

LPP

INTERIM FINANCIAL STATEMENT FOR Q1 2016 of LPP SA CAPITAL GROUP

GDAŃSK, MAY 2016

RESERVED

 TALLINDER

M O H I T O

 myhouse

CROPP

sinsay

TABLE OF CONTENTS

1. Selected consolidated financial data of LPP SA Capital Group	2
2. Consolidated statement of the financial position of LPP SA Capital Group	3
3. Consolidated statement of the results and other total revenue of LPP SA Capital Group	5
4. Consolidated statement of changes in the equity of LPP SA Capital Group	6
5. Consolidated cash flow statement of LPP SA Group	7
6. Selected financial data of LPP SA	9
7. Statement of the financial position of LPP SA	10
8. Statement of the results and other total revenue of LPP SA	12
9. Statement of changes in the equity of LPP SA	13
10. Cash flow statement of LPP SA	14
Notes to the condensed consolidated financial statements for Q1 2016	16

1. Selected consolidated financial data of LPP SA Capital Group

Selected consolidated financial data	1Q 2016	1Q 2015	1Q 2016	1Q 2015
	01.01.2016- 31.03.2016	01.01.2015- 31.03.2015	01.01.2016- 31.03.2016	01.01.2015- 31.03.2015
	in thousand PLN		in thousand EUR	
Net revenues from sales of products, goods and materials	1 174 831	1 002 577	269 710	241 649
Profit (Loss) on operating activities	-63 909	23 703	-14 672	5 713
Pre-tax profit (loss)	-68 944	-29 714	-15 828	-7 162
Net profit (loss)	-65 580	-37 335	-15 055	-8 999
Net cash flows from operating activities	-202 244	-203 034	-46 430	-48 937
Net cash flows from investing activities	-17 498	-96 194	-4 017	-23 185
Net cash flows from financing activities	141 934	237 581	32 584	57 264
Total net cash flows	-77 808	-61 647	-17 863	-14 859

Selected consolidated financial data	2016	2015	2016	2015
	31.03.2016	31.12.2015	31.03.2016	31.12.2015
	in thousand PLN		in thousand EUR	
Total assets	3 544 263	3 565 169	830 349	836 600
Long-term liabilities	326 770	344 083	76 556	80 742
Short-term liabilities	1 366 398	1 331 347	320 119	312 413
Equity	1 851 095	1 889 739	433 674	443 445
Share capital	3 670	3 662	860	859
Weighted average number of ordinary shares	1 815 870	1 812 145	1 815 870	1 812 145
Profit (Loss) per ordinary share (in PLN / EUR)	-36.1	-20.6	-8.3	-5.0
Book value per ordinary share (in PLN / EUR)	1 019.4	1042.8	238.8	244.7
Declared or paid dividends per ordinary share (in PLN / EUR)		32.00	0.0	7.7

2. Consolidated statement of the financial position of LPP SA Capital Group

Statement of the financial position	Balance at the end:		
	1Q 2016 31.03.2016	1Q. 2015 31.03.2015	31.12.2015
ASSETS			
Non-current assets	1 782 694	1 557 473	1 796 996
1. Tangible fixed assets	1 241 312	1 080 117	1 258 751
2. Intangible assets	38 092	31 105	37 342
3. Goodwill	209 598	209 598	209 598
4. Trademark	77 508	77 508	77 508
5. Investments in subsidiaries	136	136	136
6. Investments in other entities	1 653	2 164	1 626
7. Receivables and loans	5 817	6 734	5 914
8. Deferred tax assets	141 346	136 096	139 194
9. Pre-payments	67 232	14 015	66 927
Current assets	1 761 569	1 564 983	1 768 173
1. Inventory	1 373 628	1 131 080	1 319 735
2. Trade receivables	109 648	224 125	115 086
3. Receivables from income tax	69 270	25 490	47 017
4. Other receivables	36 387	44 235	35 210
5. Loans	96	184	128
6. Pre-payments	27 195	17 987	26 550
7. Cash and cash equivalents	145 345	121 882	224 447
TOTAL assets	3 544 263	3 122 456	3 565 169

Statement of the financial position	Balance at the end:		
	1Q 2016	1Q. 2015	
	31.03.2016	31.03.2015	31.12.2015
LIABILITIES			
Equity	1 851 095	1 637 347	1 889 739
1. Share capital	3 670	3 662	3 662
2. Own shares	-43 310	-43 292	-43 306
3. Share premium	243 234	235 074	235 074
4. Other capital	1 323 736	1 096 028	1 323 736
5. Foreign exchange differences from the conversion of units	-209 985	-148 696	-228 757
6. Retained earnings	533 750	494 571	599 330
- profit (loss) from previous years	599 330	531 906	248 010
- net profit (loss) for the current period	-65 580	-37 335	351 320
Long-term liabilities	326 770	207 313	344 083
1. Bank credits and loans	268 158	201 004	284 253
2. Provisions for employee benefits	2 854	1 880	2 179
3. Provision for deferred income tax	5 506	4 406	7 085
4. Accruals	50 252	23	50 566
Short-term liabilities	1 366 398	1 277 796	1 331 347
1. Trade and other liabilities	603 993	581 150	721 394
2. Income tax liabilities	3 023	525	3 042
3. Bank credits and loans	711 816	635 961	561 074
4. Provisions	22 086	19 404	17 774
5. Special funds	0	646	227
6. Accruals	25 480	40 110	27 836
TOTAL liabilities	3 544 263	3 122 456	3 565 169

