LPP SA Capital Group

A consolidated annual report of 2014

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Gdańsk
April 2015

Letter of the President of the Management Board to Shareholders

Dear Shareholders,

Behind us is a very interesting year, on the one hand rich in many new and important for the company's future projects, on the other hand, the developed financial results left us with a feeling of being unsatisfied because they are below our expectations. The most important projects I want to mention are the opening of the first stores of the Reserved brand in Germany – Europe's biggest clothing market, as well as the entrance of LPP to Croatia - with all brands simultaneously. Another important event was also the crossing of the border of Poland with our online store - from the middle of last year we opened the opportunity to purchase our products online for German customers.

Together with our franchise partner - the Azadea company – we conducted intensive works on opening the stores of our brands in the Middle East. The first Reserved stores will be opened in the Persian Gulf countries in the first quarter of 2015. Under the executed agreement, we plan to open at least 30 stores in 6 years there, whereas the selected business model – namely the franchise - is widely used in that part of the world.

An equally important project is our effort to establish our new, already sixth clothing brand – we set up special design, product and marketing teams that have been working intensively on the concept of salons and collection of clothes for the upper segment of the market. The first new brand showrooms will be opened in Poland in the first quarter of 2016.

The construction of a new logistics center in Pruszcz Gdański, which had been launched in 2013, was completed in the past year, along with the installation of the latest logistics solutions in the field of maintenance-free storage and automation of the transmission and feeding rollers. Tests of new equipment should be completed in the first months of 2015, and upon putting into service, the new logistics center will allow us to double the efficiency of packaging and shipping of goods, while reducing the workload by more than a half.

Coming back to the results of our activities in 2014 - we have increased the number of stores by 196 units up to 1,516 units, while the retail space has been increased by 134 thousand sq.m. up to 723 thousand sq.m, ie. by 23%. Throughout the whole of 2014 we sold goods for more than 4.7 billion PLN and developed 482 million PLN in net profit - by 11% more than in the previous year. However, our net result was influenced by the one-off operation related to the creation of assets for income tax, arising from the transfer of trademarks to the Cypriot company, which raised our profit by 107 million PLN. If we had not have taken into account that operation, the net profit would have amounted to 375 million PLN, which represents a decrease of 13% in comparison to the profit generated in the previous year. Unfortunately, the conflict in Ukraine, that commenced in February 2014, and a large depreciation of the ruble and hryvnia, resulted in a decline in sales calculated in zloty on Russian and Ukrainian markets and in generating significant foreign exchange losses.

Despite the difficult macroeconomic environment, we continue to believe in the validity of our long-term development path. We strive to consistently pursue our strategy of growth in new markets with strict cost control and with a view to increase efficiency. We are confident that our consistent efforts will translate into the increase in profits in subsequent years.

Marek Piechocki

Selected financial data for the years 2014 - 2013

1. Selected financial data of the LPP SA Capital Group

in thousand PLN

Selected consolidated financial data	2014	2013	2014	2013
	01.01.2014-31.12.2014	01.01.2013-31.12.2013	01.01.2014-31.12.2014	01.01.2013-31.12.2013
	in thousand PLN		in thousand EUR	
Net revenues from sales of products, goods and materials	4,769,288	4,116,302	1,138,445	977,512
Profit (loss) on operating activities	609,103	615,627	145,395	146,195
Gross profit (loss)	459,895	523,871	109,778	124,405
Net profit (loss)	481,860	432,859	115,022	102,792
Net cash flows from operating activities	492,896	508,766	117,656	120,818
Net cash flows from investing activities	-475,959	-518,233	-113,613	-123,066
Net cash flows from financing activities	17,237	-571	4,115	-136
Net cash flows, total	34,174	-10,038	8,157	-2,384

in thousand PLN

Selected consolidated financial data	2014	2013	2014	2013
	01.01.2014-31.12.2014	01.01.2013-31.12.2013	01.01.2014-31.12.2014	01.01.2013-31.12.2013
	in thousand PLN		in thousand EUR	
Total assets	2,933,726	2,491,570	688,296	600,784
Long-term liabilities	210,714	192,331	49,437	46,376
Short-term liabilities	1,084,598	802,749	254,463	193,564
Equity	1,638,414	1,496,490	384,397	360,843
Share capital	3,662	3,662	859	883
Weighted average number of ordinary shares	1,809,725	1,809,725	1,809,725	1,809,725
Profit (loss) per ordinary share (in PLN / EUR)	264.98	239.18	63.56	56.80
Book value per ordinary share (in PLN / EUR)	905.34	826.92	212.41	199.39
Declared or paid dividends per ordinary share (in PLN / EUR)	93.60	85.10	21.96	20.52

Profit per one share is calculated as a quotient of net profit and weighted average of the number of shares. The net book value per one share was calculated as a quotient of equity and weighted average of the number of shares.

Consolidated statement of financial position LPP SA Capital Group for the trading year ending 31 December 2014

1. Statement of the financial position of the LPP SA Capital Group

in thousand PLN

Statement of the financial position	Notes	Balance at the end:	
		31.12.2014	31.12.2013
ASSETS			
Fixed assets (long-term)		1,516,416	1,231,908
1. Tangible fixed assets	15.1	1,038,837	896,806
2. Intangible assets	15.3	28,751	20,132
3. Goodwill	15.4	209,598	183,609
4. Trade mark	15.3	77,508	77,508
5. Investments in subsidiaries	15.5	136	136
6. Investments in related entities	15.6	2,405	10,366
7. Receivables and loans	15.7	6,300	12,928
8. Deferred tax assets	15.20	143,531	29,929
9. Accruals	15.17	9,350	494
Current assets (short-term)		1,417,310	1,259,662
1. Inventory	15.8	979,345	805,038
2. Trade receivables	15.9	176,947	163,255
3. Receivables from income tax	15.9	11,194	17,207
4. Other receivables	15.9	46,281	96,720
5. Loans	15.7	167	12,485
6. Other financial assets		0	2
7. Accruals	15.17	19,847	15,600
8. Cash and cash equivalents	15.10	183,529	149,355
TOTAL assets		**2,933,726**	**2,491,570**

in thousand PLN

Statement of the financial position	Notes	Balance at the end:	
		31.12.2014	31.12.2013
LIABILITIES			
Equity		1,638,414	1,496,490
1. Share capital	15.12	3,662	3,662
2. Own shares		-43,288	-48,784
3. Capital from the sale of shares above their nominal value	15.12	235,074	235,069
4. Other capital	15.12	1,092,205	860,357
5. Exchange differences from the conversion of units		-184,376	-4,062
6. Retained earnings			
- profit (loss) from previous years		52,360	16,106
- net profit (loss) for the current period		479,546	430,964
7. Minority interest		3,231	3,178
Long-term liabilities		210,714	192,331
1. Bank credits and loans	15.7	204,461	184,285
2. Other financial liabilities			58
3. Provisions for employee benefits	15.13	1,596	2,718
4. Provision for deferred income tax	15.20	4,657	5,201
5. Other long-term liabilities			69
Short-term liabilities		1,084,598	802,749
1. Trade receivables and other liabilities	15.16	618,578	547,626
2. Income tax liabilities	15.16	37,972	37,524
3. Bank credits and loans	15.7	378,346	173,591
4. Other financial liabilities	15.16	7	84
5. Reserves	15.13	20,201	24,841
6. Special funds		157	159
7. Accruals	15.17	29,337	18,924
TOTAL liabilities		**2,933,726**	**2,491,570**

2. Statement of the results and other total revenue of the LPP SA Capital Group

in thousand PLN

Statement of the results and other total revenues	Notes	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Sales revenue	15.18	4,769,288	4,116,302
Cost of goods sold		1,976,788	1,707,151
Gross Profit/(Loss) on sales		2,792,500	2,409,151
Other operating revenues	15.18	45,889	33,797
Selling costs	15.19	1,942,937	1,604,796
General costs	15.19	205,411	154,409
Other operating expenses	15.19	80,938	68,116
Profit (Loss) on operating activities		609,103	615,627
Financial revenues	15.18	3,002	2,348
Financial expenses	15.19	152,210	94,104
Gross Profit (Loss)		459,895	523,871
Tax burden	15.20	-21,965	91,012
Net Profit (Loss)		**481,860**	**432,859**
Net profit attributable to:			
Shareholders of the parent company		479,546	430,964
Non-controlling entities		2,314	1,895
Other comprehensive income			
Exchange differences from the conversion of units		-180,314	-671
Total comprehensive income		**301,546**	**432,188**

3. Statement of changes in the equity of the LPP SA Capital Group

in thousand PLN

Statement of changes in the equity	Share capital	Own shares	Capital from the sale of shares above their value	Other capital	Profit (loss) from previous years	Profit (loss) for the current period	Exchange differences from the conversion of units	Minority interest	Equity TOTAL
Balance as at 1 January 2013	**3,662**	**-48,767**	**235,069**	**656,950**	**-3,391**	**364,987**	**0**	**2,538**	**1,211,048**
- correction of errors from previous years									
Balance as at 1 January 2013 after adjustments	**3,662**	**-48,767**	**235,069**	**656,950**	**-3,391**	**364,987**	**0**	**2,538**	**1,211,048**
Costs of acquiring own shares		-17							-17
Net profit of minority shareholders for the year 2013								1,895	1,895
Payment of dividends to minority shareholders								-1,255	-1,255
Distribution of profit for the year 2012				194,874		-348,881			-154,007
Share-based payment				8,533					8,533
Transactions with shareholders	0	-17	0	203,407	0	-348,881	0	640	-144,851
Net profit for the year 2013							430,964		430,964
Exchange differences after the conversion of units					-671				-671
Balance as at 31 December 2013	**3,662**	**-48,784**	**235,069**	**860,357**	**-4,062**	**16,106**	**430,964**	**3,178**	**1,496,490**

in thousand PLN

Statement of changes in the equity	Share capital	Own shares	Capital from the sale of shares above their value	Other capital	Exchange differences from the conversion of units	Profit (loss) from previous years	Profit (loss) for the current period	Minority interest	Equity TOTAL
Balance as at 1 January 2014	**3,662**	**-48,784**	**235,069**	**860,357**	**-4,062**	**447,070**	**0**	**3,178**	**1,496,490**
- correction of errors from previous years									
Balance as at 1 January 2014 after adjustments	**3,662**	**-48,784**	**235,069**	**860,357**	**-4,062**	**447,070**	**0**	**3,178**	**1,496,490**
Costs of acquiring own shares		-22							-22
Net profit of minority shareholders for the year 2014								2,314	2,314
Payment of dividends to minority shareholders								-2,261	-2,261
Distribution of profit for the year 2013				225,093		-394,710			-169,617
Acquisition of shares			5						5
Share-based payment		5,518		3,818					9,336
Contribution by minority shareholders				2,937					2,937
Transactions with shareholders	0	5,496	5	231,848	0	-394,710	0	53	-157,308
Net profit for the year 2014							479,546		479,546
Exchange differences after the conversion of units					-180,314				-180,314
Balance as at 31 December 2014	**3,662**	**-43,288**	**235,074**	**1,092,205**	**-184,376**	**52,360**	**479,546**	**3,231**	**1,638,414**

4. Cash flow statement of the LPP SA Capital Group

in thousand PLN

Cash flow statement	01.01.2014-31.12.2014	01.01.2013-31.12.2013
A. Cash flows from operating activities - indirect method		
I. Gross profit (loss)	459,895	523,871
II. Total adjustments	33,001	-15,105
1. Amortisation and depreciation	193,670	148,188
2. Exchange gains (losses)	22,840	10,547
3. Interest and profit sharing (dividends)	13,670	10,442
4. Profit (loss) on investment activities	8,951	-5,392
5. Paid income tax	-91,091	-92,452
6. Change in provisions	-432	7,906
7. Change in inventory	-259,076	-178,225
8. Change in receivables	51,670	-82,050
9. Change in short-term liabilities excluding credits and loans	80,078	164,573
10. Change in prepayments and accruals	-1,137	15
11. Other adjustments	13,858	1,343
III. Net cash flows from operating activities	492,896	508,766
B. Cash flows from investment activities		
I. Inflows	87,758	48,553
1. Disposal of intangible and tangible fixed assets	75,884	43,144
2. From financial assets, including:	6,838	5,409
a) in related parties	214	278
- sale of shares / liquidation of companies		88
- dividends and share in profits	214	190
b) in other entities	6,624	5,131
- sales of foreign bonds	4,003	3,796
- interest	1,120	1,189
- repayment of loans	1,501	146
- other inflows from financial assets		
3. Other inflows from investment activities	5,036	

Statements prepared in thousand PLN

II. Outflows	563,717	566,786
1. Purchase of intangible assets and tangible fixed assets	550,522	541,878
2. For financial assets, including:	13,195	24,908
a) in related parties	8,861	0
- purchase of shares	8,861	
b) in other entities	4,334	24,908
- loans granted	331	10,745
- purchase of shares		10,367
- purchase of foreign bonds	4,003	3,796
3. Other outflows from investment activities		
III. Net cash flows from investing activities	-475,959	-518,233
C. Cash flows from financial activities		
I. Inflows	282,535	219,547
1. Inflows from the acquisition of shares	5	
2. Credits and loans	282,530	219,547
3. Debt securities issued		
4. Other inflows from financial activities		
II. Outflows	265,298	220,118
1. Cost of maintaining own shares	22	16
2. Dividends and other payments to the owners	171,878	155,262
3. Repayment of credits and loans	78,510	52,103
4. Payment of liabilities arising from financial leases	77	209
5. Interest	14,811	12,528
6. Other outflows from financial activities		
III. Net cash flows from financing activities	17,237	-571
D. Total net cash flows	**34,174**	**-10,038**
E. Balance sheet change in cash, including:	**34,174**	**-10,038**
- change in cash due to exchange differences	-13,037	-3,704
F. Cash opening balance	**149,355**	**159,393**
G. Closing balance of cash, including:	**183,529**	**149,355**
- of limited disposability	1,016	8,440

Additional Information to the consolidated statement of financial position of LPP SA Capital Group for 2014

INTRODUCTION

1. Basic information

<u>The name and the registered offices of the parent company of the LPP Capital Group:</u>

LPP SPÓŁKA AKCYJNA
with the registered seat in Poland in Gdańsk
ul. Łąkowa 39/44
post code: 80-769

<u>Primary business profile:</u>

- wholesale trade in the scope of clothing, as listed in the item 51.42 Z PKD as „wholesale trade in the scope of clothing and footwear",
- retail trade in the scope of clothing, as listed in the item 52.42 Z PKD as „retail trade in the scope of clothing"

<u>Court having jurisdiction over a company's seat</u>
The Company is registered at the Sąd Rejonowy [the District Court] Gdańsk-Północ in Gdańsk, VII Division of the National Court Register [of companies], under the registration number KRS 0000000778.

<u>The area of pursuing economic activity</u>
The Group is pursuing its economic activity within the territories of the following countries:

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

<u>Sector according to classification of the Warsaw Stock Exchange</u>

Shares of the parent company – the LPP SA company are traded on primary exchange market of the Warsaw Stock Exchange, classified into the sector: trade

2. The personal composition of the Executive Board and the Board of Directors of the Issuer

The personal composition of the Executive Board:

- Marek Piechocki - President of the Board
- Przemysław Lutkiewicz - Vice-President of the Board
- Hubert Komorowski - Vice-President of the Board
- Piotr Dyka - Vice-President of the Board
- Jacek Kujawa - Vice-President of the Board

Statements prepared in thousand PLN

Until 31 December 2014 the seat of the Vice-President of the Board of the LPP SA was held by Mr. Dariusz Pachla. Due to his resignation Mr Przemysław Lutkiewicz was appointed to that post, who is currently a member of the Board of the parent company.

The personal composition of the Board of Directors:
- Jerzy Lubianiec - President of the Board of Directors
- Krzysztof Olszewski - Member of the Board of Directors
- Wojciech Olejniczak - Member of the Board of Directors
- Maciej Matusiak - Member of the Board of Directors
- Krzysztof Fąferek - Member of the Board of Directors

3. Characteristics of LPP SA Capital Group

The LPP SA Capital Group (Group) includes:
- LPP SA as the parent company,
- 4 national subsidiaries,
- 17 foreign subsidiaries.

There is no parent company of LPP SA.
The list of the companies included in the Capital Group are presented below.

No.	Name of the company	Registered office	Date of obtaining control
1.	G&M Sp. z o.o.	Gdańsk, Poland	26.09.2001
2.	DP&SL Sp. z o.o.	Gdańsk, Poland	26.09.2001
3.	IL&DL Sp. z o.o.	Gdańsk, Poland	26.09.2001
4.	AMUR Sp. z o.o.	Gdańsk, Poland	09.05.2003
5.	LPP Estonia OU	Tallin, Estonia	29.04.2002
6.	LPP Czech Republic s.r.o.	Prague, Czech Republic	16.09.2002
7.	LPP Hungary Kft	Budapest, Hungry	18.10.2002
8.	LPP Latvia Ltd	Riga, Latvia	30.09.2002
9.	LPP Lithuania UAB	Vilnius, Lithuania	27.01.2003
10.	LPP Ukraina	Peremyshliany, Ukraine	23.07.2003
11.	RE Trading OOO	Moscow, Russia	12.02.2004
12.	LPP Romania Fashion SRL	Bucharest, Romania	12.08.2007
13.	LPP Bulgaria EOOD	Sofia, Bulgaria	14.08.2008
14.	LPP Slovakia s.r.o.	Banská Bystrica, Slovakia	30.10.2008
15.	LPP Fashion Bulgaria Ltd.	Sofia, Bulgaria	26.08.2011
16.	Gothals Ltd.	Nicosia, Cyprus	22.07.2011
17.	Jaradi Ltd.	Al Tatar, United Arab Emirates	22.07.2011
18.	IP Services FZE	Ras al-Khaimah, United Arab Emirates	23.12.2012
19.	LPP Croatia D.O.O.	Zagreb, Croatia	22.01.2014
20.	Reserved GMBH	Hamburg, Germany	03.03.2014
21.	KOBA AS	Banská Bystrica, Slovakia	01.04.2014

The domination of LPP SA in subsidiaries, in view of its important, mostly at 100% share in the capital of the subsidiary companies and the total number of votes, is immediate.

Consolidated financial statements of the Capital Group, for the period from 01 January to 31 December 2014, includes individual results of LPP SA and the results of the subsidiaries listed below:

- LPP Estonia OU
- LPP Czech Republic s.r.o.
- LPP Hungary Kft
- LPP Latvia Ltd.
- LPP Lithuania UAB
- LPP Ukraina
- OOO Re Trading
- LPP Romania Fashion SRL
- LPP Bulgaria EOOD
- LPP Slovakia s.r.o.
- LPP Fashion Bulgaria Ltd.
- Gothals Limited
- Jaradi Limited
- IP Services FZE
- LPP Croatia DOO
- Reserved GMBH
- KOBA AS

Domestic entities, controlled by the LPP SA, were not covered by the consolidation, as the data is irrelevant. It is in line with the Accounting Policy adopted by the Group.
According to it [the Accounting Policy] a controlled or affiliated entity is not covered by the consolidation if values provided in the financial statement of such entity are insignificant as compared with values of the financial statement of the parent company. In particular as insignificant is regarded a balance sheet total and net income from sales of goods and services, as well as from financial operations of such entity, which for the turnover year is less 10 % of the balance sheet total and income of parent entity. The total amount of balance sheet total and income of entities not covered by consolidation cannot exceed that level as well, but established with reference to relevant figures of consolidated financial statement with assumption that all the controlled and affiliated entities are reckoned into its scope with no exclusions.
The share in consolidated data of all controlled domestic companies not covered by the consolidation, is as follows:

- in the balance sheet total of the Capital Group – 0.04 %,
- in the revenue from the sale and financial income of the Capital Group – 0.22%.

Not including of these companies in consolidated financial statements did not negatively affect the fair presentation of the asset and financial situation as well as the financial result of the Capital Group.

LPP SA is involved in designing and distribution of clothing in Poland as well as in the countries of Central and Eastern Europe. Companies included in Capital Group and subject to consolidation are entities that distribute commodities outside of Poland under the brand names of RESERVED, Cropp, House, MOHITO and SiNSAY. Clothing is essentially the only commodity which is sold by Capital Group companies. Shoes, bags and clothing accessories are sold as commodities complementing the basic offer of Capital Group companies.
The clothing projects are drawn up in a design office located at the LPP SA registered office in Gdańsk and in a design office in Kraków. Designs are then forwarded to the purchasing department which orders the production of specific models and starts cooperation with companies in Poland and abroad including China. The placement of production in China is done through the commercial office located in Shanghai.

