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Report on the audit of the consolidated financial statement for 2012

LPP Spółka Akcyjna
Capital Group

Auditing - Taxation - Outsourcing -
Consulting Member of Grant Thornton
International Ltd

Grant Thornton Frąckowiak Sp. z ograniczoną odpowiedzialnością sp. k. The entity authorised to audit financial statements no. 3654 General partner: Grant Thornton Frąckowiak Sp z o o Management Board of the general partner: Cecylia Pol - President of the Management Board, Tomasz Wróblewski - Vice-President of the Management Board Business address siedziby 61-131 Poznań, ul. Abpa Antoniego Baraniaka 88 E NIP 778-14-76-013, REGON 301591100. Bank account: 18 1750 1019 0000 0000 0098 2229 District Court Poznań - Nowe Miasto i Wilda in Poznań, VIII Commercial Division, National Court Register no. 0000369868

1 Information about 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 as follows:

- 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 in the register of entrepreneurs of the National Court Register kept by the District Court Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, entry no. KRS 0000000778.

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

As at the financial year ended on 31 December 2012, the share capital of the Parent Company amounted to PLN 3 662 thousand. The equity of the Capital Group as at that date amounted to PLN 1 211 048 thousand.

According to note 15.12 of the Notes to the consolidated financial statement, as at 31 December 2012, the ownership structure of the share capital of the Parent Company was as follows:

Shareholder	Number of shares	Number of votes	Nominal value of shares	Share capital held
Marek Piechocki	175 000	875 000	350 000	9.6%
Jerzy Lubianiec	175 000	875 000	350 000	9.6%
Monistor Limited, Cyprus	200 728	200 728	401 456	11.0%
Grangeford Limited, Cyprus	350 000	350 000	700 000	19.1%
Other shareholders	930 395	930 395	1 860 790	50.8%
Total	1 831 123	3 231 123	3 662 246	100%

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.

According to information received from the Parent Company as at 19 April 2013, in the period from 1 January 2012 to 31 December 2012 and after the balance sheet date, until the date of this report, the following changes in the ownership structure of the Parent Company occurred:

Shareholder	Number of shares 19.04.2013	Share 19.04.2013	Number of shares 31.12.2012	Share as at 31.12.2012	Number of shares 31.12.2011	Share as at 31.12.2011
Marek Piechocki	175 000	9.6%	175 000	9.6%	175 000	9.84%
Jerzy Lubianiec	175 000	9.6%	175 000	9.6%	175 000	9.84%
Grangefont Limited	350 000	19.1%	350 000	19.1%	350 000	19.69%
Monistor Limited, Cyprus	200 728	11.0%	200 728	11.0%	200 728	11.29%
Other shareholders	930 395	50.8%	930 395	50.8%	877 006	49.34%
Total	1 831 123	100.0%	1 831 123	100.0%	1 777 734	100.0%

The Parent Company's share capital was increased by PLN 107 thousand as a result of conversion of convertible bonds to shares.

The composition of the Management Board of the Parent Company as at 19 April 2013 was as follows:

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

The composition of the Management Board of the Parent Company did not change in the period between 1 January 2012 and 19 April 2013.

2 Composition of the Capital Group

As at 31 December 2012, LPP S.A. Capital Group consisted of the following subsidiaries (direct and indirect):

Company name	Consolidation method	Type of opinion on the financial statement	Name of entity responsible for the audit of the financial statement	End of financial year
LPP Retail Estonia OU	full consolidation	unqualified	HLB Expertus Klf	31 December 2012
LPP Retail Latvia Ltd	full consolidation	unqualified	Rodl & Partner SIA	31 December 2012
LPP Retail Czech Republic s.r.o.	full consolidation	unqualified	Act Audit	31 December 2012
LPP Hungary Kft.	full consolidation	with an explanatory note on negative equity	HLB Hungary Kft	31 December 2012
UAB "LPP" - Lithuania	full consolidation	unqualified	UAB Balanso	31 December 2012
LPP Ukraina AT	full consolidation	unqualified	Auditing Company ACF Business Partners LCC	31 December 2012
LPP Fashion Distributor SRL - Romania	full consolidation	with an explanatory note on negative equity, losses and possible follow-up action	Deloitte	31 December 2012
ZAO Re Trading'	full consolidation	unqualified	HLB Univers Audit	31 December 2012
Fashion Point Russia	full consolidation	unqualified	HLB Univers Audit	31 December 2012
LPP Retail Bulgaria Ltd.	full consolidation	unqualified	Kreston BulMar	31 December 2012
Artman Mode SRO	full consolidation	unqualified	Act Audit	31 December 2012
Artman Slovakia	full consolidation	with an explanatory note on negative equity	Jamar s.r.o.-Marian Revay	31 December 2012
LPP Fashion Bulgaria	full consolidation	not audited	not applicable	31 December 2012
Gothals Limited	full consolidation	unqualified	KPSA Chartered Accountants	31 December 2012
Jaradi Limited	full consolidation	unqualified	KPSA Chartered Accountants	31 December 2012
IP Services	full consolidation	not audited	not applicable	31 December 2012