3. Consolidated statement of the results and other total revenue of LPP SA Capital Group

Consolidated statement of the results and other total revenue	1Q 2016	1Q 2015
	01.01.2016-31.03.2016	01.01.2015-31.03.2015
Continuing operations		
Sales revenue	1 174 831	1 002 577
Cost of goods sold	633 060	459 135
Gross Profit (Loss) on sales	541 771	543 442
Other operating income	6 449	6 102
Selling costs	547 057	458 130
General costs	48 232	54 336
Other operating expenses	16 840	13 375
Profit (Loss) on operating activities	-63 909	23 703
Financial income	2 206	696
Financial cost	7 241	54 113
Pre-tax Profit (Loss)	-68 944	-29 714
Taxes	-3 364	7 621
Net Profit (Loss)	-65 580	-37 335
Net Profit (Loss) attributable to:		
Shareholders of parent company	-65 580	-37 335
Non- controlling entities	0	0
Other comprehensive income		
Exchange differences from the conversion of units	18 772	35 680
Total comprehensive income	-46 808	-1 655

4. Consolidated statement of changes in the equity of LPP SA Capital Group LPP SA

Statement of changes in the equity	Share capital	Own shares	Capital from the sale of shares above their value	Other capital	Exchange differences from the conversion of units	Profit (loss) from previous years	Profit (loss) for the current period	Minority interest	Equity TOTAL
Balance as at 1 January 2015	3 662	-43 288	235 074	1 092 205	-184 376	531 906	0	3 231	1 638 414
- correction of errors from previous years									0
Balance as at 1 January 2014 after adjustments	3 662	-43 288	235 074	1 092 205	-184 376	531 906	0	3 231	1 638 414
Costs of acquiring own shares		-4							-4
Remuneration paid in shares				590					590
Contribution by minority shareholders				3 233				-3 231	2
Transactions with shareholders	0	-4	0	3 823	0	0	0	-3 231	588
Net profit (loss) for 1Q 2015							-37 335		-37 335
Exchange differences after the conversion of units					35 680				35 680
Balance as at 31 March 2015	3 662	-43 292	235 074	1 096 028	-148 696	531 906	-37 335	0	1 637 347
Balance as at 1 January 2016	3 662	-43 306	235 074	1 323 736	-228 757	599 330	0	0	1 889 739
- correction of errors from previous years									0
Balance as at 1 January 2016 after adjustments	3 662	-43 306	235 074	1 323 736	-228 757	599 330	0	0	1 889 739
Costs of acquiring own shares		-4							-4
Acquisition of shares	8		8 160						8 168
Transactions with shareholders	8	-4	8 160	0	0	0	0	0	8 164
Net profit (loss) for 1Q 2016							-65 580		-65 580
Exchange differences after the conversion of units					18 772				18 772
Balance as at 31 March 2016	3 670	-43 310	243 234	1 323 736	-209 985	599 330	-65 580	0	1 851 095

5. Consolidated cash flow statement of LPP SA Capital Group

Sprawozdanie z przepływów pieniężnych	1Q 2016	1Q 2015
	01.01.2016- 31.03.2016	01.01.2015- 31.03.2015
A. Cash flows from operating activities - indirect method		
I. Pre-tax profit (loss)	-68 944	-29 714
II. Total adjustments	-133 300	-173 320
1. Amortisation and depreciation	62 943	50 379
2. Foreign exchange gains (losses)	-3 505	11 984
3. Interest and profit sharing (dividends)	5 680	4 179
4. Profit (loss) on investing activities	594	4 696
5. Income tax paid	-22 431	-50 454
6. Change in provisions	4 920	-412
7. Change in inventories	-46 094	-140 633
8. Change in receivables	-1 489	-35 180
9. Change in short-term liabilities excluding credits and loans	-126 564	-11 351
10. Change in prepayments and accruals	-3 761	4 066
11. Other adjustments	-3 593	-10 594
III. Net cash flows from operating activities	-202 244	-203 034
B. Cash flows from investing activities		
I. Inflows	18 483	8 221
1. Disposal of intangible and tangible fixed assets	18 438	8 181
2. From financial assets, including:	45	40
a) in related parties	0	0
- dividend	0	0
b) in other entities	45	40
- repayment of loans	44	32
- interest	1	8
3. Other investment inflows	0	0
II. Outflows	35 981	104 415
1. Purchase of intangible assets and tangible fixed assets	35 966	104 359
2. For financial assets, including:	15	56
a) in related parties	0	0
- loans granted		
b) in other entities	15	56
- loans granted	15	56
3. Other capital expenses		
III. Net cash flows from investing activities	-17 498	-96 194

C. Inflows from the financing activities		
I. Inflows	163 611	248 949
1. Inflows from issuance of shares	8 168	
2. Credits and loans	155 443	248 949
3. Other inflows from financial activities		
II. Outflows	21 677	11 368
1. Cost of maintaining own shares	4	4
2. Dividends to shareholders	0	0
3. Repayment of credits and loans	16 270	7 252
4. Payment of liabilities arising from financial leases		20
5. Interest	5 403	4 092
6. Other outflows from financial activities	0	0
III. Net cash flows from financing activities	141 934	237 581
D. Total net cash flows	-77 808	-61 647
E. Balance sheet change in cash, including:	-79 103	-61 647
- change in cash due to foreign exchange differences	-1 295	-6 935
F. Cash opening balance	223 053	183 529
G. Closing balance of cash, including:	145 245	121 882
- of limited disposability	0	34

6. Selected consolidated financial data of LPP SA

Selected consolidated financial data	1Q 2016	1Q 2015	1Q 2016	1Q 2015
	01.01.2016- 31.03.2016	01.01.2015- 31.03.2015	01.01.2016- 31.03.2016	01.01.2015- 31.03.2015
	in thousand PLN		in thousand EUR	
Net revenues from sales of products, goods and materials	1 044 631	899 474	239 820	216 798
Profit (Loss) on operating activities	-39 768	-40 284	-9 130	-9 710
Pre-tax profit (loss)	-24 445	-28 539	-5 612	-6 879
Net profit (loss)	-17 340	-24 552	-3 981	-5 918
Net cash flows from operating activities	-225 753	-177 204	-51 827	-42 711
Net cash flows from investing activities	4 726	-100 388	1 085	-24 196
Net cash flows from financing activities	141 924	237 597	32 582	57 267
Total net cash flows	-79 103	-39 995	-18 160	-9 640