The Capital Group is making some income from sale of services, mainly services relating to know-how in the area of running sale rooms by domestic partners and rental of vehicles.
The additional scope of activity within the LPP Capital Group is managing the rights to trademarks of: RESERVED, Cropp, House, MOHITO and SiNSAY, including protection thereof, activities aimed at increasing their value, granting licence to use them etc. For this purpose such companies are operating: Gothals Limited in Cyprus, Jaradi Limited and IP Services in the United Arab Emirates. In 2014 the Jaradi Limited company in UEA was put into liquidation.

4 controlled domestic companies pursue their activities in the scope of renting out real property, where outlets of Cropp, RESERVED, MOHITO and House are run.

4. Basis for the preparation of condensed consolidated financial statements and information on changes in accounting policies

According to the requirements of the Accounting Act of 29 September 1994 (consolidated text J. of L. of 2013, item 330) as per 1 January 2005 the Capital Group LPP is presenting consolidated statement of financial position prepared on the basis of International Financial Reporting Standards (IFRS) and related interpretations, as published in a form of European Communities regulations. The Accounting Act is applied in the scope that is not regulated by the IFRS. Statements of financial position for periods starting before 1 January 2005 were prepared pursuant to the Accounting Law and secondary legislation thereto.

The report contains consolidated statement of financial position of the Group and the individual statement of financial position of the LPP S.A. The report was prepared pursuant to IFRS.

This consolidated statement of financial position was prepared in thousands of Polish zlotys.

Two departments are responsible for preparing financial statements: the bookkeeping department and the financial department, headed by the Chief Accountant and the Financial Manager. Prior to handing over the statements to an independent auditor, their completeness and accuracy of economic events is checked by the Financial Director, who in the name of the Board is responsible the process of financial accounting.

5. Statement of conformity with IFRS

The presented financial statement was prepared for the period from 01 January 2014 to 31 December 2014. The data to compare is presented for the period from 01 January 2013 to 31 December 2013.
This financial statement was prepared in accord with in accord with the International Financial Reporting Standards as accepted by the European Union, which comprise standards and interpretations accepted by the International Accounting Standards Committee and the Commission for Interpretation of International Financial Reporting.

Amendments to standards or interpretations being in force and applied by the Group from 2014

New or amended standards or interpretations being in force from 1 January 2014:

- New IFRS 10 „Consolidated Financial Statements" is replacing a larger part of IAS 27 "Consolidated and Separate Financial Statements". IFRS 10 is introducing a new definition of control, however rules and procedures of consolidation remain unchanged.
  The Group assessed the influence of new standards on its financial statement. Implementation of the new definition of control does not change the scope of consolidated entities and does not affect consolidated financial statement.
- New IFRS 11 "Joint Arrangements" is replacing IAS 31 "Interests In Joint Ventures". In the new standard the accounting attitude to joint arrangement ensues from its economic contents, i.e. rights and obligations of parties. Moreover IFRS 11 is removing a possibility of settlement of investment in joint ventures by means of proportional consolidation. Such investments are settled by the method of ownership rights.
  The Group assessed the influence of new standards on its financial statement. Due to the fact that the Capital Group has not had and does not have joint arrangements, implementation of new standard did not affect its financial statement.
- The new IFRS 12 „Disclosure of Interests in Other Entities"
  The IFRS is stating the requirements relating to disclosing information on consolidated and unconsolidated entities, in which the entity preparing the statement has substantive interest. It allows investors to assess risks that the Group is exposed to.
- The amendment to IAS 27 „Separate Financial Statements" and IAS 28 „Investments in Associates and Joint Ventures".

The amendments to IAS 27 and 28 are a consequence of implementation of IFRS 10, IFRS 11 and IFRS 12. IAS 27 refers solely to separate financial statements, whereas IAS 28 covers also investments in joint ventures, however the methodology of ownership rights is not changed.

- The amendment to IAS 32 „Financial instruments: presentation”
  The amendment is introducing detailed explanation as how to apply conditions of presenting of assets and financial liabilities in terms of net amounts. As the Group does not present positions of assets and liabilities in net amounts, its introduction did not affect the financial statement.
- The amendment to IFRS 10 „Consolidated financial statements”, to IFRS 11 Joint Arrangements and to IFRS 12 „ Disclosure of Interests in Other Entities”.
  The amendments to newly issued standards pertaining to consolidation introduce more clear transition rules and some exemptions in the scope of comparative data.
- The amendment to IFRS 10 „Consolidated financial statement”, to IFRS 12 „Disclosure of Interests in other Entities” and to IAS 27 „Consolidated and Separate Financial Statements”
  The amendment consists in exemption of the obligation of consolidation by investment entities. The investment entity is a unit fulfilling the following definition:
  - is gaining funds from one or several investors with the purpose of rendering to such investors services of managing the investments,
  - makes the commitment to the investors that its business goal is investing assets solely with the purpose of achieving return on growth in the value of investments, and/or from dividends.
  - assesses effectiveness of investment pursuant to its fair value.

  The standard does not affect the consolidated statement of the Group.

- The amendment to IAS 36 „Impairment of Assets”
  Introducing new IFRS 13 „Fair value management” the International Accounting Standards Board set up additional reveal of information regarding loss in value. The scope wad defined too broadly however, and that is why a subsequent amendment was introduced, the one which narrows the obligation of revealing the value of assets which deteriorated and that are possible to regain. The amendment to the standard does not affect the statement of the Group.
- The amendment to IAS 39 „Financial Instruments: Recognition and management”. So far the regulations of IAS 39 resulted in such an effect that in the case the company was establishing a derivative instrument as a collateral, and as a change of rules the other party of the derivative contract was replaced with a so-called central entity (for example a clearing agency), then the collateral relation had to be broken. Thanks to introducing the amendment to the standard, such situation will not result in breaking the collateral. The amendment to the standard does not affect the statement of the Group.

The list of standards and interpretations being in force in the version as published by the International Accounting Standards Board, but not confirmed by the European Union, is presented below in the item referring to standards and interpretations which have not come into force.

Implementation of a standard or interpretation prior to the date it comes into force

In this financial statement the voluntary earlier implementation of a standard or interpretation was not used.

The published standards and interpretations which did not come into force on 1 January 2014 and their impact on the statement of the Group

Until the date of making this statement, the following new or amended standards and interpretations have been published, referring to annual periods after 2014:

- The new IFRS 9 „Financial instruments: classification and evaluation”
  The new standard will replace the present IAS 39. The amendments as introduced by the standard into the accountancy of financial instruments comprise firs of all:
  - other categories of financial assets which determine the manner of evaluation of assets; the classification of assets into categories is made depending on the business model relating to a given element of assets,
  - new procedures of accounting of collaterals reflecting risk management to a larger extent,

- new model of deterioration of the value of financial assets basing on forecast loss and making it more urgent to include costs in financial result.

The standard pertains to annual periods starting on 1 January 2018 or later. The group is in the course of assessment of the impact of the standard on consolidated financial statement.

- IFRS Interpretations Committee 21 „Public fees”
  The new interpretation introduces rules stating the moment of including of obligations as fees and taxes imposed by state organs, the liabilities other than income tax, as regulated in the IAS 12. The interpretation is a set of detailed rules as in IAS 37 „Provisions, Contingent Liabilities and Contingent Assets”. In the Group’s opinion the interpretation will not affect the consolidated financial statement. According to the decision of the IASB the interpretation is valid for annual periods starting from 1 January 2014 or later, however its coming into force in the European Union is obligatory for annual periods starting on 17 June 2014 or later, that is why the Group will start its implementation from 2015.

- The amendment IAS 19 „Employee benefits”
  The amendments consist in precise rules of proceeding in case the employees make contributions towards costs of certain benefit programmes. The Group recognized that the amendment will not affect its report. The amendments pertain to annual periods starting from 1 July 2014 or later.

- Amendments IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 24, IAS 38 resulting from the schedule of annual amendments: the cycle 2010-2012”, which come into force for annual periods starting on 1 July 2014 or later. The amendments to the standards comprise:

  - IFRS 2: The council detailed the standard, changing or introducing definitions of the following terms: market condition, condition of rendering assets, condition of gaining rights, condition connected with achievements. In the group’s assessment the amendment will not affect its financial statement.
  - IFRS 3: The council specified the rules of evaluation of conditional payment after the date of acquisition more precisely, so that it is in line with other standards (especially with IFRS 9 / IAS 39 and IAS 37). In the Group’s assessment the amendment will not affect its financial statement.
  - IFRS 8: The council imposed on the entities pursuing the mergers of operational segments the requirement of additional disclosures regarding such merged entities and economic features, for the sake of which such merger was effected. In the Group’s assessment the amendment will not affect its financial statement.
  - IFRS 8: the standard after the amendment provides that the requirement of disclosing the arranged sum of assets of the segments with the assets presented in the balance sheet is obligatory only in case the values of assets are disclosed as divided into segments. In the Group’s assessment the amendment will not affect its financial statement.
  - IAS 16 and IAS 38: The council introduced the correction of calculating the gross amount and cumulated depreciation of a fixed asset (intangible asset) in case the model of post-revaluation amount is applied.
  - IAS 24: The definition of the entity’s related party is expanded with parties rendering services of key managerial personnel and relevant disclosures. In the Group’s assessment the amendment will not affect its financial statement.

- The amendments IFRS 3, IFRS 13, IFRS 40 as resulting from the schedule of annual amendments: the cycle 2011-2013, which come into force for the annual periods starting on 1 July 2014 or later. The amendments to the standards comprise:
  - IFRS 3: it was detailed that such transactions are excluded from the standard’s range, which are transactions of making joint arrangements in the statements of such joint arrangements. In the Group’s assessment the amendment will not affect its financial statement.
  - IFRS 13: The council detailed the range of exclusion relating to assessment of the portfolio of assets and liabilities in net amount. In the Group’s assessment the amendment will not affect its financial statement.

- IAS 40: The council made it precise that in case of acquisition of investment real asset it also has to be assessed whether such acquisition is an acquisition of a group of assets, or joint ventures as per rules stated in IFRS 3.

▪ The new IFRS 14 „ Regulators Deferral Accounts"
The new standard refers to entities which transfer to IFRS and pursue activity in sectors in which the State is applying regulated prices, such as supply of gas, electricity or water. The standard allows for continuing the accounting principles regarding to presenting income from such activity applied prior to transfer to IFRS both in the first statement made according to IFRS, and thereafter. The new regulations do not pertain to the Group. The Standards is obligatory for annual periods starting on 1 January 2016 or later.

▪ The new IFRS 15 „ Revenue from Contracts with Customers"
The new standard will replace the present standards IAS 11 and IAS 18 providing a new uniform model of assessing income. The new 5-grade model will condition the assessment of income upon gaining the control by the customer over goods or services. Moreover the standard introduces new standards of disclosing information and guidelines on some detailed issues. The new standard may change the moment and amounts of income as presented by the Group, yet the Capital Group has not completed the process of analyzing the impact of the Standard on financial statement. The standard applies to annual periods starting on 1 January 2017 or later.

▪ The amendment to IFRS 11 „Joint arrangements"
According to the amendment the entity acquiring interest in joint venture constituting an undertaking, in order to present assets and liabilities of the joint venture, will have to apply rules as set forth in IFRS 3, which means to valuate assets and liabilities in fair value and fix the value of the company. The amendment will not affect the financial statement of the Group. The amendment pertains to annual periods starting on 1 January 2016 or later.

▪ The amendment to IAS 16 „Property, Plant and Equipment" and to IAS 38 „Intangible assets"
According to the amendment the method of depreciation of fixed assets, based upon income from use of a fixed asset is excluded. In case of intangible fixed assets the use of such a method has been limited. In the Group's assessment the amendment will not affect its financial statement. The amendment pertains to annual periods starting from 1 January 2016 or later.

▪ The amendment to IAS 16 „Property, Plant and Equipment" and to IAS 41 „Agriculture"
The amendment provides for the bearer plants (such as, for example, grapevine or fruit trees) to be excluded from the range of IAS 41 and included in the range of MSR 16 as Company self-developed fixed assets. Thanks to that amendment it will not be necessary to perform fair evaluation of the plants on every balance sheet day, as it was required in IAS 41. The amendment does not pertain to the business line of the Group. The amendment pertains to annual periods starting on 1 January 2016 or later.

▪ The amendment to IAS 27 „Separate financial statements"
According to the adopted amendment, in a separate financial statement the interest in the daughter entity, joint venture or affiliate company can be evaluated also according to the method of ownership rights. Until now the IAS 27 provided for the evaluation exclusively according to the price of purchase or according to IFRS 9 / IAS 39. The Group have not taken the decision yet whether to apply the permitted option of evaluation according to property rights. The amendment pertains to annual periods starting on 1 January 2016 or later.

The Group intends to implement the above regulations in terms provided for implementation into standards or interpretations.

6. Continuation of activities

The consolidated financial statement for 2014, the Parent Company's financial statement and the reports of the subsidiaries which are the basis for preparation of the consolidated financial statement have been prepared assuming that in the foreseeable future the business activities will be continued as not considerably reduced.
According to all information available at the date of drawing the report it is fully justified to apply the principle of going-concern in the preparation of this report.

7. Date of approval of the financial report for publication

This financial statement was approved for publication by the Management Board of the parent company of LPP Capital Group on 10 April 2015.

8. Events after the balance sheet day

In accordance with IAS (MSR) 10, events after the balance sheet date include all events that occurred between the balance sheet date to the date of approval of the financial statement for publication.
The Board has the right to amend the financial statement after its publication.

In the period between the balance sheet date and the date of approval of the financial statement for publication the merger of two Slovak companies took place, as well as the application for liquidation of IP Service in the United Arab Emirates was issued.

9. Rules for the valuation of assets and liabilities as well as financial result measurement adopted in the preparation of the financial statement

Tangible fixed assets
The initial value of tangible fixed assets is set at a purchase cost plus all costs directly related to the purchase and adaptation of an asset to a usable condition. Costs incurred after the asset is put into use, such as maintenance and repair costs, are charged to the as incurred.

At the balance sheet date, tangible fixed assets are measured at a purchase cost less accumulated depreciation write-offs and impairment allowances.
The Capital Group makes depreciation write-offs with an application of a straight-line method. Fixed assets are depreciated over their, estimated in advance, expected period of use. This period is reviewed annually. The value of fixed assets is also the subject to periodic verification in terms of their possible reduction as a result of events or changes in the environment or within the same Group that may cause a decrease in the value of these assets below their current book value.
When determining depreciation rates for individual tangible fixed assets the Group assesses whether there are any components of this asset the price of which is significant compared to the purchase price of the whole fixed asset, and whether the useful life of these components differs from the useful life of a remaining part of the fixed asset.

For accounting purposes, based on the materiality principle, they accepted limit amounts analogous to tax limit amounts allowing for one-off depreciation of a fixed asset or non-asset reckoning for fixed assets. Accordingly, the Group adopted the principle that in every case where the initial value of a fixed asset or property right exceeds 3,500 PLN (or the amount indicated in the Act on Corporate Income Tax of the country concerned), there are made monthly depreciation write-offs, starting from the month following the month of acceptance for use.

In the case where the initial value of a fixed asset does not exceed 3,500 PLN, they adopted two accounting possibilities, guided by the principle of materiality:

- an entry in fixed assets or intangible assets register being a one-off redemption in the month of acceptance for use;

or

- a one-off entry in the cost of consumption of materials recorded in the month of purchase.

The accounting policy adopted by the Capital Group permits in justified cases the possibility for the Management Board to decide about making the straight-line depreciation of fixed assets of low value, when the following circumstances occur simultaneously:

- once there are purchased significant amounts of fixed assets which unit price does not exceed the set limit, but their total value is substantial;
- they are a set of uniform or (and) mutually cooperating fixed assets, and their purchase is related to the implementation of a large investment project that is to function at least for a period of normative depreciation specified in tax regulations for this particular group of fixed assets;
- they are fixed assets of high quality and reliability.

Fixed assets under construction - at the balance sheet date they are valued at the amount of total costs directly attributable to their acquisition or construction, less accumulated impairment losses.

Intangible assets

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

Intangible assets on the balance sheet date are stated at the purchase cost or construction cost less accumulated depreciation and write-downs for impairment. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives at the rates of 14-50%. Useful lives of individual intangible assets are subject to annual verification.

Intangible assets with indefinite useful lives are not amortized but are tested annually for impairment. Values of intangible assets with indefinite useful lives possessed by the Capital Group are: the House trademark. After the analysis it was established that there is no time limit in which to expect the asset as not generating cash inflows.

The Group companies carry out development projects related to the design and construction of a model clothing showroom.
Expenditures directly related to the development works are recognized as intangible assets only when the following criteria are met:

- completing the intangible asset is feasible from a technical point of view, so that it is fit for use or sale;
- the Group intends to complete the component and has the intention to use or sell it;
- the Group is able to use or sell the intangible asset;
- the intangible asset will bring economic benefits and the Group can demonstrate that advantage, among others, by the existence of a market or usefulness of this component for the needs of the Group;
- the Group has available technical, financial and other necessary means to complete the development works in order to sell or use the asset in question;
- expenses incurred in the course of development works can be reliably measured and attributed to the said intangible asset.

Expenditures incurred on development works performed within a given project are transferred to the next period if it can be concluded that they will be recovered in the future. Assessment of future benefits is based on the principles set out in IAS 36.

After initial recognition of the development expenditure, there applies the historical cost model, under which individual assets are recorded at purchase price or production cost less accumulated amortization and

accumulated impairment losses. Completed development works are depreciated with an application of a straight-line principle over the expected period of obtaining the benefits, namely 5 years.
Costs associated with maintaining software, incurred in subsequent periods, are recognized as expenses in the period when they were incurred.

External financial (Borrowing) costs
In accordance with IAS 23 the "Borrowing Costs" all costs that are attributable to qualifying assets are capitalized.
Qualifying assets are those that require a substantial period of time to get ready for their intended use. The Capital Group assumed that a substantial period of time is a period of 1 year. And so all external financial costs are capitalized provided that the adaptation (qualifying) of a given asset would take one year or longer. All other irrelevant costs related to assets that are customized for less than one year are recognized directly in a financial result.
Borrowing costs may consist primarily of:

- interests on a bank credit in a current account and interests on short-term and long-term loans and credits;
- foreign exchange gains and losses arising from loans and credits provided in foreign currencies.

Capitalization of external financing (borrowing) costs commences on the day of incurring expenditures on the qualifying asset, incurring the borrowing costs and undertaking actions necessary to prepare the asset for its intended use. The Capital Group ceases to activate (capitalize) the external financing costs upon the transfer of a qualifying asset for use.

Assets in leasing
The contracts of financial lease on the basis of which the transfer of all risks and benefits resulting from the ownership of the subject of lease upon the Group takes place are recognized in the assets and liabilities valid as of the day the leasing commences. The value of assets and liabilities is determined as of the day of the lease commencement according to the lower of the following values: fair value of the fixed asset which is subject to lease or current value of minimum lease payments.
Minimum lease payments are divided into financial costs and reduction in the balance of unpaid liability due to the leasing in a way facilitating reception of fixed rate interest in relation to the unpaid liability balance. Conditional lease payments are recognized in the costs of the period in which they were incurred.
Fixed assets used on the basis of financial lease contracts are depreciated according to the same rules as those used to own assets of Capital Group. In the situation where there is no sufficient certainty that the leaseholder will obtain the ownership title before the lease term termination, the given element of assets is amortized for a longer of two periods, i.e. the lease term or usage period.

In case the lease contract with regard to accounting, pursuant to regulations of IAS 17 was qualified as a financial lease contract, but with regard to taxation according to regulations in the corporate income tax regulation it was qualified as operational lease contract, the following rules are applicable in order to determine the appropriate amount of tax deductible revenue. Depreciation write-offs made by the user do not constitute the tax deductible revenue for tax purposes. The tax deductible revenues are only lease payments determined in the contract, recognized as the cost of the period they refer to.

Lease contracts according to which the lessor basically retains all risks and benefits resulting from the ownership of the subject of lease are qualified to the operational lease contracts.
Lease fees resulting from operational lease are recognized as costs by means of the straight-line method for the lease term unless another systematic method reflects the way the benefits of Capital Group over time more appropriately.

Company Value
The value of the company is recognized first in accordance with IFRS 3.