Company name	Consolidation method	Type of opinion on the financial statement	Name of entity responsible for the audit of the financial statement	End of financial year
G&M Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2012
TORA in liquidation Sp. z	excluded from consolidation	not audited	not applicable	31 December 2012
DP&SL Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2012
IL&DL Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2012
AMUR Sp. z o.o.	excluded from consolidation	not audited	not applicable	31 December 2012

Compared to last year, the number of companies included in the consolidation increased by IP Services, a newly formed company in the United Arab Emirates.

3 Consolidated financial statement for the previous year

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2011 (previous financial year) was audited by Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością, on behalf of which acted Jan Lenkiewicz, a certified auditor, no. 9530 The auditor issued an unqualified opinion on the audited financial statement.

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2011 was approved by the General Meeting of Shareholders of the Parent Company on 25 June 2012.

The consolidated financial statement of the Capital Group for the financial year ended on 31 December 2011 (the previous financial year), along with the certified auditor's report, were submitted to the National Court Register on 4 July 2012, following the resolution of the General Meeting of Shareholders regarding the approval of the consolidated financial statement and the report on the operations of the Capital Group.

The required elements of the consolidated financial statement for the financial year ended on 31 December 2011 (previous financial year), along with the certified auditor's opinion and the resolution of the General Meeting of Shareholders on the approval of the consolidated financial statement as of 3 July 2012, were submitted for publication in Monitor Polski B.

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

Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k., seated in Poznań at ul. Abpa Antoniego Baraniaka 88 E, is an entity authorized to audit financial statements, entered in the list of the National Council of Auditors in Poland under no. 3654.

The audit of the consolidated financial statement was conducted by Justyna Komer-Fabiś, certified auditor no. 10964, on behalf of Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k.

On 18 April 2012, Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k. was appointed by the Supervisory Board of the Parent Company to audit the consolidated financial statement

of the Capital Group for the financial years ended on 31 December 2012 and 31 December 2013. The audit of the consolidated financial statement was carried out following the agreement concluded on 9 May 2012 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 statement for the financial year ended on 31 December 2012 accurately and clearly presents, in all its material aspects, the financial situation, assets and financial results of the Capital Group, in accordance with accounting principles (policy) resulting from the International Accounting Standards, International Financial Reporting Standards and related interpretations announced in a form of regulations by the European Commission, and to the extent not covered by these Standards, in accordance with the provisions of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2009, no. 152, item 1223, as amended) and its executive provisions.

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

The audit did not cover issues which do not affect the audited consolidated financial statement.

The audit of the consolidated financial statement of the Capital Group for the financial year ended on 31 December 2012 was conducted from 2 April 2013 to 19 April 2013.

6 Statement of impartiality

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

7 Availability of data and declarations received

On 19 April 2013, the Management Board of the Parent Company submitted a written statement on the completeness, reliability and accuracy of the audited financial statement, confirming that between the balance sheet date and the end of the audit there had been no events which could significantly impact the financial condition and assets of the Company and require to be disclosed in the audited financial statement. The Management Board of the Parent Company confirmed its liability for the approved consolidated financial statement, and stated that at the time of the audit, it made available to us all

financial statements of the companies included in the consolidation, consolidation documentation, information and other required documents, as well as it provided us with explanations necessary to issue an opinion on the consolidated financial statement.

We believe that the evidence we had been given provided a sufficient basis to express our opinion on the consolidated financial statement and, therefore, there were no limitations on the scope of our audit.