Selected consolidated financial data	2016	2015	2016	2015
	31.03.2016	31.12.2015	31.03.2016	31.12.2015
	in thousand PLN		in thousand EUR	
Total assets	3 450 738	3 420 825	808 438	802 728
Long-term liabilities	301 206	317 752	70 566	74 563
Short-term liabilities	1 302 322	1 246 687	305 108	292 547
Equity	1 847 210	1 856 386	432 764	435 618
Share capital	3 670	3 662	860	859
Weighted average number of ordinary shares	1 815 870	1 812 145	1 815 870	1 812 145
Profit (Loss) per ordinary share (in PLN / EUR)	-9.5	190.0	-2.2	45.8
Book value per ordinary share (in PLN / EUR)	1 017.3	1 024.4	238.3	240.4
Declared or paid dividends per ordinary share (in PLN / EUR)		32.00	0.0	7.5

7. Statement of the financial position of LPP SA

Statement of the financial position	Balance at the end:		
	1Q 2016 31.03.2016	1Q 2015 31.03.2015	31.12.2015
ASSETS			
Non-current assets	1 864 020	1 630 341	1 865 472
1. Tangible fixed assets	823 967	715 677	834 894
2. Intangible assets	35 177	27 796	34 274
3. Goodwill	179 618	179 618	179 618
4. Investments in subsidiaries	710 293	604 113	707 547
5. Receivables and loans	1 615	1 613	1 650
6. Deferred tax assets	112 696	100 843	106 972
7. Pre-payments	654	681	517
Current assets	1 586 718	1 367 431	1 555 353
1. Inventory	954 623	780 363	954 211
2. Trade receivables	512 775	527 131	417 435
3. Receivables from income tax	57 424	0	35 750
4. Other receivables	17 880	33 074	17 344
5. Loans	90	215	112
6. Pre-payments	10 812	12 462	16 990
7. Cash and cash equivalents	33 114	14 186	113 511
TOTAL assets	3 450 738	2 997 772	3 420 825

Statement of the financial position	Balance at the end:		
	1Q 2016 31.03.2016	1Q 2015 31.03.2015	1Q 2016 31.03.2016
LIABILITIES			
Equity	1 847 210	1 543 687	1 856 386
1. Share capital	3 670	3 662	3 662
2. Own shares	-43 309	-43 292	-43 306
3. Share premium	243 233	235 074	235 074
4. Other capital	1 316 609	1 088 899	1 316 609
5. Retained earnings	327 007	259 344	344 347
- profit (loss) from previous years	344 347	283 896	0
- net profit (loss) for the current period	-17 340	-24 552	344 347
Long-term liabilities	301 206	204 651	317 752
1. Bank credits and loans	268 158	201 004	284 253
2. Provisions for employee benefits	1 940	1 596	1 790
3. Provision for deferred income tax	3 946	2 051	5 329
4. Accruals	27 162	0	26 380
Short-term liabilities	1 302 322	1 249 434	1 246 687
1. Trade and other liabilities	559 465	579 584	654 814
2. Income tax liabilities	711 402	635 618	560 661
3. Bank credits and loans	12 273	11 947	8 642
4. Provisions	0	466	227
5. Special funds	19 182	21 819	22 343
TOTAL liabilities	3 450 738	2 997 772	3 420 825

8. Statement of the results and other total revenue of LPP SA

	1Q 2016	1Q 2015
Statement of the results and other total revenue	01.01.2016- 31.03.2016	01.01.2015- 31.03.2015
Sales revenue	1 044 631	899 474
Cost of goods sold	664 473	540 447
Gross Profit (Loss) on sales	380 158	359 027
Other operating income	5 414	4 021
Selling costs	334 089	293 456
General costs	76 684	64 669
Other operating expenses	14 567	45 207
Profit (Loss) on operating activities	-39 768	-40 284
Financial income	47 303	48 105
Financial cost	31 980	36 360
Pre-tax Profit (Loss)	-24 445	-28 539
Taxes	-7 105	-3 987
Net Profit (Loss)	-17 340	-24 552
Other comprehensive income	0	0
Total comprehensive income	-17 340	-24 552

9. Statement of changes in the equity of LPP SA

Statement of changes in the equity	Share capital	Own shares	Capital from the sale of shares above their value	Other capital	Profit (loss) from previous years	Profit (loss) for the current period	Minority interest
Balance as at 1 January 2015	3 662	-43 288	235 074	1 088 309	283 896	0	1 567 653
- correction of errors from previous years							0
Balance as at 1 January 2014 after adjustments	3 662	-43 288	235 074	1 088 309	283 896	0	1 567 653
Costs of acquiring own shares		-4					-4
Remuneration paid in shares				590			590
Transactions with shareholders	0	-4	0	590	0	0	586
Net profit (loss) for 1Q 2015						-24 552	-24 552
Balance as at 31 March 2015	3 662	-43 292	235 074	1 088 899	283 896	-24 552	1 543 687
Balance as at 1 January 2016	3 662	-43 306	235 074	1 316 609	344 347	0	1 856 386
- correction of errors from previous years							0
Balance as at 1 January 2016 after adjustments	3 662	-43 306	235 074	1 316 609	344 347	0	1 856 386
Costs of acquiring own shares		-3					-3
Acquisition of shares	8		8 159				8 167
Transactions with shareholders	8	-3	8 159	0	0	0	8 164
Net profit (loss) for 1Q 2016						-17 340	-17 340
Balance as at 31 March 2015	3 670	-43 309	243 233	1 316 609	344 347	-17 340	1 847 210