The value is calculated as a difference between two values:

- the sum of payment provided for control, shares not providing control and fair value of blocks of shares (stocks) owned by the unit taken over before the takeover date and

- fair value of net assets of the unit taken over which are possible to identify.

Excess of the sum calculated in a way indicated above exceeding the fair value of net assets of the transferred unit which are possible to identify is recognized in assets of consolidated financial situation report as the company value. The company value corresponds to the payment made by the transferee expecting future economic benefits due to the assets which cannot be individually identified or recognized separately.

As for the reporting day the company value is assessed according to the purchase prices reduced by joint write-offs made so far due to the value depreciation or decrease due to the sale of part of the shares which it was previously assigned to. Write-offs to the value assigned to a given centre (group of centers) gaining the financial means of the company value are not reversible.

The company value is tested on the value loss before the end of the reporting period in which the merger took place and subsequently in every following annual reporting period. In case there are prerequisites indicating the value loss, the test for the value loss is performed before the end of each reporting period in which such prerequisites occurred.

Until 1 January 2010 Capital Group applied the purchase method to account for mergers, in way defined in the previous version of IFRS 3.

Investments in subsidiaries
In the Group there are only shares in subsidiaries within the country.
The shares in controlled units are assessed according to the purchase prices reduced by write-offs due to the value loss.

The purchase price includes the sum due to the seller without deductible VAT as well as costs indirectly related to the purchase and customization of the assets element to the usable or marketable condition.
In case of the loss value, the write-off burdens the financial operation costs. In case the reason for the write-off is no longer valid, the primary investment value is restored by means of reference of returned amount into the financial operation income account. The value restoration may be full or partial.

Investments in other units
This item refers only to units which are not related to LPP SA.
It is assessed according to the purchase prices reduced by write-offs due to the value loss.

In case of the loss value, the write-off burdens the financial operation costs. In case the reason for the write-off is no longer valid, the primary investment value is restored by means of reference of returned amount into the financial operation income account. The value restoration may be full or partial.

Real estate investments
Investment real estate is maintained in ownership due to rent income as well as/or its value increase and it is assessed on the basis of the purchase price model.
Primary recognition of the investment real estate takes place according to the purchase price or the costs of its manufacture taking into account the transaction costs. For subsequent balance days the investment real estate is valuated for the price of its purchase or the cost of its manufacture.

The investment real estate is removed from the financial situation report at the moment it is sold or no longer used, if no future economic benefits are expected.
For the balance day the Group does not possess real estate investments.

Financial instruments
The financial instrument is every contract which results in the creation of the financial assets constituent of one of the parties and simultaneously a financial commitment or capital instrument of the other party.

The financial assets constituent or financial liability is indicated in the financial situation report when the Group becomes one party of this instrument. Standardized transaction of purchase and sale of financial assets and liabilities are recognized as of the day of the transaction.

For the day of the purchase the financial assets and liabilities Capital Group assesses in a fair value, which in most cases means according to the fair value of payment made in case of the assets constituent or received amount in case of liability.

For the balance day the financial assets and liabilities are assessed according to the rules presented below.

Financial assets
For the purpose of assessment after primary recognition, financial assets other than securing derivatives, Capital Group qualifies with the division into:

- loans and liabilities,
- financial assets assessed according to fair value by financial result,
- investments maintained until the maturity date and
- financial assets available for sale.

These categories define the rules of assessment for the balance day and recognition of profit and loss from the assessment in the financial result or in other total revenues. Profits or losses recognized in financial result are presented as financial income or costs, apart from write-off of current liabilities due to deliveries or services which are presented as remaining operational costs.

All financial assets, apart from those assessed in fair value by the financial result, are assessed for every balance day due to the prerequisites of their value loss.

The prerequisites of the value loss are analyzed for every category of financial assets separately, which was presented below.

The loans and liabilities are financial assets which not derivatives, with payments fixed or possible to be fixed, not quoted in an active market. The loans and liabilities are assessed according to depreciated costs with the use of effective annual rate method. The assessment of short-time receivables takes place in the value requiring payment due to insignificant discount effects.

Financial assets qualified to the loans category and liabilities are recognized in the financial situation report as:

- long-term assets in the item “Receivables and loans” as well as
- short-term assets in items “Loans,” “Receivables due to deliveries and services,” “Remaining receivables” as well as “Cash and pecuniary equivalents.”

Write-offs updating the value of receivables are performed taking into account the kind of receivables:

- disputed (which are subject to court proceedings and receivables from debtors put into liquidation) - the write-offs are performed in the full amount of the liability,
- remaining - the write-offs are made on the basis of individual analysis and assessment of the situation and the risk of loss.

Financial assets assessed according to the financial assets assessed according to fair value by financial result contain assets classified as marketable or indicated at the primary recognition to the assessment in the fair value by financial result due to fulfillment of criteria defined in IAS 39.
This category includes all derivatives which are indicated in the financial situation result in a separate item as well as investment fund share units.
Fund share units are indicated in the item “Other financial assets.”
Instruments in this category are assessed in the fair value and the results of the assessment are recognized in the financial result.

The investments maintained until the maturity date are financial assets which are not derivatives, with payments which are fixed or possible to be fixed and with fixed maturity date, with reference to which the Group intends and is able to maintain in ownership until the maturity date, with the exception of assets classified to loans and receivables.
In this category Capital Group recognizes bonds and other debt securities maintained until the maturity date indicated in the financial situation report in the item “Other securities.”

For the balance day the Group does not possess such investments.
Investments maintained until the maturity date are assessed according to depreciated costs with the use of effective annual rate method. If there is evidence indicating the possibility of the loss of value of investments maintained until the maturity date, the assets are assessed in the current value of estimated future cash flow.
The changes of balance value, with write-offs due to the value loss, are recognized in the financial result.
Assets available for sale are financial assets, which are not derivatives, which were indicated as available for sale or are not qualified to any of the categories of financial assets above.
In this category Capital Group recognizes traded bonds not maintained to the maturity date and shares of companies other than subsidiaries or related companies.
These assets are indicated in items "Other securities," "Investments in other units" in the financial situation report.
Shares and stocks of untraded companies are assessed in the purchase price decreased by write-offs due to the value loss, due to the lack of possibility of credible rating of their fair value. Write-offs are recognized in the financial result.
All other financial assets available for sale are assessed in their fair value.
Profits and losses of assessment are recognized as other total revenues and they accumulated in the capital from revaluation of financial assets available for sale, with the exception of write-offs due to the value loss which are recognized the financial result. The financial result recognizes also interest which would be recognized while assessment of these financial assets according to depreciated costs with the use of effective annual rate method.

Financial liabilities
Financial liabilities other than derivative hedging instruments are presented in the following entries of the financial report:

- bank credits and loans,
- other financial liabilities,
- liabilities on account of deliveries and services and all other liabilities

After initial presentation, financial liabilities are prices according to amortized cost with application of effective interest rate, except for financial liabilities allotted to turnover or allotted as priced at a fair value by the financial result (derivatives other than hedging instruments). Short-term liabilities on account of deliveries and services are priced at a value requiring payment due to insignificant discount effect.

Accrued expenses
The Capital Group indicates in the assets of the report of financial situation entry: "Accrued expenses" the costs paid in advance related to future reporting periods, most importantly including the rental fees.
In the "Accrued expenses" entry, included in the liabilities of the report, revenues from future periods are presented.

Inventory
Priced as of balance sheet date, according to the purchase price, not higher than their net selling price.
Inventory includes the following:

- commercial goods,
- raw materials (fabrics and sewing accessories) bought and made available to external contractors for processing of raw materials,
- IT materials associated with use, maintenance and development of computer net,
- advertising materials.

Commercial goods in the in-country warehouses are recorded in terms of volume and value and priced:

- in the case of imported goods – in prices of purchase, including the price of purchase, cost of transport (abroad and in the country, to the first place of unloading in the country) and customs duty; for calculations of value in foreign currency exchange rate is used that is stated in the customs document,
- in the case of goods purchased in the country – at the prices of purchase; costs associated with purchase of goods, due to their insignificant value directly charge the costs of activity at the moment of cost incurring.

Evaluation of commercial goods consumption belonging to the collections by RESERVED, Cropp, House, MOHITO and SiNSAY is carried out based on average weighted prices.

Commercial goods consumption of other collections is counted based on the FIFO method.

Commercial goods in customs bonded warehouses are priced at prices of purchase including the price of purchase and transportation costs (transport abroad and in the country to the first place of unloading in Poland).
Consumption of goods from the customs bonded warehouses (transfer to the in-country warehouses or selling directly to abroad) is priced based on detailed identification of goods in relation to particular goods in the customs bonded warehouses.

Commercial goods on their way are evaluated at the level of purchase prices, increased by costs of transport (known at the moment of financial report making) abroad and in the country. As regards the imported goods on their way, the currency rate that is applied is valid for the balance day in the Raiffeisen Bank Polska SA.

Inventory which lost its commercial or functional value go under a write-down, related to the load of other operational costs.

Cash and cash equivalents
Cash and cash equivalents include cash in hand and on bank accounts, deposits paid on demand and short-term investments of high liquidity (up to 3 months).

Shareholder's equity
Share capital is presented in the nominal value of the issued shares, in accordance with the Articles of Association of the holding company and the entry to the National Court Registry.

The shares of the holding company purchased and held by the holding company decrease the equity. Own shares are evaluated at the price of purchase.

Capital from the sales of shares above their nominal value results from the surplus of emission price over the nominal value of the shares, decreased by emission costs.

Other capitals include:
- supplementary capital,
- reserve capital,
- capital on account of settlement of connection transaction and
- capital part of bonds convertible to shares.

Supplementary capital consist of:
- amount of profit from previous years, qualified based on a decision of the General Meeting of Shareholders,
- amount of remunerations paid in shares awarded to particular persons, in accordance with motivational programme.

Reserve capital results from profit of previous years, confirmed by the General Meeting of Shareholders.
Capital from transactions of connection resulted from updating of evaluation of the company's value after taking over the Artman SA company.

Within retained earnings results from previous years are presented, as well as the financial result of the current year.

Payments in shares
The Group runs motivational programmes, within which key members of the management staff are granted options that can be exchanged for shares of the holding company.

The value of work remuneration for the managing staff is counted indirectly, by reference to the fair value of the granted capital instruments. The fair value of the options is counted for the day of granting. However, non-marketable circumstances of purchasing the entitlement (achieving the presupposed level of financial result) are not taken into account in the estimation of the fair value of options that can be exchanged with shares.

The cost of remunerations and increase of the own capital is included based on the best available estimations of the number of potions, which can be bought in a given period. When establishing the number of options, that can be bought, non-marketable conditions of entitlement purchase are set.
The Capital Group corrects the estimations if later information indicates that the number of granted options is different from earlier estimations. Corrections of estimations, pertaining to the number of granted options are included in the financial report of the current period – corrections of previous periods are not done.

After exchanging options for shares, the amount of capital from the evaluation of the granted options is transferred to the capital from sales of shares above their nominal value, after being decreased by the costs of emission of these shares.

Reserves
The reserved pertains to deferred income tax, employee benefits and other services.
Reserves for employee benefits include:

- reserve for unused holiday leaves,
- reserve for future retirement benefits,
- reserve for unpaid remunerations.

Reserve for future retirement benefits is estimated by the Capital Group on its own, with use of a method taking into account the worked period, sex and current remuneration. It was assumed that discounting related to the reserve for retirement benefits corresponds to the expected growth rate of remunerations.
There were no actuarial losses or profits within the reporting period.

Revenues
Revenues from sales are presented in the value of fair payment received or paid, and represent dues for the products, goods and services provided within normal business activity, after being decreased by discounts and value added tax. Revenues are presented at such value, at which it is probable that the Capital Group will achieve economic benefit associated with a given transaction and when the amount of revenues can be evaluated in a reliable way.
Income from sales of good is included if the significant risk and benefits resulting from the property right for the good were passed on the Buyer.
Due to customer's complaints and returns, income from sales of goods are made actual by consideration of the estimated cost of these returns. Based on historical data, percentage rate is estimated, showing the proportion between the returns of good in relation to the overall sales. For the purpose of calculations, it was assumed that returns of good purchased in a given quarter of year occur in the following quarter. The value of the rate, both in relation to the own cost and the income, is calculated once in three months.
State subsidies are included in the books in such a way, so that the income resulting from subsidies was presented proportionally to the costs associated with these subsidies.

The Capital Group has adopted the following methods of presentation of subsidies in financial reporting:

- subsidies related to assets – initially presented in a separate entry called: "Revenues of future periods" and then systematically presented as revenues of the period of use of the element of assets;
- subsidies related to revenues – as "Other operational/financial revenues" entry

Revenues from interest are included successively as they increase to the net balance value of a given element of financial assets.

Income tax
Obligatory burden of the financial result consists of the current and deferred income tax, which was not included in other total income or directly in the capital.
Current tax burden is calculated based on tax result of a given trading year. Tax profit / loss differs from the gross accounting profit/loss due to timely delay of revenues subject to taxation and costs being the costs of earning income for other periods and exclusion of entries of costs and income, which will never be subject to taxation. Tax burden is calculated based on tax rates binding in a given trading year.

The deferred tax is counted based on the balance method, as a tax subject to payment or return in the future, based on differences between balance values of assets and liabilities and the relevant tax values which are used to calculate the tax base.

The reserve for the deferred tax is made of all positive transition differences subject to taxation, while the deferred tax assets are identified up to the heights at which it is probable that future tax profits can be decreased by the negative transition differences.

Transactions expressed in foreign currencies
The Polish zloty (PLN) is the functional currency and the currency used for the presentations of the LPP Capital Group and it is also the functional currency of the holding company.

As of the day of economic transaction, the assets and liabilities expressed in a foreign currency are included in the accounting books in the functional currency, respectively, taking in the rate of:

- Purchase or selling of the currency applied by the bank used by the holding company – in the case of sales or purchases of currencies and payment of payments due or liabilities (pertains to operations carried out with use of PLN accounts)
- Purchase of currency applied by the bank used by the holding company – in the case of foreign currency accepted to a foreign currency bank account,
- Rate established based on the FIFO method – in the case of disbursement of foreign currency from the foreign currency bank account,
- Mean rate (established for a given currency by the National Bank of Poland), from the last working day preceding the day of foreign or own invoice issue – in cases other than import or export (transit) of goods
- Rate resulting from customs document, made out in relation to handing in goods in a customs bonded warehouse – in the case of accounting record of the good and commitment (made at the moment of handing in the goods) for handing in goods in a customs bonded warehouse
- Rate of sales, applied as to the balance day, by the bank which is used by the holding company – in the case of evaluation of goods on their way and liabilities related to import of goods, if on the balance day the goods have still not yet been left in the customs bonded warehouse.

At the balance sheet date are valued in foreign currencies:
- monetary items:
  - components of assets - buying currency at the exchange rate applicable on that date by the bank whose services are used by the parent company (USD - 3.5185, EUR - 4.2720, RON - 0.9501, RUB - 0.0600, CZK - 0.1524 , 100HUF - 1.3510, LTL - 1.2335, BGN - 2.1760, HRK – 0.5550),
  - liability components - at the selling rate applicable on that date by the bank whose services are used by the parent company (USD - 3.5260, EUR - 4.2780, RON - 0.9536, RUB - 0.0620, CZK - 0.1549. 100HUF - 1.3570, LTL - 1.2355, BGN - 2.1820, HRK - 0.5585).
- non-monetary items - at the historical rate of currency of the transaction.

Unconsolidated net profit per share
Net profit per share for each period is calculated by dividing net profit for the period by the weighted average number of shares of LPP S.A. in the period. The Capital Group at the balance sheet analyzes if in a given period there were factors resulting in dilution of the profit / loss per share. Information on earnings per share and diluted earnings per share are presented in Note 15.21.

Hyperinflation
IAS 29 Financial Reporting in Hyperinflationary Economies requires that entities which conduct business activity in a hyperinflationary period, should restate (recalculate) the components of equity by applying a general inflation index (general price index). The calculation results should be presented with a minus sign at the item of retained earnings in the financial situation statement. This adjustment is intended to reflect the impact of hyperinflation on the financial results for the reporting period. It is assumed that in Poland there was hyperinflation in the years 1989 - 1996. According to the Board, doubts may raise to recognize in the statement of financial position the mentioned hyperinflation adjustment as a not covered loss from previous years in a situation where it concerns events prior to 1996 and more, and the profits corresponding with it were divided prior to the date of that financial statement. In addition, it is not clear whether any hyperinflation adjustment (restatement) produces effects under provisions of the Commercial Companies Code, regarding e.g. the amount of dividends possible to be paid, the amount of advance payments to dividends or conditions

which require adoption of a resolution on further existence of the entity. In this situation, according to the Board the disclosure of this hyperinflation adjustment directly in the statement of financial position on 31 December 2013 could be confusing to users of the financial statement and, therefore, appropriate amounts, ratios, and conversion methods concerning the hyperinflation adjustment are shown in Note 15.12. to the financial statement.
The financial statements of LPP Capital Group are based on a historical cost approach.

Business Segments
The scope of financial information in business segment reporting in the Group is set out under the requirements of IFRS 8.
The Group has adopted as the primary reporting format - a geographical segments division, which is related to conducting business in different geographical areas.
They extracted two business segments:

- business within the European Union;
- business in other countries.

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

Assets (liabilities) of segment are operative (current) assets (liabilities) used by the segment in its operating activities, that can be directly attributed to the segment or on the basis of reasonable premises allocated to the segment.

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

10. Corrections of error and changes in accounting policies

During the reporting period, there were none of above situations.

11. Financial risk management

The Group is exposed to many risks associated with financial instruments. Financial assets and liabilities of the Group broken down into categories are presented in Note 15.7. Risks faced by the Capital Group are:

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

The main financial instruments of LPP Capital Group are primarily bank loans.
(Note 15.7). Their main purpose is to raise funds for the Capital Group business activities. The Group also has other financial instruments that arise in the course of delivering business activities. Above all, these include cash and deposits (Note 15.10), accounts receivable, other financial assets and liabilities under deliveries and services (Note 15.9, 15.7 and 15.16).
In accordance with IFRS 7 there was performed the analysis of the scope of risks arising from financial instruments to which the Capital Group is exposed.

a) credit risk
The maximum credit risk is represented by the carrying amount of trade receivables, loans and guarantees and sureties.

The carrying values of financial assets mentioned above are presented in the table below.

in thousand PLN

Items	2014	2013
Loans	337	15,516
Trade receivables	176,947	163,255
Cash and cash equivalents	183,529	149,356
Contingent liabilities arising from granted guarantees and sureties	279,324	168,553
Total	**640,137**	**496,680**

Concentration of credit risk related to accounts receivable from the deliveries and services is presented in the table below.

Recipient	Share of receivables % in total value of receivables
Recipients whose receivables do not exceed 5% of total receivables	
Total gross receivables due to deliveries and services	

Classification of gross trade receivables according to the length of the overdue on 31.12.2014 and 31.12.2013 is presented in the table below.

In thousand PLN	2014	2013
Without overdue	164,399	132,691
Overdue to one year	22,344	33,934
Overdue more than one year	2,565	2,413
Total	**189,308**	**169,038**

Receivables overdue more than one year and up to one year period were covered in part by the revaluation charges of receivables.
The Group has no hedging instruments used for aforementioned financial risks and does not apply hedge accounting.

b) liquidity risk
The Group's objective is to maintain a balance between continuity and flexibility of funding through the use of funding sources such as bank loan overdrafts or investment bank loans.
In comparison with the previous year, the Group's credit exposure has been significantly increased. The main reason for this situation is the construction of a new storage hall at the Distribution Center in Pruszcz Gdański equipped with the most modern logistics solutions, which are required due to the dynamic growth of the Group and its current development, including the purchase of real estate. The exact description of the financial position of the Group in terms of contracted loans is presented in Note 15.7.

On the balance sheet date, the Group's financial liabilities were within the following ranges of maturity.

Balance as at 31.12.2014	Short-term	Long-term
Credit accounts	78,110	204,461
Overdraft credits	300,236	
Total	**378,346**	**204,461**

Balance as at 31.12.2013	Short-term	Long-term
Credit accounts	77,610	184,285
Overdraft credits	95,981	
Total	**173,591**	**184,285**

As a part of the liquidity risk there should also be pointed out liabilities on goods and services.

Classification of gross trade payables according to the length of overdue on 31.12.2014 and 31.12.2013 is shown in the table below.

