LPP S.A. Capital Group

Consolidated annual report for 2012

Including:

1. Letter from the President of the Management Board to the shareholders
2. Selected financial data for 2012-2011
3. Consolidated financial statement of LPP S.A. Capital Group for the financial year ended on 31 December 2012
4. Management Board Report on the operations of LPP S.A. Capital Group (including declaration on Corporate Governance) for 2012
5. Statement of the Management Board of LPP S.A.

Gdańsk
April 2013

Letter from the President of the Management Board to the shareholders

Dear Shareholders,

I can proudly say, once again, that a year of the highest sales volume and profit in the history of our company is behind us. We sold goods worth PLN 3.2 billion, generating over PLN 350 million of net profit. The achieved results are pleasing also because we received many signals that business tendency had been poor in that period, which negatively affected a number of enterprises. Therefore, the continual efforts put into improving our operations have given good results. Although these results are apparent in the achieved performance goals, we still take a number of actions to increase our efficiency, having in mind areas for improvement at all times.

The past year was a period of high growth rate of our retail chains. We increased their space by 90 thousand square meters, i.e. by 26%. The tasks that we have undertook for 2013 are equally ambitious. We want to add another 150 thousand square meters, i.e. increase the area of our retail chains by over 30%. At the end of 2013, we will have almost 600 thousand square meters of retail space, allowing to operate more than 1 300 stores of our five brands, taking into account the latest one, Sinsay, with its first facilities opened in March 2013.

Ambitious development plans stem not only from our constantly improved skills but also from the opportunities currently offered to us by the regional market where we operate. Increase in the number of available locations, either in new or existing shopping centres, is a situation that we readily take advantage of. Obviously, we do not forget to continually give attention to our offer aimed at a wide range of consumers or attractive appearance of our stores. Taking into account the need to ensure proper logistics services for a growing number of stores, this year we plan to start the construction of another storage facility equipped with modern technologies, with a total estimated cost of about PLN 170 million. This investment, which is to be launched at the beginning of 2015, will provide service to our retail stores over the next few years. I am convinced that the undertaken challenges will translate into good business performance of our company to provide you with an attractive use of the invested funds.

Marek Piechocki

President of the Management Board

Selected financial data for 2012-2011

1. Selected financial data of LPP S.A. Capital Group

in PLN '000

Selected Consolidated Financial Data	2012	2011	2012	2011
	01.01.2012-31.12.2012	01.01.2011-31.12.2011	01.01.2012-31.12.2012	01.01.2011-31.12.2011
	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	3 223 755	2 492 510	772 416	602 041
Operating profit (loss)	454 417	343 106	108 879	82 874
Gross profit (loss)	424 136	331 023	101 624	79 955
Net profit (loss)	353 977	269 146	84 813	65 010
Net cash flows from operations	481 306	254 039	115 322	61 361
Net cash flows from investments	-260 736	-39 608	-62 473	-9 567
Net cash flows from financial operations	-178 143	-193 936	-42 683	-46 843
Total net cash flows	42 427	20 495	10 166	4 950

in PLN '000

Selected Consolidated Financial Data	2012	2011	2012	2011
	01.01.2012-31.12.2012	01.01.2011-31.12.2011	01.01.2012-31.12.2012	01.01.2011-31.12.2011
	in PLN '000		in EUR '000	
Total assets	1 932 222	1 613 868	472 634	365 393
Long-term liabilities	130 980	89 356	32 039	20 231
Short-term liabilities	590 194	615 318	144 365	139 313
Equity capital	1 211 048	909 194	296 230	205 849
Share capital	3 662	3 555	896	805
Weighted average number of ordinary shares	1 780 848	1 746 800	1 780 848	1 746 800
Profit (loss) per ordinary share (in PLN / EUR)	198.77	154.08	47.63	37.22
Book value per share (in PLN / EUR)	680.04	520.49	166.34	117.84
Declared or paid dividend per share (in PLN / EUR)	77.36	76.86	18.92	17.40

Profit per ordinary share was calculated as the net profit divided by the weighed average number of shares. Book value per share was calculated as the quotient of equity and weighted average number of shares.

Consolidated financial statement of LPP S.A. Capital Group for the financial year ended on 31 December 2012

1. Balance sheet of LPP S.A. Capital Group

in PLN '000

Balance Sheet	Notes	As at the end of	
		31.12.2012	31.12.2011
ASSETS			
Fixed assets (long-term)		909 856	744 937
1. Tangible fixed assets	15.1	598 502	447 725
2. Intangible assets	15.3	17 599	11 515
3. Goodwill	15.4	183 609	183 609
4. Trademark	15.3	77 508	77 508
5. Investments in subsidiaries	15.5	186	186
6. Investments in associates		0	19
7. Investments in real property	15.6	661	678
8. Receivables and loans	15.7	8 680	4 549
9. Deferred tax assets	15.20	22 813	18 669
10. Accruals and prepayments	15.17	298	479
Current assets (short-term)		1 022 366	868 931
1. Inventories	15.8	656 070	594 606
2. Trade receivables	15.9	130 360	114 313
3. Income tax receivables	15.9	5 266	1 936
4. Other receivables	15.9	60 036	31 402
5. Loans	15.7	129	167
6. Other securities		0	0
7. Other financial assets		0	0
8. Accruals and prepayments	15.17	11 112	9 541
9. Cash and cash equivalents	15.10	159 393	116 966
TOTAL assets		**1 932 222**	**1 613 868**

in PLN '000

Balance Sheet	Notes	As at the end of	
		31.12.2012	31.12.2011
LIABILITIES			
Equity capital		1 211 048	909 194
1. Share capital	15.12	3 662	3 555
2. Treasury shares	15.12	-48 767	-48 759
3. Share premium	15.12	235 069	149 829
4. Other capital	15.12	656 950	562 429
5. Foreign exchange differences on translation		-3 391	-4 537
6. Retained earnings			
- profit (loss) from previous years		12 558	-24 748
- net profit (loss) for the current period		352 429	268 725
7. Minority interests		2 538	2 700
Long-term liabilities		130 980	89 356
1. Bank loans and borrowings	15.7	125 114	86 446
2. Issue of debt securities		0	0
3. Other financial liabilities	15.7	71	31
4. Provisions for employee benefits	15.13	1 277	1 135
5. Deferred tax provision	15.20	4 441	1 685
6. Other long-term liabilities		77	59
Short-term liabilities		590 194	615 318
1. Liabilities on trade and other liabilities	15.16	477 805	377 512
2. Income tax liabilities	15.16	19 079	12 179
3. Bank loans and borrowings	15.7	61 048	117 749
4. Issue of debt securities		0	86 243
5. Other financial liabilities	15.16	42	54
6. Provisions	15.13	19 868	14 665
7. Special funds		224	296
8. Accruals and prepayments	15.17	12 128	6 620
TOTAL liabilities		**1 932 222**	**1 613 868**

2. Comprehensive Income Statement of LPP S.A. Capital Group

in PLN '000

Profit and loss account	Notes	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Revenues from sales	15.18	3 223 755	2 492 510
Costs of sales		1 396 690	1 068 774
Gross profit (loss) on sales		1 827 065	1 423 736
Other operating revenues	15.18	27 683	20 590
Costs of sales	15.19	1 228 471	967 910
Overheads	15.19	132 285	102 347
Other operating expenses	15.19	39 575	30 963
Operating profit (loss)		454 417	343 106
Financial revenues	15.18	2 214	13 541
Financial expenses	15.19	32 495	25 624
Gross profit (loss)		424 136	331 023
Taxes	15.20	70 159	61 877
Net profit (loss)		**353 977**	**269 146**
Net profit (loss) attributable to:			
Parent Company shareholders		352 429	268 725
Non-controlling entities		1 548	421
Other comprehensive income			
Foreign exchange differences on translation		1 146	-3 887
Total comprehensive income		**355 123**	**265 259**

3. Statement of Changes in Equity of LPP S.A. Capital Group

in PLN '000

Statement of Changes in Equity	Share capital	Treasury shares	Share premium	Other capital	Foreign exchange differences from translation	Profit (loss) from previous years	Profit (loss) for the current period	Minority interests	Equity capital TOTAL
As at 1 January 2011	**3 501**	**-48 754**	**108 123**	**547 559**	**-650**	**126 767**	**0**	**0**	**736 546**
- adjustments due to errors in previous years						-2 651			-518
As at 1 January 2011 after adjustments	**3 501**	**-48 754**	**108 123**	**547 559**	**-650**	**124 116**	**0**	**0**	**733 895**
Conversion of bonds to shares	54		41 706						41 760
Costs of acquisition of treasury shares		-5							-5
Minority shareholding as at the balance sheet date								2 700	2 700
Distribution of profit for 2010				13 873		-148 864			-134 991
Share-based payment				997					997
Transactions with owners	54	-5	41 706	14 870	0	-148 864	0	2 700	-89 539
Net profit for 2011							268 725		268 725
Calculation of foreign exchange differences from translation					-3 887				-3 887
As at 31 December 2011	**3 555**	**-48 759**	**149 829**	**562 429**	**-4 537**	**-24 748**	**268 725**	**2 700**	**909 194**

in PLN '000

Statement of Changes in Equity	Share capital	Treasury shares	Share premium	Other capital	Foreign exchange differences from translation	Profit (loss) from previous years	Profit (loss) for the current period	Minority interests	Equity capital TOTAL
As at 1 January 2012	**3 555**	**-48 759**	**149 829**	**562 429**	**-4 537**	**243 977**	**0**	**2 700**	**909 194**
- adjustments due to errors in previous years									
As at 1 January 2012 after adjustments	**3 555**	**-48 759**	**149 829**	**562 429**	**-4 537**	**243 977**	**0**	**2 700**	**909 194**
Conversion of bonds to shares	107		85 240						85 347
Costs of acquisition of treasury shares		-8							-8
Net profit for minority shareholders for 2012								1 548	1 548
Payment of dividends to minority shareholders								-1 710	-1 710
Distribution of profit for 2011				91 419		-231 419			-140 000
Share-based payment				3 102					3 102
Transactions with owners	107	-8	85 240	94 521	0	-231 419	0	-162	-51 721
Net profit for 2012							352 429		352 429
Calculation of foreign exchange differences on translation					1 146				1 146
As at 31 December 2012	**3 662**	**-48 767**	**235 069**	**656 950**	**-3 391**	**12 558**	**352 429**	**2 538**	**1 211 048**

4. Cash Flow Statement of LPP S.A. Capital Group

in PLN '000

Cash Flow Statement	01.01.2012-31.12.2012	01.01.2011-31.12.2011
A. Cash flows from operations - indirect method		
I. Gross profit (loss)	424 136	331 023
II. Total adjustments	57 170	-76 984
1. Depreciation	108 997	95 439
2. (Profit) loss on foreign exchange differences	4 169	-1 410
3. Interest and participation in profits (dividends)	15 809	23 272
4. (Profit) loss from investments	-2 156	-4 926
5. Paid income taxes	-56 428	-52 713
6. Change in provisions	4 800	12 764
7. Change in inventories	-71 704	-159 189
8. Change in receivables	-102 833	-17 265
9. Change in short-term liabilities, excluding loans and borrowings	152 857	31 496
10. Change in accruals and prepayments	3 826	-1 523
11. Other adjustments	-167	-2 929
III. Net cash flows from operations	481 306	254 039
B. Cash flows from investments		
I. Revenues	30 759	94 838
1. Disposal of intangible and tangible fixed assets	26 684	20 779
2. From financial assets, including:	4 075	18 961
a) in affiliated entities	246	815
- disposal of shares/liquidation of companies	53	643
- dividends and profit sharing	193	172
b) in other entities	3 829	18 146
- disposal of financial assets – foreign bonds	3 000	17 300
- interest	340	660
- repayment of loans	489	186
- other income from financial assets		
3. Other investment inflows		55 098

The statement has been prepared in PLN thousand

II. Expenses	291 495	134 446
1. Acquisition of intangible and tangible fixed assets	288 382	129 345
2. For financial assets, including:	3 113	4 680
a) in affiliated entities	0	0
- acquisition of shares		
b) in other entities	3 113	4 680
- lending	113	3 380
- purchase of foreign bonds	3 000	1 300
3. Other capital expenses		421
III. Net cash flows from investments	-260 736	-39 608
C. Cash flows from financial operations		
I. Revenues	4 260	5 718
1. Proceeds from share issue		3 000
2. Loans and borrowings	4 260	2 718
3. Issue of debt securities		
4. Other financial income		
II. Expenses	182 403	199 654
1. Cost related to equity shares	9	5
2. Dividends and other payments to holders	141 711	135 256
3. Repayment of loans and borrowings	22 648	45 631
4. Payment of finance lease liabilities	123	128
5. Interest	17 912	18 634
6. Other financial expenses		
III. Net cash flows from financial operations	-178 143	-193 936
D. Total net cash flows	**42 427**	**20 495**
E. Net change in cash, including:	**42 427**	**20 495**
- change in cash from foreign exchange differences	-2 339	2 691
F. Opening cash balance	**116 966**	**96 471**
G. Cash at the end of the period, including:	**159 393**	**116 966**
- restricted cash	224	297

Notes to the consolidated financial statement of LPP S.A. Capital Group for 2012

INTRODUCTION

1. Overview

Name and seat of the parent company of LPP Capital Group:

LPP SPÓŁKA AKCYJNA
with its seat in Gdańsk / Poland
ul. Łąkowa 39/44
Postcode: 80-769

Core business:

- wholesale of clothing, classified in item 51.42 Z of the Polish Classification of Economic Activities (PKD) as "wholesale of clothing and footwear",
- retail sales of clothing, classified in item 52.42 Z as “retail sale of clothing”.

The competent District Court
The Company is registered in the District Court of Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register under KRS no. 0000000778.

Place of business
The Group runs its business in the following countries:

- Poland,
- Estonia,
- Czech Republic,
- Lithuania,
- Latvia,
- Hungary,
- Russia,
- Ukraine,
- Romania,
- Bulgaria,
- Slovakia,
- Cyprus,
- United Arab Emirates.

Sector according to the classification of the Warsaw Stock Exchange

Shares of the parent company, LPP S.A., are listed on the main market of the Warsaw Stock Exchange and classified in the sector of "trade".

2. Composition of the Management Board and the Supervisory Board of the Issuer

Members of the Management Board:

- 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

Members of the Supervisory Board:

- Jerzy Lubianiec - Chairman of the Supervisory Board
- Krzysztof Olszewski - member of the Supervisory Board
- Wojciech Olejniczak - member of the Supervisory Board
- Maciej Matusiak - member of the Supervisory Board
- Krzysztof Fąferek - member of the Supervisory Board

The statement has been prepared in PLN thousand

3. Characteristics of LPP S.A. Capital Group

LPP S.A. Capital Group (Capital Group, Group) is composed of:

- LPP S.A. – as the parent company,
- 5 Polish subsidiaries,
- 16 foreign subsidiaries.

There is no parent company in relation to LPP S.A.

The list of companies composing the Capital Group is presented below.

No.	Company name	Registered office	Takeover date
1.	G&M Sp. z o.o.	Gdańsk, Poland	26.09.2001
2.	TORA in liquidation Sp. z o.o.	Gdańsk, Poland	26.09.2001
3.	DP&SL Sp. z o.o.	Gdańsk, Poland	26.09.2001
4.	IL&DL Sp. z o.o.	Gdańsk, Poland	26.09.2001
5.	AMUR Sp. z o.o.	Gdańsk, Poland	09.05.2003
6.	LPP Retail Estonia OU	Tallinn. Estonia	29.04.2002
7.	LPP Czech Republic s.r.o.	Prague, Czech Republic	16.09.2002
8.	LPP Hungary Kft	Budapest, Hungary	18.10.2002
9.	LPP Retail Latvia Ltd	Riga, Latvia	30.09.2002
10.	UAB LPP	Vilnius, Lithuania	27.01.2003
11.	LPP Ukraina	Peremyshliany, Ukraine	23.07.2003
12.	RE Trading Closed Joint Stock Company	Moscow, Russia	12.02.2004
13.	LPP Fashion Distribuitor SRL	Bucharest, Romania	12.08.2007
14.	Fashion Point	Moscow, Russia	01.04.2008
15.	LPP Retail Bulgaria Ltd.	Sofia, Bulgaria	14.08.2008
16.	Artman Slovakia s.r.o.	Banska Bystrica, Slovakia	30.10.2008
17.	Artman Mode s.r.o.	Ostrava, Czech Republic	30.10.2008
18.	LPP Fashion Bulgaria Ltd.	Sofia, Bulgaria	26.08.2011
19.	Gothals Limited	Nicosia, Cyprus	22.07.2011
20.	Jaradi Limited	Al Tatar, UAE	22.07.2011
21.	IP Services FZE	Ras Al Khaimah, UAE	23.12.2012

LPP S.A. holds direct control in its subsidiaries due to its substantial, i.e. mostly 100%, share in their capital and 100% of the total vote.

The financial statement of LPP S.A. Capital Group covering the period between 1 January and 31 December 2012 includes individual results of LPP S.A. for the said period and results of consolidated companies listed below:

- LPP Retail Estonia OU
- LPP Czech Republic s.r.o.
- LPP Hungary Kft
- LPP Retail Latvia Ltd
- UAB LPP
- LPP Ukraina AT
- ZAO Re Trading

- LPP Fashion Distribuitor srl.
- Fashoin Point
- LPP Retail Bulgaria Ltd.
- Artman Slovakia srl
- Artman Mode s.r.o.
- LPP Fashion Bulgaria Ltd.
- Gothals Limited
- Jaradi Limited
- IP Services FZE

Polish subsidiaries of LPP S.A. were not consolidated as their financial data is immaterial. This is consistent with the Accounting Policy adopted by the Group.
Under the Policy, a subsidiary or related party is not consolidated if the amounts reported in its financial statements are insignificant in relation to the financial statements of the parent company. In particular, the balance sheet total and net revenues from sales of goods and services and financial operations of the entity which for the financial period are less than 10% of total assets and liabilities and the income of the parent company are regarded as insignificant. The total amount of revenues and balance sheet totals of the entities not included in the consolidation may not exceed that level, but in relation to the corresponding amounts of the consolidated financial statements established on the assumption that their scope includes all subsidiaries and affiliates without making any exclusions.
The share in the consolidated results of all non-consolidated Polish subsidiaries is as follows:

- in the Capital Group's balance sheet total – 0.06%
- in the Capital Group's revenues from sales and financial revenues - 0.37%.

The fact that financial statements of these companies are not consolidated has no negative impact on true and fair presentation of the Capital Group's assets, financial standing and financial result.

LPP S.A. is a company involved in the design and distribution of clothing in Poland and the countries of Central and Eastern Europe. Consolidated capital companies are involved in the distribution of goods under the Reserved and Cropp brands outside Poland. Clothing is basically the only product sold by the Capital Group companies. The basic offer is supplemented by footwear, bags and accessories.
Designs of clothing are prepared in the design office located at the registered office of LPP S.A. in Gdańsk and in the design office in Kraków, and then sent to the purchasing department, which contracts the production of individual products in co-operation with production plants in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai. The Capital Group also generates small revenues from sales of services (these include only the revenues generated by the parent company – mainly know-how services related to the management of brand stores by Polish contractors and the lease of transport vehicles).
Additional business activity of LPP Capital Group is the management of the rights to Reserved and Cropp trademarks, including their protection, activities aimed at increasing their value, granting licenses to use, etc. Gothals Limited in Cyprus and Jaradi Limited and IP Services in United Arab Emirates were established for this purpose.
Five Polish subsidiaries are involved in the lease of real estate where Cropp Town and Reserved outlets are located.

4. Legal basis of the financial statement and information on changes in adopted accounting principles

Pursuant to the Accounting Act of 29 September 1994 (consolidated text of 2 September 2009, Journal of Laws No. 152, item 1223), on 1 January 2005 LPP Capital Group presents its consolidated financial report on the basis of International Financial Reporting Standards (IFRS) and related interpretations, published in the form of

European Commission Regulations. In matters not covered by IFRS, provisions of the Accounting Act are applied. Financial statements covering periods starting before 1 January 2005 were prepared based on the Accounting Act and its implementing provisions.

