

Report on the audit of the consolidated financial statements for 2016

LPP SA
Capital Group

1 Information on the Parent Company

The Parent Company of the Capital Group is LPP Spółka Akcyjna. The Parent Company was established on 7 December 1989 for an indefinite period of time. The registered office of the Parent Company is in Gdańsk, at ul. Łąkowa 39/44.

The core business of the Parent Company is:

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

The core business of the subsidiaries is related to the operations of the Parent Company.

On 14 February 2001, the Parent Company was entered into the register of entrepreneurs of the National Court Register kept by the District Court for Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register, entry no. KRS 0000000778.

The Parent Company has tax identification number (NIP) 5831014898 and business registry number (REGON) 190852164.

As at the date ending the financial year i.e. 31 December 2016, the share capital of the Parent Company amounted to PLN 3 679 thousand. The equity of the Capital Group as at that date amounted to PLN 2 134 731 thousand.

According to Note 14.12 to the consolidated financial statements, as at 31 December 2016, the ownership structure of the share capital of the Parent Company was as follows:

Shareholder	Number of of shares	Number of votes	Nominal value of shares	Share in the share capital
Marek Piechocki	175 497	875 493	350 994	9.5%
Jerzy Lubianiec	174 999	874 995	349 998	9.5%
Forum TFI SA	200 730	200 738	401 460	11.0%
Treasury shares	18 978	0	37 956	1.0%
Other shareholders	1 269 087	1 260 919	2 538 174	69.0%
Total	1 839 291	3 220 313	3 678 582	100.0%

Registered shares held by Mr. Marek Piechocki and Mr. Jerzy Lubianiec, in the amount of 350 000, are shares preferred in terms of voting rights at the General Meeting of Shareholders. Each registered share carries 5 votes.

As informed by the Parent Company, from 1 January 2016 to 31 December 2016 and after the balance sheet date, until the date of signing the consolidated financial statements, there were the following changes relating to the owners of the Parent Company, holding at least 5% of votes at General Meeting of Shareholders:

- on 14 September 2016, the Management Board of the Parent Company adopted a resolution on the increase of the share capital by way of conversion of subscription warrants of the A series to shares of the L series. The share capital of the Parent Company was increased from PLN 3 670 414 by PLN 8 168 to PLN 3 678 582 by way of issuance of 4 084 ordinary bearer shares of the L series, of a nominal value of PLN 2. Shares of the L series were issued in the exercise of the right of the holder of subscription warrants to subscribe to shares of the L series by way of converting subscription warrants to shares of the L series. Shares of the L series were subscribed to by FinCrea 2 Closed-End Investment Fund of Non-Public Assets, managed by FinCrea TFI SA,
- on 27 December 2017, FORUM 64 Closed-End Investment Fund, managed by FORUM TFI SA, acquired from its subsidiary i.e. Hoja SCSp with its registered office in Luxembourg 51 338 book-entry shares and 1 registered share, that is, in total, 51 339 shares in the share capital of the Parent Company,
- on 21 December 2017, FORUM 65 Closed-End Investment Fund, managed by FORUM TFI, acquired from its subsidiary i.e. Quarter SCSp with its registered office in Luxembourg 143 710 book-entry shares and 1 registered share, that is, in total, 143 711 shares in the share capital of the Parent Company.

As at 6 April 2017 (the date of signing the consolidated financial statements), the Management Board of the Parent Company was composed of the following persons:

- Marek Piechocki - President of the Management Board,
- Przemyslaw Lutkiewicz - Vice-President of the Management Board,
- Sławomir Łoboda - Vice-President of the Management Board,
- Jacek Kujawa - Vice-President of the Management Board.

From 1 January 2016 to 6 April 2017 (the date of issuance of this report), the following changes took place in the composition of the Management Board of the Parent Company:

- on 17 March 2016, Mr. Piotr Dyka resigned from his position as Vice-President of the Management Board,
- on 6 September 2016, Mr. Hubert Komorowski resigned from his position as Vice-President of the Management Board.