1. Sprawozdanie z przepływów pieniężnych LPP SA

Sprawozdanie z przepływów pieniężnych	I kw. 2016 01.01.2016- 31.03.2016	I kw. 2015 01.01.2015- 31.03.2015
A. Cash flows from operating activities - indirect method		
I. Pre-tax profit (loss)	-24 445	-28 539
II. Total adjustments	-201 308	-148 665
1. Amortisation and depreciation	36 579	29 833
2. Foreign exchange gains (losses)	-3 505	11 993
3. Interest and profit sharing (dividends)	-33 293	4 179
4. Profit (loss) on investing activities	22 655	-30 498
5. Income tax paid	-21 677	-49 600
6. Change in provisions	3 781	843
7. Change in inventories	-400	-68 049
8. Change in receivables	-105 106	-52 205
9. Change in short-term liabilities excluding credits and loans	-102 793	6 381
10. Change in prepayments and accruals	2 451	-2 132
11. Other adjustments	0	590
III. Net cash flows from operating activities	-225 753	-177 204
B. Cash flows from investing activities		
I. Inflows	54 391	7 680
1. Disposal of intangible and tangible fixed assets	18 396	7 637
2. From financial assets, including:	35 995	43
a) in related parties	35 950	2
- interest and dividend	35 950	2
b) in other entities	45	41
- interest	1	9
- repayment of loans	44	32
3. Other investment inflows		
II. Outflows	49 665	108 068
1. Purchase of intangible assets and tangible fixed assets	23 629	73 324
2. For financial assets, including:	26 036	34 744
a) in related parties	26 021	34 688
- shares acquisition	26 021	34 688
b) in other entities	15	56
- loans granted	15	56
3. Other capital expenses		
III. Net cash flows from investing activities	4 726	-100 388

C. Inflows from the financing activities		
I. Inflows	163 601	248 949
1. Inflows from issuance of shares	155 433	248 949
2. Credits and loans	8 168	0
3. Other inflows from financial activities	0	0
II. Outflows	21 677	11 352
1. Cost of maintaining own shares	4	4
2. Dividends to shareholders	0	0
3. Repayment of credits and loans	16 270	7 256
4. Payment of liabilities arising from financial leases	5 403	4 092
5. Interest		
6. Other outflows from financial activities	141 924	237 597
III. Net cash flows from financing activities	-79 103	-39 995
D. Total net cash flows	-80 398	-39 995
E. Balance sheet change in cash, including:	-1 295	37
- change in cash due to foreign exchange differences	112 117	54 181
F. Cash opening balance	33 014	14 186
G. Closing balance of cash, including:	0	34

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR Q1 2016

1. About LPP SA Capital Group

LPP SA Capital Group (Capital Group, Group) consists of:

- LPP SA as the parent company,
- 4 domestic subsidiaries,
- 16 foreign subsidiaries.

There is no parent company in relation to LPP SA.

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

No.	Company name	Registered office	Control acquisition date
1.	G&M Sp. z o.o.	Gdańsk, Poland	26.09.2001
2.	DP&SL Sp. z o.o.	Gdańsk, Poland	26.09.2001
3.	IL&DL Sp. z o.o.	Gdańsk, Poland	26.09.2001
4.	AMUR Sp. z o.o.	Gdańsk, Poland	09.05.2003
5.	LPP Estonia OU	Tallinn, Estonia	29.04.2002
6.	LPP Czech Republic S.R.O.	Prague, Czech Republic	16.09.2002
7.	LPP Hungary KFT	Budapest, Hungary	18.10.2002
8.	LPP Latvia LTD	Riga, Latvia	30.09.2002
9.	LPP Lithuania UAB	Vilnius, Lithuania	27.01.2003
10.	LPP Ukraina AT	Peremyshliany, Ukraine	23.07.2003
11.	RE Trading OOO	Moscow, Russia	12.02.2004
12.	LPP Romania Fashion SRL	Bucharest, Romania	12.08.2007
13.	LPP Bulgaria EOOD	Sofia, Bulgaria	14.08.2008
14.	LPP Slovakia S.R.O.	Banska Bystrica, Slovakia	30.10.2008
15.	LPP Fashion Bulgaria LTD	Sofia, Bulgaria	26.08.2011
16.	Gothals Limited	Nicosia, Cyprus	22.07.2011
17.	LPP Croatia D.O.O.	Zagreb, Croatia	22.01.2014
18.	Reserved GmbH	Hamburg, Germany	03.03.2014
19.	IPMS Management Services FZE	Ras Al Khaimah, UAE	15.07.2015
20.	LPP Reserved UK LTD	Altrincham, UK	15.10.2015

The dominance of LPP SA in the subsidiaries, due to its almost 100% stake in subsidiaries' capital and in the total number of votes, is immediate.

The consolidated financial statements of the Group for the period from 1 January to 31 March 2016 comprise separate results of LPP SA and the results of the following subsidiaries:

- LPP Estonia OU
- LPP Czech Republic SRO
- LPP Hungary KFT
- LPP Latvia LTD
- LPP Lithuania UAB
- LPP Ukraina AT
- Re Trading OOO
- LPP Romania Fashion SRL
- LPP Bulgaria LTD
- LPP Slovakia SRO
- LPP Fashion Bulgaria LTD

- Gothals LTD
- LPP Croatia DOO
- Reserved GmbH
- IPMS Management Services FZE
- LPP Reserved UK LTD

Polish subsidiaries of LPP SA 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 associate is not consolidated if the amounts reported in the financial statements of that entity are insignificant compared to the financial statements of the parent company. In particular, the balance sheet total, net revenues from sales of goods and services, and financial operations of the entity which, for the financial period, are lower than 10% of balance sheet total and revenues of the parent company are regarded as insignificant. The total amount of revenues and balance sheet totals of non-consolidated entities may not exceed that level, but in relation to the corresponding amounts of the consolidated financial statements determined on the assumption that their scope includes all subsidiaries, without 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 – 0.02%
- in the Group's sales revenue and finance revenue – 0.07%

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

LPP SA is a company involved in the design and distribution of clothing in Poland and the countries of Central, Eastern and Western Europe as well as of the Middle East. The Group companies are involved in the distribution of goods under the RESERVED, Cropp, House, MOHITO and SiNSAY brands outside Poland. Clothing is basically the only product sold by the Group companies. Footwear, bags and clothing accessories are sold as products supplementing the basic offer of the Capital Group companies.

