

Supplementary Report on the Audit of the Consolidated Financial Statement for 2011

LPP S.A.
Capital Group

1 Information about the Holding Company

The holding company of the Capital Group is LPP S.A. The Holding Company was established on 7 December 1989 for an indefinite period of time. The registered office of the Holding Company is in Gdańsk, ul. Łąkowa 39/44.

The core business of the Holding Company is as follows:

- wholesale of clothing and footwear,
- retail sale of clothing.

The core business of the subsidiaries and associates is related to the business of the Holding Company.

On 14 February 2001, the Holding Company was entered in the register of entrepreneurs of the National Court Register kept by the District Court in Gdańsk, 8th Commercial Division of the National Court Register, entry no. KRS 0000000778.

The Holding Company's Tax Identification Number (NIP) is 583 101 48 98 and was assigned on 8 June 1995, and REGON Statistical Number 190852164 was assigned on 19 August 2004.

The share capital of the Holding Company as at the financial year ended 31 December 2011 amounted to PLN 3 555 thousand. The equity of the Capital Group as at that date amounted to PLN 909 194 thousand.

According to note 15.13 of the Notes to the consolidated financial statement as at 31 December 2011, the ownership structure of the share capital of the Holding Company was as follows:

Shareholder	Number of shares	Number of votes	Nominal value of shares	Share capital participation
Marek Piechocki	175 000	875 000	350 000	9.84%
Jerzy Lubianiec	175 000	875 000	350 000	9.84%
Monistor Limited, Cypr	200 728	200 728	401 456	11.29%
Grangeford Limited, Cypr	350 000	350 000	700 000	19.69%
Other shareholders	877 006	877 006	1 754 012	49,34%
Total	1 777 734	3 177 734	3 555 468	100%

Registered shares held by Marek Piechocki and Jerzy Lubianiec are preference shares in terms of voting rights at the General Meeting of Shareholders. Each of the above-mentioned shares represents 5 votes at the General Meeting of Shareholders.

According to the share register of the Holding Company as at 23 April 2012, in the period from 1 January 2011 to 31 December 2011 and after the balance sheet date until the date of this report, the following changes in the ownership structure of the Holding Company occurred:

Shareholder	number of shares as at 23 April 2012	Share as at 23 April 2012	number of shares as at 31 December 2011	Share as at 31 December 2011	number of shares as at 31 December 2010	Share as at 31 December 2010
Marek Piechocki	175 000	9.83%	175 000	9.84%	175 000	10.00%
Jerzy Lubianiec	175 000	9.83%	175 000	9.84%	175 000	10.00%
Grangefont Limited	350 000	19.67%	350 000	19.69%	350 000	20.00%
Monistor Limited, Cyprus	200 728	11.28%	200 728	11.29%	200 728	11.46%
Aviva OFE	-	-	-	-	157 962	9.02%
Other shareholders	878 936	49.39%	877 006	49.34%	691 587	39.52%
Total	1 779 664	100%	1 777 734	100%	1 750 277	100%

The composition of the Management Board of the Holding Company as at 23 April 2012 was as follows:

- Marek Piechocki - President of the Management Board,
- Dariusz Pachla – Vice-President of the Management Board,
- Hubert Komorowski - Vice-President of the Management Board,
- Piotr Dyka – Vice-President of the Management Board,
- Jacek Kujawa - Vice-President of the Management Board.

The composition of the Management Board of the Holding Company did not change in the period between 1 January 2011 and 23 April 2012.

