CONSOLIDATED ANNUAL REPORT OF LPP S.A. GROUP FOR 2011

INCLUDING:

- A LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD TO THE SHAREHOLDERS
- SELECTED FINANCIAL DATA FOR 2011-2010
- CONSOLIDATED FINANCIAL STATEMENT
- MANAGEMENT BOARD REPORT ON LPP S.A. CAPITAL GROUP OPERATIONS (WITH A CORPORATE GOVERNANCE STATEMENT OF COMPLIANCE)
- STATEMENTS OF THE MANAGEMENT BOARD

April 2012

A LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD TO THE SHAREHOLDERS

Dear Shareholders,

A year of the highest sales volume and profit in the history of our company is behind us. We sold goods worth PLN 2.5 billion, generating nearly PLN 270 million of net profit. It was undoubtedly a very good year. A year of improvement not only in terms of results, but also the organisation of the whole capital group. Efforts to increase the effectiveness of the organisational structures taken for several seasons have begun to bear fruit. I am confident that these improvements will have a positive impact on the entire LPP Capital Group in the future.

As in 2010, also in the past year, the growth rate of our sales network was not high. The total increase of retail area in 2011 amounted only to 7%. Plans for our development in 2012 are markedly increased and exceed a 20% growth of retail space. This year, we will open our thousandth store, and at the end of the year we should manage a sales network with an area of 415,000 m2. We want to achieve a similar growth rate in the coming years by building new facilities in the countries where we operate today, and also by opening in the spring of 2013 a network of stores offering clothing and accessories of a new brand targeted at young clients, which we have been working on for several months.

The achievement of these ambitious development objectives is, of course, aimed at strengthening the position of LPP Capital Group in our region. Despite strong competition represented by the world leaders in the apparel industry, our presence is clearly visible. We care about the visibility of our brands while making them widely accessible to our present and prospective customers. In the implementation of the adopted development objectives, which are very important for maintaining and improving our market position, we do not forget about the need to ensure good financial results. I am convinced that, like in 2011, as a result of our efforts to be taken in the coming years, you will be part of an attractive undertaking, also from a financial point of view.

Marek Piechocki

President of the Management Board

SELECTED CONSOLIDATED FINANCIAL DATA FOR 2011-2010

Selected financial data – consolidated statement

Selected financial data	2011	2010	2011	2010
	in PLN '000		in EUR '000	
Net revenues from sales of products, goods and materials	2 492 510	2 079 358	602 041	519 268
Operating profit (loss)	343 106	199 016	82 874	49 699
Gross profit (loss)	331 023	180 818	79 955	45 155
Net profit (loss)	269 146	137 412	65 010	34 315
Net cash flows from operations	254 039	197 462	61 361	49 311
Net cash flows from investments	-39 608	-130 556	-9 567	-32 603
Net cash flows from financial operations	-193 936	-167 917	-46 843	-41 933
Total net cash flows	20 495	-101 011	4 950	-25 225
Total assets	1 613 868	1 426 369	365 393	360 167
Long-term liabilities	89 356	281 231	20 231	71 013
Short-term liabilities	615 318	411 243	139 313	103 841
Equity	909 194	733 895	205 849	185 313
Share capital	3 555	3 501	805	884
Weighted average number of ordinary shares	1 746 800	1 728 879	1 746 800	1 728 879
Profit (loss) per ordinary share (in PLN / EUR)	154.08	79.48	37.22	19.85
Book value per share (in PLN / EUR)	520.49	424.49	117.84	107.19
Dividend per share - declared or paid (in PLN / EUR)	76.86	50.00	17.40	12.63

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

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

CONSOLIDATED FINANCIAL STATEMENT OF LPP S.A. CAPITAL GROUP
For the financial year ended 31 December 2011

1. Consolidated Balance Sheet

Balance Sheet	Notes	as at the end of:		
		31/12//2011	31/12/2010	31/12/2009
ASSETS				
Fixed assets (long-term)		744 937	709 923	739 013
1. Tangible fixed assets	15.1	447 725	419 805	441 137
2. Intangible assets	15.3	11 515	11 040	12 763
3. Goodwill	15.4	183 609	183 609	183 609
4. Trademark	15.3	77 508	77 508	77 508
5. Shares in subsidiaries	15.5	186	212	719
6. Investments in associates	15.6	19	19	
7. Investments in real property	15.7	678		
8. Receivables and loans	15.8	4 549	1 062	1 057
9. Deferred tax assets	15.21	18 669	16 491	22 045
10. Prepayments	15.18	479	177	175
Current assets (short-term)		868 931	716 446	621 610
1. Inventories	15.9	594 606	424 437	322 756
2. Trade receivables	15.10	114 313	95 742	78 271
3. Receivables from income tax	15.10	1 936	542	
4. Other receivables	15.10	31 402	22 962	15 155
5. Loans	15.8	167	237	541
6. Other securities		0	16 430	
7. Other financial assets		0	53 064	
8. Prepayments	15.18	9 541	6 562	7 405
9. Cash and cash equivalents	15.11	116 966	96 470	197 482
TOTAL assets		**1 613 868**	**1 426 369**	**1 360 623**

Balance Sheet	Notes	as at the end of:		
		31/12//2011	31/12/2010	31/12/2009
LIABILITIES				
Equity		909 194	733 895	684 609
1. Share capital	15.13	3 555	3 501	3 501
2. Treasury shares		-48 759	-48 754	-48 749
3. Share premium	15.13	149 829	108 123	108 123
4. Other capital	15.13	562 429	547 559	512 189
5. Foreign exchange differences from translation		-4 537	-650	509
6. Retained earnings				
- profit (loss) from previous years		-24 748	-13 296	5 382
- net profit (loss) for the current period		268 725	137 412	103 654
7. Minority interests		2 700		
Long-term liabilities		89 356	281 231	347 725
1. Bank loans and borrowings	15.8	86 446	156 096	227 270
2. Issue of debt securities	15.8	0	121 524	115 514
3. Other financial liabilities	15.17	31	88	215
4. Provisions for employee benefits	15.14	1 135	1 025	1 031
5. Deferred income tax provision	15.21	1 685	2 464	3 695
6. Other long-term liabilities		59	34	
Short-term liabilities		615 318	411 243	328 289
1. Trade and other liabilities	15.17	377 512	312 700	225 329
2. Income tax liabilities	15.17	12 179	771	14 314
3. Bank loans and borrowings	15.8	117 749	86 637	76 472
4. Issue of debt securities	15.8	86 243	3 906	5 465
5. Other financial liabilities	15.17	54	96	367
6. Provisions	15.14	14 665	3 122	2 863
7. Special funds		296	347	463
8. Accruals	15.18	6 620	3 664	3 016
TOTAL liabilities		**1 613 868**	**1 426 369**	**1 360 623**

2. Comprehensive Income Statement

Profit and loss account	Notes	01/01/2011-31/12/2011	01/01/2010-31/12/2010
Sales revenues	15.19	2 492 510	2 079 358
Costs of sales		1 068 774	946 144
Gross profit/loss on sales		1 423 736	1 133 214
Other operating revenues	15.19	20 590	22 646
Costs of sales	15.20	967 910	837 258
General administrative expenses	15.20	102 347	91 114
Other operating expenses	15.20	30 963	28 472
Operating profit/loss		343 106	199 016
Financial revenues	15.19	13 541	10 690
Financial expenses	15.20	25 624	28 888
Gross profit/loss		331 023	180 818
Taxes	15.21	61 877	43 406
Net profit/loss		**269 146**	**137 412**
Net profit (loss) attributable to:			
holding company shareholders		268 725	137 412
non-controlling entities		421	0
Other comprehensive income			
Foreign exchange differences from translation		-3 887	-1 159
Total comprehensive income		**265 259**	**136 253**

3. Statement of changes in equity

Statement of changes in equity	Share capital	Own shares	Share premium	Other capital	Foreign exchange differences from translation	Profit (loss) from previous years	Profit (loss) for the current period	Minority interests	TOTAL equity
As at 1 January 2010	**3 501**	**-48 749**	**108 123**	**512 189**	**509**	**110 016**	**0**	**0**	**685 589**
- adjustments due to errors in previous years						-1 498			-518
As at 1 January 2010 after adjustments	**3 501**	**-48 749**	**108 123**	**512 189**	**509**	**108 518**	**0**	**0**	**684 091**
Costs of acquisition of treasury shares		-5							-5
Net profit distribution for 2009				35 370		-121 814			-86 444
Transactions with owners	0	-5	0	35 370	0	-121 814	0	0	-86 449
Net profit for 2010							137 412		137 412
Calculation of foreign exchange differences from translation					-1 159				-1 159
As at 31 December 2010	**3 501**	**-48 754**	**108 123**	**547 559**	**-650**	**-13 296**	**137 412**	**0**	**733 895**

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

4. Consolidated Cash Flow Statement

Cash Flow Statement	01/01/2011-31/12/2011	01/01/2010-31/12/2010
A. Cash flow from operations - indirect method		
I. Gross profit (loss)	331 023	180 818
II. Total adjustments	-76 984	16 644
1. Depreciation	95 439	96 095
2. (Profit) loss on foreign exchange differences	-1 410	-760
3. Interest and participation in profits (dividends)	23 272	24 272
4. Profit (loss) from investments	-4 926	-8 589
5. Paid income taxes	-52 713	-52 567
6. Change in provisions	12 764	246
7. Change in inventories	-159 189	-102 995
8. Change in receivables	-17 265	-27 951
9. Change in short-term liabilities, excluding loans and borrowings	31 496	88 361
10. Change in accruals	-1 523	2 249
11. Other adjustments	-2 929	-1 717
III. Net cash flows from operations	254 039	197 462
B. Cash flows from investments		
I. Revenues	94 838	61 817
1. Disposal of intangible and tangible fixed assets	20 779	34 269
2. From financial assets, including:	18 961	2 548
a) in related parties	815	1 113
- disposal of shares/liquidation of companies	643	564
- dividends and profit sharing	172	549
b) in other entities	18 146	1 435
- sale of foreign bonds	17 300	
- interest	660	902
- repayment of loans	186	533
- other income from financial assets		
3. Other investment inflows - sale of investment fund units	55 098	25 000
II. Expenses	134 446	192 373
1. Acquisition of intangible and tangible fixed assets	129 345	100 665
2. For financial assets, including:	4 680	698

a) in related parties	0	498
- acquisition of shares		498
b) in other entities	4 680	200
- short-term loans granted	49	71
- long-term loans granted	3 331	129
- purchase of foreign bonds	1 300	
3. Other capital expenses	421	91 010
III. Net cash flows from investments	-39 608	-130 556
C. Cash flows from financial operations		
I. Revenues	5 718	15 079
1. Proceeds from share issue	3 000	
2. Loans and borrowings	2 718	15 079
3. Issue of debt securities		
4. Other financial income		
II. Expenses	199 654	182 996
1. Acquisition of treasury shares	5	5
2. Dividends and other payments to holders	135 256	86 444
3. Repayment of loans and borrowings	45 631	74 748
4. Payment of finance lease liabilities	128	329
5. Interest	18 634	21 470
6. Other financial expenses		
III. Net cash flows from financial operations	-193 936	-167 917
D. Total net cash flows	**20 495**	**-101 011**
E. Net change in cash, including:	**20 495**	**-101 011**
- change in cash from foreign exchange differences	2 691	528
F. Opening cash balance	**96 471**	**197 482**
G. Cash at the end of the period, including:	**116 966**	**96 471**
- restricted cash	297	495

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT OF LPP S.A. CAPITAL GROUP FOR 2011

INTRODUCTION

1. Overview

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

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

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

District court of competent jurisdiction for the holding company
LPP S.A. is registered in the District Court of Gdańsk-Północ in Gdańsku, 7th Commercial Division of the National Court Register under KRS no. 0000000778.

Place of business
The Group runs its business in the following countries:
- Poland,
- Estonia,
- the Czech Republic,
- Lithuania,
- Latvia,
- Hungary,
- Russia,
- Ukraine
- Romania,
- Bulgaria,
- Slovakia,
- Cyprus
- United Arab Emirates

Sector according to the classification of the Warsaw Stock Exchange:

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

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

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

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

3. Characteristics of LPP Capital Group

LPP Capital Group (CG, Group) is composed of:
- LPP S.A. – as the holding company,
- 5 Polish subsidiaries,
- 16 foreign subsidiaries.

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

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

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

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

The consolidated financial statement of the Capital Group covering the period between 1 January and 31 December 2011 includes individual results of LPP S.A. and results of foreign subsidiaries listed below:

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

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

- in the Capital Group's balance sheet total – 0.08%
- in the Capital Group's revenues from sales and financial revenues - 0.37%.

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

LPP S.A. is a company involved in the design and distribution of clothing in Poland and the countries of Central and Eastern Europe. Consolidated capital companies are involved in the distribution of goods under the Reserved and Cropp brands outside Poland. Clothing is basically the only product sold by the CG companies. The basic offer is supplemented by footwear, bags and accessories.
Designs of clothing are prepared in the design office located at the registered office of LPP S.A. in Gdańsk and in the design office in Krakow, and then sent to the purchasing department, which contracts the production of individual products in co-operation with production plants in Poland and abroad. Production in China is managed by the Company's trading office in Shanghai. The Capital Group also generates small revenues from sales of services (these include

only revenues generated by the holding company; mainly know-how services related to the management of brand stores by Polish contractors and lease of transport vehicles).

Additional business activity of LPP Capital Group is the management of the rights to Reserved and Cropp trademarks, including their protection, activities aimed at increasing their value, granting licenses to use etc. Gothals Limited in Cyprus and Jaradi Limited in United Arab Emirates were established for this purpose.
5 Polish subsidiaries are involved in the lease of real property where Cropp Town and Reserved outlets are located.

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

Pursuant to the Accounting Act of 29 September 1994 (consolidated text of 2 September 2009, Journal of Laws No. 152, item 1223), on 1 January 2005 LPP Capital Group presents its consolidated financial report on the basis of International Financial Reporting Standards (IFRS) and related interpretations, published as European Commission Regulations. In matters not covered by IFRS, provisions of the Accounting Act shall be applied. Financial statements covering periods starting before 1 January 2005 were prepared based on the Accounting Act and its implementing provisions.
The Group has not exercised its right arising from a change in IAS 1, concerning the loans grated to subsidiaries, and does not classify those loans as subordinated loans.