Clothing designs are prepared in the design office located in the registered office of LPP SA in Gdańsk and in the design office in Kraków, and then transferred to the purchasing department which orders the production of certain models, cooperating in this respect with companies in Poland and abroad, including in China. Production in China is managed by the Company's trading office in Shanghai.

The Capital Group also generates insignificant revenues from sale 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).

The additional business activity of the Capital Group involves the management of the rights to RESERVED, Cropp, House, MOHITO and SiNSAY trademarks, including their protection, activities aimed at increasing their value, granting licenses to use, etc. Gothals Limited in Cyprus and IPMS in UAE was established to that effect.

Four domestic subsidiaries are engaged in the rental of real properties where the stores of Cropp, RESERVED, House and Mohito are run.

2. The basis for the preparation of these condensed consolidated financial statements and information on the changes in the applied accounting policies

The Group's report for Q1 2016 comprises the condensed consolidated financial statements and selected explanatory data included in these Notes as well as condensed financial statements of the parent company, in accordance with IAS 34 "Interim Financial Reporting".

The accounting policy applied to prepare these statements is in all material respects compliant with the policy adopted for the preparation of the consolidated annual financial statements of the LPP SA Capital Group for the financial year 2015, in accordance with International Financial Reporting Standards.

The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2015.

3. Achievements of LPP SA Capital Group in the reporting period

Key achievements of the Group in Q1 2016:

1. In Q1 2016, LPP Capital Group continued its expansion of the sales network for stores of all brands (approx. 11.5 thousand square meters of the new store area). Particularly dynamic growth was observed in the EU and the Middle East.
A franchise RESERVED store was opened in the United Arab Emirates (Abu Dhabi) and another RESERVED store in Qatar. In Q1 another RESERVED store was opened in Germany (Hanover), and stores of five brands in Croatia (Split).
In February, Poland saw the opening of the first store of the new premium brand - Tallinder. At the end of the quarter there were 6 stores of this brand in Poland with a total area of 2.9 thousand m². At the same time an online Tallinder store was launched.
In March, RESERVED e-store debuted in Hungary.
In Q1 an amendment was signed to the conditional agreement on the opening of the first store in London, thereby shortening the term of the agreement.
2. In Q1 2016, sales revenue amounted to PLN 1 175 million. They increased by approximately 17% compared to Q1 2015 (PLN 1 003 million).
3. In Q1 2016, LPP SA Capital Group generated operating loss of PLN 64 million. Last year in this period, LPP SA Capital Group generated operating profit of PLN 24 million. In Q1 2016, LPP SA Capital Group generated net loss of PLN 66 million (compared with net loss of PLN 37 million in Q1 2015).
4. In Q1 2016, RESERVED stores generated sales revenue of PLN 538 million, while Cropp stores - PLN 167 million. Sales in Q1 generated by MOHITO stores amounted to PLN 150 million, in House stores they amounted to PLN 144 million and in SiNSAY stores they amounted to PLN 88 million. The new brand Tallinder generated sales in the amount of PLN 1 million.
5. In Q1 2016, the area of the chain of outlets increased by 11.5 thousand sq. m. At the end of Q1 2016, LPP SA Capital Group had 1 641 stores in 18 countries of a total area of 855 thousand sq. m. Capital expenditure (CAPEX) in Q1 2016 amounted to PLN 36 million, 66% less compared to Q1 of the previous year due to the increased use of fit-outs, and completion of the investment in the logistics centre and the Company headquarters.
6. Revenue from sales in comparable stores increased in Q1 2016 by 4.2% (excluding changes in local currency exchange rates in the countries where the Group companies operate).

Other significant events in 2016:

1. On 11 January 2016, annexes to the overdraft facility agreement (multi-purpose line) executed on 13 December 2011 and to the agreement on revolving line for letters of credit executed on 13 December 2011 were signed by LPP SA and Bank Handlowy w Warszawie SA. Under those annexes the current use period was extended (RB 3/2016).
2. On 14 January 2016 an annex to the multi-purpose credit line agreement concluded between LPP SA and BGZ BNP Paribas SA of 14 April 2004 was signed. Under the annex, the credit limit was increased, and the current use period was extended (RB 4/2016).
3. On 17 March 2016, Mr. Piotr Dyka, Vice-President of the Management Board, resigned from his position as Member of the Management Board of LPP (RB 12/2016).
4. On 10 May 2016, the Supervisory Board of LPP SA passed a resolution recommending to the Annual General Meeting of LPP SA the adoption of the Incentive Programme for the key managers of the Company based on the use of treasury shares acquired in 2008. The Programme is to be put to the vote at the next Annual General Meeting of LPP SA (RB 22/2016).

4. Factors and events, especially of extraordinary nature, with significant impact on the consolidated financial results

Sales revenues in Q1 2016 were higher by 17% than last year. Gross margin fell from 54.2% last year to 46.1% during the period. The reason for this was the increase in the USD/PLN exchange rate, which caused an increase in the cost of goods purchased, mainly in Asia, in USD currency. The increase in operating expenses due to the increase in retail space caused the loss incurred at the operational level in the amount of PLN 64 million (compared with PLN 24 million of profit earned in the previous year). In Q1 2016 the Company recorded exchange gains in the amount of approx. PLN 2 million but because of the interest paid on loans it generated a net loss of PLN 66 million, compared to PLN 37 million loss the year before.