In thousand PLN	2014	2013
Without overdue	504,759	440,891
Overdue to one year	8,277	12,958
Overdue more than one year	-	33
Total	**513,036**	**453,882**

The Group continues its previous assumptions about the growth of the Group's scale of operations and increasing its importance for suppliers.

c) currency risk
The base currency of settlements for the majority of goods purchase transactions is USD. A small part of the settlements in this respect is conducted in EUR.
Most of the proceeds from the sale is achieved in PLN. The specificity of the Group's activities allows for partial transfer of the increase in USD exchange rate to end customers, in connection with the calculation of the sales price of the product concerned for a while before introducing it on the market.
In addition to currency risk related to the settlement currency used for the purchase of commercial goods, there is also risk due to the fact of settlement of rental rates for retail space in EUR.

Financial assets and liabilities of the Capital Group expressed in two major foreign currencies, converted to PLN with closing rate as on the balance sheet date are as follows:

In thousand PLN

Balance as on 31.12.2014	Values expressed in a currency		Converted value
	USD	EUR	
Cash	3,855	1,497	19,958
Trade receivables	6,277	241	23,118
Trade liabilities	100,614	4,802	375,308
Bank loans	205		723

Foreign currency risk

in thousand PLN

+/- 5%			
Balance items	Value	Impact on result	Impact on result
Financial assets			
Cash	19,958	-998	998
Trade receivables	23,118	-1,156	1,156
Impact on financial assets before tax		*-2,154*	*2,154*
Tax (19%)		409	-409
Impact on financial assets after tax		*-1 745*	*1 745*
Financial liabilities			
Trade liabilities	375,308	18,765	-18,765
Bank loans	723	36	-36
Impact on financial liabilities before tax		*18,801*	*-18,801*
Tax (19%)		-3,572	3,572
Impact on financial liabilities after tax		*15,229*	*-15,229*
Total		***13,484***	***-13,484***

On 31 December 2014 the Capital Group LPP net profit would have been about 13,484 thousand PLN higher if the zloty appreciated by 5% against the foreign currencies (primarily USD), and other factors did not change. It is the result of a greater effect of valuation of liabilities denominated in foreign currency on foreign receivables. The weakening of the zloty by 5% in relation to foreign currencies as on 31 December 2014 would have the same quantitative, but contrary to the mark, impact on the currencies present in the company.

d) interest rate risk

Interest rate risk is associated with the continued use by Capital Group of the financing with the interests debt based on a variable level of Wibor, Libor and Euribor indexes. Bank loans with variable interest rates are burdened with cash flow risk. The Management believes that interest rate changes will not have a significant effect on the results achieved by the Group.

The tables below present an analysis of the impact of changes in interest rates and changes in foreign currency exchange rates on a financial result and equity. The analysis covers the financial components of the statement of financial position on the balance sheet date.

Interest rate risk

in thousand PLN

+/- 75 pb SP			
Balance items	Value	Impact on result	Impact on result
Financial assets			
Cash	183,529	1,376	-1,376
Loans	337	2	-2
Impact on financial assets before tax		*1,378*	-1,378
Tax (19%)		-262	262
Impact on financial assets after tax		*1,116*	*-1,116*
Financial liabilities			
Bank loans	582,807	-4,371	4,371
Impact on financial liabilities before tax		*-4,371*	*4,371*
Tax (19%)		830	-830
Impact on financial liabilities after tax		-3,541	*3,541*
Total		***-2,425***	***2,425***

On 31 December 2014 the Group's net profit would have been about 2,425 thousand PLN lower if the interest rates in PLN, EUR and USD were higher by 75 basis points, assuming all other parameters were unchanged. This result stems from the higher state of credits as compared with cash and provided loans.

12. Capital management

The Group manages its capital to ensure the ability to continue the business of the Capital Group and to ensure the expected rate of return for shareholders and other stakeholders interested in the Capital Group financial condition.
The Group analyzes factors assessing the Capital Group condition, that are shown and described in detail in the Management Report of the Capital Group activities.

13. Major assessments and evaluations

Assessments that influence values indicated in a financial report concern:

- expected time of economic useful life of fixed assets;
- residual value of fixed assets and intangible values;
- percentage of return of goods sold in the reporting period made in the consecutive reporting period;
- impairment losses on assets;
- discount, estimated increase in salaries and actuarial assumptions used in calculating the reserve for retirement benefits;
- future financial results considered while defining assets for deferred income tax;
- assumptions accepted to deliver testing for impairment of trademark and goodwill;
- assumptions accepted to evaluate options related with incentive programs.

The methodology to determine estimates is applied consistently in relation to the last reporting period IFRS.

No changes were made to the following estimated amounts in relation to the previous period:

- discount, estimated increase in salaries and actuarial assumptions used in calculating the reserve for retirement benefits;
- future tax results taken into account when calculating assets for the deferred income tax.

The estimates changed (in accordance with the adopted methodology) in the scope of:

- the expected economic life of fixed assets - this applies to expenditure on foreign premises (setting a new depreciation period applies after the upgrade);
- sales adjustment ratio related to returns of goods made in the next reporting period;
- assumptions made in testing for impairment of trademark and goodwill;
- assumptions used in the valuation of options related to incentive programs.

Changes in impairment losses are presented in the following pieces of information in the notes to individual items of assets.

14. Principles of consolidation

The consolidated financial statement of the Capital Group was prepared on the basis of the financial statements of all material subsidiaries employing the same valuation methods and principles of financial reporting as the parent company.
The consolidated financial statements of the Capital Group included the relevant data, deriving from the report of the parent company and the financial statements of foreign subsidiaries, expressed in local currency of these countries, converted into Polish currency according to the following principles:

- individual assets and liabilities in the statement of financial position, with the exception of equity, are translated at the average exchange rate announced for a given currency by the NBP on the balance sheet date;
- individual items of the statement of financial position and other comprehensive incomes are translated at the exchange rate representing the average exchange rate on the last day of each month during the fiscal year for a given currency, as announced by the Polish National Bank;
- individual items in the statement of cash flows are translated at the exchange rate representing the average exchange rate on the last day of each month during the fiscal year for a given currency as announced by the Polish National Bank;
- equities are converted according to their status as on the date of acquisition of control by the parent company based on an average exchange rate announced for that day by the NBP (Polish National Bank).

Equities include the following separate items:
- share capital;
- other equities;
- own shares;
- gains (losses) from previous years;
- net financial result;
- foreign exchange differences, which include, in particular, exchange differences resulting from different methods of conversion into PLN of the net financial result and balance sheet; and
- minority interests (shares).

They applied the full method of consolidation.
Consolidation includes the following adjustments and eliminations:

- excluding shares held by the parent with equity of subsidiaries;
- excluding mutual receivables and liabilities;
- excluding incomes and costs of mutual purchase and sale operations in the Capital Group;
- excluding dividends paid;
- excluding profits and losses from transactions entered inside the Group, which are calculated an balance values of such assets as inventories and fixed assets;
- excluding from incomes and financial costs interests calculated from loans provided by the parent company to subsidiaries;
- correction of the Capital Group's financial result, concerning the deferred tax accrued on the balance sheet date due to exchange differences and interest on loans granted within the Capital Group.

The Management Board of LPP SA:

Marek Piechocki – President of the Board ....

Przemysław Lutkiewicz – Vice-President of the Board ….…………………………………………..

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

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

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

Gdańsk, 10 April 2015

ADDITIONAL INFORMATION

15. Additional information

15.1. Tangible fixed assets

Tangible fixed assets are depreciated on a straight-line basis using the following rates:
- buildings, premises, civil and water engineering structures 2.5 –90%,
- technical equipment and machines 2.5 - 60%,
- vehicles 10 - 33%.
- other tangible fixed assets 10 - 60%.

The adopted useful lives of using tangible assets are reviewed annually.

In the reporting period the Capital Group made write-downs for impairment of tangible fixed assets for the amount of 2,142 thousand PLN.

Compensations related to tangible fixed assets received by the Group in 2014 amounted to 540 thousand PLN (year 2013: 772 thousand PLN) and were mainly related to damage in transport.

The Group experienced a limited disposal of property in Pruszcz Gdański due to the investment credit at the balance sheet date. The detailed description is provided in note 15.7.

Compensations related to tangible fixed assets received by the Group in 31 December 2014 amounted to 54,280 thousand PLN (year 2013: 128,533 thousand PLN).
The Group had no fixed assets held for sale or discontinued operations at the balance sheet date.

The Group does not have any information on the fair value of used fixed assets and does not make any disclosures in this regard.

Depreciation of tangible fixed assets is presented in the multiple-step variant of the profit and loss account together with other types of costs, in the following positions:
- sales costs - year 2014: 170,939 thousand PLN (year 2013: 126,380 thousand PLN)
- general costs - year 2014: 16,851 thousand PLN (year 2013: 16,992 thousand PLN)

Changes in tangible fixed assets (by type groups) for the period from 01.01.2014 to 31.12.2014 in thousand PLN

	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machines	Vehicles	Other tangible fixed assets	Fixed assets in progress	Fixed assets, total
1) Gross value of tangible fixed assets at the beginning of the period	19,174	904,002	194,315	11,744	303,869	70,479	1,503,583
- exchange differences		-74,107	-8,926	-783	-38,866	-4,105	-126,787
- increase	11,989	236,385	47,328	2,017	99,305	394,240	791,264
- decrease		35,339	17,104	2,684	11,199	370,463	436,789
2) Gross value of tangible fixed assets at the beginning of the period	31,163	1,030,941	215,613	10,294	353,109	90,151	1,731,271
3) Accumulated depreciation at the beginning of the period	0	360,802	111,013	6,732	123,270	0	601,817
- depreciation		100,998	29,755	1,837	55,200		187,790
- exchange differences		-25,382	-4,326	-413	-9 233		-39,354
- decrease		24,027	15,769	2,274	20,324		62,394
4) Accumulated depreciation at the end of the period	0	412,391	120,673	5,882	148,913	0	687,859
5) Impairment losses at the beginning of the period	0	4,576	127	0	257	0	4,960
- increase		2,155					2,155
- decrease		2,346	106		88		2,540
6) Accumulated impairment losses at the end of the period	0	4,385	21	0	169		4,575
Total net value of tangible fixed assets at the end of the period	31,163	614,165	94,919	4,412	204,027	90,151	1 038 837

Changes in tangible fixed assets (by type groups) for the period from 01.01.2013 to 31.12.2013 in thousand PLN

	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machines	Vehicles	Other tangible fixed assets	Fixed assets in progress	Fixed assets, total
1) Gross value of tangible fixed assets at the beginning of the period	19,174	710,697	160,878	12,549	201,998	19,731	1,125,027
- exchange differences		-17,283	-2,308	-223	-7,298	-3,311	-30,423
- increase		244,589	48,061	1,247	116,878	496,479	907,254
- decrease		34,001	12,316	1,829	7,709	442,420	498,275
2) Gross value of tangible fixed assets at the beginning of the period	19,174	904,002	194,315	11,744	303,869	70,479	1,503,583
3) Accumulated depreciation at the beginning of the period		315,605	100,113	6,348	97,898	0	519,964
- depreciation		80,965	24,343	1,884	36,180		143,372
- exchange differences		-8,999	-1,683	-109	-4,363		- 15,154
- decrease		26,769	11,760	1,391	6,445		46,365
4) Accumulated depreciation at the end of the period		360,802	111,013	6,732	123,270	0	601,817
5) Impairment losses at the beginning of the period	0	5,964	311	0	286	0	6,561
- increase		186			0		186
- decrease		1,574	184		29		1,574
6) Accumulated impairment losses at the end of the period	0	4,576	127	0	257	0	4,960
Total net value of tangible fixed assets at the end of the period	19,174	538,624	83,175	5,012	180,342	70,479	896,806

Statements prepared in thousand PLN

Impairment losses - positions in the P&L statement - 2014	Amount
- increase - "Revaluation of non-financial assets"	2,142
- reversal - "Other operating income"	913

Impairment losses - positions in the P&L statement - 2013	Amount
- increase - "Revaluation of non-financial assets"	186
- reversal - "Other operating income"	1,186

15.2. Assets on lease

The Capital Group uses tangible fixed assets based on long-term leases agreements which, in accordance with IAS 17, are treated as operating leases. These agreements only concern means of transport.

Outstanding future minimum lease payments as of 31.12.2014 are:

Specification	Minimum fees
In the period of 1 year	1,539
In the period from 1 to 5 years	1,841
Over 5 years	0
Minimum lease payments total	3,380

In 2014 the Capital Group recognized in the consolidated financial statement the total income and other costs from operating leases in the amount of 1,369 thousand PLN.
This amount includes only minimum lease payments.
There were no contingent fee and sublease payments in the Group as on 31 December 2014.
The monthly lease payment is the basis for determining minimum lease payments.
Tenants have the right to terminate the lease with a 30-day notice period. Contracts do not contain restrictions such as, e.g. dividends, additional debt and further leasing.

15.3. Intangible assets

Intangible assets used by the Capital Group include trademark names, patents and licenses, computer software, development expenditures and other intangible assets.

The most significant intangible asset is the House trademark name which in the statement of the financial situation was reported in a separate item of fixed assets as a “trademark”. Its carrying amount as at 31.12.2014 amounted to 77,508 thousand PLN (year 2013: 77,508 thousand PLN). The useful life of the given element of intangible asset is undetermined.

In the current reporting period the Group conducted an annual impairment test of this element which did not show the necessity of extending its revaluation write-down.

The detailed analysis is as follows:

The recoverable amount of cash-generating units to which the value is assigned was determined on the basis of their value in use by using the royalty relief method.

The detailed assumptions for estimates are as follows:

The trademark House - valued by the royalty relief method based on the determination of charges which an external company would have to bear for the privilege of using the trademark. This fee is generally defined as a revenues' percentage:

- the value of sales generated by clothes offered under the trademark House is the basis for estimation - it amounted to PLN 660m in 2014 and was higher by 123.57% than the turnover generated for 12 months (November 2007 - October 2008), adopted in the initial balance sheet valuation,
- the license fee was adopted in the amount of 3% on turnover,
- the capitalisation rate adopted for the CAPM valuation method (the forecast period is here undefined because it uses a perpetuity model) was 8.51% and consisted of several elements:

- risk-free rate – 2.5% equal to profitability of 52-week treasury bills
- annual inflation rate – 1%
- risk premium – 7.50%

The above assumptions are based on the current performance profitability of 52-week treasury bills at the balance sheet date as well as the expected published inflation rates. The assumptions were included in the valuation made according to a model drawn up by an appraiser who determined the value of the trademark House. This value was initially included in the statement of financial position (they are therefore, consistent with external sources of information).

As a result of the preformed tests, the value of the trademark was determined to exceed the carrying value of these intangible assets and therefore it is not necessary to make any allowances for impairment.

The Group prepares a report containing the result and other comprehensive income in multiple-step format. In view of the above, the amortisation of intangible and legal assets is included in the following items:

- selling costs in the amount of 1,764 thousand PLN (year 2013: 1,372 thousand PLN),
- general administrative costs in the amount of 4,116 thousand PLN (year 2013: 3,444 thousand PLN).

There is no value of contractual obligations for the acquisition of intangible assets in the Group as at 31 December 2014.
The Group incurred expenditures for development works related to the designing and building of the model retail shop for trademarks RESERVED, House and SiNSAY in 2012. These expenditures were recorded as an increase in intangible assets. The carrying amount of expenditures on 31.12.2014 is 2,853 thousand PLN.

Changes in carrying amounts of intangible assets for the period from 01.01.2014 to 31.12.2014

in thousand PLN

	Development costs	Obtained 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 period	4,755	50,368	48,032	3,063	58,186
- exchange differences		-1,023	-1,023		
- increase		11,573	10,840	14,788	
- decrease		297	270	11,387	
b) Gross value of intangible assets at the end beginning of the period		60,621	57,579	6,463	
c) Accumulated depreciation (amortisation) at the beginning of the period	951	37,103	34,965	0	38,054
- exchange differences		-596	-596		-596
- scheduled depreciation	951	4,929	4,876		5,880
- decrease		250	23		
d) Accumulated depreciation (amortisation) at the end of the period	1,902	41,186	39,222		
Total net value of intangible assets at the end of the period	2,853	19,435	18,357	6,463	28,751

Changes in carrying amounts of intangible assets for the period from 01.01.2013 do 31.12.2013

in thousand PLN

	Development costs	Obtained 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 period	5,198	44,160	41,076	2,859	52,217
- exchange differences		-139	-139		-139
- increase		7,192	7,136	5,874	13,066
- decrease	443	845	41	5,670	6,958
b) Gross value of intangible assets at the end beginning of the period	4,755	50,368	48,032	3,063	58,186
c) Accumulated depreciation (amortisation) at the beginning of the period	443	34,175	31,363		34,618
- exchange differences		-116	-116		-116
- scheduled depreciation	951	3,865	3,759		4,816
- decrease	443	821	41		1,264
d) Accumulated depreciation (amortisation) at the end of the period	951	37,103	34,965		38,054
Total net value of intangible assets at the end of the period	3,804	13,265	13,067	3,063	20,132

The Group experienced a limited disposal of the trademark RESERVED, Cropp and House due to the investment credit protection at the balance sheet date. The detailed information on the above subject is provided in note 15.7.3.

15.4. Goodwill

The company's goodwill presented in the financial situation report was increased through the acquisition of shares of Koba AS with registered office in Slovakia in 2014.
On 1 April 2014 the parent company purchased 2,500 shares of the company Koba AS with registered office in Slovakia which was the franchise distributor of the trademarks RESERVED and Cropp on the Slovak market.
As a result of this transaction the parent company became the 100% owner of shares of Koba AS.
The remuneration paid to the former owners by the parent company amounted to 8,861 thousand PLN and included the purchase price of shares paid in cash.
The fair value of the position of assets and liabilities of the acquired company identified by the Group was completed in 2014 and is as follows:

Assets	in thousand PLN
Tangible fixed assets	4,235
Intangible assets	67
Deferred tax assets	482
Accruals	612
Inventory	10,879
Receivables and loans	4,230
Cash	5,036
Total assets	**25,541**
Liabilities	in thousand PLN
Provisions	563
Bank credits and loans	2
Trade receivables	26,874
Other liabilities	10,105
Accruals	1,073
Total liabilities	**38,617**
Fair value of net assets	**-13,076**
Payment for the acquiree:	**12,913**
Cash	8,861
Liabilities towards the company	3,974
Acquisition-related costs	78

The goodwill resulting from the acquisition of Koba SA amounted to 25,989 thousand PLN at the balance sheet date and the value of goodwill was increased by this figure as compared to the previous year.

The previous goodwill resulted from the merger of LPP SA and the company Artman in July 2009.
The merger was performed by the transfer of all acquiree's assets, i.e. Artman SA to the acquirer, i.e. LPP SA.
LPP SA was a 100% shareholder of Artman SA on the merger date of both companies.
The merger was carried out under common control.
The provisions of the amended IFRS 3 were not applied for the merger transaction.

LPP SA in accordance with IAS 38 identified an intangible asset in the form of the trademark and recorded it as a separate item in the statement of financial position at the valuing of all existing assets as at the date of acquisition of control over Artman SA.

The goodwill determined as at the merger date and arising from the acquisition of Artman SA amounted to 183,203 thousand PLN.
At the same time as a result of the described acquisition of control, the Group acquired the already existing goodwill of the Artman Capital Group arising from the acquisition of 100% shares of UAB House Plius in the amount of 406 thousand PLN.

The Condition of goodwill as at 31.12.2014 amounted to 209,598 thousand PLN.

An impairment test on goodwill of the company Artman was carried out for the carrying amount of 183,203 thousand PLN and for the company Koba of the carrying amount 25,989 thousand PLN in accordance with IAS 36 and the accounting policy as at 31.12.2014.

The recoverable amount of cash-generating units to which the value is assigned was determined on the basis of their value in use, using the Discounted Cash Flow model (DCF).

The detailed assumptions for estimates are as follows:

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

- the period of 15 years of estimated cash flows taken into account (2015-2029), without the residual value taken into account,
- annual forecasts of revenues and expenses in 2015 (according to the company's budget) and for the subsequent years are growing at a rate similar to the inflation rate,
- revenues and projected costs for shops acquired together with the company ARTMAN and still in operation (50 own shops and 32 franchise),
- annual sales of tested shops – approximately 4% higher in 2015 as compared to 2014 and increased sales of 4% in subsequent years,
- operating costs of tested shops – approximately 2.5% higher in 2015 as compared to 2014 and an increase of 2.5% in subsequent years,
- costs of the House sales department, House preparation of production department and marketing costs of the trademark House – growing from year to year by 2.0% and allocated to tested shops by the proportion of acquired shops (and still in operation) at the merger time to all House shops,
- discount rate during the forecast period is variable and calculated on the basis of WACC. The WACC rate is 10.08% in 2015 and remains at that level until 2029.