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

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

5. Declaration of compliance with the IFRS

The presented consolidated financial statement covers the period between 1 January 2011 and 31 December 2011. Comparable data are presented for the period between 1 January 2010 and 31 December 2010.
This consolidated financial statement has been drawn up in line with the International Financial Reporting Standards (IFRS) approved by the European Union, covering standards and interpretations approved by the International Accounting Standards Board and International Financial Reporting Standards Interpretation Committee.

Changes in accounting standards or interpretations valid and applied by the Capital Group since 2011

New or amended standards and interpretations in effect from 1 January 2011:

- IAS 32 (amendment) "Financial Instruments: Presentation" - effective date: annual periods beginning on or after 1 February 2010. The standard introduces a change in the approach to the classification of instruments settled in equity instruments denominated in foreign currencies.
- IAS 24 (amendment) "Related Party Disclosures" - effective date: annual periods beginning on or after 1 January 2011. The changes in the standard include exemptions from disclosure of information relating to state-controlled entities and introduce a new definition of related parties, hence some of the discrepancies were removed.
- IFRS 1 (amendment) "First-time Adoption of IFRS" - effective date: annual periods beginning on or after 1 July 2010. The amendment introduces additional exemptions for entities drawing up statements pursuant to the IFRS for the first time in relation to disclosures regarding financial instruments for comparative periods.
- Amendments arising from the draft of annual adjustments "Annual improvements Project 2010", IFRS 1, 3, 7 IAS 1, 21, 28, 31, 34 IFRIC 13 - effective date: annual periods beginning on or after 1 January 2011 (IFRS 3, IAS 21, 28, 31 - 1 July 2010).

- IFRIC 14 (amendment) “IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" - effective date: annual periods beginning on or after 1 January 2011. The change in the interpretation introduces a modification to the principles of recognising premiums paid before the due date.
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” - effective date: annual periods beginning on or after 1 July 2010. The interpretation regulates the procedures in cases when a liability is settled not by repayment but by issuance of equity instruments of the entity. A company that issued equity instruments in order to settle the liability should recognize new shares at the fair value of these shares. The difference between the value of shares and the carrying amount of the liability should be recognized in profit or loss.

The list of legally binding standards and interpretations in a version published by the IASB since 2011 but not approved by the European Union is presented below in the section relating to standards and interpretations which have not entered into force.

All the aforementioned new or amended standards and interpretations had no significant or no impact on the consolidated financial statement of the Group.

Application of a standard or interpretation before the effective date

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

Published standards and interpretations which have not entered into force as at 31 December 2011 and their impact on the Group's statement

By the date of this financial statement, the following new or amended standards and interpretations applicable to annual periods after 2010 were published:

- IFRS 9 “Financial Instruments: Classification and Measurement” - effective date: annual periods beginning on or after 1 January 2015 (this standard was not approved by the European Commission). The new standard is to replace the current IAS 39. The part of IFRS 9 published so far includes regulations on the classification and valuation of financial liabilities and the derecognition of financial assets and liabilities. The Group is in the process of assessing the impact of the change on the consolidated financial statement.
- IFRS 7 (amendment) “Financial Instruments: Disclosures” - effective date: annual periods beginning on or after 1 July 2011 (this amendment has not been approved by the European Commission). The amendment introduces additional disclosures regarding the transfer of financial assets, both those which result in derecognition and those which give rise to a corresponding obligation. The amendment will not have a material impact on the consolidated financial statement.
- IFRS 1 (amendment) “First-time Adoption of IFRS” - effective date: annual periods beginning on or after 1 January 2011 (this amendment has not been approved by the European Commission). So far, IFRS 1 conditioned the possibility of benefiting from certain exemptions and exclusions on the fact whether the transaction occurred before or after 1 January 2004. The amendment to IFRS 1 regards the replacement of that date with the date of the transition to the IFRS. Moreover, it introduces changes to the principles of conduct in the event that an entity operates in the period of high hyperinflation, when price indices were not achieved and there was no stable foreign currency. These changes do not affect the consolidated financial statement.
- IAS 12 (amendment) “Income Taxes” - effective date: annual periods beginning on or after 1 January 2012 (this amendment has not been approved by the European Commission). The amended standard regulates how to calculate deferred tax in cases when the tax law treats differently the recovery of the investment property

value through its use and disposal, and the entity is not planning to dispose of it. The amendment to IAS results in the withdrawal of the SCI 12 interpretation as its regulations have been included in the standard. The amendment will not have a material impact on the consolidated financial statement.

- IFRS 9 “Financial Instruments: Classification and Measurement” - effective date: annual periods beginning on or after 1 January 2013 (this standard was not approved by the European Commission). The new standard replaces most of IAS 27 "Consolidated and Separate Financial Statements". IFRS 10 introduces a new definition of control, but the rules and procedures for consolidation remain unchanged. According to the Group, these changes do not affect the consolidated financial statement.
- IFRS 9 “Financial Instruments: Classification and Measurement” - effective date: annual periods beginning on or after 1 January 2013 (this standard was not approved by the European Commission). IFRS 11 replaces IAS 31 "Interests in Joint Ventures". In the new standard the accounting treatment of a shared agreement is due to its economic provisions, i.e. the rights and obligations of the parties. In addition, IFRS 11 removes the possibility of settlement of investments in joint ventures using proportionate consolidation. With the entry into force of the new IFRS 11 the only valid approach is settlement of investments using the equity method, in the manner currently used for associates. These changes do not affect the consolidated financial statement.
- IFRS 9 “Financial Instruments: Classification and Measurement” - effective date: annual periods beginning on or after 1 January 2013 (this standard was not approved by the European Commission). The new IFRS 12 sets out the requirements for disclosures about consolidated and non-consolidated entities, in which the entity preparing the statement has significant involvement. This will allow investors to assess the risks to which the entity creating special purpose vehicles and other similar structures is exposed. According to the Group, the standard will affect the extension of disclosures presented in the consolidated financial statement.
- IAS 27 (amendment) "Unconsolidated Financial Statements" and IAS 28 (amendment) "Investments in associates and joint ventures" - Effective date: annual periods beginning on or after 1 January 2013 or later (not standard accepted by the European Commission). Amendments to IAS 27 and 28 are a consequence of the introduction of IFRS 10, IAS 11 and IFRS 12. IAS 27 will apply only to separate financial statements, and IAS 28 will cover investments in joint ventures.
- IFRS 9 “Financial Instruments: Classification and Measurement” - effective date: annual periods beginning on or after 1 January 2013 (this standard was not approved by the European Commission). The new standard unifies the concept of fair value for all IFRS and IAS, and introduces common guidelines and principles, which were previously scattered in different standards. The amendment will not have a material impact on the consolidated financial statement.
- IAS 19 “Employee Benefits” - effective date: annual periods beginning on or after 1 January 2013 (this standard was not approved by the European Commission). The document introduces several changes, most important of which relate to certain benefit schemes: the liquidation the "corridor" method and the presentation of the effects of re-valuation in other comprehensive income. The change does not affect the consolidated financial statement.
- IAS 1 “Presentation of financial statements” - effective date: annual periods beginning on or after 1 July 2012 (this standard was not approved by the European Commission). It changes the requirement for presentation of other comprehensive income. According to the revised IAS 1, the elements of other comprehensive income should be grouped into two sets:
    - elements which at a later date will be reclassified to earnings (e.g. changes in the value of hedging instruments) and

  - elements that will not be subject to reclassification into profit or loss (e.g. valuation of fixed assets to fair value, which is then recognized in retained earnings without profit or loss)

  New IAS 1 will affect the extent of disclosures presented in the consolidated financial statement. The change will not affect the recognition and measurement of other comprehensive income.
- IFRIC 20 (amendment) "Stripping Costs in the Production Phase of a Surface Mine"- effective date: annual periods beginning on or after 1 January 2013. (Interpretation not accepted by the European Commission). The International Financial Reporting Interpretations Committee published an interpretation, which relates to the accounting treatment for expenses incurred in surface mines in order to gain access to deeper layers of ore. According to the interpretation these costs should be capitalized in breakdown into inventories (in the part attributable to excavated ore) and fixed assets (in the part attributable to access to deeper layers). The change does not affect the consolidated financial statement.
- IFRS 32 (amendment) “Financial Instruments: Presentation” - effective date: annual periods beginning on or after 1 January 2014 (this amendment has not been approved by the European Commission). The amendment to IAS 32 introduces a detailed explanation of the conditions for the presentation of financial assets and liabilities on a net basis. The amendment will not have a material impact on the consolidated financial statement.

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

6. Going concern

The consolidated financial statement for 2011, the financial statement of the Holding Company and the statements of subsidiaries, which are the basis for the consolidated financial statement, were drawn up based on the assumption that the Group remains a going concern in the foreseeable future and that its business is not restricted to a considerable extent.
Based on the information available as at the date of preparation of the financial statement, the going concern assumption adopted in this financial statement is fully justified.

7. Date of approval of the financial statement for publication

This financial statement was approved for publication by the Management Board of the Holding Company of LPP Capital Group on 23 April 2012.

8. Events after the balance sheet date

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

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

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

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

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

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

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

or

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

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

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

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

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

Intangible assets as at the balance sheet day are disclosed by the purchase price or the formation cost, less depreciation and impairment write-downs. Intangible assets with determined useful life are depreciated on a straight line basis for the period of their useful lives by applying the rates of 1.7 - 50%. Useful lives of individual intangible assets are subject to annual verification.
Intangible assets with indefinite useful lives are not subject to depreciation but they are tested for impairment annually. Intangible assets with indefinite useful lives owned by the

Capital Group include the trademark of House. After analysis, it has been found that there is no time limit in which it can be expected that the asset will not generate income.

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

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

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

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

Leased assets
Finance lease agreements under which generally the entire risk and benefits resulting from the possession of the leased item are transferred to the Group are recognized in assets and liabilities as at the lease commencement date. The value of assets and liabilities is determined as at the lease commencement date at the lower of the following values: the fair value of an asset which is the subject of the lease or the present value of the minimal lease fees.
The minimal lease fees are divided between the financial expenses and reduction of the outstanding balance of lease liabilities so as to allow gaining a fixed interest rate on outstanding liabilities. Contingent lease payments are recognised in costs of the period in which they were incurred.
Fixed assets used under financial lease contracts are amortised in line with the same principles as applied to the own assets of the Capital Group. If however, there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the two periods: the lease term or its useful life.
In case of qualifying a lease agreement as a finance lease in terms of accounting under the regulations of IAS 17, and in terms of taxing under the regulations of the income tax act as an operating lease agreement, then in order to determine a proper value of tax deductible expenses the following rules shall apply. Depreciation write-offs made by the user are not tax deductible expenses for tax purposes. Tax deductible expenses are solely the lease payments specified in the agreement, recognised as cost for the period they refer to.

Lease contracts under which the lessor retains basically all the risks and benefits resulting from holding the leased asset are recognised as operating lease contracts.
Lease payments under operational lease are recognised on straight-line basis over the lease term unless another systematic basis is more representative of the time pattern in which use benefit is derived by the Capital Group.

Goodwill
The goodwill is initially recognized pursuant to IFRS 3.

This value is calculated as the difference between two values:

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

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

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

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

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

Shares in subsidiaries

The Group solely owns shares in Polish subsidiaries.

Shares in subsidiaries are measured at acquisition prices less impairment losses.

Acquisition price includes the amount due to the selling party less deductible VAT, as well as costs directly related to the purchase and necessary to bring the asset to working condition for its intended use or marketing.

In the event of impairment, impairment write-down is charged to financial expenses. If the reasons for the impairment write-down no longer exist, the original value of the investment is restored by transferring the reversed amount to income from financial operations. Goodwill reinstatement may be entire or partial.

Investments in associates

Associates include entities not controlled but influenced by the Capital Group in terms of financial and operating policy.

Investments in associates are initially recorded at cost and then based on the equity method.

Investments in real property

Investment property is held due to rental income and/or increase in its value and is recognised at purchase cost.

Investment property is initially carried at purchase or manufacturing cost including the cost of the transaction. As at subsequent balance sheet days, investment property is valued at purchase or manufacturing cost.

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

Financial instruments

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

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

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

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

Financial assets

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

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

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

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

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

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

Write-offs on receivables are made based on the type of receivables:

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

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

Investments held to maturity include non-derivative financial assets with fixed or determinable payments and fixed maturity date, which the Group intends and is able to hold to maturity, with the exception of assets classified as loans and receivables.
In this category the Capital Group recognises bonds and other debt securities held to maturity, presented in the balance sheet as “Other securities”.
As at the balance sheet date, the Group does not have such investments.
Investments held to maturity are measured at amortised cost using the effective interest rate method. If there is any evidence indicating a possible impairment of investments held to maturity, assets are measured at present value of estimated future cash flows. Changes in carrying value, including impairment write-downs, are recognised in the profit and loss account.

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

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

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

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

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

Inventory

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

Inventories include:

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

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

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

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

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

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

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

Cash and cash equivalents

Cash includes:

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

<u>Equity</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The following items denominated in foreign currencies are measured as at the balance sheet date:

- monetary items:
    - elements of assets – at the Company's bank purchase rate adopted as at this date (USD – 3.2940, EUR – 4.2636),
    - elements of liabilities – at the Company's bank selling rate adopted as at this date (USD – 3.5040, EUR – 4.5354).
- non-monetary items – at the historical exchange rate as at the transaction date.

Earnings per share
Earnings per share for each period is calculated by dividing net profit for the period by weighted average number of shares of LPP S.A. in this period. As at the balance sheet date, the Capital Group shall examine whether in the given period factors causing dilution of the

earning/loss per share occurred. Information on profit per share and diluted profit per share is presented in note 14.22.