The report contains the Group's consolidated financial statement and individual financial statements of LPP S.A. The report was drawn up in accordance with IFRS.

This consolidated financial statement was drawn up in PLN '000.

Two departments are responsible for the preparation of financial statements: accounting and finance, headed by the Chief Accountant and Chief Financial Officer. Before submitting financial statements to the independent statutory auditor, Chief Financial Officer, responsible for the financial reporting process on behalf of the Management Board, verifies them for completeness and correctness of all economic events.

5. Declaration of compliance with IFRS

The presented consolidated financial statement covers the period between 1 January 2012 and 31 December 2012. Comparable data are presented for the period between 1 January 2011 and 31 December 2011.
This consolidated financial statement has been drawn up in line with the International Financial Reporting Standards (IFRS) approved by the European Union, covering standards and interpretations approved by the International Accounting Standards Board and International Financial Reporting Standards Interpretation Committee.

<u>Changes in accounting standards or interpretations valid and applied by the Capital Group since 2012</u>

New or amended standards and interpretations in effect from 1 January 2012:

- IFRS 7 (amendment) "Financial Instruments: Disclosures" - effective date: annual periods beginning on or after 1 July 2011. The amendment introduces additional disclosures regarding the transfer of financial assets, both those which result in derecognition and those which give rise to a corresponding obligation.
- IFRS 1 (amendment) "First-time Adoption of IFRS" - effective date: annual periods beginning on or after 1 July 2011. So far, IFRS 1 conditioned the possibility of benefiting from certain exemptions and exclusions on the fact whether the transaction occurred before or after 1 January 2004. The amendment to IFRS 1 regards the replacement of that date with the date of the transition to IFRS. Moreover, it introduces changes to the principles of conduct in the event that an entity operates in the period of high hyperinflation, when price indices were not achieved and there was no stable foreign currency.
- IAS 12 (amendment) "Income Taxes" - effective date: annual periods beginning on or after 1 January 2012. The amended standard regulates how to calculate deferred tax in cases when the tax law treats differently the recovery of the investment property value through its use and disposal (rents), and the entity is not planning to dispose of it. The amendment to IAS results in the withdrawal of the SCI 12 interpretation as its regulations have been included in the standard. The amendment will not have a material impact on the consolidated financial statement.

The above-mentioned amendments to standards and interpretations, effective from 1 January 2012, have no impact on the consolidated financial statement.

Standards and interpretations, binding in a version published by IASB but not approved by the European Union, are presented below in the section relating to standards and interpretations which have not entered into force.

<u>Application of a standard or interpretation before the effective date</u>

No early voluntary application of a standard or interpretation occurred in this financial statement.

<u>Published standards and interpretations which have not entered into force as at 31 December 2012 and their impact on the Capital Group's statement</u>

By the date of this financial statement, the following new or amended standards and interpretations applicable to annual periods after 2012 were published:

- IFRS 9 "Financial Instruments: Classification and Measurement" - effective date: annual periods beginning on or after 1 January 2015 (standard not approved by the European Commission). A new standard is to replace the current IAS 39. The part of IFRS 9 published so far includes regulations on the classification and valuation of financial assets, the classification and valuation of financial liabilities and the derecognition of financial assets and liabilities. The Group is in the process of assessing the impact of the change on the consolidated financial statement.
- IFRS 10 "Consolidated Financial Statements" - effective date: annual periods beginning on or after 1 January 2014 (standard approved by the European Commission). The new standard replaces most of IAS 27 "Consolidated and Separate Financial Statements". IFRS 10 introduces a new definition of control, but the rules and procedures for consolidation remain unchanged. In the Group's opinion, the amendment might affect individuals, for whom, in line with previous regulations, the requirement to consolidate was not clear. The Capital Group is in the process of estimating the impact of new regulations.
- IFRS 11 "Joint Arrangement" - effective date: annual periods beginning on or after 1 January 2014 (standard approved by the European Commission). IFRS 11 replaces IAS 31 "Interests in Joint Ventures". In the new standard,
  the accounting treatment of a shared agreement is due to its economic provisions, i.e. the rights and obligations of the parties. In addition, IFRS 11 removes the possibility of settlement of investments in joint ventures using proportionate consolidation. These investments are accounted for using the equity method in a manner currently used for associates. According to the Group, the new standard may affect the consolidated financial statement. The Group is in the process of estimating the impact of new regulations.
- IFRS 12 "Disclosure of Interests in Other Entities" - effective date: annual periods beginning on or after 1 January 2014 (standard approved by the European Commission). The new IFRS 12 sets out the requirements for disclosures about consolidated and non-consolidated entities, in which the entity preparing the statement has significant involvement. This will allow investors to assess the risks to which the entity creating special purpose vehicles and other similar structures is exposed. According to the Group, the standard will affect the extension of disclosures presented in the consolidated financial statement.
- IAS 27 (amendment) "Unconsolidated Financial Statements" and IAS 28 (amendment) "Investments in associates and joint ventures" - effective date: annual periods beginning on or after 1 January 2014 or later (amendments approved by the European Commission). Amendments to IAS 27 and 28 are a consequence of the introduction of IFRS 10, IAS 11 and IFRS 12. IAS 27 will apply only to separate financial statements, and IAS 28 will cover investments in joint ventures.
- IFRS 13 "Determining the Fair Value" - effective date: annual periods beginning on or after 1 January 2013 (standard approved by the European Commission). The new standard unifies the concept of fair value for all IFRS and IAS, and introduces common guidelines and principles, which were previously scattered in different standards. The amendment will not have a material impact on the consolidated financial statement.
- IAS 19 (amendment) "Employee Benefits" - effective date: annual periods beginning on or after 1 January 2013 (amendment approved by the European Commission). The document introduces several changes, most important of which relate to certain benefit schemes: the liquidation the "corridor" method and the presentation of the effects of re-valuation in other comprehensive income. The amendment does not affect the consolidated financial statement.
- IAS 1 (amendment) "Presentation of financial statements" - effective date: annual periods beginning on or after 1 July 2012 (amendment approved by the European Commission).

  It changes the requirement for presentation of other comprehensive income. According to the revised IAS 1, other comprehensive income should be grouped into two sets:

  - elements which at a later date will be reclassified to earnings (e.g. changes in the value of hedging instruments) and
  - elements that will not be subject to reclassification into profit or loss (e.g. valuation of fixed assets to fair value, which is then recognized in retained earnings without profit or loss).

New IAS 1 will affect the extent of disclosures presented in the consolidated financial statement. The amendment does not affect the recognition and valuation of other comprehensive income.

- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" - effective date: annual periods beginning on or after 1 January 2013 (interpretation approved by the European Commission). The International Financial Reporting Interpretations Committee published an interpretation, which relates to the accounting treatment for expenses incurred in surface mines in order to gain access to deeper layers of ore. According to the interpretation these costs should be capitalized in breakdown into inventories (in the part attributable to excavated ore) and fixed assets (in the part attributable to access to deeper layers). According to the Group, this amendment will not affect the consolidated financial statement.
- IFRS 7 (amendment) "Financial Instruments: Disclosures" - effective date: annual periods beginning on or after 1 July 2013 (amendment approved by the European Commission). Changes to the standard provide the requirement to disclose information on financial assets and financial liabilities which are shown on a net basis in the statement on financial standing. The gross and net amounts of assets and liabilities to be offset are to be disclosed in the notes. The amendment will not have a material impact on the consolidated financial statement.
- IFRS 32 (amendment) "Financial Instruments: Presentation" - effective date: annual periods beginning on or after 1 January 2014 (amendment approved by the European Commission). The amendment to IAS 32 introduces a detailed explanation of the conditions for the presentation of financial assets and liabilities on a net basis. The amendment will not have a material impact on the consolidated financial statement.
- IFRS 1 (amendment) "First-time Adoption of IFRS" - effective date: annual periods beginning on or after 1 January 2013 (amendment not approved by the European Commission). The amendment will not have a material impact on the consolidated financial statement. The amendment to IFRS 1 allows entities adopting IFRS for the first time to define the loans existing as at the transition date, received from the state on preferential terms, using one of the two methods selected by the entity:
    - by value resulting from the accounting principles used so far, or
    - by value resulting from the retrospective application of the relevant standards that require specific recognition of a state aid in the financial statement (IAS 20 and IFRS 9 or IAS 39) - provided that there was adequate information to carry out the estimate as at the loan recognition date.
- Amendments to IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34 resulting from the "Annual Improvements Project: 2009-2011 cycle", effective for annual periods beginning on or after 1 January 2013 (amendments not approved by the European Commission). In addition to changes in presentation resulting from IAS 1, amendments to the standards will have no material impact on the consolidated financial statement. Amendments to the standards include:
    - IFRS 1 "First-time Adoption of IFRS": regulates the procedure in the event that a company previously applying IFRS, switched to other accounting policies and then again to IFRS. In line with the amendment, re-transition to IFRS can be made on the basis of IFRS 1 or IAS 8.
    - IFRS 1 "First-time Adoption of IFRS": in line with the amendment, at the time of transition to IFRS, the company may assume, as at the date of transition, the value of capitalized borrowing costs determined in accordance with the previously applied accounting policy. After that date, IAS 23 must be applied.
    - IAS 1 "Presentation of Financial Statements": amendment waives the obligation to include notes to the third balance sheet, which is presented in the report in the event of changes in accounting policies or presentation.
    - IAS 1 "Presentation of Financial Statements": specifies that an entity may present additional periods or days (beyond those required by the standard) in

      financial statement, but does not have to show them to all parts of the statement (for example, it may show only the additional balance sheet without additional statement of comprehensive income) it must, however, show notes for this additional period or date in the notes to the financial statement.
    - IAS 16 "Property, Plant and Equipment": removes inconsistency that caused some IAS 16 customers to think that spare parts are to be classified as inventory. According to the revised

standard, they should be recognized as fixed assets or inventory in line with the general criteria laid down for the assets in IAS 16.
    - IAS 32 "Financial Instruments: Presentation": clarifies the tax consequences of payments to owners and capital transaction costs should be accounted for in accordance with IAS 12.
    - IAS 34 "Interim Financial Reporting": harmonizes the disclosure requirements on assets and liabilities of IFRS 8 segments.
- IFRS 10 (amendment) "Consolidated Financial Statements", IRFS 11 (amendment) "Joint Arrangements" and IFRS 12 (amendment) "Disclosure of Interests in Other Entities" - effective date: annual periods beginning on or after 1 January 2013 (amendments not approved by the European Commission). Amendments to the newly issued standards on consolidation introduce more distinct interim provisions and some exemptions for the presentation of comparable data.
- IFRS 10 (amendment) "Consolidated Financial Statements", IFRS 12 (amendment) "Disclosure of Interests in Other Entities" and IFRS 27 (amendment) "Individual Financial Statements" - effective date: annual periods beginning on or after 1 January 2014 (amendments not approved by the European Commission). The amendment consists in the introduction of exemption from the consolidation requirement by investment entities. An investment entity is a unit meeting the following definition:
    - it obtains funds from one or more investors in order to provide the investors with investment management services,
    - it undertakes to investors to ensure that its business purpose is solely to invest resources in order to achieve returns from the growth of investment and/or dividend,
    - it evaluates the effectiveness of its investments on the basis of their fair value.

The Company intends to implement these regulations within the time frames provided for by the standards or interpretations.

6. Going concern

The consolidated financial statement for 2012, the financial statement of the Parent Company and the statements of subsidiaries, which are the basis for the consolidated financial statement, were drawn up based on the assumption that the Group remains a going concern in the foreseeable future and that its business is not restricted to a considerable extent.
Based on the information available as at the date of preparation of the financial statement, the going concern assumption adopted in this financial statement is fully justified.

7. Date of approval of the financial statement for publication

These financial statements were approved for publication by the Management Board of the Parent Company of LPP Capital Group on 19 April 2013.

8. Events after the balance sheet date

As per IAS 10, events after the balance sheet date include all events that occurred between the balance sheet date and the date that the financial statement is approved for publication.
The Management Board is authorised to adjust the financial statement after its publication.

9. Methods of measurement of assets and liabilities and determination of the financial result adopted in the consolidated financial statement

Tangible fixed assets
Fixed assets (PP&E) are initially carried at the purchase price, increased by all costs directly related to the purchase and necessary to adapt the asset to the working condition for its intended use. Costs incurred after

the date when the fixed asset was put into use, including costs of maintenance and repairs, are charged into the income statement as they are incurred.
As at the balance sheet date, fixed assets are measured at cost less depreciation and impairment losses.
Depreciation is made on a straight line basis. Tangible fixed assets are depreciated over their pre-determined expected useful life. This period is revised annually.
The value of PP&E is also tested for impairment resulting from any events or changes in the business environment or within the Capital Group companies, which could cause an impairment of these assets below their current book value.
In fixing the rates of depreciation for individual tangible fixed assets, each company determines whether there are any components of the assets whose purchase price is significantly different from the purchase price of the entire asset, and whether the life of these components is different from the rest of the life of the asset.

For accounting purposes, based on the materiality principle, the adopted threshold amounts for one-off depreciation of PP&E or non-inclusion of an asset in PP&E are equal to tax threshold amounts.
As a result, LPP S.A. adopted the following rule: whenever the initial carrying amount of a tangible fixed asset or property right exceeds PLN 3,500.00, monthly depreciation write-downs are made starting from the month following the month when the asset is put into use.

If the initial carrying amount of the fixed asset is below PLN 3,500, two accounting methods were adopted based on the materiality principle:

- the asset is entered in the fixed assets register or intangible assets register and depreciated on a one-off basis in the month when the asset is put into use;

or

- the asset is written-down on a one-off basis and allocated to costs of consumption of materials recorded in the month of the purchase.

Under the accounting policy adopted by the Capital Group, straight-line depreciation of low-price assets may be adopted in justified cases by a Management Board decision if all the following circumstances occur simultaneously:

- if many fixed assets are purchased at the same time and their unit price is not in excess of the threshold amount, but their total value is material,
- if these assets are a part of a larger set of uniform and/or interconnected units, and their purchase is related to an extensive investment scheme to be implemented at least over the period of normative depreciation specified for this particular group of fixed assets in tax regulations,
- if these fixed assets are high quality and high availability (HA) assets.

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

Intangible assets
Intangible assets include trademarks, patents and licenses, computer software, costs of development works and other intangible assets that meet the criteria of recognition as specified in IAS 38.

Intangible assets as at the balance sheet day are disclosed by the purchase price or the formation cost, less depreciation and impairment write-downs. Intangible assets with determined useful life are depreciated on a straight line basis for the period of their useful lives by applying the rates of 14 - 50%. Useful lives of individual intangible assets are subject to annual verification.

Intangible assets with indefinite useful lives are not subject to depreciation but they are tested for impairment annually. Intangible assets with indefinite useful lives owned by the Capital Group include the trademark of House. After analysis, it has been found that there is no time limit in which it can be expected that the asset will not generate income.

The Group's companies carry out development projects related to the design and construction of a standard garment showroom.
Expenditures directly associated with the project are shown as intangible assets only if they meet the following criteria:

- from a technical standpoint, the component of intangible asset is made so that it will be available for use or sale,

- the Group intends to complete the component and its use or sale,
- the Group is able to use or sell the component of intangible asset;
- the component of intangible asset will generate economic benefits and the Group can demonstrate this benefit by, among others the existence of market or usefulness of the element for the Group,
- technical, financial and other resources are available to the Group to complete the project in order to sell or use the component,
- the expenses incurred in the course of the project can be reliably evaluated and attributed to the intangible asset.

Expenses incurred for works carried out within the project are transferred to subsequent period if it is deemed that they will be recovered in the future. Assessment of future benefits is based on the principles set out in IAS 36.

After the initial recognition of the expenditure, the historical cost model is applied, according to which the assets are shown by their purchase price or production cost less accumulated depreciation and accumulated write-downs for impairment losses. Completed development works are straight-line depreciated over the expected period of obtaining benefits, which is five years.

Costs related to the maintenance of software, incurred in subsequent periods, are recognized as the cost of the period when incurred.

Borrowing costs
According to IAS 23 "Borrowing costs" all costs that can be allocated to adjusted assets are capitalised.
Adjusted assets are those that require significant time of preparation for intended use. The Capital Group assumed that a considerable time is considered a period of 1 year. Thus, any borrowing costs are capitalized, provided that the adjustment of the component lasted 1 year or longer. All other minor costs of assets, which are adjusted for less than a year, are recognized directly in profit or loss.
Borrowing costs may include mostly the following:

- interest on overdrafts and interest on short- and long-term credits and loans;
- differences in exchange rates in connection with the loans and credits granted in foreign currencies.

Capitalisation of borrowing costs commences on the day when borrowing costs on a qualifying asset are incurred and activities necessary to prepare the asset for its intended use or sale are undertaken. The Capital Group ceases to capitalise borrowing costs when a qualifying asset is transferred for use.

Leased assets
Finance lease agreements under which generally the entire risk and benefits resulting from the possession of the leased item are transferred to the Group are recognized in assets and liabilities as

at the lease commencement date. The value of assets and liabilities is determined as at the lease commencement date at the lower of the following values: the fair value of an asset which is the subject of the lease or the present value of the minimal lease fees.
The minimal lease fees are divided between the financial expenses and reduction of the outstanding balance of lease liabilities so as to allow gaining a fixed interest rate on outstanding liabilities. Contingent lease payments are recognised in costs of the period in which they were incurred.
Fixed assets used under financial lease contracts are amortised in line with the same principles as applied to the own assets of the Capital Group. If however, there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the two periods: the lease term or its useful life.

In case of qualifying a lease agreement as a finance lease in terms of accounting under the regulations of IAS 17, and in terms of taxing under the regulations of the income tax act as an operating lease agreement, then in order to determine a proper value of tax deductible expenses the following rules shall apply. Depreciation write-downs made by the user are not tax deductible expenses for tax purposes. Tax deductible expenses are solely the lease payments specified in the agreement, recognised as cost for the period they refer to.

Lease contracts under which the lessor retains basically all the risks and benefits resulting from parent the leased asset are recognised as operating lease contracts.

Lease payments under operational lease are recognised on straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit is derived by the Capital Group.

Goodwill

The goodwill is initially recognized pursuant to IFRS 3.

This value is calculated as the difference between two values:

- the value of the remuneration for the control, minority shares and fair value of blocks of shares held in the acquired entity prior to the acquisition date and
- the fair value of identifiable acquired net assets of the entity.

The excess of the amount calculated in the manner indicated above over the fair value of identifiable acquired net assets of the entity is recognized in the assets of the unconsolidated balance sheet as goodwill. Goodwill represents the payment made by the acquiring company in anticipation for future economic benefits from the assets which cannot be individually identified or separately recognized.

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

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

Until 1 January 2010, the Capital Group applied purchase accounting for settling mergers, as described in the previous version of IFRS 3.

Investments in subsidiaries

The Group solely owns shares in Polish subsidiaries.
Shares in subsidiaries are measured at acquisition prices less impairment losses.

Acquisition price includes the amount due to the selling party less deductible VAT, as well as costs directly related to the purchase and necessary to bring the asset to working condition for its intended use or marketing.
In the event of impairment, impairment write-down is charged to financial expenses. If the reasons for the impairment write-down no longer exist, the original value of the investment is restored by transferring the reversed amount to income from financial operations. Goodwill reinstatement may be entire or partial.

Investments in associates

Associates include entities not controlled but influenced by the Capital Group in terms of financial and operating policy.
Investments in associates are initially recorded at cost and then based on the equity method.

Investments in real property

Investment property is held due to rental income and/or increase in its value and is recognised at purchase cost.
Investment property is initially carried at purchase or manufacturing cost including the cost of the transaction. As at subsequent balance sheet days, investment property is valued at purchase or manufacturing cost.