2 Composition of the Capital Group

As at 31 December 2016, the LPP SA Capital Group was composed of the following subsidiaries (direct and indirect):

Company name	Consolidation method	Type of opinion on the financial statements	Name of entity responsible for the audit of the financial statements	Balance sheet date as at which the financial statements were prepared
LPP Retail Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2016
DP&SL Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2016
IL&DL Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2016
AMUR Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2016
LPP Estonia OU	full consolidation	unqualified	HLB Expertus	31 December 2016
LPP Czech Republic s.r.o.	full consolidation	unqualified	ACT Audit	31 December 2016
LPP Hungary Kft.	full consolidation	unqualified	NP Audit Nagy Peter	31 December 2016
LPP Latvia Ltd.	full consolidation	unqualified	Grant Thornton Baltic	31 December 2016
UAB "LPP Lithuania"	full consolidation	unqualified	Balanso Auditas	31 December 2016
LPP Ukraina AT	full consolidation	unqualified	Biznes Partner	31 December 2016
Re Trading OOO	full consolidation	unqualified	HLB Univers - Audit	31 December 2016
LPP Romania Fashion SRL	full consolidation	unqualified	KM Partners	31 December 2016
LPP Bulgaria Ltd	full consolidation	unqualified	Kreston Bulmar	31 December 2016
LPP Slovakia s.r.o.	full consolidation	unqualified	Jamar Marian Revay	31 December 2016
LPP Fashion Bulgaria Ltd.	full consolidation	unqualified	Kreston Bulmar	31 December 2016
Gothals Limited	full consolidation	unqualified	KPSA Chartered Accountants	31 December 2016
LPP Croatia D.O.O.	full consolidation	unqualified	HLB Inzenjerski biro	31 December 2016
Reserved GMBH	full consolidation	unqualified	CROWE MOHRLE HAPP LUTHER GmbH	31 December 2016
IMPS Management Services FZE	full consolidation	not audited	not applicable	31 December 2016
LPP Reserved UK Ltd	full consolidation	not audited	not applicable	31 December 2016
LLC Re Development	full consolidation	not audited	not applicable	31 December 2016
LLC Re Street	full consolidation	not audited	not applicable	31 December 2016
LPP Reserved doo Beograd	excluded from consolidation	not audited	not applicable	31 December 2016

The number of consolidated companies changed in 2016 compared to the previous year due to the establishment of the following companies: LLC Re Street, LLC Re Development and LPP Reserved doo Beograd.

3 Consolidated financial statements for the previous year

The consolidated financial statements of the Capital Group for the financial year ended 31 December 2015 (previous financial year) was audited by Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k., represented by Jan Letkiewicz, statutory auditor no. 9530. The auditor issued an unqualified opinion on the audited financial statements.

The consolidated financial statements of the Capital Group for the financial year ended 31 December 2015 was approved by the General Meeting of Shareholders of the Parent Company on 17 June 2016.

The consolidated financial statements of the Capital Group for the financial year ended 31 December 2015 (the previous financial year) together with an independent auditor's report, the resolution of the General Meeting of Shareholders on the approval of the consolidated financial statements and the report on the Capital Group's operations were submitted to the National Court Register on 15 December 2016.

4 Information on the entity authorised to audit the financial statements and on the statutory auditor

Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością sp. k., with its registered office in Poznań, at ul. Abpa Antoniego Baraniaka 88 E, is an entity authorised to audit financial statements, entered on the list of the National Council of Auditors in Poland under no. 4055.

On behalf of Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością sp. k., the audit of the consolidated financial statements of the Capital Group was managed by Jan Letkiewicz, statutory auditor no. 9530.

On 13 December 2016, Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością sp. k. was appointed by the Supervisory Board to audit the consolidated financial statements of the Capital Group for the financial year ended 31 December 2016. The audit of the consolidated financial statements was conducted under the agreement concluded on 13 December 2016 with the Management Board of the Parent Company.

5 Scope and date of the audit

The aim of the audit was to express a written opinion, along with a report, stating whether the consolidated financial statements for the financial year ended 31 December 2016 present a fair and true view of the financial position, assets and financial results of the Capital Group, in line with the International Accounting Standards, the International Financial Reporting Standards and related interpretations announced in regulations by the European Commission and the adopted accounting principles (policy).