Hyperinflation
Under the provisions of IAS 29, Financial Reporting in Hyperinflationary Economies, entities running their business in a hyperinflationary economy should restate individual items of their share capital by applying the general inflation rate. Results of this restatement should be disclosed as negative amounts under "retained earnings" in the balance sheet. This restatement is made to reflect the impact of hyperinflation on the entity's financial result in the respective reporting period. In Poland, the period 1989-1996 is considered a period of hyperinflationary economy. However, the Management Board is in doubt whether the disclosure of this hyperinflationary restatement in the balance sheet as an accumulated loss brought forward from previous is justified, taking into account that it refers to events which ocurred before 1996, and the corresponding earnings had been distributed before this financial statement was drawn up. In addition, it is not clear whether such disclosure of the hyperinflationary restatement has any effects under provisions of the Code of Commercial Companies, as regards e.g. the amount of dividend to be paid out, amount of payments on account of dividends, or conditions which require adoption of a resolution on the entity's remaining a going concern. Therefore, the Management Board is of the opinion that the direct disclosure of this restatement in the balance sheet drawn up as at 31 December 2011 could be misleading for users of this financial statement, and decided to present relevant amounts, ratios, and conversion methods related to the hyperinflationary restatement in Note 14.12 to the financial statement.

Financial statements of LPP Capital Group are drawn up based on the historical cost method.

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

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

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

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

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

10. Corrections of errors and changes in the accounting policy

In 2011, the consolidated financial statement was adjusted with regard to improperly calculated depreciation at one of its subsidiaries in the amount of PLN 2,651 thousand.
This adjustment affected both the value of tangible fixed assets and profit and loss in 2010 and 2009.
The amount of depreciation for 2010 was PLN 1,671 thousand, while the amount of PLN 980 thousand relates to 2009.

11. Financial risk management

The Group is exposed to many risks associated with financial instruments. The Group's s assets and liabilities as per categories are presented in note 14.8. The risks affecting the CG include:

- credit risk
- liquidity risk and
- market risk including currency risk and interest rate risk.

The main financial instruments of LPP Capital Group are bank credits and bonds convertible to shares issued in 2009 (Note 14.8). The main objective of these financial instruments is to provide financing of the Group's operations. In addition, the Group has other financial instruments established in the course of its business operations. Those mainly include cash and deposits (Note 14.11), receivables, other financial assets and trade liabilities (Note 14.10, 14.8 and 14.17).
Pursuant to IFRS 7, the risks related to financial instruments, which the Capital Group is exposed to, were analysed.

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

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

in PLN '000

Items	2011	2010
Loans	3 545	341
Trade receivables	114 313	95 742
Bonds acquired		16 430
Investment fund units		53 064
Cash and cash equivalents	116 966	96 470
Contingent liabilities under guarantees granted	126 608	110 725
Total	**361 432**	**372 772**

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

Customer	share of receivables (%) in the total amount of receivables
Customer 1	26.65%

Other with debts representing less than 5% in the total amount of receivables	73.35%
Total net trade receivables	**100.0%**

Classification of gross overdue trade receivables by overdue period as at 31.12.2011 and 31.12.2010 is presented in the table below:

in PLN '000	2011	2010
Not overdue	64 157	59 982
Overdue up to one year	53 508	38 406
Overdue for over one year	3 032	3 911
Total	**120 697**	**102 299**

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

b) liquidity risk
The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of such funding sources as overdrafts or investment bank credits. A new method of the Group's funding was the issue of convertible bonds in 2009. Using this instrument short-term funding of operations with bank credits was replaced with mid-term funding that significantly reduces potential difficulties arising from tightened bank requirements.
Compared to the previous year, credit exposure of the Capital Group was significantly reduced. A detailed description of the Company's financial standing in terms of credits taken is presented in the note 14.8. The decrease of the credit debt was due to, inter alia, the possibility of increasing the funding by suppliers by obtaining more favourable, longer payment dates.

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

As at 31 December 2011	short-term	long term
Credits in credit account		86 446
Overdrafts	117 749	
Debt securities	86 243	
Total	**203 992**	**86 446**

As at 31 December 2010	short-term	long term
Credits in a credit account		156 096
Overdrafts	86 637	
Debt securities	3 906	121 524
Total	**90 543**	**277 620**

Liquidity risk must also include trade liabilities.

Classification of gross trade liabilities by overdue period as at 31.12.2011 and 31.12.2010 is presented in the table below:

in PLN '000	2011	2010
Not overdue	291 718	239 242
Overdue up to one year	21 730	15 757
Overdue for over one year	296	636
Total	**313 744**	**255 635**

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

c) currency risk

The base accounting currency for most commercial goods purchase transactions is USD. A small portion of settlements on this account is made in euros.

The majority of revenues from sales are obtained in PLN. Given the specific type of the Group's business, it is possible to partially transfer the increase of the USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.

In addition to currency risk concerning the accounting currency used for the purchase of commercial goods, there is also the risk associated with the fact that the commercial space rents are settled in EUR.

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

in PLN '000

As at 31 December 2011	Values expressed in foreign currency		Value after conversion
	USD	EUR	
Cash	2 599	3 047	21 733
Trade receivables	6 984	7 907	56 744
Short-term payables	65 812	1 770	238 629
Bank credits	342		1 198

Exchange rate risk *in PLN '000*
+/- 5%

Balance sheet items	Value	Effect on profit/loss	Effect on profit/loss
Financial assets			
Cash	21 733	-1 087	1 087
Trade receivables	56 744	-2 837	2 837
Effect on financial assets before tax		*-3 924*	3 924
Income tax (19%)		746	-746
Effect on financial assets after tax		*-3 178*	*3 178*
Financial liabilities			
Short-term payables	238 629	11 931	-11 931
Bank credits	1 198	60	-60
Effect on financial liabilities before tax		*11 991*	*-11 991*
Income tax (19%)		2 278	-2 278

Effect on financial liabilities after tax	*9 713*	*-9 713*
Total	***6 535***	***-6 535***

As at 31 December 2011, net profit of LPP Capital Group would have been higher by PLN 6,535 thousand if the Polish zloty had strengthened by 5% against foreign currencies (mainly USD), and the remaining factors had not changed. It is due to a greater effect of measurement of liabilities expressed in foreign currency on foreign receivables. Weakening of the Polish zloty by 5% vs. foreign currencies as at 31 December 2011 would have the same effect in terms of quantity but the opposite effect in terms of sign on the currencies used in the Company.

d) interest rate risk
Interest rate risk is related to bank credits utilised by the Capital Group on a regular basis based on variable WIBOR rate. Bank credits with floating interest rate create cash flow risk. In the opinion of the Management Board, a change in interest rates will not affect significantly the Group's performance.
The tables below present an analysis of the impact of changes in interest rates and foreign exchange rates on profit and loss and equity. The analysis relates to the financial components of the Company's balance sheet as at the balance sheet day.

***Interest rate risk** in PLN '000*
+/- 75 pb SP

Balance sheet items	Value*	Effect on profit/loss	Effect on profit/loss
Financial assets			
Cash	116 966	877	-877
Effect on financial assets before tax		*877*	*-877*
Income tax (19%)		-167	167
Effect on financial assets after tax		*710*	*-710*
Financial liabilities			
Bank credits	204 195	-1 531	1 531
Convertible bonds	86 243	-647	647
Effect on financial liabilities before tax		*-2 178*	*2 178*
Income tax (19%)		414	-414
Effect on financial liabilities after tax		-1 764	*1 764*
Total		***-1 054***	***1 054***

As at 31 December 2011, the Group's net profit would be lower by PLN 1,054 thousand if the interest rates in PLN, EUR and USD had been higher by 75 basis points, assuming that the remaining parameters remain unchanged. This result is due to a higher balance of credits compared with cash and loans granted.

12. Capital management

The Group manages its capital in order to ensure the ability to continue operations by the Capital Group and to ensure the expected rate of return for shareholders and other parties holding stake in the financial condition of the Capital Group.

The Group examines the indicators used to assess the condition of the Capital Group, which are presented and described in detail in the Management Board's Report on the Capital Group's Operations.

13. Critical accounting estimates and judgements

Estimates determining amounts disclosed in the financial statements refer to:

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

The methodology employed by the Company is based on the best knowledge of the Management Board and is in line with the requirements of the IFRS.
Methods of determination of estimated amounts are applied consistently in relation to the previous reporting period.

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

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

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

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

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

14. Principles of consolidation

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

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

National Bank of Poland for this particular currency as at the last day of each month during the fiscal year;

- **shareholders' equity is converted as at the date when the control was taken over by the holding company, at the average exchange rate published by the National Bank of Poland as at that date.**

Equity includes the following separate items:

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

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

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

Marek Piechocki

President of the Management Board

Dariusz Pachla Hubert Komorowski Piotr Dyka Jacek Kujawa

Vice-President of the Management Board Vice-President of the Management Board

Gdańsk, 12 April 2012

ADDITIONAL NOTES

15. Additional notes

15.1 Tangible fixed assets (PP&E)

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

- buildings, facilities and civil- and hydro-engineering structures: 2.5 - 60%,
- plant and machinery between 5 and 60%,
- transport vehicles between 10 and 33%,
- other tangible fixed assets between 14 and 50%.

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

In the reporting period, there were impairment write-downs of tangible fixed assets for the amount of PLN 2,982 thousand.

Compensations related to tangible fixed assets received by the Group in 2011 amounted to PLN 180 thousand (2010: PLN 929 thousand) and were related mainly to the vehicle-related damage.

As at the balance sheet date, there was a limited right to use the property in Pruszcz Gdański in relation to an investment loan. A detailed description is presented in the note 15.8.

As at 31 December 2011, the value of contractual liability for the purchase of tangible fixed assets was PLN 2,900 thousand (2010: PLN 1,252 thousand).
As of the balance sheet date, there were no fixed assets held for sale or discontinued operations in the Group.

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

In the consolidated financial statement there was adjustment of amortisation for previous years in the amount of PLN 2,651 thousand.
In connection with the adjustment the table presenting fixed assets movement for 2010 was subject to change.

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (by type) in the period from 01-01-2011 to 31-12-2011 in PLN '000

	land	buildings, facilities and civil- and hydro-engineering structures	plant and machinery	means of transport	other fixed assets	fixed assets in progress	fixed assets, total
1) opening balance gross value of fixed assets	19 174	525 983	120 609	11 187	109 154	4 561	790 668
- foreign exchange differences		12 874	4 205	132	4 228	272	21 711
- increase		54 380	18 295	2 568	28 025	117 107	220 375
- decrease		12 922	8 747	1 287	6 004	101 813	130 773
2) closing balance gross value of fixed assets	19 174	580 315	134 362	12 600	135 403	20 127	901 981
3) opening balance accumulated depreciation (amortisation)	0	217 277	78 125	5 461	64 337	0	365 200
- depreciation	0	57 493	15 001	1 699	17 301	0	91 494
- foreign exchange differences		6 954	3 428	79	2 592		13 053
- decrease	0	3 727	8 309	927	3 888	0	16 851
4) closing balance accumulated depreciation (amortisation)	0	272 695	88 245	6 312	80 342	0	447 594
5) opening balance impairment write-downs	0	4 976	687	0	0	0	5 663
- foreign exchange differences	0	294	57	0	0	0	351
- increase	0	2 818	164	0	0	0	2 982
- decrease	0	1 935	399	0	0	0	2 334
6) closing balance impairment write-downs	0	6 153	509	0	0	0	6 662
Total closing balance net value of fixed assets	19 174	301 467	45 608	6 288	55 061	20 127	447 725

CHANGES IN PROPERTY, PLANT AND EQUIPMENT (by type) in the period from 01.01.2010 to 31.12.2010 in PLN '000

	land	buildings, facilities and civil- and hydro-engineering structures	plant and machinery	means of transport	other fixed assets	fixed assets in progress	fixed assets, total
1) opening balance gross value of fixed assets	19 174	480 909	118 543	11 987	90 912	23 901	745 426
- foreign exchange differences		-770	-305	0	-357	135	-583
- increase		61 796	12 599	1 445	24 164	85 744	185 748
- decrease		15 952	10 228	2 245	6 279	105 219	139 923
2) closing balance gross value of fixed assets	19 174	525 983	120 609	11 187	109 154	4 561	790 668
3) opening balance accumulated depreciation (amortization)	0	170 429	69 416	5 173	49 095	0	294 113
- depreciation	0	54 687	17 006	1 667	17 725	0	91 085
- foreign exchange differences		- 579	- 346	-2	-336		-1 263
- decrease	0	7 260	7 951	1 377	2 147	0	18 735
4) closing balance accumulated depreciation (amortisation)	0	217 277	78 125	5 461	64 337	0	365 200
5) opening balance impairment write-downs	0	9 063	955	0	158	0	10 176
- increase	0	786	0	0	0	0	786
- decrease	0	4 873	268	0	158	0	5 299
6) closing balance impairment write-downs	0	4 976	687	0	0	0	5 663
Total closing balance net value of fixed assets	19 174	303 730	41 797	5 726	44 817	4 561	419 805

Impairment write-downs - items in the Profit and Loss Account - 2011.	amount
- increase – "Revaluation of non-financial assets"	2 982
- reversal – "Other operating revenues"	2 334

Impairment write-downs - items in the Profit and Loss Account - 2010.	amount
- increase – "Revaluation of non-financial assets"	825
- reversal – "Other operating revenues"	1 295

15.2 Leased assets

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

Outstanding future minimum lease payments as at 31.12.2011 are as follows:

Item	Minimum payments
for 1 year	160
From 1 to 5 years	444
Over 5 years	0
Total minimum lease payments	604

In 2011, the CG included in the separate profit and loss account the costs of operating leases amounting to PLN 35 thousand.
This amount covers only the minimum lease payments.

As at 31 December 2011, there were no contingent fees and sublease payments in the Group.

The basis for determining the minimum lease payments is the monthly lease instalment.
The Lessee has the right to terminate the lease agreement with a 30-days' notice period. Agreements do not contain restrictions on dividends, additional debt or further leasing agreements.

15.3 Intangible assets

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

The most important element of intangible assets is the House trademark, which was presented in the balance sheet under a separate item of fixed assets as a "Trademark". Its carrying value as at 31.12.2011 amounted to PLN 77,508 thousand (2010: PLN 77,508 thousand). The useful life of this intangible asset is indefinite.