Investment property is removed from the balance sheet when it is sold or permanently withdrawn from use if no future economic benefits are expected.

Financial instruments

Each contract establishing an element of financial assets for one party and a financial liability or capital instrument for the other party is classified as a financial instrument.

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

The Capital Group values financial assets and liabilities at fair value as at the purchase date, i.e. mostly at fair value of the payment made (in the case of an element of assets) or payment received (element of liabilities).

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

Financial assets

For the purposes of valuation following an initial recognition, financial assets other than hedging derivatives are classified by the Capital Group divided into:

- loans and receivables,
- financial assets valued at fair value through profit or loss,
- investments held to maturity and
- financial assets available for sale.

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

All financial assets, except for those measured at fair value in the profit and loss account are assessed as at each balance sheet date due to indications suggesting the impairment of value. Indications suggesting the impairment of value are analysed for each category of financial assets separately, as presented below.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted on an active market. Loans and receivables are measured at depreciated cost based on the effective interest rate method. Valuation of short-term receivables may also be based on the amount due, if the discount effect is immaterial.

Financial assets classified as loans and receivables are presented in the balance sheet as:

- long-term assets under "Receivables and loans" and
- short-term assets under "Loans", "Trade receivables", "Other receivables" and "Cash and cash equivalents".

write-downs on receivables are made based on the type of receivables:

- claimed receivables (amounts claimed in court and amounts due from debtors in the process of liquidation or filing for bankruptcy) – write-downs in the total amount receivable,
- other receivables – write-downs are made based on a case-by-case analysis and assessment of the situation and risk of potential loss.

Financial assets measured at fair value through profit and loss include assets classified as held for trading or designated at initial recognition for valuation at fair value through profit and loss as meeting the criteria set out in IAS 39.
This category includes all derivatives presented in the balance sheet as a separate item and units in investment funds. As at the balance sheet date, the Capital Group does not have such assets.
Instruments in this category are measured at fair value and the results of the measurement are presented in the profit and loss account.

Investments held to maturity include non-derivative financial assets with fixed or determinable payments and fixed maturity date, which the Group intends and is able to hold to maturity, with the exception of assets classified as loans and receivables.
In this category the Capital Group recognises bonds and other debt securities held to maturity, presented in the balance sheet as “Other securities”.
As at the balance sheet date, the Group does not have such investments.

Investments held to maturity are measured at amortised cost using the effective interest rate method. If there is any evidence indicating a possible impairment of investments held to maturity, assets are measured at present value of estimated future cash flows. Changes in carrying value, including impairment write-downs, are recognised in the profit and loss account.

Assets available for sale are non-derivative financial assets selected as available for sale or not classified as any of the above categories of financial assets.
In this category the Capital Group includes listed bonds not held to maturity and shares of companies other than subsidiaries or associates.
These assets are recognized in the balance sheet as "Other securities".
As at the balance sheet date, the Capital Group does not have such assets.
All other financial assets available for sale are measured at fair value.
Profits and losses on valuation are recognised as other comprehensive income and accumulated in revaluation capital from financial assets available for sale, except for impairment write-downs which are recognised in the profit and loss account. The profit and loss account includes also interest which would be recognised at the valuation of these financial assets at amortised cost based on the effective interest rate method.

Financial liabilities
Financial liabilities other than hedging derivatives are recognised under the following items of the balance sheet:

- bank loans and borrowings
- other financial liabilities,
- trade and other payables and
- issue of debt securities

After initial recognition, financial liabilities are valued at amortised cost based on the effective interest rate, except for financial liabilities held for trading or indicated as measured at fair value by the profit and loss account (derivatives

other than hedging instruments). The measurement of short term trade payables is based on the amount due as a result of immaterial discount effects.
Debt securities are understood as convertible bonds issued by the Company.
Initial recognition of convertible bonds takes place upon their issue as a recognition of the liability component and equity component, net of acquisition costs. The former is a commitment, while the latter is recognised as an element of other capital.
As at the balance sheet date, convertible bonds are valued through adjustment of their original value by the accrued interest. Interest is measured as at the balance sheet day based on the effective interest rate method.

Accruals and prepayments
Under the heading "Accruals and prepayments" in the assets column of the balance sheet, the Capital Group presents prepaid expenses relating to future reporting periods, including primarily rents.
Under "Accruals and prepayments" in the liabilities column of the balance sheet, income of future periods is presented.

Inventory
As at the balance sheet date, they are valued at cost of acquisition not in excess of their net selling prices.
Inventories include:

- trading commodities,
- materials (fabrics and sewing accessories) purchased and issued for processing to external contractors,
- IT consumables related to operation, maintenance and development of a computer network,
- advertising materials.

Trading commodities in local warehouses are recorded by quantity and value and measured as follows:

- for imported goods – at costs, including purchase prices, costs of transport abroad and cost of transport in Poland up to the first unloading point in Poland, as well as customs duties; currency rate specified in customs documents is used for the conversion of amounts expressed in foreign currency,
- goods purchased in Poland - at cost; purchase-related costs are charged directly to costs of ordinary operations when they are incurred, as they represent an immaterial amount.

The Reserved, Cropp, House and Mohito trading goods sold are valued at weighed average prices.
For trading commodities from other collections, the FIFO method is employed.

Trading commodities in bonded warehouses are valued based on their purchase cost, as well as costs of transport abroad and cost of transport in Poland up to the first unloading point in Poland.
The value of goods issued from bonded warehouses (moved to local warehouses or sold directly abroad) is measured based on detailed identification of goods for individual lots accepted to bonded warehouses.

Trading goods in transit are measured at cost (purchase price) plus costs of transport abroad and in Poland determined as the balance sheet date. Imported goods in transit are measured based on the selling exchange rate published by Raiffeisen Bank Polska S.A. as at the balance sheet date.

Inventories whose trading and useful value is impaired are written down and charged to remaining operating costs.

Cash and cash equivalents
Cash includes:
- Cash on hand and in bank accounts,
- other cash, including third-party cheques, third-party promissory notes, traveller's cheques, as well as third-party bonds, deposits, etc., if payable (mature) within 3 months from the date of their issue (acquisition, deposition),
- other cash assets, including interest on short- and long-term financial assets, i.e. deposits, bonds, Treasury notes, etc., payable as at the balance sheet date.

Equity
Basic capital is presented at nominal value of issued shares, in accordance with the Articles of Association of the Parent Company and entry in the National Court Register.

Shares of the Parent Company acquired and retained by the Parent Company are deducted from equity. Treasury shares are valued at cost.

Share premium account is formed from the surplus of share issue price over the share nominal value, less issue costs.

Other capital includes:
- supplementary capital,
- capital from the settlement of merger transactions and
- capital component of convertible bonds.

The amount of spare capital includes:
- profits brought forward from previous years, based on decisions of General Meetings of Shareholders,
- amounts of share-based payments made in respect of certain persons under the incentive scheme.

Capital from merger settlement resulting from goodwill revaluation after the acquisition of Artman S.A.

The retained earning present results from previous years and the financial result of the current year.

Share-based payments
The Company implements incentive plan, which provides for granting options convertible into shares of the parent company for key management.

The amount of remuneration for work of managers is determined indirectly by reference to the fair value of the equity instruments granted. The fair value is measured at grant date, with the non-market vesting conditions (achieving the desired level of profit or loss) are not taken into account in estimating the fair value of stock options.

Remuneration costs with a corresponding increase in equity is recognized based on the best available estimates of the number of options which will be vested during the period. In determining the number of options which will be vested, the non-market vesting conditions are considered.
The Company makes adjustments to these estimates, if subsequent information indicates that the number of options granted is different from previous estimates. Estimate adjustments to the number of options granted are recognized in profit or loss for the current period - no adjustments are made to prior periods.

Once the options convertible into shares are exercised, the amount of capital valuation of the options granted is transferred to the capital from the sale of shares above their nominal value, less share issue costs.

Provisions
Provisions are made for deferred income tax, employee benefits and other services.
Provisions for employee benefits include:
- provision for holiday leaves not taken,

- provision for future retirement benefits,
- unpaid compensations provision.

Provision for future retirement benefits is measured individually by the Capital Group, taking into account the length of service, gender, and the current amount of remuneration. It was assumed that the discount related to the provision for retirement benefits is equal to the expected salary growth rate.
There were no actuarial gains or losses in the reporting period.

Revenues
Sales revenues are recognized at fair value of payments received or receivable and represent receivables for products, goods and services provided in the normal course of business, net of discounts and VAT. Revenues are recognised in the amount of probable economic benefits obtained by the Group related to the transaction, on condition that this amount can be reliably estimated.
Revenues from the sale of goods are recognised when the significant risks and rewards of ownership have passed to the buyer.
Given the complaints and returns from customers, revenues from the sale of goods are adjusted based on the adjustment of the estimated cost of these returns. Based on historical data, the ratio of product return against sales volume is estimated. For these estimates it is assumed that returns of products purchased in a given quarter take place in the next quarter. The value of this ratio (against the entity’s prime costs and revenues) is defined every quarter.

State subsidies are recognised in books so as the subsidy income was recognised as commensurate to its costs.

The Capital Group adopted appropriate methods of presentation of subsidies in its financial statement:
- grants for assets – initially as a separate item in "Deferred income" and subsequently systematically presented as income over the usable life of an asset;
- income grants – as item "Other operating/financial revenues"

Revenues from interest are recognised successively as they accrue up to the net carrying amount of the financial asset.

Income tax
The mandatory reductions of the financial result comprise the current and deferred income tax which was not recognized in other comprehensive revenues or directly in equity.
Current tax is calculated on the basis of the taxable result of the fiscal year. Tax gains (losses) are different from book net gains (losses) as taxable revenues and tax deductible expenses are recognised in subsequent years, and permanently non-taxable items of revenues and expenses are eliminated. Due tax is calculated based on tax rates binding in the given fiscal year.

Deferred tax is calculated using the balance sheet method as tax to be paid or returned in the future based on differences between the balance sheet values of assets and liabilities, and the corresponding tax values used to determine the tax base.
Provision for the deferred tax is set aside for all positive taxable temporary differences and the asset under the deferred tax is recognised up to the extent that the recognised negative temporary differences may be deducted from future tax profits.

Transactions in foreign currencies
The functional and presentation currency of LPP Capital Group is Polish zloty (PLN).

As at the transaction date, assets and liabilities expressed in foreign currencies are carried in functional currency at the following exchange rates, respectively:

- Purchase or selling rate used by the Company's bank – in the case of purchase or sale of foreign currencies and repayment of receivables or payables (applicable to accounts in PLN),
- Purchase rate used by the Company's bank - in case of receipts of foreign currency to a currency account,
- Determined by FIFO method - in case of foreign currency expenses from a currency account,
- Average rate determined for a given currency by the National Bank of Poland on the last working day preceding the day of issuing a foreign or domestic invoice - in cases other than import or export (transit) of goods.
- Based on a customs document issued in relation to depositing goods at a customs bond - in case of goods and liabilities account on depositing the goods at a customs bond
- Sale rate applied by the Company's bank as at the balance sheet day - in case of measurement of goods in transit and related import liabilities, in case when no goods were deposited at a customs bond as at the balance sheet day.

The following items denominated in foreign currencies are measured as at the balance sheet date:
- monetary items:
  - elements of assets – at the Company's bank's buy rate adopted as at this date (USD – 2.9969, EUR – 3.9389),
  - elements of liabilities – at the Company's bank selling rate adopted as at this date (USD – 3.1881, EUR – 4.2060).
- non-monetary items – at the historical exchange rate as at the transaction date.

Earnings per share
Earnings per share for each period is calculated by dividing net profit for the period by weighted average number of shares of LPP S.A. in this period. As at the balance sheet date, the Capital Group shall examine whether in the given period factors causing dilution of the earning/loss per share occurred. Information on profit per share and diluted profit per share is presented in note 15.21.

Hyperinflation
Under the provisions of IAS 29, Financial Reporting in Hyperinflationary Economies, entities running their business in a hyperinflationary economy should restate individual items of their share capital by applying the general inflation rate. Results of this restatement should be disclosed as negative amounts under "retained earnings" in the balance sheet. This restatement is made to reflect the impact of hyperinflation on the entity's financial result

in the respective reporting period. In Poland, the period 1989-1996 is considered a period of hyperinflationary economy. However, the Management Board is in doubt whether the disclosure of this hyperinflationary restatement in the balance sheet as an accumulated loss brought forward from previous is justified, taking into account that it refers to events which occurred before 1996, and the corresponding earnings had been distributed before this financial statement was drawn up. In addition, it is not clear whether such disclosure of the hyperinflationary restatement has any effects under provisions of the Code of Commercial Companies, as regards e.g. the amount of dividend to be paid out, amount of payments on account of dividends, or conditions which require adoption of a resolution on the entity's remaining a going concern. Therefore, the

Management Board is of the opinion that the direct disclosure of this restatement in the balance sheet drawn up as at 31 December 2012 could be misleading for users of this financial statement, and decided to present relevant amounts, ratios, and conversion methods related to the hyperinflationary restatement in note 15.12 to the financial statement.
Financial statements of LPP Capital Group are drawn up based on the historical cost method.

Cash Flow Statement
For the purposes of the cash flow statement, the Group classified the following items as cash:
- cash in hand, cash in banks, and cash in transit,
- other cash, including third-party cheques, third-party promissory notes, traveller's cheques, as well as third-party bonds, deposits, etc., if payable (mature) within 3 months from the date of their issue (acquisition, deposition),
- other cash assets, including interest on short- and long-term financial assets, i.e. deposits, bonds, Treasury notes, etc., payable as at the balance sheet date.

Segments of operation
The scope of financial information in segment activity reporting within the Group is determined based on the requirements of IFRS 8.
A division into geographical segments has been adopted by the Group as the main reporting arrangement, which is due to its business activity in different geographical areas.
Two segments were specified:
- business within the European Union
- business in other countries

Division into geographical segments was based on the criterion of location of the Group's assets.

Assets (liabilities) of the segment are assets (liabilities) used by the segment in its operations, which are directly attributable or allocated to the segment on a reasonable basis.

The segment result is determined at the level of operating profit.
Revenues, profit or loss, assets and liabilities of segments are determined before transactions between segments are excluded, after elimination within a segment.

10. Corrections of errors and changes in the accounting policy

The above scenarios did not take place during the reporting.

11. Financial risk management

The Group is exposed to many risks associated with financial instruments. The Group's s assets and liabilities as per categories are presented in note 15.7. The risks affecting the Capital Group include:
- credit risk
- liquidity risk and
- market risk including currency risk and interest rate risk.

The main financial instruments in the operations of LPP Capital Group include primarily bank loans.
(note 15.7). The main objective of these financial instruments is to provide financing of the Capital Group's operations. In addition, the Group has other financial instruments established in the course of its business operations. Those mainly include cash and deposits (note 15.10), receivables, other financial assets and trade and services liabilities (note 15.9, 15.7 and 15.16).
Pursuant to IFRS 7, the risks related to financial instruments, which the Capital Group is exposed to, were analysed.

a) credit risk
The maximum credit risk is reflected by the balance sheet value of trade liabilities, loans and guarantees granted.

Balance sheet values of the aforementioned financial assets are presented in the table below.

in PLN '000

Items	2012	2011
Loans	6 208	3 545
Trade receivables	130 360	114 313
Cash and cash equivalents	159 393	116 966
Contingent liabilities under guarantees granted	164 663	126 608
Total	**460 624**	**361 432**

Concentration of credit risk related to trade receivables is presented in the table below.

Customer	Share of receivables (%) in the total amount of receivables
Customer 1	24.40
Other with debts representing less than 5% in the total amount of receivables	75.60
Total gross trade receivables	**100.0%**

Classification of gross overdue trade receivables by overdue period as at 31.12.2012 and 31.12.2011 is presented in the table below:

in PLN '000	2012	2011
Not overdue	92 018	64 157
Overdue up to one year	40 540	53 508
Overdue for over one year	3 685	3 032
Total	**136 243**	**120 697**

Receivables overdue for over one year and up to one year were partly written-down.
No hedging instruments for the above financial risks and no hedge accounting are used by the Capital Group.

b) liquidity risk
The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of such funding sources as overdrafts or investment bank credits.
Compared to the previous year, credit exposure of the Capital Group was significantly reduced. A detailed description of the Company's financial standing in terms of credits taken is presented in note 15.7. The decrease of the credit debt was due to, inter alia, the possibility of increasing the funding by suppliers by obtaining more favourable, longer payment dates.

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

As at 31.12.2012	Short-term	Long-term
Credits in credit account	35 611	125 114
Overdrafts	25 437	
Total	**61 048**	**125 114**

As at 31.12.2011	Short-term	Long-term
Credits in credit account	97 224	86 446
Overdrafts	20 525	
Debt securities	86 243	
Total	**203 992**	**86 446**

Liquidity risk must also include trade liabilities.

Classification of gross trade liabilities by overdue period as at 31.12.2012 and 31.12.2011 is presented in the table below:

in PLN '000	2012	2011
Not overdue	363 439	291 718
Overdue up to one year	36 301	21 730
Overdue for over one year	74	296
Total	**399 814**	**313 744**

The Group continues its previous assumptions concerning the development of business and an increase of its significance for suppliers.

c) currency risk
The base accounting currency for most commercial goods purchase transactions is USD. A small portion of settlements on this account is made in EUR.
The majority of revenues from sales are obtained in PLN. Given the specific type of the Group's business, it is possible to partially transfer the increase of the USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.
In addition to currency risk concerning the accounting currency used for the purchase of commercial goods, there is also the risk associated with the fact that
the commercial space rents are settled in EUR.

The Company's assets and liabilities in two major foreign currencies converted into PLN at the closing exchange rate as at the balance sheet date are as follows:

in PLN '000

As at 31.12.2012	Values expressed in foreign currency		Value after conversion
	USD	EUR	
Cash	11 078	4 050	49 410
Trade receivables	3 319	8 401	43 090
Short-term payables	80 527	6 113	285 167
Bank credits	208	129	1 195

Exchange rate risk

in PLN '000

+/- 5%			
Balance sheet items	Value	Effect on profit/loss	Effect on profit/loss
Financial assets			
Cash	49 410	-2 470	2 470
Trade receivables	43 090	-2 155	2 155
Effect on financial assets before tax		*-4 625*	*4 625*
Income tax (19%)		879	-879
Effect on financial assets after tax		*-3 749*	*3 749*
Financial liabilities			
Short-term payables	285 167	14 258	-14 258
Bank credits	1 195	60	-60
Effect on financial liabilities before tax		*14 318*	*-14 318*
Income tax (19%)		-2 720	2 720
Effect on financial liabilities after tax		*11 598*	*-11 598*
Total		***7 849***	***-7 849***

As at 31 December 2012, net profit of LPP Capital Group would have been higher by PLN 7 849 thousand if the Polish zloty had strengthened by 5% against foreign currencies (mainly USD), and the remaining factors had not changed. It is due to a greater effect of measurement of liabilities expressed in foreign currency on foreign receivables. Weakening of the Polish zloty by 5% vs. foreign currencies as at 31 December 2012 would have the same effect in terms of quantity but the opposite effect in terms of sign on the currencies used in the Company.

d) interest rate risk

Interest rate risk is related to bank credits utilised by the Capital Group on a regular basis based on variable Wibor, Libor and Euribor rate. Bank credits with floating interest rate create cash flow risk. In the opinion of the Management Board, a change in interest rates will not affect significantly the Group's performance.

The tables below present an analysis of the impact of changes in interest rates and foreign exchange rates on profit and loss and equity. The analysis relates to the financial components of the Company's balance sheet as at the balance sheet day.

