LPP SA GROUP

CONSOLIDATED CONDENSED INTERIM REPORT
FOR H1 2019

Contents

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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 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 operations of the issuer's Group presents a true view of the development, achievements and standing of the LPP SA Group, including a description of basic risks and threats.

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, 11 SEPTEMBER 2019


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Selected consolidated interim financial data

for 6 months ended 30 June 2019

Selected consolidated financial data	in PLN thousand		in EUR thousand	
	Cumulatively			
	2019	2018	2019	2018
	01.01 - 30.06	01.01 - 30.06	01.04 - 30.06	01.04 - 30.06
Revenues	4 041 822	3 630 088	942 589	856 254
Operating profit (loss)	252 311	194 023	58 841	45 766
Pre-tax profit (loss)	224 921	193 093	52 454	45 546
Net profit (loss)	90 888	101 360	21 196	23 908
Weighted average number of ordinary shares	1 833 926	1 833 445	1 833 926	1 833 445
Profit (loss) per ordinary share	49.56	55.28	11.56	13.04
Net cash flows from operating activities	636 364	471 251	148 406	111 157
Net cash flows from investing activities	-304 448	-427 317	-71 000	-100 794
Net cash flows from financing activities	-511 562	82 634	-119 301	19 491
Total net cash flows	-179 646	126 568	-41 895	29 854

Selected consolidated financial data	in PLN thousand		in EUR thousand	
	2019	2018	2019	2018
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Total assets	8 590 744	5 380 808	2 020 401	1 251 351
Long-term liabilities	2 609 187	346 148	613 638	80 500
Short-term liabilities	3 102 954	2 174 122	729 763	505 610
Equity	2 878 618	2 860 553	677 003	665 245
Share capital	3 705	3 705	871	862
Weighted average number of ordinary shares	1 833 926	1 833 483	1 833 926	1 833 483
Book value per share	1 569.65	1 560.17	369.16	362.83
Declared or paid dividend per share	60.00	40.00	14.11	9.30

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Consolidated condensed interim financial statements

We hereby approve the consolidated condensed interim financial statements of the LPP SA Group for 6 months ended 30 June 2019, comprising the consolidated condensed interim statement of financial position, with assets and liabilities totalling PLN 8 590 744 thousand, the consolidated condensed interim statement of comprehensive income, with comprehensive income totalling PLN 124 846 thousand, the consolidated condensed interim statement of changes in equity, showing an increase in the share capital by PLN 18 065 thousand, the consolidated condensed interim cash flow statement, showing a decrease in net cash by PLN 179 646 thousand, as well as notes describing key 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, 11 SEPTEMBER 2019

Consolidated condensed interim statement of comprehensive income for 6 months ended 30 June 2019

Comprehensive income statement (in PLN thousand)	Note	H1		Q2	
		2019	2018 (transformed)	2019	2018 (transformed)
		01.01 - 30.06	01.01 - 30.06	01.04 - 30.06	01.04 - 30.06
Continuing operations					
Revenue	6	4 041 822	3 630 088	2 214 142	2 049 736
Cost of goods sold	7	1 936 043	1 692 801	901 320	825 282
Gross profit (loss) on sales		**2 105 779**	**1 937 287**	**1 312 822**	**1 224 454**
Costs of stores and distribution		1 592 256	1 489 707	833 830	789 052
General costs		230 349	222 397	114 729	102 597
Other operating income		17 895	5 502	12 265	3 237
Other operating expenses		48 758	36 662	23 993	24 287
Operating profit (loss)		**252 311**	**194 023**	**352 535**	**311 755**
Financial income	8	36 479	6 769	24 152	-10 318
Financial costs	8	63 869	7 699	34 913	5 157
Pre-tax profit (loss)		**224 921**	**193 093**	**341 774**	**296 280**
Income tax	9	134 033	91 733	136 297	90 151
Net profit (loss) on continuing operations		**90 888**	**101 360**	**205 477**	**206 129**
Net profit attributable to:					
Shareholders of the parent company		90 888	101 360	205 477	206 129
Non-controlling interests		0	0	0	0
Other comprehensive income					
Items transferred to profit or loss					
Currency translation on foreign operations		33 958	28 275	-6 096	26 535
Total comprehensive income		**124 846**	**129 635**	**199 381**	**232 664**
Attributable to:					
Shareholders of the parent company		124 846	129 635	199 381	232 664
Non-controlling interests		0	0	0	0

Consolidated condensed interim statement of financial position as at 30 June 2019

Statement of financial position (in PLN thousand)	Note	As at: 30.06.2019	31.12.2018 (transformed)	30.06.2018 (transformed)
ASSETS				
Non-current assets		**5 393 427**	**2 417 752**	**2 128 586**
1. Fixed assets	11	1 992 045	1 818 316	1 558 529
2. Intangible assets	12	107 597	89 630	72 029
3. Right-of-use assets		2 868 198	0	0
4. Goodwill		209 598	209 598	209 598
5. Trademark		77 508	77 508	77 508
6. Other financial assets	14	9 966	7 822	8 063
7. Deferred tax assets		126 381	164 277	150 219
8. Prepayments		2 134	50 601	52 640
Current assets		**3 197 317**	**2 963 056**	**2 630 882**
1. Inventory	13	1 984 838	1 590 368	1 512 227
2. Trade receivables		167 309	121 729	121 421
3. Income tax receivables		8 110	377	6 265
4. Other financial assets	14	106 210	134 827	253 931
5. Other non-financial assets		32 491	37 843	38 757
6. Prepayments		35 509	32 943	46 823
7. Cash and cash equivalents	15	862 850	1 044 969	651 458
TOTAL assets		**8 590 744**	**5 380 808**	**4 759 468**

Statement of financial position

(in PLN thousand)	Note	As at: 30.06.2019	31.12.2018 (transformed)	30.06.2018 (transformed)
EQUITY AND LIABILITIES				
Equity		**2 878 618**	**2 860 553**	**2 504 408**
1. Share capital	16	3 705	3 705	3 705
2. Treasury shares		-41 115	-43 067	-43 334
3. Share premium		284 877	278 591	277 631
4. Other reserves		2 729 398	2 251 623	2 248 732
5. Currency translation on foreign operations		-197 696	-231 654	-179 892
6. Retained earnings		99 449	601 355	197 566
- profit (loss) from previous years		8 561	96 179	96 206
- net profit (loss) for the current period		90 888	505 176	101 360
Non-controlling interest capital		**-15**	**-15**	**-15**
Long-term liabilities		**2 609 187**	**346 148**	**322 364**
1. Bank loans and borrowings	19	61 901	88 575	115 223
2. Lease liabilities		2 431 251	0	0
3. Employee liabilities	17	1 009	1 012	753
4. Deferred tax liabilities		309	686	0
5. Accruals		114 717	255 774	206 289
6. Other long-term liabilities		0	101	99
Short-term liabilities		**3 102 954**	**2 174 122**	**1 932 711**
1. Trade and other liabilities		1 988 573	1 497 511	1 396 487
2. Contract liabilities		16 552	23 140	14 090
3. Customer refund liabilities		50 841	36 731	33 767
4. Dividend liabilities		0	0	73 342
5. Bank loans and borrowings	19	175 025	203 196	172 651
6. Lease liabilities		598 997	0	0
7. Employee liabilities	17	60 146	86 707	56 059
8. Deferred tax liabilities		153 597	234 434	124 888
9. Provisions	18	2 136	20 397	5 134
10. Accruals		57 087	72 006	56 293
TOTAL equity and liabilities		**8 590 744**	**5 380 808**	**4 759 468**


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Consolidated condensed interim cash flow statement for 6 months ended 30 June 2019

Cash flow statement (in PLN thousand)	Note	01.01 - 30.06.2019	01.01 - 30.06.2018 transformed)
A. Cash flows from operating activities – indirect method			
I. Pre-tax profit (loss)		224 921	193 093
II. Total adjustments		411 443	278 158
1. Amortisation and depreciation		474 753	170 098
2. Foreign exchange gains (losses)		15 628	-33 098
3. Interest and dividends		29 132	2 693
4. Profit (loss) on investing activities		-7 498	-933
5. Income tax paid		-182 531	-20 349
6. Change in provisions and employee benefits		-51 018	7 202
7. Change in inventories		-391 382	-27 700
8. Change in receivables and other assets		-20 011	41 553
9. Change in short-term liabilities, excluding bank loans and borrowings		543 815	115 646
10. Change in prepayments and accruals		12 664	3 236
11. Other adjustments		-12 109	19 810
III. Net cash flows from operating activities		**636 364**	**471 251**
B. Cash flows from investing activities			
I. Inflows		204 149	248 765
1. Disposal of intangible and fixed assets		68 584	48 324
2. From financial assets, including:		1 262	441
a) in associates		0	0
b) in other entities		1 262	441
- repayment of loans granted		40	37
- interest and other inflows from financial assets	14	1 222	404
3. Other investing inflows (investment funds)	14	134 303	200 000
II. Outflows		508 597	676 082
1. Purchase of intangible and fixed assets		405 950	287 042
2. For financial assets, including:		2 647	40
a) in associates		2 627	0
- purchase of shares		2 627	0
b) in other entities		20	40
- loans granted		20	40
3. Other investing outflows (Investment funds)	14	100 000	389 000
III. Net cash flows from investing activities		**-304 448**	**-427 317**

Cash flow statement (in PLN thousand)	Note	01.01 - 30.06.2019	01.01 - 30.06.2018 (transformed)
C. Cash flows from financing activities			
I. Inflows		281 366	114 236
1. Proceeds from issuance of shares		0	0
2. Bank loans and borrowings		281 366	114 236
3. Other inflows from financing activities		0	0
II. Outflows		792 928	31 602
1. Cost of maintenance of treasury shares		0	0
2. Dividends and other payments to owners		110 065	0
3. Repayment of bank loans and borrowings		342 049	27 776
4. Lease liabilities paid		275 503	0
5. Interest		65 311	3 826
6. Other financial outflows		0	0
III. Net cash flows from financing activities		**-511 562**	**82 634**
D. Total net cash flows		**-179 646**	**126 568**
E. Balance sheet change in cash, including:		**-182 119**	**136 668**
- change in cash due to foreign currency translation		-2 473	10 100
F. Opening balance of cash		**1 043 947**	**515 405**
G. Closing balance of cash		**864 301**	**641 973**

Consolidated condensed interim statement of changes in equity for 6 months ended 30 June 2019

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	Non-controlling interests	TOTAL equity
Balance as at 1 January 2019	**3 705**	**-43 067**	**278 591**	**2 251 623**	**-231 654**	**601 355**	**0**	**2 860 553**	**-15**	**2 860 538**
Division of profit for 2018	0	0	0	482 729	0	-482 729	0	0	0	0
Dividend payment	0	0	0	0	0	-110 065	0	-110 065	0	-110 065
Settlement of the incentive programme	0	1 952	6 286	-8 236	0	0	0	2	0	2
Remuneration paid in shares	0	0	0	3 282	0	0	0	3 282	0	3 282
Transactions with owners	**0**	**1 952**	**6 286**	**477 775**	**0**	**-592 794**	**0**	**-106 781**	**0**	**-106 781**
Net profit for H1 2019	0	0	0	0	0	0	90 888	90 888	0	90 888
Currency translation on foreign operations	0	0	0	0	33 958	0	0	33 958	0	33 958
Balance as at 30 June 2019	**3 705**	**-41 115**	**284 877**	**2 729 398**	**-197 696**	**8 561**	**90 888**	**2 878 618**	**-15**	**2 878 603**

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	Non-controlling 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**
Distribution of profit for 2017	0	0	0	420 610	0	-420 610	0	0	0	0
Dividend payment	0	0	0	0	0	-73 342	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**


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04

Additional information and explanatory notes to the consolidated condensed interim financial statements

for the period from 1 January 2019 to 30 June 2019

1. Overview

The LPP SA Group ("Group") 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 2019 and comprise comparative data for 6 months ended 30 June 2018 and as at 31 December 2018. The comprehensive income statement and notes thereto comprise also data for Q2 i.e. for the period of 3 months ended 30 June 2019 and comparative data for 3 months ended 30 June 2018 – 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.

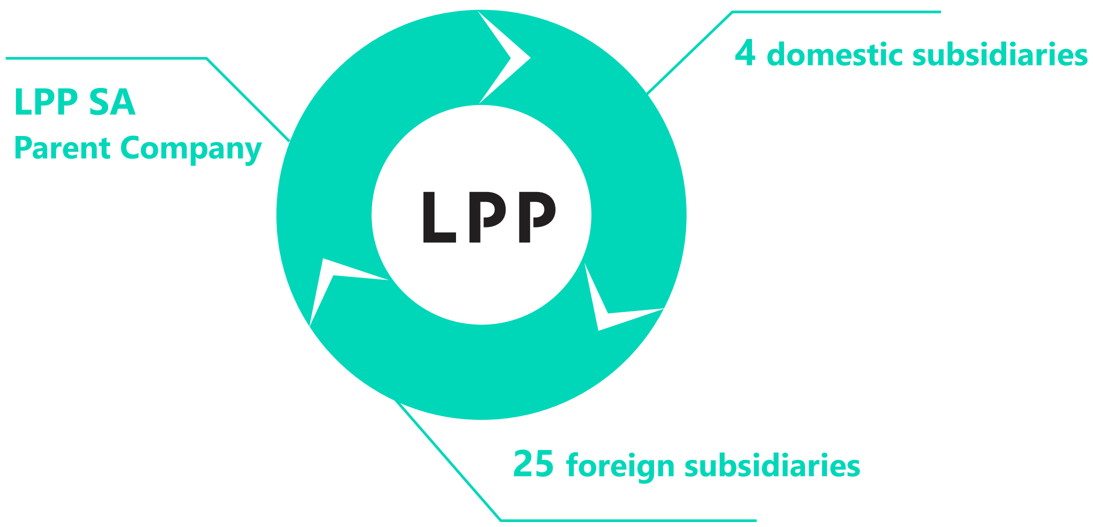
These interim financial statements of the Group for 6 months ended 30 June 2019 have been approved by the Management Board of LPP SA for publishing on 11 September 2019.

2. Changes in the composition of the Group

During 6 months ended 30 June 2019, there were changes in the composition of the Group as compared to 31 December 2018 following establishment of new subsidiaries:

- LPP Finland Oy with its registered office in Helsinki;
- OOO LPP BLR with its registered office in Minsk.

These companies will handle the distribution of products in Finland and Belarus.



3. Basis for preparation of 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 2018, approved for publishing on 10 March 2019.

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

Data presented in these financial statements for the period of 6 months ended 30 June 2019 were reviewed semi-annually by a statutory auditor. The consolidated comprehensive income statement and notes thereto comprise also data for Q2 i.e. for the period of 3 months ended 30 June 2019 and comparative data for 3 months ended 30 June 2018 – this data has neither been reviewed nor audited by a statutory auditor.

