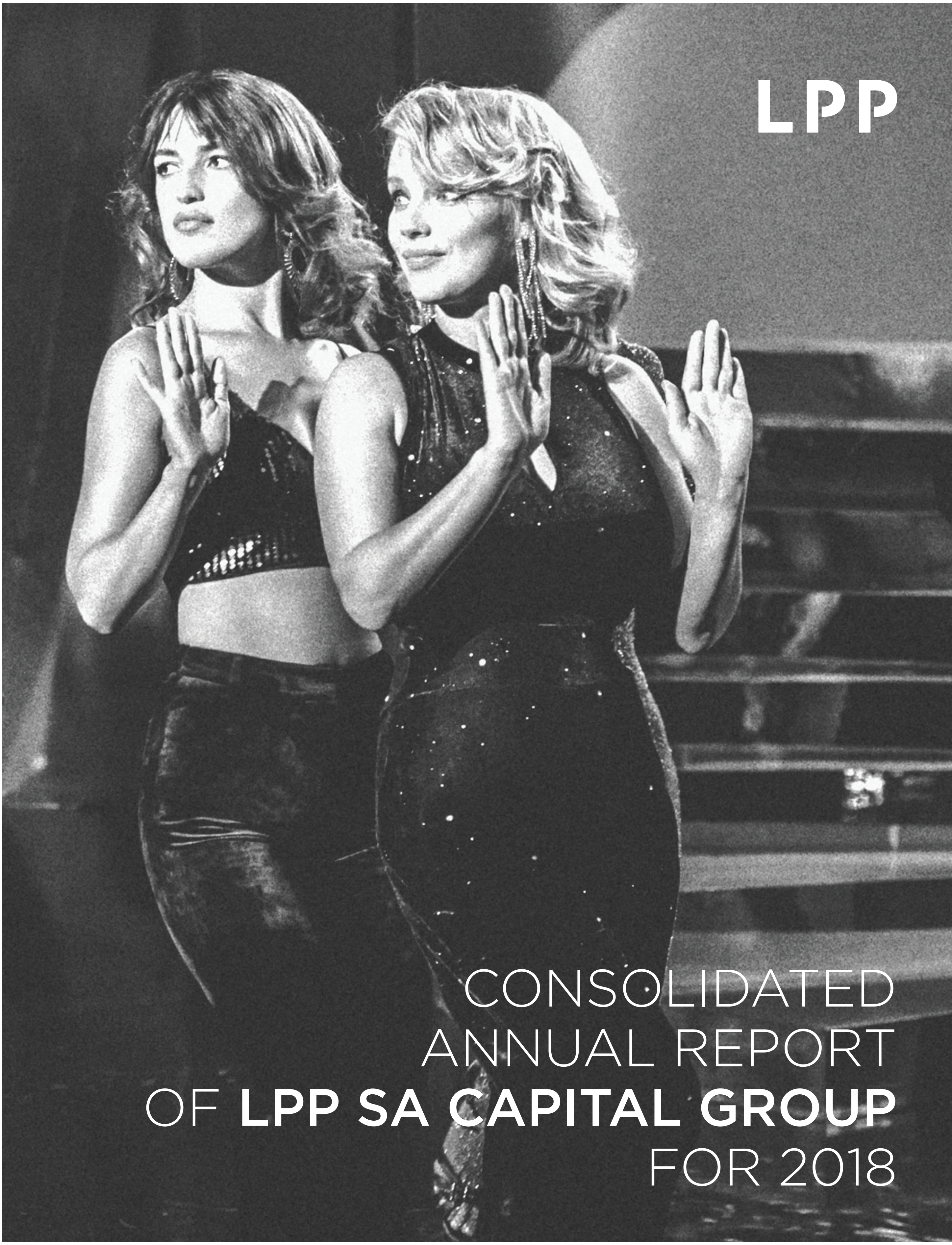


LPP

CONSOLIDATED ANNUAL REPORT OF **LPP SA CAPITAL GROUP** FOR 2018

RESERVED CROPP house MOHITO sinsay

CONTENTS

1 LETTER BY THE PRESIDENT OF THE MANAGEMENT BOARD TO SHAREHOLDERS

DEAR SHAREHOLDERS,

When a year ago I presented you with the financial statements of LPP, informing you that the year 2017 was the best in our history, I knew that repeating such results next year would be a great challenge. It is my pride and privilege to inform you that once again we have succeeded in fulfilling a plan as ambitious as given above. Without any doubt, the year 2018 may be considered successful since our sales exceeded the last year's level by as much as 14%, yielding a result exceeding PLN 8 bln.

This is not only the effect of our team's hard work but also the outcome of a well-though strategy we have effectively implemented. Well-accepted collections of our brands and our ambitious plan to expand abroad, with constant nurturing of our customers' needs, bring effects. Therefore, in 2019, we intend to follow this path.

Lat year, as we said, LPP brands had their debut on three new markets – in Israel, Slovenia and Kazakhstan. The opening of the first Reserved store in Tel Aviv in August last year was a natural step to strengthen the presence of our flagship brand in the Middle East. Although the Israeli retail market is challenging due to its high-level saturation and limited access to retail space, the decision to launch a store on that market was right. Consequently, we decided to open, still in December 2018, another Reserved store with a female collection also. However, this is not the end of our strivings and, today, I confirm the plan of launching in 2019 five new Reserved stores in, among others, Jerusalem, and yet another one in Tel Aviv.
In 2019, we intend to continue our expansion abroad, proudly presenting Polish creativity in Bosnia and Hercegovina and Finland. It means that collections of LPP brands will be already available in 25 markets in Europe, Asia and Africa.

As we experienced last year, our ambitious plans of developing our brands and promoting Polish creative ideas abroad even on the most demanding markets are the right direction of our operations. In autumn, we celebrated the first anniversary of our debut in Great Britain. Our 12-month presence in London, the fashion capital, has confirmed our beliefs that Polish fashion can effectively be of interest for recipients in Western Europe. In one year, we sold there over 700 thousand pieces of clothing, which means that, each month, British customers bought approx. 54 thousand of our Polish products. The goal was set very high. We will be striving at maintaining that goal at the above level, therefore, we ended the year 2018 equally ambitiously, presenting our customers with our first collection created jointly and in cooperation with Vogue, the source of fashion inspirations for clients all over the world.

There are new challenges ahead of us. Whole last year, we showed effectively that LPP was not only a Polish clothing manufacturer but also a thriving technology-oriented company. We have proven

that LPP is a fashion tech world we actively create. In 2018, as the first Polish company and one of the few companies in the world, we decided to implement RFID technology which will soon give us the opportunity to pursue our business activity even more effectively, gaining in-depth knowledge of our customers' needs and expectations.

We have a team of as much as 350 people engaged in IT and e-commerce projects for LPP. We create the majority of IT solutions ourselves. Owing to advanced analytical systems developed by our creative IT expert team, we understood that, in today's world, our retail stores may not be homogeneous and that the transfer of e-commerce tools to on-site stores will give us grounds for create new quality I our business segment. Therefore, we move away from thinking of on-site and online sales separately. Today, they are two sides of the same coin — the omnichannel. Before our very eyes, a true technological revolution takes place, of which we are not only witnesses but also active creators.

This is the right way of developing our business, which is proven by the results we have yielded. Throughout 2018, we consistently recorded not only successful on-site sales but also as high as three-digit growth in online sales reaching last year PLN 712 mln, i.e. more than twice as much as a year ago. Owing to our joint and consistent work, we were able to generate net profit of PLN 505 mln, with its major part to be invested again in order to be able to expand our operations further and boost domestic economy. Our ambition is to continue our policy of expanding and developing our retail chain, the area of which increased last year by another 9%, reaching almost 1.1 mln m^2 in 1765 stores. Such expansion necessitates fundamental changes in logistic solutions. That is why, in 2018, we paid special attention to the development of our distribution network.

In mid-2018, we decided to expand warehousing facilities and construct a new distribution centre in Brześć Kujawski, of an area of as much as 100 thousand m^2. Already in 2022, it will provide as much as 1000 new workplaces in Poland. Moreover, we decided to launch, at the end of 2019, a warehouse near Bucharest, Romania, dedicated to logistic services for online sales of all LPP brands. Ultimately, from that warehouse, orders will be executed in entire South-East Europe. We are aware that the development of our on-site store chain in Poland and abroad and a constant increase of the share of online sales are challenges requiring high-tech logistic facilities. Consequently, we still aim at developing them thanks to our talented team and well-thought investment decisions.

We are proud that a Polish clothing company and, first of all, Polish creative ideas may be effective tools for good promotion of Polish economy worldwide. Today, the area of our stores abroad already has exceeded that in Poland, with sales on foreign markets reaching over PLN 3.8 bln. We do not intend to be satisfied with it.

In natural consequence of the above, I have taken steps aimed at securing the company I have created and at ensuring safe future for both the company and its employees. Therefore, last year, I established a family foundation and transferred all my assets there. That step gives me a warranty that, in the long-term perspective, shares in LPP will neither be sold to nor taken over by foreign capital and that the strength of LPP will be built unhindered in the present spirit by next generations.

I do believe that this is a good step forward, enabling LPP to always remain a company nurturing, as it does today, good values and bringing all of us pride in Polish entrepreneurship and creativity of people engaged in it.

Marek Piechocki
President of the Management Board of LPP SA

2 REPORT OF THE MANAGEMENT BOARD ON THE OPERATIONS OF THE LPP SA CG, INCLUDING A DECLARATION ON CORPORATE GOVERNANCE FOR 2018

(WITH DUE CONSIDERATION OF DISCLOSURE REQUIREMENTS FOR THE REPORT ON THE OPERATIONS OF THE PARENT COMPANY FOR THE SAID PERIOD)

INTRODUCTION

This Report of the Management Board on the operations of the LPP SA Capital Group for 2018 incorporates information the scope of which has been set forth in §§ 70-71 of the Regulation of the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities [...] (Regulation).

Under § 71(8) of the Regulation, this report comprises also disclosures required for the Report on the Operations of the Parent Company, referred to in § 70(1)(4) of the Regulation.

ABOUT US

WHO WE ARE

LPP is a Polish family-run company involved in the design, manufacturing and distribution of clothing.

We have almost 30 years of experience in the textile business. Our sales network covers entire Poland, countries of Central, Western and Eastern Europe, the Balkans and the Middle East. In our on-site and online stores, we offer our customers clothes, accessories and footwear of our five brands: Reserved, Cropp, House, Mohito and Sinsay. Each of those brands, differing in character, is targeted to a different customer group.

Although we operate on 23 markets, our brand concepts and all our collections are made in Poland, just like all strategic decisions. The heart of our organisation is the head office in Gdańsk, where our history started. We have offices also in Cracow, Warsaw, Shanghai and Dhaka.