Consolidated Balance Sheet

ASSETS (in PLN '000)	31.12.2012	31.12.2011	31.12.2010
FIXED ASSETS	909 856	744 937	709 923
Tangible fixed assets	598 502	447 725	419 805
Intangible assets	17 599	11 515	11 040
Goodwill	183 609	183 609	183 609
Trademark	77 508	77 508	77 508
Investment property	661	678	-
Investments in subsidiaries	186	186	212
Investments in associates	-	19	19
Receivables and loans	8 680	4 549	1 052
Deferred income tax assets	22813	18 669	16 491
Long-term prepayments and accruals	298	479	177
CURRENT ASSETS	1 022 366	868 931	716 446
Inventory	656 070	594 606	424 437
Trade and other receivables	190 396	145 715	118 704
Receivables from income tax	5 266	1 936	542
Loans	129	167	237
Other securities	-	-	16 430
Other financial assets	-	-	53 064
Short-term prepayments and accruals	11 112	9 541	6 562
Cash and cash equivalents	159 393	116 966	96 470
TOTAL ASSETS:	1 932 222	1 613 868	1 426 369
LIABILITIES (in PLN '000)	31.12.2012	31.12.2011	31.12.2010
EQUITY	1 211 048	909 194	733 895
LONG-TERM LIABILITIES	130 980	89 356	281 231
Credits, loans and other debt instruments	125 114	86 446	156 096
Issue of debt securities	-	-	121 524
Other financial liabilities	71	31	88
Deferred income tax provision	4 441	1 685	2 464
Liabilities and provisions for employee benefits	1 277	1 135	1 025
Other long-term liabilities	77	59	34
SHORT-TERM LIABILITIES	590 194	615 318	411 243
Trade and other liabilities	477 805	377 512	312 700
Income tax liabilities	19 079	12 179	771
Loans and borrowings	61 048	117 749	86 637
Issue of debt securities	-	86 243	3 906
Other financial liabilities	42	54	96
Provisions	19 868	14 665	3 122
Special funds	224	296	347
Short-term prepayments and accruals	12 128	6 620	3 664
TOTAL LIABILITIES:	1 932 222	1 613 868	1 426 369

9 Consolidated statement of comprehensive income

(in PLN '000)	2012	2011	2010
CONTINUED ACTIVITIES			
Revenues from sales	3 223 755	2 492 510	2 079 358
Operating expenses	2 757 446	2 139 031	1 874 516
Other operating revenues	27 683	20 590	22 646
Other operating expenses	39 575	30 963	28 472
Operating profit (loss)	454 417	343 106	199 016
Financial revenues	2 214	13 541	10 690
Financial expenses	32 495	25 624	28 888
Profit (loss) before tax	424 136	331 023	180 818
Income tax	70 159	61 877	43 406
Net profit (loss) from continuing operations	353 977	269 146	137 412
OTHER COMPREHENSIVE INCOME			
Other comprehensive income after tax	1 146	-3 887	-1 159
Comprehensive income	355 123	265 259	136 253

10 General information and financial ratios

The table below presents selected data and financial ratios for the years 2010, 2011 and 2012 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 on 31 December 2012 and 31 December 2011.

Ratio	Calculation formula	Ratio value		
		2012	2011	2010
revenues from sales (PLN '000)		3 223 755	2 492 510	2 079 358
net financial result ** (PLN '000)		353 977	269 146	137 412
equity **(PLN '000)		1 211 048	909 194	733 895
total assets (PLN '000)		1 932 222	1 613 868	1 426 369
return on assets (ROA) (%)	net financial result / total assets at end of period	18.3%	16.7%	9.6%
return on equity (ROE) (%)	net financial result / shareholders' equity at beginning of period	38.9%	36.7%	20.1%
return on sales (%)	net profit from sales / revenues from sales	14.5%	14.2%	9.8%
liquidity ratio I	total current assets / short-term liabilities	1.8	1.4	1.7
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	15	17	17
debt repayment period (in days)	trade payables x 365 days / cost of sales	104	107	99
inventory turnover ratio (in days)	inventories x 365 days / cost of sales	171	203	164
stability of financing	(shareholders' equity + long-term liabilities) / total liabilities	69.5%	61.9%	71.2%

Ratio	Calculation formula	Ratio value		
		2012	2011	2010
debt to assets ratio (%)	(total liabilities - equity) / total liabilities	37.3%	43.7%	48.5%
Inflation ratios:				
average annual (%)		3.7	4.3	2.6
from December to December (%)		2.4	4.6	3.1

* 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 of the introduction to the audited consolidated financial statement of the Capital Group for the year ended on 31 December 2012 contains the announcement of the Management Board of the Parent Company stating that the financial statements of the Parent Company and its subsidiaries constituting the basis for the preparation of the consolidated financial statement were drawn up assuming going concern of the Company for the period not shorter than 12 months starting from 31 December 2012, and that there were no circumstances which could impede the operations of the Parent Company and its subsidiaries.