The parameters adopted above are consistent with past experiences (for the costs – sales assumptions) and consistent with the information originating from external sources for the remaining volumes.

Koba's Goodwill – estimated by the DCF method for the cash flows generated by retail shops of RESERVED and Cropp acquired from Koba in 2014 (through the acquisition of the Koba shares). The valuation was based on the following assumptions:

- the period of 15 years of estimated cash flows taken into account (2015-2029), without the residual value taken into account,
- annual forecasts of revenues and expenses in 2015 (according to the company's budget) and for the subsequent years are growing at a rate similar to the inflation rate,
- revenues and projected costs for shops acquired together with the company Koba and still in operation (32 own shops),
- annual sales of tested shops – approximately 2% higher in 2015 as compared to 2014 and increased sales of 2% in subsequent years,
- operating costs of tested shops – approximately 2% higher in 2015 as compared to 2014 and an increase of 2% in subsequent years,
- discount rate during the forecast period is variable and calculated on the basis of WACC. The WACC rate is 10.00% in 2015 and remains at that level until 2029.

As a result of these tests it was found that the amount of goodwill as at the balance sheet date exceeds the carrying value of these intangible assets and therefore, it is not necessary to make any allowances for impairment.

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

in thousand PLN

Gross value	31.12.2014	31.12.2013
Balance at the beginning of the period	183,203	183,203
Increase	25,989	0
Decrease	0	0
Balance at the end of the period	209,192	183,203
Write-downs	**31.12.2014**	**31.12.2013**
Balance at the beginning of the period	0	0
Balance at the end of the period	0	0
Net value	**31.12.2014**	**31.12.2013**
Balance at the beginning of the period	183,203	183,203
Balance at the end of the period	209,192	183,203

15.5. Investments in subsidiaries

The “Investments in subsidiaries” item of the Capital Group’s statement of financial position includes shares of only domestic companies which are not consolidated.
The value of the investments at the balance sheet date is 136 thousand PLN (year 2013:136 thousand PLN).

Balance sheet valuation of shares is made according to the purchase prices less impairment allowances. The analysis was performed at the balance sheet date and did not show the need for write-downs for impairment allowances of this group of assets held by the Capital Group.
In the opinion of the Management Board of the parent company, the financial data of subsidiaries not included in the consolidation is irrelevant for the consolidated financial statements. The total value of assets of the subsidiaries excluded from the consolidation in 2014 is 0.04% of the Group’s assets however, the total revenues from the sale of these companies is 0.22% of the Capital Group’s revenues.

15.6. Investments in other entities

This item includes shares and stocks of companies outside the LPP SA Capital Group.
The value presented in the statement of the financial situation arose due to the resolution adopted by the Government of Cyprus to rescue the country's financial situation.
There was a change of the cash flow owned by LPP SA on 23 March 2013 in bank accounts maintained by the Bank of Cyprus to the Class A shares of that bank as a result of this decision.
The Group has 2,497,194 shares of the Bank of Cyprus. The value of the shares recognized at the time the transaction was 10,366 thousand.

In accordance with the information on the introduction of shares of the Bank of Cyprus on the stock market, the value of 1 listed share at the balance sheet date is 0.217 EUR.

The Group has 2,497,194 shares of the Bank of Cyprus at a nominal price of 0.217 EUR and carrying value of 2,405 thousand PLN at the balance sheet date.
As a result of the decrease in the price of the shares the Group has the impairment loss of 8,383 thousand PLN.

15.7. Financial assets and liabilities

15.7.1. Categories of financial assets and liabilities

The value of financial assets presented in the consolidated statement of financial position refers to the following categories of financial instruments specified in IAS 39:
1. loans and receivables (L&R)
2. financial assets at fair value through profit or loss (AWG-W)
3. financial assets available for sale (ADS)

Balance as at 31.12.2014

in thousand PLN

Fixed assets	(L&R)	Not included in IAS 39
Receivables and loans	6,300	
Current assets	(L&R)	Not included in IAS 39
Trade receivables	176,947	
Other receivables		57,475
Loans	167	
Cash and cash equivalents	183,529	

Balance as at 31.12.2013

in thousand PLN

Fixed assets	(L&R)	Not included in IAS 39
Receivables and loans	12,928	
Current assets	(L&R)	Not included in IAS 39
Trade receivables	163,255	
Other receivables		113,927
Loans	12,485	
Cash and cash equivalents	149,356	

The value of financial liabilities presented in the consolidated statement of financial position relates only to one of the categories of financial instruments specified in IAS 39 as financial liabilities measured at amortized cost (ZZK).

Balance as at 31.12.2014

in thousand PLN

Long-term liabilities	ZZK	Not included in IAS 39
Bank credits and loans	204,461	
Other liabilities		
Short-term liabilities		
Trade receivables	513,036	
Other liabilities	7	143,514
Bank credits and loans	378,346	

Balance as at 31.12.2013

in thousand PLN

Long-term liabilities	ZZK	Not included in IAS 39
Bank credits and loans	184,285	
Other liabilities	58	69
Short-term liabilities	ZZK	Poza MSR 39
Trade receivables	453,882	
Other liabilities	84	131,268
Bank credits and loans	173,591	

15.7.2. Receivables and loans

The Capital Group distinguishes the category of receivables and loans (IFRS 7.6) for the purposes of presentation in the consolidated statement of financial position. In the long-term portion the receivables and loans are presented in the statement of financial position in one item. In the short-term portion the Group, in accordance with the requirements of IAS 1, separates trade and other receivables.
Items of the statement of financial position of the LPP Capital Group related to receivables and loans are presented in the table below.

in thousand PLN

	31.12.2014	31.12.2013
Fixed assets:		
Receivables	6,130	9,897
Loans	170	3,031
Long-term receivables and loans	**6,300**	**12,928**
Current assets		
Trade receivables and other receivables	234,422	277,182
Loans	167	12,485
Short-term receivables and loans	**234,589**	**289,667**
Receivables and loans, including:	**240,889**	**302,595**
Receivables (note 15.9)	240,552	287,079
Loans (note 15.7.2)	337	15,516

Loans granted are measured at amortized cost using the effective interest rate method. Due to the lack of an active market, it is assumed that the carrying value of the loans is the same as their fair value.

As at 31.12.2014 loans granted in PLN of the carrying amount of 277 thousand PLN (year 2013: 3,044 thousand PLN) bore interest at a fixed rate of 6%. The terms of repayment of loans in PLN cover the period of 2015-2018.

The Group also granted foreign currency loans in HUF and RUB. The carrying value of foreign currency loans amounted to 60 thousand PLN as of 31.12.2014. In accordance with the Hungarian provisions, employee loans are exempt from interest and are concluded for a period from 4 to 7 years.
The Russian loan bears interest at a fixed rate of 14% with the maturity in 2014.

At the end of the balance sheet period the loans are subject to evaluation of whether there was a loss of value.
The analysis performed at the balance sheet date showed the need for write-downs for impairment allowances of loans held by the LPP Capital Group.

Changes in carrying amounts of loans gross is shown as follows:

in thousand PLN

Gross value	31.12.2014	31.12.2013
Balance at the beginning of the reporting period	15,516	6,208
Amount of loans granted in the period	330	9,091
Charging of interest	1,226	1,529
Repayment of loans together with interest	3,137	1,312
Write-downs	12,550	
Exchange differences	- 1,048	
Balance at the end of the reporting period	337	15,516

Disclosures on cash and cash equivalents are presented in Note 15.10.

15.7.3. Bank credits and loans and other debt instruments

The Capital Group does not classify any credits or debt instruments as financial liabilities designated to be measured at fair value though profit or loss. All credits and other debt instruments are measured at amortised cost, using the effective interest rate method.

As at 31 December 2014 the debt arising from bank loans was as follows:

Bank	Use of credits on 31 December 2014		Cost of credit	Repayment date
	in thousand PLN	currency in thousands		
PKO BP SA	168,049		wibor 1 m + bank margin	31.12.2022
PKO BP SA	114,522		wibor 1 m + bank margin	31.12.2017
PKO BP SA	151,621		wibor 1 m + bank margin	23.06.2017
Citibank Bank Handlowy	123,142		wibor 1 m + bank margin	12.01.2016
BNP Paribas Bank Polska SA	360		wibor 1 m + bank margin	16.12.2015
Raiffeisen Bank Polska SA	24,755	205 USD	libor 1 m + bank margin	01.10.2015
Unicredit Bulbank AD	358	83 EUR	euribor 1 m + bank margin	31.03.2015
Total	582,807			

The bank loans in the amount of 582,807 thousand PLN include the following:

- long-term loans in the amount of 204,461 thousand PLN,
- short-term loans in the amount of 378,346 thousand PLN (including 78,110 thousand PLN as a part of long-term investment loans matured in the period of 12 months after the balance sheet date).

As at 31 December 2014 the debt arising from bank loans was as follows:

Bank	Use of credits on 31 December 2013		Cost of credit	Repayment date
	in thousand PLN	currency in thousands		
PKO BP S.A.	80,830		wibor 1 m + bank margin	31.12.2022
PKO BP S.A.	181,065		wibor 1 m + bank margin	31.12.2017
PKO BP S.A.	35,842		wibor 1 m + bank margin	23.06.2014
Citibank Bank Handlowy	58,712		wibor 1 m + bank margin	12.01.2016
Pekao S.A.	741	239 USD	libor 1m+ bank margin	12.01.2015
BNP Paribas Bank Polska SA	333		wibor 1 m + bank margin	16.12.2014
Raiffeisen Bank Polska SA	7		wibor 1 m + bank margin	01.10.2014
Unicredit Bulbank AD	346	85 EUR	euribor 1 m + bank margin	28.02.2015
Total	357,876			

The bank loans as at 31.12.2013 in the amount of 357,876 thousand PLN include the following:

- long-term loans in the amount of 184,285 thousand PLN,
- short-term loans in the amount of 173,591 thousand PLN (including 77,610 thousand PLN as a part of long-term investment loans matured in the period of 12 months after the balance sheet date).

Detailed data on bank loan agreements and multi-purpose credit lines are as follows:

Bank	Type of credit /line	Amount and currency of credits granted:		Security
		Amount in thousand	Currency	
PKO BP SA	Multi-purpose credit line - multi-currency	230,000	PLN	2 blank promissory notes
PKO BP SA	Investment credit	200,578	PLN	ordinary and capped mortgage, transfer of trade receivables insurance policy, blank promissory note
PKO BP SA	Investment credit	227,000	PLN	ordinary and capped mortgage, transfer of trade receivables insurance policy, blank promissory note, registered pledge on the trademarks RESERVED, Cropp, House
Pekao SA	Multi-purpose credit line - multi-currency	280,000	PLN	blank promissory note power of attorney to accounts
BNP Paribas Bank Polska SA	Multi-purpose credit line - multi-currency	280,000	PLN	blank promissory note
Raiffeisen Bank Polska SA	Multi-purpose credit line - multi-currency	230,000	PLN	blank promissory note, power of attorney to accounts
Citibank Bank Handlowy	Multi-purpose credit line - multi-currency	170,000	PLN	blank promissory note
Citibank Bank Handlowy	Revolving credit line for letters of credit	25,500	USD	blank promissory note
Unicredit Bulbank AD	Line of credit	330	EUR	Pekao SA guarantee
Unicredit Tiriac Bank SA	Line of credit	6,500	RON	Pekao SA guarantee
Unicredit Prague	Line of credit	70,000	CZK	guarantee by the parent company

There was no failure to comply with the payment of the Group companies or breach of the terms of agreements in the case of credits during the reporting period.

15.7.4. Other information concerning financial instruments

The fair values and carrying amounts on the balance sheet date and comparable data of individual financial instruments are shown in the table below.

Year 2014

in thousand PLN

Assets*	Fair value	Balance-sheet value
Trade receivables and other receivables	240,552	240,552
Cash and cash equivalents	183,529	183,529
Total	424,081	424,081
Liabilities	Fair value	Balance-sheet value
Bank credits and loans	582,807	582,807
Trade receivables and other liabilities	656,550	656,550
Other financial liabilities	7	7
Total	1,239,364	1,239,364

Year 2013

in thousand PLN

Assets *	Fair value	Balance-sheet value
Trade receivables and other	287,079	287,079
Cash and cash equivalents	149,355	149,355
Total	436,434	436,434
Liabilities	Fair value	Balance-sheet value
Bank credits and loans	357,876	357,876
Trade receivables and other	585,219	585,219
Other financial liabilities	142	142
Total	943,237	943,237

***** because reliable fair value valuation cannot be obtained, the table does not include unquoted equity instruments measured at the purchase price and the value of loans valued by the method of amortized cost for which there is no active market.

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value of financial instruments for which there is an active market is determined on the basis of quoted market prices (bid price and asking price). If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Inputs to the valuation technique make maximum use of active market variables (foreign exchange rates, interest rates).

According to the Group the carrying amounts of financial assets and financial liabilities are estimated to approximate the fair value.

15.8. Inventory

The most important item in the inventory of the Capital Group is constituted by trading goods. The structure of inventory for the balance day was presented in the table below.

in thousand PLN

Inventory	31.12.2014	31.12.2013
- materials	8,777	7,415
- goods	970,568	797,623
Total	**979,345**	**805,038**

The value of inventory in the financial situation report takes into account the adjustment by the amount of the write-off. The changes in the value of the write-off in the report period and the comparative period are presented in the table below.

For the day of 31 December 2014, the value of inventory recognized as cost in the report period amounted to 2,049,775 thousand PLN.

in thousand PLN

Impairment losses on inventories	31.12.2014	31.12.2013
The situation at the beginning of the period	10,885	5,017
Write-offs not recognized as a cost in the period	3,147*	
Write-offs recognized as a cost in the period	6,413	8,265
Reversed write-offs in the period	1,195	1,912
Exchange rate differences	-830	-485
The situation at the end of the period	18,420	10,885

* refers to write-offs created in the company Koba before it was purchased by the parent company

15.9. Receivables

Receivables due to deliveries and services and remaining receivables, recognized by Capital Group within the category of receivables and loans (note 15.7) are as follows:

Long-term receivables in the balance value of 6,130 thousand PLN (2013: 9,897 thousand PLN) are solely security deposits paid for various reasons.
Detailed information concerning the structure of short-term receivables of Capital Group was presented in the table below.

in thousand PLN

Short-term receivables	31.12.2014	31.12.2013
Trade receivables	189,308	169,038
Revaluation write-offs of receivables due to deliveries and services	12,361	5,783
Write-offs due to deliveries and services net	**176,947**	**163,255**
Other receivables		
Revaluation write-offs of other receivables		
Other receivables net according to MSR 39	**0**	**0**
Other receivables other than MSR 39	**57,475**	**113,927**
Short-term receivables total	**234,422**	**277,182**

The changes in the value of the write-offs in the report period and the comparative period are presented in the table below.

in thousand PLN

Revaluation write-off of the receivables	31.12.2014	31.12.2013
The situation at the beginning of the report period	6,037	6,131
Write-offs created in the period	11,474	1,598
Reversed write-offs in the period	4,499	1,378
Exchange rate differences	-225	-314
The situation at the end of the report period	12,787	6,037

15.10. Cash

in thousand PLN

Cash	31.12.2014	31.12.2013
Cash in hand and at bank	175,636	105,357
Other cash	7,893	43,999
Total	**183,529**	**149,356**

“Other cash” includes short-term deposits. They are opened for various periods, from one day up to one month, depending on the current needs and they are subject to interest rates agreed for them.

The currency structure of cash was presented in the table.

in thousand PLN

Cash - currency structure	31.12.2014	31.12.2013
In Polish PLN	56,291	48,752
In foreign currencies (acc. to currency)	127,238	100,604
- USD	13,564	9,907
- RMB	293	90
- EUR	36,335	30,771
- HRK	3,092	2,050
- CZK	13,385	14,434
- UAH	17,707	6,718
- LTL	4,507	5,001
- HUF	2,328	4,169
- RUB	20,118	21,365
- BGN	7,944	3,663
- RON	7,965	2,436
Total (thousand PLN)	**183,529**	**149,356**

As for the day of 31 December 2014, the Group had at its disposal undrawn facility funds in the amount of 362,785 thousand PLN.
In the period between 01 January 2014 and 31 December 2014 Capital Group in the form of non-cash settlement (as set-off of mutual receivables and commitments) settled the transactions with their contractors for the total sum of 56,653 thousand PLN.

For the balance day there has been a limitation is cash use for the amount of 1,016 thousand PLN.
The amount of 982 thousand PLN results from deposits opened in Cyprus for the period of 6, 9 and 12 months with an option of one prolongation for the original period.
The remaining amount of 34 thousand PLN results from the fact that this money is on the account of Employee Benefit Fund. These resources may only be withdrawn as a remuneration for a defined kind of expenditure related to employee employment.

15.11. Discontinued operations

In 2014 in the Group there were no cases of discontinued operations.

15.12. Equity

Share capital

The basic capital of the Group is share capital of the parent company.
For the day of 31 December 2014 it amounted to 3,662,246 PLN. This capital is divided into 1,831,123 shares with their nominal value 2 PLN each.

Statements prepared in thousand PLN

The total number of shares divided into particular issues is presented by the table below.

Series/ issue	Share type	Preference type	Right to subscribe limitation type	Amount of shares	Series value
A	ordinary bearer shares	regular	n/a	100	200
B	inscribed	preferential	n/a	350,000	700,000
C	ordinary bearer shares	regular	n/a	400,000	800,000
D	ordinary bearer shares	regular	n/a	350,000	700,000
E	ordinary bearer shares	regular	n/a	56,700	113,400
F	ordinary bearer shares	regular	n/a	56,700	113,400
G	ordinary bearer shares	regular	n/a	300,000	600,000
H	ordinary bearer shares	regular	n/a	190,000	380,000
I	ordinary bearer shares	regular	n/a	6,777	13,554
J	ordinary bearer shares	regular	n/a	40,000	80,000
K	ordinary bearer shares	regular	n/a	80,846	161,692
Amount of shares, total				1,831,123	

All issued shares are fully paid.

In the report period the company LPP SA paid dividends to the shareholders. For the dividends, part of the profit worked out in 2013 in the amount of 169,616,772 PLN was used, which corresponded to the amount of 93,60 PLN per one entitled share.
For regular shares, the amount of 136,856,772 PLN was used, while for the preferential shares the amount of 32,760,000 PLN was used respectively.
Inscribed shares belonging to Marek Piechocki and Jerzy Lubianiec in the amount of 350,000 items are preferential shares with a right to vote on the Annual General Meeting of shareholders. Each inscribed share entitles to 5 votes.

The structure of share capital ownership of LPP SA as of 31 December 2014.

Shareholder	Number of shares (in pcs.)	Number of votes at the AGM	Share of total votes at the AGM	Percentage of share capital	Nominal value of shares
Marek Piechocki	175,498	875,498	27.1%	9.6 %	350,996
Jerzy Lubianiec	175,000	875,000	27.1%	9.6%	350,000
Monistor Limited (Cyprus**)**	200,728	200,728	6.2%	11.0%	401,456
Other shareholders	1,279,897	1,279,897	39.6%	69.8%	2,559,794
Total	1,831,123	3,231,123	100.0%	100.0%	3,662,246

The structure of share capital ownership of LPP SA underwent a major change in the report period.
As of 31 December 2014, the company Grangeford Limited is no longer a shareholder of the company LPP SA due to the entity liquidation. All shares of LPP SA owner so far by Grangeford Limited were transferred

upon shareholders of Grangeford Limited in a proportion adequate to the number of owned shares. As a result of this operation every transferee owns the amount of shares LPP SA which gives them not more than 5% votes in the total amount of votes on AGM of LPP SA.

The capital from sale of shares above their nominal value
Separated value of the share capital resulting from excess achieved during the sale of shares above their nominal value in the balance value of 235,074 thousand PLN.

Other capital
The value of other capital results from the sum of supplementary capital, reserve capital, capital from merger transaction settlement and the capital element of bonds interchangeable with the shares.