Revenue from sales of products, goods and materials generated by the Capital Group companies (inter-company sales transactions excluded) is presented below:

Company name	Country	Revenue in Q1 2016	% share in Q1 2016
LPP SA	Poland	715 286	60.9%
- including revenues from the Middle East		9 488	
LPP Estonia OU	Estonia	18 050	1.5%
LPP Latvia Ltd	Latvia	15 188	1.3%
LPP Czech Republic SRO.	Czech Republic	51 986	4.4%
LPP Hungary Kft.	Hungary	15 104	1.3%
LPP Lithuania UAB	Lithuania	18 732	1.6%
LPP Ukraina	Ukraine	46 324	3.9%
Re Trading OOO	Russia	186 241	15.9%
LPP Romania Fashion SRL	Romania	19 163	1.6%
Reserved GmbH	Germany	33 394	2.8%
LPP Croatia	Croatia	10 435	0.9%
LPP Bulgaria EOOD	Bulgaria	12 082	1.0%
LPP Slovakia SRO	Slovakia	32 845	2.8%
Total		1 174 831	100.0%

5. Explanations of the seasonal or cyclical nature of the LPP SA Capital Group's operations in the reporting period

Seasonality in sales is the characteristic feature of the clothing market both in Poland and abroad. The first quarter of a calendar year covers two months (January and February) when the clearance sale of autumn-winter collection is traditionally conducted. As a result, profit margin before tax is lower than the average annual margin in the entire quarter.

6. Information on revaluation write-downs of inventories to net realisable value and reversal of write-downs

Detailed information is included in Note 35.1.

7. Information on impairment losses of financial assets, property, plant and equipment, intangible assets, or other assets, and reversal thereof

Detailed information is included in Note 35.1.

8. Information on the establishment, increase, use and reversal of provisions

Detailed information is included in Note 35.3.

9. Information on deferred tax liabilities and assets

Detailed information is contained in Note 35.5.

10. Information on material purchase and sale transactions related to property, plant and equipment

No such transactions were effected in the reporting period.

11. Information on material obligations related to the purchase of property, plant and equipment

No such obligations were incurred in the reporting period.

12. Information on material litigation issues

No such transactions were effected in the reporting period.

13. Indication of adjustments for prior period errors

No such adjustments were made in the reporting period.

14. Information on changes in economic and business conditions, which have a significant impact on the fair value of the company's financial assets and financial liabilities

No such changes occurred in the reporting period.

15. Information on non-repayment of loans or borrowings or breach of any material provisions of facility or loan agreements

There were no such events in the reporting period.

16. Information on one or more transactions effected by the issuer or its subsidiary with related parties, if considered material, whether individually or collectively, and have been effected on terms other than on arm's length basis

No such transactions were effected in the reporting period.

17. For financial instruments measured at fair value - information on the change of the method of determination

Not applicable.

18. Information on changes in the classification of financial assets as a result of changes of these assets or their use

Not applicable.

19. Division into operating segments - revenues and results of individual segments

The LPP SA Capital Group is involved in one type of business activity (one trade segment regarded as the core one). A division into two geographical segments was applied: activity within and outside the European Union. The division into geographical segments was based on the criterion of location of the Group's assets. Revenue and results attributable to particular segments in Q1 2016 and the comparable period are presented in Note 35.7.

20. Information on the issue, redemption and repayment of debt and equity securities

In Q1 some series A subscription warrants were converted into series L shares in the share capital of LPP SA. As a result of the conversion there were issued 4 084 series L bearer shares. Following the issue, the Issuer's share capital amounts to PLN 3 670 414 and it is divided into 350 000 registered shares and 1 485 207 bearer shares. Thus the total number of votes at the General Meeting is 3,235,207. The new series L shares represent 0.2% of the share capital and 0.1% of the total number of votes at the Issuer's General Meeting of Shareholders (RB 02/2016).

Series L shares were dematerialized, admitted and listed on the stock market in February 2016 (RB 9/2016 and RB 10/2016).

21. Information on the dividend paid (or declared), in total and per share, broken down into ordinary and preference shares

On 22 April 2016 the Management Board decided to submit to the Supervisory Board and the Annual General Meeting a proposal for the distribution of the net profit achieved in the financial year ended on 31 December 2015 recommending the payment of a dividend in the amount of PLN 59 935 557.00, i.e. PLN 33.00 per share.

The Management Board of LPP SA also states that the Company, based on the resolutions No. 21 and 22 of the Annual General Meeting of the Company dated 27 June 2011, issued 21 300 subscription warrants entitling to subscribe for the same number of shares in the Company share capital, of which 17 216 warrants remain to be exercised. In case of implementation of those rights before the dividend date, the value of the dividend per share would amount to PLN 32.69.

The Management Board of LPP SA also proposes to set the dividend date to 5 September 2016, and the dividend payment date to 21 September 2016. The proposal received a positive opinion by the Supervisory Board of LPP SA. The decision regarding the dividend payout for 2015 will be taken by the Annual General Meeting of the Company.

22. Date of approval of the financial statements for issue

These financial statements were approved for publication by the Management Board of the Parent Company on 11 May 2016.

23. Events which occurred after the balance sheet date, not included in the financial statements, and which may significantly affect future financial results of LPP SA Capital Group

No such events occurred.

24. Effects of changes in the LPP SA Capital Group's structure, including as a result of mergers, acquisition or sale of the Capital Group companies, long-term investments, as well as division, restructuring and discontinuation of operations

In 2015, the Annual General Meeting passed a resolution approving cross-border merger of LPP SA based in Poland with the company Gothals Limited based in Cyprus by transferring all assets of Gothals LTD to LPP SA. The aim of the merger is internal functional and asset restructuring as well as simplifying the capital structure of LPP SA Capital Group (RB 19/2015, RB 24/2015). As at the day of the report for Q1 2016 cross-border merger did not yet occurred.