Our staff consists of more than 25 thousand people in total, employed in offices and sales structures in Poland as well as European and Asian countries. We concentrate on adjusting organisational structure, activities, methods of communication and management to international work environment. Openness, diversity, responsibility for common development and mutual respect are the core of unique LPP culture.

GDAŃSK
The head office of LPP, where designs of Reserved, Cropp and Sinsay collections are created. In Gdańsk, the Management Board of LPP makes decisions of major importance for company operation and development. Here, all key departments of the Company are located. The staff employed here exceeds 1 600 persons.

CRACOW
In Cracow, there are design facilities of House and Mohito brands as well as their sales department. The Cracow branch of LPP cooperates with higher schools in Cracow, educating future designers – the Academy of Fine Arts, the School of Art and Fashion Design and the University of Economics. Over 300 people are employed here.

WARSAW
Since 2017, the Reserved product office has operated in Warsaw. Its team consisting of 80 persons supports the product development department in Gdańsk both in creating regular collections and in special projects such as ReDesign collection, Reserved x Vogue collection. Furthermore, this is the location of our Showroom.

SHANGHAI
Our Asian office in Shanghai has operated since 1997, currently employing 120 people. Its employees are responsible for, among others, soliciting suppliers, supporting specific manufacturing stages and quality control. A major task of the said office is verifying whether suppliers observe the provisions of the Code of Conduct, setting forth safety rules and employees' rights.

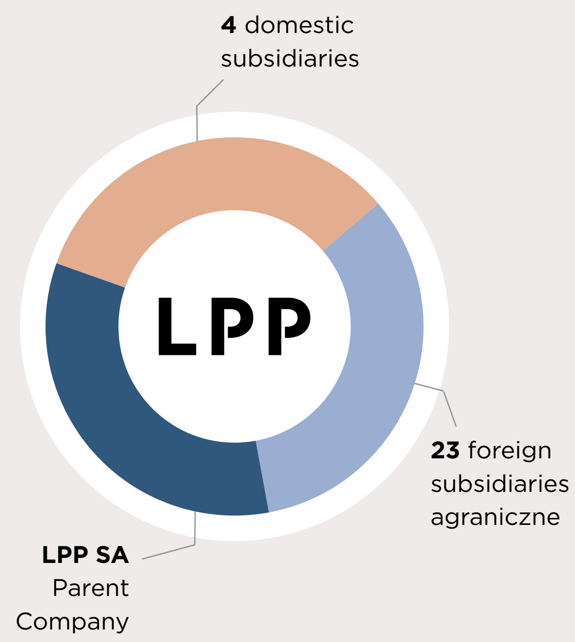
DHAKA
In 2015, we opened a representative office of LPP in Dhaka, the capital of Bangladesh. A team of almost 40 employees is responsible for coordinating and supervising production of our collections in plants located in Bangladesh. A major task of our employees is the auditing of manufacturing plants we cooperate with in terms of adequate working conditions and respect for human rights.

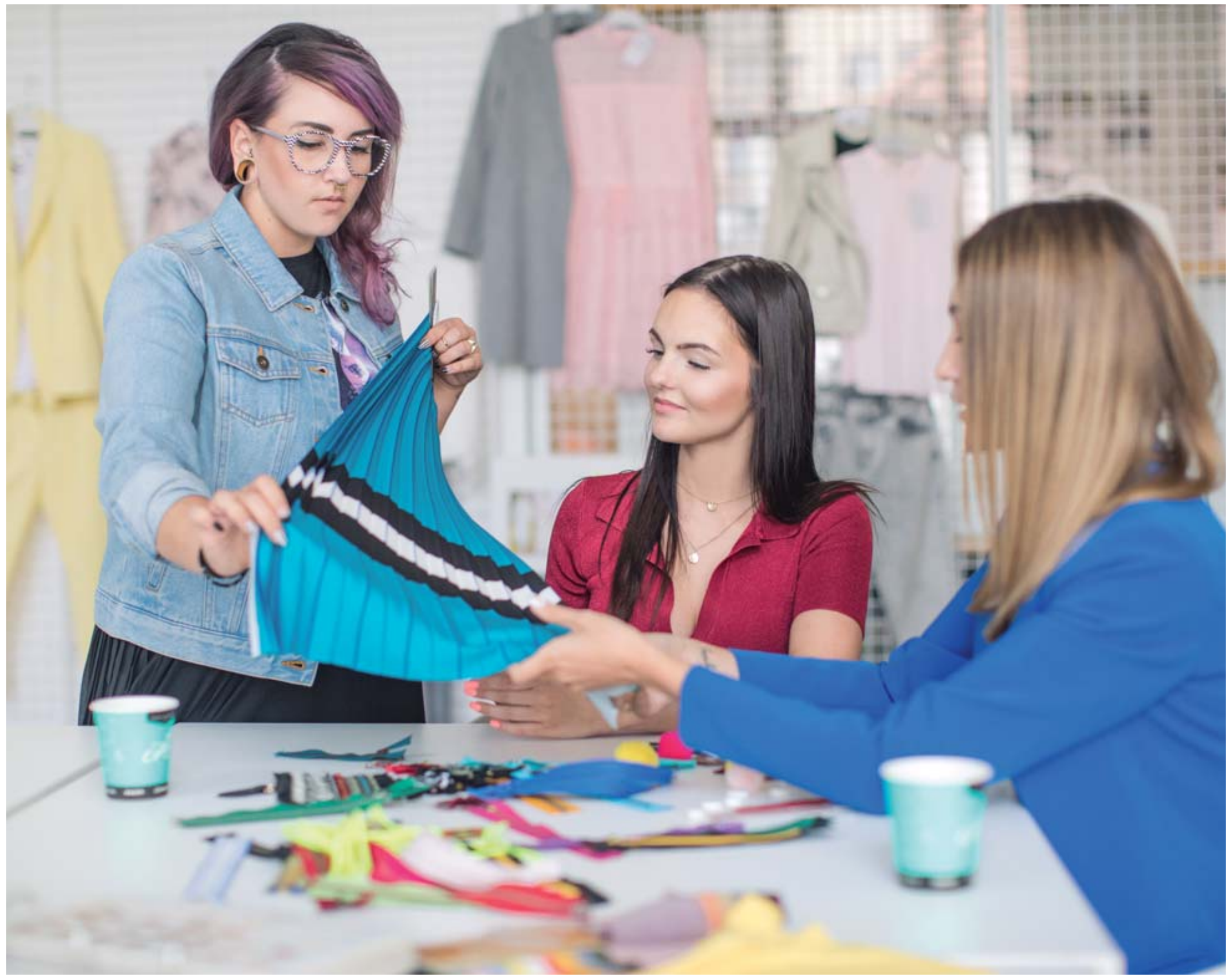
HOW WE OPERATE AS THE CAPITAL GROUP

The LPP SA Capital Group is composed of 5 Polish companies (including the Parent Company) and 23 foreign companies. Foreign companies belonging to Group are mainly entities involved in the distribution of goods of all our brands outside Poland.

The consolidated financial statements of the CG, covering the period between 1 January and 31 December 2018, include separate results of LPP SA, the results of foreign subsidiaries and two Polish subsidiaries (LPP Retail Sp. z o.o. engaged in the handling of domestic stores and Printable Sp. z o.o. engaged in the sales of promotional clothing). The financial statements of the Capital Group do not incorporate the consolidation of other two Polish subsidiaries (engaged in the lease of real properties where our brand stores are operated In Poland) due to irrelevance of data.

LPP SA Capital Group's structure





Subsidiaries belonging to our Capital Group:

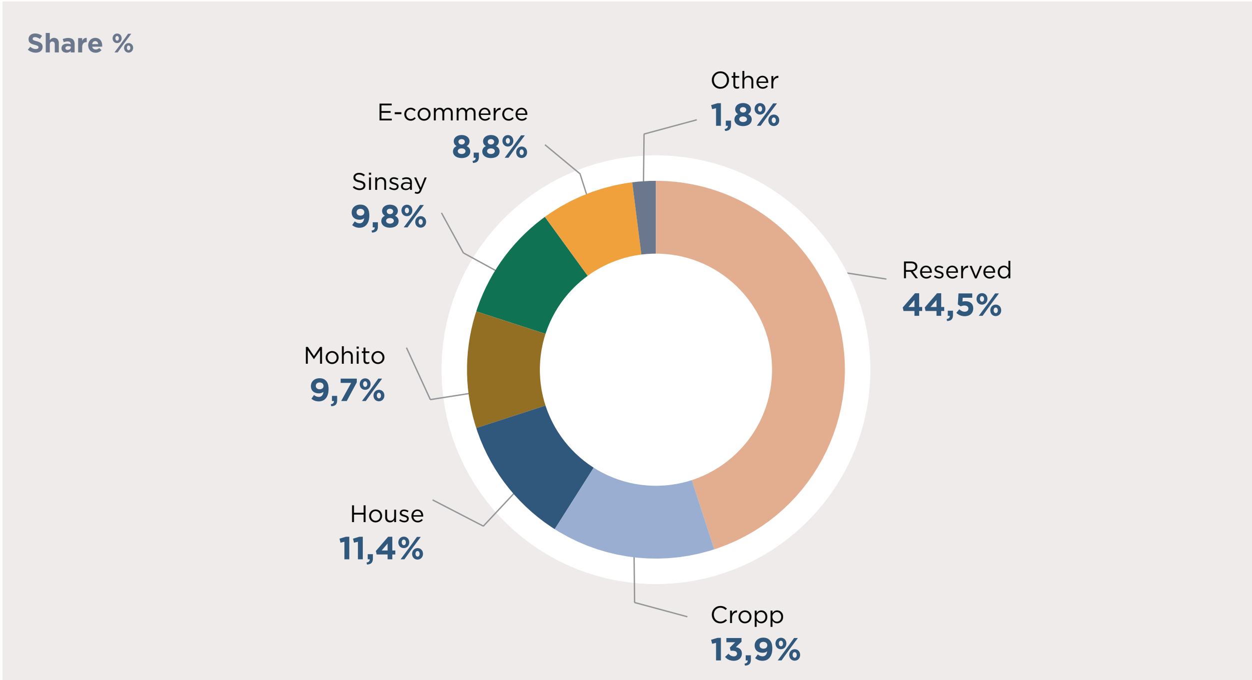
No	Company name	Registered office	Share in the capital
1.	LPP Retail Sp. z o.o.	Gdańsk, Poland	100%
2.	DP&SL Sp. z o.o.	Gdańsk, Poland	100%
3.	IL&DL Sp. z o.o.	Gdańsk, Poland	100%
4.	Printable Sp. z o.o.	Gdańsk, Poland	100%
5.	LPP Estonia OU	Tallinn, Estonia	100%
6.	LPP Czech Republic s.r.o	Prague, the Czech Republic	100%
7.	LPP Hungary KFT	Budapest, Hungary	100%
8.	LPP Latvia Ltd	Riga, Latvia	100%
9.	LPP Lithuania UAB	Vilnius, Lithuania	100%
10.	LPP Ukraina AT	Peremyshliany, Ukraine	100%
11.	RE Trading OOO	Moscow, Russia	100%
12.	LPP Romania Fashion SRL	Bucharest, Romania	100%
13.	LPP Bulgaria EOOD	Sofia, Bulgaria	100%
14.	LPP Slovakia s.r.o	Bańska Bystrzyca, Slovakia	100%
15.	LPP Fashion Bulgaria EOOD	Sofia, Bulgaria	100%
16.	Gothals Ltd	Nicosia, Cyprus	100%
17.	LPP Croatia DOO	Zagreb, Croatia	100%
18.	LPP Deutschland Gmbh	Hamburg, Germany	100%
19.	IPMS Management Services FZE	Ras Al Khaimah, UAE	100%
20.	LPP Reserved UK Ltd	Altrincham, UK	100%
21.	LLC Re Development	Moscow, Russia	100%
22.	LLC Re Street	Moscow, Russia	100%
23.	LPP Reserved doo Beograd	Belgrad, Serbia	100%
24.	P&L Marketing&Advertising Agency SAL	Beirut, Lebanon	97.32%
25.	LPP Kazakhstan LLP	Almaty, Kazakhstan	100.0%
26.	Reserved Fashion, Modne Zamke DOO namke DOO	Ljubljana, Slovenia	100.0%
27.	LPP BH DOO	Banja Luka, Bosnia and Hercegovina Hercegovina	100.0%