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: 30.06.2019 – PLN/EUR 4.2520, 31.12.2018 – PLN/EUR 4.3000,
- 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: 01.01-30.06.2019 – PLN/EUR 4.2880, 01.01.-30.06.2018 – PLN/EUR 4.2395.

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 Changes in estimates and assumptions

In the current reporting period, the Group changed estimates for returns of products sold in the reporting period, to be made in the next reporting period.

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

At present, LPP SA has adopted the following product return ratios depending on the sales channel:

- in traditional stores – 5%
- in on-line stores – 23%

By the end of 2018, the Company estimated a provision for product returns applying an average ratio for both channels.

The remaining companies belonging to the LPP SA Group, which have two sales channels just like the Company, also adopted separate ratios for determining the value of product returns. These ratios are determined for each company separately based on specific historical data.

3.3 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 2018, except for new or amended standards and interpretations applied, which govern annual periods commencing on and after 1 January 2019.

The Group applied for the first time IFRS 16 *Leases* ("IFRS 16"). 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 2019 do not substantially affect the Group's consolidated interim financial statements.

IFRS 16 *Leases*

IFRS 16 replaces IAS 17 *Leases* ("IAS 17") and related interpretations. This standard specifies rules how to recognise, measure, present and disclose leases in order to enable lessees to settle a majority of lease contracts as part of a single balance sheet model.

The Group is a lessee mainly in agreements on the lease of retail, office and warehouse space and a car fleet.

Before implementation of IFRS 16, the Group classified each lease (as lessee) as at the lease commencement date either as financial or operating lease. The lease was classified as financial one if substantially all risk and benefits arising from the possession of the leased object were transferred to the Group. Otherwise the lease was classified as operating lease. Financial lease was capitalised at fair value of the leased object, determined as at the lease commencement date, or in amounts equalling the current value of the minimum lease payments if such value was below fair value. Lease payments were divided into interest (recognised as financial costs) and a decrease in the lease liability. In operating lease, the leased object was not activated while lease payments were recognised as rental costs in the profit and loss account applying the straight line method throughout the lease term.

Following adoption of IFRS 16, the Group applied a single recognition and measurement model for all lease contracts in which the Group is a lessee, except for short-term lease and the lease of low-value assets. The Group recognised lease liabilities and assets involving the right to use an underlying asset.

The Group implemented IFRS 16 using a modified retrospective method i.e. with the cumulative effect of initially applying IFRS 16 recognised as at the date of initial application. The Group decided to apply a practical solution permitting to apply the standard only in respect of agreements which had earlier been identified as lease contracts according to IAS 17 at the date of initial application.

The Group decided also to benefit from reliefs in respect of lease contracts under which the term of lease at the commencement date is 12 months or less, with no purchase option ("short-term lease"), and lease contracts in which the underlying asset has a low value ("low-value assets"). Furthermore, the Group applied the following permissible practical solutions in respect of leases previously classified as operating leases according to IAS 17:

- the Group applied a single discount rate for the portfolio of leases having similar features;
- the Group applied a simplified approach in respect of lease contracts expiring after 12 months from the initial application, according to which these leases are recognised following the requirements set forth for short-term lease contracts, with related costs being presented in a disclosure comprising the incurred costs of short-term lease contracts.

Due to the implementation of IFRS 16, at the first stage, the Group recognised right-of-use assets of a value equalling lease liabilities. Subsequently, the value of a right-of-use asset was adjusted with the value of lease incentives settled over time, which as at 1 January 2019 were recognised by the Group in its balance sheet, and the value of agents' commissions recognised as at 1 January 2019. The weighted average discount rate adopted at initial application of the standard was 4.93%.

The impact of implementing IFRS 16 on the consolidated condensed interim statement of financial position as at the date of initial application, i.e. 1 January 2019, is given below.

Lease in the statement of financial position (in PLN thousand)	31.12.2018	Adjustment under IFRS 16	01.01.2019
Assets			
Right-of-use assets	0	2 926 806	2 926 806
Long-term prepayments*	50 601	(45 843)	4 758
Short-term prepayments*	32 943	(6 296)	26 647
Total assets	**83 544**	**2 874 667**	**2 958 211**
Liabilities			
Long-term lease liabilities	0	2 466 288	2 466 288
Long-term accruals**	255 774	(141 980)	113 794
Short-term lease liabilities	0	585 322	585 322
Short-term accruals**	72 006	(34 963)	37 043
Total liabilities	**327 780**	**2 874 667**	**3 202 447**

*According to IFRS 16, the Group presents agents' commissions as an increase in the right-of-use asset.

** According to IFRS 16, the Group presents lease incentives received as the decrease in the right-of-use asset.

The reconciliation of lease payments shown in the financial statements for the year ended 31 December 2018 to the value of the lease liability recognised as at 1 January 2019 is given in the table below.

(in PLN thousand)	01.01.2019
Value of the minimum lease payments according to IAS 17	**3 325 771**
Reasons for change in value according to IFRS 16	
Contracts not subject to measurement under IFRS 16*	(84 688)
Contracts measured in line with IFRS 16, which were not measured so far under IAS 17**	4 000
Discount	(193 473)
Value of the liability according to IFRS 16	**3 051 610**

*Among others, short-term contracts – payable in 2019

**Right of perpetual usufruct

As at 30 June 2019, the Group recognised:

- right-of-use assets in the amount of PLN 2 868 198 thousand,
- lease liabilities in the amount of PLN 3 030 248 thousand.

In the period of 6 months ended 30 June 2019, the depreciation of the right-of-use asset amounted to PLN 287 582 thousand, with lease interest totalling PLN 50 392 thousand.

The Group's new accounting principles following implementation of IFRS 16 are given below.

Right-of-use assets

The Group recognises right-of-use assets as at the lease commencement date (i.e. as of the day when an underlying asset is accessible for use). The right-of-use assets are measured at cost and decreased with total depreciation write-offs and impairment write-offs, being adjusted due to any revaluation of lease liabilities. The cost of right-of-use assets comprises the amount of lease liabilities recognised, initial direct costs incurred as well as any and all lease payments paid on or before the commencement date, being decreased with any lease incentives received. Unless the Group is reasonably certain that, at the end of the lease term, it will obtain the ownership title to the leased object, the right-of-use assets recognised are amortised using the straight line method for the shorter of the two periods: an estimated period of use or the lease term. The right-of-use assets are subject to impairment.

Lease liabilities

As at the lease commencement date, the Group measures lease liabilities in the amount of a current value of lease payments payable on that date. Lease payments comprise fixed fees (including substantially fixed lease fees), decreased with any and all lease incentives due, variable charges depending on an index or rate and amounts expected to be paid as part of the guaranteed final value. Lease payments comprise also the price for exercising the purchase option if one may reasonably assume that the said option will be exercised by the Group as well as cash penalties for terminating the lease if the lease terms and conditions provide for the possibility of termination of the lease by the Group. Variable lease fees not dependent on an index or rate are recognised as costs in the period in which an event or condition resulting in a respective payment occurs.

When calculating the current value of lease payments, the Group applies the lessee's marginal interest rate as at the lease commencement date if a percentage rate for the lease may not be easily determined. After the lease commencement date, the amount of lease liabilities is increased to reflect interest and decreased with lease payments made. Furthermore, the carrying value of lease liabilities is re-measured in case of a change in the lease term or substantially fixed lease fees or a change in the judgment concerning the purchase of underlying assets.

Short-term lease and the lease of low-value assets

The Group applies an exemption as regards recognition of its short-term lease contracts (i.e. contracts with a lease term of 12 months or less from the commencement date, with no purchase option) as short-term lease. The Group also applies an exemption for recognition of low-value assets as low-value lease. Lease payments arising from short-term lease and the lease of low-value assets are recognised as costs applying the straight line method throughout the lease term.

Significant judgments and estimates when determining the lease term in contracts with the option to extend the lease

The Group determines the lease period as an non-cancellable term comprising periods covered by the option to extend the lease if the lessee may reasonably assume that it will exercise such option, and periods covered by the option to terminate the lease if the lessee may reasonably assume that it will not exercise the said option.

Under specific lease contracts, the Group has the possibility of extending the lease of assets. The Group makes a judgment when assessing whether there is reasonable certainty in terms of exercising the option to extend the lease. It means that the Group takes into account all major facts and circumstances being economic incentives for extending the lease or an economic penalty for not extending the same. After the commencement date, the Group re-assesses the lease term in case of occurrence of a significant event or a change in circumstances being under the Group's control, affecting its capability to exercise (or not to exercise) the option to extend the lease (for example, a change in a business strategy).

Moreover, the Group concludes rental agreements under which the rent is dependent, in full or in part, on the turnover generated by a given brand store. The said rent is considered as variable and is not measured under IFRS 16.

The amounts affecting the consolidated condensed interim statement of comprehensive income in the current reporting period due to the application of IFRS 16 compared to IAS 17 are given in the table below.

Impact on the consolidated condensed interim statement of comprehensive income for 6 months ended 30 June 2019:

Specific items in the statement of comprehensive income (in PLN thousand)	01.01-30.06.19 Amounts recognised according to IFRS 16	Adjustments*	01.01-30.06.19 Amounts not affected by applying IFRS 16
Revenue	4 041 822	0	4 041 822
Cost of goods sold	1 936 043	0	1 936 043
Gross profit (loss) on sales	**2 105 779**		**2 105 779**
Costs of stores and distribution	1 592 256	-10 622	1 581 634
General costs	230 349	0	230 349
Other operating income	17 895	0	17 895
Other operating expenses	48 758	0	48 758
Operating profit (loss)	**252 311**	**10 622**	**262 933**
Financial income	36 479	-27 221	9 258
Financial costs	63 869	-50 392	13 477
Pre-tax profit (loss)	**224 921**	**33 793**	**258 714**
Income tax	134 033	6 420	140 453
Net profit/loss on continuing operations	**90 888**	**27 373**	**118 261**

*this column presents amounts determined as if IAS 17 and related interpretations were applied in the current reporting period.

Other

Interpretation to IFRIC 23 *Uncertainty over Income tax Treatments*

This interpretation clarifies methods for treatment and measurement of income tax in accordance with IAS 12 if there is uncertainty over its treatment. It neither applies to taxes or charges not falling within the scope of IAS 12 nor covers requirements regarding interest and penalties related to uncertainty over income tax treatment. This interpretation covers, in particular:

- separate accounting for uncertainties in income taxes;
- assumptions made by the entity for taxation authorities' examinations of tax treatment;
- the manner in which an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- the manner in which an entity takes into account changes in facts and circumstances.

An entity is required to use judgement to determine whether each uncertain tax treatment should be considered independently or whether some uncertain tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of such uncertainty.

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

Amendments to IFRS 9 *Prepayment features with negative compensation*

According to IFRS 9, a debt instrument may be measured at amortised cost or at fair value through other comprehensive income provided that contractual cash flows involve solely payments of principal and interest on unpaid amounts of principal (SPPI criterion), with the instrument being maintained as part of relevant business model for this classification. Amendments to IFRS 9 specify that an financial asset meets the SPPI criterion regardless of an event or circumstance resulting in early termination of a contract and regardless of which party pays or receives a reasonable compensation for early termination of the contract.

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

Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*

Amendments to IAS 19 specify that, in case of plan amendment, curtailment or settlement during the annual reporting period, an entity is required to determine current service cost for the remainder of the reporting period after a plan amendment, curtailment or settlement, applying actuarial assumptions used for remeasurement of a net liability (asset) resulting from specific benefits, reflecting benefits offered as part of the plan as well as plan assets following the said event. It is also mandatory for the entity to determine net interest for the remainder of the reporting period after such plan amendment, curtailment or settlement, using a net liability (asset) arising from specific benefits and reflecting benefits offered as part of the plan as well as plan assets following such event and a discount rate applied for remeasurement of a net liability (asset) arising from specific benefits.

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

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

These amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied (long-term interests). This clarification is important as it suggests that the expected credit loss model in IFRS 9 applies to such long-term interests.

Furthermore, these amendments specify that, when applying IFRS 9, an entity does not consider losses of an associate or joint venture or any impairment losses on a net investment in an associate or joint venture, arising from application of IAS 28 *Investments in Associates and Joint Ventures*.

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

Amendments following review of IFRS 2015-2017

- **IFRS 3 *Business Combinations***

These amendments clarify that when an entity obtains control of a business being a joint operation, it is necessary to adhere to the requirements for a business combination effected in stages, including remeasurement of previously held interests in the joint operation at fair value. Therefore, an entity remeasures all previously held interests in the joint operation.

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

- **IFRS 11 *Joint Arrangements***

These amendments clarify that a party to a joint operation, which does not exercise joint control, may obtain control of a joint operation the activity of which constitutes a venture according to IFRS 3. In such cases, previously held interests in a joint operation are not subject to remeasurement.

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

- **IAS 12 *Income Taxes***

These amendments clarify that tax consequences of dividend payment are more directly related to past transactions or events, which have resulted in profit gains, than with payments to owners. Due to the above, an entity recognises tax consequences of dividend payment in the financial result, other comprehensive income or equity depending on where an entity recognised such past transactions or events.

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

- **IAS 23 *Borrowing Costs***

These amendments clarify that an entity accounts for all borrowings initially taken out for producing a qualifying asset as part of general borrowings when, in principle, all actions required for preparing such asset for intended use or sale are completed.

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.

3.4 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. Data was transformed as given below due to the fact that, in the Group's opinion, it better reflects the nature of reclassified items.

- Change in presentation of receivables payable by payment card operators

Since January 2019, receivables arising from credit card payments have been shown by the Group in other financial assets and not in trade receivables as before.

Data for 2018 and as at 30 June 2018 have been transformed, with values given in the table below.

- Change in presentation of inventory surpluses and shortages

Since January 2019, inventory surpluses and shortages have been shown in a single item, in net value, in the operating part of the statement of comprehensive income, and not separately for assets and liabilities, in other operating income and expenses as before.

Data as at 30 June 2018 have been transformed, with values given in the table below.

- In 2019, there has also been a change in presentation of operating expenses. The previous division into the costs of sales and general costs was replaced with the division into (1) the costs of stores and distribution and (2) general costs.

The costs of stores and distribution comprise the costs of store operation and logistics as well as the costs of online sales (e-commerce) together with logistics. General costs include the costs of marketing, product and sales departments and the back-office. Before transformation, the Group presented the costs of online sales (e-commerce) together with logistics as general and administrative expenses.

The values of specific items after transformation in the statement of comprehensive income for 6 months ended 30 June 2018 are given below.

After transformation	**01.01-30.06.2018**
Costs of stores and distribution	1 489 707
General costs	222 397
Total value	**1 712 104**

The values of specific items before transformation in the statement of comprehensive income for 6 months ended 30 June 2018 are given below.