2 Composition of the Capital Group

As at 31 December 2011, LPP S.A. Capital Group consisted of the following subsidiaries (direct and indirect):

Company name	Consolidation method	Type of opinion on the financial statement	Name of entity responsible for the audit of the financial statement	End of financial year
LPP Retail Estonia OU	full consolidation	unqualified	HLB Expertus Audit	31 December 2011
LPP Czech Republic s.r.o.	full consolidation	unqualified	Act Audit	31 December 2011
LPP Hungary Kft	full consolidation	unqualified, with notes	HLB Klient	31 December 2011
LPP Retail Latvia Ltd	full consolidation	unqualified	SIA "Rodl & Partner"	31 December 2011
UAB LPP	full consolidation	unqualified, with notes	Balanso Auditas	31 December 2011
LPP Ukraina	full consolidation	unqualified	LTD Audit Company International Standard	31 December 2011
RE Trading Closed Joint Stock Company	full consolidation	unqualified	HLB Universe Audit	31 December 2011
LPP Fashion Distributor SRL	full consolidation	unqualified, with notes	Deloitte	31 December 2011
Fashion Point	full consolidation	unqualified	HLB Universe Audit	31 December 2011
LPP Retail Bulgaria Ltd.	full consolidation	*	Kreston Bulmar	31 December 2011

Company name	Consolidation method	Type of opinion on the financial statement	Name of entity responsible for the audit of the financial statement	End of financial year
Artman Slovakia s.r.o.	full consolidation	unqualified, with notes	Marian Revay	31 December 2011
Artman Mode s.r.o.	full consolidation	unqualified	Act Audit	31 December 2011
LPP Style Bulgaria Ltd.	full consolidation	*	Kreston Bulmar	31 December 2011
LPP Fashion Bulgaria Ltd.	full consolidation	not audited	not applicable	31 December 2011
Gothals Limited	full consolidation	unqualified	KPSA	31 December 2011
Jaradi Limited	full consolidation	unqualified, with notes	KPSA	31 December 2011
G&M Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2011
TORA Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2011
DP&SL Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2011
IL&DL Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2011
AMUR Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2011

* The auditor executed the agreed procedures specified by us.

Compared to the previous year, the number of consolidated companies increased by four new companies that were established or acquired in the current period: LPP Style Bulgaria Ltd., LPP Fashion Bulgaria Ltd., Gothals Limited, Jaradi Limited. The Holding Company carried out a merger of two subsidiaries in Russia.

3 Consolidated financial statement for the previous year

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2010 (previous financial year) was audited by Jan Lenkiewicz, a certified auditor, no. 9530, on behalf of Grant Thornton Frąckowiak Sp. z o. o. The auditor issued an unqualified opinion on the audited financial statement.

This consolidated financial statement of the Capital Group for the financial year ended on 31 December 2010 was approved by the General Meeting of Shareholders of the Holding Company on 27 June 2011.

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2010 (the previous financial year) together with an independent auditor's report were submitted to the National Court Register on 5 August 2011 following the resolution of the General Meeting of Shareholders regarding the approval of the consolidated financial statement and the report on the Capital Group's operations.

The required elements of the consolidated financial statement for the year ended on 31 December 2010 (previous financial year), together with the auditor's opinion and the resolution of the General

Meeting of Shareholders on the approval of the consolidated financial statement as of 1 July 2011 were submitted for publication in Monitor Polski B.

4 Information on entity authorised to audit the financial statement and the certified auditor

Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością based in Poznań, ul. Abpa Antoniego Baraniaka 88E, is the entity authorised to audit financial statements, entered in the list of the National Council of Auditors in Poland under no. 238.

The audit of the consolidated financial statement was conducted by Jan Letkiewicz, a certified auditor, no. 9530, on behalf of Grant Thornton Frąckowiak Sp. z o.o.

On 14 April 2010, Grant Thornton Frąckowiak Sp. z o.o. was appointed to audit the consolidated financial statement of the Capital Group for the financial year ended 31 December 2011. The audit of the consolidated financial statement was carried out following the agreement concluded on 19 April 2010 with the Management Board of the Holding Company.

5 Scope and date of the audit

The aim of our audit was to express an opinion to the report, as to whether the consolidated financial statement for financial year ended 31 December 2011 presents a reliable and clear view, in all material aspects, of the financial condition and assets, as well as the financial result of the Capital Group, in line with the accounting principles (policy), set out in the International Accounting Standards, International Financial Reporting Standards and applicable interpretations announced in regulations of the European Commission and in scope not covered by the Standards, in line with the requirements of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2009, no. 152, item 1223, as amended) and applicable implementing provisions.