In 2018, we established 3 new subsidiaries, i.e. LPP Kazakhstan LLP, Reserved Fashion, Modne Zamke DOO and LPP BH DOO engaged in the distribution of products in, respectively, Kazakhstan, Slovenia as well as Bosnia and Hercegovina.

Additionally, on 25 May 2018, the General Meeting of Shareholders adopted a resolution on the granting of a consent for the transfer of an organised part of the enterprise of LPP SA, currently operating under Promostars brand, by contributing it as an in-kind contribution as to the subsidiary Printable Sp. z o.o. (previously Amur Sp. z o.o.).

OUR PORTFOLIO

We own five well-recognised brands: Reserved, Mohito, Cropp, House and Sinsay. Each of them is dedicated to a different group of customers representing various lifestyles, having different needs and expressing themselves in their own way.



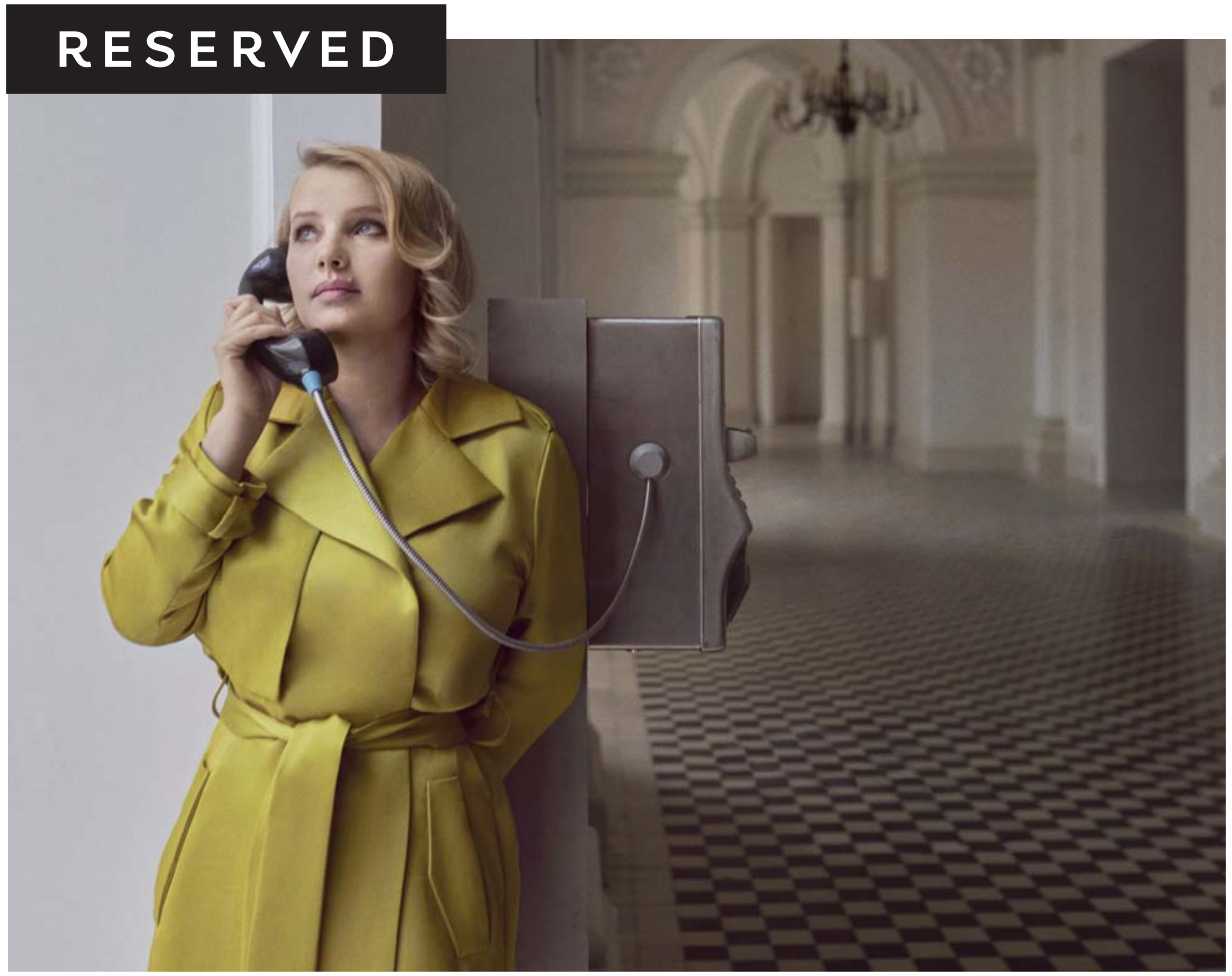
RESERVED

Reserved is a fashion brand reflecting the latest fashion trends in its collections. It responds very quickly to customer needs by offering new models in our stores every week. The world of fashion has no limits for Reserved: the brand gets its inspirations from the great catwalk world and from alternative and bold proposals of fashion influencers. That is why the Reserved collection combines the beauty of classic design with original latest fashion proposals for a given season for women, men and children.
www.reserved.com

Basic brand data for 2018:

Revenues in 2018 in PLN	PLN 3 578 mln
Change in % y/y	increase by 13.3% y/y
Number of retail stores:	464
Store area	616.7 thousand m^2
Change in % y/y	increase by 9.7% y/y
Number of markets and countries in which the brand is available in on-site stores	23
Countries in which the brand is available in online stores*	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Belarus, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Germany, Great Britain, Egypt, United Arab Emirates, Kuwait, Qatar, Israel
Countries in which the brand is available in online stores	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Romania, Germany, Great Britain

*in own stores only



CROPP

A streetwear brand present on the market since 2004, being part of urban space and widely understood urban lifestyle. It is addressed to young rebels submerged in urban culture, boys and girls who live in their own way, whose outfit emphasises their individual style. In the collections of the brand, the influences of pop and hip-hop culture, including the inspiration of graffiti, street art, urban sports and music, are clearly visible. When designing a collection, Cropp brand cooperates with illustrators and graffiti artists from all over the world. Cropp is also a partner of street art events.
www.cropp.com

Basic brand data for 2018:

Revenues in 2018 in PLN	PLN 1 120 mln
Change in % y/y	increase by 5.3% y/y
Number of retail stores:	373
Store area	134.0 thousand m^2
Change in % y/y	increase by 5.3% y/y
Number of markets and countries in which the brand is available in on-site stores	15
Countries in which the brand is available in online stores	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Belarus, Bulgaria, Romania, Croatia, Serbia
Countries in which the brand is available in online stores	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Romania, Germany

HOUSE

House is an optimistic fashion brand addressed to women and men – students and young adults. In House stores, there is something for everyone following the latest trends, who want to look good every day. House offers both casual look for any occasion and the latest trends which House designers find in social media, on catwalks and streets. The brand puts emphasis also on non-obvious and interesting styling.

House designers have extensive experience in skilful adaptation of fashion trend to the customers' expectations. In House collections, you can find fashionable clothes at prices affordable for everyone.
www.housebrand.com

Basic brand data for 2018:

Revenues in 2018 in PLN	PLN 920 mln
Change in % y/y	increase by 14.2% y/y
Number of retail stores:	332
Store area	116.2 thousand m²
Change in % y/y	increase by 5.1% y/y
Number of markets and countries in which the brand is available in on-site stores	15
Countries in which the brand is available in online stores	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Belarus, Bulgaria, Romania, Croatia, Serbia
Countries in which the brand is available in online stores	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Romania, Germany

MOHITO

Mohito is dedicated to female customers in love with fashion, valuing original urban elegance. Mohito designers create collections for self-confident women, aware of their strengths, who like to dress with a little bit of simplicity and stylish nonchalance. Mohito emphasises femininity and offers an energetic look reflecting global trends. Wearing Mohito, you will look great in business environment, at special events or after hours.
www.mohito.com

Basic brand data for 2018:

Revenues in 2018 in PLN	PLN 782 mln
Change in % y/y	decrease by 5.7% y/y
Number of retail stores:	296
Store area	109.4 thousand m²
Change in % y/y	increase by 5.4% y/y
Number of markets and countries in which the brand is available in on-site stores	15
Countries in which the brand is available in online stores	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Belarus, Bulgaria, Romania, Croatia, Serbia
Countries in which the brand is available in online stores	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Romania, Germany

SINSAY

Sinsay is the youngest brand in LPP's portfolio, created in 2013. This is addressed to loud, characteristic and highly expressive girls boldly following the latest trends. Thanks to Sinsay designs, girls can enjoy fashion, emphasizing their original personality. The undeniable strength of the brand is low prices, allowing teens to buy their dream T-shirts, jeans or fashionable accessories. Sinsay girls draw inspiration from the Internet; there – on social media channels – the brand focuses its marketing activity.
www.sinsay.com

Basic brand data for 2018:

Revenues in 2018 in PLN	PLN 789 mln
Change in % y/y	decrease by 29.3% y/y
Number of retail stores:	272
Store area	103 thousand m^2
Change in % y/y	increase by 21.8% y/y
Number of markets and countries in which the brand is available in on-site stores	15
Countries in which the brand is available in online stores	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Belarus, Bulgaria, Romania, Croatia, Serbia
cc	Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Romania, Germany

OUR BUSINESS MODEL

Our business model is defined in 4 steps:

STEP 1: DESIGNING

3 design offices in Poland

Over **250** designers

5 different brands

STEP 2: MANUFACTURING

Over **1 100** suppliers from Asia and Europe

No own manufacturing plants

2 representative offices in Asia (China and Bangladesh), supporting the manufacturing process

4.2 mln products manufactured annually in Poland

STEP 3: DISPATCH AND LOGISTICS

3 distribution centres:

Distribution centre in Pruszcz Gdański

Distribution centre in Moscow

Distribution centre in central Poland

2 distribution centres in construction:

Distribution centre in Brześć Kujawski

Distribution centre in Romania

STEP 4: SALES

1 765 stores in **23** countries on **3** continents

212 mln pieces of clothing sold in 2018

Basic distribution channels ensuring the development of LPP are chains of Reserved, Cropp, House, Mohito and Sinsay stores and on-line stores of each of the above-listed brands. Individual customers are the recipients of products both in regular and online stores.