Interest rate risk

in PLN '000

+/- 75 pb SP			
Balance sheet items	Value	Effect on profit/loss	Effect on profit/loss
Financial assets			
Cash	159 393	1 195	-1 195
Effect on financial assets before tax		*1 195*	-1 195
Income tax (19%)		-227	227
Effect on financial assets after tax		*968*	*-968*
Financial liabilities			
Bank credits	186 162	-1 396	1 396
Effect on financial liabilities before tax		*-1 396*	*1 396*
Income tax (19%)		265	-265
Effect on financial liabilities after tax		-1 131	*1 131*
Total		***-163***	***163***

As at 31 December 2012, the Group's net profit would be lower by PLN 163 thousand if the interest rates in PLN, EUR and USD had been higher by 75 basis points, assuming that the remaining parameters remain unchanged. This result is due to a higher balance of credits compared with cash and loans granted.

12. Capital management

The Group manages its capital in order to ensure the ability to continue operations by the Capital Group and to ensure the expected rate of return for shareholders and other parties parent stake in the financial condition of the Capital Group.
The Group examines the indicators used to assess the condition of the Capital Group, which are presented and described in detail in the Management Board's report on the operations of the Capital Group.

13. Critical accounting estimates and judgements

Estimates determining amounts disclosed in the financial statements refer to:

- estimated economic useful life of property, plant and equipment,
- residual value of property, plant and equipment as well as intangible assets.
- percentage of returns of commodities sold in the reporting period made in the next reporting period
- assets revaluation write-downs,
- discount rate for the estimated increase in salaries and actuarial assumptions used to calculate the amount of provisions for retirement benefits,
- future tax results taken into account when calculating deferred income tax assets,
- assumptions adopted to test trademark and goodwill impairment

The methodology employed by the Company is based on the best knowledge of the Management Board and is in line with the requirements of IFRS.

Methods of determination of estimated amounts are applied consistently in relation to the previous reporting period.

The following estimated amounts remained the same as in the previous period:

- discount rate for the estimated increase in salaries and actuarial assumptions used to calculate the amount of provisions for retirement benefits,
- future tax results taken into account when calculating deferred income tax assets.

The following estimated amounts were changed in line with the adopted methodology:

- the estimated economic useful life of property, plant and equipment – applicable to third-party facilities (determination of a new depreciation period after modernisation),
- sales adjustment ratio related to returns of goods made in the next reporting period.

Changes in revaluation write-downs are presented below in Notes to individual items of assets.

14. Principles of consolidation

The consolidated financial statement of the Capital Group has been drawn up based on financial statements of its subsidiaries, employing the same methods of valuation and principles of financial statements preparation as the parent company.
The consolidated financial statement of the Capital Group includes relevant data from the statement of the parent company and statements of foreign subsidiaries expressed in the local currency of their respective countries, converted into PLN based on the following principles:

- individual items under assets and liabilities presented in the balance sheet (with the exception of shareholders' equity) are converted at the average exchange rate published by the National Bank of Poland for this particular currency as at the balance sheet date;
- individual items in the profit and loss account are converted at the exchange rate calculated as an arithmetic average of average exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- individual items in the cash flow statement are converted at the exchange rate calculated as an arithmetic average of average exchange rates published by the National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;
- shareholders' equity is converted as at the date when the control was taken over by the parent company, at the average exchange rate published by the National Bank of Poland as at that date.

Equity includes the following separate items:

- core capital,
- other equity,
- profit (loss) from previous years,
- net financial result,
- foreign exchange differences, including in particular foreign exchange differences resulting from different methods of conversion of the net financial result and the balance sheet into PLN.

The method of full consolidation was adopted.
The following adjustments and non-consolidation were recognised:

- stake in shareholders' equity of subsidiaries held by the parent company – non-consolidated,
- inter-company payables and receivables – non-consolidated,
- revenues and expenses related to the Capital Group inter-company sale and purchase transactions - non-consolidated,
- dividends paid - non-consolidated,
- profits and losses related to the Capital Group inter-company transactions, which are included in the carrying value of assets such as inventories and fixed assets - non-consolidated,
- interest on loans granted by the parent company to its subsidiaries (excluded from financial revenues and expenses);
- adjustments of the Capital Group's financial result related to deferred income tax on account of interest on loans granted within the Group and foreign exchange differences as at the balance sheet date.

LPP S.A. Management Board:

Marek Piechocki – President of the Management Board ....

Dariusz Pachla – Vice President of the Management Board ……………………………………………..

Jacek Kujawa – Vice President of the Management Board ……………………………………………

Piotr Dyka – Vice President of the Management Board ……………………………………………

Hubert Komorowski – Vice President of the Management Board ……………………………………………

Gdańsk, 19 April 2013

ADDITIONAL NOTES

15. Additional notes

15.1. Tangible fixed assets

Property, plant and equipment is depreciated on a straight-line basis based on the following depreciation rates:

- buildings, facilities and civil- and hydro-engineering structures: 2.5 - 85%,
- plant and machinery: 5 - 60%,
- transport vehicles: 10 - 33%,
- other tangible fixed assets: 10 - 60%.

The assumed economic useful life of PP&E is reviewed on an annual basis.

In the reporting period, the Capital Group made impairment write-downs of fixed assets in the amount of PLN 953 thousand.

Compensations related to tangible fixed assets received by the Group in 2012 amounted to PLN 524 thousand (2011: PLN 180 thousand) and were related mainly to the vehicle-related damage.

As at the balance sheet date, there was a limited right to use the property in Pruszcz Gdański in relation to an investment loan. A detailed description is presented in note 15.7.

As at 31 December 2012, the value of contractual liability for the purchase of tangible fixed assets was PLN 16 981 thousand (2011: PLN 2 900 thousand).
As of the balance sheet date, there were no fixed assets held for sale or discontinued operations in the Group.

The Group has no information on the fair value of tangible assets used and does not disclose data in this regard.

Depreciation of tangible fixed assets is presented in a spreadsheet version of the profit and loss account, together with other expenses, in the following items:

- cost of sales - 2012: PLN 83 210 thousand (2011: PLN 72 280 thousand),
- overheads - 2012: PLN 22 120 thousand (2011: PLN 19 214 thousand).

Changes in fixed assets (by type) in the period from 01.01.2012 to 31.12.2012 in PLN '000

	Land	Buildings, facilities, civil- and hydro-engineering structures	Plant and machinery	Means of transport	Other fixed assets	Fixed assets in progress	Fixed assets, total
1) Opening balance gross value of fixed assets	19 174	580 315	134 362	12 600	135 403	20 127	901 981
- foreign exchange differences		-10 122	-2 922	-108	-3 948	-433	-17 533
- increase		159 095	33 788	2 445	73 625	287 478	556 431
- decrease		18 591	4 350	2 388	3 082	287 441	315 852
2) Closing balance gross value of fixed assets	19 174	710 697	160 878	12 549	201 998	19 731	1 125 027
3) Opening balance accumulated depreciation (amortization)		272 695	88 245	6 312	80 342	0	447 594
- depreciation		63 114	18 345	1 828	22 043		105 330
- foreign exchange differences		-5 617	-2 287	-73	-1 820		- 9 797
- decrease		14 587	4 190	1 719	2 667		23 163
4) Closing balance accumulated depreciation (amortisation)		315 605	100 113	6 348	97 898	0	519 964
5) Opening balance impairment write-downs	0	6 153	509	0	0	0	6 662
- increase		661	6		286		953
- decrease		850	204				1 054
6) Closing balance impairment write-downs	0	5 964	311	0	286	0	6 561
Total closing balance net value of fixed assets	19 174	389 128	60 454	6 201	103 814	19 731	598 502

Changes in fixed assets (by type) in the period from 01.01.2011 to 31.12.2011 in PLN '000

	Land	Buildings, facilities, civil- and hydro-engineering structures	Plant and machinery	Means of transport	Other fixed assets	Fixed assets in progress	Fixed assets, total
1) Opening balance gross value of fixed assets	19 174	525 983	120 609	11 187	109 154	4 561	790 668
- foreign exchange differences		12 874	4 205	132	4 228	272	21 711
- increase		54 380	18 295	2 568	28 025	117 107	220 375
- decrease		12 922	8 747	1 287	6 004	101 813	130 773
2) Closing balance gross value of fixed assets	19 174	580 315	134 362	12 600	135 403	20 127	901 981
3) Opening balance accumulated depreciation (amortization)		217 277	78 125	5 461	64 337		365 200
- depreciation		57 493	15 001	1 699	17 301		91 494
- foreign exchange differences		6 954	3 428	79	2 592		13 053
- decrease		3 727	8 309	927	3 888		16 851
4) Closing balance accumulated depreciation (amortisation)		272 695	88 245	6 312	80 342		447 594
5) Opening balance impairment write-downs		4 976	687				5 663
- increase		3 112	221				3 333
- decrease		1 935	399				2 334
6) Closing balance impairment write-downs		6 153	509				6 662
Total closing balance net value of fixed assets	19 174	301 467	45 608	6 288	55 061	20 127	447 725

The statement has been prepared in PLN thousand

Impairment write-downs - items in the profit and loss account - 2012	Amount
- increase – "Revaluation of non-financial assets"	953
- reversal – "Other operating revenues"	1 054

Impairment write-downs - items in the profit and loss account - 2011	Amount
- increase – "Revaluation of non-financial assets"	2 982
- reversal – "Other operating revenues"	2 334

15.2. Leased assets

The Capital Group uses tangible assets under long-term lease agreements which, in accordance with IAS 17, are treated as operating leases. These agreements relate only to transport vehicles.

Outstanding future minimum lease payments as at 31.12.2012 are as follows:

Item	Minimum payments
for 1 year	790
From 1 to 5 years	1 584
Over 5 years	0
Total minimum lease payments	2 374

In 2012, the Capital Group included in the separate profit and loss account the costs of operating leases amounting to PLN 520 thousand.
This amount covers only the minimum lease payments.
As at 31 December 2012, there were no contingent fees and sublease payments in the Group.
The basis for determining the minimum lease payments is the monthly lease instalment.
The Lessee has the right to terminate the lease agreement with a 30-days' notice period. Agreements do not contain restrictions on dividends, additional debt or further leasing agreements.

15.3. Intangible assets

Intangible assets used by the Capital Group include trademarks, patents and licenses, computer software, internally generated development works and other intangible assets.

The most important element of intangible assets is the House trademark, which was presented in the balance sheet under a separate item of fixed assets as a "Trademark". Its carrying value as at 31.12.2012 amounted to PLN 77 508 thousand (2011: PLN 77 508 thousand). The useful life of this intangible asset is indefinite.

In the current reporting period, the Group performed an annual impairment test of this component and it was demonstrated that it does not require to be included in the write-down.

The detailed analysis is as follows:

The recoverable amount of cash-generating units to which a value was assigned was determined on the basis of their value in use, using the method of licensing fees.

Detailed assumptions for the estimates are as follows:

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

- the estimate is based on sales generated by clothing under the House brand, which amounted to PLN 468.5 million in 2012 and was higher by 58.76% compared with the turnover for 12 months (November 2007-October 2008) adopted for the initial balance sheet valuation.
- license fee at the rate of 3% of turnover was adopted,
- capitalization rate adopted for the valuation using the CAPM method (the forecast period is not defined here because it is based on the perpetual rent model) amounted to 6.64% and consisted of several elements:

- risk-free rate – 3.465% equal to the profitability of 52-week treasury bills
- annual inflation rate – 3.70%
- risk premium – 7.50%

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

As a result of the tests it has been established that the trademark's value exceeds the carrying value of these intangible assets as at the balance sheet date, and therefore there is no need to make any impairment write-downs.

The Group draws up its profit and loss account in the function format. As a result, amortisation of intangible assets is recognised under the following items:

- costs of sales in the amount of PLN 480 thousand (2011: PLN 240 thousand),
- general administrative expenses in the amount of PLN 3 187 thousand (2011: PLN 3 705 thousand).

As at 31 December 2012, the Group was under no contractual obligation to acquire any intangible assets.
In the reporting period, the Group incurred expenditure on development works related to the design and construction of a model showroom of Reserved, House and Sinsay brands. These expenditures are recognized as an increase in intangible assets.

Changes in intangible assets during the period from 01.01.2012 to 31.12.2012 in PLN '000

	Costs of completed development works	Acquired concessions, patents, licenses and similar assets, including:		Intangible assets in progress	Total
		Total	Computer software		
a) Gross value of intangible assets at the beginning of the performance period	443	40 361	37 277	1 746	42 550
- foreign exchange differences		-97	-97	-3	-100
- increase	4 755	3 901	3 901	5 234	13 890
- decrease		5	5	4 118	4 123
b) Gross value of intangible assets at the end of the performance period	5 198	44 160	41 076	2 859	52 217
c) Opening balance accumulated depreciation (amortisation)	443	30 592	27 809		31 035
- foreign exchange differences		-82	-82		-82
- planned amortisation write-downs		3 667	3 638		3 667
- decrease		2	2		2
d) Closing balance accumulated depreciation (amortisation)	443	34 175	31 363		34 618
Total net value of intangible assets at the end of the performance period	4 755	9 985	9 713	2 859	17 599

Changes in intangible assets during the period from 01.01.2011 to 31.12.2011 in PLN '000

	Costs of completed development works	Acquired concessions, patents, licenses and similar assets, including:		Intangible assets in progress	Total
		Total	Computer software		
a) Gross value of intangible assets at the beginning of the performance period	443	37 094	33 902	609	38 146
- foreign exchange differences		120	120		120
- increase		3 697	3 697	3 437	7 134
- decrease		550	442	2 300	2 850
b) Gross value of intangible assets at the end of the performance period	443	40 361	37 277	1 746	42 550
c) Opening balance accumulated depreciation (amortisation)	443	26 663	24 519		27 106
- foreign exchange differences		104	104		104
- planned amortisation write-downs		3 945	3 198		3 945
- decrease		120	12		120
d) Closing balance accumulated depreciation (amortisation)	443	30 592	27 809		31 035
Total net value of intangible assets at the end of the performance period	0	9 769	9 468	1 746	11 515

At the balance sheet date, the Group was not subject to any restrictions on the use of the Reserved, Cropp and House trademarks in relation to a hedge of an investment loan. Detailed information on this matter is presented in note 15.7.3

15.4. Goodwill

In 2012, the goodwill presented in the balance sheet did not change in comparison to the previous year. It was formed following the merger of LPP S.A. and Artman in July 2009.
This merger was performed by the transfer of all assets of the acquired company, i.e. Artman S.A. to the acquiring company, i.e. LPP S.A.
On the day of this merger, LPP S.A. held 100% shares of Artman S.A.
The merger was performed under common supervision.
The provisions of the amended IFRS 3 were not applied to the completed merger transaction.

The valuation of all existing assets was performed on the day of the acquisition of Artman S.A. The Group assessed intangible asset in the form of a trademark in accordance with IAS 38 and included it in the separate item of the balance sheet.

The goodwill determined as at the balance sheet date, resulting from the acquisition of Artman S.A., amounted to PLN 183 203 thousand.
At the same time, due to the above-mentioned acquisition, the Group took over the goodwill existing in the assets of Artman Capital Group, arising from the purchase of 100% of shares in UAB House Plius in the amount of PLN 406 thousand.

Pursuant to IAS 36 and the accounting policy as at 31.12.2012, an impairment test was conducted for the goodwill of Artman with the carrying value of PLN 183 203 thousand.

The recoverable amount of cash-generating units, to which the goodwill was assigned, was determined on the basis of their value in use based on the discounted cash flow method (DCF).

The detailed assumptions for the estimates are as follows:

Goodwill of Artman – estimated using the DCF method for flows generated by House stores acquired from Artman in 2008 (through the acquisition of Artman shares). The valuation was based on the following assumptions:

- the period covering estimated cash flows for 15 years (2013-2027), excluding the residual value,
- annual forecasts of revenues and expenses in 2013 (as per the company's budget) and subsequent years are growing at a rate similar to the inflation rate,
- forecast revenues and expenses for operating retail shops acquired together with ARTMAN (51 own and 39 franchise retail shops)
- annual sales in tested retail shops - about 4% higher in 2013 compared to 2012, and sales increase by 4% in subsequent years
- operating costs in tested retail shops - about 2.5% higher in 2013 compared to 2012, and sales increase by 2.5% in subsequent years
- Costs of HOUSE sales department, HOUSE production implementation department and marketing costs of the HOUSE brand – increasing year on year by 2.5% and assigned to the tested retail shops by proportion of the number of shops acquired (and still operating) at the time of the merger to all HOUSE retail shops.
- discount rate in the forecast period is variable and is calculated on the basis of WACC. The WACC rate is 9.22% in 2013 and remains at that level until 2027.

The parameters adopted above are consistent with past experience (for the expenses and sales assumptions) and information coming from external sources for other figures.

As a result of the tests it has been established that the goodwill exceeds the carrying value of intangible assets as at the balance sheet date and therefore there is no need to make any impairment write-downs.

The table below presents changes in goodwill subject to the impairment test.

in PLN '000

Gross value	31.12.2012	31.12.2011
Opening balance	183 203	183 203
Increases	0	0
Reductions	0	0
Closing balance	183 203	183 203
Revaluation write-downs	**31.12.2012**	**31.12.2011**
Opening balance	0	0
Closing balance	0	0
Net value	**31.12.2012**	**31.12.2011**
Opening balance	183 203	183 203
Closing balance	183 203	183 203

15.5. Investments in subsidiaries

The "Shares in subsidiaries" balance sheet item includes only shares in non-consolidated domestic companies.
The value of shares as at the balance sheet date amounted to PLN 186 thousand (2011: PLN 186 thousand).

Shares in subsidiaries are measured at cost less impairment write-downs. Results of the analysis carried out as at the balance sheet date did not show the need for impairment write-downs of assets held by the Capital Group.
In the opinion of the Board of the parent company, the financial statements of non-consolidated subsidiaries are irrelevant to the consolidated financial statement. The total value of assets of non-consolidated subsidiaries in 2012 is 0.06% of the Group's assets, and the total value of revenues from sales of these companies is 0.37% of the Group's revenues.

15.6. Investments in real property

Investments in real property include only residential premises, which are considered by the Group as a source of rental income.
The Group applies the purchase price or production cost model for balance sheet valuation of a given real property.
Changes in the carrying amount in the reporting period were as follows:

in PLN '000

	From 01.01.2012 to 31.12.2012	From 01.01.2011 to 31.12.2011
Opening balance carrying amount	678	0
Purchase of property	0	688
Redemption	17	10
Closing balance carrying amount	661	678

Impairment write-downs are made on a straight-line basis using the depreciation rate of 2.5%. The Group assumed the period of use of real property of 40 years.

In the reporting period, the Capital Group generated revenues from rent, and presented in the separate profit and loss account the direct maintenance costs of real property in the following amounts:

	From 01.01.2012 to 31.12.2012	From 01.01.2011 to 31.12.2011
Revenues from rents	29	22
Direct operating costs		1

15.7. Financial assets and liabilities

15.7.1. Categories of financial assets and liabilities

The value of financial assets presented in the consolidated balance sheet relates to the following categories of financial instruments defined in IAS 39:
1. loans and receivables (L&R)
2. financial assets measured at fair value in the income statement (AFV)
3. financial assets available for sale (AAS)

As at 31.12.2012

in PLN '000

Fixed assets	L&R	In addition to IAS 39
Receivables and loans	8 680	
Current assets	L&R	In addition to IAS 39
Trade receivables	130 360	
Other receivables	452	64 850
Loans	129	
Cash and cash equivalents	159 393	

As at 31.12.2011

in PLN '000

Fixed assets	L&R	In addition to IAS 39
Receivables and loans	4 549	
Current assets	L&R	In addition to IAS 39
Trade receivables	114 313	
Other receivables	929	32 409
Loans	167	
Cash and cash equivalents	116 966	

The value of financial liabilities presented in the separate balance sheet refers only to one of the categories of financial instruments specified in IAS 39 as financial liabilities measured at amortized cost (LAC).