Before transformation	01.01-30.06.2018
Selling costs	1 459 159
General and administrative expenses	252 945
Total value	**1 712 104**

Changes have also been made the presentation of financial data as at 31 December 2018.

Changes as at 31 December 2018	Value in PLN thousand	Data approved	Data transformed
Receivables payable by payment card operators	34 523	Trade receivables	Other financial assets

Changes have also been made in financial data as at 30 June 2018.

Changes as at 30 June 2018	Value in PLN thousand	Data approved	Data transformed
Receivables payable by payment card operators	48 215	Trade receivables	Other financial assets
Inventory surpluses	8 370	Other operating income	Other operating expenses

Simultaneously, adjustments to financial data as at 1 January 2018 were presented.

Changes as at 1 January 2018	Value in PLN thousand	Data approved	Data transformed
Receivables payable by payment card operators	70 366	Receivables	Other financial assets

4. Seasonality of operations

Seasonality in sales is a characteristic feature of the entire clothing market both in Poland and abroad. Typically, a 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 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 2019 to 30 June 2019 and for a comparable period are given in tables below.

30.06.2019	European Union countries	Other countries	Consolidation adjustments	Values not attributed to segments	Total
			in PLN thousand		
External sales	3 069 666	972 156	0	0	4 041 822
Sales between segments	580 405	8 905	-589 310	0	0
Other operating income	10 045	7 850	0	0	17 895
Total revenue	**3 660 116**	**988 911**	**-589 310**	**0**	**4 059 717**
Total operating expenses, including	3 202 182	894 482	-568 365	230 349	3 758 648
Cost of sale of goods between segments	438 193	0	-438 193	0	0
Other operating expenses	28 058	20 604	0	96	48 758
Operating profit (loss)	**429 876**	**73 825**	**-20 945**	**-230 445**	**252 311**
Financial income					36 479
Financial costs					63 869
Pre-tax profit (loss)					**224 921**
Income tax					134 033
Net profit (loss) attributable to Shareholders of the Parent Company					**90 888**

30.06.2018	European Union countries	Other countries	Consolidation adjustments	Values not attributed to segments	Total
			in PLN thousand		
External sales	2 834 824	795 264	0	0	3 630 088
Sales between segments	456 885	0	-456 885	0	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 expenses, 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	0
Other operating expenses	32 886	12 146	0	0	45 032
Operating profit (loss)	**427 095**	**18 293**	**1 580**	**-252 945**	**194 023**
Financial income					6 769
Financial costs					7 699
Pre-tax profit (loss)					**193 093**
Income tax					91 733
Net profit (loss) attributable to Shareholders of the Parent Company					**101 360**

6. Revenue from contracts with customers

The table below presents 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 - 30.06.2019	01.01 - 30.06.2018
Type of sale		
Sale of goods, including:	4 040 104	3 627 074
E-commerce	*450 314*	*309 386*
Sale of services	1 718	3 014
Total	**4 041 822**	**3 630 088**
Brand		
Reserved	1 731 868	1 649 007
Cropp	526 447	496 720
House	459 902	392 497
Mohito	386 600	374 697
Sinsay	443 747	344 539
E-commerce	*450 314*	*309 386*
Other	42 944	63 242
Total	**4 041 822**	**3 630 088**

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 low. Trade receivables comprise wholesale settlements and rent advances.

Revaluation write-offs

During 6 months ended 30 June 2019, 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 - 30.06.2019	01.01 - 30.06.2018
Opening balance	28 562	16 665
Write-offs made in the period	3 662	1 395
Write-offs reversed in the period	6 544	1 059
Currency translation	124	-368
Closing balance	**25 804**	**16 633**

7. Cost of goods sold

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 - 30.06.2019 2019	01.01 - 30.06.2018 (transformed) 2018	01.04 - 30.06.2019 2019	01.04 - 30.06.2018 (transformed) 2018
Cost of goods and services sold	1 941 171	1 652 637	904 497	785 118
Revaluation write-off on inventories	-5 128	40 164	-3 177	40 164
Total cost of goods sold	**1 936 043**	**1 692 801**	**901 320**	**825 282**

8. Financial income and expenses

Financial income (in PLN thousand)	01.01 - 30.06.2019 2019	01.01 - 30.06.2018 (transformed) 2018	01.04 - 30.06.2019 2019	01.04 - 30.06.2018 (transformed) 2018
Interest	4 522	1 061	601	611
Measurement of participation units in funds	974	1 189	974	785
Dividends	24	0	24	0
Other financial income, including:	30 959	4 519	22 553	-11 714
- currency translation balance	30 949	4 485	22 543	-11 748
Total financial income	**36 479**	**6 769**	**24 152**	**-10 318**

Financial costs (in PLN thousand)	01.01 - 30.06.2019 2019	01.01 - 30.06.2018 (transformed) 2018	01.04 - 30.06.2019 2019	01.04 - 30.06.2018 (transformed) 2018
Interest costs – bank loans	7 403	6 017	3 933	4 381
Interest costs – budget and other	5 214	12	5 187	12
Interest costs – lease liabilities	50 392	0	25 993	0
Bank commissions	860	1 670	-200	764
Total financial costs	**63 869**	**7 699**	**34 913**	**5 157**

9. Income tax

The main components of the Group's income tax liability for the period from 1 January 2019 to 30 June 2019 and for a comparative period are given in the table below.

Income tax (in PLN thousand)	01.01 - 30.06.2019 2019	01.01 - 30.06.2018 2018
Current income tax	95 465	90 126
Deferred income tax	38 568	1 607
Total	**134 033**	**91 733**

The reconciliation of income tax on the gross financial result before tax at the statutory tax rate to income tax shown in the financial result for the periods from 1 January to 30 June 2019 and for 2018, is given in the table below.

At the end of 2018, in Gothals Ltd, a tax asset was recognised in the amount of PLN 85.5 mln (due to a difference between book value and tax value of trademarks), however, due to the plan involving a merger of Gothals Ltd with LPP SA, a decision was made to write off part of the said asset's value. In August 2019, due to development of a detailed plan for merging Gothals Ltd and LPP SA and a decision made in respect of convening a relevant Extraordinary Meeting of Shareholders, the value of income tax was increased with PLN 37 327 thousand due to a full revaluation write-off on the remaining part of the tax asset recognised in 2014 in Gothals Ltd.

Income tax (in PLN thousand)	01.01 - 30.06.2019 2019	01.01 - 30.06.2018 2018
Gross profit/loss before tax	224 921	193 093
Tax at the Polish statutory rate of 19% (2018: 19%)	**42 735**	**36 688**
Effect of inter-country tax rate differences	-5 385	-1 071
Adjustments of current tax from previous years	28 055	-768
Income tax provision	2 627	23 449
Taxation of foreign controlled companies	5 365	0
Fixed costs not constituting profit earning costs	34 930	33 570
Fixed revenue not constituting a taxable base	-15 595	-14 341
Revaluation write-off on a trademark-related tax asset	37 327	0
Tax at source (irrecoverable)	0	7 200
Non-recognition of a tax loss asset (Great Britain)	3 974	7 006
Income tax (liability) recognised in profit or loss	**134 033**	**91 733**

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)	01.01.2019 30.06.2019	01.04.2019 30.06.2019	01.01.2018 30.06.2018	01.04.2018 30.06.2018
Profit (loss) for the current period attributable to shareholders of the parent company	90 888	205 477	101 360	206 129
Weighted average number of ordinary shares	1 833 926	1 833 926	1 833 445	1 833 445
Diluted number of ordinary shares	1 834 833	1 834 833	1 834 415	1 834 415
Profit (loss) per share	49,56	112,04	55,28	112,43
Diluted profit (loss) per share	49,53	111,99	55,25	112,37

11. Tangible fixed assets

- Purchase and sale

During 6 months ended 30 June 2019, the Group purchased tangible fixed assets totalling PLN 340 498 thousand (during 6 months ended 30 June 2018: PLN 215 014 thousand). Those were mainly investments related to the development of new stores and the construction of a new part of the logistics centre in Pruszcz Gdański and offices in Gdańsk.

During 6 months ended 30 June 2019, the Group sold tangible fixed assets of a net value of PLN 953 thousand (during 6 months ended 30 June 2018: PLN 1 412 thousand), reaching a net sales loss of PLN 96 thousand (2018: a loss amounting to PLN 201 thousand).

- Impairment write-offs

In the period ended 30 June 2019, the Group recognised an additional impairment write-off on fixed assets, totalling PLN 699 thousand, due to non-profitability and early closure of stores in Poland (in the same period last year: PLN 6 906 thousand). At the same time, in 2019, the impairment write-off was reversed partially through use, it in the amount of PLN 10 494 thousand, and by reversal totalling PLN 2 933 thousand in the absence of prerequisites (in the same period last year, a write-off totalling PLN 3 413 thousand was also reversed through use). In the comprehensive income statement, the surplus following reversal of write-offs over their value upon establishment was shown in other operating income, in the amount of PLN 2 234 thousand.

- 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 214 476 thousand.

The said amount comprised the following:

1) obligations related to the development of LPP stores – PLN 39 527 thousand ,
2) obligations under contracts on the expansion of logistics centres – PLN 92 400 thousand,
3) obligations under contracts on the construction of office buildings – PLN 82 549 thousand.

In comparative periods, this value was as follows:

- 30 June 2018 – PLN 296 357 thousand,
- 31 December 2018 - PLN 255 644 thousand.

12. Intangible assets

- Purchase and sale

During 6 months ended 30 June 2019, the Group purchased intangible assets totalling PLN 22 328 thousand (during 6 months ended 30 June 2018: PLN 14 990 thousand). The largest group of intangible assets purchased comprised materials management software in the amount of PLN 10 193 thousand.

During 6 months ended 30 June 2019 and in a comparative period in 2018, the Group sold no intangible assets.

- Impairment write-offs

In the period of 6 months ended 30 June 2019 and in the same period last year, the Group recognised no impairment write-offs on intangible assets. In the current period and in the comparative period, the Group reversed no revaluation write-offs on intangible assets.

13. Inventories

In the period of 6 months ended 30 June 2019, the Group reversed write-offs on inventories, in the amount of PLN 5 128 thousand (in the period of 6 months ended 30 June 2018, the Group wrote down the same in the amount of PLN 40 164 thousand). The amount in question was recognised in the cost of goods sold.

The key item in inventories is trade commodities. A detailed structure of inventories is given in the table below.

Inventories – carrying value (in PLN thousand)	30 June 2019	31 December 2018
Materials	25 961	22 175
Goods	1 936 686	1 544 526
Product return assets	22 191	23 667
Total	**1 984 838**	**1 590 368**

14. Other financial assets

in PLN thousand	30.06.2019	31.12.2018
Non-current assets		
Other receivables	7 243	7 764
Shares in non-consolidated associates	2 678	0
Loans granted	45	58
Other long-term financial assets	**9 966**	**7 822**
Current assets		
Other receivables	0	1 378
Receivables payable by payment card operators	85 297	34 523
Loans granted	28	46
Participation units in funds	20 885	55 425
Forward contract valuation	0	23
Foreign currency sold	0	43 432
Other short-term financial assets	**106 210**	**134 827**
Other financial assets in total	**116 176**	**142 649**

In the reporting period, the Group acquired participation units in money market funds. As at 30 June 2019, the value of participation units was PLN 20 885 thousand, comprising the value of units acquired on the purchase date, in the amount of PLN 20 649 thousand, and their measured value, in the amount of PLN 236 thousand. In the cash flow statement, in investing activities, the Group reports the acquisition in the amount of PLN 100 000 thousand and the amortisation of funds totalling PLN 134 303 thousand. The measured value of PLN 974 thousand is recognised in operating activities, in interest and dividends. The value of profit earned from amortised units amounted to PLN 1 210 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 as regards participation units in funds quoted at the regulated market and at level 2 of the fair value hierarchy as regards participation units in unquoted funds.

The remaining values in other financial assets are given in the table above. 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 Group classifies cash in the manner adopted for presenting financial position. The difference in the value of cash shown in the statement of financial position and the cash flow statement is affected by:

in PLN thousand	30.06.2019	30.06.2018
Cash and cash equivalents recognised in the statement of financial position at hand and in the bank:	862 850	651 458
Adjustments:		
Currency translation from balance sheet valuation of cash in foreign currency	1 451	-9 485
Cash and cash equivalents recognised in the consolidated cash flow statement	**864 301**	**641 973**

16. Share capital

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

As at 30 June 2019, the share capital amounted to PLN 3 705 thousand, with no change compared to 31 December 2018. It was divided into 1 852 423 shares of the nominal value of PLN 2 per share.

As at 30 June 2019, the shareholding structure in the Parent Company was as follows:

Shareholder	Number of shares held	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	18 006	1.0%	0	0.0%	36 012
Other shareholders	1 288 871	69.6%	1 288 871	39.9%	2 577 742
Total	**1 852 423**	**100.0%**	**3 234 417**	**100.0%**	**3 704 846**

*The Semper Simul Foundation is closely associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR)

**The Sky Foundation is closely associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act)

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
Balance as at 1 January 2019	**1 012**	**60 831**	**25 876**
- provision made	0	27 528	6 742
- provision used	0	60 831	0
- provision reversed	3	0	0
Balance as at 30 June 2019	**1 009**	**27 528**	**32 618**
Balance 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
Balance as at 30 June 2018	**753**	**25 797**	**30 262**

18. Provisions

The value of provisions recognised 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
Balance as at 1 January 2019	**0**	**20 397**
- provision made	0	436
- provision used	0	18 697
Balance as at 30 June 2019	**0**	**2 136**
Balance as at 1 January 2018	**7 818**	**2 126**
- provision made	12 017	5 134
- provision reversed	7 818	2 126
- reclassification according to IFRS 15	-12 017	0
Balance as at 30 June 2018	**0**	**5 134**

In the current reporting period, a provision made in December 2018 in connection with the payment of compensations for the early closure of stores was reversed.

In line with IFRS 15, in 2018, the Group changed the presentation of liabilities arising from product returns. At present, this value is recognised in customer refund liabilities.

19. Bank loans

As at 30 June 2019 and as at 31 December 2018, the value of bank loans was as follows.

Bank (in PLN thousand)	Utilisation of bank loans as at 30 June 2019		Utilisation of bank loans as at31 December 2018	
	in PLN thousand	Currency in thousands	in PLN thousand	Currency in thousands
PKO BP SA	76 013	-	84 611	-
PKO BP SA	25 473	-	33 862	-
Pekao SA	16 015	-	20 762	-
Citibank Bank Handlowy	14	-	14	-
Raiffeisen Bank Polska SA	0	-	23 613	-
BNP Paribas Bank Polska SA	256	-	15 408	-
Ukrsibbank	0	-	15 551	UAH 114 600
Citibank Russia	119 155	RUB 2 012 753	97 950	RUB 1 810 532
Total	**236 926**		**291 771**	
Long-term bank loans	61 901		88 575	
Short-term bank loans	175 025		203 196	

Additionally, as at 30 June 2019, the Group had trade liabilities amounting to PLN 886 972 thousand owed to HSBC Polska SA and Santander Polska SA, arising from supplier financing programmes.