In audit of individual items of the consolidated financial statement and consolidation documentation we applied tests applicable to financial audit. Based on the test results we made conclusions concerning the correctness of audited items.

The audit did not cover issues which had no impact on the audited consolidated financial statement.

The audit of the consolidated financial statement of the Capital Group for the financial year ended 31 December 2011 was conducted from 12 to 23 April 2012.

6 Statement of impartiality

Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością, members of the Board and supervisory authorities, the network that owns the entity authorised to audit, the certified auditor managing the audit and other persons involved in the audit meet the conditions for an impartial and independent opinion on the audited consolidated financial statement of the Capital Group, pursuant to art. 56 of the Act of 7 May 2009 on certified auditors and their self-governing council, entities authorised to audit financial statements and on public supervision (Journal of Laws No. 77, item 649, as amended).

7 Availability of data and declarations received

On 23 April 2012, the Management Board of the Holding Company submitted a written statement on the completeness, reliability and accuracy of the audited financial statement, and confirming that between the balance sheet date and the end of the audit there had been no events which could significantly impact the financial condition and assets of the Company and require to be disclosed in the audited financial statement. In this statement the Management Board of the Holding Company confirmed its responsibility for the approved consolidated financial statement and declared that it made all financial statements of companies subject to consolidation, applicable documentation and other required documents available to us and provided explanations necessary to express an opinion on the audited consolidated financial statement.

We believe that the evidence received by us provide a sufficient basis to express our opinion on the consolidated financial statement.

8 Consolidated Balance Sheet

ASSETS (in PLN '000)	31.12.2011	31.12.2010	31.12.2009
FIXED ASSETS	744 937	709 923	739 013
Tangible fixed assets	447 725	419 805	441 137
Intangible assets	11 515	11 040	12 763
Goodwill	183 609	183 609	183 609
Trademark	77 508	77 508	77 508
Shares in subsidiaries	186	212	719
Investments in associates	19	19	-
Investment property	678	-	-
Receivables and loans	4 549	1 062	1 057
Deferred income tax assets	18 669	16 491	22 045
Long-term prepayments and accruals	479	177	175
CURRENT ASSETS	868 931	716 446	621 610
Inventory	594 606	424 437	322 756
Trade and other receivables	145 715	118 704	93 426
Receivables from income tax	1 936	542	-
Loans	167	237	541
Derivative financial instruments	-	16 430	-
Other short-term financial assets	-	53 064	-
Short-term prepayments and accruals	9 541	6 562	7 405
Cash and cash equivalents	116 966	96 470	197 482
TOTAL ASSETS:	1 613 868	1 426 369	1 360 623

LIABILITIES (in PLN '000)	31.12.2011	31.12.2010	31.12.2009
EQUITY	909 194	733 895	684 609
LONG-TERM LIABILITIES	89 356	281 231	347 725
Credits, loans and other debt instruments	86 446	156 096	227 270

Issue of debt securities	-	121 524	115 514
Other financial liabilities	31	88	215
Liabilities and provisions for employee benefits	1 135	1 025	1 031
Deferred income tax provision	1 685	2 464	3 695
Other long-term liabilities	59	34	-
SHORT-TERM LIABILITIES	615 318	411 243	328 289
Trade and other liabilities	377 512	312 700	225 329
Income tax liabilities	12 179	771	14 314
Loans and borrowings	117 749	86 637	76 472
Issue of debt securities	86 243	3 906	5 465
Other financial liabilities	54	96	367
Provisions	14 665	3 122	2 863
Special funds	296	347	463
Short-term prepayments and accruals	6 620	3 664	3 016
TOTAL LIABILITIES:	1 613 868	1 426 369	1 360 623