As at 31.12.2012

in PLN '000

Long-term liabilities	LAC	In addition to IAS 39
Bank loans and borrowings	125 114	
Other liabilities	71	77
Short-term liabilities	LAC	In addition to IAS 39
Trade payables	399 814	
Other liabilities	42	97 070
Bank loans and borrowings	60 517	

As at 31.12.2011

in PLN '000

Long-term liabilities	LAC	In addition to IAS 39
Bank loans and borrowings	86 446	
Other liabilities	31	59
Short-term liabilities	LAC	In addition to IAS 39
Trade payables	313 744	
Other liabilities	54	75 947
Bank loans and borrowings	117 749	
Issue of debt securities	86 243	

15.7.2. Receivables and loans

For the purposes of presentation in the consolidated balance sheet, the Capital Group distinguishes the receivables and loans category (IFRS 7.6). In the long-term part, receivables and loans are presented as one item in the balance sheet. In the short-term part, pursuant to IAS 1, the Group presents trade receivables and other receivables separately.
Balance sheet items of the receivables and loans class are presented in the table below.

in PLN '000

	31.12.2012	31.12.2011
Fixed assets:		
Receivables	2 601	1 171
Loans	6 079	3 378
Long-term receivables and loans	**8 680**	**4 549**
Current assets		
Trade and other receivables	130 360	115 242
Loans	129	167
Short-term receivables and loans	**130 489**	**115 409**
Receivables and loans, including:	**139 169**	**119 958**
Receivables (note 15.9)	132 961	116 413
Loans (note 15.7.2)	6 208	3 545

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

As at 31.12.2012, loans granted in PLN with the carrying amount of PLN 3 217 thousand (2011: PLN 3 431 thousand) were subject to a fixed interest rate of 7%. The maturity dates for loans in PLN cover the period 2013-2017.

The Group also granted foreign currency loans in HUF and RUB. The carrying value of foreign currency loans as at 31.12.2012 was PLN 2 991 thousand. In accordance with Hungarian regulations, workers' loans are exempt from interest and concluded for a period of four to seven years.
Russian loan bears interest at a fixed rate of 14% and matures in 2015.

At the end of the balance sheet period, they are assessed in terms of impairment.
Results of the analysis carried out as at the balance sheet date did not show that there was a need to perform impairment write-downs of loans taken by LPP Capital Group.

Change in the gross carrying value of loans, including their write-downs, is as follows:

in PLN '000

Gross value	31.12.2012	31.12.2011
Opening balance amount	3 545	341
The amount of loans granted during the period	2 873	3 399
Calculation of interest	105	24
Repayment of loans and interest	315	219
Closing balance amount	6 208	3 545

Disclosures regarding cash and cash equivalents are presented in note 15.10.

15.7.3. Bank credits and loans and other debt instruments

The Capital Group does not include any instruments from the credit and loans category into financial liabilities to be carried at fair value through profit and loss. All credits, loans and other debt instruments are measured at depreciated cost using the effective interest rate method.

As at 31 December 2012, the Company's debt related to bank credits was as follows:

Bank	Use of credits as at 31 December 2012		Credit costs	Maturity date
	in PLN '000	currency in '000		
PKO BP S.A.	56 039		wibor 1 m + bank's margin	04.11.2017
PKO BP S.A.	104 686		wibor 1 m + bank's margin	31.12.2017
Citibank Bank Handlowy	23 991		wibor 1 m + bank's margin	22.11.2013
Citibank Bank Handlowy	664	USD 208	libor 1 m + bank's margin	21.11.2013
BNP Paribas Bank Polska S.A.	248		wibor 1 m + bank's margin	16.12.2013
Raiffeisen Bank Polska S.A.	3		wibor 1 m + bank's margin	30.09.2013
Unicredit Tiriac Bank S.A.	531	EUR 129	euribor 1 m + bank's margin	31.07.2013
Total	186 162			

Bank credits amounting to PLN 186 162 thousand include:
- long-term credits in the amount of PLN 125 114 thousand,
- short-term loans in the amount of PLN 61 048 thousand (including PLN 35 611 thousand, which constitutes part of the long-term investment loans falling due in the period of 12 months following the balance sheet date)

As at 31 December 2011, the Company's debt related to bank credits was as follows:

Bank	Use of credits as at 31 December 2011		Credit costs	Maturity date
	in PLN '000	currency in '000		
PKO BP S.A.	68 918		wibor 1 m + bank's margin	04.11.2017
PKO BP S.A.	114 725		wibor 1 m + bank's margin	30.06.2013
PKO BP S.A.	3 062		wibor 1 m + bank's margin	23.06.2012
Pekao S.A.	15 297		wibor 1 m + bank's margin	31.07.2012
Pekao S.A.	1 196	USD 341	libor 1 m + bank's margin	31.07.2012
BNP Fortis S.A.	224		wibor 1 m + bank's margin	18.12.2012
Citibank Bank Handlowy	267		wibor 1 m + bank's margin	22.11.2012
Raiffeisen Bank Polska S.A.	2	USD 1	libor 1 m + bank's margin	30.09.2012
Unicredit Bank Czech Republic	28	CZK 163	pribor 1 m + bank's margin	15.07.2013
Unicredit Tiriac Bank S.A.	476	EUR 113	euribor 1 m + bank's margin	31.07.2013
Total	204 195			

As at 31.12.2011, bank credits amounting to PLN 204 195 thousand include:
- long-term credits in the amount of PLN 86 446 thousand,
- short-term loans in the amount of PLN 117 749 thousand (including PLN 97 224 thousand, which constitutes part of long-term investment loans falling due in the period of 12 months following the balance sheet date)

Detailed information on bank credits is as follows:

Bank	Type of credit/line	Credit amount and currency:		Security
		in '000	currency	
PKO BP S.A.	Multi-purpose and multi-currency credit line	173 000	PLN	2 blank promissory notes
PKO BP S.A.	Investment loan	100 000	PLN	ordinary and capped mortgage, assignment of receivables from insurance, blank promissory note
PKO BP S.A.	Investment loan	394 800	PLN	ordinary and capped mortgage, assignment of receivables from insurance, blank promissory note, registered pledge on Reserved, Cropp and House trademarks
Pekao S.A.	Multi-purpose and multi-currency credit line	180 000	PLN	blank bill of exchange power of attorney for accounts
BNP Paribas Bank Polska S.A.	Multi-purpose and multi-currency credit line	180 000	PLN	blank bill of exchange
Raiffeisen Bank Polska S.A.	Multi-purpose and multi-currency credit line	180 000	PLN	blank bill of exchange, power of attorney for accounts
Citibank Bank Handlowy	Multi-purpose, multi-currency line	60 000	PLN	blank bill of exchange
Citibank Bank Handlowy	Revolving line of letters of credit	18 100	USD	blank bill of exchange
Unicredit Tiriac Bank S.A.	Credit line	1 500	EUR	guarantee of Pekao S.A.
Unicredit Prague	Credit line	41 700	CZK	guarantee of PEKAO S.A.

In the reporting period, in the case of loans, there was no situation in which the company defaulted on payments or conditions of the contracts.

The year 2012 was the last year when the Capital Group had, in addition to bank loans, other debt instruments in the form of convertible bonds. On 23 July 2012, the latest conversion of bonds into shares took place.

In total, in 2012, 53 389 bonds were converted into series K shares and PLN 5 798 thousand interest instalments were paid.

Detailed information on financial instruments recognised in financial revenues and expenses is presented in notes 15.18 and 15.19.

15.7.4. Other information on financial instruments

The fair values, carrying values and comparable data of individual financial instruments as at the balance sheet date are presented in the table below.

2012

in PLN '000

Assets*	Fair value	Carrying amount
Trade and other receivables	198 263	198 263
Cash and cash equivalents	159 393	159 393
Total	357 656	357 656
Liabilities	Fair value	Carrying amount
Bank loans and borrowings	186 162	186 162
Trade and other liabilities	399 890	399 890
Other financial liabilities	113	113
Total	586 165	586 165

2011

in PLN '000

Assets*	Fair value	Carrying amount
Trade and other receivables	148 822	148 822
Cash and cash equivalents	116 966	116 966
Total	265 788	265 788
Liabilities	Fair value	Carrying amount
Bank loans and borrowings	204 195	204 195
Debt securities	86 243	86 243
Trade and other liabilities	389 750	389 750
Other financial liabilities	85	85
Total	**680 273**	**680 273**

***** due to the lack of possibility of reliable pricing, the table does not include unquoted equity instruments valued at purchase price and the value of loans priced using the amortised cost method for which there is no active market

Fair value is defined as the amount for which on market conditions the asset could be exchanged or a liability settled, between knowledgeable, interested and unrelated parties. In the case of financial instruments for which there is an active market,

fair value is determined based on parameters from the active market (sales and purchase prices). In the case of financial instruments for which there is no active market,

fair value is determined on the basis of valuation techniques, where input data of the model are variables derived from active markets (exchange rates, interest rates).

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

15.8 Inventories

Trading commodities are the key element of the Capital Group’s inventories. The structure of inventories as at the balance sheet date is presented in the table below:

in PLN '000

Inventory	31.12.2012	31.12.2011
- materials	8 588	5 370
- goods	647 482	589 236
Total	**656 070**	**594 606**

The value of inventories disclosed in the balance sheet was reduced by the amount of a revaluation write-down. Changes in the amount of inventories revaluation write-down in the reporting period and comparative periods are presented in the table below.

As at 31.12.2012, the value of inventories recognised as cost in the reporting period amounted to PLN 1 577 505 thousand.

in PLN '000

Inventory revaluation write-down	31.12.2012	31.12.2011
Opening balance	5 251	3 939
Inventory write-downs included as cost in the period	3 460	2 303
Reversed revaluation write-downs in the period	3 673	1 098
Exchange rate differences	-21	107
Closing balance	5 017	5 251

15.9. Receivables

Trade and other receivables recognised by the Capital Group as receivables and loans (note 15.7) are as follows:

Long-term receivables in the carrying amount of PLN 2 601 thousand (2011: PLN 1 171 thousand) include only several deposits paid.
Detailed information on the structure of the Capital Group’s short-term receivables is presented in the table below.

in PLN '000

Short-term receivables	31.12.2012	31.12.2011
Trade receivables	136 243	120 697
Revaluation write-downs of trade receivables	5 883	6 384
Net trade receivables	**130 360**	**114 313**
Other receivables	700	1 223
Revaluation write-downs of other receivables	248	294
Other receivables net according to IAS 39	**452**	**929**
Other receivables beyond IAS 39	**64 850**	**32 409**
Total short-term receivables	**195 662**	**147 651**

Changes in the amount of write-downs in the reporting period and comparative periods are presented in the table below.

in PLN '000

Receivables revaluation write-down	31.12.2012	31.12.2011
Opening balance amount	6 678	6 875
Revaluation write-downs created in the period	1 070	2 081
Reversed revaluation write-downs in the period	1 693	2 335
Exchange rate differences	76	57
Closing balance amount	6 131	6 678

15.10. Cash

in PLN '000

Cash	31.12.2012	31.12.2011
Cash in hand and cash at banks	102 629	87 763
Other cash	56 764	29 203
Total	**159 393**	**116 966**

"Other cash" includes short-term deposits. These deposits are established for a fixed term (from one day up to one month, depending on the Company's needs) and bear interest based on fixed interest rates.

The currency structure of cash is presented in the table below.

in PLN '000

Cash - currency structure	31.12.2012	31.12.2011
In the Polish currency	56 989	56 556
In foreign currencies (by currency)	102 404	60 410
- USD	33 201	8 562
- RMB	0	92
- EUR	16 209	13 171
- LVL	1 573	956
- CZK	10 065	8 469
- UAH	3 660	2 033
- LTL	2 284	1 101
- HUF	8 168	5 130
- RUB	22 078	15 947
- BGN	2 403	3 109
- RON	2 763	1 840
Total (in PLN '000).	**159 393**	**116 966**

As at 31 December 2012, the Group had free borrowed funds in the amount of PLN 303 353 thousand.
In the period from 1.01.2012 to 31.12.2012, the Group made non-cash settlements with its customers (in the form of set-off of liabilities and receivables) in the amount of PLN 47 621 thousand.

15.11. Discontinued operations

In 2012, the Company had no discontinued operations.

15.12. Equity capital

Share capital

The Group's share capital is equal to share capital of the parent company.
As at 31 December 2012, it amounted to PLN 3 662 246. The capital is divided into 1 831 123 shares of a nominal value of PLN 2 each.

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

The statement has been prepared in PLN thousand

Series / issue	Type of shares	Type of privilege	Type of restriction concerning shares entitlements	Number of shares	Value of the issue
A	bearer	ordinary	none	100	200
B	registered	privileged	none	350 000	700 000
C	bearer	ordinary	none	400 000	800 000
D	bearer	ordinary	none	350 000	700 000
E	bearer	ordinary	none	56 700	113 400
F	bearer	ordinary	none	56 700	113 400
G	bearer	ordinary	none	300 000	600 000
H	bearer	ordinary	none	190 000	380 000
I	bearer	ordinary	none	6 777	13 554
J	bearer	ordinary	none	40 000	80 000
K	bearer	ordinary	none	80 846	161 692
Total number of shares				1 831 123	

All issued shares are paid up in full.
In the reporting period, LPP S.A. paid dividends to its shareholders. Part of the profit generated in 2011 and undistributed net profit for 2010 in the total amount of PLN 140 000 326 was earmarked for dividend, which corresponds to PLN 77.36 per one authorised share.
The amount of PLN 112 924 326 was allocated to ordinary shares and PLN 27 076 000 - to preferred shares.
Registered shares held by Marek Piechocki and Jerzy Lubianiec in the number of 350 000 are preference shares in terms of voting rights at the General Meeting of Shareholders. Each registered share carries 5 votes.

Ownership structure of the share capital of LPP S.A. as at 31 December 2012:

Shareholder	Number of held shares (pieces)	Number of votes at the AGM	Share in the total number of votes at the AGM	Participation in share capital	Nominal value of shares
Marek Piechocki	175 000	875 000	27.1%	9.6%	350 000
Jerzy Lubianiec	175 000	875 000	27.1%	9.6%	350 000
Monistor Limited (Cyprus)	200 728	200 728	6.2%	11.0%	401 456
Grangeford Limited (Cyprus)	350 000	350 000	10.8%	19.1%	700 000
Other shareholders	930 395	930 395	28.8%	50.8%	1 860 790
Total	1 831 123	3 231 123	100.0%	100.0%	3 662 246

Share premium
The separated value of the spare capital resulting from the surplus from the disposal of the shares above their nominal value with the carrying value of PLN 235 069 thousand.
Other capital
The value of other capital results from the sum of spare capital, reserve capital, capital from the settlements of the merger and the equity component of convertible bonds.

The amount of individual capital is presented in the table below.

in PLN '000

Type of capital	31 December 2012	31 December 2011
Spare capital	645 760	551 356
Reserve capital	310	193
Capital from the settlement of the merger	-1 410	-1 410
Capital component of convertible bonds	12 290	12 290
Total	**656 950**	**562 429**

The Company's spare capital presented under equity as at 31.12.2012 was created mainly from net profit brought forward from previous years and as a result of measurement of share-based payments.
Part of the spare capital created on a statutory basis under Article 396 of the Code of Commercial Companies may be used in the future only to offset a loss (if any).

The structure of the spare capital is as follows:

in PLN '000

Type of spare capital	31 December 2012	31 December 2011
Created on a statutory basis based on the write-off from profit or loss	1 300	1 288
Created as per the Articles of Association based on write-off from profit or loss	630 999	539 712
Created from share-based payments	13 461	10 356
Total	**645 760**	**551 356**

Equity of the Company in the period of hyperinflation

Conversion of the equity in the hyperinflationary period was based on the following data:
1. 18.12.1989 - establishment of the company and contribution of share capital in the amount of (after denomination) PLN 200
2. 4.05.1995 - acquisition of the company by Marek Piechocki and Jerzy Lubianiec
3. 12.04.1995 - registration of the increase of share capital up to PLN 700 thousand
4. 24.10.1995 - adoption of the resolution on the increase of share capital up to PLN 1 500 thousand
5. 4.01.1996 – adoption of the resolution on the increase of share capital up to PLN 2 200 thousand

in PLN '000

Year	Opening balance equity	Increases	Inflation	Days	Inflation rate	Capital after conversion
1990	0.2		585.8%	365	6.858	1.4
1991	1.4		70.3%	365	1.703	2.3
1992	2.3		43.0%	365	1.430	3.3
1993	3.3		35.3%	365	1.353	4.5
1994	4.5		32.2%	365	1.322	5.9
1 January 1995	5.9		27.8%	365	1.278	7.6
12 April 1995		700	27.8%	263	1.200	840
24 October 1995		800	27.8%	68	1.052	841
TOTAL 1995						1 689
1 January 1996	1 916[1)]		19.9%	365	1.199	2 298
4 January 1996		1 400[2)]	19.9%	362	1.197	1 676
Total 1996						3 974

[1)] equity at the end of 1995 + retained result for 1995
[2)] capital increase + agio

As at 31.12.1996 (excluding profit for the fiscal year), the Company's equity amounted to PLN 3 127 thousand. The difference resulting from the revaluation of equity was PLN 847 thousand.

15.13. Provisions

As at the balance sheet date, the Group has provisions in the balance sheet liabilities in the total amount of PLN 21 145 thousand.

Provision for retirement benefits
This provision is created only by the parent company. Retirement severance payments are not paid in other capital companies. LPP S.A. estimates the amount of this provision individually, based on actuarial methods.

Provision for holiday leaves not taken,
The Group also creates provision for holiday leaves not taken, i.e. future payment of amounts payable to employees for their on-going service.

Unpaid compensations provision
This provision is created for the future remunerations paid in connection with the created incentive scheme.

in PLN '000

	Provision for pensions and similar benefits	Unpaid compensations provision	Provision for liabilities	Provision for holiday leaves not taken
As at 1 January 2012	1 135	9 542	17	5 106
- provisions established	1 277	17 103	16	6 186
- provisions reversed	1 135	12 979	17	5 106
As at 31 December 2012	1 277	13 666	16	6 186

15.14. Contingent liabilities

In 2012, capital companies used bank guarantees to secure payment of rent for leased retail premises where brand stores are located.

As at 31 December 2012, the total value of bank guarantees granted at the request and on the responsibility of LPP S.A. amounted to PLN 139 776 thousand, including:

a) guarantees granted to secure agreements concluded by LPP S.A. - PLN 68 938 thousand,
b) guarantees granted to secure agreements concluded by consolidated affiliates - PLN 67 801 thousand,
c) guarantees granted to secure agreements concluded by non-consolidated affiliates amounting to PLN 2 901 thousand,
d) guarantees granted to secure office space lease agreements concluded by LPP S.A. - PLN 136 thousand.

On 30 December 2012, the value of guarantees granted by the parent company amounted to PLN 24 887 thousand and increased in comparison to 31 December 2011 by PLN 18 411 thousand.

According to the Management Board, any outflow of funds disclosed under off-balance sheet/contingent liabilities is unlikely. The majority of these liabilities are related to guarantees securing payment of rent by entities of LPP S.A. Capital Group.

15.15. Future liabilities under lease agreements

The Capital Group is party to lease agreements for the use of retail premises where Reserved, Cropp and House brand stores are located.

The value of rents charged to costs of the current financial period amounts to PLN 414 023 thousand**.** This amount includes both the minimum and contingent rents, depending on the amount of turnover achieved. The amount of contingent rents has not been separated due to their negligible value.

Total future minimum payments under lease agreements, estimated as at 31 December 2012, are as follows:
- payables with the maturity date of 12 months after the balance sheet date PLN 387 773 thousand.
- payables with the maturity date from 12 months to 5 years from the balance sheet date PLN 1 144 251 thousand.
- payables with the maturity date of over 5 years from the balance sheet date PLN 474 509 thousand.

Provisions of fixed-term lease agreements under which these payments are due are typical for this type of agreements. Apart from the minimum rent, these agreements usually provide for additional contingent rent if a specified level of revenues in the store is generated. In the reporting period, the amount of contingent rent was immaterial, as it represented only 2.45% of the total amount of rent. Retail lease agreements also contain adjustment clauses, linking the amount of rent with statistical price indices. Some of them contain provisions allowing to extend the term of lease agreements, leaving the decision to the lessee. As these lease agreements refer to premises located mainly in large shopping malls, they do not provide for the purchase of leased premises.