20. Dividends paid and offered for payment

On 7 June 2019, by resolution no 17, the General Meeting of Shareholders of LPP SA resolved to designate part of the profit generated in 2018 for payment of a dividend, in the amount of PLN 110 065 020. The dividend date was set for 18 June 2019, and the dividend payment date was set for 27 June 2019. According to the resolution adopted, the dividend was paid on the agreed date, i.e. 27 June 2019. The value of the dividend per share was PLN 60.00.

In the comparative period, 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. The value of the dividend per share was PLN 40.00.

21. Contingent assets and liabilities

In H1 2019, the LPP SA 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 2019, the total value of banking guarantees issued upon request and at the responsibility of LPP SA amounted to approx. PLN 256 459 thousand, divided as follows.

PLN 79 931 thousand	guarantees issued to secure agreements concluded by LPP SA
PLN 169 041 thousand	guarantees issued to secure agreements concluded by consolidated associates
PLN 7 487 thousand	guarantees issued to secure agreements on the lease of warehouse and office space, concluded by LPP SA

In H1 2019, the Parent Company also received guarantees as a collateral for payments from a contracting party. As at 30 June 2019, the value of such guarantees was PLN 12 694 thousand. As at 30 June 2019, the value of sureties granted by the Parent Company amounted to PLN 123 040 thousand. The said value decreased compared to the balance as at 31 December 2018 by PLN 2 983 thousand. In the opinion of the Management Board of the Parent Company, any outflow of funds recognised in off-balance sheet/contingent liabilities is very unlikely. The majority of these liabilities involve guarantees securing payment of rent by entities of the LPP SA 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 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 Remunerations of key management officers of LPP SA

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 2019, short-term benefits of members of the Parent Company's Management Board amounted to PLN 4 232 thousand.

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

First name and surname (in PLN thousand)	Position	30 June 2019	30 June 2018
Marek Piechocki	President of the Management Board	1 502	1 512
Przemysław Lutkiewicz	Vice-President of the Management Board	910	930
Jacek Kujawa	Vice-President of the Management Board	910	930
Sławomir Łoboda	Vice-President of the Management Board	910	930

In the period from 1 January to 30 June 2019, short-term benefits of members of the Parent Company's Supervisory Board amounted to PLN 130 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 2019	30 June 2018
Jerzy Lubianiec	Chairman of the SB	60	0
Wojciech Olejniczak	Member of the SB	14	14
Piotr Piechocki	Member of the SB	14	10.5
Magdalena Sekuła	Member of the SB	14	17.5
Antoni Tymiński	Member of the SB	14	17.5
Miłosz Wiśniewski	Member of the SB	14	17.5

22.2 Remunerations of the key management officers of LPP SA, paid in shares

On 15 April 2019, the incentive programme for 2018 was settled in the amount of PLN 8 235 thousand. The said disbursement was dependent on the consolidated financial result generated in 2018.

In the reporting period, according to resolution of the General Meeting of Shareholders dated 7 June 2019, a new incentive programme was awarded to the members of the Management Board of LPP SA. The said programme will be settled in the next financial year upon fulfilment of the terms and conditions set forth by the Supervisory Board, being related to a specific level of profit in 2019 to be generated by the LPP SA Group.

The value of remuneration paid in shares, determined as at 30 June 2019, amounted to PLN 3 282 thousand and was divided as follows.

First name and surname (in PLN thousand)	Position	30 June 2019
Marek Piechocki	President of the Management Board	1 164
Przemysław Lutkiewicz	Vice-President of the Management Board	706
Jacek Kujawa	Vice-President of the Management Board	706
Sławomir Łoboda	Vice-President of the Management Board	706

23. Fair values of assets and liabilities

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

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

24. Events after the balance sheet date and other key changes

24.1 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 previous years (2011, 2012, 2013 and 2016), in particular the analysis of settlements related to licence fees for the use of trademarks, referred to in note 20 "Transactions with associates" to the separate condensed interim financial statements, LPP SA informs that it has been notified by the tax authority that the tax audit procedure for 2012 has been completed and cancelled. Due to pending tax audit procedures covering the years 2011, 2013 and 2016, carried out by the Customs and Fiscal Office, the Company recognised, as at 30 June 2019, a provision for potential tax risks, in the total amount of PLN 86.7 thousand (in 2018, the said amount was PLN 78.7 mln).

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.

24.2 Events after balance sheet date

The Management Board of LPP SA convened the Extraordinary Meeting of Shareholders of LPP SA to be held on 13 September 2019 in order to adopt two resolutions on: (1) the transborder merger of Gothals Ltd with its registered office in Cyprus with LPP SA, and (2) the issuance of bonds by LPP SA for the amount of PLN 300 mln.

The planned transborder merger of LPP SA with Gothals Ltd will result in the transfer of fashion brand trademarks to LPP SA in Poland.

The planned issuance of bonds, totalling PLN 300 mln, with a 5-year tenor, is aimed at financing the construction of a new logistics centre in Brześć Kujawski.

25. Approval for publishing

These condensed interim financial statements for 6 months ended 30 June 2019 (with comparative data) were approved for publishing by the Management Board of LPP SA on 11 September 2019.

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, 11 SEPTEMBER 2019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05

Selected separate condensed interim financial data

for 6 months ended 30 June 2019

Selected separate financial data	in PLN		in EUR thousand	
	Cumulatively			
	2019	2018	2019	2018
	01.01-30.06	01.01-30.06	01.01-30.06	01.01-30.06
Revenues	3 183 169	2 885 619	742 344	680 651
Operating profit (loss)	90 153	115 217	21 024	27 177
Pre-tax profit (loss)	88 347	227 573	20 603	53 679
Net profit (loss)	6 082	147 548	1 418	34 803
Weighted average number of ordinary shares	1 833 926	1 833 445	1 833 926	1 833 445
Profit (loss) per ordinary share	3.32	80.48	0.77	18.98
Net cash flows from operating activities	280 702	359 741	65 462	84 855
Net cash flows from investing activities	-121 315	-265 106	-28 292	-62 532
Net cash flows from financing activities	-316 321	-25 203	-73 769	-5 945
Total net cash flows	-156 934	69 432	-36 598	16 377

Selected separate financial data	in PLN		in EUR thousand	
	2019	2018	2019	2018
	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Total assets	6 410 477	5 143 266	1 507 638	1 196 108
Long-term liabilities	918 658	237 490	216 053	55 230
Short-term liabilities	2 517 376	1 830 634	592 045	425 729
Equity	2 974 443	3 075 142	699 540	715 149
Share capital	3 705	3 705	871	862
Weighted average number of ordinary shares	1 833 926	1 833 483	1 833 926	1 833 483
Book value per share	1 621.90	1 677.21	381.44	390.05
Declared or paid dividend per share	60.00	40.00	14.11	9.30

06

Separate condensed interim financial statements

We hereby approve separate condensed interim financial statements of the LPP SA for 6 months ended 30 June 2019, comprising the separate condensed interim statement of financial position, with assets and liabilities totalling PLN 6 410 477 thousand, the separate condensed interim statement of comprehensive income, with comprehensive income totalling PLN 6 082 thousand, the separate condensed interim statement of changes in equity, showing a decrease in equity by PLN 100 699 thousand, the separate condensed interim cash flow statement, showing a decrease in net cash by PLN 156 934 thousand, as well as notes describing key 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, 11 SEPTEMBER 2019

Separate condensed interim statement of comprehensive income for 6 months ended 30 June 2019

Comprehensive income statement (in PLN thousand)	Note	H1 2019 01.01 - 30.06	H1 2018 (transformed) 01.01 - 30.06	Q2 2019 01.04 - 30.06	Q2 2018 (transformed) 01.04 - 30.06
Continuing operations					
Revenue		3 183 169	2 885 619	1 670 432	1 542 934
Cost of goods sold	5	1 950 687	1 648 674	925 545	792 877
Gross profit (loss) on sales		**1 232 482**	**1 236 945**	**744 887**	**750 057**
Costs of stores and distribution		815 143	819 172	430 242	440 385
General costs		314 372	286 415	157 335	136 402
Other operating income		8 646	2 864	6 592	1 162
Other operating expenses		21 460	19 005	9 298	10 997
Operating profit (loss)		**90 153**	**115 217**	**154 604**	**163 435**
Financial income	6	20 626	117 399	16 946	75 029
Financial costs	6	22 432	5 043	12 243	2 558
Pre-tax profit (loss)		**88 347**	**227 573**	**159 307**	**235 906**
Income tax	7	82 265	80 025	83 368	73 456
Net profit (loss)		**6 082**	**147 548**	**75 939**	**162 450**
Total comprehensive income		**6 082**	**147 548**	**75 939**	**162 450**

Separate condensed interim statement of financial position as at 30 June 2019

Statement of financial position		As at:		
(in PLN thousand)	Noty	30.06.2019	31.12.2018 (transformed)	30.06.2018 (transformed)
ASSETS				
Non-current assets		**4 049 559**	**3 067 956**	**2 609 758**
1. Tangible fixed assets	9	1 198 645	1 155 114	960 552
2. Intangible assets	10	104 409	86 349	69 151
3. Right-of-use assets	2.3	927 420	0	0
4. Goodwill		179 618	179 618	179 618
5. Investments in subsidiaries	11	1 569 151	1 573 700	1 318 381
6. Other financial assets	13	2 996	1 711	1 932
7. Deferred tax assets		66 403	70 251	79 441
8. Prepayments		917	1 213	683
Current assets		**2 360 918**	**2 075 310**	**1 903 897**
1. Inventory	12	1 509 132	1 164 410	1 130 830
2. Trade receivables		270 613	114 525	185 068
3. Other financial assets	13	61 133	108 910	231 125
4. Other non-financial assets		996	15 334	20 062
5. Prepayments		13 598	7 278	16 568
6. Cash and cash equivalents		505 446	664 853	320 244
TOTAL assets		**6 410 477**	**5 143 266**	**4 513 655**

Statement of financial position (in PLN thousand)	Note	As at 30.06.2019	31.12.2018 (transformed)	30.06.2018 (transformed)
EQUITY AND LIABILITIES				
Equity		**2 974 443**	**3 075 142**	**2 626 277**
1. Share capital	15	3 705	3 705	3 705
2. Treasury shares		-41 115	-43 067	-43 334
3. Share premium		284 877	278 591	277 631
4. Other reserves		2 720 894	2 243 618	2 240 727
5. Retained earnings		6 082	592 295	147 548
- profit (loss) from previous years		0	0	0
- net profit (loss) for the current period		6 082	592 295	147 548
Long-term liabilities		**918 658**	**237 490**	**248 655**
1. Bank loans and borrowings		61 901	88 575	115 223
2. Lease liabilities		799 230	0	0
3. Employee liabilities	16	944	944	733
4. Accruals		56 583	147 873	132 600
5. Other long-term liabilities		0	98	99
Short-term liabilities		**2 517 376**	**1 830 634**	**1 638 723**
1. Trade and other liabilities		1 961 109	1 363 900	1 362 326
2. Contract liabilities		11 981	18 407	11 207
3. Customer refund liabilities		36 478	10 024	9 887
4. Income tax liabilities		144 951	218 354	119 429
5. Bank loans and borrowings		55 870	89 695	61 260
6. Lease liabilities		234 330	0	0
7. Employee liabilities	16	32 782	64 648	32 096
8. Provisions	17	0	17 900	833
9. Accruals		39 875	47 706	41 685
TOTAL equity and liabilities		**6 410 477**	**5 143 266**	**4 513 655**


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Separate condensed interim cash flow statement
for 6 months ended 30 June 2019

Cash flow statement (in PLN thousand)	Note	01.01 - 30.06.2019	01.01 - 30.06.2018 (transformed)
A. Cash flows from operating activities – indirect method			
I. Pre-tax profit (loss)		88 347	227 573
II. Total adjustments		192 355	132 168
1. Amortisation and depreciation		204 705	90 398
2. Foreign exchange gains (losses)		14 351	-33 264
3. Interest and dividends		13 212	-105 309
4. Profit (loss) on investing activities		-7 761	-9 856
5. Income tax paid		-156 770	-6 060
6. Change in provisions and employee benefits		-49 766	-680
7. Change in inventories		-344 724	-24 983
8. Change in receivables and other assets		-124 113	92 045
9. Change in short-term liabilities, excluding bank loans and borrowings		627 686	122 412
10. Change in prepayments and accruals		12 252	2 795
11. Other adjustments		3 283	4 670
III. Net cash flows from operating activities		**280 702**	**359 741**
B. Cash flows from investing activities			
I. Inflows		207 101	356 011
1. Disposal of intangible and fixed assets		20 206	48 063
2. From financial assets, including:		52 591	107 948
a) in associates		51 333	107 513
- dividends		0	107 513
- other (repayment of additional contributions)		51 333	0
b) in other entities		1 258	435
- repayment of loans granted		37	31
- interest and other inflows from financial assets	13	1 221	404
3. Other investing inflows	13	134 304	200 000
II. Outflows		328 416	621 117
1. Purchase of intangible and fixed assets		181 612	184 886
2. For financial assets, including:		46 804	47 232
a) in associates		46 784	47 192
- purchase of shares		46 784	47 192
b) in other entities		20	40
- loans granted		20	40
3. Other investing outflows	13	100 000	388 999
III. Net cash flows from investing activities		**-121 315**	**-265 106**

Cash flow statement (in PLN thousand)	Note	01.01 - 30.06.2019	01.01 - 30.06.2018 (transformed)
C. Cash flows from financing activities			
I. Inflows		0	5 911
1. Proceeds from issuance of shares		0	0
2. Loans and borrowings		0	5 911
3. Other inflows from financing activities		0	0
II. Outflows		316 321	31 114
1. Cost of maintenance of treasury shares		0	0
2. Dividends and other payments to owners		110 065	0
3. Repayment of loans and borrowings		60 215	27 777
4. Lease liabilities paid		129 637	0
5. Interest		16 404	3 337
6. Other financial outflows		0	0
III. Net cash flows from financing activities		**-316 321**	**-25 203**
D. Total net cash flows		**-156 934**	**69 432**
E. Balance sheet change in cash, including:		**-159 407**	**79 531**
- change in cash due to foreign currency translation		-2 473	10 099
F. Opening balance of cash		**663 831**	**241 327**
G. Closing balance of cash		**506 897**	**310 759**

Separate condensed interim statement of changes in equity for 6 months ended 30 June 2019

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 2019	**3 705**	**-43 067**	**278 591**	**2 243 618**	**592 295**	**0**	**3 075 142**
Remuneration paid in shares	0	0	0	3 282	0	0	3 282
Settlement of the incentive programme	0	1 952	6 286	-8 236	0	0	2
Division of profit for 2018	0	0	0	482 230	-482 230	0	0
Dividend payment	0	0	0	0	-110 065	0	-110 065
Transactions with shareholders	**0**	**1 952**	**6 286**	**477 276**	**-592 295**	**0**	**-106 781**
Net profit for H1 2019	0	0	0	0	0	6 082	6 082
Balance as at 30 June 2019	**3 705**	**-41 115**	**284 877**	**2 720 894**	**0**	**6 082**	**2 974 443**

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	-420 085	0	0
Dividend payment	0	0	0	0	-73 342	0	-73 342
Transactions with shareholders	**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**


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07

Additional information and explanatory notes to the separate condensed interim financial statements

for the period from 1 January to 30 June 2019

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.