9 Consolidated statement of comprehensive income.

(in PLN '000)	2011	2010	2009
Revenues from sales	2 492 510	2 079 358	2 003 095
Cost of sales	2 139 031	1 874 516	1 808 746
Other operating revenues	20 590	22 646	28 184
Other operating expenses	30,963	28 472	42 235
Operating profit (loss)	343 106	199 016	180 298
Financial revenues	13 541	10 690	2 976
Financial expenses	25 624	28 888	45 003
Profit (loss) before tax	331 023	180 818	138 271
Income tax	61 877	43 406	34 530
Net profit (loss) from continuing operations	269 146	137 412	103 741
OTHER COMPREHENSIVE INCOME			
Other comprehensive income after tax	-3 887	-1 159	3 578
Comprehensive income	265 259	136 253	107 232

10 General information and financial ratios

The table below presents selected data and financial ratios for the years 2009, 2010 and 2011 which describe the financial condition of the Capital Group in that period. All ratios have been calculated based on data included in the consolidated financial statements of the Capital Group for years ended 31 December 2011 and 31 December 2010.

Ratio	Calculation formula	Ratio value		
		2011	2010	2009
revenues from sales (PLN '000)		2 492 510	2 079 358	2 003 095

Ratio	Calculation formula	Ratio value		
		2011	2010	2009
net financial result ** (PLN '000)		269 146	137 412	103 654
equity ** (PLN '000)		909 194	733 895	684 609
total assets (PLN '000)		1 613 868	1 426 369	1 360 623
return on assets (ROA) (%)	net financial result / total assets at end of period	16.7%	9.6%	7.7%
return on equity (ROE) (%)	net financial result / shareholders' equity at beginning of period	36.7%	20.1%	18.5%
return on sales (%)	net profit from sales / revenues from sales	14.2%	9.8%	9.7%
liquidity ratio I	total current assets / short-term liabilities	1.4	1.7	1.9
liquidity ratio III	cash and cash equivalents / short-term liabilities	0.2	0.2	0.6
receivables turnover ratio (in days)	trade receivables * x 365 days / revenues from sales of products and goods	17	17	17
payables turnover ratio (in days)	trade payables x 365 days / cost of sales	107	99	71
inventory turnover ratio (in days)	inventories x 365 days / cost of sales	203	164	125
stability of financing	(shareholders' equity + long-term liabilities) / total liabilities	61.9%	71.2%	75.9%
debt to assets ratio (%)	(total liabilities - equity) / total liabilities	43.7%	48.5%	49.7%
Inflation ratios:				
average annual (%)		4.3	2.6	3.5
from December to December (%)		4.6	3.1	3.5

* before revaluation write-downs

** equity includes capital attributable to the shareholders of the Holding Company and non-controlling interests; net financial result includes earnings attributable to the shareholders of the Holding Company and non-controlling interests.

11 Commentary on the ratios

The ratios presented indicate the following trends:

In fiscal year 2011, return on assets (ROA) and return on equity (ROE) increased compared to the previous year. This resulted primarily from an increase in the value of net earnings during the period.

The higher value of return on sales in the financial year 2011 compared to the previous period was due to a higher rate of growth of sales compared with that of the cost of sales.

Liquidity ratio I decreased compared to the previous year and was 1.4. Liquidity ratio III remained at the same level as in 2010.

As at 31 December 2011, the period of collection of receivables was at the same level as in previous years. The period for the settlement of liabilities extended to 107 days. In 2011, the Group collected receivables faster in comparison to the settlement of its liabilities.

The value of the stability of financing ratio decreased in 2011 compared to the previous reporting period and amounted to 61.9%. The value of the debt to assets ratio was 43.7%.

12 Going concern

In note 6 of the introduction to the audited consolidated financial statement of the Capital Group for the year ended 31 December 2011, the Management Board informed that the said financial statements of the Holding Company and its subsidiaries, constituting the basis for the preparation of the consolidated financial statement, were drawn assuming going concern of the Company for period of at least 12 months following 31 December 2011 *and* that there were no circumstances that would indicate any threat to going concern of the Parent Company and its subsidiaries.