15.16. Trade and other liabilities

in PLN '000

Short-term liabilities	31.12.2012	31.12.2011
Trade payables	399 814	313 744
Other financial liabilities	42	54
Financial liabilities according to IAS 39	399 856	313 798
Payables due under taxes and other benefits	89 596	71 454
Other non-financial liabilities	7 474	4 493
Non-financial liabilities	97 070	75 947
Total short-term liabilities	**496 926**	**389 745**

15.17 Prepayments

in PLN '000

Prepayments - assets	31.12.2012	31.12.2011
Long-term		
Software supervision	247	244
Other long-term settlements	51	235
Total long-term prepayments	**298**	**479**
Short-term		
Rent	7 152	5 560
Insurance	1 960	1 861
Software supervision	347	727
Other	1 653	1 393
Total short-term prepayments	**11 112**	**9 541**

in PLN '000

Prepayments - liabilities	31.12.2012	31.12.2011
Returns of goods from domestic sale	2 918	2 158
Sales based on gift cards and vouchers	5 478	2 487
Other	3 732	1 975
Total accruals	**12 128**	**6 620**

15.18. Revenues

in PLN '000

Revenues	01.01.2012-31.12.2012	01.01.2011-31.12.2011
1) net revenues from sales of services	31 552	33 496
2) net revenues from sales of goods and materials	3 192 203	2 459 014
Total revenues	**3 223 755**	**2 492 510**

The Group's revenues from sales of services are generated only by the parent company. Services provided by the company include, above all:

- sale of know-how concerning the management of brand stores by Polish contractors,
- rental of own means of transport.

in PLN '000

Other operating revenues	01.01.2012-31.12.2012	01.01.2011-31.12.2011
1. Profit from the disposal of non-financial fixed assets	9 841	6 890
2. Grants	15	55
3. Other operating revenues, including:	17 827	13 645
- reversal of write-downs of fixed assets	1 054	2 334
- reversal of write-downs of receivables	482	1 466
- reversal of write-downs of provisions	3 673	1 098
Total operating revenues	**27 683**	**20 590**

in PLN '000

Financial revenues	01.01.2012-31.12.2012	01.01.2011-31.12.2011
1. Interest, including	1 968	1 390
- on deposits	1 667	1 098
- on loans and receivables	240	292
- on bonds	61	0
2. Dividends	193	172
3. Profit from the disposal of investments		2 232
4. Other	53	9 747
- including the balance of exchange rate differences		9 669
Total financial revenues	**2 214**	**13 541**

15.19. Costs

in PLN '000

Expenses by type	01.01.2012-31.12.2012	01.01.2011-31.12.2011
1. Depreciation	108 997	95 439
2. Consumption of materials and energy	90 744	64 768
3. Outsourced services	873 265	688 966
4. Taxes and fees	9 563	6 880
5. Salaries	172 297	129 729
6. Social insurance and other benefits, including:	41 054	29 697
- pension contribution	5 646	4 681
7. Other expenses by type	58 829	54 930
Total expenses by type	**1 360 395**	**1 070 409**

Change in products - 361 152
The value of costs of sales and general administrative expenses 1 360 756 1 070
presented in the profit and loss account

in PLN '000

Other operating expenses	01.01.2012-31.12.2012	01.01.2011-31.12.2011
1. Revaluation of non-financial assets	5 176	6 942
- fixed assets	953	2 982
- inventories	3 460	2 303
- receivables	763	1 657
2. Inne	34 399	24 021
Total operating costs	**39 575**	**30 963**

in PLN '000

Financial expenses	01.01.2012-31.12.2012	01.01.2011-31.12.2011
1. Interest, including:	17 187	23 552
- regarding bank loans	12 286	13 589
- regarding debt securities	4 901	9 963
2. Other, including:	15 308	2 072
- commissions on bank credits and guarantees	2 568	2 062
- balance of foreign exchange differences	12 722	
Total financial expenses	**32 495**	**25 624**

15.20. Income tax

The main elements of taxation of the Group for 2012 and the comparative period are shown in the table below.

in PLN '000

Profit and loss account	2012	2011
Current income tax	72 140	64 428
Deferred income tax	- 1 981	- 2 551
Total income tax	**70 159**	**61 877**

Reconciliation of income tax calculation disclosed in the consolidated profit and loss account for 2012 and 2011 is shown in the table below.

in PLN '000

Current income tax	2012	2011
Gross profit/loss of the Group before consolidation adjustments	640 577	361 608
Adjustment of permanently tax-exempt expenses and revenues	-193 749	-29 888
Gross profit/loss of the Group after adjustment	446 828	331 720
Income tax at the average rate of 18.19%, 19.24%	81 304	63 855
Tax consolidation adjustments	-9 842	547
Tax relieves	-1 303	-2 52)
Income tax disclosed in the profit and loss account	**70 159**	**61 877**

Income tax is calculated according to the following rates:
- LPP S.A. – 19 %,
- ZAO Re Trading (Russia) – 20%,
- Fashion Point (Russia) – 20%,
- UAB LPP (Lithuania) - 15%,
- LPP Reatil Latvia (Latvia) – 15%,
- LPP Ukraine AT – 23%,
- LPP Hungary (Hungary) - 10%,
- LPP Retail Estonia - 15%,
- LPP Czech Republic (Czech Republic) - 19%,
- Gothals Ltd (Cyprus) - 10%.

The amount of deferred income tax assets and provision recognised in the balance sheet results from the items and amounts presented in the table below.

in PLN '000

Deferred income tax assets:	31.12.2012	31.12.2011
Surplus of balance sheet depreciation value of assets over tax-based depreciation	8 240	7 144
Revaluation of trade receivables	421	447
Interest on bonds		555
Profit margin on goods unsold outside the Group	7 952	4 175
Revaluation of inventories	520	595
Tax loss	2 237	3 081
Remuneration and surcharges	2 506	2 104
Other	937	568
Total	**22 813**	**18 669**

in PLN '000

Deferred income tax assets:	31.12.2012	31.12.2011
Accelerated tax depreciation	4 091	1 345
Outstanding interest on loans granted	4	24
Damages not received	155	151
Accrued interest on bank loans	137	116
Other	54	49
Total	**4 441**	**1 685**

Deferred income tax assets will be realised provided that the Group generates positive financial result in the future periods.

Deferred tax shown in the profit and loss account for the period from January to December 2012 and 2011 relates to the following items:

in PLN '000

Deferred income tax assets:	31.12.2012	31.12.2011
Surplus of balance sheet depreciation value of assets over tax-based depreciation	1 096	1 146
Revaluation of trade receivables	-26	-41
Profit margin on goods unsold outside the Group	3 777	632
Interest on bonds	-555	-1 035
Revaluation of inventories	-75	230
Tax loss	-844	-605
Remuneration and surcharges	402	1 662
Other temporary differences	369	189
Foreign exchange differences from translation	210	-307

Total	**4 354**	**1 871**

in PLN '000

Deferred income tax assets:	31.12.2012	31.12.2011
Accelerated tax depreciation	2 746	-17
Outstanding interest on loans granted	-20	8
Damages not received	4	44
Accrued interest on bank loans	21	-368
Accrued interest on securities		-455
Other	5	9
Foreign exchange differences from translation	-383	99
Total	**2 373**	**-680**

15.21. Earnings per share and diluted earnings per share

Earnings per share (EPS) ratio is calculated by dividing net profit of the parent company's shareholders by the weighted average number of ordinary shares in the period.
While calculating both basic and diluted profit (loss) per share, LPP S.A. applies in the numerator the amount of profit (loss) attributable to shareholders of the parent company, i.e. there is no dilutive effect influencing the amount of profit (loss).
While calculating diluted earnings per share, the denominator takes into account the dilutive effect of stock options convertible into shares (see note 15.22.1 on transactions with key management personnel)

Calculation of EPS is presented below.

	01.01.2012-31.12.2012	01.01.2011-31.12.2011
Number of shares used as the denominator in the formula		
Weighted average number of ordinary shares	1 780 848	1 746 800
Dilutive effect of stock options convertible into shares	6 596	
Diluted weighted average number of ordinary shares	1 787 444	
Earnings per share		
Net profit (loss) for the current period	352 429	268 725
Profit (loss) per share	197.90	153.84
Diluted profit (loss) per share	197.17	

15.22. Transactions with affiliated entities

The Group's affiliates include:

- foreign and Polish companies controlled by the Group based on direct ownership of shares,
- members of key management personnel of LPP S.A. Capital Group and their close family members,
- entities controlled by or significantly influenced by members of key management personnel and their close family members, as per IAS 24.

15.22.1. Transactions with key management personnel

The Group's key management personnel includes members of the Management Board and the Supervisory Board of the parent company. Board members received benefits on account of the functions served both in LPP S.A. and a subsidiary Gothals Limited.

The value of short-term benefits of the key management personnel received for the period from 1 January to 30 June 2012 amounted to PLN 4 402 thousand. Remuneration presented separately for each of the persons classified as the key personnel are as follows:
Marek Piechocki, President of the Management Board, PLN 1 170 thousand,
Dariusz Pachla, Vice President of the Management Board, PLN 780 thousand,
Piotr Dyka, Vice President of the Management Board, PLN 780 thousand,
Hubert Komorowski, Vice President of the Management Board, PLN 780 thousand,
Jacek Kujawa, Vice President of the Management Board, PLN 780 thousand,
Jerzy Lubianiec, Chairman of the Supervisory Board, PLN 20 thousand and PLN 12 thousand – for services other than membership in the Supervisory Board.
Other members of the Supervisory Board obtained a total of PLN 80 thousand.
As at 31 December 2012, accrued provisions for retirement severance payments for the Management Board members amounted to PLN 20 thousand (2011: PLN 18 thousand), and for not taken leaves amounting to PLN 19 thousand (2011: 22 thousand).

In addition to the above remuneration, the Management Board members were entitled to payment of two premiums:

- after the publication of the financial statements for the year 2012,
- deferred - until the payment at the beginning of 2015, under the provision of performing work duties for LPP until then.

These premiums are associated with the results obtained by LPP Capital Group, which are covered by the relevant provisions.

The amount of the first premium, as well as reserves by individual persons, are as follows:

Marek Piechocki, President of the Management Board, PLN 351 thousand,
Dariusz Pachla, Vice President of the Management Board, PLN 234 thousand,
Piotr Dyka, Vice President of the Management Board, PLN 312 thousand,
Hubert Komorowski, Vice President of the Management Board, PLN 312 thousand,
Jacek Kujawa, Vice President of the Management Board, PLN 234 thousand.

The amount of the second premium, and reserves recognized under expenses for the year 2012 (as part of receiving benefits) for individual persons are as follows:
Marek Piechocki, President of the Management Board, PLN 450 thousand, in 2012, PLN 150 thousand recognized under expenses
Dariusz Pachla, Vice President of the Management Board, PLN 300 thousand, in 2012, PLN 100 thousand recognized under expenses
Piotr Dyka, Vice President of the Management Board, PLN 390 thousand, in 2012, PLN 130 thousand recognized under expenses
Hubert Komorowski, Vice President of the Management Board, PLN 390 thousand, in 2012, PLN 130 thousand recognized under expenses
Jacek Kujawa, Vice President of the Management Board, PLN 300 thousand, in 2012, PLN 100 thousand recognized under expenses

On 27 June 2011, the Annual General Meeting adopted resolutions implementing an incentive scheme aimed at six key managers of LPP S.A. The scheme consists in issuing series A subscription warrants entitling to take up L series shares at an issue price of PLN 2 000 per share. The scheme period covers the years 2011-2014. The right to acquire warrants and shares by the scheme participants is conditional upon, among others, the achievement of an adequate increase in earnings per share in each year of the scheme and uninterrupted performance of their duties for LPP S.A. The total maximum number of series L shares that may be acquired by the scheme participants throughout its duration is 21 300.

Each year, the Supervisory Board decides whether each scheme participant meets the conditions for granting rights under the scheme at the same time defining the number of warrants to be acquired.

This scheme will be implemented after 2012.
In line with the Incentive Scheme, during the reporting period the managers obtained the right to subscribe for series A Warrants, which LPP S.A. will issue under the Incentive Scheme pursuant to resolution No. 21 and 22 of the Annual General Meeting of 27 June 2011. The total number of Warrants to be issued to members of the Management Board of LPP as part of Scheme implementation for 2012 is 3 004 and they will be taken up by the participants in the following amounts:

1) Marek Piechocki 715 series A Warrants
2) Piotr Dyka 667 series A Warrants
3) Hubert Komorowski 667 series A Warrants
4) Jacek Kujawa 477 series A Warrants
5) Dariusz Pachla 477 series A Warrants

In addition, one participant in the Incentive Scheme is a person that serves no function in the bodies of the issuer or its subsidiaries. This person obtained the right to subscribe for 477 series A Warrants, so the total number of series A Warrants to be issued under the Incentive Scheme for 2012 is 3 481.

During the reporting period, the costs corresponding to the above mentioned number of series A Warrants were shown in the amount of PLN 567.7 thousand, whereas the amount of PLN 489.9 thousand is assigned to the number of Warrants which will be taken up by the members of the Management Board of LPP S.A. and costs of PLN 2 535 thousand resulting from the implementation of the scheme for 2011.
Costs related to Series A Warrants to be covered in the implementation of the scheme for 2012 have been determined based on the valuation of one Series A Warrant based on the model of the Black-Scholes-Merton option call designated on 1 January 2012, assuming the volatility of the share price of LPP of 35%, dividend yield of 3% and a risk-free rate of 5%. The total cost was distributed in proportion to the vesting period, i.e. from 1 January 2012 to 1 January 2015, assuming that all participants meet the conditions for the acquisition of series A Warrants and series L shares.

15.22.2 Transactions with affiliated entities

in PLN '000

No.	Affiliated entities	Liabilities as at 31.12.2012	Receivables as at 31.12.2012	Revenues in 2012	Expenses in 2012
1.	Polish subsidiaries	225	2	19	9 618
Total		225	2	19	9 618

in PLN '000

No.	Affiliated entities	Liabilities as at 31.12.2011	Receivables as at 31.12.2011	Revenues in 2011	Expenses in 2011
1.	Polish subsidiaries	367	2	22	9 379
Total		367	2	22	9 379

The amounts presented in the table show only inter-company transactions between LPP S.A. and 5 Polish non-consolidated subsidiaries, and are presented from the point of view of the parent company.
Data presented as payables of LPP S.A. are receivables in affiliated entities, and expenses are equivalent to revenues of given entities.
All the transactions with affiliated entities were concluded under market conditions.

Revenues from the domestic companies are derived from the rental of office space for the purpose of business operation of these companies.
Expenses related to the domestic subsidiaries concern the rental of property where Cropp Town and Reserved outlets are run.

Payment time-limits adopted for subsidiaries are between 45 and 120 days.

15.23. Segments of operation

Financial results and other information regarding geographical segments for the period from 1 January 2012 to 31 December 2012 and for the comparative period are presented in the tables below.

2012

in PLN '000

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	2 586 055	637 700			3 223 755
Sales between segments	374 242		(374 242)		-
Other operating revenues	16 956	886		9 841	27 683
Total revenues	*2 977 253*	*638 586*	*(374 242)*	*9 841*	*3 251 438*
Total operating expenses, including	2 391 663	586 191	(352 693)	132 285	2 757 446
Costs of sales between segments	284 338		(284 338)		-
Other operating expenses	28 197	11 378			39 575
Segment results	*557 593*	*41 017*	*(21 733)*	*(122 444)*	*454 417*
Financial revenues					2 214
Financial expenses					32 495
Profit before tax					*424 136*
Income tax					70 159
Net profit					*353 977*

in PLN '000

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
Segment assets	1 814 300	450 892	(361 990)		1 903 202
Unallocated assets across the group				29 020	29 020
Total consolidated assets					*1 932 222*
Segment liabilities	453 734	415 677	(338 840)		530 571
Unallocated liabilities of the entire group				190 603	190 603
Total consolidated liabilities					*721 174*

Other disclosures	EU Member States	Other countries
Segment capital expenditure	158 916	128 562
Segment depreciation	83 126	25 871
Impairment write-downs	3 398	1 778
Release of impairment write-downs	5 004	205
Other non-cash expenses	24 798	9 601

2011

in PLN '000

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	2 133 333	359 177			2 492 510
Intersegmental sales	185 842		-185 842		-
Other operating revenues	12 702	998		6 890	20 590
Total revenues	*2 331 877*	*360 175*	-185 842	*6 890*	*2 513 100*
Total operating expenses, including	1 903 438	308 984	-175 738	102 347	2 139 031
Costs of intersegmental sales	144 172		-144 172		-
Other operating expenses	28 483	2 480			30 963
Segment results	*399 956*	*48 711*	*-10 104*	*-95 457*	*343 106*
Financial revenues					13 541
Financial expenses					25 624
Profit before tax					*331 023*
Income tax					61 877
Net profit					*269 146*

in PLN '000

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
Segment assets	1 601 325	220 716	-230 387		1 591 654
Unallocated assets across the group				22 214	22 214
Total consolidated assets					*1 613 868*
Segment liabilities	400 464	222 244	-210 157		412 551
Unallocated liabilities of the entire group				292 123	292 123
Total consolidated liabilities					*704 674*

Other disclosures	EU Member States	Other countries
Segment capital expenditure	96 207	33 138
Segment depreciation	79 697	15 742
Impairment write-downs	7 364	2
Release of impairment write-downs	5 767	0
Other non-cash expenses	21 543	2 478

*Impairment write-downs of assets by segments shown in the profit and loss account include:

- receivables revaluation write-downs;
- inventory revaluation write-downs;
- assets revaluation write-downs.

Impairment and reversal was due to the occurrence or termination of conditions related to overdue debts and the occurrence of bad debts

LPP S.A. Management Board:

Marek Piechocki – President of the Management Board ....

Dariusz Pachla – Vice President of the Management Board ……………………………………………..

Jacek Kujawa – Vice President of the Management Board ……………………………………………

Piotr Dyka – Vice President of the Management Board ……………………………………………

Hubert Komorowski – Vice President of the Management Board ……………………………………………

Gdańsk, 19 April 2013

Management Board Report on the operations of LPP S.A. Capital Group (including declaration on Corporate Governance) for 2012

1. Information on basic products, goods or services with qualitative and quantitative description and share of individual products, goods or services (if material) or their groups against the Issuer's total sales volumes, and information on changes in products, goods or services during the fiscal year

LPP S.A. Capital Group is composed of 6 Polish companies (including the parent company) and 16 foreign companies.

The financial statement of LPP S.A. Capital Group covering the period between 1 January and 31 December 2012 includes individual results of LPP S.A. for the said period and results of consolidated companies listed below:

- LPP Retail Estonia OU
- LPP Czech Republic s.r.o.
- LPP Hungary Kft
- LPP Retail Latvia Ltd
- UAB LPP
- LPP Ukraina AT
- ZAO Re Trading
- LPP Fashion Distribuitor srl.
- Fashion Point
- LPP Retail Bulgaria Ltd.
- Artman Slovakia srl
- Artman Mode s.r.o.
- LPP Style Bulgaria Ltd.
- LPP Fashion Bulgaria Ltd.
- Gothals Limited
- Jaradi Limited
- IP Services FZE

LPP S.A., as the parent company, is a company involved in the design and distribution of clothing in Poland and in Central and Eastern Europe. Consolidated capital companies are involved in the distribution of goods under the Reserved and Cropp brands outside Poland.
Clothing is the essential commodity sold by LPP S.A. Capital Group companies.
Designs of clothing are prepared in the design offices located in LPP S.A. registered office in Gdańsk and Kraków, and the manufacture of individual products is outsourced to factories in Poland and abroad.
Production in China is managed by the parent company's trading office in Shanghai. The Capital Group's offer is extensive. It covers, among others, coats (jackets, overcoats), jumpers, sweatshirts, trousers, dresses, blouses and shirts as well as underwear and other accessories – caps, scarves, gloves, shoes etc. Small amounts of clothes and footwear of other brands offered in the Cropp Town network are purchased in Poland from their distributors. The Capital Group also generates revenues from the sale of services.