These separate condensed interim financial statements of the Company for 6 months ended 30 June 2019 were approved by the Management Board for publishing.

2. Basis for preparation of the separate condensed interim financial statements and key 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 separate 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 of the Company for the year ended 31 December 2018, approved for publishing on 10 April 2019.

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 ended 30 June 2019 were reviewed semi-annually by a statutory auditor. The comprehensive income statement and notes thereto comprise also data for Q2 i.e. for the period of 3 months ended 30 June 2019 and comparative data for 3 months ended 30 June 2018 – this data has neither been reviewed nor audited by a statutory auditor.

In the periods covered by these separate condensed interim 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: 30.06.2019 - PLN/EUR 4.2520, 31.12.2018 – PLN/EUR 4.3000,

- 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: 01.01-30.06.2019 – PLN/EUR 4.2880, 01.01.-30.06.2018 – PLN/EUR 4.2395.

These separate 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 separate condensed financial statements for publishing, there are no circumstances that could pose a threat to the continued operations of LPP SA.

2.2. Changes in estimates and assumptions

In the current reporting period, the Company has changed estimates for returns of products sold in the reporting period, to be made in the next reporting period.

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

At present, the following product return ratios have been adopted, depending on the sales channel:

- in traditional stores – 5%
- in on-line stores – 23%

By the end of 2018, the Company estimated a provision for product returns applying an average ratio for both channels.

2.3. 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 2018, except for new or amended standards and interpretations applied, which govern annual periods commencing on and after 1 January 2019.

The Company applied for the first time IFRS 16 *Leases* ("IFRS 16"). 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 2019 do not substantially affect the Company's separate condensed interim financial statements.

IFRS16 *Leases*

IFRS 16 replaces IAS 17 *Leases* ("IFRS 17") and related interpretations. This standard specifies rules how to recognise, measure, present and disclose leases in order to enable lessees to settle a majority of lease contracts as part of a single balance sheet model.

The Company is a lessee mainly in agreements on the lease of retail, office and warehouse space and a car fleet.

Before implementation of IFRS 16, the Company classified each lease (as lessee) as at the lease commencement date either as financial or operating lease. Lease was classified as financial one if substantially all risk and benefits arising from the possession of the leased object were transferred to the Company. Otherwise such lease was classified as operating lease. Financial lease was capitalised at fair value of the leased object, determined as at the lease commencement date, or in amounts equal to the current value of the minimum lease payments if such value was below fair value. Lease payments were divided into interest (recognised as financial costs) and a decrease in the lease liability. In the operating lease, the leased object was not activated while lease payments were recognised as rental costs in the profit and loss account applying the straight line method throughout the lease term.

Following adoption of IFRS 16, the Company applied a single recognition and measurement model for all lease contracts in which the Company is a lessee, except for short-term lease and the lease of low-value assets. LPP SA recognised lease liabilities and assets involving the right to use an underlying asset.

The Company implemented IFRS 16 applying a modified retrospective method i.e. with the cumulative effect of initially applying IFRS 16 recognised as at the date of initial application. The Company decided to apply a practical solution permitting to apply the standard only in respect of agreements which had earlier been identified as lease contracts according to IAS 17 at the date of initial application.

The Company decided also to benefit from reliefs in respect of lease contracts under which the term of lease at the commencement date is 12 months or less, with no purchase option ("short-term lease"), and lease contracts in which the underlying asset has a low value ("low-value assets"). Furthermore, the Company applied the following permissible practical solutions in respect of leases previously classified as operating leases according to IAS 17:

- the Company applied a single discount rate for the portfolio of leases having similar features;
- the Company applied a simplified approach in respect of lease contracts expiring after 12 months from initial application, according to which these leases are recognised following the requirements set forth for short-term lease contracts, with related costs being presented in a disclosure comprising the incurred costs of short-term lease contracts.

Due to the implementation of IFRS 16, at the first stage, the Company recognised right-of-use assets of a value equalling lease liabilities. Subsequently, the value of a right-of-use asset was adjusted with the value of lease incentives settled over time, which as at 1 January 2019 were recognised by the Company in its balance sheet. The weighted average discount rate adopted upon initial application of the standard was 2.67%.

The impact of implementing IFRS 16 on the statement of financial position of LPP SA as at the date of initial application, i.e. 1 January 2019, is given below.

Assets			
Right-of-use assets	0	990 660	990 660
Total assets	**0**	**990 660**	**990 660**
Liabilities			
Long-term lease liabilities	0	841 677	841 677
Long-term accruals*	147 873	(80 360)	67 513
Short-term lease liabilities	0	253 651	253 651
Short-term accruals*	47 706	(24 308)	23 398
Total liabilities	**195 579**	**990 660**	**1 186 239**

* According to IFRS 16, LPP SA presents lease incentives received as a decrease in the right-of-use asset.

The reconciliation of lease payments shown in the financial statements for the year ended 31 December 2018 to the lease liability recognised as at 1 January 2019 is given in the table below.

(in PLN thousand)	01.01.2019
Value of the minimum lease payments according to IAS 17	**1 246 121**
Reasons for change in value according to IFRS 16	
Contracts not subject to measurement under IFRS 16*	(80 194)
Contracts measured in line with IFRS 16, which were not measured so far under IAS 17**	4 000
Discount	(74 599)
Value of the liability according to IFRS 16	**1 095 328**

*Among others, short-term contracts – payable in 2019

**Right of perpetual usufruct

As at 30 June 2019, the Company recognised:

- right-of-use assets in the amount of PLN 927 420 thousand,

- lease liabilities in the amount of PLN 1 033 560 thousand.

In the period of 6 months ended 30 June 2019, the depreciation of the right-of-use asset amounted to PLN 114 723 thousand, with lease interest totalling PLN 13 877 thousand.

The Company's new accounting principles following implementation of IFRS 16 are given below.

Right-of-use assets

The Company recognises right-of-use assets as at the lease commencement date (i.e. as of the day when an underlying asset is accessible for use). The right-of-use assets are measured at cost and decreased with total depreciation write-offs and impairment write-offs, being adjusted due to any revaluation of lease liabilities. The cost of right-of-use assets comprises the amount of lease liabilities recognised, initial direct costs incurred as well as any and all lease payments made on or before the commencement date, being decreased with any lease incentives received. Unless the Company is reasonably certain that, at the end of the lease term, it obtains the ownership title to the leased object, the right-of-use assets recognised are amortised using the straight line method for the shorter of the two periods: an estimated period of use or the lease term. The right-of-use assets are subject to impairment.

Lease liabilities

As at the lease commencement date, the Company measures lease liabilities in the amount of a current value of lease payments to be made on that date. Lease payments comprise fixed fees (including, substantially fixed lease fees), decreased with any and all lease incentives due, variable charges depending on an index or rate and amounts expected to be paid as part of the guaranteed final value. Lease payments comprise also the price for exercising the purchase option if it may be reasonably assumed that the said option will be exercised by the Company as well as cash penalties for terminating the lease if the lease terms and conditions provide for the possibility of its termination by the Company. Variable lease fees not dependent on an index or rate are recognised as costs in the period in which an event or condition resulting in a respective payment occurs.

When calculating the current value of lease payments, the Company applies the lessee's marginal interest rate as at the lease commencement date if a percentage rate for the lease may not be easily determined. After the lease commencement date, the amount of lease liabilities is increased to reflect interest and decreased with lease payments made. Furthermore, the carrying value of lease liabilities is re-measured in case of a change in the lease term or substantially fixed lease fees or a change in the judgment concerning the purchase of underlying assets.

Short-term lease and the lease of low-value assets

The Company applies an exemption as regards recognition of its short-term lease contracts (i.e. contracts with a lease term of 12 months or less, with no purchase option) as short-term lease. The Company also applies an exemption as regards recognition of low-value assets as low-value lease. Lease payments arising from short-term lease and the lease of low-value assets are recognised as costs applying the straight line method throughout the lease term.

Significant judgments and estimates when determining the lease term in contracts with the extension option

The Company determines the lease period as a non-cancellable term comprising periods covered by the option to extend the lease if the lessee may reasonably assume that it will exercise such option, and periods covered by the option to terminate the lease if the lessee may reasonably assume that it will not exercise the said option.

Under specific lease contracts, the Company has the possibility of extending the lease of assets. The Company makes a judgment when assessing whether there is reasonable certainty as regards exercising the option to extend the lease. It means that the Company takes into account all major facts and circumstances being economic incentives for extending the lease or an economic penalty for not extending the same. After the commencement date, the Company re-assesses the lease term in case of occurrence of a significant event or a change in circumstances being under the Company's control, affecting its capability to exercise (or not to exercise) the option to extend the lease (for example, a change in a business strategy). Moreover, the Company concludes rental agreements under which the rent is dependent, in full or in part, on the turnover generated by a given store. The said rent is considered as variable and is not measured under IFRS 16.

Other

Interpretation to IFRIC 23 *Uncertainty over Income tax Treatments*

This interpretation clarifies methods for treatment and measurement of income tax in accordance with IAS 12 if there is uncertainty over its treatment. It neither applies to taxes or charges not falling within the scope of IAS 12 nor covers requirements regarding interest and penalties related to uncertainty over income tax treatment. This interpretation covers, in particular:

- separate accounting for uncertainties in income taxes;
- assumptions made by the entity for taxation authorities' examinations of tax treatment;
- the manner in which an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- the manner in which an entity takes into account changes in facts and circumstances.

An entity is required to use judgement to determine whether each uncertain tax treatment should be considered independently or whether some uncertain tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty.

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

Amendments to IFRS 9 *Prepayment Features with Negative Compensation*

According to IFRS 9, a debt instrument may be measured at amortised cost or at fair value through other comprehensive income provided that contractual cash flows involve solely payments of principal and interest on unpaid amounts of principal (SPPI criterion), with the instrument being maintained as part of a relevant business model for this classification. Amendments to IFRS 9 specify that a financial asset meets the SPPI criterion regardless of an event or circumstance resulting in early termination of a contract and regardless of which party pays or receives a reasonable compensation for early termination of the contract.

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

Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*

Amendments to IAS 19 specify that, in case of plan amendment, curtailment or settlement during the annual reporting period, an entity is required to determine current service cost for the remainder of the reporting period after a plan amendment, curtailment or settlement, applying actuarial assumptions used for remeasurement of a net liability (asset) resulting from specific benefits and reflecting benefits offered as part of the plan as well as plan assets following the said event. It is also mandatory for the entity to determine net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement, using a net liability (asset) resulting from specific benefits and reflecting benefits offered as part of the plan as well as plan assets following such event and a discount rate applied for remeasurement of a net liability (asset) resulting from specific benefits.

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

Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*

These amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied (long-term interests). This clarification is important as it suggests that the expected credit loss model in IFRS 9 applies to such long-term interests.

Furthermore, these amendments specify that, when applying IFRS 9, an entity does not consider losses of an associate or joint venture or any impairment losses on a net investment in an associate or joint venture, resulting from application of IAS 28 *Investments in Associates and Joint Ventures*.

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

Amendments following review of IFRS 2015-2017

- **IFRS 3 *Business Combinations***

These amendments clarify that when an entity obtains control of a business being a joint operation, it is necessary to adhere to the requirements for a business combination effected in stages, including remeasurement of previously held interests in the joint operation at fair value. Therefore, an entity remeasures all previously held interests in the joint operation.

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

- **IFRS 11 *Joint Arrangements***

These amendments clarify that a party to a joint operation, which does not exercise joint control, may obtain control of a joint operation the activity of which constitutes a venture according to IFRS 3. In such cases, previously held interests in a joint operation are not subject to remeasurement.

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

- **IAS 12 *Income Taxes***

These amendments clarify that tax consequences of dividend payment are more directly related to past transactions or events, which have resulted in profit gains, than with payments to owners. Due to the above, an entity recognises tax consequences of dividend payment in the financial result, other comprehensive income or equity depending on where an entity recognised such past transactions or events.

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

- **IAS 23 *Borrowing Costs***

These amendments clarify that an entity recognises all borrowings initially taken out for producing a qualifying asset as part of general borrowings when substantially all actions required for preparing such asset for intended use or sale are completed.

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.

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 Group made several changes in presenting data in the financial statements. Data was transformed as given below were made due to the fact that, in the Company's opinion, it better reflects the nature of reclassified items.

- Change in presentation of receivables payable by payment card operators

Since January 2019, receivables arising from credit card payments have been shown by the Company in other financial assets. Data for 2018 and as at 30 June 2018 have been transformed, with values given in the table below.

- Change in presentation of inventory surpluses and shortages

Since January 2019, inventory surpluses and shortages are shown in a single item, in net value, in the operating part of the statement of comprehensive income and not separately for assets and liabilities, in other operating income and expenses as before. Data as at 30 June 2018 have been transformed, with values given in the table below.

- In 2019, there has also been a change in presentation of operating expenses. The previous division into the costs of sales and general costs was replaced with the division into (1) the costs of stores and distribution and (2) general costs.

The costs of stores and distribution comprise the costs of store operation and logistics as well as the costs of online sales (e-commerce) together with logistics. General costs include the costs of marketing, product and sales departments and the back-office. Before transformation, the Company presented the costs of online sales (e-commerce) together with logistics as general and administrative expenses.

The values of specific items after transformation in the statement of comprehensive income for 6 months ended 30 June 2018 are given below.

After transformation	01.01-30.06.2018
Costs of stores and distribution	819 172
General costs	286 415
Total value	**1 105 587**

The values of specific items before transformation in the statement of comprehensive income for 6 months ended 30 June 2018 are given below.

Before transformation	01.01-30.06.2018
Selling costs	807 193
General and administrative expenses	298 394
Total value	**1 105 587**

Following implementation of changes in presentation, adjustments given below have been made in financial data as at 31 December 2018.

Changes as at 31 December 2018	Value in PLN thousand	Data approved	Data transformed
Receivables payable by payment card operators	8 609	Trade receivables	Other financial assets

Changes have also been made in financial data as at 30 June 2018.

