from the third year (before this change, the trading ban applied only to statutory days off). **Actions:** The Group's head office and the majority of its brand stores are located in the EU. As assessed by the Group, the European Union pursues a stable customs policy. Moreover, any changes in the customs policy would affect all entities operating in the retail sector in the EU. A more important risk is that involving legislative changes, which involves both domestic and EU laws. If any such risk occurs, the Management Board will focus its activities on minimising their impact on the Group's financial performance. This is the case as regards legislative changes concerning the Sunday closure of stores in Poland. Following the analysis of sales from the time of implementation of trading limitations in Poland, the LPP CG recorded no decrease in revenue in Poland y/y, with sales in stores being transferred to other weekdays and increased online sales. This is the reason why, among others, the Group improves the operation of its e-stores and logistics.
RISK OF INTENSIFIED COMPETITION	**Risk:** With barriers to the clothing market entry being low, the number of competitors increases, thus enhancing competitiveness. Each year, new players appear on, and leave, the markets where the LPP CG operates. On each market, LPP competes with local competitors and international players. **Actions:** The success of LPP on each market depends on the quality of collections and their acceptance by customers. Therefore, the Management Board of LPP Company focuses its activities on the offering of products reflecting current trends and meeting customers' expectations at affordable prices. As noted by the Management Board, competitive pressure is highest with reference to Reserved, the flagship brand, the success of which is a priority for the Board, while such pressure is lower, for example, with reference to niche brands i.e. Cropp or House.
RISK ASSOCIATED WITH WEATHER CONDITIONS	**Risk:** In the business conducted, during one season, there may occur positive or negative effects of weather conditions, which may affect an increase/decrease in sales, and, consequently, an increase/decrease of the Capital Group's margins. **Actions:** The Management Board monitors on a regular basis the level of sales and margins in specific countries, adjusting the time frame and scale of clearance offers. At the same time, following the changes implemented in the preceding quarters in logistics and store replenishment, the CG is more flexible and may react quicker to adverse weather changes in a given season.

3. Factors and unusual events affecting profit or loss

In the reporting period, there were no unusual factors and events affecting the condensed financial statements.

4. Changes in the structure of the Issuer's Capital Group, including those resulting from a merger of entities, acquisition or sale of subsidiaries, long-term investments, division, restructuring or discontinued operations

In the reporting period, two subsidiaries were established:

- LPP Kazakhstan LLP with its registered office in Almaty;
- Reserved Fashion, Modne Znamke DOO with its registered office in Ljubljana.

These companies handle the distribution of goods in Kazakhstan and Slovenia.

Apart from the above, in the reporting period, there were no other changes in the structure of the LPP CG.

5. Position of the Management Board on the possibility of achieving previously published forecasts of annual results in view of results disclosed in the interim report compared to forecast results

No forecasts for 2018 were published.

6. Shareholders holding directly or indirectly, through subsidiaries, at least 5% of total votes at the issuer's general meeting of shareholders as at the date of report submission, along with the number of shares held by those shareholders, their percentage share in the share capital, the number of votes attached, and their percentage share in total votes at the general meeting of shareholders, and changes in the ownership structure of large blocks of the issuer's shares in the period following submission of the previous interim report

The shareholding structure of LPP SA as at the date of submission of the report is given in the table below.

Shareholder	Number of shares	Number of votes at the GM	Share in total votes at the GM	Share in the share capital	Nominal value of shares
Semper Simul Foundation*	319 208	17.2%	1 019 208	31.5%	638 416
Sky Foundation **	226 338	12.2%	926 338	28.6%	452 676
Treasury shares***	18 861	1.0%	0	0.0%	37 722
Other shareholders	1 288 016	69.5%	1 288 016	39.8%	2 576 032
Total	**1 852 423**	**100.0%**	**3 233 562**	**100.0%**	**3 704 846**

*The Semper Simul Foundation is associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR).
**The Sky Foundation is associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act).
*** Voting rights at the GM, attached to 18 861 shares, may not be exercised as these are treasury shares of LPP SA.

In the period following submission of the previous report (for Q1 2018), there were changes in the ownership structure of large blocks of shares.

With a view to implementing the process aimed at ensuring continuity of the Company's operations and generational succession, two main shareholders of LPP i.e. Mr Marek Piechocki and Mr Jerzy Lubianiec transferred all shares held directly and indirectly (through TFI Forum SA) to the Semper Simul Foundation and the Sky Foundation. Consequently, after settlement of those operations, the Semper Simul Foundation will gain a 31.5% share in the total number of votes in the Company, while the Sky Foundation will have 28.6% of votes in the total number of votes in the Company (CR 16/2018).