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

The detailed analysis is as follows:

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

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

- the estimate is based on sales generated by clothing under the House brand, which amounted to PLN 397,2 million in 2011 and was higher by 34.6% compared with the turnover for 12 months (November 2007-October 2008) adopted for the initial balance sheet valuation.
- The license fee at the rate of 3% of turnover was adopted.
- The capitalization rate adopted for the valuation using the CAPM method (the forecast period is not defined here because it is based on the perpetual rent model) amounted to 6.76% and consisted of several elements:

- risk-free rate – 4.357% equal to the profitability of 52-week treasury bills
- annual inflation rate – 4.30%
- risk premium – 7.50%

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

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

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

- costs of sales in the amount of PLN 240 thousand (2010: PLN 411 thousand)
- general administrative expenses in the amount of PLN 3,705 thousand (2010: PLN 4,599 thousand).

As at 31 December 2010, the Group was under no contractual obligation to acquire any intangible assets. There were also no outlays on R&D works.

Changes in the value of intangible assets in the period from 01-01-2011 to 31-12-2011 in PLN '000

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

Changes in the value of intangible assets in the period from 01-01-2010 to 31-12-2010 in PLN '000

	costs of completed development works	acquired concessions, patents, licenses and similar assets, including: total	computer software	intangible assets in progress	total
a) gross value of intangible assets at the beginning of the performance period	443	34 150	30 958	586	35 179
- foreign exchange differences		-3	-3	0	-3
- increase	-	3 425	3 425	2 972	6 397
- decrease		478	478	2949	3 427
b) closing balance gross value of intangible assets	443	37 094	33 902	609	38 146
c) opening balance accumulated depreciation (amortisation)	443	21 973	19 833	-	22 416
- foreign exchange differences	0	22	22		22
- planned amortisation write-downs	0	5 010	4 909	-	5 010
- decrease	0	342	245		342
d) closing balance accumulated depreciation (amortisation)	443	26 663	24 519	-	27 106
Total closing balance net value of intangible assets	0	10 431	9 383	609	11 040

At the balance sheet date, the Group was not subject to any restrictions on the use of the Reserved, Cropp and House trademarks in relation to a hedge of an investment loan. Detailed information on this matter is presented in note 15.8.3

15.4. Goodwill

In 2011, the goodwill presented in the balance sheet did not change in comparison to the previous year. It was formed following the merger of LPP S.A. and Artman in July 2009.
This merger was performed by the transfer of all assets of the acquired company, i.e. Artman S.A. to the acquiring company, i.e. LPP S.A.
On the day of this merger, LPP S.A. possessed 100% shares of Artman S.A.
The merger was performed under common supervision.

The provisions of the amended IFRS 3 were not applied to the completed merger transaction.

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

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

Pursuant to IAS 36 and the accounting policy as at 31 December 2011, an impairment test was conducted for the goodwill of Artman with the carrying value of PLN 183,203 thousand. The recoverable amount of cash-generating units, to which the goodwill was assigned, was determined on the basis of their value in use based on the discounted cash flow method (DCF).

The detailed assumptions for the estimates are as follows:

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

- the period covering estimated cash flows for 15 years (2012-2026), excluding the residual value,
- annual forecasts of revenues and expenses in 2012 (according to the company's budget) and subsequent years are growing at a rate similar to the inflation rate,
- forecast revenues and expenses for operating retail shops acquired together with ARTMAN (54 own and 46 franchise retail shops)
- annual sales in tested retail shops - about 4% higher in 2012 compared to 2011, and sales increase by 4% in subsequent years
- operating costs in tested retail shops - about 3% higher in 2012 compared to 2011, and sales increase by 2.5% in subsequent years
- Costs of HOUSE sales department, HOUSE production implementation department and marketing costs of the HOUSE brand – increasing year on year by 2.5% and assigned to the tested retail shops by proportion of the number of shops acquired (and still operating) at the time of the merger to all HOUSE retail shops.
- discount rate in the forecast period is variable and is calculated on the basis of WACC. The WACC rate is 10.28% in 2012 and remains at that level until 2026.

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

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

The table below presents changes in goodwill subject to the impairment test:
in PLN '000

Gross value	31.12.2011	31.12.2010

Opening balance	183 203	183 203
Increases	0	0
Reductions	0	0
Closing balance	183 203	183 203

Revaluation write-downs	31.12.2011	31.12.2010
Opening balance	0	0
Closing balance	0	0

Net value	31.12.2011	31.12.2010
Opening balance	183 203	183 203
Closing balance	183 203	183 203

15.5. Shares in subsidiaries

The "Shares in subsidiaries" balance sheet item includes only shares in non-consolidated domestic companies.
The value of shares as at the balance sheet date amounted to PLN 186 thousand (2010: PLN 212 thousand).

Shares in subsidiaries are measured at cost less impairment write-downs. Results of the analysis carried out as at the balance sheet date did not show the need for impairment write-downs of assets held by the Capital Group.
In the opinion of the Board of the holding company, the financial statements of non-consolidated subsidiaries are irrelevant to the consolidated financial statement. The total value of assets of non-consolidated subsidiaries in 2011 is 0.08% of the Group's assets, and the total value of revenues from sales of these companies is 0.37% of the Group's revenues.
One domestic company was sold in the reporting period.

15.6 Investments in associates

As at 31.12.2011, the Group's assets include the value of investments in associates of PLN 19 thousand measured using the equity method, which has not changed compared to the previous year.
15.7 Investments in real property

Investments in real property include only residential premises, which are considered by the Group as a source of rental income.
The balance sheet valuation of the real property is based on the cost model.
Changes in the carrying amount in the reporting period were as follows:
in PLN '000

	from 01.01 to 31.12.2011	from 01.01 to 31.12.2010
Opening balance carrying amount	0	0
Purchase of property	688	0
Redemption	10	0
Closing balance carrying amount	678	0

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

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

	from 01.01 to 31.12.2011	from 01.01 to 31.12.2010
Revenues from rents	22	0
Direct operating costs	1	0

15.8 Financial assets and liabilities

15.8.1 Categories of financial assets and liabilities

The value of financial assets presented in the consolidated balance sheet relates to the following categories of financial instruments defined in IAS 39:

1. loans and receivables (L&R)
2. financial assets measured at fair value in the income statement (AFV)
3. financial assets available for sale (AAS)

As at 31.12.2011 in PLN '000

Fixed assets	L&R	AFV	AAS
Receivables and loans	4 549		
Current assets	L&R		AAS
Trade receivables	114 313		
Other receivables	929		
Loans	167		
Cash and cash equivalents	116 966		

As at 31.12.2010 in PLN '000

Fixed assets	L&R	AFV	AAS
Receivables and loans	1 062		
Current assets	L&R		AAS
Trade receivables	95 742		
Other receivables	893		
Loans	237		
Other securities			16 430
Other financial assets		53 064	
Cash and cash equivalents	96 470		

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

As at 31.12.2011 in PLN '000

Long-term liabilities	LAC
Bank loans and borrowings	86 446
Other financial liabilities	31
Short-term liabilities	
Trade and other liabilities	313 744
Bank loans and borrowings	117 749
Issue of debt securities	86 243
Other financial liabilities	54

As at 31.12.2010 in PLN '000

Long-term liabilities	LAC
Bank loans and borrowings	156 096
Issue of debt securities	121 524
Other financial liabilities	88
Short-term liabilities	LAC
Trade and other liabilities	255 635
Bank loans and borrowings	86 637
Issue of debt securities	3 906
Other financial liabilities	96

15.8.2 Receivables and loans

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

in PLN '000

	31.12.2011	31.12.2010
Fixed assets:		
Receivables	1 171	958
Loans	3 378	104
Long-term receivables and loans	4 549	1 062
Current assets		
Trade and other receivables	115 242	96 635

Loans	167	237
Short-term receivables and loans	115 409	96 872
Receivables and loans, including:	**119 958**	**97 934**
Receivables (note 15.10)	116 413	97 593
Loans (note 15.8.2)	3 545	341

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

As at 31.12.2011, loans granted in PLN with the carrying amount of PLN 3,431 thousand (2010: PLN 341 thousand) were subject to a fixed interest rate of 7%. The maturity dates for loans in PLN cover the period between 2012 and 2016.
The Group also granted foreign currency loans in HUF. The carrying amount of foreign currency loans as at 31.12.2011 amounted to PLN 114 thousand. Under the Hungarian regulations, loans are interest-free and are granted for the period of 5-8 years.

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

Change in the gross carrying value of loans, including their write-downs, is as follows:
in PLN '000

Gross value	31.12.2011	31.12.2010
Opening balance amount	341	644
The amount of loans granted during the period	3 399	200
Calculation of interest	24	38
Repayment of loans and interest	219	541
Closing balance amount	3 545	341

Disclosures regarding cash and cash equivalents are presented in note 15.11

15.8.4 Bank credits and loans and other debt instruments

The Capital Group does not include any instruments from the credit and loans category into financial liabilities to be carried at fair value through profit and loss. All credits, loans and other debt instruments are measured at depreciated cost using the effective interest rate method.
As at 31 December 2011, the Company's debt related to bank credits was as follows:

Bank	use of credits as at 31 December 2011		Credit costs	Maturity date
	in PLN '000	currency in '000		
PKO BP S.A.	68 918		wibor 1 m + bank's margin	4 November 2017
PKO BP S.A.	114 725		wibor 1 m + bank's margin	30 June 2013

PKO BP S.A.	3 062		wibor 1 m + bank's margin	23-06-2012
Pekao S.A.	15 297		wibor 1 m + bank's margin	31-07-2012
Pekao S.A.	1 196	USD 341	libor 1m + bank's margin	31-07-2012
BNP Fortis S.A.	224		wibor 1 m + bank's margin	18-12-2012
Citibank Bank Handlowy	267		wibor 1 m + bank's margin	22-11-2012
Raiffeisen Bank Polska S.A.	2	USD 1	libor 1m + bank's margin	30 September 2011
Unicredit Bank Czech Republic	28	CZK 163	pribor 1 m + bank's margin	15-07-2013
Unicredit Tiriac Bank S.A.	476	EUR 113	euribor 1 m + bank's margin	31-07-2013
TOTAL	204 195			

Bank credits amounting to PLN 204,195 thousand include:
- long-term credits in the amount of PLN 86,446 thousand,
- short-term credits in the amount of PLN 117,749 thousand (including PLN 97,224 thousand which is part of long-term investment credits to be repaid within 12 months after the balance sheet date)

As at 31 December 2010, the Company's debt related to bank credits was as follows:

Bank	use of credits as of 31 December 2010		Credit costs	Maturity date
	in PLN '000	currency in '000		
PKO BP S.A.	78 486		wibor 1 m + bank's margin	4 November 2017
PKO BP S.A.	148 869		wibor 1 m + bank's margin	30 June 2013
Pekao S.A.	14 838		wibor 1 m + bank's margin	31 July 2011
BNP Fortis S.A.	139		wibor 1 m + bank's margin	20 December 2011
Raiffeisen Bank Polska S.A.	16	USD 5	libor 1m + bank's margin	30 September 2011
Unicredit Prague	57	CZK 364	pribor 1 m + bank's margin	16 July 2012
Unicredit Tiriac Bank S.A.	328	EUR 78	euribor 1 m + bank's margin	31 July 2011
TOTAL	242 733			

Bank credits amounting to PLN 242,733 thousand include:
- long-term credits in the amount of PLN 156,096 thousand,
- short-term credits in the amount of PLN 86,637 thousand (including PLN 71,643 thousand which is part of long-term investment credits to be repaid within 12 months after the balance sheet date)

Detailed information on bank credits is as follows:

Bank	Type of credit/line	Credit amount and currency: in '000	currency	Security
PKO BP S.A.	Multi-purpose and multi-currency credit line	130 000	PLN	2 blank promissory notes
PKO BP S.A.	Investment loan	100 000	PLN	ordinary and capped mortgage, assignment of receivables from insurance, blank promissory note
PKO BP S.A.	Investment loan	394 800	PLN	ordinary and capped mortgage, assignment of receivables from insurance, blank promissory note, registered pledge on Reserved, Cropp and House trademarks
Pekao S.A.	Multi-purpose and multi-currency credit line	130 000	PLN	blank bill of exchange power of attorney for accounts
BNP Fortis S.A.	Multi-purpose and multi-currency credit line	130 000	PLN	blank bill of exchange
Raiffeisen Bank Polska S.A.	Multi-purpose and multi-currency credit line	130 000	PLN	blank bill of exchange,
Citibank Bank Handlowy	Multi-purpose, multi-currency line	40 000	PLN	blank bill of exchange
Citibank Bank Handlowy	Revolving line of letters of credit	18 100	USD	blank bill of exchange
Unicredit Tiriac Bank S.A.	Credit line	1 800	EUR	guarantee of Pekao S.A.
Unicredit Prague	Credit line	37 500	CZK	guarantee of PEKAO S.A.

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

Apart from bank credits, Capital Group also has other debt instruments in the form of convertible bonds. 80,846 bonds were acquired in the offering. The price of conversion of bonds to shares amounted to PLN 1,600.
The purpose of the issue of bonds was to raise funds necessary to ensure undisturbed operations and further development of the Issuer.
The pre-emptive right to K series shares through conversion of bonds may be exercised every 6 months after the date of payment of interest for the period.

Bonds that will not be converted into shares of series K will be redeemed by the Company on the date of the lapse of 36 months from the date of the allotment of bonds. Maturity date is 23 July 2012.
If all issued bonds were converted, the total number of votes at GSM would be 3 231 123.

Valuation as at the balance sheet date under IAS 39 is performed in accordance with the amortized cost using the effective interest rate.
Annual discount rate used to carry out the valuation amounted to 10.18%.
After initial recognition in the book of the bonds in the purchase price, this value was divided into liabilities part and equity part which is an option of the convert this instrument into shares.

The equity component of this instrument was disclosed in the remaining valuation capital in the amount of PLN 12,290 thousand.

In 2011, the Capital Group repaid interest instalments in the total amount of PLN 7,388 thousand. No conversion of bonds into shares occurred in the reporting period.
As at 31.12.2011, the value of the liability component amounts to PLN 86,244 thousand (2010: PLN 125,430 thousand), including PLN 2,920 thousand of accrued interest.

Detailed information on financial instruments recognised in financial revenues and expenses is presented in notes 15.19 and 15.20.