In the course of our audit we found no material indications that the Holding Company may not be able to remain a going concern in the next 12 months following the balance sheet date, i.e. 31 December 2011, due to any intentional or forced discontinuation of operations or significant limitation of its business.

13 Financial year

Financial statements of all members of the Capital Group which provide a basis for the consolidated financial statement were prepared as at 31 December 2011 and include financial data for reporting period between 1 January 2011 and 31 December 2011.

14 Accounting principles (policy) and methods of presenting the financial data

In note 9 of the Introduction to the consolidated financial statement for the year ended 31 December 2011, the Management Board of the Holding Company presented the accounting principles (policy) and methods of presenting the financial data of the Capital Group. Over the period for which the consolidated financial statement was drawn no changes were made to the accounting principles (policy) and methods of presenting financial data of the Capital Group.

15 Consolidation goodwill

The principles of determining consolidation goodwill, rules of impairment write-downs and the information allowing for the assessment of the changes in the company's balance value for the period between 1 January 2011 and 31 December 2011 were presented in note 15.4 of the Notes to the consolidated financial statement.

16 Equity

Equity presented in consolidated balance sheet as at 31 December 2011 is in line with the consolidation documentation. As at 31 December 2011, non-controlling interests totalled PLN 2 700 thousand. Financial data referring to equity is presented in note 15.13 in Notes to the consolidated financial statement.

17 Non-consolidation

Consolidation exclusions concerning consolidated companies:

- inter-company settlements (payables and receivables),
- internal turnover (revenues and costs),
- results unrealised by consolidated companies, included at value of assets,
- dividends,

are in line with the consolidation documentation.

18 Completeness and correctness of consolidation documentation

In the course of our audit, we concluded that the consolidation documentation is, in all material aspects, complete and correct and meets material terms applicable to consolidation documentation. This applies in particular to exclusions under consolidation adjustments.

19 Structure of assets and liabilities in the consolidated financial statement

The structure of assets and liabilities of the Capital Group is presented in the consolidated financial statement for year ended 31 December 2011. Data disclosed in the consolidated financial statement are in line with the consolidation documentation.

20 Items having an impact on the the financial result of the Capital Group

The items that have an impact on the financial result of the Capital Group are described in the audited consolidated financial statement for year ended 31 December 2011. Data presented in the consolidated financial statement are in line with the consolidation documentation.

21 Derogations from the consolidation principles and from the application of the equity method

Given the insignificant effect on the consolidated financial statement, the consolidation did not include 5 domestic subsidiaries listed in point 3 of the introduction to the Notes to the consolidated financial statement for 2011.

22 Additional information about the adopted accounting rules and other explanatory information

Additional information on the adopted accounting principles and Notes to the consolidated financial statement for the fiscal year ended 31 December 2011 have been drawn, in all material

aspects, correctly, i.e. in line with the accounting standards (policy) resulting from the International Accounting Standards, International Financial Reporting Standards and related interpretations announced as regulations by the European Commission; and to the extent not covered by the Standards, in line with the provisions of the Accounting Act and its implementing provisions.

23 Report on the Capital Group's operations

We have analysed the report of the Management Board of the Holding Company on the Capital Group's operations for the financial year ended 31 December 2011. Information presented in the Report on the Capital Group's operations is consistent with the information presented in the audited financial statement. The report on the Capital Group's operations is compliant, in all its material aspects, with the provisions of art. 49 (2) of the Accounting Act and the provisions of the Regulation by the Minister of Finance of 19 February 2009 on current and interim information submitted by issuers of securities and on the conditions for regarding information required by the law of a non-member state as equivalent (Journal of Laws of 2009, no. 33, item 259, as amended).

This report contains 11 pages.

Jan Letkiewicz

Certified Auditor no. 9530

Key certified auditor conducting the audit on behalf of
Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością,
Poznań, ul. Abpa Antoniego Baraniaka 88E, entity authorised to audit financial statements,
reference number 238

Poznań, 23 April 2012.