Percentage share of specific modes of transport in 2018:

Imports

Maritime transport **87%**

Road transport **7%**

Air transport **3%**

Railway transport **3%**

Exports (dispatch to brand stores and e-commerce)

Road transport **100%***

*by November 2018, 1% of e-commerce dispatches were executed in a combined model handled by UK companies (air and road transport).

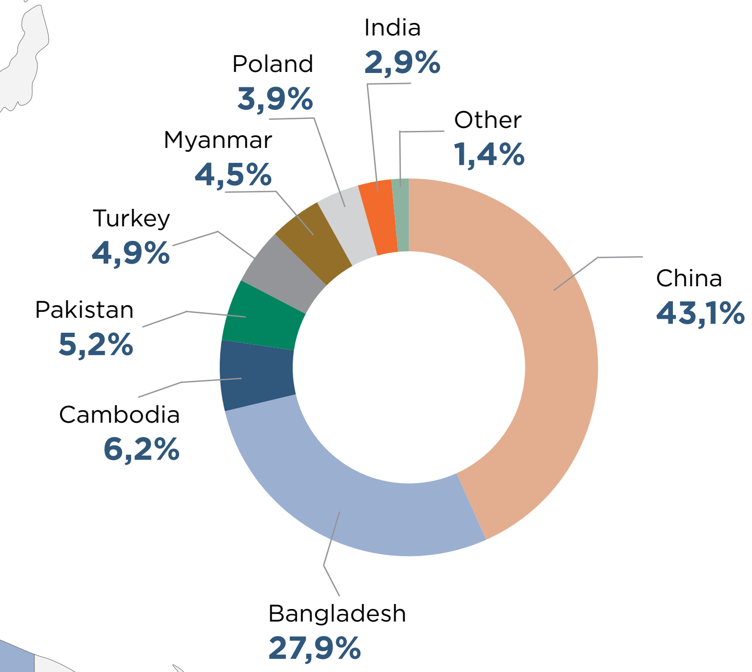
OUR SUPPLIERS

We have no own manufacturing plants and, therefore, the sewing of designed collections is outsourced to external companies. This model is very popular in the textile industry. Consequently, specific parts of our collections are manufactured in plants specialising in individual types of clothing.

Cooperating manufacturing plants are located in Poland, Europe and Asia.

In 2018, none of individual suppliers manufactured goods of a value exceeding 6% of total purchases. In 2019, the majority of orders were executed in China 43.1%, Bangladesh 27.9%, Cambodia 6.2%, Pakistan 5.2%, Turkey 4.9%. Polish plants manufacture 3.9% of products ordered.

Value share of purchases on particular supply markets



OUR RECIPIENTS

Final recipients of our products both in on-site and online stores are individual customers.

Direct recipients of LPP SA products are subsidiaries and non-affiliated entities (mainly franchise partners).

LPP SA sold goods in 32.8% on foreign markets, with 98% of goods being sold to subsidiaries building the chains of Reserved, Cropp, House, Mohito and Sinsay stores in their area and are supplied with trading commodities by LPP SA. A share of one of the recipients affiliated with LPP SA exceeded 10% of the Company's sales in 2018. That company was Re Trading OOO, a Russian subsidiary. The sale to that company amounted to PLN 790.7 million, which accounted for 12.4% of revenues of LPP SA. The share of other recipients did not exceed 10% of sales of LPP SA.

Due to the specific character of some of local markets, we decide to sell goods in the franchise model based on which our products are sold by entities more experienced in this area, i.e. local business partners. They are responsible for finding the best location, the construction of a store in line with our standards and for managing such brand store.

In 2018, exports sales to entities not belonging to the LPP SA CG w 2018 amounted to PLN 40 962 thousand, thus accounting for 0.6% of revenues of LPP SA.

Main exports recipients not affiliated with LPP are companies from Belarus, Egypt, Qatar, Israel, Kuwait and United Arab Emirates.

OUR MARKET PRESENCE

We operate in 23 countries on 3 continents, offering our products to customers in 1 765 retail stores of the total area of 1 091.3 thousand m².

Adjusting to the increasing popularity of online purchases, we are present online on 11 markets.

Number and area of stores in m² by brand

	Reserved	Cropp	House	Mohito	Sinsay
Number of stores	464	373	332	296	272
Area of stores in m²	616,7	134,0	116,2	109,4	103,0

LPP Group in the world

KEY EVENTS IN 2018

FEBRUARY

We opened 3 new franchise stores in Belarus (2 House store and 1 Sinsay store). The total retail space is 1 800 m².

We launched the fifth e-store in Russia for the Cropp brand.

MARCH

Launching of the global Reserved campaign starring world star Cindy Crawford.

MAY

We published the first integrated report presenting our responsible approach.

JUNE

We organised the Fashion Tech conference summing up our investments in new technologies in the overall supply chain.

JULY

We made a decision to build another distribution centre. The new centre will be located in Brześć Kujawski.

LPP founders transferred their shares in LPP to a foundation to preserve the identity of LPP as Polish family-run company.

AUGUST

In cooperation with our franchise partner H&O Fashion Chains, we opened the first Reserved store in Israel. The store of an area of 730 m² is located in a commercial centre in Tel Aviv.

SEPTEMBER

The worldwide debut of the Reserved campaign "I Can Boogie" starring Joanna Kulig and Jeanne Damas.

We entered the Slovenian market, the fifth country in the Balkans.

We opened the 20th Reserved store on the German market, in Frankfurt – a brand store of an area of 2 644 m² at Zeil.

OCTOBER

We signed the agreement on the lease of a distribution centre in Romania, which will facilitate efficient handling of online sales of all brands in the South-East Europe.

We opened the first brand store in Kazakhstan – the 23rd market. The Reserved store of an area of 2 385 m^2 was opened in Dostyk Plaza shopping mall in Almaty.

In Serbia, we opened retail stores of 5 brands, of the total area of 5 120 m^2.

NOVEMBER

We opened new stores in Kazakhstan, i.e. the second Reserved store as well as Cropp, House, Mohito and Sinsay stores, and new stores of all brands in further cities in Romania.

DECEMBER

The launching of the New Year's Eve collection of the Reserved brand, created in cooperation with stylists of the British Vogue, reflecting the atmosphere of the famous NY nightclub Studio 54, designed in the glamour style of the 70-ies.

OUR FINANCIAL POSITION AND RESULTS FOR 2018

NUMBER OF OUR STORES AND RETAIL SPACE

At the end of 2018, we had the chain of 1 765 stores, of the total area of 1 091.3 thousand m^2, operating in 23 countries. Abroad, we operated 806 stores (561.8 thousand m2). Compared with 2017, the total retail space increased by 9.1%.

Compared with 2017, the largest nominal increase in space was recorded by the Reserved brand (54.4 thousand m2) owing to stores launched in new countries. The growth dynamics was the largest in Sinsay (21.8% y/y), owing to, among others, consistent development both domestically and abroad.

	2018	2017	
	Number of stores	Number of stores	Change y/y
Reserved	464	468	-4
Cropp	373	381	-8
House	332	333	-1
Mohito	296	294	2
Sinsay	272	233	39
Outlets	28	34	-6
Total LPP CG	**1 765**	**1 743**	**22**

	2018	2017	
	Area (thousand m^2)	Area (thousand m^2)	Change y/y (%)
Reserved	616,7	562,3	9,7%
Cropp	134,0	127,2	5,3%
House	116,2	110,6	5,1%
Mohito	109,4	103,8	5,4%
Sinsay	103,0	84,6	21,8%
Outlets	12,0	12,1	-0,8%
Total LPP CG	**1 091,3**	**1 000,6**	**9,1%**

SALES BY BRAND

The highest nominal sales growth in 2018 was recorded by Reserved owing to highly-appreciated collections and consistent space development (new stores opened, including new markets such as Israel, Slovenia and Kazakhstan, and extension of existing stores). The largest sales dynamics in 2018 was recorded by Sinsay owing to a successful collection and dynamic space development.

Sales in retail stores of specific brands and online for 2018 is given in the table below.

In PLN mln	2018	2017	
	Sales	Sales	Change y/y (%)
Reserved	3 578	3 160	13,3%
Cropp	1 120	1 064	5,3%
House	920	805	14,2%
Mohito	782	829	-5,7%
Sinsay	789	610	29,3%
E-commerce	712	361	97,3%
Other	146	201	-27,4%
Total	**8 047**	**7 029**	**14,5%**

OUR SALES IN LFL STORES

In 2018, sales revenue in like-for-like (LFL) stores in local currencies increased by 7.2%.

In 2018, all brands recorded positive LFL growths, except Mohito. The largest (two-digit) growths in LFL were recorded by House.

The largest (two-digit) growths in LFL were recorded by Romania, Ukraine, Hungary, Lithuania, Russia and Latvia.

ONLINE SALES

In 2018, the LPP SA CG generated revenue of PLN 712 mln from online sales, i.e. 97.3% more than a year ago. High two-digit growths in online sales result from the development of e-stores outside Poland, marketing expenses (cooperation with fashion bloggers and influencers) and changes in Polish customers' habits (Sunday trading ban). In 2018, revenues from online sales accounted for 8.8% of the Group's sales and 10.2% of domestic revenues. Approx. 61% of online sales were generated by domestic sales.

	2018	2017	Change y/y (%)
Sales in PLN mln	712,1	360,8	97,3%

SALES REVENUES BROKEN DOWN BY COUNTRY AND REGION

In 2018, our Group recorded a dynamic sales growth in Europe, resulting from high dynamics in CEE and SEE countries. A dynamic growth in sales was generated also by all countries of the CIS region. In 2018, the highest nominal growth in revenues y/y was recorded in Poland.