The value of particular capital is presented in the table below.

in thousand PLN

Capital type	31 December 2014	31 December 2013
Supplementary capital	1,074,663	841,618
Reserve capital	6,662	7,859
Capital from merger transaction settlement	-1,410	-1,410
Capital element of bonds interchangeable with the shares	12,290	12,290
Total	**1,092,205**	**860,357**

Supplementary capital, presented in this part of equity for the day of 31 December 2014 was created to a large degree from the net profit of past years and as an effect of assessment of remuneration paid by shares. Part of supplementary capital, created under the provisions of art. 396 of Commercial Companies Code can be used in the future only to cover possible loss.

The structure of supplementary capital is as follows:

in thousand PLN

Supplementary capital type	31 December 2014	31 December 2013
Created under the law from write-off of financial result	1,335	1,323
Created pursuant to the statute from write-off of financial result	1,041999	818,303
Created from the amount of remuneration paid by shares	31,329	21,992
Total	**1,074,663**	**841,618**

<u>Company's equity during hyperinflation</u>

Recalculation of the equity in the period of hyperinflation was made taking into account the following data:
1. 18 December 1989 - company established and injection of the capital (after denomination) 200 PLN
2. 04 May 1995 - company purchased by Marek Piechocki and Jerzy Lubianiec
3. 12 April 1995 - registration of equity increase to the amount of 700 thousand PLN
4. 24 October 1995 - resolution passed to increase equity to the amount of 1,500 thousand PLN
5. 04 January 1996 - resolution passed to increase equity to the amount of 2,200 thousand PLN

in thousand PLN

Years	Capital OB	Increases	Inflation	Days	Inflation ratio	Capital after recalculation
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
1995-01-01	5.9		27.8%	365	1.278	7.6
1995-04-12		700	27.8%	263	1.200	840
1995-10-24		800	27.8%	68	1.052	841
TOTAL 1995						1,689
1996-01-01	1,916[1)]		19.9%	365	1.199	2,298
1996-01-04		1,400[2)]	19.9%	362	1.197	1,676
Total 1996						3,974

1) capital at the end of 1995 + retained financial result for the year 1995
2) capital increase + aggio

Capital for 31 December 1996 (without profit for the financial year) amount to 3,127 thousand PLN. The difference from reassessment of capital amounts to 847 thousand PLN

15.13. Provisions

For the balance day, the Group possesses in liabilities reports from financial situation of provisions for the joint value of 21,797 thousand PLN.

Provisions for retirement benefits
This provision is created mainly by the parent company. In other companies belonging to the Group, apart from Slovakia and Bulgaria, there is no obligation to pay retirement benefits. The companies assess the provisions independently, applying the actuarial method.

Provision for unused due holiday leaves
The group creates also provision for unused due holiday leaves, i.e. for the future payment of liabilities due to employees resulting from their current employment.

Provision for unpaid remuneration
This provision is made for future payments resulting from current employment of employees.

in thousand PLN

	Provision for pensions and similar benefits	Provisions for wages	Provision for liabilities	Provision for unused holiday leaves
Balance as at 1 January 2014	1,298	18,258	0	8,003
- creation of provisions	1,596	3,340	176	12,342
- release of provisions	1,298	13,915	0	8,003
Balance as at 31 December 2014	1,596	7,683	176	12,342

Statements prepared in thousand PLN

15.14. Conditional liabilities

In 2014 the companies in Capital Group LPP SA used bank guarantees to secure rent payments due to the lease of area for company brand stores.
As of 31 December 2014 the joint value of bank guarantees issued upon the order and under responsibility of LPP SA amounted to 194,622 thousand PLN, including:

a) the value of guarantees issued to secure contracts concluded by LPP SA amounted to 68,844 thousand PLN,
b) the value of guarantees issued to secure contracts concluded by related parties subject to consolidation amounted to 122,867 thousand PLN,
c) the value of guarantees issued to secure contracts concluded by related parties not subject to consolidation amounted to 1,633 thousand PLN,
d) the value of guarantees issued to secure contracts of office space lease concluded by LPP SA amounted to 1,237 thousand PLN,

In 2014 the Company also received guarantees which secure contractor's payment. The value of received guarantees amounts to 3,998 thousand PLN.

On 31 December 2014 the value of securities granted by the parent company amounted to 84,702 thousand PLN and increased in relation to the situation on 31 December 2013 by 45,523 thousand PLN.

According to the Board, there is a slight probability of cash outflow indicated in off-balance / conditional liabilities. The subject matter of these liabilities is in most cases to guarantee the payment of lease rents of entities from Capital Group LPP SA.

15.15. Future liabilities resulting from concluded lease agreements.

Capital Group is a party of lease agreements, pursuant to which it uses the areas functioning to run the network of company brand stores RESERVED, Cropp, House, MOHITO and SiNSAY.

The value of rent fees burdening the costs of the period amounts to 706,787 thousand PLN. This sum includes both minimum rents and conditional, which are subject to the value of turnover. The amount of conditional rents has not been separated due to their insignificant value.

Joint future minimum payments resulting from the lease agreements, assessed according to the situation as of 31 December 2014 are as follows:

- due amounts in the period of 12 months starting on the balance day	638,462 thousand PLN
- due amounts in the period from 12 months to 5 years from the balance day	1,946,055 thousand PLN
- due amounts in the period above 5 years from the balance day	971,193 thousand PLN

The provisions of term lease agreement incurring abovementioned fees are typical of this kind of agreements. Apart from minimum amount of rent they usually provide conditional rents related to exceeding a certain level of income in a given location, expressed by means of a defined per cent from the value of this income. In the report period their value was negligibly small, as it constituted only 2.45 % of the total value of all lease rents. These agreements contain also indexation clauses which link the rent value with the statistical price increase index. Some of them include the option of prolonging the lease agreement for another period, subject to the decision of the tenant.

Since the agreements refer to premises located mainly in large-area stores, it is impossible to purchase the subject of the lease.

15.16. Liabilities due to deliveries and services and other

in thousand PLN

Short-term liabilities	31.12.2014	31.12.2013
Trade receivables	513,036	453,882
Other financial liabilities	7	84
Financial liabilities according to MSR 39	**513,043**	**453,966**
Liabilities due to taxes and other provisions	133,712	121,535
Other non-pecuniary liabilities	9,802	9,733
Non-pecuniary liabilities	**143,514**	**131,268**
Short-term liabilities total	**656,557**	**585,234**

15.17. Accruals

in thousand PLN

Accruals – assets	31.12.2014	31.12.2013
Long-term		
Software supervision	584	448
Commissions for agents	8,722	
Other long-term settlements	44	46
Long-term accrual total	**9,350**	**494**
Short-term		
Rents	15,049	10,869
Insurances	1,973	2,042
Software supervision	613	844
License fees, subscriptions, internet domains	829	
Commissions from agents	345	
Other	1,038	1,845
Short-term accrual total	**19,847**	**15,600**

In the balance period there is a new position within accrual referring to commission paid to agents taking part in the transaction of concluding lease agreements. The commission is settled in accordance with the lease agreement term.

in thousand PLN

Accruals – liabilities	31.12.2014	31.12.2013
Return of goods from domestic sales	4,628	4,793
Sales for gift cards and coupons	11,901	8,821
Marketing services sales	1,536	2,021
Supplementary payments to lease agreements	9,174	
Other	2,098	3,289
Accrued liabilities total	**29,337**	**18,924**

In the balance period a new position appeared within accrued liabilities referring to supplementary payments given by shopping centers to lease agreements as a form of subsidy to new premises.
This amount is settled in time as a profit of future periods simultaneously with depreciation of these expenditures.

15.18. Revenues

in thousand PLN

Revenues	01.01.2014-31.12.2014	01.01.2013-31.12.2013
1) Net revenues from sales of services	26,560	32,177
2) Net revenues from sales of goods and materials	4,742,728	4,084,125
Total revenues	**4,769,288**	**4,116,302**

Group's revenues from sales of services refer solely to the parent company. Offered services are mainly:
- sales of know-how regarding management of company brand stores by domestic contractors,
- rental of own means of transport.

in thousand PLN

Other operating revenues	01.01.2014-31.12.2014	01.01.2013-31.12.2013
1. Profit from non-financial fixed assets disposal	22,704	13,860
2. Subsidies		42
3. Other operating income, including:	23,185	19,894
- reversal of write-offs revaluating fixed assets	913	1,186
- reversal of write-offs revaluating receivables	2,667	715
- reversal of write-offs revaluating inventory	1,195	1,912
Total operating revenues	**45,889**	**33,797**

in thousand PLN

Financial revenues	01.01.2014-31.12.2014	01.01.2013-31.12.2013
1. Interest, including	2,679	2,090
- from deposits	962	461
- from loans and receivables	1,702	1,604
- from bonds	15	25
2. Dividends	204	190
3. Profit from investment disposal	0	38
4. Other	119	30
- including balance of exchange rates difference	0	0
Total financial revenues	**3,002**	**2,348**

15.19. Costs

in thousand PLN

Costs according to their type	01.01.2014-31.12.2014	01.01.2013-31.12.2013
1. Depreciation	193,670	148,188
2. Consumption of materials and energy	128,595	112,121
3. External services	1,365,689	1,127,332
4. Taxes and payments	13,690	11,298
5. Remuneration	260,909	227,617
6. Social insurance and other benefits, including	65,582	56,697
- retirement premium	6,665	6,176
7. Other costs by type	118,828	75,343
Costs by type total	**2,146,963**	**1,758,596**

Change of product status	1,386	609
Value of sales costs and general management presented in the report from the result and other income	2,148,349	1,759,205

in thousand PLN

Other operating revenues	01.01.2014-31.12.2014	01.01.2013-31.12.2013
1. Non-financial assets revaluation	19,957	10,498
- of fixed assets	2,142	199
- inventories	6,413	8,886
- receivables	11,402	1,413
2. Other	60,981	57,618
Total operating expenses	**80,938**	**68,116**

in thousand PLN

Financial revenues	01.01.2014-31.12.2014	01.01.2013-31.12.2013
1. Interest, including:	15,934	12,390
- regarding bank loans	15,934	12,390
2. Investment revaluation	20,933	0
- loans and shares	20,933	0
3. Other, including:	115,343	81,714
- commissions from bank loans and guarantees	3,515	3,040
- balance of exchange rates difference	111,828	78,674
Total financial expenses	**152,210**	**94,104**

15.20. Income tax

Main components of tax burden of the Group for 2014 and for the comparative period were presented in the table below.

in thousand PLN

Report from the result and total income	year 2014	year 2013
Current income tax	94,805	97,355
Deferred income tax	-116,770	- 6,343
Total Income tax	**-21,965**	**91,012**

Presented in the table below is reconciliation of calculation of income tax indicated in the consolidated report from the result and total income for the year 2014 and 2013.

in thousand PLN

Income tax	year 2014	year 2013
Profit/loss gross of Capital Group before consolidation adjustments	516,523	628,768
Adjustment of costs and revenues permanently non-deductible	-402,395	-131,643
Profit/loss gross of Capital Group taking into account the adjustment	114,128	497,125
Income tax according to the medium rate 19.60%, 18,73%	22,372	93,116
Tax consolidation adjustments	-44,337	722
Tax reliefs	59	-2,826
Income tax	**-21,965**	**91,012**

Income tax is calculated according to the following rates:

- LPP SA – 19 %,
- Re Trading OOO (Russia) – 20%,
- LPP Lithuania UAB (Lithuania) – 15%,
- LPP Latvia (Latvia) – 15%,
- LPP Ukraina – 18%
- LPP Hungary Kft (Hungry) – 10%
- LPP Estonia OU – 21%
- LPP Czech Republic (Czech Republic)– 19%
- LPP Bulgaria EOOD – 10%
- Artman Słowacja – 22%
- LPP Romania Fashion (Romania) – 16%
- Gothals Ltd (Cyprus) – 12.5%

The value of assets and reserves for deferred tax recognized in financial situation report results from the titles and values presented in the table below.

in thousand PLN

Deferred tax assets:	31.12.2014	31.12.2013
Depreciation of fixed assets	11,560	9,640
Depreciation of trademarks	106,915	
Revaluation of trade receivables	742	452
Margin on goods sold outside the Group	10,389	11,354
Inventory revaluation	1,432	442
Tax loss	9,298	3,709
Salaries and surcharges	1,460	3,520
Other	1,735	812
Total	**143,531**	**29,929**

in thousand PLN

Reserve due to deferred tax:	31.12.2014	31.12.2013
Depreciation of fixed assets	4,394	4,708
Interest not received on loan granted	5	72
Compensation not received	133	152
Accrued interest from bank loans	51	204
Other	74	65
Total	**4,657**	**5,201**

The prerequisite of asset realization due to deferred income tax is to achieve by entities constituting the Group in the subsequent periods the positive financial result.
In the report period in the position Assets due to deferred tax a new component appeared Depreciation of trademarks for the amount of 106,915 thousand PLN.
The value above occurred as a result of indicating trademarks RESERVED, Cropp, House, Mohito and SiNSAY in assets of the company Gothals, in relation to the commencement of the process of liquidation of the company Jaradi in United Arab Emirates. For the day 31 December 2014 the entire asset of the company Jaradi, including trademarks, was transferred upon direct owner, the company Gothals with its registered office in Cyprus.

Deferred income tax indicated in the report from the result and other total income for the period from January to December 2014 and the year 2013 results from the following items:

in thousand PLN

Deferred tax assets:	31.12.2014	31.12.2013
Depreciation of fixed assets	1,820	1,400
Depreciation of trademarks	106,915	
Revaluation of trade receivables	290	31
Margin on goods sold outside the Group	-990	3,402
Inventory revaluation	1,010	-78
Tax loss	9,604	1,472
Salaries and surcharges	2,060	1,014
Other temporary differences	820	-125
Exchange differences from the conversion	-5,323	-150
Total	**116,206**	**6,966**

in thousand PLN

Reserve due to deferred tax:	31.12.2014	31.12.2013
Accelerated tax depreciation	-192	617
Interest not received on loan granted	-67	68
Compensation not received	-19	-3
Accrued interest from bank loans	-153	67
Other	9	11
Exchange differences from the conversion	-142	-137
Total	**-564**	**623**

15.21. Earnings per share and diluted earnings per share

Earnings per share are calculated according to the formula net profit due to shareholders of the parent company divided by weighted average number of ordinary shares present at the given period.
While calculation of both primary and diluted earnings (loss) per share LPP SA applies in the numerator the amount of profit (loss) net due to shareholders of the parent company, i.e. the diluting effect affecting the amount of profit (loss) does not exist.
In calculation of diluted earnings per share in the denominator of the formula the diluting impact of convertible bonds is taken into consideration (see note 15.22.1 referring to transactions with key management).

The calculation of earnings per share was presented below.

Statements prepared in thousand PLN

	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Number of shares used as the formula denominator		
Weighted average number of ordinary shares	**1,809,725**	1,809,725
Diluting impact of convertible bonds	**17,053**	15,604
Weighted average diluted number of ordinary shares	**1 826,778**	1,825,329
Earnings per share		
Net profit (loss) for the current period	**479,546**	430,964
Profit (loss) per share	**264.98**	238.14
Diluted profit (loss) per share	**262.51**	236.10

15.22. Transaction with related entities

The following have been recognized as entities related with the Group:

- domestic and foreign companies controlled by companies of the Group by means of direct share ownership,
- key management of LPP SA Capital Group and their close relatives,
- entities which people classified to key management or their close relatives control or have a significant impact upon

15.22.1. Transactions with key management

Key management is referred to as members of Board and Supervisory Board of the parent company.

Board members received benefits due to functions held both in LPP SA and in a subsidiary IP Service.

The value of short-term benefits of key management received for the period from 1 January to 31 December 2014 amounted to 5,100 thousand PLN. Remuneration presented separately for each person classified to key management looks as follows:

Marek Piechocki	President of the Board	1,350 thousand PLN
Dariusz Pachla	Vice-President of the Board	900 thousand PLN
Piotr Dyka	Vice-President of the Board	900 thousand PLN
Huber Komorowski	Vice-President of the Board	900 thousand PLN
Jacek Kujawa	Vice-President of the Board	900 thousand PLN
Jerzy Lubianiec	Chairman of the Supervisory Board	60 thousand PLN

Other members of the Supervisory Board received jointly 90 thousand PLN
For persons in the managements of LPP SA for the day of 31 December 2014 reserves for retirement allowances were calculated in the amount of 21 thousand PLN (in 2013: 21 thousand PLN) and for unused holiday leaves in the amount of 74 thousand PLN (year 2013: 43 thousand PLN).

On 32 June 2014 General Meeting of Shareholders passed a resolution implementing a motivational scheme directed at six key persons managing LPP SA. The details of the scheme were published on the website of the company. Due to unsatisfactory results achieved in 2014, the scheme will not be implemented and entitled persons will not gain right to purchase shares offered in the scheme.

In the report period the costs of motivational schemes for the years 2011-2013 in the amount of 9,336 thousand PLN were recognized. These schemes with their assessment methodologies were described in detail in reports for years 2011, 2012 and 2013.

15.22.2. Transactions with related entities

in thousand PLN

Item	Related entities	Liabilities on 31 December 2014	Receivables on 31 December 2014	Revenue for the period 2014	Costs for the period 2014
1.	Domestic subsidiaries	98	2	14	10,650
Total		98	2	14	10,650

in thousand PLN

Item	Related entities	Liabilities on 31 December 2013	Receivables on 31 December 2013	Revenue for the period 2013	Costs for the period 2013
1.	Domestic subsidiaries	114	1	14	11,720
Total		114	1	14	11,720

Amounts given in the table show only mutual transactions between LPP SA and Polish subsidiaries, not covered by consolidation and they are presented from the point of view of the parent company.
The data which is indicated as liabilities of LPP SA are receivables in related entities and the costs are income in given companies.
Transactions with related entities were concluded in accordance with market conditions.

Revenue from domestic companies comes from office space lease for the needs of operations of these companies.
The costs related to domestic subsidiaries refer the lease of real estate in which the shops Cropp and RESERVED, MOHITO and House operate.

Payment dates established for subsidiaries are within 45 and 120 days.

15.23. Segments of activity

Financial results and other information referring to geographic segments for the period from 01 January 2014 to 31 December 2014 as well as for the comparative period were presented in the tables below.

Year 2014

in thousand PLN

	European Union countries	Other countries	Consolidation adjustments	Values not assigned to segments	Sum
External sales	3,688,778	1 080,510			4,769,288
Sales between segments	582,046	4,274	(586,320)		-
Other operating revenues	15,893	7,291		22,705	45,889
Total revenues	*4,286,717*	*1,092,075*	*(586,320)*	*22,705*	*4,815,177*
Total operating costs, including	3,484,174	1,025,949	(590,398)	205,411	4,125,136
Cost of sales between segments	482,813		(482,813)		-
Other operating expenses	53,528	27,410			80,938
Segment result	*749,015*	*38,716*	*4,078*	*(182,706)*	*609,103*
Financial revenues					3,002
Financial expenses					152,210
Profit for the current period					*459,895*
Income tax					(21,965)
Net profit					*481,860*

in thousand PLN

	European Union countries	Other countries	Consolidation adjustments	Values not assigned to segments	Sum
Assets of the segment	2,424,561	548,719	(183,422)		2,789,858
Unallocated assets of the whole group				143,868	143,868
Consolidated assets total					*2,933,726*
Liabilities of the segment	682,654	189,580	(164,386)		707,848
Unallocated liabilities of the whole group				587,464	587,464
Consolidated liabilities total					*1,295,312*

Other disclosures	European Union countries	Other countries
Investment expenditure of the segment	335,357	85,444
Segment depreciation	137,670	56,212
Write-offs due to the value loss	30,042	10,848
Release of write-offs due to the value loss	4,668	107
Other non-pecuniary costs	34,422	26,559

Year 2013

in thousand PLN

	European Union countries	Other countries	Consolidation adjustments	Values not assigned to segments	Sum
External sales	3,164,592	951,710		13,860	4,116,302
Sales between segments	535,340		(535,340)		-
Other operating revenues	13,250	6,687		13,860	33,797
Total revenues	*3,713,182*	*958,397*	*(535,340)*	*13,860*	*4,150,099*
Total operating costs, including	2,939,922	883,006	(510,981)	154,409	3,466,356
Cost of sales between segments	414,384		(414,384)		-
Other operating expenses	39,415	28,701			68,116
Segment result	*733,845*	*46,690*	*(24,359)*	*(140,460)*	*615,627*
Financial revenues					2,348
Financial expenses					94,104
Profit before tax					*523,871*
Income tax					91,012
Net profit					*432,859*

in thousand PLN

	European Union countries	Other countries	Consolidation adjustments	Values not assigned to segments	Sum
Assets of the segment	2,417,984	663,976	(635,835)		2,446,125
Unallocated assets of the whole group				45,445	45,445
Consolidated assets total					*2,491,570*
Liabilities of the segment	604,936	627,064	(599,997)		632,003
Unallocated liabilities of the whole group				363,077	363,077
Consolidated liabilities total					*995,080*

Other disclosures	European Union countries	Other countries
Investment expenditure of the segment	346,469	150,009
Segment depreciation	104,713	43,475
Write-offs due to the value loss	2,937	7,561
Release of write-offs due to the value loss	3,792	21
Other non-pecuniary costs	36,478	21,140

* Write-offs due to the value loss of assets in the segment division disclosed in the report from the result and other total income include:

- write-offs of the receivables value;
- write-offs of the inventory value;
- write-offs of the fixed assets value.