Changes as at 30 June 2018	Value in PLN thousand	Data approved	Data transformed
Receivables payable by payment card operators	25 419	Trade receivables	Other financial assets
Inventory surpluses	3 398	Other operating income	Other operating expenses

Simultaneously, adjustments to financial data as at 1 January 2018 were presented.

Changes as at 1 January 2018	Value in PLN thousand	Data approved	Data transformed
Receivables payable by payment card operators	43 392	Trade receivables	Other financial 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. Cost of goods sold

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

	01.01 - 30.06.2019	01.01 - 30.06.2018 (transformed)	01.04 - 30.06.2019	01.04 - 30.06.2018 (transformed)
Cost of goods sold (in PLN thousand)	**2019**	**2018**	**2019**	**2018**
Cost of goods and services sold	1 957 402	1 634 112	932 260	778 315
Revaluation write-off on inventories	-6 715	14 562	-6 715	14 562
Total cost of goods sold	**1 950 687**	**1 648 674**	**925 545**	**792 877**

6. Financial income and costs

	01.01 - 30.06.2019	01.01 - 30.06.2018 (transformed)	01.04 - 30.06.2019	01.04 - 30.06.2018 (transformed)
Financial income (in PLN thousand)	**2019**	**2018**	**2019**	**2018**
Interest	4 223	817	543	498
Measurement of participation units in funds	974	1 189	974	785
Dividends	1 770	107 484	1 770	85 000
Other financial income, including:	13 659	7 909	13 659	-11 254
- currency translation balance	13 659	7 909	13 659	-11 254
Total financial income	**20 626**	**117 399**	**16 946**	**75 029**

Financial costs (in PLN thousand)	01.01 - 30.06.2019 2019	01.01 - 30.06.2018 (transformed) 2018	01.04 - 30.06.2019 2019	01.04 - 30.06.2018 (transformed) 2018
Interest costs – bank loans	2 811	3 368	1 236	1 749
Interest costs – budget and other	4 999	28	4 972	12
Interest costs – lease liabilities	13 878	0	6 230	0
Bank commissions	744	1 647	-195	797
Total financial costs	**22 432**	**5 043**	**12 243**	**2 558**

7. Income tax

The main components of income tax liability of LPP SA for the period from 1 January to 30 June 2019 and for a comparative period are given in the table below.

Income tax (in PLN thousand)	01.01 - 30.06.2019 2019	01.01 - 30.06.2018 2018
Current income tax	78 417	83 112
Deferred income tax	3 848	-3 087
Total	**82 265**	**80 025**

Reconciliation of income tax on the gross financial result before tax at the statutory tax rate to income tax shown in the financial result for the periods from 1 January to 30 June 2019 and for 2018, is given in the table below.

Income tax (in PLN thousand)	01.01 - 30.06.2019 2019	01.01 - 30.06.2018 2018
Gross profit/loss before tax	88 347	227 573
Tax at the Polish statutory rate of 19% (2018: 19%)	**16 786**	**43 239**
Adjustments of current tax from previous years	27 615	-609
Income tax provision	2 627	23 449
Taxation of foreign controlled companies	5 365	0
Permanent differences	29 872	6 746
Tax at source (irrecoverable)	0	7 200
Income tax (liability) recognised in profit or loss	82 265	80 025

8. 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)	01.01.2019 30.06.2019	01.04.2019 30.06.2019	01.01.2018 30.06.2018	01.04.2018 30.06.2018
Profit (loss) for the current period attributable to shareholders of the parent company	6 082	75 939	147 548	162 450
Weighted average number of ordinary shares	1 833 926	1 833 926	1 833 445	1 833 445
Diluted number of ordinary shares	1 834 833	1 834 833	1 834 415	1 834 415
Profit (loss) per share	3.32	41.41	80.48	88.60
Diluted profit (loss) per share	3.31	41.39	80.43	88.56

9. Tangible fixed assets

- Purchase and sale

During 6 months ended 30 June 2019, the Company purchased tangible fixed assets totalling PLN 128 521 thousand (during 6 months ended 30 June 2018: PLN 104 893 thousand). Those were mainly investments related to the development of new stores and the construction of a new part of the logistics centre in Pruszcz Gdański and offices in Gdańsk.

During 6 months ended 30 June 2019, the Company sold tangible fixed assets of a net value of PLN 26 thousand (during 6 months ended 30 June 2018: PLN 99 thousand), reaching a net sales profit of PLN 9 thousand (2018: PLN 91 thousand).

- Impairment write-offs

In the period ended 30 June 2019, LPP SA recognised an additional impairment write-off on fixed assets, totalling PLN 699 thousand due to non-profitability and early closure of stores (in the same period last year: PLN 3 885 thousand). At the same time, in 2019, the impairment write-off was utilised in the amount of PLN 6 656 thousand (in the same period last year, a write-off totalling PLN 2 447 thousand was also reversed through use). In the comprehensive income statement, the establishment of the impairment write-off was shown in other operating expenses, in the amount of PLN 698 thousand.

- 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 183 242 thousand.

The said amount comprised the following:

1) obligations related to the development of LPP stores – PLN 8 293 thousand,
2) obligations under contracts on the expansion of logistics centres – PLN 92 400 thousand,
3) obligations under contracts on the construction of office buildings – PLN 82 549 thousand.

In comparative periods, this value was as follows:

- 30 June 2018 – PLN 273 698 thousand,
- 31 December 2018 - PLN 219 663 thousand.

10. Intangible assets

- Purchase and sale

During 6 months ended 30 June 2019, the Company purchased intangible assets totalling PLN 22 214 thousand (during 6 months ended 30 June 2018: PLN 14 847 thousand). The largest group of intangible assets purchased comprised materials management software in the amount of PLN 10 193 thousand.

During 6 months ended 30 June 2019 and in a comparative period in 2018, the Company sold no intangible assets.

- Impairment write-offs

In the period of 6 months ended 30 June 2019 and in the same period last year, LPP SA recognised no impairment write-offs on intangible assets. In the current period and in a comparative period, the Company reversed no revaluation write-offs on intangible assets.

11. Investments in subsidiaries

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

Investments in subsidiaries (in PLN thousand)	Shares	Additional equity contributions
Balance as at 1 January 2019	**531 455**	**1 176 169**
- increase	46 783	0
- decrease	0	51 332
Balance as at 30 June 2019	**578 238**	**1 124 837**
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**

In the current reporting period, there was an increase in the value of shareholdings in subsidiaries due to the establishment of new subsidiaries in Finland and Belarus and capital injection in companies existing in Slovenia, Great Britain as well as Bosnia and Hercegovina. Simultaneously, an additional equity contribution for the subsidiary in Germany was partially repaid.

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 2019	**57 445**	**76 479**
- increase	0	0
- decrease	0	0
Balance as at 30 June 2019	**57 445**	**76 479**
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**

12. Inventories

In the period of 6 months ended 30 June 2019, the Company wrote down the value of inventories to a recoverable value of PLN 6 715 thousand (during 6 months ended 30 June 2018, there was a write-down on inventories totalling PLN 14 562 thousand). This amount was recognised in the cost of goods sold.

The key item in inventories is trade commodities. A detailed structure of inventories is given in the table below.

Inventories – carrying value (in PLN thousand)	30 June 2019	31 December 2018
Materials	16 001	13 673
Goods	1 476 129	1 147 263
Product return assets	17 002	3 474
Total	**1 509 132**	**1 164 410**

13. Other financial assets

Other financial assets (in PLN thousand)	30.06.2019	31.12.2018
Non-current assets		
Other receivables	2 951	1 653
Loans granted	45	58
Other long-term financial assets	**2 996**	**1 711**
Current assets		
Other receivables	0	1 378
Receivables payable by payment card operators	38 474	8 609
Loans granted	28	43
Participation units in funds	20 885	55 425
Forward contract valuation	0	23
Foreign currency sold	0	43 432
Dividend receivables	1 746	0
Other short-term financial assets	**61 133**	**108 910**
Other financial assets in total	**64 129**	**110 621**

In the reporting period, the Company acquired participation units in money market funds. As at 30 June 2019, the value of participation units was PLN 20 885 thousand, comprising the value of units acquired on the purchase date, in the amount of PLN 20 649 thousand, and their measured value, in the amount of PLN 236 thousand. In the cash flow statement, in investing activities, the Company reports the acquisition in the amount of PLN 100 000 thousand and the amortisation of funds in the amount of PLN 134 303 thousand. The measured value of PLN 974 thousand is recognised in operating activities, in interest and dividends. The value of profit earned from amortised units amounted to PLN 1 210 thousand and was reported in investing activities, in interest and other inflows from financial assets. The measurement of the above-mentioned instruments is at level 2of the fair value hierarchy in respect of participation units in unquoted funds.

The remaining values in other financial assets are given in the table above. The measurement of the above-mentioned instruments is at level 2 of the fair value hierarchy.

14. Revaluation write-offs on other assets

Revaluation write-offs on fixed assets (in PLN thousand)	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018
Opening balance	16 967	3 600
Write-offs recognised as cost in the period	699	3 885
Write-offs used in the period	6 656	2 447
Closing balance	**11 010**	**5 038**

Revaluation write-offs on receivables (in PLN thousand)	01.01.2019 - 30.06.2019	01.01.2018 - 30.06.2018
Opening balance	19 671	6 284
Write-offs recognised as cost in the period	3 630	498
Write-offs reversed in the period	4 342	257
Closing balance	**18 959**	**6 525**

15. Share capital

As at 30 June 2019, the Company's share capital amounted to PLN 3 705 thousand, with no change compared to 31 December 2018. It was divided into 1 852 423 shares of the nominal value of PLN 2 per share.

The shareholding structure in the Parent Company as at 30 June 2019 is given below.

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	18 006	1.0%	0	0.0%	36 012
Other shareholders	1 288 871	69.6%	1 288 871	39.9%	2 577 742
Total	**1 852 423**	**100.0%**	**3 234 417**	**100.0%**	**3 704 846**

*The Semper Simul Foundation is closely associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR).
**The Sky Foundation is closely associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act).

16. Employee benefits

The value of employee benefits shown in the condensed financial statements of LPP SA 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
Balance as at 1 January 2019	**944**	**57 492**	**7 156**
- provision made	0	23 430	9 352
- provision used	0	57 492	0
- provision reversed	0	0	7 156
Balance as at 30 June 2019	**944**	**23 430**	**9 352**
Balance 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
Balance as at 30 June 2018	**733**	**23 683**	**8 413**

17. 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
Balance as at 1 January 2018	**0**	**17 900**
- provision made	0	0
- provision used	0	17 900
Balance as at 30 June 2018	**0**	**0**
Balance as at 1 January 2017	**5 254**	**0**
- provision made	6 697	833
- provision reversed	5 254	0
- reclassification under IFRS 15	-6 697	0
Balance as at 30 June 2018	**0**	**833**

In the current reporting period, a provision made in December 2018 in connection with the payment of compensations for the early closure of stores was used.

In line with IFRS 15, in 2018, the Company changed the presentation of liabilities arising from product returns. At present, this value is recognised in customer refund liabilities.

18. Dividends paid and offered for payment

On 7 June 2019, by resolution no 17, the General Meeting of Shareholders of LPP SA resolved to designate part of the profit generated in 2018 for payment of a dividend, in the amount of PLN 110 065 020. The dividend date was set for 18 June 2019, and the dividend payment date was set for 27 June 2019. According to the resolution adopted, the dividend was paid on the agreed date, i.e. 27 June 2019. The value of the dividend per share was PLN 60.00.

In the comparative period, 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. The value of the dividend per share was PLN 40.00.

19. 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 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.

19.1. Remunerations of key management officers of LPP SA

The Company 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 2019, short-term benefits of members of the Parent Company's Management Board amounted to PLN 4 232 thousand.

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

First name and surname (in PLN thousand)	Position	30 June 2019	30 June 2018
Marek Piechocki	President of the Management Board	1 502	1 512
Przemysław Lutkiewicz	Vice-President of the Management Board	910	930
Jacek Kujawa	Vice-President of the Management Board	910	930
Sławomir Łoboda	Vice-President of the Management Board	910	930

In the period from 1 January to 30 June 2019, short-term benefits of members of the Parent Company's Supervisory Board amounted to PLN 130 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 2019	30 June 2018
Jerzy Lubianiec	Chairman of the SB	60	0
Wojciech Olejniczak	Member of the SB	14	14
Piotr Piechocki	Member of the SB	14	10.5
Magdalena Sekuła	Member of the SB	14	17.5
Antoni Tymiński	Member of the SB	14	17.5
Miłosz Wiśniewski	Member of the SB	14	17.5

19.2. Remunerations of key management officers of LPP SA, paid in shares

On 15 April 2019, the incentive programme awarded for 2018 was settled in the amount of PLN 8 235 thousand. The said disbursement was dependent on the consolidated financial result generated in 2018.

In the reporting period, according to resolution of the General Meeting of Shareholders dated 7 June 2019, a new incentive programme was awarded to the members of the Management Board of LPP SA. The said programme will be settled in the next financial year upon fulfilment of the terms and conditions set forth by the Supervisory Board, being related to a specific level of profit in 2019 to be generated by the LPP SA Group.

The value of remuneration paid in shares, determined as at 30 June 2019, amounted to PLN 3 282 thousand and was divided as follows.

First name and surname (in PLN thousand)	Position	30 June 2019
Marek Piechocki	President of the Management Board	1 164
Przemysław Lutkiewicz	Vice-President of the Management Board	706
Jacek Kujawa	Vice-President of the Management Board	706
Sławomir Łoboda	Vice-President of the Management Board	706

20. Transactions with associates

Associates (in PLN thousand)	Liabilities as at 30.06.2019	Receivables as at 30.06.2019	Sales revenues 01.01-30.06.2019	Purchases 01.01-30.06.2019
Domestic subsidiaries	30 564	20 540	22 366	171 457
Foreign subsidiaries	166 710	183 273	1 155 636	137 198
Total	**197 274**	**203 813**	**1 178 002**	**308 655**

Associates (in PLN thousand)	Liabilities as at 30.06.2018	Receivables as at 30.06.2018	Sales revenues 01.01-30.06.2018	Purchases 01.01-30.06.2018
Domestic subsidiaries	40 729	2 915	5	184 479
Foreign subsidiaries	30 128	58 863	911 711	122 889
Total	**70 857**	**61 778**	**911 716**	**307 368**

The figures given in the tables above present only mutual transactions between LPP SA and subsidiaries, being 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 generated by 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.