15.8.5 Other information on financial instruments

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

2011 in PLN '000

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

2010 in PLN '000

Assets*	Fair value	Carrying amount
Trade and other receivables	120 204	120 204
Other securities	16 430	16 430

Other financial assets	53 064	53 064
Cash and cash equivalents	96 470	96 470
Total	286 168	286 168

Liabilities	Fair value	Carrying amount
Bank loans and borrowings	242 733	242 733
Debt securities	125 430	125 430
Trade and other liabilities	255 635	255 635
Other financial liabilities	184	184
Total	623 982	623 982

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

Fair value is defined as the amount for which on market conditions the asset could be exchanged or a liability settled, between knowledgeable, interested and unrelated parties. In the case of financial instruments for which there is an active market, fair value is determined based on parameters from the active market (sales and purchase prices). In the case of financial instruments for which there is no active market, fair value is determined on the basis of valuation techniques, where input data of the model are variables derived from active markets (exchange rates, interest rates).

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

15.9 Inventories

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

in PLN '000

INVENTORIES	31.12.2011	31.12.2010
1) materials	5 370	3 018
2) commodities	589 236	421 419
TOTAL	594 606	424 437

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

in PLN '000

INVENTORIES REVALUATION WRITE-DOWN	31.12.2011	31.12.2010
Opening balance amount	3 939	4 484

Inventory write-downs included as cost in the period	2 303	1 376
Inventory write-downs reversed in the period	1 098	1 803
Exchange rate differences	107	-118
Closing balance amount	5 251	3 939

As at 31 December 2011, the value of inventories recognised as cost in the reporting period amounted to PLN 1,094,261 thousand.

15.10 Receivables

Trade and other receivables recognised by the Capital Group as receivables and loans (see note 15.8) are as follows:

Long-term receivables in the carrying amount of PLN 1,171 thousand (2010: PLN 958 thousand) include only several deposits paid.
Detailed information on the structure of the Group's short-term receivables is presented in the table below.

in PLN '000

SHORT-TERM RECEIVABLES	31.12.2011	31.12.2010
Trade receivables	120 697	102 299
Revaluation write-downs of trade receivables	6 384	6 557
Net trade receivables	114 313	95 742
Other receivables	1 223	1 211
Revaluation write-downs of other receivables	294	318
Other receivables net according to IAS 39	929	893
Other receivables beyond IAS 39	32 409	22 611
Total short-term receivables	147 651	119 246

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

PLN '000

RECEIVABLES REVALUATION WRITE-DOWNS	31.12.2011	31.12.2010
Opening balance amount	6 875	12 603

Revaluation write-downs created in the period	2 081	1 256
Reversed revaluation write-downs in the period	2 335	6 997
Exchange rate differences	57	13
Closing balance amount	6 678	6 875

15.11 Cash

in PLN '000

CASH	31.12.2011	31.12.2010
1) cash in hand and cash in banks	87 763	66 208
2) other cash	29 203	30 262
TOTAL	116 966	96 470

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

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

in PLN '000

CASH – CURRENCY STRUCTURE	31.12.2011	31.12.2010
in the Polish currency	56 556	38 028
in foreign currencies (by currency)	60 410	58 442
- USD	8 562	22 832
- RMB	92	1
- EUR	13 171	7 260
- LVL	956	504
- EEK	0	1 148
- CZK	8 469	5 893
- UAH	2 033	2 001
- LTL	1 101	2 028
- HUF	5 130	2 277
- RUB	15 947	8 846
- BGN	3 109	4 336
- RON	1 840	1 316
TOTAL (in PLN '000).	116 966	96 470

As at 31 December 2011, the Group had unused borrowed funds in the amount of PLN 182,456 thousand.

In the period from 1 January to 31 December 2011, the Group made non-cash settlements with its customers (in the form of set-off of liabilities and receivables) in the amount of PLN 46,576 thousand.

15.12 Discontinued operations

In 2011, the Company had no discontinued operations.
In the comparable period, there was an investment agreement between LPP S.A. and Esotiq&Henderson S.A. (a third-party, independent of LPP S.A.). The investment agreement

concerned the isolation and transfer outside the structure of the CG of commercial activities related to two brands: Henderson and Esotiq. Detailed data are contained in the annual report for 2010.

15.13 Equity

Share capital.
The Group's share capital is equal to share capital of the holding company.
As at 31 December 2011, it amounts to PLN 3,555,468. This capital is divided into 1,777,734 shares of nominal value of PLN 2 each.

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

Series / issue	Type of shares	Type of privilege	Type of restriction concerning shares entitlements	Number of shares	Value of the issue
A	bearer	ordinary	no	100	200
B	registered	privileged	no	350 000	700 000
C	bearer	ordinary	no	400 000	800 000
D	bearer	ordinary	no	350 000	700 000
E	bearer	ordinary	no	56 700	113 400
F	bearer	ordinary	no	56 700	113 400
G	bearer	ordinary	no	300 000	600 000
H	bearer	ordinary	no	190 000	380 000
I	bearer	ordinary	no	6 777	13 554
J	bearer	ordinary	no	40 000	80 000
K	bearer	ordinary	no	27 457	54 914
TOTAL NUMBER OF SHARES 1,777,734					

All issued shares are paid up in full.
In the reporting period, the holding company paid dividends to the shareholders. Part of the profit generated in 2010 in the amount of PLN 135,000,000 was used as dividend, which corresponds to PLN 76.86 per one authorised share.
The amount of PLN 108,090,984.96 was allocated to ordinary shares and PLN 26,901,000 - to preferred shares.
In addition, minority shareholders of Gothals Limited received a dividend in the amount of PLN 264 thousand.
350,000 registered shares held by Marek Piechocki and Jerzy Lubianiec are preference shares in terms of voting rights at the General Meeting of Shareholders. Each registered share carries 5 votes.

Ownership structure of the share capital of LPP S.A. as at 31 December 2011:

Shareholder	Number of held shares (pieces)	Number of votes at the Annual General Meeting of Shareholders	Share in the number of votes at the Annual General Meeting of	Participation in share capital	The nominal value of shares

Shareholders					
Marek Piechocki	175 000	875 000	27.54%	9.84%	350 000
Jerzy Lubianiec	175 000	875 000	27.54%	9.84%	350 000
Monistor Limited (Cyprus)	200 728	200 728	6.32%	11.29%	401 456
Grangeford Limited, based in Cyprus	350 000	350 000	11.00%	19.69%	700 000
Other shareholders	877 006	877 006	27.60%	49.34%	1 754 012
TOTAL	1 777 734	3 177 734	100.00%	100.00%	3 555 468

Share premium
The separated value of the spare capital resulting from the surplus from the disposal of the shares above their nominal value with the carrying value of PLN 149,829 thousand.

Other capital
The value of other capital results from the sum of spare capital, reserve capital, capital from the settlements of the merger and the equity component of convertible bonds.
The amount of individual capital is presented in the table below:

in PLN '000

TYPE OF CAPITAL	31 December 2011	31 December 2010
Spare capital	551 356	536 486
Reserve capital	193	193
Capital from the settlement of the merger	-1 410	-1 410
Principal part of bonds	12 290	12 290
TOTAL	562 429	547 559

The Company's spare capital presented under equity as at 31.12.2011 was created mainly from net profit brought forward from previous years and as a result of measurement of share-based payments.
Part of the spare capital created on a statutory basis under Art. 396 of the Code of Commercial Companies may be used in the future only to offset a loss (if any).

The structure of the spare capital is as follows:

in PLN '000

TYPE OF SPARE CAPITAL	31 December 2011	31 December 2010
created on a statutory basis based on the write-off	1 288	1 280

from profit or loss		
created as per the Articles of Association based on write-off from profit or loss	539 712	525 847
created from share-based payments	10 356	9 359
TOTAL	551 356	536 486

Equity of the holding company in the period of hyperinflation

Conversion of the equity in the hyperinflationary period was based on the following data:

1. 18 December 1989 - establishment of the company and contribution of share capital in the amount of (after denomination) PLN 200
2. 4 May 1995 - acquisition of the company by Marek Piechocki and Jerzy Lubianiec
3. 12 April 1995 - registration of the increase of share capital up to PLN 700 thousand
4. 24 October 1995 - adoption of the resolution on the increase of share capital up to PLN 1 500 thousand
5. 4 January 1996 – adoption of the resolution on the increase of share capital up to PLN 2 200 thousand

in PLN '000

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

1) equity at the end of 1995 + retained result for 1995

2) capital increase + agio

As at 31 December 1996 (excluding profit for the fiscal year), the Company’s equity amounted to PLN 3,127 thousand. The difference resulting from the revaluation of equity was PLN 847 thousand.

15.14 Provisions

As at the balance sheet date, the Group has provisions in the balance sheet liabilities in the total amount of PLN 15,800 thousand.

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

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

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

in PLN '000

	Provision for pensions and similar benefits	Provision for unpaid remuneration	Provision for liabilities	Provision for holiday leaves not taken
As at 1 January 2011	1 025	0	0	3 122
- provisions established	1 135	9 542	17	5 106
- provisions reversed	1 025	0	0	3 122
As at 31 December 2011	1 135	9 542	17	5 106

15.15 Contingent liabilities

In 2011, capital companies used bank guarantees to secure payment of rent for leased retail premises where brand stores are located.

As at 31 December 2011, the total value of bank guarantees granted at the request of and on the responsibility of LPP S.A. amounted approx. to PLN 120,132, including:

a) guarantees granted to secure agreements concluded by LPP S.A. - PLN 69,077 thousand
b) guarantees granted to secure agreements concluded by consolidated related parties - PLN 47,828 thousand
c) guarantees granted to secure agreements concluded by non-consolidated related parties - PLN 3,091 thousand
d) guarantees granted to secure office space lease agreements concluded by LPP S.A. - PLN 136 thousand

On 31 December 2011, the value of sureties granted by the holding company amounted to PLN 6,476 thousand and decreased in comparison with 31 December 2010 by PLN 7,293 thousand.

According to the Management Board of LPP S.A., any outflow of funds disclosed under off-balance sheet/contingent liabilities is unlikely. The majority of these liabilities are related to guarantees securing the payment of rent by the capital companies, and, to a smaller extent, securing the repayment of credits granted by banks to customers of LPP S.A. for the purchase of the Company's goods.

15.16 Future liabilities under lease agreements

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

Total future minimum payments under lease agreements, estimated as at 31 December 2011, are as follows:
- payables with the maturity date within 12 months from the balance sheet date PLN 347,352 thousand
- payables with the maturity date from 12 months to 5 years from the balance sheet date PLN 964,617 thousand
- payables with the maturity date over 5 years from the balance sheet date PLN 299,205 thousand

The amount of PLN 309,210 resulting from the minimum and contingent payments of rent for the lease of retail premises is disclosed under expenses in the reporting period from 1 January to 31 December 2011. The amount of contingent rent is immaterial and was not presented separately.
Provisions of fixed-term lease agreements under which these payments are due are typical for this type of agreements. Apart from the minimum rent, these agreements usually provide for additional contingent rent if a specified level of revenues in the store is generated. In the reporting period, the amount of contingent rent was immaterial and represented only 2.45% of the total amount of rent. Retail lease agreements also contain adjustment clauses, linking the amount of rent with statistical price indices. Some of them contain provisions allowing to extend the term of lease agreements, leaving the decision to the lessee. As these lease agreements refer to premises located mainly in large shopping malls, they do not provide for the purchase of leased premises.

15.17 Trade and other payables

in PLN '000

SHORT-TERM PAYABLES	31.12.2011	31.12.2010
Trade payables	313 744	255 635
Other financial liabilities	54	96
Financial liabilities according to IAS 39	313 798	255 731
Payables due under taxes and other benefits	71 454	56 819
Other non-financial liabilities	4 493	1 017
Non-financial liabilities	75 947	57 836
Total short-term liabilities	**389 745**	**313 567**

15.18. Accruals

in PLN '000

PREPAYMENTS - ASSETS	31.12.2011	31.12.2010
Long-term		
Software supervision	244	167
Other long-term settlements	235	10
Total long-term prepayments	**479**	**177**
Short-term		
Rent	5 560	4 368
Insurance	1 861	1 124
Software supervision	727	299
Other	1 393	771
Total short-term prepayments	**9 541**	**6 562**

in PLN '000

ACCRUALS - LIABILITIES	31.12.2011	31.12.2010
Returns of goods from domestic sale	2 158	754
Sales based on gift cards and vouchers	2 487	1 657
Other	1 975	1 253
Total accruals	**6 620**	**3 664**

15.19 Revenues

in PLN '000

REVENUES	01.01.11-31.12.11	01.01.10-31.12.10
1) net revenues from sales of services	33 496	35 371
2) net revenues from sales of goods and materials	2 459 014	2 043 987
Total revenues	2 492 510	2 079 358
Exclusion of discontinued operations	0	82 199
Revenues excluding discontinued operations	**2 492 510**	**1 997 159**

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

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

in PLN '000

OTHER OPERATING REVENUES	01.01.11-31.12.11	01.01.10-31.12.10
1. Profit from the disposal of non-financial fixed assets	6 890	8 921
2. Grants	55	321
3. Other operating revenues, including:	13 645	13 404
- reversal of write-downs of fixed assets	2 334	1 295
- reversal of write-downs of receivables	1 466	3 268
- reversal of write-downs of provisions	1 098	1 803
Total operating revenues	20 590	22 646
Exclusion of discontinued operations	0	-1 103
Operating revenues excluding discontinued operations	**20 590**	**23 749**

in PLN '000

FINANCIAL REVENUES	01.01.11-31.12.11	01.01.10-31.12.10

1. Interest, including	1 390	5 435
- on deposits	1 098	2 085
- on loans and receivables	292	38
- on bonds	0	1 295
- on financial instruments measured at fair value through profit or loss	0	2 017
2. Dividends	172	242
3. Profit from the disposal of investments	2 232	1 037
4. Other	9 747	3 976
- including the balance of exchange rate differences	9 669	3 687
Total financial revenues	13 541	10 690
Exclusion of discontinued operations	0	162
Financial revenues excluding discontinued operations	**13 541**	**10 528**