Source of revenues	2012		2011		Change
	in PLN '000	Share in sales volume %	in PLN '000	Share in sales volume %	%
Sales of trading commodities	3 192 203	99.0%	2 459 014	98.7%	29.8%
Sales of services	31 552	1.0%	33 496	1.3%	-5.8%
Total	**3 223 755**	**100.0%**	**2 492 510**	**100.0%**	**29.3%**

The main distribution channels guaranteeing the development of the Capital Group are networks of Reserved, Cropp, House and Mohito brand stores, selling products to individual customers.

Distribution channel	2012		2011		Change
	in PLN '000	Share in sales volume %	in PLN '000	Share in sales volume %	%
Reserved brand stores	1 714 759	53.2%	1 367 070	54.8%	25.4%
Exports	57 576	1.8%	54 227	2.2%	6.2%
Cropp brand stores	580 430	18.0%	447 248	17.9%	29.8%
House brand stores	436 984	13.6%	378 466	15.2%	15.5%
Mohito brand stores	259 408	8.0%	104 024	4.2%	149.4%
Other	174 598	5.4%	141 476	5.7%	23.4%
Total	**3 223 755**	**100.0%**	**2 492 510**	**100.0%**	**29.3%**

2. 2. Information on markets (both Polish and foreign) and change in sources of supply of production materials, goods and services, indicating dependence on one or several customers and suppliers; customers or suppliers with at least 10% share in total revenues from sales – their name, share in sales or supply volumes, and formal relations with the issuer

Revenues from sales of products, goods and materials disclosed in the consolidated financial statement have been earned by individual companies of the Capital Group in the following amounts (after the exemption of intra-group sales):

in PLN '000

Company name	Country	Revenues from sales between 1.01.2012 and 31.12.2012	Revenues from sales between 1.01.2011 and 31.12.2011
LPP S.A.	Poland	2 212 609	1 835 071
LPP Retail Estonia OU	Estonia	56 240	40 578
LPP Retail Latvia Ltd	Latvia	43 670	31 453
LPP Retail Czech Republic s.r.o.*	Czech Republic	124 914	103 325
LPP Hungary Kft.	Hungary	28 489	20 814
UAB "LPP"	Lithuania	61 961	48 057
LPP Ukraina AT	Ukraine	88 295	54 481
ZAO "Re Trading"**	Russia	549 405	304 696
LPP Fashion Distributor SRL	Romania	25 352	25 050
LPP Retail Bulgaria Ltd.	Bulgaria	16 756	14 748
Artman Slovakia	Slovakia	16 062	14 238
Total:		**3 223 755**	**2 492 510**

* total revenues of 2 companies in the Czech Republic: LPP Retail Czech Republic s.r.o., Artman Mode s.r.o.
** total revenues of 2 companies in Russia: ZAO RE Trading, Fashion Point Rosja

Export sales to entities other than capital companies conducted by LPP S.A. totalled PLN 57 576 thousand, i.e. 1.79% of total revenues. Presented below are the main directions in export sales of the Capital Group.

Country	2012		2011	
	export amount in PLN '000	share in export in %	export amount in PLN '000	share in export in %
Belarus	3 931	6.83%	3 650	6.73%
Russia	17 492	30.38%	17 431	32.14%
Slovakia	31 689	55.04%	27 713	51.11%
Ukraine	2 631	4.57%	3 329	6.14%
Other	1 833	3.18%	2 104	3.88%
Total	57 576	100.00%	54 227	100.00%

Dependence of the Issuer's Capital Group on customers

The Capital Group companies are not dependent on any customer. The share of any of the customers did not exceed 10% of the Group's sales.

Dependence of the Issuer's Capital Group on suppliers

Foreign companies included in LPP S.A. Capital Group are supplied with trade goods by LPP S.A.

Companies manufacturing goods for LPP S.A. Capital Group are mainly based in China. Purchases made in China represented about 61% of the total purchase volume. Additionally, the Company purchased goods from Polish (about 4%) and other European (about 6%) and Asian (almost 30%) producers.
The purchase volume did not exceed 10% for any of the suppliers.

The Company concluded framework agreements, determining general terms and conditions of co-operation. Individual products are manufactured for the Company on the basis of specific agreements concluded for the execution of individual deliveries.

3. Basic economic and financial figures disclosed in the annual financial statement, including in particular description of factors and events, including extraordinary events, influencing the business and its gains or losses during the fiscal year

The basic tasks carried out by the Company in 2012:

1) Revenues from sales made by LPP S.A. Capital Group amounted to PLN 3 224 million and were higher by 29.3% than those achieved in 2011.
2) In 2012, the Capital Group generated net profit of about PLN 354 million. This is about 31.5% higher than in 2012 (about PLN 269 million).
3) The total selling area in brand stores was up by approx. 90 thousand square meters (i.e. approx. 26%). The total retail selling area in the entire LPP S.A. Capital Group amounted to approx. 434 thousand sq. m, including approx. 154 thousand sq. m outside Poland.

Network	2012		2011		Change in selling area
	Area (thousand m2)	Quantity (pcs)	Area (thousand m2)	Quantity (pcs)	%
Reserved	252	344	212	304	19.0%
Cropp	72	295	60	261	20.0%
House	64	259	51	222	25.1%
Mohito	39	161	17	93	128.8%
Outlet	7	16	4	13	75.0%
Total	**434**	**1075**	**344**	**893**	**26.1%**

Results generated by LPP S.A. Capital Group in 2012 depended primarily on the performance of three retail sales networks, Reserved, Cropp and House, with the major portion of revenues and profits generated by Reserved stores. However, the highest growth rate of sales revenues was recorded by Mohito.

Presented below are basic economic and financial figures and their changes in comparison with the previous year.

Item	2012	2011	Change
	(in PLN ‘000)	(in PLN ‘000)	%
Net revenues from sales	3 223 755	2 492 510	29.3%
Profit from sales before tax	1 827 065	1 423 736	28.3%
Profit from sales	466 309	353 479	31.9%
Operating profit	454 417	343 106	32.4%
Profit on business operations	424 136	331 023	28.1%
Net profit	353 977	269 146	31.5%
Equity capital	1 211 048	909 194	33.2%
Liabilities and provisions for liabilities:	721 174	704 674	2.3%
Long-term liabilities	130 980	89 356	46.6%
Short-term liabilities:	590 194	615 318	-4.1%
- bank credits	61 048	117 749	-48.2%
- due to suppliers	477 805	377 512	26.6%
Fixed assets	909 856	744 937	22.1%
Current assets	1 022 366	868 931	17.7%
Inventory	656 070	594 606	10.3%
Short-term receivables	195 662	147 651	32.5%
Trade receivables	130 360	114 313	14.0%

The increase in revenues from sales of 29.3% was achieved by increasing sales in all retail chains.
Gross profit margin reached 56.7% and was higher than in the previous year (57.1%), i.e. by 0.4 percentage points.
Profit on sales increased by 31.9%.

The statement has been prepared in PLN thousand

Operating profit amounted to PLN 454 417 thousand (increase by 32.4% compared to 2011) and the operating profit margin amounted to 14.1% (in previous year: PLN 343 106 thousand and 13.8%, respectively).

Profit from business operations was higher compared to the previous year by 28.1% and amounted to PLN 424 136 thousand.

Net profit generated in 2012 amounted to PLN 353 977 thousand and increased by 31.5% compared to the previous year (PLN 269 146 thousand). The resulting net profit margin amounted to 11.0% (in 2011 it was 10.8%).
Shareholder's equity of LPP S.A. was up by 33.2% in 2012. It was mainly due to the transfer of profit to equity.
The balance of long-term liabilities increased by 46.6%.
The balance of short-term liabilities decreased by 4.1% compared to 2011.
At the end of 2012, liabilities related to bank credits were lower by 48.2% compared to the end of 2011, and short-term trade liabilities increased by 26.6%.
In the period fixed assets increased by 22.1%, due to the development of chain stores.
Current assets increased by 17.7% compared to the end of 2012.

Values of profitability ratios, presented in the table below, result directly from factors described above, determining the value of each category of profit.

1. Profitability ratios

In 2012, all profitability ratios, except for the gross profit margin, were higher than in 2011.

Profitability ratios presented in the table have been calculated as follows:
a) gross profit margin – gross profit on sales divided by revenues from sales of goods and services;
b) operating profit margin – operating profit divided by revenues from sales of goods and services;
c) net profit margin – net profit divided by revenues from sales of goods and services,
d) Return on Assets – net profit divided by average assets during the fiscal year;
e) Return on Equity – net profit divided by average equity during the fiscal year;

Volume	2012	2011	Change
	%	%	p.p.
Gross profit margin on sales	56.7%	57.1%	-0.4%
Operating profit margin	14.1%	13.8%	0.3%
Net profit margin	11.0%	10.8%	0.2%
Return on assets	20.0%	17.7%	2.3%
Return on equity	33.4%	32.8%	0.6%

2. Liquidity ratios

Current and quick liquidity ratios improved compared to the previous year by by 21.4% and 50.0%, respectively.
These changes were due to the decrease of the Issuer's short-term debt.

Inventories turnover has decreased from 174 to 163 days, which results mainly from actions taken by the Company to reduce inventories held in the logistics centre.

Receivables turnover ratio decreased in comparison to the previous year by 6.7%, while liabilities turnover decreased by 5.1% compared with the rate achieved in 2011.

Liquidity ratios were calculated as follows:

The statement has been prepared in PLN thousand

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

Volume	2012	2011	Change
			%
Current liquidity ratio	1.7	1.4	21.4%
Quick liquidity ratio	0.6	0.4	50.0%
Inventory turnover (days)	163	174	-6.3%
Receivables turnover (days)	14	15	-6.7%
Trade payables turnover (days)	112	118	-5.1%

3. Asset Management Ratios

Fixed assets to equity ratio improved by 11.1% compared to last year.
Total debt and short-term debt ratios decreased compared to 2011.
Long-term debt ratio increased compared to the previous year.

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

Volume	2012	2011	Change
	%	%	p.p.
Fixed assets to equity ratio	133.1%	122.0%	11.1%
Total debt ratio	37.3%	43.7%	-6.3%
Short-term debt ratio	30.5%	38.1%	-7.6%
Long-term debt ratio	6.8%	5.5%	1.2%

4. Information on agreements crucial for the issuer's business, including agreements made between shareholders (partners) as well as insurance or co-operation contracts

In 2012, LPP S.A. Capital Group concluded the following material contracts:

- 270 lease agreements with distributors of retail premises. These agreements concern the premises where clothing under Reserved, Cropp, House, Mohito brands, and new brand Sinsay, are sold.
- Annexes to existing loan agreements. Detailed information on these agreements were published in current reports (RB 12/2012, RB 25/2012, RB 29/2012, RB 33/2012, RB35/2012, RB36/2012, RB45/2012, RB47/2012.RB50/2012). A list of loan agreements is presented in Notes to the financial statement (section 15.7.3).
- Agreements on guarantees of payment of customs obligations
- Insurance contracts:

- Property insurance policy
- Civil liability insurance Policy
- Electronic Equipment Insurance (EEI)
- Construction All Risk Insurance (CAR)
- Machinery Insurance Policy
- Motor vehicle insurance policy

The Group has no knowledge of any contract concluded by and between its Shareholders that would influence its operations.

5. Information on changes in the issuer's organisational or capital relations with other parties and description of its major local and foreign investments (securities, financial instruments, intangible assets and real property), including capital expenditure outside the group of affiliated entities and methods of their financing

In December 2012, two Bulgarian companies merged, LPP Style Bulgaria Ltd and LPP Retail Ltd. As a result of this process, LPP Retail Ltd. took over the company LPP Style Bulgaria Ltd.

In the reporting period, a new company, IP Services, was established, with its registered office in United Arab Emirates, which goal, similarly as the already existing companies, Gothals Limited in Cyprus and Jaradi Limited, is the management of the rights to Reserved and Cropp trademarks, including their protection, activities aimed at increasing their value, granting licenses to use etc.

Investments made by LPP S.A. Capital Group are related mainly to the affiliated entities. The total value of shares in not consolidated affiliated entities amounts to PLN 186 thousand. Moreover, there are loans granted by the Capital Group to third parties, amounting to total of PLN 6 208 thousand.

Details concerning capital expenditure of LPP S.A. Capital Group are presented in the notes to the statement in section 15.5 and 15.7.

6. Description of significant transactions concluded by the issuer or its subsidiary with affiliated entities not concluded at arm's length, together with amounts and information specifying the nature of these transactions

All transactions in the reporting period concluded by the Issuer with affiliated entities were concluded at arm’s length.

7. Information on credits and loans incurred, specifying their maturity as well as guarantees and sureties granted to the Issuer

Information on credits taken as at 31.12.2012 and their maturity dates is presented in notes to the financial statement (section 15.7.3).

In 2012, LPP S.A. Capital Group used bank guarantees to secure the payment of rent for leased retail premises where brand stores are located. LPP S.A. Capital Group requested for bank guarantees to secure retail lease agreements where LPP S.A. or its affiliated entities are lessees.
As at 31 December 2012, the total value of bank guarantees granted at the request and on the responsibility of LPP S.A. amounted to PLN 139 776 thousand, including:

a) guarantees granted to secure agreements concluded by LPP S.A. - PLN 68 938 thousand,
b) guarantees granted to secure agreements concluded by consolidated affiliates - PLN 67 801 thousand,
c) guarantees granted to secure agreements concluded by non-consolidated affiliates amounting to PLN 2 901 thousand,
d) guarantees granted to secure office space lease agreements concluded by LPP S.A. - PLN 136 thousand.

In the previous year no loans were taken by LPP S.A. Capital Group.

8. Information on loans granted, in particular to the Issuer's affiliated entities, specifying at least their amount, type, interest rate, currency and maturity

Information on loans granted by LPP S.A. Capital Group is presented in the Notes to the financial statements (section 15.7.2).

9. Information on guaranties granted (by the issuer), including guarantees granted to the issuer's affiliated entities.

In the reporting period, LPP S.A. Capital Group granted the following guarantees within the Group:

Description	Amount in PLN '000
Promissory note guarantee issued to Orlen for a single business entity	22
Guarantee for Amur Sp. z o.o.	7 678
Guarantee for LPP TEX S.A.	1 096
Guarantee for the daughter company Re Trading	1 006
Guarantee for the daughter company LPP Retail Estonia	678
Guarantee for the daughter company LPP Fashion Distributor (Romania)	1 176
Guarantee for Fashion Point- Russia	851
Guarantee for LPP Czech Retail	7 525
Guarantee for the daughter company Artman Mode S.R.O.	1 025
Guarantee for LPP Retail Latvia	406
Guarantee for LPP Retail Bulgaria	491
Guarantee for Artman Slovakia	72
Guarantee for LPP Hungary	2 862

In the previous year, LPP S.A. Capital Group was not granted any guarantees (except for guarantees granted by LPP S.A. to its subsidiaries).

No guarantees or sureties were granted by subsidiaries. Subsidiaries received the above sureties related to bank guarantees from the parent company only.

10. Use of proceeds (as at the preparation of the report on operations)

In 2009, LPP S.A. Capital Group issued series A bonds convertible to series K shares. As a result, 80 846 bonds were acquired for the amount of PLN 129 million. Conversion of convertible bonds into shares took place in semi-annual periods from the date of issue of convertible bonds, i.e. from 23 July 2009 to 23 July 2012.
In 2012, LPP S.A. Capital Group issued a total of 53 389 shares of series K (RB4/2012, RB32/2012).
Inflows from the issue of the bonds were used for current activities and further development of the Issuer as well as short-term debt restructuring.

11. Explanation of discrepancies between financial results presented in the annual financial report and forecast results for a given fiscal year published earlier

The forecast of financial results was not published.

12. The assessment (and its justification) of financial assets management with particular focus on the ability to meet the obligations, as well as identification of potential threats and actions the Issuer has taken or is going to take in order to prevent them

LPP S.A. Capital Group fulfils all the relevant obligations to the State and contractors on an on-going basis. The basic business model consisting in retail sales allows to receive immediate payments for goods sold. Generated receipts and concluded credit agreements provide full security of incurred liabilities.

13. Assessment of the feasibility of planned investments, including capital expenditure, against owned assets, including any possible changes in the structure of investment financing

Investment plans will be realised using the Group's own funds or loans taken.

14. Assessment of factors and extraordinary events influencing the financial result in the fiscal year and the identification of their impact on the financial result

In 2012, there were no extraordinary events having an impact on the financial result.

15. External and internal key factors influencing the issuer's development and description of the issuer's development perspectives at least until the end of the current fiscal year, including the elements of the issuer's adopted market strategy Description of key risks and threats and their probability.

LPP S.A. Capital Group's basic tasks, implementation of which will determine its position in the future:
a) developing a network of brand stores in Poland and in Central and Eastern Europe,
b) building strong clothing brands (Reserved, Cropp, House, Mohito and a new brand Sinsay).
c) increasing the profitability and effectiveness of operations.

Development of the Issuer's strategic tasks and goals will depend on the following internal and external factors (representing both opportunities and threats):

Internal factors

a) Market strategy of LPP S.A. Capital Group

Capital Group is focused on designing and distribution of clothing as well as building its brand while outsourcing many activities to third parties. LPP S.A. Capital Group does not have its own production capacity which allows to significantly reduce fixed costs. The entire clothing production is outsourced to contractors mainly from the Far East. As a result, the goal of all investments is to increase the Capital Group's trading potential, maintain its competitive edge on the market, develop its own network of distribution, create good image of LPP S.A. on the clothing market, gain customers and ensure their loyalty to the Company and its products.
The development strategy for leading brand - Reserved, assumes taking action to improve the image of the uniqueness and prestige of this brand in the eyes of customers, leaving it still in the mass clothing segment.

b) The Group's market position

The volume of revenues from sales generated by LPP S.A. Capital Group confirms its good position in the domestic market. Despite its relatively low (7-8%) market share, the Capital Group is also one of the most important entities in the domestic market.

c) Extending and renewing offers presented to the customers of LPP S.A. Capital Group

Products marketed by LPP S.A. Capital Group meet expectations of target customers groups connected to individual channels of distribution. As the clothing industry is strongly correlated with changes in fashion trends, LPP S.A. Capital Group, observing the changing customer preferences, every year launches new product groups trying to anticipate market needs. To some extent, especially in the case of Reserved brand stores, Capital Group is trying to create its own style, based on global trends.

d) Logistics

The applied logistic model consisting in using specialised technology in its own logistics centre, while outsourcing the transport of goods from suppliers to the logistics centre and from the logistics centre to outlets to specialised transportation companies, allows for a more effective implementation of processes in this area.
As part of implementation of its strategy, with Russia being the international development priority, the company initiated a new model for distribution of goods to stores across the country, featuring direct shipments from Asia to Russia.
This process will reduce the total time of transporting the goods from the time of shipping from Asia to the moment of delivery to the Russian store, liberalize the ability to make trading decisions (allocate goods that are already in Russia and not in Poland), provide more regular deliveries to stores, and optimize transportation costs.

e) Measures aimed at maintaining low levels of costs, increasing profitability and market share through global sales growth

To ensure the Capital Group's efficiency and productivity at a high level, measures have been taken to reduce incurred costs - keeping them at a relatively low level is one of the main objectives of the Group.
LPP S.A. Capital Group pursues a strategy aimed at increasing profitability while expanding retail space by building new stores, and where the forecasts are highly satisfactory - by building stores with a larger floor area.