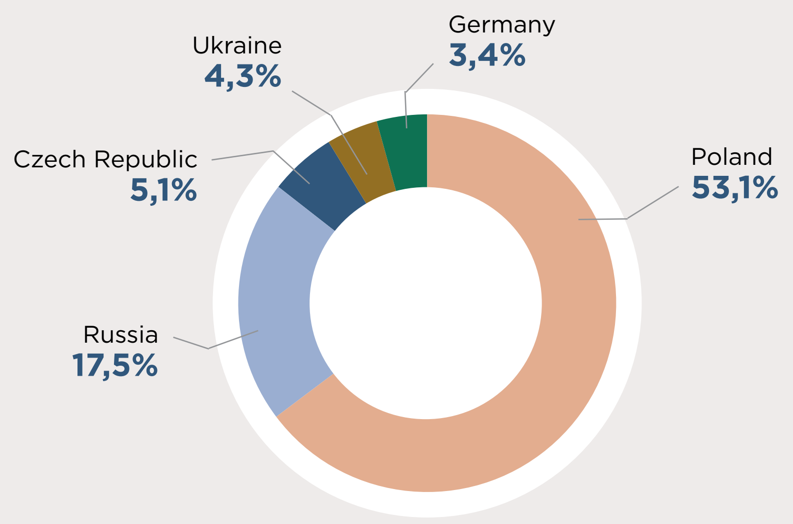
Revenues from sales generated by our companies operating in specific countries and regions are given in table below (with the exclusion of intra-Group sales):

Country	Revenues in 2018	Revenues in 2017	Change y/y (%)
Poland	4 274 487	3 906 007	9,4%
Czech Republic	412 477	343 184	20,2%
Slovakia	249 086	208 324	19,6%
Hungary	178 575	114 611	55,8%
Lithuania	131 110	112 067	17,0%
Latvia	98 796	83 863	17,8%
Estonia	128 104	98 807	29,7%
Russia	1 404 776	1 261 703	11,3%
Ukraine	344 509	269 580	27,8%
Belarus*	17 293	11 125	55,4%
Kazakhstan	3 558	-	-
Bulgaria	82 438	61 693	33,6%
Romania	251 898	178 148	41,4%
Croatia	96 657	73 451	31,6%
Serbia	29 252	4 152	604,6%
Slovenia	2 338	-	-
Germany	274 115	262 184	4,6%
Great Britain	45 575	16 387	178,1%
Middle East*	21 712	24 139	-10,1%
Total	**8 046 756**	**7 029 425**	**14,5%**

Poland	Revenues in 2018	Revenues in 201777	Change y/y (%)
Other European countries	4 274 487	3 906 007	9,4%
CIS	1 980 419	1 556 870	27,2%
Middle East*	1 770 137	1 542 409	14,8%
Total	21 712	24 139	-10,1%
Razem	8 046 756	7 029 425	14,5%

* Revenues from the Middle East countries and Belarus are generated by franchise stores.

TOP 5 countries by revenues



SALES BY M²

In 2018, retail sales per m2 of the LPP CG (in on -site stores) decreased by 0.8% compared to the preceding year.

	2018	2017	Change y/y
Retail sales m2/month in PLN*	613	618	-0,8%

* This indicator is calculated as sales in own stores by the area of own stores.

OPERATING COSTS

Our operating costs include costs of own stores, costs of franchise stores and head office costs. Costs of own stores are generated by rental, payroll and other costs while the head office costs comprise, among others, costs of the head office in Gdańsk, offices in Cracow and Warsaw, offices of foreign subsidiaries and logistics costs.

In 2018, the Group recorded an increase in operating costs by 13.9%, mainly due to the increase in head office costs resulting from the increased costs of logistics, e-commerce and marketing.

	2018	2017	Change y/y (%)
Operating costs (in PLN mln)	3 532	3 100	13,9%
Operating costs per m²/month	291	280	3,8%

CAPITAL INVESTMENTS AND EXPENDITURES

Apart from capital engagement in subsidiaries, we had no other capital investments, while financial surpluses yielded were designated, first of all, for overdraft repayment and, subsequently, allocated for negotiated bank deposits and money market funds.

In 2018, our capital expenditures (CAPEX) amounted to PLN 798 mln, of which PLN 490 mln were designated for the construction of new brand stores and modernisation of existing stores both domestically and abroad. We spent PLN 75 mln on the construction and extension of our offices. Capital expenditures in logistics, amounting to PLN 179 mln, were made for the expansion of the existing Distribution Centre in Pruszcz Gdański and the commenced investment involving a new distribution centre in Brześć Kujawski. IT expenditures amounted to PLN 53 mln. In total, capital expenditures in 2018 were 81.0% higher compared to 2017, with such increase resulting from investments made for extending our brand stores, offices and the Distribution Centre.

INVENTORY

The inventory level and its optimisation are important elements of working capital management – it is important to observe inventory per m² over time. Our inventory consists of goods in stores, goods in warehouses (including those handling online stores) and merchandise in transit - from the manufacturer to a logistics centre. We strive at minimising inventory and, at the same time, maintaining a sufficient product volume to maximise sales. In 2018, the inventory level per m² was lower by 1.0% compared to 2017 due to space development and more effective inventory management.

	31.12.2018	31.12.2017	Change (%)
Inventory (PLN mln)	1 590	1 475	7,8%
Inventory per m² in PLN	1 474	1 489	-1,0%

BALANCE SHEET AND NON-BALANCE SHEET DEBT

The Group applies a centralised liquidity management model: the Parent Company (LPP SA) purchases goods and distributes them to subsidiaries and, next, subsidiaries pay the parent company for those goods in a local currency. LPP SA is vested with decision-making capacities in terms of the flow of receivables, foreign currency exchange and the incurring of financial liabilities.

LPP has multi-purpose credit lines in 7 banks, in the total amount of PLN 1.3 billion at the end of 2018, utilised for bank guarantees, letters of credit for trade financing or as a revolving loan. At the end of 2018, amounts used based on specific products of the said credit lines of LPP were, respectively: PLN 145.7 mln, PLN 361.8 mln, PLN 78 mln.

At the same time, our two subsidiaries, i.e. the Russian and Ukrainian companies, use credit lines extended by local banks. At the end of 2018, their value and consumption (converted to PLN) were, respectively: PLN 225 mln and PLN 119 mln.

Additionally, we use a supplier financing programme (reversed factoring), which was utilised at the end of 2018 in the amount of PLN 552 mln.

Furthermore, we have a long-term debt to finance the expansion of the logistics centre and the head office.

Due to the seasonality of sales, we increase the financing of purchases with a bank loan in the first and third quarter to finance inventories, and reduce lending in the second and fourth quarters, during periods of regular sales. We strive at minimising the level of debt in order to maintain financial security. At the same time, due to strong operating cash flows, at the end of 2018, the Group had PLN 1 045 mln in cash, and, after deducting the credit debt, we showed PLN 753 mln compared to PLN 316 mln a year ago. Additionally, we had PLN 55.4 mln in money market funds (financial assets), which are not shown in “cash” item. Net cash in PLN thousand is shown in the table below. Credit consumption as at 31 December 2018 is shown in a relevant table in consolidated financial statements (note 23) and separate financial statements (note 25).

	31.12.2018	31.12.2017	Change y/y (%)
Short-term debt	203 196	56 496	259,7%
Long-term debt	88 575	141 824	-37,5%
Cash	1 044 969	514 790	103,0%
Net debt (net cash)	**-753 198**	**-316 470**	**138,0%**

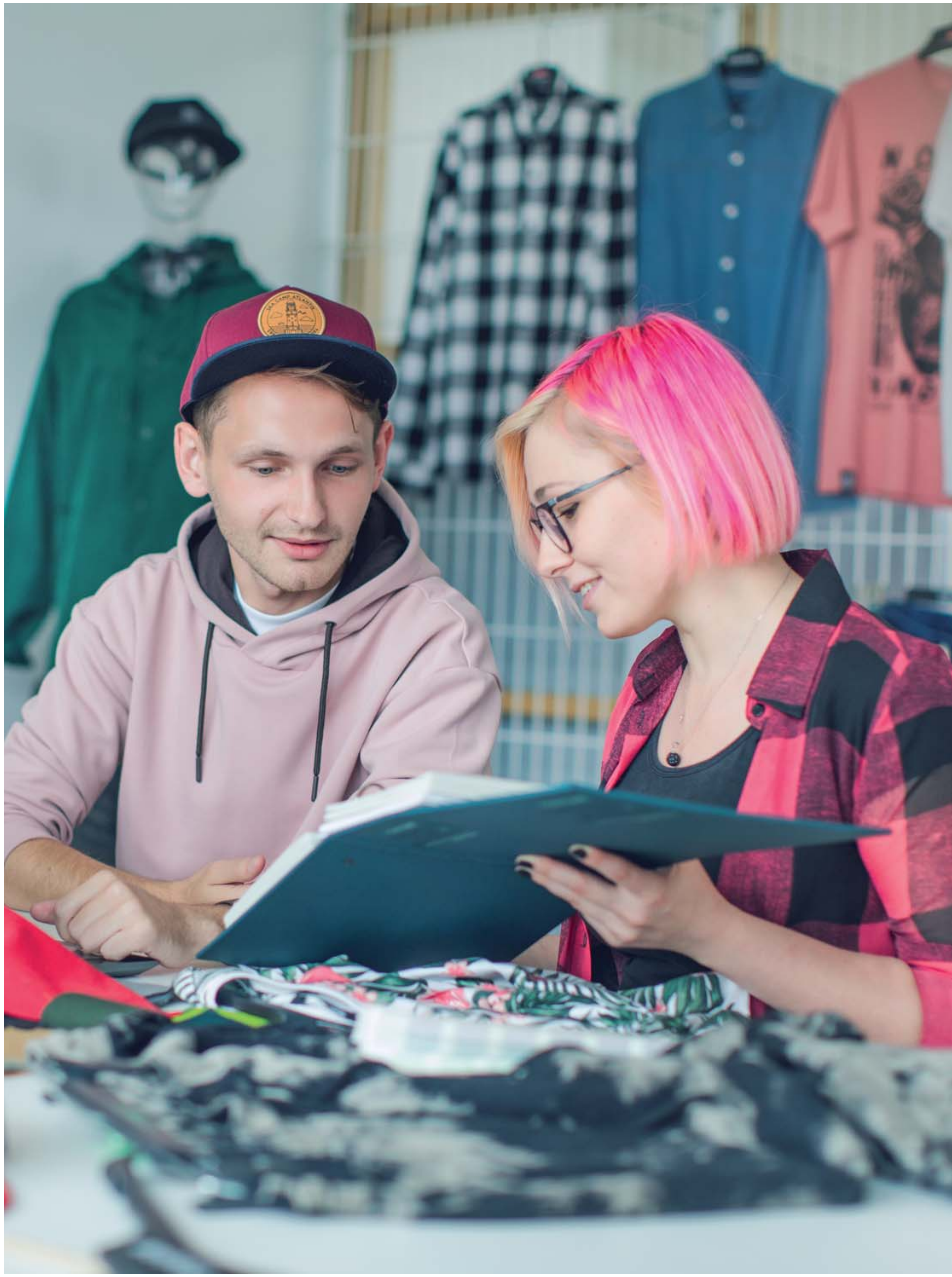
EQUITY (STRUCTURE OF OUR ASSETS AND LIABILITIES)

The assets of our Group comprise two major components: (1) fixed assets being store fixtures and equipment, in the amount of PLN 1 818 mln, and (2) inventories of trading commodities in the amount of PLN 1 590 mln as at the end of 2018. The value of fixed assets will increase along with development of our sales network and the increase in the number of stores. The volume of inventories depends also on the size of retail space and increases as subsequent online stores are being launched. At the same time, we work on diminishing our financial engagement in inventories by reducing store replenishment and, simultaneously, by accelerating goods rotation which should translate into an increased efficiency of operations.