21. Fair values of assets and liabilities

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

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

22. Events after balance sheet date and other key changes

22.1. 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 previous years (2011, 2012, 2013 and 2016), in particular the analysis of settlements related to licence fees for the use of trademarks, referred to in note 20 "Transactions with associates" to the separate condensed interim financial statements, LPP SA informs that it has been notified by the tax authority that the tax audit procedure for 2012 has been completed and cancelled. Due to pending tax audit procedures covering the years 2011, 2013 and 2016, carried out by the Customs and Fiscal Office, the Company recognised, as at 30 June 2019, a provision for potential tax risks, in the total amount of PLN 86.7 thousand (in 2018, the said amount was PLN 78.7 mln).

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.

22.2. Events after balance sheet date

The Management Board of LPP SA convened the Extraordinary Meeting of Shareholders of LPP SA to be held on 13 September 2019 in order to adopt two resolutions on: (1) the transborder merger of Gothals Ltd with its registered office in Cyprus with LPP SA, and (2) the issuance of bonds by LPP SA for the amount of PLN 300 mln.

The planned transborder merger of LPP SA with Gothals Ltd will result in the transfer of fashion brand trademarks to LPP SA in Poland.

The planned issuance of bonds, totalling PLN 300 mln, with a 5-year tenor, is aimed at financing the construction of a new logistics centre in Brześć Kujawski.

23. Approval for publishing

These condensed interim financial statements for 6 months ended 30 June 2019 (with comparative data) were approved for publishing by the Management Board of LPP SA on 11 September 2019.

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, 11 SEPTEMBER 2019


BETTER TOGETHER!
Best Friends & Co.
RESERVED KIDS

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

1. Operations of the LPP SA Group from 1 January to 30 June 2019

Basic operations carried out in H1 2019

1. Number of stores and retail space

At the end of Q2 2018, the LPP SA Group had 1 752 stores in 24 countries, having the total area of approx. 1 134.3 thousand m2, with 829 stores located abroad (613.0 thousand m2) Compared to H1 2018, the total retail area increased by 9.7%.

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	453	-10	631.6	582.2	8.5%
Cropp	374	-8	141.4	130.1	8.7%
House	326	-9	122.2	113.0	8.2%
Mohito	289	-5	108.8	105.5	3.1%
Sinsay	288	35	120.0	92.8	29.3%
Outlet	22	-7	10.2	10.6	-3.8%
Total LPP Group	**1 752**	**-4**	**1 134.3**	**1 034.2**	**9.7%**

2. Sales broken down by brand

In H1 2019, the largest nominal sales increases were generated by Sinsay. 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).

In H1 2019, the highest sales dynamics were recorded by Sinsay owing to successful collections and dynamic space increases and House owing to continuing improvement of collections y/y.

In H1 2019, Reserved, Mohito and Cropp generated more revenue abroad than domestically.

Sales in stores of specific brands and online, generated in H1 2019 and in Q2 2012, are given in tables below.

	In PLN mln		
	Sales in H1 2019	Sales in H1 2018	Change y/y (%)
Reserved	1 732	1 649	5.0%
Cropp	526	497	6.0%
House	460	392	17.2%
Mohito	387	375	3.2%
Sinsay	444	345	28.8%
E-commerce	450	309	45.6%
Other	43	63	-31.9%
Total	**4 042**	**3 630**	**11.3%**

	In PLN mln		
	Sales in Q2 2019	Sales in Q2 2018	Change y/y (%)
Reserved	918	921	-0.3%
Cropp	293	287	2.3%
House	256	223	15.0%
Mohito	207	212	-2.4%
Sinsay	258	202	27.2%
E-commerce	258	179	44.6%
Other	23	26	-9.2%
Total	**2 214**	**2 050**	**8.0%**

3. Sales in LFL stores

In H1 2019, sales revenue in like-for-like (LFL) stores in local currencies increased by 5.7%, with a 1.3% increase in Q2 2019.

In H1 2019, all brands showed positive LFL growths. The largest growths in LFL stores were recorded by House (two-digit) and Sinsay. The high LFL reached by House reflects successful activities aimed at improving the said brand's collections, undertaken in preceding quarters.

In the reporting period, the highest (two-digit) LFL growths were recorded by brand stores in Lithuania, Romania, Ukraine, a brand store in Great Britain and the stores in Russia and Germany.

4. On-line sales

In H1 2019, the LPP SA Group generated revenue of PLN 450 mln from on-line sales, i.e. 45.6% more than a year ago. Such growth in online sales was generated owing to the development of e-stores outside Poland, marketing expenses and changes in Polish customers' habits (due to the trading ban on specific Sundays).

In H1 2019, the revenue from online sale yielded 11.1% of the Group's revenue and 12.5% of domestic revenue. Approx. 56% of sales were generated domestically.

Revenues from on-line sales in H1 2019 and Q2 2019 are given in the table below (in PLN mln).

	In PLN mln					
	H1 2019	H1 2018	Change y/y (%)	Q2 2019	Q2 2018	Change y/y (%)
Sales in PLN mln	450	309	45.6%	258	179	44.6%

5. Sales revenues broken down by country and region

In H1 2019, the Group's revenue generated abroad exceeded domestic revenue. The foreign sales value was positively affected by retail space development (specifically in SEE countries) and appreciation of collections by customers in Western countries. The highest revenue growth dynamics were recorded in Serbia, Romania, Croatia, Hungary and in the Middle East (owing the business development in Israel). The highest nominal growth in revenues was recorded in Russia, Romania, Poland and Ukraine.

In H1 2019, the highest percentage share in the Group's revenue was reached by the following countries: Poland (49.6%), Russia (17.9%), the Czech Republic (5.0%), Ukraine (4.8%) and Romania (4.0%).

Sales revenues generated in H1 2019 and Q2 2019 by the Group companies operating in individual countries and regions are given in tables below (in PLN thousand).

Country	H1 2019	H1 2018	Change y/y (%)	Q2 2019	Q2 2018	Change y/y (%)
Poland	2 005 682	1 959 932	2.3%	1 083 405	1 092 696	-0.9%
Czech Republic	202 220	183 166	10.4%	112 058	103 993	7.8%
Slovakia	123 087	110 488	11.4%	65 922	63 974	3.0%
Hungary	103 358	74 711	38.3%	55 458	42 880	29.3%
Lithuania	63 012	59 220	6.4%	37 117	34 986	6.1%
Latvia	52 043	45 421	14.6%	30 596	26 665	14.7%
Estonia	63 017	56 731	11.1%	34 527	32 456	6.4%
Russia	721 666	635 315	13.6%	400 086	356 353	12.3%
Ukraine	194 152	150 155	29.3%	107 898	90 754	18.9%
Belarus*	8 070	6 327	27.6%	3 238	2 678	20.9%
Kazakhstan	13 184	-	-	5 737	-	-
Bulgaria	43 918	36 803	19.3%	24 823	22 171	12.0%
Romania	163 436	108 591	50.5%	90 893	62 433	45.6%
Croatia	58 501	39 322	48.8%	34 858	24 160	44.3%
Serbia	27 751	9 794	183.3%	16 153	7 060	128.8%
Slovenia	5 931	-	-	4 375	-	-
Bosnia and Hercegovina	5 644	-	-	5 078	-	-
Germany	149 836	125 816	19.1%	82 181	71 465	15.0%
Great Britain	23 492	19 829	18.5%	12 948	10 749	20.5%
Middle East*	13 823	8 467	63.3%	6 790	4 263	59.3%
Total	**4 041 822**	**3 630 088**	**11.3%**	**2 214 142**	**2 049 736**	**8.0%**

Country	H1 2019	H1 2018	Change y/y (%)	Q2 2019	Q2 2018	Change y/y (%)
Poland	2 005 682	1 959 932	2.3%	1 083 405	1 092 696	-0.9%
Other European countries	1 085 245	869 892	24.8%	606 988	502 993	20.7%
Russia, Ukraine, Belarus*, Kazakhstan	937 071	791 797	18.3%	516 959	449 785	14.9%
Middle East*	13 823	8 467	63.3%	6 790	4 263	59.3%
Total	**4 041 822**	**3 630 088**	**11.3%**	**2 214 142**	**2 049 736**	**8.0%**

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

6. Retail sales per m2

The indicator of the Group's retail sales per m2 is calculated as sales in own retail stores divided by an average number of meters operating in a given period. In H1 2019, retail sales per m2 decreased by 4.5% compared to the preceding year due to the fact that the Group opens larger and larger brand stores.

	H1 2019	H1 2018	Change y/y (%)	Q2 2019	Q2 2018	Change y/y (%)
Retail sales m2/month in PLN	551	577	-4.5%	591	631	-6.3%

7. Operating expenses

The operating expenses of the LPP Group include the costs of own stores and franchise stores in Poland as well as distribution and general costs. The costs of own stores comprise rent, payroll and other costs, while distribution costs include the costs of logistics and e-commerce. General costs comprise the costs of marketing, back-office as well as sales and products departments.

In H1 2019, the Group recorded an increase in operating expenses by 6.5% mainly due to the increased costs of logistics, e-commerce and marketing.

	H1 2019 (IFRS16)	H1 2018 (IAS17)	Change y/y (%)	Q2 2019 (IFRS16)	Q2 2018 (IAS17)	Change y/y (%)
Operating expenses (in PLN mln)	1 823	1 712	6.5%	949	892	6.4%
Operating expenses per m2/month	282	288	-2.1%	289	297	-2.7%

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

In H1 2019, sales revenues increased by 11.3% 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 in retail space (by 9.7% y/y) and positive LFL figures (+5.7%). The increase in on-line sales resulted from the geographical growth (development of on-line stores abroad), marketing outlays and changes in customers' habits (trading ban on specific Sundays). Despite successful spring-summer collections, the trade margin decreased in value by 1.3 pp. (in percentages: 52.1% versus 53.4%) due to negative impact of weather conditions and the USD exchange rate.

In H1 2019, operating expenses increased by 6.5%, with growth values lower than the increase in sales due to the positive effect of operating leverage. Simultaneously, due to application of IFRS 16, y/y/ comparison is limited.

In H1 2019, the Group recorded a less advantageous impact of net financial activities due to the application of IFRS 16.

In taxes, the Company recognised the reversal of a tax asset of Gothals Ltd, totalling PLN 37.3 mln, which additionally reduced the financial result in Q2 2019.

Consequently, the LPP SA Group generated net profit of PLN 90.9 mln compared to PLN 101.4 mln a year ago.

Basic figures showing the results of the Group's operations and margins achieved in H1 and Q2 2019 are given in tables below.

	H1 2019	H1 2018	Change y/y (%)	Q2 2019	Q2 2018	Change y/y (%)
Revenues	4 041 822	3 630 088	11.3%	2 214 142	2 049 736	8.0%
Gross sales profit	2 105 779	1 937 287	8.7%	1 312 822	1 224 454	7.2%
Costs of stores and distribution and general costs	1 822 605	1 712 104	6.5%	948 559	891 649	6.4%
EBITDA	727 064	364 121	99.7%	594 912	397 404	49.7%
Operating profit (loss)	252 311	194 023	30.0%	352 535	311 755	13.1%
Net profit (loss)	90 888	101 360	-10.3%	205 477	206 129	-0.3%

Margin (%)	H1 2019	H1 2018	Q2 2019	Q2 2018
Gross sales margin	52.1%	53.4%	59.3%	59.7%
EBITDA	18.0%	10.0%	26.9%	19.4%
Operating margin	6.2%	5.3%	15.9%	15.2%PL
Net	2.2%	2.8%	9.3%	10.1%

9. Capital expenditures

In H1 2019, capital expenditures (CAPEX) amounted to PLN 406 mln, being higher than in H1 2018 by approx. 41 % due to the costs of development of the sales network abroad as well as the expansion of the logistics centre in Pruszcz Gdański and offices in Gdańsk and Cracow.

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. Inventory consists of goods in stores, warehoused goods and merchandise in transit - from the manufacturer to a logistics centre. The Group strives at minimising inventory and, at the same time, maintaining a sufficient product volume to maximise sales. The Company's long-term goal was equalling trade liabilities with inventories. This goal was attained.

In H1 2019, the inventory level was higher by 31.3% y/y, with the inventory level per m2 being higher by 19.4%. Such increases resulted from the Company's decision to accelerate, by one month, store replenishment with the autumn collection. The business decision to shorten the clearance period for the SS19 collection and introduction, from the beginning of August, of the new AW19 collection (transitional summer/autumn models) made it necessary to speed up the production cycle and transport goods earlier than in preceding years. Due to such actions, the inventory level at the end of June 2019 was higher than in previous years. However, following such decision, the Company expects customers' greater interest in the new offer and better margins obtainable already since August 2019.

	30.06.2019	30.06.2018	Change y/y (%)
Inventory (in PLN mln)	1 985	1 512	31.3%
Inventory per m2 in PLN	1 766	1 480	19.4%

11. Debt

LPP SA has credit lines in 6 banks in the total amount of PLN 1.4 billion, utilised for bank guarantees, letters of credit for trade financing or as a revolving loan. At the end of H1 2019, LPP utilised specific credit line products as follows: PLN 101.7 mln, PLN 380.9 mln, PLN 0 mln, respectively. At the same time, the Russian company utilises a credit line extended by a local bank, with the amount utilised at the end of H1 2019 in the amount of PLN 119 mln.

Additionally, LPP SA uses a supplier financing programme (reversed factoring). At the end of H1 2019, the limit was utilised in the amount of PLN 887 mln.

Moreover, the Company has a debt arising from investment credit facilities extended to finance the expansion of the logistics centre and the head office in Gdańsk, with the said credit facilities totalling PLN 117.4 mln at the end of H1 2019.

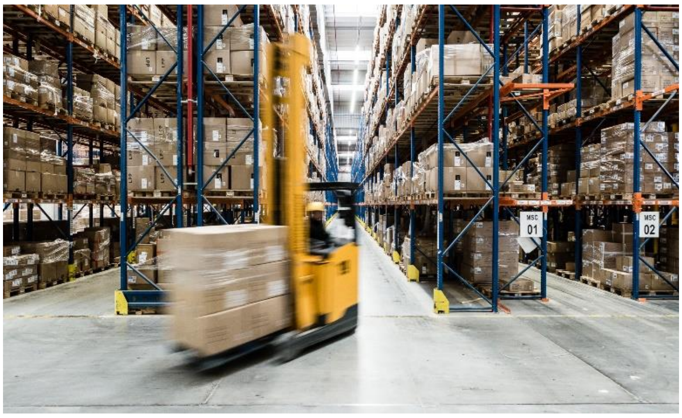
Due to the seasonality of sales, the Company increases the financing of purchases with a bank loan in the first and third quarter to finance inventories and reduces lending in the second and fourth quarters, during periods of regular sales. The Company strives at minimising the level of debt to maintain financial security.

At the end of H1 2019, the Group held cash of PLN 863 mln, showing net cash of PLN 626 mln compared to PLN 364 mln year ago.

The table below shows the level of net debt (cash) in PLN thousand. The utilisation of credit facilities in specific banks as at 30 June 2019 is presented in point 18 of the consolidated financial statements.