7. Listing of individual shareholdings of the issuer's shares or rights attached to them, held by the issuer's key management or supervision officers as at the date of report submission, with the specification of shareholding changes in the period following submission of the previous report

Shareholder	Number of shares	Number of votes as the GM
Marek Piechocki – President of the Management Board	39	39
Jacek Kujawa - Vice-President of the Management Board	179	179
Przemysław Lutkiewicz - Vice-President of the Management Board	36	36
Sławomir Łoboda - Vice-President of the Management Board	128	128
Jerzy Lubianiec – Chairman of the Supervisory Board*	226 338	926 338
Antoni Tymiński – Member of the Supervisory Board	11	11
Piotr Piechocki – Member of the Supervisory Board	14	14

*shares held indirectly through a subsidiary

After submission of the last report (for Q1 2018), there were the following changes in the ownership structure of LPP SA shares held by members of the Issuer's Management Board and the Supervisory Board.

With a view to implementing the process aimed at ensuring continuity of the Company's operations and generational succession, Mr Marek Piechocki, President of the Management Board, and Mr Jerzy Lubianiec, Chairman of the Supervisory Board, transferred all their shares to the Semper Simul Foundation and the Sky Foundation (CR 16/2018).

Due to the implementation of an incentive programme adopted by Resolution no 21 of the Ordinary General Meeting of Shareholders of LPP, dated 19 June 2017, programme participants i.e. key management officers of LPP subscribed to the total of 117 shares in LPP on 16 August 2017 (CR 18/2018).

8. Proceedings pending before courts and arbitration or public administration authorities in respect of liabilities or receivables of the issuer or its subsidiary, with the specification of the subject matter of the proceedings, value of the object of dispute, date of commencement of the proceedings, parties thereto and the issuer's standpoint

Currently, there is an audit procedure carried out by the Customs and Fiscal Office for the Pomorskie Voivodeship, concerning the settlement of income tax for 2012. The description of the current situation is provided for in point 23.2 of the consolidated financial statements and point 19.2. of the separate financial statements.

9. Information on the conclusion by the issuer or its subsidiary of one or more transactions with associates if concluded on non-market terms, with their values specified

In the reporting period, there were no transactions with associates, apart from those specified in point 22.2. of the consolidated financial statements for H1 2018.

10. Information on the granting by the issuer or its subsidiary of credit or loan sureties or guarantees – jointly to single entity or its subsidiary if the total value of existing sureties or guarantees is significant, stating the name of the entity to which sureties or guarantees were granted, the total value of credit facilities or loans that have been assured or guaranteed in full or in part, a period for which such sureties or guarantees were granted, financial terms and conditions thereof, and the nature of relationships between the issuer and the entity taking such credit facility or loan

In the reporting period, neither LPP nor any of its subsidiaries granted any substantial credit or loan sureties or guarantees jointly to a single entity or its subsidiary.

11. Other information important in the issuer's opinion to evaluate its staffing, property and financial standing, its financial result and their changes as well as information relevant for evaluating the issuer's capacity to execute its obligations

This report contains basic information essential for evaluating the standing of the Issuer's Capital Group. In the opinion of the Management Board, currently, the execution of the obligations of the Capital Group remains unthreatened.

12. Specification of factors which, according to the issuer, will affect its results within at least the next six months

Basic factors affecting results to be achieved in the nearest future are as follows:

- evaluation of the AW collection by customers,
- level of the PLN exchange rate versus USD and EUR, as well as RUB and UAH,
- development of online sales and the omnichannel,
- sales development in Reserved, Cropp, House, Mohito, Sinsay – the goal for the end of 2018 is to increase the number of the CG's stores to 1 773 (increase y/y by 2%), retail space to 1 105.2 thousand m2 (increase y/y by 10.5%) and the margin between 54% and 55%,
- technology and development investments (Fashion Tech), among others, implementation of RFID (cost of PLN 60 mln per year), which may increase sales by approx. 3% per year,
- investment expenditures planned for the entire 2018 will amount to approx. PLN 590 mln, of which PLN 350 mln will be spent on the construction of new stores and modernisation of operating stores, PLN 60 mln on logistics, PLN 45 mln on IT (including e-commerce) and PLN 135 mln on head offices in Gdańsk and Cracow,
- economic situation in Poland and in countries where the stores of the LPP SA CG are operated, specifically in Russia and Ukraine.

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, 31 AUGUST 2018


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