The audit consisted in the implementation of procedures aimed at obtaining evidence for audited amounts and disclosures in the consolidated financial statements. The choice of procedures depends on the opinion of the statutory auditor, including the auditor's assessment of the risk of material distortion in the consolidated financial statements, caused by fraud or error. When assessing such risk, the statutory auditor takes into account internal audit activities covering the preparation and reliable presentation by the entity of the consolidated financial statements, with a view to designing auditing procedures that will be adequate in given circumstances, and not with a view to giving opinion on the effectiveness of the entity's internal audit. The audit includes also the assessment of the adequacy of accounting principles (policy) adopted, rationality of estimates made by the Management Board of the Parent Company, as well as the evaluation of the overall presentation of the consolidated financial statements.

While auditing individual items of the consolidated financial statements and consolidation documentation, we applied tests relevant for financial review. Based on the test results, we made conclusions concerning the correctness of audited items. We also conducted an audit based on selected tests in respect of tax settlements and charges, therefore, there may be differences between our findings and the results of potential audits conducted by competent tax authorities.

Our audit did not comprise the determination and explanation of events which, if occurred, could give grounds for initiating criminal proceedings by competent authorities. The audit neither covered any other issues which could occur outside the accounting system of the Capital Group, yet without affecting the audited consolidated financial statements.

The audit of the consolidated financial statements of the Capital Group for the financial year ended 31 December 2016 was conducted from 7 November 2016 to 6 April 2017.

6 Statement of impartiality

Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością sp. k., members of the management board of the general partner, the network to which the entity authorized to conduct the audit belongs, the statutory auditor managing the audit and other persons participating in the audit meet the requirements to express an impartial and independent opinion on the audited consolidated financial statements of the Capital Group, as specified in Article 56 of the Act on statutory auditors and their self-government authorities, entities authorized to audit financial statements and on public supervision, dated 7 May 2009 (consolidated text: Journal of Laws of 2016, item 1000, as amended).

7 Availability of data and statements obtained

On 6 April 2017, the Management Board of the Parent Company submitted a written statement on the completeness, reliability and accuracy of the audited consolidated financial statements, confirming that, between the balance sheet date and the end date of the audit, there were no events which could significantly affect the financial condition and assets of the Capital Group and would require to be disclosed in the audited consolidated financial statements. The Management Board of the Parent Company confirmed their responsibility for the signed consolidated financial statements and declared that, during the audit, they made available all financial statements of companies being consolidated, consolidation documentation, information and other required documents, and provided explanations necessary to express an opinion on the audited consolidated financial statements.

We believe that the evidence we received give sufficient grounds to express our opinion on the consolidated financial statements, and, therefore, the scope of our audit has not been limited.

8 Consolidated statement of financial position

ASSETS (in PLN '000)	31.12.2016	31.12.2015	31.12.2014
FIXED ASSETS (long-term)	1 838 664	1 796 996	1 516 416
Tangible fixed assets	1 291 338	1 258 751	1 038 837
Intangible assets	43 511	37 342	28 751
Goodwill	209 598	209 598	209 598
Trademark	77 508	77 508	77 508
Investments in subsidiaries	136	136	136
Investments in other entities	0	1 626	2 405
Receivables and loans	6 180	5 914	6 300
Deferred tax assets	143 657	139 194	143 531
Prepayments and accrued income	66 736	66 927	9 350
CURRENT ASSETS (short-term)	1 839 268	1 768 173	1 417 310
Inventory	1 164 135	1 319 735	979 345
Trade receivables	165 390	115 086	176 947
Receivables from income tax	75 274	47 017	11 194
Other receivables	31 034	35 210	46 281
Loans	91	128	167
Other financial assets	0	-	-
Prepayments and accrued income	37 592	26 550	19 847
Cash and cash equivalents	365 753	224 447	183 529
TOTAL ASSETS:	3 677 932	3 565 169	2 933 726
EQUITY AND LIABILITIES (in PLN '000)	31.12.2016	31.12.2015	31.12.2014
EQUITY	2 134 731	1 889 739	1 638 414
LONG-TERM LIABILITIES	267 254	344 083	210 714
Bank loans and borrowings	195 033	284 253	204 461
Other financial liabilities	-	-	-
Provisions for employee benefits	2 711	2 179	1 596
Deferred tax liabilities	3 890	7 085	4 657
Other long-term liabilities	-	-	-
Prepayments and accrued income	65 575	50 566	-
Other long-term liabilities	45	-	-
SHORT-TERM LIABILITIES	1 275 947	1 331 347	1 084 598
Trade and other liabilities	881 064	721 394	618 578
Income tax liabilities	7 449	3 042	37 972
Bank loans and borrowings	315 111	561 074	378 346
Other financial liabilities	-	-	7
Provisions	33 607	17 774	20 201
Special funds	0	227	157
Prepayments and accrued income	38 716	27 836	29 337
TOTAL EQUITY AND LIABILITIES:	3 677 932	3 565 169	2 933 726