External factors

a) Economic growth in Poland and in countries where the outlets of LPP S.A. Capital Group operate

Despite the present drop in the global economy, the Capital Group manages to increase revenues from sales and profits. The size of these parameters depends to some extent on the situation of the environment, but to a large extent on the attractiveness of the offer and the organizational efficiency of the Issuer. Information on the expected developments in the global economy, especially in Poland and the countries in which operate the Issuer's subsidiaries, although not clearly optimistic and resulting in the reorganization of consumers' household budgets, they do not raise concerns about the negative impact on the growth of the Company.

b) Foreign exchange rates

The base accounting currency in most commercial transactions of the purchase of goods is USD. A small portion of settlements on this account is made in EUR.
The majority of receipts from sales is obtained in PLN. Instability of the exchange rate of the Polish zloty vs. USD and EUR is more risky, the faster the ratios are changing (PLN/USD). Given the specific type of the Company's business, it is possible to partially transfer the risk of increase in USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.
In addition to foreign exchange risk concerning the accounting currency used for the purchase of commercial goods, there is also the risk associated with the fact that the commercial space rents are settled in EUR.
Information on foreign exchange risk is presented in section 11 of the Note.

c) Changes in fashion influencing the popularity of products offered to customers.

The key success factor for a clothing company is sensing changes in fashion trends and offering the range of goods meeting the current consumer preferences.
LPP S.A. Capital Group pays great attention to the latest fashion trends. The design department is constantly observing the changing trends and adapts them to meet consumer needs, so as to continue to offer desirable products at a good value for money. In order to fulfil its tasks, the designers participate in trade fairs around the world, benefit from the professional literature and information on issues related to fashion available on the Internet. Being aware of its enormous impact on the results of its operations, the Capital Group pays particular attention to this issue.

Perspectives for the development of the Issuer's business

Long-term development strategy of LPP S.A. Capital Group assumes strengthening the existing market position, further expansion both in the domestic and foreign markets (in the immediate future only in the countries where its subsidiaries already operate), as well as increased profitability and efficiency.
As at the end of 2012, LPP Capital Group had a chain of 1077 stores (Reserved, Cropp, House, Mohito) and 16 outlets, with a total retail area of about 434 thousand sq m. The plans for 2013 include the establishment of new outlets, which in turn will lead to an increase in the total area of the retail network in Poland and abroad by more than 30%.

16. Information on the acquisition of treasury shares, in particular the purpose of the acquisition, the number and nominal value of the shares, the proportion of share capital represented by the shares, purchase and selling price of the treasury shares (if sold)

In 2012, LPP S.A. Capital Group did not acquire any treasury shares.

17. Information on key achievements in research & development

In the reporting period, LPP S.A. Capital Group conducted research and development related to the design and construction of master brand showrooms Reserved, House and Sinsay.

18. Information on financial instruments related to:

a) the risk of: prices change, credit, serious disruption of cash flows and financial liquidity loss, to which the entity is exposed,

In line with the International Accountancy Standards on detailed principles of recognition, valuation, disclosure and presentation of financial instruments, the following financial instruments were identified by LPP S.A. Capital Group:

- loans granted,
- bank credits incurred,
- convertible bonds issued,
- bank deposits.

The Company also identified embedded derivatives connected with:

- retail lease agreements for brand stores with rent calculated based on foreign exchange rates
- payables denominated in foreign currencies connected with purchase of trading commodities abroad
- receivables in foreign currencies relating to sales of commercial goods to foreign contractors.

In line with the International Accountancy Standards on principles of recognition, valuation, disclosure and presentation of financial instruments, embedded derivatives are not measured and presented in the balance sheet.

b) purposes and methods of financial risk management, including methods of hedging key types of planned transactions, for which hedge accounting is used

1) Currency risk – presented in section 15 as an external risk factor,

The statement has been prepared in PLN thousand

2) Interest rate risk – according to the Management Board, based on the analysis of changes in interest rates in previous periods, any potential increase of this parameter determining the amount of credits taken can have no significant impact on the financial results,
3) Credit risk – this risk primarily influences trade receivables and guarantees and sureties granted. The Management Board believes there is no danger of non-payment by contractors, although in some cases the need to extend the payment dates is likely.

LPP S.A. Capital Group does not hedge these risks.

19. Changes of basic principles of management of the Issuer's business and its capital group

In 2012, there were no major changes in the management of the Issuer's business and its capital group.

20. Total number and nominal value of all shares of LPP S.A. and all shares of LPP S.A.'s affiliated entities held by members of the Management and Supervisory Board

As at 31.12.2012, members of the Company's Management and Supervisory Board held the following shares:

Shareholder	Number of shares held	Number of votes at the Annual General Meeting of Shareholders	Nominal value of shares
President of the Management Board	175 000	875 000	350 000
Vice President of the Management Board	2 664	2 664	5 328
Vice President of the Management Board	17	17	34
Chairman of the Supervisory Board	175 000	875 000	350 000
Member of the Supervisory Board	301	301	602

No shares in the affiliated entities are held by Members of the Company's Supervisory and Management Board.

21. Information on any agreements known to the Issuer (including agreements concluded after the balance sheet date) which may result in the future change in the present structure of share ownership in terms of shares held by current shareholders

In the reporting period, a new incentive scheme for key managers of the Company for 2011-2014 applies, launched in 2011.
Under the incentive scheme, the Company will issue no more than 21 300 subscription warrants carrying the right to acquire no more than 21 300 shares.
If all other issued bonds were converted, the total number of shares would amount to 1 831 123, and the total number of votes at the General Meeting of Shareholders of LPP S.A. would amount to 3 231 123.

22. Information on the control system of employee share schemes

Not applicable

23. Agreements concluded between the Company and members of its Management Board, providing compensation in the event of their resignation or dismissal from positions currently held for no justified reason, or if they are recalled or dismissed as a result of business merger by take-over

None.

24. Amounts of remuneration, bonuses or rewards, including those received under incentive or bonus schemes based on the Issuer's equity, schemes based on bonds with pre-emptive rights, convertible bonds, subscription warrants (in cash, in kind or any other form), paid, due or potentially due to members of the Issuer's Management Board and Supervisory Board

Remuneration values of all managers and supervisors are presented in section 15.22.1 of the Notes to the financial statement.

25. Proceedings before the court, competent arbitration institution including information on:

a) proceedings relating to liabilities or receivables of the issuer or its subsidiary, with value at least 10% of shareholders' equity,

b) two or more proceedings relating to liabilities or receivables with total value at least 10% of equity

There are no such proceedings.

26. Information on the entity authorised to audit financial statements

On 9 May 2012, LPP S.A. concluded with Grant Thornton Frąckowiak Sp. z o.o. an agreement on, respectively:

1) auditing the financial statements for the period from 1 January 2012 to 31 December 2012, giving opinion on it and preparing the audit report.
2) auditing the Capital Group's consolidated financial statements for the period from 1 January 201 to 31 December 2012, giving opinion on it and preparing the audit report.
3) auditing the interim financial statements for the period from 1 January 2012 to 30 June 2012 and preparing the audit report.
4) auditing the consolidated interim financial statements for the period from 1 January 2012 to 30 June 2012 and preparing the audit report.
5) auditing the financial statements for the period from 1 January 2013 to 31 December 2013, giving opinion on it and preparing the audit report.
6) auditing the Capital Group's consolidated financial statements for the period from 1 January 2013 to 31 December 2013, giving opinion on it and preparing the audit report.
7) auditing the interim financial statements for the period from 1 January 2013 to 30 June 2013 and preparing the audit report.
8) auditing the consolidated interim financial statements for the period from 1 January 2013 to 30 June 2013 and preparing the audit report.

The total value of the net remuneration due under the aforementioned agreements amounts to PLN 250 thousand plus VAT.
The amount of remuneration for auditing and reviewing the Company's and the Capital Group's financial statements for 2012 and 2013 is PLN 125 thousand each plus VAT.

Additionally, in 2012, Grant Thornton Frąckowiak Sp. z o.o. provided tax consulting services, for which it received remuneration of PLN 6.5 thousand plus VAT.

In 2011, the remuneration for auditing and reviewing, as well as consulting services, amounted to PLN 140 thousand and PLN 136 thousand, respectively, VAT

27. Declaration on Corporate Governance

The Management Board of LPP S.A. declares that in 2012 the Company and its authorities complied with the principles of Best Practices for WSE Listed Companies as described in parts II, III and IV, wherein:

- the obligation under Part II, paragraph 1 sub-paragraph 2a, which relates to inclusion in 4Q information on the participation of women and men in the bodies of the company, was not observed incidentally,
- the requirement of section 10 part IV, which regards the necessity to provide shareholders with the possibility to participate in the general meeting by means of electronic communication, was not observed.

Information on the principles of Corporate Governance is available on the Company's website at www.lpp.com.pl (www.inwestor.lpp.com.pl)

The Company does not apply Corporate Governance principles beyond the requirements of national law.
The Company and its authorities also followed the principles of Best Practice for WSE Listed Companies described in part I, except for:
- as regards section I.1 - the general meeting was not broadcast over the Internet or registered, and it was not published on the website,
- as regards section I.5 - the applicable principles of remuneration do not comply with all the requirements described in the recommendations of the European Commission of 14 December 2004 and Recommendations of 30 April 2009,

- as regards section I.9 - there are no formal principles for membership in the authorities of the company in relation to gender or schemes to promote balanced participation of women and men in performing the functions of management and supervision in LPP S.A. Currently, all members of the Company's authorities are men.

a) Description of the main features of the Company's internal control systems and risk management in relation to the process of preparing financial statements and consolidated financial statements

LPP S.A. has adapted to its needs and characteristics a well-functioning internal control system, which provides:

▪ completeness of invoiced revenues,
▪ appropriate cost control,
▪ efficient use of resources and assets,
▪ accuracy and reliability of financial information included in financial statements and periodic reports,
▪ adequate protection of sensitive information and preventing an uncontrolled outflow of information from the company,
▪ effective and rapid identification of irregularities,
▪ identification of significant risks and appropriate responding to such risk.

Elements of the internal control system within LPP S.A. include:

▪ control activities taken at all levels and in all cells of the Company, based on procedures (permits, authorizations, verifications, reconciliation, review of operational activities, distribution of duties), that help ensure compliance and guidelines for management of the Company, and at the same time enable to identify and take the necessary actions to minimize errors and risks for the Company,
▪ Workflow Guide - proper records and documentation circulation control system (to ensure compliance of the account records with accounting evidence),
▪ suitably qualified personnel carrying out inspections,
▪ division of duties excluding a possibility that one employee performs an action associated with execution and documentation of a business transaction from beginning to end,
▪ inventory manual, specifying the rules for the use, storage and inventory of assets,
▪ principles for balance sheet amortisation of intangible and tangible fixed assets,

The statement has been prepared in PLN thousand

▪ information system - the Company's accounting books are kept with the help of computerized Integrated Enterprise Management System AWEK at the Company's headquarters, which provides credibility, reliability and accuracy of the processed information. Access to AWEK information resources is limited to authorized personnel, only for performance of their duties,
▪ accounting policy, taking into account the principles of the International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and related interpretations published in the form of executive regulations of the European Commission,
▪ electronic system for document processing (invoices, elements of employee documentation, commissions to purchase equipment, payment orders, etc.),

Audit of financial statements, carried out by an independent statutory auditor, is an essential element of internal audit in the process of preparing the Company's financial statements, both individual and consolidated.
The statutory auditor is appointed by the Supervisory Board of LPP Company. The tasks of the independent auditor include reviewing semi-annual and annual statements, controlling accuracy of their preparation and compliance with accounting rules.

Two departments are responsible for the preparation of financial statements: accounting and finance, headed by the Chief Accountant and Chief Financial Officer. Before submitting financial statements to

the independent statutory auditor, Chief Financial Officer, responsible for the financial reporting process on behalf of the Management Board, verifies them for completeness and correctness of all economic events.

In LPP S.A. there are carried out semi-annual reviews of the strategy and implementation of business plans. This is due to cycles occurring in the clothing trade. After closing the first half of the year, senior and middle management, with the participation of the finance department, review the Company's financial results. Operating results of the Company, individual business units or even individual stores are analysed each month.
Internal control and closely related risk management in relation to financial reporting processes are the subject of current interest of the Company's managing authorities. LPP S.A. performs analysis of business risk factors related to the company operations. An important role in this respect is also played by the managerial personnel responsible for monitoring activities of their departments, including identification and assessment of risks associated with the process of preparation of financial statements in an accurate, reliable manner and in compliance with the law.

b) Information on shareholders of the Company parent, directly or indirectly, significant blocks of shares, indicating the number of shares held by these entities, their percentage share in the share capital, the resulting number of votes and their percentage share in the total number of votes at the general meeting

Shareholder	Number of shares held	Number of votes at the Annual General Meeting of Shareholders	Share in the number of votes at the Annual General Meeting of Shareholders	Share capital held
Marek Piechocki	175 000	875 000	27.1%	9.6%
Jerzy Lubianiec	175 000	875 000	27.1%	9.6%
Monistor Limited (Cyprus)	200 728	200 728	6.2%	11.0%
Grangeford Limited (Cypr)	350 000	350 000	10.8%	19.1%
Other shareholders	930 395	930 395	28.8%	50.8%
Total	1 831 123	3 231 123	100.0%	100.0%

c) Information on holders of securities that give special control rights

and on any restrictions on voting rights, such as restrictions on voting rights of holders of a specified proportion or number of votes and restrictions on transferring ownership rights.

Shareholders parent shares conferring the right to more than 15% at the General Meeting exercise their voting right up to 15% of votes, regardless of the number of votes arising from the shares held. Two shareholders, who have managed the company for many years, Mr. Jerzy Lubianiec and Mr. Marek Piechocki, hold each 175,000 preference shares of B series, whereas one share entitles to 5 votes at the AGM. In addition, shares of the said shareholders are not covered by the statutory limitation described above restricting voting rights only up to 15% of votes at the AGM regardless of the number of shares held. These statutory provisions give the dominant position to the two shareholders indicated above.
Restrictions on transferring the ownership of securities concern registered shares.
Sale or mortgage of shares depends on the approval of the Company. Shares sale or mortgage permits are granted by the Supervisory Board in writing, under pain of nullity, within 14 days from the date of application. If the Company refuses to give the permit, it should designate another buyer and define the date and place of payment within 30 days. If the Company, within the specified time, does not indicate another buyer, the shares may be sold without restriction.

d) Description of rules governing the appointment and dismissal of managers and their rights, in particular the right to decide whether to issue or repurchase shares

The Management Board consists of two to five members, including the President, and from one to four Vice-Presidents. The number of members is determined by the Supervisory Board.
Members of the Management Board are appointed and dismissed by the Supervisory Board for a term of five years.

Competencies and working rules of the Management Board of LPP S.A. are set forth in the following documents:

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

The Management Board is responsible for all and any affairs not reserved for other authorities of LPP S.A.
The Management Board is not entitled to make decision on the issue or repurchase of shares.

e) Description of rules for amending the issuer's articles of association

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

f) Mode of action of the General Meeting, its powers, the description of shareholders' rights and the way of their execution

Convention of the General Meeting of Shareholders

1) The General Meeting of Shareholders may be convened in an ordinary or extraordinary mode.
2) The General Meeting of Shareholders is held in Gdańsk, Warsaw or Sopot, at the place designated by the Management Board.
3) Annual General Meeting is held within six months after the end of a financial year.
4) Extraordinary General Meeting is convened by the Management Board on its own initiative, at the request of the Supervisory Board and at the written request of shareholders representing one tenth of the equity capital.
5) The fact of convening the General Meeting, stating the date (day, hour) and place, is announced by the Management Board on the Company's website, in the manner provided for conveying current information and in accordance with the provisions on public offering, as well as terms and conditions of introducing financial instruments to an organised trading system and on public limited companies.

Competencies of the General Meeting

1) Examining and approving financial statements and reports of the Management Board on the activity of LPP S.A. for the previous year.
2) Taking all decisions relating to claims for damages suffered during the establishment of LPP S.A. or its management or supervision.
3) Adopting a resolution on the distribution of profits or covering losses.
4) Granting to the members of LPP S.A. acknowledgement of the fulfilment of duties.
5) Adopting a resolution on the issue of bonds, including convertible bonds.
6) Amending the Articles of Association.
7) Adopting resolutions concerning a merger, conversion of LPP S.A., its dissolution and liquidation
8) Adopting resolutions concerning the sale and lease of the company and establishing beneficial ownership.
9) Examining and deciding on proposals submitted by the Supervisory Board.
10) Deciding on other matters reserved to the competence of the General Meeting in the Commercial Companies Code and the provisions of the Company's Articles of Association.

Sessions of General Meeting of Shareholders

1) General Meeting is opened by the Chairman of the Supervisory Board or a person authorised by him, who then holds the elections of the President of the General Meeting.
2) The person opening the General Meeting provides for an immediate election of the President of the General Meeting who directs the works of the GM and ensures efficient and proper conduct of the session.
3) The General Meeting adopts resolutions only on matters included in the agenda.
4) Draft resolutions proposed for adoption by the General Meeting and other relevant issues are presented to the shareholders together with the rationale and the opinion of the Supervisory Board.
5) The course of the General Meeting is recorded by a notary.

Voting

1) Voting at the General Meeting is open. Secret voting takes place at the election of authorities and at requests to dismiss the Company's governing authorities or liquidators or to make them accountable, as well as in case of personal matters. In addition, secret voting is held at the request of any shareholder or their representative.
2) The General Meeting may choose a three-person returning committee, whose duties include ensuring the proper conduct of each voting, supervising computer service (in the case of voting with the use of electronic technology), as well as reviewing and announcing the results.
3) Each share entitles to one vote at the General Meeting. In the case of a series B preference share, one share entitles to five votes at GM.
4) The President announces the voting results, which are then brought into the minutes of the session.

**g) The composition and changes that occurred during the financial year, as well as description of operations of
management, supervisory or administrative bodies and their committees**

Management Board of LPP S.A.

Composition of the Management Board as at 31 December 2012:

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

In the last financial year there were no changes in the composition of the Management Board.
Competencies and working rules of the Management Board of LPP S.A. are set forth in the following documents:

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

The Supervisory Board

Composition of the Supervisory Board as at 31 December 2012 was as follows:
- Jerzy Lubianiec - Chairman of the Supervisory Board
- Krzysztof Olszewski - member of the Supervisory Board
- Wojciech Olejniczak - member of the Supervisory Board
- Maciej Matusiak - member of the Supervisory Board
- Krzysztof Fąferek - member of the Supervisory Board

In the last financial year there were no changes in the composition of the Supervisory Board.

Competence and working rules of LPP S.A. Supervisory Board are set forth in the following documents
- LPP S.A. Articles of Association (available on the Company's website)
- By-Laws of the Supervisory Board (available on the Company's website)
- Commercial Companies Code

LPP S.A. Management Board:

Marek Piechocki – President of the Management Board ....

Dariusz Pachla – Vice President of the Management Board ……………………………………………..

Jacek Kujawa – Vice President of the Management Board ………………………………………………

Piotr Dyka – Vice President of the Management Board ………………………………………………

Hubert Komorowski – Vice President of the Management Board ………………………………………………

Gdańsk, 19 April 2013

Statement of the Management Board of LPP S.A.

STATEMENT OF THE MANAGEMENT BOARD

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

- to the best of the Board's knowledge, the annual consolidated financial statements and comparative data have been prepared in line with accounting principles currently in effect and present a true and fair view of assets, financial standing, and financial result of LPP S.A. Capital Group,

- the annual consolidated report on LPP S.A. Capital Group's operations presents a true and fair view of the development and achievements of LPP S.A. Capital Group, including an accurate description of risks and threats,

- the entity authorised to audit financial statements which conducted an audit of the annual consolidated financial statements was appointed in line with applicable legal provisions currently in effect. This entity and statutory auditors who performed audits satisfied all requirements to prepare an impartial and independent audit report, pursuant to the applicable provisions of the Polish law.

LPP S.A. Management Board:

Marek Piechocki – President of the Management Board ....

Dariusz Pachla – Vice President of the Management Board ……………………………………………..

Jacek Kujawa – Vice President of the Management Board ………………………………………………

Piotr Dyka – Vice President of the Management Board ………………………………………………

Hubert Komorowski – Vice President of the Management Board ………………………………………………

Gdańsk, 19 April 2013