Write-offs and reversal were made as a result of occurrence or extinction of indications in respect of overdue receivables and occurrence of uncollectible receivables

The Management Board of LPP SA:

Marek Piechocki – President of the Board ....

Przemysław Lutkiewicz – Vice-President of the Board ……………………………………………..

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

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

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

Gdańsk, 10 April 2015

Management Board Report on the operations of LPP SA Capital Group (including declaration on Corporate Governance) for 2014

Statements prepared in thousand PLN

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 trading year

LPP SA Capital Group is composed of 5 Polish companies (including the parent company) and 17 foreign companies.

The consolidated financial statement of LPP SA Capital Group, covering the period between 1 January and 31 December 2014, includes separate results of LPP SA and the results of foreign subsidiaries listed below:

- LPP Estonia OU
- LPP Czech Republic s.r.o.
- LPP Hungary Kft
- LPP Latvia Ltd
- LPP Lithuania UAB
- LPP Ukraine
- Re Trading OOO
- LPP Romania Fashion SRL
- LPP Bulgaria EOOD
- LPP Slovakia s.r.o.
- LPP Fashion Bulgaria Ltd.
- Gothals Limited
- Jaradi Limited
- IP Services FZE
- LPP Croatia D.O.O.
- Reserved GMBH
- KOBA AS

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

Source of revenues	2014		2013		Change
	thousand PLN	Share in sales %	thousand PLN	Share in sales %	%
Sales of commercial goods	4,742,728	99.4%	4,084,125	99.2%	16.1%
Sales of services	26,560	0.6%	32,177	0.8%	-0.3%
Total	**4,769,288**	**100.00%**	**4,116,302**	**100.00%**	**15.8%**

The main distribution channels guaranteeing the development of Capital Group are chains of showrooms of RESERVED, Cropp, House, MOHITO and SiNSAY, selling products to individual customers.

Distribution channel	2014		2013		Change
	thousand PLN	Share in sales %	thousand PLN	Share in sales %	%
RESERVED showrooms	2,312,030	48.5%	2,058,187	50.0%	12.3%
Export	34,146	0.7%	52,444	1.3%	-34.9%
Cropp showrooms	771,350	16.2%	681,032	16.5%	13.3%
House showrooms	633,648	13.3%	553,968	13.5%	14.4%
MOHITO showrooms	522,900	11.0%	444,798	10.8%	17.6%
SiNSAY showrooms	224,652	4.7%	73,961	0.0%	203.7%
Other	270,562	5.7%	251,912	6.1%	7.4%
Total	**4,769,288**	**100.0%**	**4,116,302**	**100.0%**	**15.9%**

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

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

in in thousand PLN

Name of the company	Country	Revenues from sales between 01.01.2014 to 31.12.2014	Revenues from sales between 01.01.2013 to 31.12.2013
LPP SA	Poland	3,079,644	2,701,181
LPP Estonia OU	Estonia	66,807	63,828
LPP Latvia Ltd	Latvia	59,891	51,215
LPP Czech Republic s.r.o.	Czech Republic	186,397	166,876
LPP Hungary Kft.	Hungry	41,610	38,210
LPP Lithuania UAB	Lithuania	73,121	71,345
LPP Ukraina	Ukraine	191,810	164,639
Re Trading OOO	Russia	884,425	787,071
LPP Romania Fashion SRL	Romania	26,311	27,290
GMBH Reserved	Germany	15,108	-
LPP Croatia	Croatia	5,683	-
LPP Bulgaria EOOD	Bulgaria	32,571	24,412
LPP Slovakia s.r.o.*	Slovakia	105,910	20,235
Total:		**4,769,288**	**4,116,302**

*total revenues of 2 companies in Slovakia: LPP Slovakia s.r.o. and KOBA AS

Export sales to entities other than Capital Group companies conducted by LPP SA totalled PLN 34,146 thousand PLN, which was 0,7% of total revenues. The main directions of export sales of Capital Group are presented below.

Country	2014		2013	
	export amount in thousand PLN	share in export in %	export amount in thousand PLN	share in export in %
Belarus	3,574	10.5%	3,452	6.6%
Egypt	3,331	9.8%	-	-
Russia	10,438	30.6%	11,498	21.9%
Slovakia	9,075	26.6%	33,960	64.8%
Ukraine	2,370	6.9%	2,043	3.9%
Qatar	2,886	8.5%	-	-
Other	2,472	7.2%	1,491	2.8%
Total	34,146	100.0%	52,444	100.0%

Dependence of the Issuer's Capital Group on customers

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

Dependence of the Issuer's Capital Group on suppliers

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

Companies manufacturing goods for LPP SA Capital Group are mainly based in China. Purchases made in China represented about 59% of the total purchase volume. Additionally, Capital Group purchased goods from Polish (about 3%) and other European (about 6%) and Asian (almost 31%) producers.
The purchase volume did not exceed 10% for any of the suppliers.

Capital Group concluded framework agreements, determining general terms and conditions of cooperation. Specific products are manufactured for LPP SA Capital Group on the basis of specific agreements concluded for the implementation of individual deliveries.

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

The basic tasks carried out by the Company in 2014:

1) Revenues from sales gained by LPP SA Capital Group amounted to PLN 4,769 million and were higher by 15.9% than those achieved in 2013.
2) In 2014, Capital Group generated net profit of about PLN 481 million. It is about 11.3% higher than in 2013 (about PLN 433 million).
3) The total selling area in brand stores increased by about 136 thousand square meters (about 23,1%). The total retail selling area in the entire LPP SA Capital Group amounted to about 724 thousand sq. m, including about 311 thousand sq. m outside Poland.

Chain of stores	2014		2013		Surface change (thousand of sq. m)
	Surface (thousand of sq. m)	Amount (pieces)	Surface (thousand of sq. m)	Amount (pieces)	%
RESERVED	390	425	322	386	21.1%
Cropp	106	366	91	337	16.5%
House	90	308	80	292	12.5%
MOHITO	83	256	66	219	25.8%
SiNSAY	44	129	20	62	120.0%
Outlet	11	32	9	24	22.2%
Total	**724**	**1516**	**588**	**1320**	**23.1%**

Results generated by LPP SA Capital Group in 2014 depended primarily on the performance of five retail sales chains of stores, RESERVED, Cropp, House, MOHITO and SiNSAY with the major portion of revenues and profits generated by RESERVED stores. However, the highest growth rate of sales revenues was recorded by MOHITO.

Basic economic and financial figures and their changes in comparison with the previous year are presented below.

Specification	2014 rok	2013 rok	Change
	(thousand PLN)	(thousand PLN)	%
Net income from sales	4,769,288	4,116,302	15.9%
Gross Profit on sales	2,792,500	2,409,151	15.9%
Profit from sales	644,152	649,949	-0.9%
Operating profit	609,103	615,627	-1.1%
Profit on ordinary activities	459,895	523,871	-12.2%
Net Profit	481,860	432,859	11.3%
Equity	1,638,414	1,496,490	9.5%
Liabilities and provisions for liabilities:	1,295,312	995,080	30.2%
Long-term liabilities	210,714	192,331	9.6%
Short-term liabilities:	1,084,598	802,749	35.1%
- bank credits	378,346	173,591	118.0%
- due to suppliers	513,036	453,882	13.0%
Fixed assets	1,516,416	1,231,908	23.1%
Current assets	1,417,310	1,259,662	12.5%
Inventory	979,345	805,038	21.7%
Short-term receivables	234,422	277,182	-15.4%
Trade receivables	176,947	163,255	8.4%

The increase of income from sales of 15.9% was achieved by increasing sales in all retail chains.
Gross profit margin reached 58.6% and it was on a similar level as in the previous year (58,5%)

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Profit from sales fell by 0.9%.

Operating profit amounted to 609,103 thousand PLN (decrease by 1,1% compared to 2013) and the operating profit margin amounted to 12.8% (previous year: 615,627 thousand PLN and 15%, respectively).
Profit on ordinary activities was lower compared to the previous year by 12.2% and amounted to 459,895 thousand PLN.
Net profit generated in 2014 amounted to 481,860 thousand PLN and increased by 11.3% compared to the previous year (432,859 thousand PLN). The resulting net profit margin amounted to 10.1% (in 2013 it was 10,5%).
The equity capital of LPP SA Capital Group was up by 9.5% in 2014. It was mainly due to the transfer of profit to equity.
The balance of long-term liabilities increased by 9.6%.
The balance of short-term liabilities increased by 35.1% compared to 2013.
At the end of 2014, liabilities related to bank credits were higher by 118% compared to the end of 2013, and short-term trade liabilities increased by 13.0%.
In the analysed period, fixed assets increased by 23.1%, due to the development of chain stores.
Current assets increased by 12.5% compared to the end of 2013.

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

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) return on sales – net profit divided by revenues from sales of goods and services,
d) return on assets – net profit divided by average assets during the fiscal year;
e) return on equity – net profit divided by average equity during the fiscal year;

Volume	2014	2013	Change
	%	%	p.p.
Gross profit margin on sales	58.6%	58.5%	0.0%
Operating profit margin	12.8%	15.0%	-2.2%
Return on sales (ROS)	10.1%	10.5%	-0.4%
Return on assets (ROA)	17.8%	19.6%	-1.8%
Return on equity (ROE)	30.7%	32.0%	-1.2%

2. Liquidity ratios

Liquidity ratios were calculated as follows:
a) current liquidity ratio – current assets divided by the carrying amount of short-term liabilities;
b) quick liquidity 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;

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Volume	2014	2013	Change
			%
Current liquidity ratio	1,3	1,6	-18.8%
Quick liquidity ratio	0,4	0,6	-33.3%
Inventory turnover ratio (days)	165	156	5.8%
Receivables turnover ratio (days)	13	13	0.0%
Trade payables turnover ratio (days)	89	79	12.7%

3. Asset Management Ratios

The ratios were calculated as follows:

a) fixed assets to equity ratio – shareholders' equity divided by fixed assets;
b) total debt ratio – 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	2014	2013	Change
	%	%	p.p.
Fixed assets to equity ratio	108.0%	121.5%	-13.4%
Total debt ratio	44.2%	39.9%	4.2%
Short-term debt ratio	37.0%	32.2%	4.8%
Long-term debt ratio	7.2%	7.7%	-0.5%

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

In 2014, Capital Group entered into the following material agreements:

- 254 lease agreements with distributors of retail premises. These agreements concern the premises where clothing under RESERVED, Cropp, House, MOHITO and SiNSAY brands is sold.
- Annexes to existing loan agreements. Detailed information on these agreements has been published in current reports (RB 2/2014, RB 14/2014, RB 19/2014, RB 21/2014, RB26/2014, RB30/2014, RB 31/2014, RB 34/2014, RB 37/2014, RB 38/2014). A list of loan agreements is presented in Notes to the financial statement (section 15.7.3).
- Agreements on guarantees of payment of customs obligations.
- Insurance contracts:
  - Property insurance policy
  - Civil liability insurance policy
  - Electronic Equipment Insurance (EEI)
  - Construction All Risk Insurance (CAR)
  - Machinery Insurance Policy
  - Motor vehicle insurance policy
- Agreement for the expansion of the Distribution Centre

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

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

In connection with the liquidation of the company Jaradi based in the UAE, its property, including trademarks of RESERVED, Cropp, House, MOHITO, SiNSAY was transferred to the direct owner, Gothals company based in Cyprus belonging directly to the LPP SA. The recognition of trademarks in Gothals assets in accordance with International Financial Reporting Standards resulted in the creation of assets for deferred income tax in the amount of 107 million of PLN. At the consolidated level, net profit of LPP was increased by the amount of 107 million of PLN.
This value did not affect the amount of income tax payable by LPP SA for 2014 in Poland (approx. 88 million of PLN).
In the reporting period, there were created two new companies in Germany and Croatia. The establishment of these companies has been associated with the commencement of expansion in these countries.
Investment focused on the development of chains of stores made by the Issuer in the reporting period was the acquisition of the Koba company from Slovakia.

6. Description of significant transactions concluded by the issuer or its subsidiary with affiliated entities on other than market terms, together with amounts and information specifying the nature of these transactions

All transactions in the reporting period concluded by the Issuer with affiliated entities were concluded on the market terms.

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

Information on credits taken as of 31 December 2014 and their maturity dates is presented in the Notes to the financial statement in section 15.7.3.
In 2014, LPP SA Capital Group used bank guarantees to secure the payment of rent for leased retail premises where brand stores are located. LPP SA Capital Group requested bank guarantees to secure retail lease agreements where Capital Group or its affiliated entities are lessees.
As of 31 December 2014, the total value of bank guarantees granted at the request and on the responsibility of LPP SA amounted to: 194,622 thousand PLN, including:

a) guarantees granted to secure agreements executed by LPP SA - 68,844 thousand PLN,
b) guarantees granted to secure agreements concluded related parties - 122,867 thousand PLN,
c) guarantees granted to secure agreements concluded by related parties not subject to consolidation - 1,633 thousand PLN
d) guarantees granted to secure lease agreements concluded by LPP SA - PLN 1,237 thousand PLN.

In 2014, the Company also received payment guarantees as collateral from the contractor. The value of guarantees granted is 3,998 thousand PLN.

In the past year LPP SA Capital Group did not take out any loans.

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

Information on granted loans by LPP SA Capital Group are in notes to the financial statement (section 15.7.2).

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

In the reporting period, LPP SA Capital Group granted the following guarantees within the Group:

Description:	Amount (thousand PLN)
Promissory note guarantee issued to Orlen for a single business entity	22
Guarantee for company Amur Sp. z o.o.	7,678
Guarantee for company LPP TEX SA	1,104
Guarantee for company DP and SL Sp. z o.o.	1,359
Guarantee for company Re Trading OOO	15,513
Guarantee for company LPP Estonia OU	761
Guarantee for company LPP Romania Fashion SRL	413
Guarantee for company LPP Ukraina	3,731
Guarantee for company LPP Czech Republic s.r.o.	22,027
Guarantee for company Reserved GMBH	13,843
Guarantee for company LPP Latvia Ltd.	364
Guarantee for company LPP Bulgaria EOOD	2,235
Guarantee for company LPP Slovakia S.R.O.	982
Guarantee for company KOBA AS	1,177
Guarantee for company LPP Hungary Kft	2,984
Guarantee for company LPP Croatia D.O.O.	10,510

In the previous year, LPP SA Capital Group was not granted any guarantees (except for guarantees granted by LPP SA to its subsidiaries).
No guarantees were granted by subsidiaries. Subsidiaries received described guarantees from parent company only.

10. Use of proceeds (until the day of preparation of the report on operations)

In 2014, LPP SA Capital Group did not issue any securities.

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 hazards and actions the Issuer has taken or is going to take in order to prevent these hazards

LPP SA 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 sold goods. 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 of this activity.

Investment plans will be implemented 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

An unusual event in 2014 affecting the outcome of the activity of LPP SA Capital Group was an unfavourable political situation linked to the conflict in Russia and Ukraine, which resulted in a significant weakening of local currencies resulting in a reduction of revenues realized in the region in terms of PLN. In addition to negative exchange differences arising from the depreciation of the Russian ruble and the Ukrainian hryvnia there were also those that resulted from the weakening of the Polish zloty against the US dollar, especially in the second half of the year.
The positive impact on the net result was however negative as to the value deferred tax associated with the operation described in section 5 of this Report.

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 trading year, including the elements of the issuer's adopted market strategy. Description of key risks and threats and their probability.

LPP SA Capital Group's basic tasks, implementation of which will determine its position in the future are:
a) expansion into new markets in Western Europe, the Balkans and the Middle East,
b) building strong clothing brands of RESERVED, Cropp, House, MOHITO and SiNSAY,
c) increasing the profitability and efficiency of operations.

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

Internal factors

a) Market strategy of LPP SA Capital Group

Capital Group focuses its activity on designing and distribution of clothing and brand creation ordering execution of many tasks to external companies. LPP SA Capital Group does not possess its own production capacity, which allows to limit fixed costs significantly. The production of all clothing is commissioned to contractors, primarily from Far East. In view of the above, all investments of LPP SA Capital Group are directed to increase the commercial potential, to maintain competitive edge on the market, to create own distribution network, to build a positive image of LPP SA Capital Group on the clothing market, and to acquire consumers loyal to LPP SA Capital Group and its products.
The development strategy of the leading brand - RESERVED, provides performing actions aiming to increase the image of uniqueness and prestige of this brand in the eyes of clients, leaving it, however, in the mass clothing segment.

b) Market position of LPP SA Capital Group.

The amount of sales profits achieved by LPP SA Capital Group indicates a high position on domestic market. Despite relatively insignificant share in particular markets (not more than several per cent in the Polish market), Capital Group is at the same time one of the most important entities operating there.

c) Extending and refreshing the offer for LPP SA Capital Group clients

Goods placed on the market by LPP SA Capital Group satisfy the expectations of target client groups related to particular distribution channels. Since the clothes industry is strongly correlated with fashion trend changes, LPP SA Capital Group keeps an eye on changing preferences of clients and as a result introduces annually new groups of products in attempts to anticipate the needs of the market. To some degree, especially in case of RESERVED and MOHITO shops Capital Group tries to create its own style, obviously making use of world trends in this respect.

In order to enrich its offer for clients, Capital Group launched a new brand SiNSAY, addressed to young customer - a female teenager attending junior high and high school. Capital Group has also begun working upon creation and launching another one, sixth brand. New shops are planned to be opened in Spring 2016.

d) Logistics

The applied logistics model based on the use of specialist technologies in own logistic centre while commissioning the transport of goods from suppliers to the logistic centre and from the logistic centre to shop to specialized transport companies allows to perform processes in this field most efficiently.
Ambitious plans of sales chain development of LPP SA Capital Group for the upcoming years (up to 20% increase of retail space annually is expected) forced the necessity to improve efficiency of the logistic centre. In 2013 next buildings started to be constructed in the existing logistic centre. Implemented modern technological solutions will ensure the capacity to satisfy the needs of LPP SA Capital Group to approx. 2020.

e) Online sales

In order to adjust to the tendency related to the increase of popularity of online shopping, the Company opened web stores of all its brands. In the report period, the online sales was offered also abroad - starting with mid-2014 German clients have been able to purchase Reserved products.

f) Activities aiming to maintain a low level of incurred costs, increase of profitability and increase market share by means of global sales value increase.

In order to ensure the efficiency and productivity of Capital Group on a high level, actions have been taken aiming at minimisation of incurred costs as maintaining them on a low level is one the main goals of the Capital Group.
LPP SA Capital Group implements the strategy of increasing the profitability while simultaneous increase of retail space, which will be achieved due to erecting new shops, and where forecasts are very satisfactory, erecting more spacious shops.

External factors

a) The pace of economic development in Poland and countries where LPP SA Capital Group shops operate.

The sales income and profits made by LPP SA Capital Group depend both on the attractiveness of the offer, organisation efficiency of the entire Capital Group as well as external factors. The current conflict between Russia and Ukraine will probably prevent the extension of sales network of Capital Group in these countries in the upcoming quarters. Therefore, the Issuer is seeking development opportunities in Western Europe countries.

b) Currency exchange rates level

The basic settlement currency for the majority of transactions of commercial goods purchase is USD. Insignificant amount of settlements of this kind is done in Euro.
Majority of sales income is achieved in Polish zloty. The lack of stability of Polish currency in relation to USD and Euro is a risk, which increases with the greater pace of PLN/USD relation change.