15.20 Costs

in PLN '000

EXPENSES BY TYPE	01.01.11-31.12.11	01.01.10-31.12.10
1) depreciation	95 439	96 095
2) consumption of materials and energy	64 768	52 269
3) outsourced services	688 966	597 682
4) taxes and fees	6 880	15 082
5) salaries	129 729	102 622
6) social insurance and other benefits, including:	29 697	23 707
- pension contribution	4 681	4 599
7) other expenses by type	54 930	40 866
Total expenses by type	1 070 409	928 323
Exclusion of discontinued operations	0	29 732
Expenses by type excluding discontinued operations	**1 070 409**	**898 591**

Change in products - 152 -49
The value of costs of sales and general administrative expenses 1,070,257,898,640 presented in the profit and loss account

in PLN '000

OTHER OPERATING COSTS	01.01.11-31.12.11	01.01.10-31.12.10

1) Revaluation of non-financial assets	6 942	3 094
- fixed assets	2 982	825
- inventories	2 303	1 376
- receivables	1 657	893
2) Other	24 021	25 378
Total operating costs	30 963	28 472
Exclusion of discontinued operations	0	811
Operating costs excluding discontinued operations	**30 963**	**27 661**

FINANCIAL EXPENSES	01.01.11-31.12.11	01.01.10-31.12.10
1) Interest	23 552	26 884
- regarding bank loans	13 589	13 810
- regarding debt securities	9 963	12 679
2) Other, including:	2 072	2 004
- commissions on bank credits and guarantees	2 062	1 983
Total financial expenses	25 624	28 888
Exclusion of discontinued operations	0	157
Financial expenses excluding financial operations	**25 624**	**28 731**

15.21 Income tax

The main elements of taxation of the Group for 2011 and the comparative period are shown in the table.

in PLN '000

Profit and loss account	2011	2010
Current income tax	64 428	39 615
Deferred income tax	- 2 551	3 791
Total income tax	61 877	43 406
Exclusion of discontinued operations	0	146
Income tax excluding discontinued operations	**61 877**	**43 260**

Reconciliation of income tax calculation disclosed in the consolidated profit and loss account for 2011 and 2010 is shown in the table below.

in PLN '000

INCOME TAX	2011	2010

Profit/loss before consolidation adjustments and before tax	361 608	148 410
Adjustment of permanently tax-exempt expenses and revenues	-29 888	28 995
Gross profit/loss of the Group after the adjustment	331 720	177 405
Income tax at the average rate of 19.24%, 19.30%	63 855	34 431
Tax consolidation adjustments	547	9 755
Tax relieves	-2 525	-780
Income tax disclosed in the profit and loss account	61 877	43 406
Exclusion of discontinued operations	0	146
Income tax excluding discontinued operations	**61 877**	**43 260**

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

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

in PLN '000

DEFERRED INCOME TAX ASSETS:	31.12.2011	31.12.2010
surplus of balance sheet depreciation value over tax value of fixed assets	7 144	5 998
revaluation of trade receivables	447	488
interest on bonds	555	1 590
profit margin on goods unsold outside the Group	4 175	3 543
revaluation of inventories	595	365
tax loss	3 081	3 686
remuneration and surcharges	2 104	442
other	568	379
TOTAL	18 669	16 491

PROVISION FOR DEFERRED INCOME TAX:	31.12.2011	31.12.2010
accelerated tax depreciation	1 345	1 362
outstanding interest on loans granted	24	16
damages not received	151	107

accrued interest on bank loans	116	484
accrued interest on securities	0	455
other	49	40
TOTAL	1 685	2 464

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

The deferred portion of income tax shown in the profit and loss account for 2011 and 2010 results from the items presented in the tables below.

in PLN '000

DEFERRED INCOME TAX ASSETS:	2011	2010
surplus of balance sheet depreciation value over tax value of fixed assets	1 146	1 036
foreign exchange differences – payables	0	-4 632
revaluation of trade receivables	-41	-728
profit margin on goods unsold outside the Group	632	338
interest on bonds	-1 035	846
revaluation of fixed assets		
revaluation of inventories	230	-114
tax loss	-605	-2 159
remuneration and surcharges	1 662	
other temporary differences	189	-141
foreign exchange differences from translation	-307	520
TOTAL	1 871	-5 034

PROVISION FOR DEFERRED INCOME TAX:	2011	2010
accelerated tax depreciation	-17	-406
outstanding interest on loans granted	8	-87
damages not received	44	11
foreign exchange differences – receivables	0	-777
accrued interest on bank loans	-368	-111
accrued interest on securities	-455	455
other	9	-316
foreign exchange differences from translation	99	-12
TOTAL	-680	-1 243

15.22 Earnings per share and diluted earnings per share

Earnings per share (EPS) ratio is calculated by dividing net profit of the holding company shareholders by the weighted average number of ordinary shares in the period.

Calculation of EPS is presented below:

	01.01.11-31.12.11	01.01.10-31.12.10
Net profit (loss) from continuing operations in the current period	268 725	136 789

Weighted average number of ordinary shares	1 746 800	1 728 879
Profit (loss) per share	153.84	79.12

Diluted earnings per share
The Group does not present diluted earnings per share as the Capital Group does not generate such earnings. The analysis of expenses incurred during the reporting period and their adjustment for the value of interest on bonds convertible to shares conducted in accordance with IAS 33 has increased profit that in relation to the number of potential shares taking into account the conversion of all bonds to shares resulted in anti-dilution. Potential ordinary shares, which might result from the conversion of the bonds, are dilutive when their conversion to ordinary shares would reduce net earnings per share.

15.23. Related party transactions

The Group's related parties include:

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

15.23.1 Key personnel

The key management personnel of the Group includes members of the management board and supervisory board of the holding company. Board members received benefits on account of the functions served both in LPP S.A. and a subsidiary Gothals Limited.
The amount of short-term employee benefits received by the key management personnel in the period from 1 January to 31 December 2011 totalled PLN 4,492 thousand. Compensation of each member of key management personnel was as follows:
Marek Piechocki, President of the Management Board, PLN 1,170 thousand,
Dariusz Pachla, Vice President of the Management Board, PLN 780 thousand.
Piotr Dyka, Vice President of the Management Board, PLN 814 thousand
Hubert Komorowski, Vice President of the Management Board, PLN 840 thousand.
Jacek Kujawa, Vice President of the Management Board, PLN 780 thousand.
Jerzy Lubianiec, Chairman of the Supervisory Board, PLN 20 thousand and PLN 12 thousand – for services other than membership in the Supervisory Board,
Other members of the Supervisory Board obtained a total of PLN 76 thousand.

As at 31 December 2011, accrued provisions for retirement severance payments for the Management Board members amounted to PLN 18 thousand (2010: PLN 59 thousand), and for not taken leaves amounting to PLN 22 thousand (2010: 75 thousand).

On 27 June 2011, the AGM passed Resolutions introducing the incentive programme addressed to six key managers of LPP S.A. The programme is based on the issue of series A warrants giving the pre-emptive right to series L shares at the issue price of PLN 2 000 per share. The programme period is years 2011-2014. The right to acquire warrants and shares by the programme participants is conditional upon, among others, the achievement of an adequate increase in earnings per share in each year of the programme and uninterrupted performance of their duties for LPP S.A. The total maximum number of series L shares that may be acquired by the programme participants throughout its duration is 21,300.

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

In addition to the above-mentioned compensation, during the reporting period the managers obtained the right to subscribe for series A Warrants, which LPP S.A. will issue under the Incentive Programme pursuant to Resolution No. 21 and 22 of the Annual General Meeting of 27 June 2011. The warrants carry the right to acquire series L Shares at a price of PLN 2,000 per share. The total number of Warrants to be issued under the Incentive Programme for 2011 for LPP S.A. Board members will be 15,378, and they will be acquired by the programme participants in the following numbers:

1) Marek Piechocki – 3,662 Series L Warrants
2) Piotr Dyka – 3,417 Series L Warrants
3) Hubert Komorowski – 3,417 Series L Warrants
4) Jacek Kujawa – 2,441 Series L Warrants
5) Dariusz Pachla - 2,441 Series L Warrants

In addition, one participant in the Incentive Programme is a person that serves no function in the bodies of the issuer or its subsidiaries. This person obtained the right to subscribe for 2,441 series L Warrants, so the total number of series L Warrants to be issued under the Incentive Programme for 2011 is 17,819.
The reporting period includes costs corresponding to the above-mentioned number of series L Warrants in the amount of PLN 997.4 thousand, but the amount of PLN 860.8 thousand is assigned to the number of Warrants to be acquired by the Board members of LPP S.A. These costs were determined based on valuation of series L Warrant using the Black-Scholes-Merton model for call options designated on the date of adoption of the Rules of the Incentive Programme (August 9, 2011) assuming volatility of LPP share price at the level of 35%, dividend yield of 3% and risk-free rate of 5%. The total cost was distributed in proportion to the vesting period, i.e. from 9 August 2011 to 1 January 2014, assuming that all participants meet the conditions for the acquisition of series A Warrants and series L shares.

15.23.2 Related party transactions

in PLN '000

No.	RELATED PARTIES	liabilities as at 31.12.2011	receivables as at 31.12.2011	revenues in 2011	expenses in 2011
1.	Polish subsidiaries – total	367	2	22	9 379
TOTAL		367	2	22	9 379

No.	RELATED PARTIES	liabilities as at 31.12.2010	receivables as at 31 December 2010	revenues in 2010	expenses in 2010
1.	Polish subsidiaries – total	202	645	82	10 366
TOTAL		202	645	82	10 366

The amounts presented in the table show only inter-company transactions between LPP S.A. and 5 Polish non-consolidated subsidiaries, and are presented from the point of view of the holding company.

Data presented as payables of LPP S.A. are receivables in related parties, and expenses are equivalent to revenues of related parties.
All the transactions with related parties were concluded under market conditions.
Revenues from the domestic companies are derived from the rental of office space for the purpose of business operation of these companies.
Expenses related to the domestic subsidiaries concern the rental of property where Cropp Town and Reserved outlets are run.
Payment dates adopted for subsidiaries are between 45 and 120 days.

15.24 Segment reporting

Financial results and other information regarding geographical segments for the period from 1 January 2011 to 31 December 2011 and for the comparative period are presented in the tables below.

2011 in PLN '000

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	2 133 333	359 177			2 492 510
Intersegmental sales	185 842		-185 84		-
Other operating revenues	12 702	998		6 890	20 590
Total revenues	*2 331 877*	*360 175*	-185 842	*6 890*	*2 513 100*
Total operating expenses, including	1 903 438	308 984	-175 738	102 347	2 139 031
Costs of intersegmental sales	144 172		-144 172		-
Other operating expenses	28 483	2 480			30,963
Segment results	*399 956*	*48 711*	*-10 104*	*-95 457*	*343 106*
Financial revenues					13 541
Financial expenses					25 624
Profit before tax					*331 023*
Income tax					61 877
Net profit					*269 146*

Segment assets	1 601 325	220 716	-230 387		1 591 654
Unallocated assets across the group				22 214	22 214
Total consolidated assets					*1 613 868*
Segment liabilities	400 464	222 244	-210 157		412 551
Unallocated liabilities of the entire group				292 123	292 123
Total consolidated liabilities					*704 674*

Other disclosures	EU Member States	Other countries
Segment capital expenditure	96 207	33 138

Segment depreciation	79 697	15 742
Impairment write-downs	7 364	2
Release of impairment write-downs	5 767	0
Other non-cash expenses	21 543	2 478

2010 in PLN '000

	EU Member States	Other countries	Consolidation adjustments	Values not attributed to the segments	Total
External sales	1 718 654	278 505			1 997 159
Intersegmental sales	134 446		-134 44		-
Other operating revenues	12 005	1 251		10 493	23 749
Total revenues	*1 718 654*	*279 756*	-134 446	*10 493*	*2 020 908*
Total operating expenses, including	1 592 666	243 947	-132 732	91 114	1 794 995
Costs of intersegmental sales	99 513		-99 513		-
Other operating expenses	22 856	4 805			27 661
Segment results	*251 254*	*31 004*	*-1 714*	*-80 621*	*198 252*
Financial revenues					10 528
Financial expenses					28 731
Profit before tax					*180 049*
Income tax					43 260
Net profit from continuing operations					*136 789*
Profit from discontinued operations					623
Net profit					*137 412*

Segment assets	1 379 981	133 102	-168 523		1 344 560
Unallocated assets across the group				84 460	84 460
Total consolidated assets					*1 429 020*
Segment liabilities	315 116	143 852	-137 122		321 846
Unallocated liabilities of the entire group				370 628	370 628
Total consolidated liabilities					*692 474*

Other disclosures	EU Member States	Other countries
Segment capital expenditure	71 306	20 525
Segment depreciation	80 136	15 959
Impairment write-downs	2 966	128
Release of impairment write-downs	5 696	670
Other non-cash expenses	19 890	4 677

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

- receivables revaluation write-offs;

- inventory revaluation write-offs;
- assets revaluation write-offs.