9 Consolidated statement of financial result and other comprehensive income

(in PLN '000)	2016	2015	2014
CONTINUED ACTIVITIES			
Sales revenue	6 019 046	5 130 353	4 769 288
Cost of sales	3 085 236	2 387 524	1 976 788
Gross profit/loss on sales	2 933 810	2 742 829	2 792 500
Other operating income	39 424	24 231	45 889
Selling and distribution expenses	2 405 007	2 012 420	1 942 937
Administrative expenses	203 799	179 247	205 411
Other operating expenses	138 007	72 704	80 938
Operating profit (loss)	226 421	502 689	609 103
Financial revenue	1 307	1 981	3 002
Financial expenses	33 650	90 302	152 210
Gross profit/loss	194 078	414 368	459 895
Tax burden	19 303	63 048	-21 965
Net profit/loss	174 775	351 320	481 860
OTHER COMPREHENSIVE INCOME			
Foreign exchange differences on translation	113 928	-44 381	-180 314
TOTAL COMPREHENSIVE INCOME	288 604	306 939	301 546
Net profit (loss), of which:			
- Parent Company shareholders	174 775	351 320	479 546
- non-controlling entities	-	-	2 314

10 General information and financial ratios

The table below presents selected data and financial ratios for the years 2014, 2015 and 2016, which describe the financial condition of the Capital Group in that period. All ratios were calculated based on data included in the consolidated financial statements of the Capital Group for years ended 31 December 2016 and 31 December 2015.

Ratio	Calculation formula	Ratio value		
		2016	2015	2014
revenues from sales (in PLN '000)		6 019 046	5 130 353	4 769 288
net financial result ** (in PLN '000)		174 775	351 320	481 860
equity ** (in PLN '000)		2 134 731	1 889 739	1 638 414
total assets (in PLN '000)		3 677 932	3 565 169	2 933 726
return on assets (ROA) (%)	net financial result / total assets at end of period	4.8%	9.9%	16.4%
return on equity (ROE) (%)	net financial result / shareholders' equity at beginning of period	9.2%	21.4%	32.2%
return on sales (%)	net profit from sales / revenues from sales	5.4%	10.7%	13.5%
liquidity ratio I	total current assets / short-term liabilities	1.4	1.3	1.3
liquidity ratio III	cash and cash equivalents / short-term liabilities	0.3	0.2	0.2
receivables turnover ratio (in days)	trade receivables* x 365 days / revenues from sales of products and goods	10	8	14
debt repayment period (in days)	trade and other payables x 365 days / cost of sales	84	90	95
inventory turnover ratio (in days)	inventories x 365 days / cost of sales	138	202	181
stability of financing	(equity + long-term liabilities) / total liabilities	65.3%	62.7%	63.0%
debt to assets ratio (%)	(total liabilities - equity) / total liabilities	42.0%	47.0%	44.2%
Inflation ratios:				
average annual (%)		-0.6	0.9	0.0
from December to December (%)		-0.8	-0.5	-1.0

* before revaluation write-downs

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

11 Going concern

Note 6 to the audited consolidated financial statements of the Capital Group for the year ended 31 December 2016 contains the announcement of the Management Board of the Parent Company stating that the consolidated financial statements of the Capital Group were drawn up assuming that it will be a going concern for a period not shorter than 12 months starting from 31 December 2016, and that there were no circumstances which could impede the continuance of the operations of the Capital Group.

In the course of our audit, we found no material indications which could give rise to the belief that the Capital Group may not be able to remain a going concern for at least 12 months after the balance sheet date i.e. after 31 December 2016 due to any intentional or forced discontinuation of operations or significant limitation of its business.

12 Financial year

Financial statements of all members of the Capital Group, serving as the basis for preparing the consolidated financial statements, were prepared as at 31 December 2016 and include financial data for the reporting period between 1 January 2016 and 31 December 2016.