	H1 2019 (IAS 17)	H1 2018 (IAS 17)	Change y/y (%)
Short-term loans	175 025	172 651	1.4%
Long-term loans	61 901	115 223	-46.3%
Cash	-862 850	-651 458	32.4%
Net debt (net cash)	**-625 924**	**-363 584**	**72.2%**

Other major events in H1 2019 and in the period preceding publication of this report



JANUARY 2019

INCREASE IN THE E-COMMERCE WAREHOUSE SPACE IN STRYKÓW

Owing to the development of e-commerce, we increased warehouse space for e-commerce in Poland to 46 400 m2.

MARCH/APRIL 2019

EXPANSION IN BOSNIA AND HERCEGOVINA

We opened stores of our 5 brands on the 24th market, i.e. in Bosnia and Hercegovina, of the total area of 5 500 m2.

MARCH/APRIL 2019

E-COMMERCE IN CROATIA

We opened online stores of our 5 brands in Croatia, thus increasing our online presence to 12 markets.

MAY 2019

DISTRIBUTION CENTRE IN SLOVAKIA DEDICATED TO ON-LINE SALES

We concluded an agreement for the rental of warehouse space in Slovakia (25 400 m2), dedicated to on-line sales.

APRIL/JUNE 2019

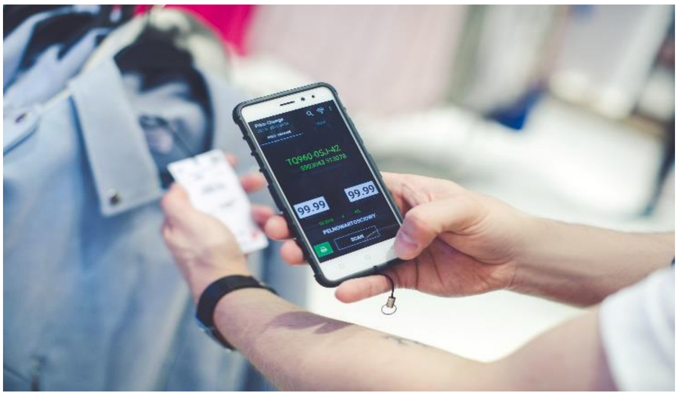
DYNAMIC DEVELOPMENT IN SEE COUNTRIES

We opened 13 brand stores (of the area of 17 561 m2) in this region, including 7 in Serbia.

APRIL/JUNE 2019

NEW STORES OPENED IN THE CZECH REPUBLIC

We opened 10 stores in the Czech Republic (Praga, Teplice, Liberec, Trebic), of the total space of 11 289 m2.



JUNE 2019

RFID IN RESERVED

We implemented RFID in 87 Reserved stores. This project is planned to be implemented in the remaining retail space of Reserved by the end of 2019.

AUGUST 2019

DECISION TO START OPERATIONS IN NORTH MACEDONIA

The Management Board made a decision to start operations in North Macedonia, being the 26th market on the which the Group is present. First retail stores of all brands (of the total space of approx. 8 300 m2) will be opened in Q3 2020 in the capital city of Skopje.

2. Basic threats and risks pertaining to the remaining months of the financial year

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

Internal risks factors

BUSINESS MODEL RISK	**Risk:** The activity of the LPP SA Group is focused on designing and distribution of clothing as well as building its brands. The 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 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 Group and its products. **Actions:** The Management Board of LPP makes sure that the Group is not dependent on any of 1 100 cooperating suppliers (none of them has exceeded the threshold of 5% of annual purchases). Additionally, on a regular basis, the Group evaluates its suppliers, who are supervised by the LPP office in Shanghai, China (established in 1997), and Dhaka, Bangladesh (established in 2015).
COLLECTION-RELATED RISK	**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 Group 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 Group 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 LOGISTICS	**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 on-line orders, with simultaneous minimisation of the quantity of goods in distribution centres. Along with the planned increase in the Group's sales (including on-line sales), there is an increased risk related to the handling of logistic needs. **Actions:** As this issue is of vital importance, the Management Board of LPP gives it a high priority, consistently introducing new solutions such as:

	- expansion of logistic facilities along with increasing logistic needs both in Poland and abroad, - cooperation with specialised external companies for the purpose of the logistic handling of on-line sales, - implementation of IT improvements in logistics (for example, WMS - Warehouse Management System, an innovative system facilitating the operation of a logistics centre). Owing to such activities, the Group's logistics facilities are diversified and modern, thus minimising the risk of ineffective logistics. The said facilities are composed of distribution centres handling: - traditional sales: in Pruszcz Gdański (66 thousand m2), Moscow (14 thousand m2), since 2020 – in Brześć Kujawski (100 thousand m2), - on-line sales: in Stryków (46 thousand m2), in the future – in Slovakia (25 thousand m2) and Romania (22 thousand m2).
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 Group gradually opens on-line stores both on the markets where it has launched its traditional stores and in other EU countries, improves mobile sales platforms and supply logistics. At the end of 2018, the Group operated its own on-line stores on 11 markets and was present on 6 markets through an external platform managed by a franchise partner from the Middle East. By the end of 2019, the Group plans to be present in 35 countries. By 2021, the Company plans to increase the share of on-line sales 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, thus minimising the risk of sales migration from traditional stores to the Internet.
RISK OF LOSS OF KEY EMPLOYEES	**Risk:** The Group employs over 25 thousand employees who 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 of retail stores. 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 a wide range of training courses thus ensuring constant development of their skills and promotion opportunities.

External risk factors

MACROECONOMIC RISK	**Risk:** The economic situation in countries where the LPP SA Group sells its products and the situation in countries where factories manufacturing goods for LPP are located are crucial for the Group's standing. The revenues and margins of the Group depend on the economic situation of households and consumption inclinations. An economic growth or decline in countries where the Group's brand stores are located may translate into an increase or decrease in consumers' spending, including clothing expenses. Similarly, 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 Group focuses on offering products with an advantageous price-quality ratio. Although this will not safeguard the Group against adverse effects of a potential economic slowdown, yet it may minimise its 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 2019, brand stores of LPP were located in 24 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 Group. In 2018, only 47% of revenue was denominated in foreign currencies, the costs of goods purchases – in as much 96%, and general sales and administrative costs – in 57%. 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 retail stores. Due to the fact that Russia yields approx. 18% of sales, the Group faces also substantial RUB 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 Group 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 LAW AMENDMENTS , EG. 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 Group. 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 law amendments 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 implementation of turnover tax on large stores in Poland, which could adversely affect the operations of LPP and poses a risk (at present, this tax is to be charged from January 2020). Another example of law amendments is gradual introduction, from March 2018, of a Sunday trading ban. In the first year, the law permitted 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 since implementation of trading limitations in Poland, the LPP Group recorded a decrease in domestic sales, with sales in stores being transferred to other weekdays, and increased on-line sales. This is the reason why, among others, on a regular basis, 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 Group 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 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 the highest for Reserved, the flagship brand, the success of which is the Board's priority, 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 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 Group is more flexible and may react quicker to adverse weather changes in a given season.

3. Factors and unusual events substantially affecting the condensed financial statements

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

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

During 6 months ended 30 June 2019, there were changes in the composition of the Group compared to 31 December 2018 following establishment of new subsidiaries:

- LPP Finland Oy with its registered office in Helsinki;
- OOO LPP BLR with its registered office in Minsk.

These companies will handle the distribution of goods in Finland and Belarus.

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 2019 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 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***	18 006	1.0%	0	0.0%	36 012
Other shareholders	1 288 871	69.6%	1 288 871	39.9%	2 577 742
Total	**1 852 423**	**100.0%**	**3 234 417**	**100.0%**	**3 704 846**

*The Semper Simul Foundation is closely associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR).

**The Sky Foundation is closely 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 18 006 shares, may not be exercised as these are treasury shares of LPP SA.

In the period following submission of the previous report (for Q1 2019), there were no changes in the ownership structure of large blocks of shares in LPP SA.

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

Individual shareholdings in LPP SA, owned by key management and supervisory offices as at the date of submission of the report for H1 2019 are given in the table below.

Shareholder	Number of shares held	Number of votes as the GM
Marek Piechocki - President of the Management Board	342	342
Przemysław Lutkiewicz - Vice-President of the Management Board	220	220
Jacek Kujawa - Vice-President of the Management Board	363	363
Sławomir Łoboda - Vice-President of the Management Board	312	312
Jerzy Lubianiec – Chairman of the Supervisory Board*	226 338	926 338
Piotr Piechocki - Member of the Supervisory Board	14	14
Antoni Tymiński - Member of the Supervisory Board	11	11

*shares held indirectly through a subsidiary

After submission of the last interim report (for Q1 2019), there were no changes in the shareholdings in LPP SA, owned by members of the Management Board and the Supervisory Board.

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

The description of the current situation is provided for in point 24.1 of the consolidated financial statements and point 22.1 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 21 of the consolidated financial statements for H1 2019.

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 Group. In the opinion of the Management Board, currently, the execution by the Group of its obligations remains unthreatened.

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

The Group's goal for 2019 (13 months) is to continue two-digit sales growths (owing to the development of retail space, positive LFL dynamics, e-commerce development), attaining a margin of 53-54%, control of operating expenses and maintenance of net cash. Basic factors affecting results to be achieved by the LPP SA Group are as follows.

Attractiveness of collections

The attractiveness of AW collections of specific brands and their high appreciation by customers will decisively affect the results of the LPP Group. Therefore, LPP designers focus on fashion-related issues. Each brand has a separate design team following fashion trends in the brand's group of end customers, who takes part in exhibitions and events all over the world and follow trends online (also in social media) and street fashion in the hottest fashion capitals. Inspirations found and worldwide trends are given attention in the process of creating the AW collections.

PLN/USD, PLN/EUR and PLN/RUB exchange rates

Due to the fact that approx. a half of the Group's revenues are denominated in foreign currencies (with costs of purchases of goods being denominated mainly in USD, and SG&A in EUR), the USD/PLN and EUR/PLN exchange rates will affect the Group's results. USD exposure is related to the venue of manufacturing and purchasing goods (mainly Asian countries), while EUR exposure is related to payments of rent in brand stores. Considering the fact that Russia is responsible for approx. 18% of the Group's sales, the Company is substantially exposed to Russian rubble. The Group reports its financial results in PLN. Consequently, the strengthening of PLN against USD and EUR positively affects our margins, while the weakening of PLN against key currencies decreases the Group's profitability.

Economic and political situation in Poland and countries where the Group's stores are operated

The economic situation in countries where the Group sells its products is crucial for the Group's results. The revenues and margins of the Group depend on the economic situation of households and consumption inclinations. An economic growth or decline in countries where retail brand stores are located may translate into an increase or decrease in consumers' spending, including clothing expenses, and, finally, in the value of the margin.

Tightening of the Sunday trading ban

The gradual introduction, from 1 March 2018, of a Sunday trading ban in Poland may affect the Group's domestic sales revenues. In the first year, the new law permitted trading on the first and last Sunday each month, during the second (current) year – on one Sunday a month, with a total Sunday trading ban to be introduced starting from the third year. The introduction of restrictions in Sunday trade has affected the results gained.

Turnover tax on large stores

Results generated by the Company may be affected by turnover tax to be charged on large stores in Poland. Initially, the said tax was to be implemented in September 2016, however, it was suspended upon initiation by the European Commission (EC) of the procedure involving a violation by Poland of EU law due to its introduction. After a relevant judgment becomes final and following introduction of the said tax in Poland, the Company will incur additional costs affecting the Group's financial result. In 2020, this tax may amount to approx. PLN 45 mln.

Control of operating expenses (SG&A)

In the nearest future, the control of operating expenses will affect the Group's financial results. The Group's operating expenses include the costs of own stores and franchise stores in Poland as well as distribution and general costs. The costs of own stores comprise rent, payroll and other costs, while distribution costs include the costs of logistics and e-commerce. General costs comprise the costs of marketing, back-office as well as sales and products departments.

Development of the chain of traditional stores

The results generated the Group will be affected by the development of the chain of traditional stores. The Group's goal is to develop the chain of traditional stores of all our brands, with simultaneous optimisation of retail space (closing of unprofitable stores and expanding profitable ones). The Group plans to accelerate growths in Europe, specifically in South-East Europe, continue its development in the CIS region and open new brand stores in the Middle East (in Israel). Owing to the launching of our operations on new markets, i.e. Finland and Bosnia and Hercegovina, at the end of 2019, the Group will be present in 25 countries. Therefore, the Group will increase its retail space by approx. 14% y/y, i.e. up to 1 245.0 thousand m2. Furthermore, in 2020, the Group plans to be present with all of its brands on the next new market, i.e. in North Macedonia.

Dynamic e-commerce development

Apart from the development of the chain of traditional stores, the Group's results will be affected by the development of on-line sales. Adjusting to the current tendency involving increasing popularity of on-line shopping, the Group takes actions aimed at further development of this sales channel. Such development is based on own on-line stores, ensuring direct access to customers and control of the goods, without any intermediaries. In the second half of 2019, the Group plans to launch an e-store for all EU countries and in Ukraine. The Group envisages that, following actions related to the development of on-line stores, in 2019, the Group will exceed PLN 1 bln of revenue generated in the said sales channel.

Logistics development

The development of the sales network (both traditional and online stores) entails the development of logistics. The lease of warehouse space in Romania (22 thousand m2) and Slovakia (25 thousand m2), dedicated to e-commerce, will make it possible to reach the on-line sales goals, while the construction of a distribution centre in Brześć Kujawski will enable attaining sales goals in traditional stores.

Omnichannel

The development of the omnichannel system will affect results generated by the Group. Owing to the omnichannel system, a customer will be able to freely purchase goods in both channels, with both sales channels permeating. Traditional stores support on-line sales and, therefore, it is necessary to invest in modern stores encouraging customers to pay a visit. Building the omnichannel system, the Group invests in the development of modern stores, logistics and state-of-the-art technology.

RFID (radio-frequency identification)

The implementation of RFID will make it possible to manage, in a very precise way, the supply chain in terms of inventory and product availability at each of its stages. Owing to investments in RFID technology, the Group will be able to identify products quickly and precisely, accept deliveries quicker, shorten the time for registering goods at the cashier's desk and, in the nearest future, deliver on-line purchases from traditional stores. All these elements will affect the results gained by the Group. In 2019, it is planned to take actions aimed at implementing RFID in the Reserved brand and, since 2020, in the remaining brands.

CAPEX

The Group's results will be affected by replacement investments. Capital expenditures planned in 2019 will amount to approx. PLN 900 mln, comprising the following expenditures: stores - PLN 710 mln, head offices - PLN 110 mln, logistics - PLN 30 mln and IT - 50 mln PLN.

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, 11 SEPTEMBER 2019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