Characteristic activity of the company allows to partial transfer of the USD exchange rate increase upon final buyers due to the calculation of price of the given product just before it is placed on the market.
Apart from the currency risk related to the settlement currency used in case of commercial goods purchase, there is also a risk related to settlement of lease rents of retail space in Euro. Major fluctuations of Russian rouble and Ukrainian hryvnia have also a major impact upon financial results. Depreciation of these currencies in relation to Polish zloty in 2014 was reflected in financial costs and unstable economic situation in these countries in subsequent periods can also influence the results.

Information concerning currency risk was presented in p. 11 of Additional information.

c) Changes in fashion, which impacts attractiveness of offered products.

The key factor of the clothing company success is the sense of fashion trends change and adjustment of assortment to current preferences of buyers.
Therefore, LPP SA Capital Group pays great attention to fashion. The design department analyses constantly changing trends and adjusts them to clients' needs in order to continue to offer desired goods in a very good price / quality relation. In order to fulfil their duties the designers participate in fairs and exhibitions all over the world, use professional literature and fashion-related news available online. Capital Group pays particular attention to this issue being conscious of its enormous impact upon the results of its functioning.

Perspectives of commercial activity development of the Issuer

Long-term development strategy of LPP SA Capital Group assumes strengthening of its current positions on markets where Capital Group companies already function as well as expansion to new geographic areas such as: Western Europe, Balkans or Middle East. The increase of sales network is supposed to be performed simultaneously with activities focused on the increase of efficiency of functioning in every area.
At the end of 2014, LPP Capital Group had at its disposal the network of 1,516 shops selling products of all brands, with the retail space total of approx. 724,000 sq. m. Plans for 2015 assume existence of new facilities, which in consequence will lead to the increase of total retail network space by approx. 16%.

16. Information concerning the purchase of own shares (stocks) and in particular the purpose of their purchase, the number and nominal value, with indication which part of the share capital they represent, the price of purchase and the price of sales of these shares (stocks) in case they are sold

In 2014 LPP SA Capital Group did not purchase their own shares.

17. Information concerning achievements with regard to research and development

In the report period LPP SA Capital Group performed developmental works related to designing and construction of exemplary showrooms of RESERVED, House and SiNSAY brands.

18. Information about financial instruments regarding:

a) risk: change price, credit, major disturbances of cash flow and loss of financial liquidity which the entity is exposed to

Pursuant to regulations in IAS with regard to the rules of recognition, method of assessment, the range of disclosure and method of financial instrument presentation, it was found that in LPP SA Capital Group with regard to financial instruments the following took place:

- loans granted,
- taken bank loans,
- bank deposits.

In the Group there are also embedded currency derivatives related to:

- contracts of retail area lease for brand showrooms in which the rent payments are based on foreign exchange rate
- liabilities in foreign currency regarding purchase of commercial goods abroad
- receivables in foreign currency regarding sales of commercial goods to foreign contractors.

Embedded instruments are not assessed and presented in the balance, which is pursuant to regulations in IAS with regard to the rules of recognition, method of assessment, the range of disclosure and method of financial instrument presentation.

b) financial risk management goals and methods accepted by the entity, including methods of securing valid kinds of planned transactions for which hedge accounting is applied

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1) Currency risk - was discussed in p. 15 as an external risk factor
2) Interest rate risk - the opinion of the Board based on the analysis of interest rate changes in recent periods is that possible increase of this parameter constituting the value of costs of taken loans cannot impact significantly achieved financial results.
3) credit risk - this kind of this refers mainly to commercial receivables as well as granted guarantees and sureties. According to the Board, there is no hazard that contractors will not pay, although in some cases there may be a probability of extending the payment period.

LPP SA Capital Group does not apply hedging instruments securing this risk.

19. Changes in basic rules of Issuer enterprise and its capital group management

In 2014 there were no changes in the rules of Issuer enterprise and its capital group management.

20. Determination of the total amount and nominal value of all shares (stocks) of LPP SA as well as stocks and shares in related entities of LPP SA which are owned by managing and supervising persons

As of the day of 31 December 2014 persons managing and supervising own the following amount of the Company shares:

Shareholder	Number of shares (in pcs.)	The number of votes on General Shareholders Meeting	Nominal value of shares
President of the Board	175,498	875,498	350,996
Vice-President of the Board	500	500	1 000
Vice-President of the Board	353	353	706
Vice-President of the Board	457	457	914
Vice-President of the Board	457	457	914
Chairman of the Supervisory Board	175,000	875,000	350,000

Managing and supervising persons do not own shares and stocks in related entities.

21. Information concerning contracts the Issuer is aware of (including those concluded after the balance day) which may result in future changes in proportions of owned shares by current shareholders

In the report period there was a motivational scheme for key persons managing the Company for the years 2011-2014 which was commenced in 2011.
This motivational scheme included issuance of 21,300 items of subscription warrants which were taken by entitled persons.
In case the exchange of all taken warrants into shares, the total number of shares would amount to 1,852,423 and the number of votes on AGM of LPP SA would be 3,252,423.

22. Information concerning the system of employee schemes control

Not applicable

23. All contracts concluded between the Company and managing persons providing compensation in case of their resignation or dismissal from occupied position without a major reason or if their dismissal or release occurs due to the merger of Issuer by means of takeover

There are no such contractual agreements.

24. The value of remuneration, awards or benefits, including those resulting from motivational or bonus schemes based on the issuer's capital, including schemes based on bonds with priority right, convertible, subscription warrants (in cash, nature or any other form), paid, due, or potentially due, separately for each of the persons managing or supervising the issuer in the issuer's enterprise

The value of all remuneration of persons managing and supervising was presented in section 15.22.1 of Tax information.

25. Proceedings in court, the body competent for arbitrary proceedings taking into account information with regard to:

a) proceedings regarding liabilities or receivables of the issuer or subsidiary of the issuer, the value of which represents at least 10% of issuer's equity,
b) two or more proceedings regarding liabilities and receivables the joint value of which represents at least 10% of equity respectively

There are no such proceedings.

26. Information concerning the entity entitled to review financial statements

On 30 June 2014 LPP SA concluded with Grant Thornton Frąckowiak Sp. z o.o. Sp. K. an agreement to perform annual reviews of financial statements of the Company and LPP SA Capital Group for the years of 2014, 2015, and 2016 and the semi-annual financial statements of the Company and LPP SA Capital Group for the years above.
The remuneration of entity entitled to survey and review of financial statements for the trading year and the previous year amounted to, respectively:

1) Review of financial statement drawn for the period between 1 January 2014 and 31 December 2014, expressing opinion about it and drawing up a report - the remuneration 60 thousand PLN excluding VAT.
2) Review of consolidated financial statement of Capital Group drawn up for the period of 1 January 2014 and 31 December 2014, expressing opinion about it and drawing up a report - the remuneration of 30 thousand PLN excluding VAT.
3) Review of mid-year financial statement drawn for the period between 1 January 2014 and 30 June 2014 and drawing up a report - the remuneration of 30 thousand PLN excluding VAT.
4) Review of consolidated mid-year financial statement drawn for the period between 1 January 2014 and 30 June 2014 and drawing up a report - the remuneration of 20 thousand PLN excluding VAT.
5) Review of financial statement drawn for the period between 1 January 2013 and 31 December 2013, expressing opinion about it and drawing up a report - the remuneration 55 thousand PLN excluding VAT.
6) Review of consolidated financial statement of Capital Group drawn up for the period of 1 January 2013 and 31 December 2013, expressing opinion about it and drawing up a report - the remuneration of 27 thousand PLN excluding VAT.
7) Review of mid-year financial statement drawn for the period between 1 January 2013 and 30 June 2013 and drawing up a report - the remuneration of 27 thousand PLN excluding VAT.
8) Review of consolidated mid-year financial statement drawn for the period between 1 January 2013 and 30 June 2013 and drawing up a report - the remuneration of 16 thousand PLN excluding VAT.

Additionally, the company Grant Thornton Frąckowiak Sp. z o.o Sp. K. granted some other services in the years 2014 and 2013 for which it received remuneration of 239 thousand PLN and 23.25 thousand PLN excluding VAT, respectively.

27. Declaration concerning observation of Corporate Governance principles

The Management of LPP SA declares that the Company and its bodies in 2014 observed the rules of Good Practice of companies listed on the WSE referred to in parts II, III and IV, whereas:
- the requirement of p. 9a Section II concerning the necessity to publish the minutes of the shareholders meeting of the Company, in audio or video form was not adhered to,
- the requirement of p. 10 Section IV concerning the necessity to provide the shareholders the right to participate in the shareholders meeting with the use of electronic communication means was not adhered to.

The information concerning the Corporate Governance are available on the corporate website of the Company www.lppsa.com/relacje-inwestorskie/lad-korporacyjny.

The company does not apply practices regarding Corporate Governance not covered by the requirements provided by domestic law.
The Company and its bodies also observed the rules of Good Practice of companies listed on the WSE referred to in parts I with the exception of:
- p. 5 - applied rules of remuneration do not satisfy all requirements described in recommendation of European Council from 14 December 2004 and Recommendations from 30 April 2009.
- p. 9 - there are no formal rules of membership in the company bodies with regard to gender or any schemes of support of balanced participation of men and women in performing managing and supervising functions in LPP SA. Currently all members of company bodies are men.
- p. 12 - the Company did not facilitate shareholder to use their right of vote personally or by means of a proxy during the shareholders meeting, away from the place where the shareholders meeting takes place, by means of electronic communication means.

a) Description of major features of internal control and risk management systems applied in the Company with reference to the process of drawing up the financial statements and consolidated financial statements

LPP SA has efficiently functioning system of internal control adjusted to their needs and characteristic features, which ensures:

- completeness of income invoicing,
- proper cost control,
- efficient use of resources and assets,
- correctness and credibility of financial information included in financial reports and periodic reports,
- proper protection of sensitive information and preventing uncontrolled flow of information from the company,
- efficient and quick identification of irregularities which occurred,
- identification of major risks and reacting as appropriate.

Elements of internal control system in the Company LPP SA are:

- control activities undertaken on all levels and in all cells of the Company based on procedures (permits, authorizations, verifications, concertations, reviews of operational activities, share of duties) which allow to ensure compliance with guidelines of the Company Board and simultaneously allow to undertake necessary identification activities and minimising faults and hazards for the Company,
- instruction of documentation circulation - proper system of documentation evidence circulation and control (to ensure compatibility in accounting books with accounting evidence),
- properly qualified employees performing control,
- share of duties excluding the possibility of one employee to perform activities related to realisation and documentation of economic operations from the onset to the end,
- Inventorisation instructions describing the rules of application, storage and inventorying of assets,
- rules of balance depreciation of PPE and non-material or legal values,
- IT system - accounting books of the Company are run with the use of computer system Zintegrowany System Zarządzania Przedsiębiorstwem (Integrated Enterprise Management System) AWEK in the premises of the Company, which ensures reliable, credible and fault-free information processing, the access to information resources of AWEK system is limited by permissions granted to authorised employees solely within the range of duties they perform,

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▪ bookkeeping policy taking into account the rules included in International Accounting Standards and International Financial Reporting Standards (in Polish -MSR/MSSF - IAS/IFRS) and interpretations published as executive regulations by the European Committee,
▪ electronic system of document processing (invoices, employee documentation elements, orders to purchase equipment, payment orders etc.)

In the process of preparation of financial statements of the Company, both stand-alone and consolidated, the basic element of internal control is the financial statement audit performed by an independent certified editor.

The choice of certified auditor is made by the Supervision Board of LPP. The duties of independent auditor include the review of semi-annual statements and review of annual statements, control of its proper preparation and adherence to the rules of accounting.

Two departments are responsible for proper preparation of financial statements: accounting and financial, managed by the Chief Accountant and Financial Director (CFO). Before financial statements are provided to the independent certified editor, they must be verified with regard to completeness and correctness of recognition of all economic events by the Financial Director, who on behalf of the Management is responsible for the process of financial reporting.

LPP SA performs semi-annual reviews of strategy and implementation of business plans. It is related to the cycles occurring in the clothing trade. After closing the six-month period, the high- and middle-level management with the participation of the financial department performs the analysis of the financial results of the Company. Operational results of the Company, particular commercial departments and even particular shops are analysed every month.
Internal control and closely related risk management with reference to the process of drawing up the financial statements are subject to the current interest of Company management bodies. LPP SA performs analysis of risk areas related to the company activity. The crucial role here is also played by the managerial personnel responsible for the control of activity of their departments, including identification and risk assessment related to the process of preparation of credible and reliable financial statements according to applicable provisions of the law.

b) Information about Company shareholders who own directly or indirectly major blocks of shares with the indication of the number of shares owned by these entities, their percentage share in the share capital, the number of votes resulting from them and their percentage share in the total number of votes on General Shareholders Meeting

Shareholder	Number of shares (in pcs.)	The number of votes on General Shareholders Meeting	Share in the total number of votes on General Shareholders Meeting	Share in the share capital
Marek Piechocki	175,498	875,498	27.1%	9.6%
Jerzy Lubianiec	175,000	875,000	27.1%	9.6%
Monistor Limited (Cyprus)	200,728	200,728	6.2%	11.0%
Other Shareholders	1,279,897	1,279,897	39.6%	69.8%
Total	1,831,123	3,231,123	100.0%	100.0%

c) Information about owners of securities granting special control entitlements and information concerning any limitations concerning exercising the right of vote by owners of specified share or number of votes and limitations of ownership rights transfer

Shareholders owning shares entitling to more than 15% on General Shareholders Meeting exercises the right to vote in the amount of 15% of votes regardless the number of votes resulting from the number of owned shares. Two shareholders, managing the company for many years, Mr Jerzy Lubianiec and Mr Marek Piechocki own 175,000 series B shares each, preferential with regard to vote in a way that one share entitles to 5 votes on AGM. Additionally, the shares of shareholders above are not covered by statutory limitation

described above, with regard to only 15% of votes on AGM regardless the amount of owned shares. The statutory clauses referred to above provide dominating position of the two abovementioned shareholders.
Limitations with regard to transfer of ownership rights of securities concern inscribed shares.
Disposal or mortgage of inscribed shares is subject to the agreement of the Company. Permission to dispose of or mortgage shares is granted by the Supervisory Board in a written form, under the pain of invalidity, in the term of 14 days from the application is submitted in this matter. If the Company fails to grant permission, it should indicate another buyer and determine the term and place of payment within the term of 30 days. If the Company fails to indicate another buyer within this deadlines, the shares may be disposed of without any limitations.

d) The description of rules regarding appointment and dismissal of managing persons and their entitlements, especially the right to make a decision regarding the issuance or purchase of shares

The management board consists of two to five members, including the President of the Board and from one to four Vice-Presidents of the Board. The number of members is determined by the Supervisory Board.
The Members of the Board are appointed and dismissed by the Supervisory Board for the period of five years.
Competences and rules of work of the Management Board of LPP SA are defined in the following documentation:

- Statute of LPP SA (available on the website of the Company)
- Rules and Regulations of the Management Board (available on the website of the Company)
- Commercial Companies Code

The Management Board is responsible for all cases not reserved for the competences of other bodies of LPP SA.
The Management Board is entitled to make a decision concerning the issuance or purchase of shares.

e) Description of rules of issuer statute change

The change of statute of the Company is subject to the resolution of the General Shareholders Meeting.

f) The method of functioning of General Shareholders Meeting, its entitlements, description of shareholders' rights and method of their exercising

Convening the General Shareholders Meeting

1) General Shareholders Meeting may be convened in ordinary or extraordinary mode.
2) General Shareholders Meeting takes place in Gdańsk, Warszawa or Sopot, in a place indicated by the Management Board.
3) Ordinary General Shareholders Meeting takes place annually within 6 months after the trading year.
4) Extraordinary General Shareholders Meeting is convened by the Board on their own initiative, upon request of the Supervisory Board and on application of shareholders representing 1/20 share of share capital, made in writing.
5) The fact of convening the General Shareholders Meeting with its date (day, hour) and place is announced by the Board on the website of the Company and in a way defined for the transfer of current information in accordance with the rules concerning public offering and conditions governing the introduction of financial instruments to organised trading and public companies.

General Shareholders Meeting Entitlements

1) Examination and approval of financial statements and Board's reports from LPP SA activities for the previous year.
2) Taking any decisions regarding claims for redressing damage inflicted upon formation of LPP SA or exercising management or supervision.
3) Adopting a resolution concerning the share of profits or covering losses.
4) Acknowledgement of the fulfilment of duties by members of the management board of LPP SA.
5) Adopting a resolution concerning issuance of bonds, including convertible bonds.
6) Change of Statute.
7) Adopting resolutions concerning joint ventures of companies, transformation of LPP SA, its dissolution or liquidation.
8) Adopting resolutions concerning disposal of or mortgaging the enterprise and establishing an usufruct right with respect to it.

9) Examination and resolution of claims presented by the Supervisory Board.
10) Decisions concerning other cases restricted to competences of General Shareholders Meeting in Commercial Companies Code and provisions of Company Statute.

Sessions of the General Shareholders Meeting

1) Sessions of the General Shareholders Meeting are opened by the President of the Supervisory Board or a person authorised thereby, who also orders holding election of the General Shareholders Meeting Chairman.
2) The person opening the General Shareholders Meeting leads to immediate choice of the Chairman of the General Shareholders Meeting, who manages the General Shareholders Meeting and ensures efficient and proper proceedings of the session.
3) General Shareholders Meeting adopts resolutions which are only covered by the agenda of the session.
4) Draft resolutions are proposed for acceptance by the General Shareholders Meeting and other significant materials are presented to shareholders with the justification and opinion of the General Shareholders Meeting.
5) The minutes of proceedings of the General Shareholders Meeting are taken by a notary.

Voting

1) Voting on General Shareholders Meeting is transparent. Secret voting is administered while choosing the authorities and deciding over applications concerning dismissal of bodies of authorities of liquidators of the Company, or concerning rendering them liable to prosecution, as well as in personal matters. Additionally, secret voting is administered upon request on at least one shareholder or their representative.
2) General Shareholders Meeting may choose a three-member Returning Committee, which is responsible for supervising proper proceedings of each voting, supervision of computer service (in case of voting with the use of electronic media) as well as checking and announcing the results.
3) One share gives the right to one vote on the General Shareholders Meeting. In case of preference shares series B one share gives the right to five votes on the General Shareholders Meeting.
4) The Chairman announces the results of voting, which are subsequently provided to the minutes of the proceedings.

g) The composition and changes in it during the trading year as well as description of activities of managing, supervising or administering bodies and their committees.

The Management Board of LPP SA

Composition of the Board as of 31 December 2014:

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

In the course of the last trading year there were changes in the composition of the Board based on resignation of one member of the Board - Mr Dariusz Pachla (RB 35/2014) and appointment of a new member of the Board - Mr Przemysław Lutkiewicz (RB 36/2014).

Competences and rules of work of the Board of LPP SA are defined in the following documentation:

- Statute of LPP SA (available on the website of the Company)
- Rules and Regulations of the Management Board (available on the website of the Company)
- Commercial Companies Code

Supervisory Board

As of 31 December 2014 the composition of the Supervisory Board was as follows:

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

In the course of the trading year there were no changes in the composition of the Supervisory Board.

Competences and rules of work of the Supervisory Board of LPP SA are defined in the following documentation:

- Statute of LPP SA (available on the website of the Company)
- Rules and Regulations of the Supervisory Board (available on the website of the Company)
- Commercial Companies Code

The Management Board of LPP SA:

Marek Piechocki – President of the Board ....

Przemysław Lutkiewicz – Vice-president of the Board …..……………………………………..

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

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

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

Gdańsk, 10 April 2015

Declaration of the Board of LPP SA

Declaration of the Board of LPP SA

DECLARATION OF THE BOARD

In accordance with the Resolution of the Minister of Finance from 19 February 2009 regarding current and periodic information provided by issuers of securities , the Board of LPP SA declares that:

- according to the best of their knowledge, annual consolidated financial statement and comparative data were prepared in accordance with binding accounting rules in force and reflect in a true, reliable and clear way the property and financial condition of LPP SA Capital Group and its financial result,

- annual report from the activity of LPP SA Capital Group contains a real view of development and achievements and situation of LPP SA Capital Group, including the description of risks and hazards,

- the entity entitled to review financial statements performing the survey of annual consolidated financial statement was selected in accordance with the legal regulation in force. This entity and certified auditors performing the survey satisfied conditions to issue an objective and independent report from the review, in accordance with the applicable regulations of domestic law.

The Management Board of LPP SA:

Marek Piechocki – President of the Board ....

Przemysław Lutkiewicz – Vice-President of the Board …………………………………………..

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

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

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

Gdańsk, 10 April 2015