The LPP SA Capital Group pursues a conservative liabilities management policy aimed at maintaining a safe financing structure i.e. maintaining an over 50% share of equity capital in liabilities (at the end of 2018, the share of equity capital in liabilities was 53.2%, with equity capital amounting to PLN 2 861 mln). We finance our operations also with liabilities owed to suppliers (aiming at prolonging a liabilities turnover cycle) and employing investment and current bank loans. At the end of 2018, the balance of bank loans was PLN 292 mln and was higher by PLN 93 mln compared to the balance as at the end of the preceding year.

BASIC ECONOMIC AND FINANCIAL FIGURES OF THE CAPITAL GROUP AND SELECTED INDICATORS

	31.12.2018	31.12.2017	Change y/y (%)
Revenues	8 046 756	7 029 425	14,5%
Gross profit on sales	4 401 259	3 727 113	18,1%
General sales and administrative costs	3 532 173	3 099 939	13,9%
EBITDA	1 105 723	871 863	26,8%
Operating profit	756 560	578 434	30,8%
Net profit	505 176	440 851	14,6%
Equity	2 860 553	2 443 446	17,1%
Liabilities and provisions for liabilities:	2 558 047	1 887 397	35,5%
Long-term liabilities	346 148	324 377	6,7%
Short-term liabilities:	2 211 899	1 563 020	41,5%
- bank loans	203 196	56 496	259,7%
- trade liabilities	1 497 511	1 325 278	13,0%
Non-current assets	2 417 752	2 041 365	18,4%
Current assets	2 963 056	2 289 463	29,4%
Inventories	1 590 368	1 475 187	7,8%
Trade receivables	156 252	199 648	-21,7%



PROFITABILITY RATIOS

	2018	2017	Change y/y (pp)
Gross profit margin on sales	54,7%	53,0%	1,7
Operating profit margin	9,4%	8,2%	1,2
Return on sales (ROS)	6,3%	6,3%	0,0
Return on assets (ROA)	10,4%	11,0%	-0,6
Return on equity (ROE)	19,0%	19,3%	-0,2

gross profit margin on sales – gross profit on sales divided by revenues from sales of goods and services
operating profit margin – operating profit divided by revenues from sales of goods and services
Return on Sales – net profit divided by revenues from sales of goods and services
Return on Assets – net profit divided by average assets during the financial year
Return on Equity – net profit divided by average equity during the financial year

LIQUIDITY RATIOS

	2018	2017	Change y/y (pp)
Current liquidity ratio	1,3	1,5	-8,5%
Quick liquidity ratio	0,6	0,5	19,1%
Inventory turnover (days)	153	146	5,2%
Receivables turnover (days)	8	9	-14,8%
Trade payables turnover (days)	141	122	15,9%

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

ASSET MANAGEMENT RATIOS

	2018	2017	Change y/y (pp)
Fixed assets to equity ratio	118,3%	119,7%	-1,4
Total debt ratio	47,5%	43,6%	4,0
Short-term debt ratio	41,1%	36,1%	5,0
Long-term debt ratio	6,4%	7,5%	-1,1

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

FACTORS AND EVENTS (INCLUDING OF EXTRAORDINARY NATURE) HAVING A MAJOR IMPACT ON OUR OPERATIONS AND FINANCIAL STATEMENTS OF THE CG, INCLUDING PROFIT EARNED

In 2018, the increase by 14.5% in sales revenues compared to the previous year was achieved owing to very goods sales through both channels: traditional stores (specifically Reserved and Sinsay) and e-commerce. The increase in sales in traditional stores resulted from increased retail space (by 9.1% y/y) and positive LFLs. The increase in online sales stemmed from geographical growth and marketing outlays.

In 2018, the trade margin increased to 54.7%, i.e. by 1.5 pp compared to 2017 as a result of advantageous foreign exchange trends and highly appreciated collections of the majority of our brands. Operating costs increased in 2018 by 13.9%, with growth values lower than the increase in sales revenues. Additionally, in 2018, other net operating income had a less favourable impact y/y due to provisions.

As regards financial activity, in 2018, we recorded increased financial costs compared to the previous year mainly due to foreign exchange differences. Consequently, in 2018, the LPP CG generated net profit of PLN 505 176 thousand, i.e. 14.6% higher y/y/ and the largest in history.

BASIC ECONOMIC AND FINANCIAL FIGURES OF LPP (PARENT COMPANY)

	31.12.2018	31.12.2017	Change y/y (%)
Revenues	6 368 237	5 623 900	13,2%
Gross profit on sales	2 745 068	2 295 201	19,6%
General sale and administrative costs	2 290 702	2 040 914	12,2%
EBITDA	564 974	389 247	45,1%
Operating profit	382 942	231 639	65,3%
Net profit	**592 295**	**493 427**	**20,0%**
Equity	3 075 142	2 547 402	20,7%
Liabilities and provisions for liabilities:	2 105 901	1 671 951	26,0%
Long-term liabilities	237 490	265 242	-10,5%
Short-term liabilities:	1 868 411	1 406 709	32,8%
- bank loans	89 695	56 496	58,8%
- trade liabilities	1 363 900	1 218 218	12,0%
Non-current assets	3 067 956	2 508 755	22,3%
Current assets	2 075 310	1 710 598	21,3%
Inventories	1 164 410	1 105 622	5,3%
Trade receivables	123 134	313 210	-60,7%

FINANCIAL INSTRUMENTS

In line with the International Accountancy Standards on the detailed principles for the recognition, measurement, disclosure and presentation of financial instruments, the following financial instruments were identified in the LPP SA Capital Group:
- borrowings granted,
- bank loans taken out,
- bank deposits,
- participation units in money market funds,
- derivatives transactions – forward foreign exchange contracts aimed at managing foreign exchange risk involved in the purchase of trading commodities abroad.

The Group also identified embedded derivatives related to:
- retail space lease agreements, with rent calculated based on foreign exchange rates,
- receivables in foreign currencies, relating to the sales of trade commodities to foreign contracting parties.

Embedded derivatives are neither measured nor shown in the balance sheet, which is compliant with IAS on the detailed principles for the recognition, measurement, disclosure and presentation of financial instruments.

GOALS SET AND FINANCIAL RISK MANAGEMENT METHODS

FINANCIAL LIQUIDITY RISK

The business model adopted by our Group (sale of goods for cash to an end-purchaser) guarantees that the Company will generate, on a constant basis, day-to-day cash proceeds, and that the Company will not be dependent on single large recipients. Liquidity management consists in goods management, in determining adequate prices and margins and in the strict auditing of costs and expenses. The Company's liquidity is audited by way of day-to-day monitoring of the balance of bank accounts, creating cash flow forecasts for monthly periods and the planning of cash flows between subsidiaries and LPP SA.

CREDIT RISK

The priority of the Management Board of LPP SA in the finance area is the earning by the Capital Group of profit in an amount enabling the daily handling of credit liabilities and ensuring funds for the Group's further development. LPP makes endeavours to maintain borrower's creditworthiness at a high level – by paying, on a day-to-day basis, all of its liabilities, by increasing sales and optimising costs, and by adequate future planning to recognise beforehand any upcoming hazards. Financial ratios, including debt ratios, are monitored.

RISK IN GUARANTEES GRANTED

Guarantees granted by LPP relate to the lease of, mainly, retail space and, to a lesser extent, office and warehouse space or to the operations of subsidiaries, in which LPP holds 100% shares and controls their business. Consequently, the risk in guarantees granted is being reduced to the minimum.

INTEREST RATE RISK

Bank loans taken out by LPP are charged with a variable interest rate depending on changes in market interest rates. According to the Management Board, based on the analysis of changes in interest rates in previous periods, any potential increase of this parameter, determining the costs of bank loans taken out, may not substantially affect the financial results achieved.

CURRENCY RISK

The basic settlement currency for a majority of transactions involving the purchase of trade commodities is USD. A minor part of settlements in that respect is made in EUR. The majority of sales proceeds is earned in PLN. Therefore, the Company has decided to start hedging the USD/PLN exchange rate by entering into forward contracts for payments in USD to suppliers. The transactions are aimed at minimising foreign exchange differences in financial operations (that is below operating profit). Apart from the currency risk involved in the settlement currency applied for purchasing trade commodities, there is also a risk related to the settlement of rents under retail space lease agreements in EUR.

MANAGEMENT OF FINANCIAL RESOURCES

The LPP SA Capital Group fulfils all relevant obligations against the State and contracting parties on an on-going basis. Our basic business model consisting in retail sales allows to receive immediate payments for goods sold. Proceeds generated and bank loan agreements concluded safeguard in full the discharge of liabilities incurred.

CREDIT COMMITMENTS

Our internal policy of entering into and paying credit commitments is centralized and implemented by LPP SA, the Parent Company. The only exceptions from this rule are two subsidiaries: LPP Russia and LPP Ukraine, utilising short-term borrowings in the form of revolving loans (extended by local banks in Russia and Ukraine), with such commitments being repaid from on-going inflows.

As part of short-term borrowings, LPP SA may utilise overdrafts which are used occasionally if need be and repaid from on-going inflows. Furthermore, the Company utilises long-term loans for financing investment projects.

FINANCIAL SURPLUSES

LPP SA designates financial surpluses for, first of all, the repayment of overdrafts. Subsequently, the Company allocates financial means for negotiated bank deposits and monetary funds. In line with our internal policy, financial resources are allocated with due consideration of geographic and currency diversification and diversification in the meaning of entities accepting deposits of funds.