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

Marek Piechocki

President of the Management Board

Dariusz Pachla Hubert Komorowski Piotr Dyka Jacek Kujawa

Vice-President of the Management Board Vice-President of the Management Board

Gdańsk, 23 April 2012

MANAGEMENT BOARD REPORT ON LPP S.A. CAPITAL GROUP'S OPERATIONS FOR 2011

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

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

The financial statement of LPP S.A. Capital Group covering the period between 1 January and 31 December 2011 includes individual results of LPP S.A. for the said period and results of consolidated companies listed below:

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

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

Source of revenues	2011		2010	
	PLN '000	Share in sales volume %	PLN '000	Share in sales volume %
Sales of trading commodities	2 459 014	m98,66%	2 043 987	98.30%
Sales of services	33 496	1.34%	35 371	1.70%
Total	**2 492 510**	**100.00%**	**2 079 358**	**100.00%**

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

Distribution channel	2011		2010		Change
	PLN '000	Share in sales volume %	PLN '000	Share in sales volume %	%
Reserved brand stores	1 367 070	54.8%	1 098 913	52.8%	24.4%
Exports	54 227	2.2%	52 525	2.5%	3.2%
Cropp brand stores	447 248	17.9%	382 283	18.4%	17.0%

House brand stores	378 466	15.2%	289 762	13.9%	30.6%
Mohito brand stores	104 024	4.2%	62 226	3.0%	67.2%
Other	141 476	5.7%	193 648	9.3%	-26.9%
Total	**2 492 510**	**100.0%**	**2 079 358**	**100.0%**	**19.9%**

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

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

data in PLN '000

Company name	Country	Revenues from sales between 1 January 2011 and 31 December 2011	Revenues from sales between 1 January 2010 and 31 December 2010
LPP S.A. CAPITAL GROUP	Poland	1 835 071	1 564 793
LPP Retail Estonia OU	Estonia	40 578	31 119
LPP Retail Latvia Ltd	Latvia	31 453	21 638
LPP Retail Czech Republic s.r.o.*	Czech Republic	103 325	85 922
LPP Hungary Kft.	Hungary	20 814	16 883
UAB "LPP" **	Lithuania	48 057	38 046
LPP Ukraina AT	Ukraine	54 481	41 195
ZAO "Re Trading"***	Russia	304 696	237 311
LPP Fashion Distributor SRL	Romania	25 050	21 993
Artman Slovakia	Slovakia	14 238	11 617
LPP Retail Bulgaria Ltd.	Bulgaria	14 748	8 842
Total:		**2 492 510**	**2 079 358**

* total revenues of 2 companies in the Czech Republic: LPP Retail Czech Republic S.R.O, Artman Mode S.R.O
** total revenues of 3 companies in Russia: ZAO RE Trading, Es Style Rosja, Fashion Point Rosja

Export sales to entities other than capital companies conducted by LPP S.A. totalled PLN 54 227 thousand, i.e. 2.18% of total revenues. Presented below are the main directions in export sales of the Capital Group.

Country	2011		2010	
	export amount in PLN '000	share in export in %	export amount in PLN '000	share in export in %
BELARUS	3 650	6.73%	2 153	4.10%
RUSSIA	17 431	32.15%	16 797	31.98%
SLOVAKIA	27 713	51.11%	28 023	53.35%
UKRAINE	3 329	6.14%	3 650	6.95%

OTHER	2 104	3.88%	1 902	3.62%
TOTAL	54 227	100.00%	52 525	100.00%

Dependence of the Issuer's Capital Group on customers

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

Dependence of the Issuer's Capital Group on suppliers

Foreign companies included in the CG are supplied with trade goods by LPP S.A.

Companies manufacturing goods for LPP S.A. Capital Group are mainly based in China. Purchases made in China represented 63% of the total purchase volume. Additionally, the Company purchased goods from Polish (3%) and other European (2%) and Asian (32%) producers.
The purchase volume did not exceed 10% for any of the suppliers.

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

3. Basic economic and financial figures published in the annual financial statement, including in particular description of factors and events, including extraordinary events, influencing the Group's business and the Group's profits / losses during the fiscal year.

Key achievements of LPP S.A. Capital Group in 2011:

1) Revenues from sales of LPP S.A. Capital Group amounted to PLN 2 493 million and were up by 19.9% vs. the previous year.

2) In 2011, LPP S.A. Capital Group generated net profit of approx. PLN 269 million – it increased by 93.5% in comparison with 2010 (about PLN 139 million)

3) In 2011, the total selling area in brand stores was up by approx. 29 thousand square meters (i.e. approx. 9%). The total retail selling area in the entire LPP S.A. Capital Group amounted to approx. 344 thousand sq. m, including approx. 106 thousand sq. m outside Poland.

Network	2011		2010		Change in selling area
	Area (thousand m2)	Quantity (pcs)	Area (thousand m2)	Quantity (pcs)	%
RESERVED	212	304	198	289	6.9%
CROPP	60	261	56	250	7.0%
HOUSE	51	222	48	216	5.8%
MOHITO	17	93	10	56	68.3%
OUTLET	4	13	3	9	48.1%
Total	**344**	**893**	**315**	**820**	**9.0%**

Results generated by LPP S.A. Capital Group in 2011 depended primarily on the performance of three retail sales networks, Reserved, Cropp and House, with the major portion of revenues and profits generated by Reserved stores.

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

Item	2011 (in PLN '000)	2010 (in PLN '000)	Change %
net revenues from sales	2 492 510	2 079 358	19.87%
profit from sales before tax	1 423 736	1 133 214	25.64%
profit from sales	353 479	204 842	72.56%
operating profit	343 106	199 016	74.40%
profit on business operations	331 023	180 818	83.07%
net profit	269 146	137 412	95.87%
shareholders' equity	909 194	733 895	23.89%
liabilities	704 674	692 474	1.76%
long-term liabilities	89 356	281 231	-68.23%
short-term liabilities:	615 318	411 243	49.62%
- bank credits	117 749	86 637	35.91%
- due to suppliers	377 512	312 700	20.73%
fixed assets	744 937	709 923	4.93%
current assets	868 931	716 446	21.28%
inventories	594 606	424 437	40.09%
short-term receivables	147 651	119 246	23.82%

The increase in revenues from sales of 19.87% was achieved by increasing sales in all retail chains.
Gross profit margin reached 57.12% and was higher than in the previous year (54.50%) by 2.62 %.
Profit from sales increased by 72.56%.
Operating profit amounted to PLN 343 106 thousand (increase by 72.40% compared to 2010) and the operating profit margin amounted to 13.77% (in previous year: PLN 199 016 thousand and 9.57%, respectively).
Profit from business operations was higher compared to the previous year by 83.07% and amounted to PLN 331 023 thousand.

Net profit generated in 2011 amounted to PLN 269 146 thousand and increased by 95.87% compared to the previous year (PLN 137 412 thousand). The resulting net profit margin amounted to 10.80% (in 2010 it was 6.61%).
Shareholder's equity of LPP S.A. was up by 23.89% in 2011. It was mainly due to the transfer of profit to equity.
The balance of long-term liabilities decreased by 68.23% due to the repayment of subsequent investment credit instalments.
The balance of short-term liabilities increased by 49.62% compared to 2010.
At the end of 2011, liabilities related to bank credits were higher by 35.91% compared to the end of 2010, and short-term trade liabilities increased by 20.73%.
In the period fixed assets increased by 4.93% in relation to the development of chain stores.
Current assets increased by 21.28% compared to the end of 2010. This was mainly due to an increase in the inventory of trading commodities resulting from the development of the sales network.

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

1. Profitability ratios

In 2011, all profitability ratios were higher than in 2010.

Profitability ratios presented in the table have been calculated as follows:

a) gross profit margin – gross profit on sales divided by revenues from sales of goods and services;
b) operating profit margin – operating profit divided by revenues from sales of goods and services;
c) net profit margin (ROS) – net profit divided by revenues from sales of goods and services,
d) Return on Assets (ROA) – net profit divided by average assets during the fiscal year;
e) Return on Equity (ROE) – net profit divided by average equity during the fiscal year;

Volume	**2011**	**2010**	**Change**
	%	**%**	**p.p.**
gross profit margin on sales	57.12%	54.50%	2.62%
operating profit margin	13.77%	9.57%	4.19%
net profit margin	10.80%	6.61%	4.19%
return on assets (ROA)	17.71%	9.86%	7.85%
return on equity (ROE)	32.71%	19.36%	13.40%

2. Liquidity ratios

Current liquidity ratio decreased compared to the previous year by 18.94% and amounted to 1.41.
Quick ratio also decreased compared to the previous year and reached 0.45. These changes were due to the increase of the Company's short-term debt.

Inventory turnover increased from 144 to 174 days, mainly due to the planned increase in the development of the sales network.

Receivables turnover ratio did not change over the previous year, while liabilities turnover increased by 13.57% compared with the rate achieved in 2010.

Liquidity ratios have been calculated as follows:

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

Volume	**2011**	**2010**	**Change**
			%
current liquidity ratio	1.41	1.74	-18.94%

quick liquidity ratio	0.45	0.71	-37.21%
inventory turnover (days)	174	144	20.73%
receivables turnover (days)	15	15	0.00%
trade payables turnover (days)	118	104	13.57%

3. Asset Management Ratios

Fixed assets to equity ratio increased by 18.67% compared to the previous year.
Total debt and long-term debt ratios decreased compared to 2010.
Short-term debt ratio increased compared to the previous year.

The ratios have been calculated as follows:

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

Volume	**2011**	**2010**	**Change**
	%	**%**	**p.p.**
fixed assets to equity ratio	122.05%	103.38%	18.67%
total debt ratio	43.66%	48.46%	-4.88%
short-term debt ratio	38.13%	28.83%	9.30%
long-term debt ratio	5.54%	19.72%	-14.18%

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

In 2011, the Capital Group concluded the following material contracts:

- 195 lease agreements with distributors of retail premises. These agreements concern the premises where clothing under Reserved, Cropp, House and Mohito brands are sold.
- Annexes to existing loan agreements. Detailed information on these agreements has been published in current reports (RB 20/2011, RB 24/2011, RB 27/2011, RB 30/2011, RB 33/2011, RB 45/2011, RB 51/2011, RB 52/2011). A list of loan agreements is presented in Notes to the financial statement (section 14.8.3).
- Agreements on guarantees of payment of customs obligations
- Insurance contracts:
    - Property insurance policy
    - Civil liability insurance policy
    - Electronic Equipment Insurance (EEI)

- Construction All Risk Insurance (CAR)
- Machinery Insurance Policy
- Motor vehicle insurance policy

- Agreements with Gothals Limited (a subsidiary of the Issuer). The agreement for the transfer of word and device Reserved and Cropp trademarks by the Issuer to Gothlas Ltd (RB 28/2011). The transfer of the trademarks was to establish within LPP S.A. Capital Group an entity to deal primarily with the management of trademark rights. Sub-License Agreements with Gothals Limited (RB 29/2011) for the use of trademarks, under which LPP S.A. and foreign subsidiaries acquired for consideration the right to use the aforementioned trademarks.

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

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

In 2011, two new companies LPP Style Bulgaria Ltd and and LPP Fashion Bulgaria Ltd based in Bulgaria were established. The object of the companies is the distribution of products under the Reserved, Cropp, House and Mohito brands outside Poland.
In the reporting period an agreement was concluded between LPP S.A. and Gothals Limited based in Nicosia, Cyprus, under which LPP S.A. transferred the Cropp and Reserved trademarks to Gothals Limited at fair value PLN 556 000 thousand.
In exchange of the contribution in the form of the trademarks, LPP S.A. acquired shares in Gothals Ltd representing approximately 98.07% of the company's total share capital.
Gothals Ltd transferred the rights to the trademarks to Jaradi Limited - a company registered pursuant to the laws of Limited United Arab Emirates based in Dubai (hereinafter "Jaradi Ltd").
The transfer of the trademarks from LPP S.A. to Gothals Ltd and from Gothals Ltd to Jaradi Ltd aims at establishing within LPP Capital Group an entity dealing primarily with the management of the rights to trademarks, including their protection, activities aimed at increasing their value, granting licenses to use the trademarks etc., while maintaining the optimal fiscal structure.
In order to enable LPP S.A. to use the trademarks, Jaradi Ltd provided Gothals Ltd with a paid license, and Gothals Ltd granted to LPP S.A. a royalty-bearing sub-license in this regard.
License fees are dependent on the amount of revenue from sales of goods of the Reserved and Cropp brands.

Investments made by LPP Capital Group are related mainly to the related parties. The total value of shares in non-consolidated related parties amounts to PLN 186 thousand. In addition, there are loans granted by LPP Capital Group to external entities of a total value of PLN 3 545 thousand.

Details concerning capital expenditure of LPP Capital Group are described in the notes to the statement in section 15.8.

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

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

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

Information on credits taken as at 31 December 2011 and their maturity dates is presented in notes to the financial statement in section 15.8.3.

In 2011, LPP S.A. Capital Group used bank guarantees to secure the payment of rent for leased retail premises where brand stores are located. LPP S.A. Capital Group requested for bank guarantees to secure retail lease agreements where LPP S.A. or its related parties are lessees.
As at 31 December 2011, the total value of bank guarantees granted at the request and on the responsibility of LPP S.A. amounted to PLN 120 132 thousand, including:

a) guarantees to secure the agreements concluded by LPP S.A. amounted to PLN 69 077 thousand
b) guarantees granted to secure agreements concluded by consolidated related parties - PLN 47 828 thousand
c) guarantees issued to secure the agreements concluded by non-consolidated related parties amounted to PLN 3 091 thousand
d) guarantees granted to secure the office space lease agreements concluded by LPP S.A. amounted to PLN 136 thousand

In the previous year no loans were taken by the capital companies.

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

Information on loans granted by LPP S.A. Capital Group is presented in the Notes to the financial statements (section 15.8.2).

9. Information on loans granted, specifying their maturity and guaranties granted (by the issuer), including loans and guarantees granted to the issuer's related parties.

In the reporting period the Group granted the following guarantees within the Group:

Description	**Amount in PLN '000**
Promissory note guarantee issued to Orlen for a single business entity	22
Guarantee for the daughter company Re Trading under a commercial contract	920
Guarantee for the daughter company LPP Retail Estonia	668
Guarantee for the daughter company LPP Fashion Distributor (Romania)	1 270
Guarantee for Fashion Point- Russia	919
Guarantee for LPP Czech Retail	1 181
Guarantee for the daughter company Artman S.R.O.	663
Guarantee for LPP Retail Latvia	302
Guarantee for LPP Retail Bulgaria	531

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

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

10. Appropriation of inflows from issue.

By the financial statement date, LPP S.A. Capital Group issued a total of 29 387 series K shares (RB 3/2011 RB 31/2011, RB4/2012). The issue of the shares was due to the instruction from the holders of convertible series A bonds to convert these bonds into series K shares.
Inflows from the issue of the bonds were used in 2009 for current activities and further development of the Issuer as well as short-term debt restructuring.

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

The forecast of financial results was not published.

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

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

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

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

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

In 2011, there were no extraordinary events having an impact on the financial result.

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

The basic objectives of LPP S.A. Capital Group determining its market position in the future are as follows:
a) developing a network of brand stores in Poland and in Central and Eastern Europe,
b) building strong clothing brands (Reserved, Cropp, House, Mohito).
c) increasing the profitability and effectiveness of operaitons.