In the course of our audit, we found no material indications that the Parent Company may not be able to remain a going concern in the next 12 months following the balance sheet date, i.e. 31 December 2012, 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 which provide a basis for the consolidated financial statement were prepared as at 31 December 2012 and include financial data for reporting period between 1 January 2012 and 31 December 2012.

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

In note 9 of the introduction to the consolidated financial statement for the year ended on 31 December 2012, the Management Board of the Parent Company presented the accounting principles (policy) and methods of presenting the financial data of the Capital Group. During the period for which this consolidated financial statement was prepared, there were no changes in the accounting principles (policy) or in the methods of presenting the financial data of the Capital Group.

14 Consolidation goodwill

The principles of determining consolidation goodwill, rules of impairment write-downs and the information allowing for the assessment of the changes in the company's balance value for the period between 1 January 2012

to 31 December 2012 were presented in note 15.4 of the Notes to the consolidated financial statement.

15 Equity capital

Equity presented in consolidated balance sheet as at 31 December 2012 is in line with the consolidation documentation. As at 31 December 2012, non-controlling interests totalled PLN 2 538 thousand. Financial data referring to equity is presented in note 15.12 in Notes to the consolidated financial statement.

16 Non-consolidation

Consolidation exclusions concerning consolidated companies:

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

are in line with the consolidation documentation.

17 Sale of shares in subordinates

In the financial year ended on 31 December 2012, the Capital Group did not sell any shares in the its subsidiaries.

18 Completeness and accuracy of the supporting documentation

As a result of our audit, we have decided that the supporting documentation, in all its material aspects, is complete and accurate and meets all the requirements applicable to supporting documentation. In particular, this applies to exclusions which were the result of consolidation adjustments.

19 Structure of assets and liabilities in the consolidated financial statement

The structure of assets and liabilities of the Capital Group is presented in the consolidated financial statement for the year ended on 31 December 2012. All the data presented in the consolidated financial statement is consistent with the supporting 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 on 31 December 2012.

All the data presented in the consolidated financial statement is consistent with the supporting documentation.

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

Given the insignificant effect on the consolidated financial statement, the consolidation did not include 5 domestic subsidiaries listed in point 3 of the introduction to the Notes to the consolidated financial statement for 2012.

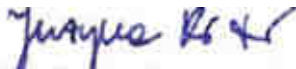
22 Additional information about the adopted accounting rules and other explanatory information

Additional information on the adopted accounting principles and notes to the consolidated financial statement for the financial year ended on 31 December 2012 were drawn, in all material aspects, in line with the accounting standards (policy) resulting from the International Accounting Standards, International Financial Reporting Standards and related interpretations announced as regulations by the European Commission; and to the extent not covered by the Standards, in line with the provisions of the Accounting Act and its implementing provisions.

23 Report on the operations of the Capital Group

We analysed the report of the Management Board of the Parent Company on the operations of the Capital Group for the financial year ended on 31 December 2012. The information included in the report on operations, originally disclosed in the audited consolidated financial statement for the financial year ended on 31 December 2012, is consistent with this statement. The report on the operations of the Capital Group is compliant, in all its material aspects, with the provisions of Article 49(2) of the Accounting Act and the provisions of the Regulation by the Minister of Finance of 19 February 2009 on current and interim information submitted by issuers of securities and on the conditions for regarding information required by the law of a non-member state as equivalent (Journal of Laws of 2009, no. 33, item 259, as amended).

This report contains 10 pages.



Justyna Komer-Fabiś

Certified Auditor no. 10964

Key certified auditor conducting the audit on behalf of

Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k.,
Poznań, ul. Abpa Antoniego Baraniaka 88E, entity authorised to audit financial
statements, reference number 3654

Poznań, 19 April 2013.