25. Changes in contingent liabilities or contingent assets subsequent to the end of the previous financial year

In Q1 2016, LPP SA and its subsidiaries benefited from bank guarantees to secure the payment of rent for the leased space for retail purposes and office space.

As at 31 March 2016, the total value of bank guarantees granted at the request and on the responsibility of LPP SA amounted to PLN 250 431 thousand, of which:

- a) guarantees granted to secure agreements concluded by LPP SA - PLN 68 261 thousand,
- b) guarantees granted to secure agreements executed by consolidated related parties amounted to PLN 180 217 thousand,
- c) guarantees granted to secure agreements executed by non-consolidated related parties amounted to PLN 1 647 thousand,
- d) guarantees granted to secure storage space lease agreements concluded by LPP SA - PLN 305 thousand.

In Q1 2016, the Company also received guarantees. These guarantees were collateral from the counterparty payments, their value as at 31 March 2016 amounted to PLN 21 651 thousand.

In the reporting period the Parent Company provided guarantees; their value as at 31 March 2016 amounted to PLN 105 348 thousand and decreased compared to 31 December 2015 by PLN 226 thousand.

26. Estimates concerning future liabilities under lease agreements

The Group companies are parties to lease agreements under which they use retail premises where RESERVED, Cropp, House, MOHITO, SiNSAY and Tallinder brand stores are located.

Total future payments (minimum and conditional) under lease agreements, estimated as at 31 March 2016, are as follows:

- payables maturing within 12 months after the balance sheet date PLN 792 413 thousand
- payables with the maturity date from 12 months to 5 years from the balance sheet date PLN 2 284 231 thousand
- payables maturing within more than 5 years from the balance sheet date PLN 941 535 thousand

27. Position of the Management Board on the feasibility of the annual consolidated results forecasts

The Company did not publish any forecasts of annual results.

28. Shareholders directly or indirectly holding, through subsidiaries, at least 5% of the total number of votes at the General Meeting of Shareholders of LPP SA as at the date of submission of the quarterly report, and changes in the structure of ownership of major shareholdings of LPP SA after the date of submission of the previous quarterly report

Shareholding structure of the parent company as at the date of submission of the report for Q1 2016:

Shareholder	Number of shares held	Number of votes at the AGM	Share in the total number of votes at the AGM	Share in the share capital
Marek Piechocki	175 497	875 493	27.2%	9.6%
Jerzy Lubianiec	174 999	874 995	27.2%	9.5%
Forum TFI SA	200 730	200 738	6.2%	10.9%
Treasury shares	18 978	0	0.0%	1.0%
Other shareholders	1 265 003	1 265 003	39.3%	68.9%
Total	1 835 207	3 216 229	100.0%	100.0%

After the submission of the last quarterly report (report for Q4 2015), there were no changes in the ownership structure of major blocks of shares.

29. Structure of ownership of LPP SA shares or rights attached to shares held by members of the Issuer's Management Board and the Supervisory Board as at the date of submission of the quarterly report, including changes in the shareholding structure subsequent to the date of submission of the previous quarterly report, separately for each member of the Management Board and the Supervisory Board

The structure of the holding of shares of LPP SA for managers and supervisors, as at the date of the report for Q1 2016.

Shareholder	Number of shares held	Number of votes at the AGM
Marek Piechocki - President of the Management Board	175 497	875 493
Jacek Kujawa - Vice President of the Management Board	153	153
Hubert Komorowski - Vice President of the Management Board	172	172
Sławomir Łoboda - Vice President of the Management Board	51	51
Jerzy Lubianiec - Chairman of the Supervisory Board	174 999	874 995
Dariusz Pachla - Member of the Supervisory Board	500	500

After the submission of the last quarterly report (report for Q4 2015), there were changes in the ownership structure of LPP SA shares held by the persons managing the issuer. These changes involved the

resignation from his position by one of the members of the Management Board holding shares of the Issuer (RB 12/2016) without the obligation to notify about the shares held.

30. Information on legal proceedings

At the date of this report, no proceedings are pending regarding liabilities or receivables, to which LPP SA or its subsidiary would be a party, whose single or total value would be at least 10% of the equity of LPP SA. Within the Capital Group, LPP SA is the claimant in cases concerning payment of amounts due from customers. The total amount in dispute does not exceed 10% of the Company's equity.

31. Transactions with related entities

31.1. Key management personnel

The Group's key management personnel includes members of the Parent Company's Management Board and Supervisory Board.

Short-term employee benefits received by the key management personnel in the period from 1 January to 31 March 2016 amounted to PLN 1 508 thousand, of which PLN 1 462 thousand was received by members of the Management Board and PLN 46 thousand was received by members of the Supervisory Board.

31.2. Transactions with affiliated entities

In the reporting period, the issuer did not enter into any transactions with the related parties for the transfer of rights and obligations.

Transactions between the parent company and its foreign subsidiaries are excluded from the consolidated financial statements and are not presented in the table.

Amounts presented in the table below show only intercompany transactions between LPP SA and Polish non-consolidated subsidiaries, and are presented from the parent company's perspective.

Related entities	Receivables as at 31/03/2016	Liabilities as at 31/03/2016	Revenue for the period I-III 2016	Expenses for the period I-III 2016
Domestic companies	1	15	4	2 807

Data presented as liabilities of LPP SA are receivables of related parties, and expenses correspond to revenue of related parties.

All related party transactions were concluded on an arm's length basis. Revenue from domestic companies is generated on the lease of office space for the purposes of operation of these companies.

Expenses related to the domestic subsidiaries concern the rental of property where Cropp, RESERVED, MOHITO and House are run.

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

32. Information on guarantees and sureties

In the reporting period, companies from the issuer's Capital Group did not grant any credit or loan sureties or guarantees to its entity or subsidiary, whose total value would be the equivalent of at least 10% of the issuer's equity.