TRANSFER PRICE POLICY AND CURRENCY MANAGEMENT CENTRALISATION

By selling goods to subsidiaries and also by applying the Transfer Price Policy, LPP SA regulates their profitability and the flow of revenues from invoices issued to them. By centralising the money flow received as given above from part of revenues yielded by subsidiaries, LPP SA generates multi-currency revenues. The FC position is managed based on spot and futures transactions. The Company enters in currency operations with financial institutions both domestically and abroad.

FINANCIAL PRODUCTS

LPP SA substantially diversifies financial institutions and products utilised. Both partners cooperating with the Company and financial products themselves are revised and renegotiated on a regular basis. Furthermore, LPP SA actively participates in choosing institutions and their financial products utilised locally by subsidiaries.

Apart from currency risk, the LPP SA Capital Group does not apply any risk-hedging instruments within the above-mentioned scope.

OUR STRATEGY, PLANS, PERSPECTIVES AND DEVELOPMENT DIRECTIONS

For several years now, our strategy has been invariably based on three pillars:
– development of our 5 fashion brands,
– foreign expansion and further extension of the on-site store chain and
– development of online stores by increasing their availability in new countries.

Our goal is to become a global company with brands recognisable all over the world.

BRAND EXPANSION

Our strategy is to further develop five existing brands. We concentrate on attracting new customers and making current customers even more satisfied.

As evidenced by our history, we have been able to implement our strategy effectively. We started with the Reserved brand in 1998, to reach the current number of five brands in our portfolio.

Our brands are dedicated to different customer groups, starting from children (part of the Reserved brand) through teenagers (Cropp, House, Sinsay) to more mature customers (Reserved, Mohito). All brands fall within a moderate price range. At present, we have no plans for creating any new brands, with our efforts being concentrated on developing the brands we already own.

Brand expansion

1998	Reserved
2004	Cropp
2005	Esotiq *(sold 2010/2011)*
2008	House, Mohito *(both brands acquired due to the acquisition of Artman)*
2013	Sinsay
2016	Tallinder *(the brand closed in 2017)*

FOREIGN EXPANSION AND FURTHER EXTENSION OF THE ON-SITE STORE NETWORK

Brand development would not be comprehensive if not effected in specific countries. Our goal is to diversify the Group's revenues, i.e. to increase the share of sales abroad. Currently, revenues from the domestic market constitute approx. 53% of our Group's revenues.

Our long-term goal is to gradually increase the presence of our collections on new markets worldwide by launching our operations on at least one market every year on a constant basis.

A new market potential is usually verified by introducing Reserved and, at later stages, other brands as currently done in Western Europe and in the Middle East.

Today, we are present in six geographic territories on three continents, with each of them having different development perspectives:

- **Central and Eastern Europe (CEE),** covering countries such as Poland, Slovakia, Hungary, is a mature market due to the long-standing presence of our brands in this area.
- **Baltic Sea Region (BSR),** with our stores operating in Lithuania, Latvia and Estonia. Just like CEE markets, these three markets are considered mature, with emphasis put mainly on quality and not the number of stores. Therefore, according to our strategy, we plan to implement the project involving modernisation of our on-site store chain, including, among others, gradual development of concepts of our stores in the BSR. Additionally, in recognition of the plans of LPP's further expansion abroad and the debut in Finland planned in 2019, Estonia will become a market supporting and facilitating the said process.
- **CIS region,** i.e. Russia, Ukraine, Belarus, Kazakhstan – these are the markets where we see a long-term development potential, specifically as regards the Russian market.
- **SEE countries,** i.e. Bulgaria, Romania, Croatia, Serbia and Slovenia, are markets with a large development potential for LPP's brands. In 2019, we plan to strengthen our presence there by opening brand stores in Bosnia and Hercegovina.
- **Western Europe, i.e. Germany and Great Britain,** - this is an early growth region with a substantial development potential. In Germany, we operate 19 brand stores in key cities and, at present, we plan no new openings on this market. Our goal is to increase recognisability of LPP's brands based on the current commercial network in Germany and to gradually increase its profitability.

  In Great Britain, we have pursued business activity since 2017, having launched our flagship store located in a prestigious venue – at the famous Oxford Street in London. In the years to come, we plan to increase the presence of our brands in Western Europe, specifically in fashion capitals such as Milan or Paris. As part of our strategy in this region, we intend to build recognisability of the Reserved brand, which will allow us to become a company operating globally.
- **Middle East, i.e. Egypt, Qatar, Kuwait, United Arab Emirates, Israel.** We expand our presence in this region in cooperation with a franchise partner. For us, this is an early growth region, with quite a potential recognised specifically in Israel.

Owing to expansion effected by developing on-site store chains, in 2019, we plan to increase our retail space by 11% compared to 2018.

Expansion by country:

1998	Poland
2002	Russia, Latvia, Estonia, the Czech Republic, Hungary
2003	Ukraine, Slovakia, Lithuania
2014	Croatia, Germany
2015	Egypt, Qatar, Kuwait, Saudi Arabia
2016	United Arab Emirates
2017	Great Britain, Belarus, Serbia
2018	Kazakhstan, Slovenia, Israel
2019	Bosnia and Hercegovina, Finland

EXPANSION BY DEVELOPING ONLINE STORES IN SPECIFIC COUNTRIES

In response to changing customer preferences and habits as well as omnipresent digitalisation and consequent retail market transformation, our strategy provides for the development of the online store network, apart from the development of on-site stores. We see our future in joining both of these channels, i.e. in the omnichannel. Therefore, we invest in logistics and technology (RFID, Store Vision, big data, m-commerce).

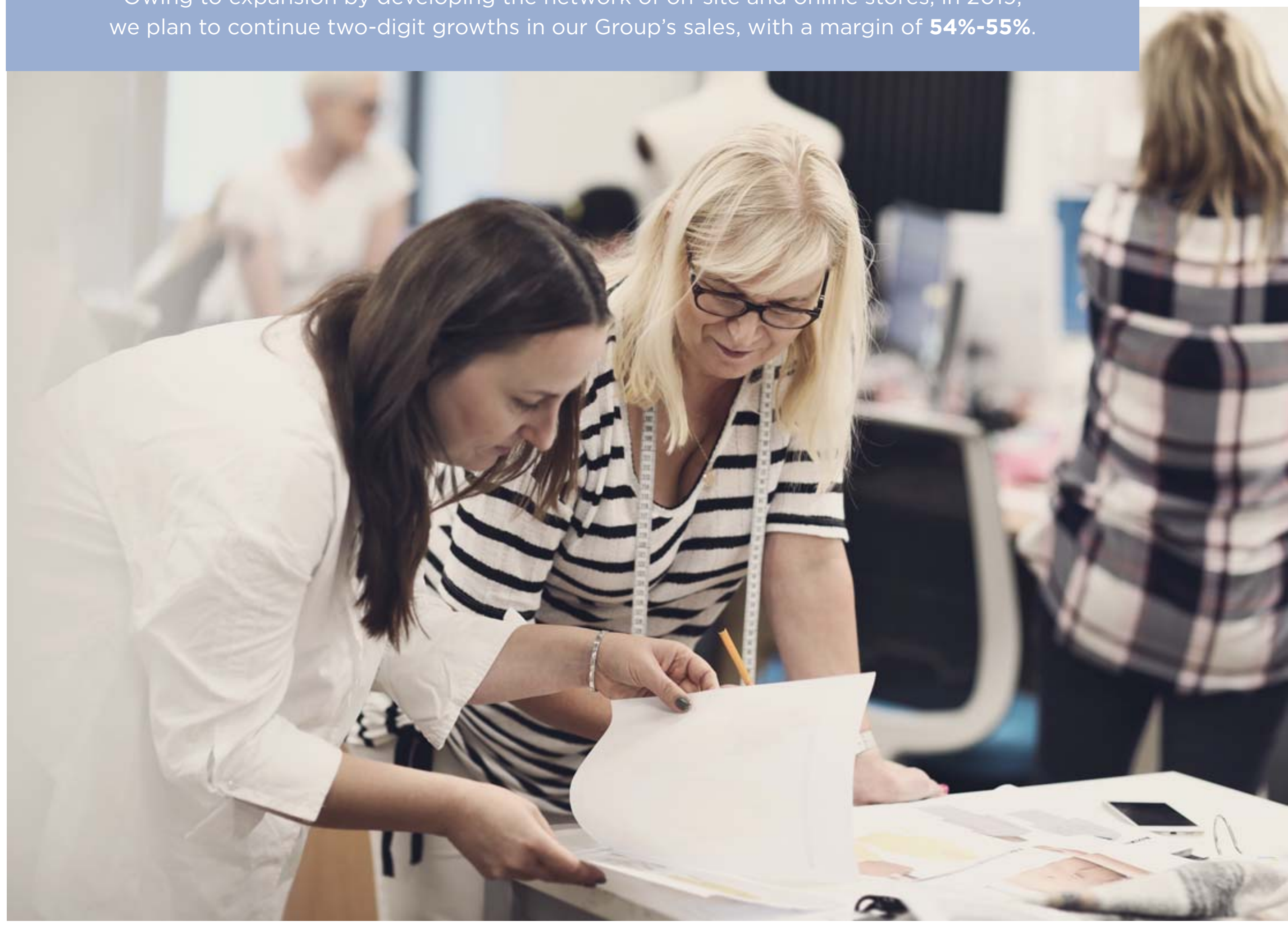
In line with our strategy, we plan to have online stores of five brands in all countries where we pursue traditional activity.

In 2019, we plan to launch a Pan-European online store operating in the entire European Union. Consequently, at the end of 2019, we will be present online in 35 countries. By 2021, we want to increase the share of online sales to 20%.

Expansion of e-stores by country:

2011	Poland
2014	Germany
2015	Czech Republic, Slovakia, Romania
2016	Hungary
2017	Latvia, Lithuania, Estonia, Great Britain, Russia
2018	Countries of the Middle East through a franchise partner: Bahrain, Kuwait, United Arab Emirates, Oman
2019	all EU countries

Owing to expansion by developing the network of on-site and online stores, in 2019, we plan to continue two-digit growths in our Group's sales, with a margin of **54%-55%**.



OUR INVESTMENT PLANS

Our investments cover several areas, i.e. those relating to the construction and modernisation of on-site stores (in Poland and abroad), those involving the construction of distribution centres, those pertaining to the extension and modernization of offices as well as e-commerce and IT investments.

Being aware of the importance of logistics in today's sales process, in 2018, we made a decision to build a new distribution centre in Poland (in the commune of Brześć Kujawski). The investment of an area of 100 thousand m^2 will allow us to double current warehousing space. We plan to allocate for this investment project PLN 400 mln.