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

<u>Internal factors</u>

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

LPP S.A. Capital Group is focused on designing and distribution of clothing as well as building its brand while outsourcing many activities to third parties. LPP S.A. Capital Group does not have its own production capacity which allows to significantly reduce fixed costs. The entire clothing production is outsourced to contractors mainly from the Far East. As a result, the goal

of all investments is to increase the CG's trading potential, maintain its competitive edge on the market, develop its own network of distribution, create good image of LPP S.A. on the clothing market, gain customers and ensure their loyalty to the Company and its products.
The development strategy for leading brand - Reserved, assumes taking action to improve the image of the uniqueness and prestige of this brand in the eyes of customers, leaving it still in the mass clothing segment.

b) The Group's market position

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

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

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

d) Logistics.

The applied logistic model consisting in using specialised technology in its own logistics centre, while outsourcing the transport of goods from suppliers to the logistics centre and from the logistics centre to outlets to specialised transportation companies, allows for a more effective implementation of processes in this area. Certain goods sold to a subsidiary in Russia are to be delivered directly from Asia without participation of the logistics centre in Poland.

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

To ensure high level of performance and productivity of LPP S.A. Capital Group, actions aimed at reducing costs are taken. Maintaining a low level of costs is one of the main objectives of LPP S.A. Capital Group.
LPP S.A. Capital Group pursues a strategy aimed at increasing profitability while expanding retail space by building new stores, and where the forecasts are very good - by building stores with a larger floor area.

External factors

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

Despite the present drop in the global economy, the CG manages to increase revenues from sales and profits. These parameters to some extent depend on the situation in the environment, but to a large extent on the attractiveness of the offer and the organisational efficiency of LPP S.A. Capital Group. Information on the likely developments in the global economy and especially in Poland and in countries in which the Issuer's subsidiaries operate, although not explicitly optimistic, however, does not raise concerns about any negative impact on the development of the CG.

b) Foreign exchange rates

The base accounting currency in most commercial transactions of the purchase of goods is USD. A small portion of settlements on this account is made in euros.
The majority of receipts from sales is obtained in PLN. Instability of the exchange rate of the Polish zloty vs. USD and Euro is more risky, the faster the ratios are changing (PLN/USD). Given the specific type of the Company's business, it is possible to partially transfer the risk of increase in USD exchange rate to end customers, as the product selling price is calculated just before the product is introduced to the market.
In addition to foreign exchange risk concerning the accounting currency used for the purchase of commercial goods, there is also the risk associated with the fact that the commercial space rents are settled in EUR.
Information on foreign exchange risk is presented in section 10 of the Note.

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

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

Perspectives for the development of the Issuer's business

Long-term development strategy of LPP S.A. Capital Group assumes strengthening the existing market position, further expansion both in the domestic and foreign markets (in the immediate future only in the countries where its subsidiaries already operate), as well as increased profitability and efficiency.
As at the end of 2011, LPP CG had a chain of 880 stores (Reserved, Cropp, House, Mohito) and 13 outlets, with a total retail area of about 343 thousand sq m. The plans for 2012 include the establishment of new outlets, which in turn will lead to an increase in the total area of the retail network in Poland and abroad by more than 20%.

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

In 2011, LPP S.A. Capital Group did not acquire any treasury shares.

17. Information on key achievements in research & development

No research and development works were carried out by LPP S.A. Capital Group.

18. Information on financial instruments related to:

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

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

- loans granted,
- bank credits incurred,

- convertible bonds issued,
- bank deposits.

The Company also identified embedded derivatives connected with:

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

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

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

1) currency risk – presented in section 15 as an external risk factor,
2) interest rate risk – according to the Management Board, based on the analysis of changes in interest rates in previous periods, any potential increase of this parameter determining the amount of credits taken and bonds issued, can have no significant impact on the financial results,
3) credit risk – this risk primarily influences trade receivables and guarantees and sureties granted. The Management Board believes there is no danger of non-payment by contractors, although in some cases the need to extend the payment dates is likely.

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

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

In 2011, there were no major changes in the management of the Issuer’s business and its capital group.

20. Total number and nominal value of all shares of the Issuer and all shares of the Issuer's related parties held by members of the Issuer's Management and Supervisory Board.

As at 31.12.2011, members of the Company's Management and Supervisory Board hold the following shares:

Shareholder	Number of held shares (pieces)	Number of votes at the Annual General Meeting of Shareholders	Nominal value of shares
President of the Management Board	175 000	875 000	350 000
Vice President of the	2 664	2 664	5 328

Management Board			
Vice President of the Management Board	17	17	34
Vice President of the Management Board	137	137	274
Chairman of the Supervisory Board	175 000	875 000	350 000
Member of the Supervisory Board	400	400	800

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

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

In 2009, LPP S.A. Capital Group issued series A bonds convertible to series K shares. As a result, 80,846 bonds were acquired for the amount of PLN 129 million. Acquisition of the Issuer's shares by conversion of bonds into shares may cause changes in the structure of share ownership in terms of number of shares held by the hitherto shareholders. The conversion may take place in the semi-annual periods from the date of issue of the convertible bonds, i.e. from 23 July 2009. The deadline for conversion or redemption of the bonds is June 2012.
By the date of approval of the report, 29 387 bonds were converted into 29 387 series K shares as a result of conversion instructions.
In the reporting period, a new incentive programme for key managers of LPP S.A. Capital Group for 2011-2014 was also launched.
Under the Incentive Programme, the Company will issue no more than 21,300 subscription warrants carrying the right to acquire no more than 21 300 shares.
If all other issued bonds were converted, the total number of shares would amount to 1 831 123, and the total number of votes at the General Meeting of Shareholders of LPP S.A. would amount to 3 231 123.

22. Information on the control system of employee share schemes.

Not applicable.

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

None.

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

These amounts are presented in section 15.23.1 of the Notes to the financial statement.

25. Information on the entity authorised to audit financial statements.

On 19 April 2010, LPP S.A. concluded with Grant Thornton Frąckowiak Sp. z o.o. an agreement on, respectively:

1) auditing the financial statements for the period from 1 January 2010 to 31 December 2010, giving opinion on it and preparing the audit report.
2) auditing the Capital Group's consolidated financial statements for the period from 1 January 2010 to 31 December 2010, giving opinion on it and preparing the audit report.
3) auditing the interim financial statements for the period from 1 January 2010 to 30 June 2010 and preparing the audit report.
4) auditing the consolidated interim financial statements for the period from 1 January 2010 to 30 June 2010 and preparing the audit report.
5) auditing the financial statements for the period from 1 January 2011 to 31 December 2011, giving opinion on it and preparing the audit report.
6) auditing the Capital Group's consolidated financial statements for the period from 1 January 2011 to 31 December 2011, giving opinion on it and preparing the audit report.
7) auditing the interim financial statements for the period from 1 January 2011 to 30 June 2011 and preparing the audit report.
8) auditing the consolidated interim financial statements for the period from 1 January 2011 to 30 June 2011 and preparing the audit report.

The total value of the net remuneration due under the aforementioned agreements amounted to PLN 280 thousand plus VAT.
The amount of remuneration for auditing and reviewing the Company's and the Capital Group's financial statements for 2010 and 2011 was PLN 140 thousand plus VAT.

Additionally, in 2011, Grant Thornton Frąckowiak Sp. z o.o. provided tax consulting services, for which it received remuneration of PLN 136 thousand plus VAT.

26. Corporate Governance Statement.

a) The Management Board of LPP S.A. declares that in 2011 the Company and its authorities complied with the Best Practices of WSE Listed Companies as described in Parts II, III and IV, but the requirement of clause 10 of Part IV providing for the need to allow shareholders to participate in the general meeting using means of electronic communication was not met.

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

The Company shall not apply Corporate Governance principles beyond the requirements of national law.

The Company and its authorities also followed the principles of Best Practice for WSE Listed Companies described in part I, except for:

as regards section I.1. The general meeting was not broadcast over the Internet or registered, and it was not published on the website,

as regards section I.5. The applicable principles of remuneration do not comply with all the requirements described in the recommendations of the European Commission of 14 December 2004 and Recommendations of 30 April 2009,

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

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

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

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

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

- control activities taken at all levels and in all cells of the Company, based on procedures (permits, authorizations, verifications, reconciliation, review of operational activities, distribution of duties), that help ensure compliance and guidelines for management of the Company, and at the same time enable to identify and take the necessary actions to minimize errors and risks for the Company,
- Workflow Guide - proper records and documentation circulation control system (to ensure compliance of the account records with accounting evidence),
- suitably qualified staff carrying out inspections,
- segregation of duties excluding possibility of executing by one employee an action associated with the execution and documenting a business transaction from beginning to end,
- inventory manual, specifying the rules for the use, storage and inventory of assets,
- principles for balance sheet amortisation of intangible and tangible fixed assets,
- information system - accounts of the Company are conducted with help of the computerized Integrated Enterprise Management System AWEK at the Company's headquarters, which provides credibility, reliability and accuracy of the processed information, the access to information resources is limited to AWEK system authorized personnel, only for their performance of duties,
- accounting policy, taking into account the principles of the International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and related interpretations published in the form of implementing regulations of the European Commission,
- electronic system for documents processing (invoices, elements of employee documentation, commissions to purchase equipment, payment orders, etc.

In the process of preparing financial statements of the Company, both individual and consolidated, an audit of financial statements by an independent auditor as the essential element of internal audit.
The statutory auditor shall be appointed by the Supervisory Board of LPP Company. The tasks of the independent auditor include reviewing half-yearly and annual statements, controlling accuracy of their preparation and compliance with accounting rules.

Two departments are responsible for the preparation of financial statements: accounting and finance, led by the Chief Accountant and Chief Financial Officer. Before submitting financial statements to the independent auditor, Chief Financial Officer shall verify them for completeness and correctness of all economic events.

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

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

Shareholder	Number of held shares (pieces)	Number of votes at the Annual General Meeting of Shareholders	Share in the number of votes at the Annual General Meeting of Shareholders	Participation in share capital
Marek Piechocki	175 000	875 000	27.54%	9.84%
Jerzy Lubianiec	175 000	875 000	27.54%	9.84%
Monistor Limited (Cyprus)	200 728	200 728	6.32%	11.29%
Grangeford Limited, based in Cyprus	350 000	350 000	11.01%	19.69%
Other shareholders	877 006	877 006	27.60%	49.33%
TOTAL	1 777 734	3 177 734	100.00%	100.00%

d) Information on holders of securities that give special control rights and on any restrictions on voting rights, such as restricting the voting rights of holders of a specified proportion or number of votes and the restrictions on transferring ownership rights.

Shareholders holding shares conferring the right to more than 15% in the General Meeting exercise the right to vote up to 15%, regardless of the number of votes arising from the shares held. Two shareholders, who have led the company for many years, Mr. Jerzy Lubianiec and Mr. Marek Piechocki hold each 175,000 preference shares of B series, one share entitles to 5 votes at the AGM. In addition, shares of the above mentioned shareholders are not covered by the statutory limitation as described above, limiting voting rights only up to 15% of votes at the AGM regardless of the number of shares held. The above statutory provisions give the dominant position to the two shareholders indicated above.
Restrictions on transferring the ownership of securities concern registered shares and series I shares.

Sale or mortgage of shares shall be dependent on the approval of the Company. Shares sale or mortgage permits are granted by the Supervisory Board in writing, under pain of nullity, within 14 days from the date of application. If the Company refuses to give the permit, it shall within 30 days designate another purchaser and define the date and place of payment. If the Company within the time does not indicate another purchaser, the shares may be sold without restriction.
I series shares that were issued to implement the Company's discretionary motivational programme for managerial staff of the Company, may not be disposed of within two years after their taking up. This restriction is intended to bind the key personnel to the Company by ensuring those people pay associated with the results of the Company.

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

The Board consists of two to five members, including the President, and from one to four Vice-Presidents of the Management Board. The number of members is determined by the Supervisory Board.
Members of the Management Board are appointed and dismissed by the Supervisory Board for a term of five years.
Competence and working rules of LPP S.A. Management Board are set forth in the following documents:

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

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

f) Description of rules for amending the articles of association of the issuer.

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

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

Convention of the General Meeting of Shareholders

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

Competencies of the General Meeting

1) Examination and approval of financial statements and reports of the Management Board on the activity of LPP S.A. for a last year.

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

General Meeting Convention

1) The General Meeting is opened by the Chairman of the Supervisory Board or a person authorised by him and they hold the elections of the President of the General Meeting.
2) The person opening the General Meeting brings to the immediate election of the President of the General Meeting who directs the works of the GM and ensures efficient and proper conduct of the session.
3) The General Meeting shall adopt resolutions only on matters included in the agenda.
4) Draft resolutions proposed for adoption by the General Meeting and other relevant materials are presented to the shareholders together with the reasons and the opinion of the Supervisory Board.
5) Course of the Meeting is recorded by a notary.

Voting

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

h) Membership and changes that occurred during the financial year and the description of the actions of managing, supervisory or administrative bodies and their committees.

Management Board of LPP S.A.

Composition of the Management Board as at 31 December 2011:

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

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

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

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

The Supervisory Board

Composition of the Supervisory Board as at 31 December 2011 was as follows:

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

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

Competence and working rules of LPP S.A. Supervisory Board are set forth in the following documents

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

Marek Piechocki

Chairman of the Board

Dariusz Pachla	*Piotr Dyka*	*Hubert Komorowski*	*Jacek Kujawa*
Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board	Vice President of the Management Board

Gdańsk, 23 April 2012

STATEMENT OF THE MANAGEMENT BOARD OF LPP S.A.

STATEMENT OF THE MANAGEMENT BOARD

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

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

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

- the entity authorised to audit financial statements which conducted an audit of the annual consolidated financial statements was appointed in line with applicable legal provisions currently in effect. This entity and certified auditors who audited the financial statement satisfied all conditions required to produce an impartial and independent audit report, as per applicable provisions of the Polish law.

Marek Piechocki

President of the Management Board

Dariusz Pachla Hubert Komorowski Piotr Dyka Jacek Kujawa

Vice-President of the Management Board Vice-President of the Management Board

Gdańsk, 23 April 2012