Detailed information on contingent liabilities are presented in Note 25 hereto.

33. Additional information relevant for the evaluation of staff, property and financial situation, financial result of the LPP SA Capital Group and information relevant for the evaluation of the ability of the issuer's Capital Group to perform its obligations

The report contains basic information relevant for the evaluation of the situation of the issuer's Capital Group. In the opinion of the Management Board, there are no threats to the ability of the Capital Group to perform its obligations.

34. Factors that are likely to affect the results generated by LPP SA Capital Group in the next quarter or thereafter (according to LPP SA)

The basic factors which will affect the results achieved in the nearest future include:

- a) Economic situation in Poland and in countries where the stores of LPP SA Capital Group operate, especially in Russia and Ukraine.
- b) USD/EUR exchange rate, and RUB/UAH exchange rate.
- c) Increasing trade taxation in Poland and a possible ban on Sunday trading.
- d) Development of the sales network of RESERVED, Cropp, House, MOHITO, SiNSAY and Tallinder (the latest in the premium segment) brands. Further expansion on the markets in Germany, Croatia and the countries of the Middle East. In 2016, the leased area of stores is expected to be increased by approx. 10%, i.e. over 90 thousand sq.m.
- e) Maintenance of the operating costs at a low level.

35. Notes to the condensed consolidated financial statements

35.1. Revaluation write-downs of assets

The values of some assets presented in the consolidated financial statements prepared as at 31 March 2016 are adjusted by revaluation write-downs. Detailed information on the amounts of the write-downs reported as at the last day of the reporting period and changes in the period are presented in the table below.

	Tangible fixed assets	Inventories	Receivables, loans and shares
As at 01.01.2016	3 341	22 689	13 196
increase	0	4 004	60
decrease	132	312	0
As at 31.03.2016	3 209	26 381	13 256

35.2. Receivables

The value of the write-down comprises:

revaluation write-down of receivables and claimed receivables from customers: PLN 11 936 thousand
 revaluation write-down of doubtful receivables: PLN 888 thousand
 revaluation write-down of receivables from employees and other: PLN 432 thousand

35.3. Provisions

The value of provisions recognised in the consolidated financial statements and their changes in the reporting period are as follows:

	Provision for pensions and similar benefits	Provision for unpaid remuneration	Provision for liabilities	Provision for unused annual leaves
As at 01.01.2016	2 179	4 337	0	13 437
provisions established	2 854	2 267	0	15 482
provisions reversed	2 179	0	0	13 437
As at 31.03.2016	2 854	6 604	0	15 482

35.4. Income tax

Major components of income tax of LPP SA Capital Group for the period from 01.01.2016 to 31.03.2016 and comparative period are presented in the table below.

	from 01.01.2016 until 31.03.2016	from 01.01.2015 until 31.03.2015
Current income tax	349	0
Deferred income tax	- 3 713	7 621
Total	-3 364	7 621

35.5. Deferred tax assets and liabilities

At the end of the reporting period, the deferred tax assets and liabilities were presented in the consolidated financial statements.

The components thereof are presented in the tables below.

Deferred income tax assets	31.03.2016
Revaluation of fixed assets	13 841
Revaluation of intangible assets	100 233
Tax loss	448
Margin on goods unsold outside the Group	14 166
Margin from the sale of investments	6 138
Revaluation of inventories	1 927
Revaluation of receivables	373
Commodity returns	547
Employee leave	1 077
Remuneration and surcharges	1 260
Other	1 336
Total	141 346

Deferred tax liabilities	31.03.2016
Amortisation of intangible assets	5 206
Outstanding damages	214
Other	86
Total	5 506

35.6 Exchange rate differences

The consolidated profit and loss account drawn up as at 31 March 2016 presents an excess of taxable foreign exchange differences over deductible foreign exchange differences of PLN 1 936 thousand.

35.7. Operating segments

Revenues and financial results concerning geographical segments for the period between 1 January 2016 and 31 March 2016 and for the comparable period are presented in the tables below.

2016

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	942 266	232 565			1 174 831
Intersegmental sales	190 830		-190 830		-
Other operating income	5 103	1 346			6 449
Total revenue	1 138 199	233 911	-190 830	0	1 181 280
Total operating expenses, including	1 115 183	251 700	-186 766	46 846	1 226 963
Costs of intersegmental sales	143 875		-143 875		-
Other operating expenses	12 213	6 013			18 226
Segment results	10 803	-23 802	-4 064	-46 846	-63 909
Financial revenue				2 206	2 206
Financial expenses				7 241	7 241
Profit/loss before tax					-68 944
Income tax					-3 364
Net profit/loss					- 65 580

2015

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	798 305	204 272			1 002 577
Intersegmental sales	121 629	11 340	-132 969		-
Other operating income	4 464	1 328		310	6 102
Total revenue	924 398	216 940	-132 969	310	1 008 679
Total operating expenses, including	877 366	196 342	-156 443	54 336	971 601
Costs of intersegmental sales	117 219	11 381	-128 600		
Other operating expenses	10 478	2 897			13 375
Segment results	36 554	17 701	23 474	-54 026	23 703
Financial revenue				696	696
Financial expenses				54 113	54 113
Profit/loss before tax					-29 714
Income tax					7 621
Net profit/loss					-37 335

36. Notes to the separate financial statements of LPP SA

A change in write-downs included in finance costs and operating expenses of separate income statement in the total amount of PLN 20 402 thousand decreasing assets, including the deferred tax, was recognised in the assets of the separate balance sheet, such as shares, additional contributions, loans and receivables, as a result of the estimation of the carrying amount of assets invested in foreign subsidiaries in the period from January to March 2016.

This change reported in the respective items of the separate financial statements of LPP SA has no impact on the amounts presented in the consolidated financial statements.