13 Accounting principles (policy) and methods of presenting financial data

In Note 9 to the consolidated financial statements for the year ended 31 December 2016, the Management Board of the Parent Company presented the accounting principles (policy) and methods of presenting the financial data of the Capital Group.

In the period for which these consolidated financial statements were prepared, there was a change in the accounting policy in respect of presentation of employee benefit funds. The Capital Group assessed the impact of the change in accounting on the financial statements for the previous year. Due to the insignificant impact of the said change on the assets and the financial standing of the Capital Group, comparative data presented in the consolidated financial statements have not been restated.

14 Goodwill on consolidation, gain from a bargain purchase

The principles of determining consolidation goodwill, rules for impairment write-downs and the information facilitating the assessment of the changes in the company's balance sheet value for the period between 1 January 2016 and 31 December 2016 were presented in Note 14.4 to the consolidated financial statements.

15 Equity

Equity presented in the consolidated statement of financial position as at 31 December 2016 is in line with the consolidation documentation. As at 31 December 2016, there were no non-controlling interests. Financial data referring to equity is presented in Note 14.12 to the consolidated financial statements.

16 Non-consolidation

The following consolidation exclusions concerning consolidated companies:

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

are in line with the consolidation documentation.

17 Sale of shares in subordinates

In the financial year ended 31 December 2016, the Capital Group did not sell any shares in its subsidiaries.

18 Completeness and accuracy of the consolidation documentation

As a result of our audit, we have decided that the consolidation documentation is complete and accurate and meets all material requirements applicable to consolidation documentation. In particular, this applies to exclusions resulting from consolidation adjustments.

19 Structure of assets and liabilities in the consolidated statement of financial position

The structure of the assets and liabilities of the Capital Group is presented in the consolidated financial statement for the year ended 31 December 2016. The data presented in the said consolidated financial statement is consistent with the consolidation documentation.

20 Items affecting the financial result of the Capital Group

The items affecting the financial result of the Capital Group are described in the audited consolidated financial statement for the year ended 31 December 2016. The data presented in the said consolidated financial statement is consistent with the consolidation documentation.

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

Given the insignificant effect on the consolidated financial statements, the consolidation did not include 4 domestic subsidiaries and 1 foreign subsidiary listed in point 3 of the introduction to the notes to the consolidated financial statements for 2016.

22 Additional information on the adopted accounting principles and other explanatory information

Additional information on the adopted accounting principles and notes to the consolidated financial statements for the financial year ended 31 December 2016 have been drawn, in all material respects, in compliance with the International Accounting Standards, the International Financial Reporting Standards and related interpretations announced as regulations by the European Commission.

23 Report on the operations of the Capital Group

We reviewed the wording of the report of the Management Board of the Parent Company on the operations of the Capital Group in the financial year ended 31 December 2016. In our opinion, the information included in the report on the operations of the Capital Group, is compliant with Article 49 paragraph 2 of the Accounting Act (consolidated text: Journal of Laws of 2016, item 1047, as amended) and the Regulation of the Minister of Finance, dated 19 February 2009, on current and interim information provided by issuers of securities and on the terms and conditions for recognition of information required under the laws of a country not being a member state as equivalent (consolidated text: Journal of Laws of 2014, item 133), and the said information complies with the information provided for in the enclosed consolidated financial statements. Furthermore, based on our knowledge on the Capital Group and its environment, obtained in the course of auditing the consolidated financial statements, we ascertained any material distortions.

In our opinion, in the declaration on corporate governance, constituting a separate part of the report on the operations of the Capital Group, the Parent Company incorporated information within the scope required under the secondary law enacted under Article 60 paragraph 2 of the Act of 29 July 2005 on public offering and the terms and conditions for the introduction of financial instruments to an organised trading system and on publicly traded companies (consolidated text: Journal of Laws of 2016, item 1639). This information is compliant with applicable laws and the information provided for in the consolidated financial statements.

This report contains 12 pages.

Jan Letkiewicz

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Statutory Auditor no. 9530

Key statutory auditor conducting the audit on behalf of

Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością sp. k.,

Poznań, ul. Abpa Antoniego Baraniaka 88E, entity authorised to audit financial statements,
reference number 4055

Poznań, 6 April 2017