We have full capacity to finance pending and planned investment projects with funds deriving from equity capital and bank loans. Investments aimed at expanding the store chain will be financed by us while investments involving the extension of the head office and the distribution centre will be financed with bank loans.

Our 4-year investment plan is given in the table below.

CAPEX (PLN mln) 4-year plan	2019	2020	2021	2022	Total
Stores:					
Stores in Poland and abroad	670	620	500	450	2 240
Offices:					
New office Gdańsk Łąkowa – Building 1	50				50
New office Gdańsk Łąkowa – Building 2	30	40			70
New office Gdańsk Łąkowa – Building 3		70	70		140
New office Cracow	30				30
New office Gdańsk	**110**	**110**	**70**	**0**	**290**
Offices in total					
Logistics	20				20
Extension of the LC Pruszcz Gdański	10	200	200		410
New LC Brześć Kujawski	**30**	**200**	**200**	**0**	**430**
Logistics in total	50	50	50	50	200
IT & Other	**860**	**980**	**820**	**500**	**3 160**
Total					

RISK MANAGEMENT

INTERNAL RISK FACTORS

BUSINESS MODEL RISK	**Risk:** Our Company focuses its activity on the designing and distribution of clothing as well as building its brands. We have no own manufacturing capacities and do not plan to develop our own manufacturing plants, and we outsource manufacturing activities to professional entities in different parts of the world. Outsourcing enables effective production placement and gives access to modern and constantly changing technologies. We choose suppliers not only based on the price offered but also based on the scope of their offer, advancement of machinery and ethical treatment of workers. Our investments are directed at creating our own distribution network and at e-commerce, logistics, development and technology as well as at attracting loyal consumers. **Actions:** The Management Board of LPP makes sure that the Group is not dependent on any of over 1 100 cooperating suppliers (none of them has exceeded the threshold of 6% of annual purchases). Additionally, on a regular basis, we evaluate our suppliers, who are supervised by the LPP office in Shanghai, China (established in 1997), and in Dhaka, Bangladesh (established in 2015).
RISK OF CHANGES IN FASHION TRENDS	**Risk:** The clothing market is characterised by a wide variety of customer expectations and is closely correlated with changes in fashion trends. A key factor in a clothing company's success is the sense of changes in fashion trends and the adjustment of its product range to current consumer needs. **Actions:** We pay significant attention to fashion, constantly increasing our product team which is currently comprised of over 250 designers. In total, over 700 persons work in the product development department. Each brand has a separate design team following fashion trends in the brand's target group. Designers and persons engaged in the process of collection creation not only participate in exhibitions and fairs worldwide but also follow trends in the Internet (including social media) and street fashion in the most popular fashion capitals i.e. Paris, New York, Seoul, Tokyo. Inspirations found and world trends are used in the process of collection creation and, therefore, the risk of unsuccessful collections is reduced.

RISK OF MISSED STORE LOCATION	**Risk:** Our development strategy provides for the rapid expansion of our sales network. The opening of new stores involves the risk that specific locations may prove to be missed. This may result in a failure to meet a projected revenue level, which, in consequence, may adversely affect our Group's financial performance. **Actions:** We reduce the risk of missed locations owing to good market surveillance and a detailed analysis of each potential new location. At present, we optimise the development of our sales network. On one hand, locations with unsatisfactory sales level are closed upon contract termination, and, on the other hand, stores in good locations are expanded to offer customers full collections. We undertake optimisation activities both in Poland and globally, on each market where we have operated for more than 5-7 years.
RISK OF INEFFECTIVE LOGISTICS	**Risk:** The dynamic development of retail space and online sales requires investments in logistics improvements. The task of the logistics team is to quickly gather a relevant number of clothing dispatches to stores and, directly, to customers making online orders, with simultaneous minimisation of the quantity of goods in distribution centres. Along with the planned increase of our Group's sales, there is an increased risk involving the handling of logistics needs. **Actions:** As this issue is of vital importance, the Management Board of LPP gives it a high priority, consistently introducing new solutions required. The largest foreign market, i.e. the Russian market is handled by a separate distribution centre near Moscow. There are dedicated separate distribution centres for online sales in Poland and Russia. As regards 3 brands, we decided that, with a view to handling logistics services for the e-commerce channel in Poland, we will cooperate with Arvato Polska, a leader in comprehensive outsourcing solutions in logistics. As our network has been developing, in 2018, we made a decision to expand our existing logistics facilities by redeveloping the existing distribution centre in Pruszcz Gdański and developing a new centre in Brześć Kujawski. To meet increasing demand in the Balkan countries and to ensure the development of both traditional and online sales network in this region, we have decided to lease, starting from 2019, a distribution centre in Romania, which will provide services to online customers in the southern part of Europe. At the same time, works are continuously carried out to improve IT systems in logistics. One of the solutions is the implementation of the Warehouse Management System (WMS), an innovative system facilitating the operation of the distribution centre..
RISK OF SALES MIGRATION FROM TRADITIONAL STORES TO THE INTERNET	**Risk:** The increase in the popularity of online purchases results in a global trend reflecting sales migration from traditional stores to online stores. This tendency puts pressure on sales in traditional stores, the majority of which generate fixed costs, and, consequently, affects the Group's profitability. **Actions:** Adjusting to the current tendency involving the increase in the popularity of online shopping, we operate up-to-date online stores of all of our brands and continuously take actions aimed at further development of this sales channel. We gradually open online stores both on the markets where we have launched our traditional stores and in other EU countries, improve mobile sales platforms and supply logistics. At the end of 2018, we operated online on 11 markets where we have own online stores and on 6 markets by being present on an external platform managed by our franchise

cont. RISK OF SALES MIGRATION FROM TRADITIONAL STORES TO THE INTERNET	partner from the Middle East. At the same time, we take actions aimed at levelling technological differences between on-site stores and online sales and at integrating these two sales channels into the omnichannel.
RISK OF LOSING KEY EMPLOYEES	**Risk:** We employ over 25 thousand employees indispensable to carry out our basic operations in an effective and profitable way. In particular, we face the risk of losing key management officers, persons involved in the designing and preparation of collections and high rotation of employees in retail stores. There is also a risk that we will not be able to attract new talents. **Actions:** The Management Board of LPP takes numerous actions aimed at reducing this risk. Key management officers take part in a share-based incentive programme. We put emphasis on friendly working conditions – employees are given numerous training opportunities to ensure constant development of their skills and offered a well-defined career model. We offer work in a contemporary and friendly environment, with market salaries ensured.

EXTERNAL RISK FACTORS

MACROECONOMIC RISK	**Risk:** The economic situation in countries where we sell our products and the situation in countries where factories manufacturing goods for us are located are crucial for our Group's standing. The revenues and margins of the CG depend on the economic situation of households and consumption inclinations. An economic growth or decline in countries where our brand stores are located may translate into an increase or decrease in consumers' spending, including clothing expenses. Similarly, an economic growth or decline in countries where the manufacturing of goods is located may translate into an increase, decrease or, relatively, stabilisation of manufacturing costs. **Actions:** Each of our five brands is addressed to a wide group of consumers at affordable prices. We focus on offering products with an advantageous price-quality ratio. Although this will not safeguard the CG against adverse effects of a potential economic slowdown, yet it may minimise such negative impact. The risk is also being reduced by developing the Group's operations in different countries on different continents (at the end of 2018, our brand stores were located in 23 countries on 3 continents), with further development to be achieved in subsequent years.
FOREIGN EXCHANGE RISK	**Risk:** An adverse change in currency exchange poses substantial risk for our CG. In 2018, only 47% of revenue was denominated in foreign currencies, the costs of goods purchases – inasmuch as 96%, and general sales and administrative costs – in 57%. The highest FX exposure of our Group concerns USD and EUR. The USD exposure is related to the location of goods production and purchases (mainly Asian countries), while the EUR exposure is related to rent payments for stores. Due to the fact that Russia and Ukraine yield approx. 22% of sales, the CG has also a substantial RUB and UAH exposure. We report financial results in PLN. Consequently, the strong position of PLN against USD and EURO has a positive impact on our margins, while its weak position against key currencies reduces the Group's profitability. **Actions:** Due to the relevance of the foreign exchange risk, in June 2017, the Company's Management Board decided to start hedging the USD/PLN exchange rate by entering into forward contracts for payments in USD to suppliers. The transactions are aimed at minimising foreign exchange differences in financial operations (that is below operating profit).
RISK OF CHANGES IN CUSTOMS AND TAX REGULATIONS	**Risk:** Customs and tax regulations have a significant impact on the Group's activity. Therefore, changes in this area may significantly affect our operations. The Group is exposed to changes in customs laws due to the scale of imports, specifically from Asian countries. The introduction of potential import quotas and heavy customs duties could result in the reduction of the Group's margins. The introduction of possible legal changes in each of the countries where we are present may result in the requirement to incur additional costs or reduce revenue, thus adversely affecting the Group's profitability. An example of such potential risk is the prospective

cont. RISK OF CHANGES IN CUSTOMS AND TAX REGULATIONS	implementation of turnover tax on large stores in Poland, which could adversely affect the operation of LPP and poses a potential risk (at present, law enforcement has been suspended). Another example of law amendments is gradual introduction, from March 2018, of a Sunday trading ban in Poland. In the first year, the law permitted trading on the first and last Sunday each month, during the second year – on one Sunday a month, with a total Sunday trading ban to be introduced starting from the third year (before this change, the trading ban applied to statutory days off only). **Actions:** Our head office and the majority of our brand stores are located in the EU. As assessed by the Group, the European Union pursues a stable customs policy. Moreover, any changes in the customs policy would affect all entities operating in the retail sector in the EU. A more important risk is the one involving legislative changes, which relates to both domestic and EU laws. If any such risk occurs, the Management Board of LPP will focus its activities on minimising their impact on the Group's financial performance, as in the case of legislative changes concerning the Sunday closure of stores in Poland. Following the analysis of sales from the time of implementation of trading limitations in Poland, we recorded a decrease in sales in domestic stores, with sales in stores being transferred to other weekdays, and an increase in online sales. This is the reason why, among others, we improve the operation of our e-stores and logistics on a day-to-day basis.
RISK OF INTENSIFIED COMPETITION	**Risk:** With barriers to the clothing market entry being low, the number of competitors increases, thus enhancing competitiveness. Each year, new players appear on, and leave, the markets where we operate. On each market, we compete with both local competitors and international players. **Actions:** Our success on each market depends on the quality of collections and their acceptance by customers. Therefore, we focus our activities on the offering of products best reflecting current trends and meeting customers' expectations at affordable prices. As we noted, competitive pressure is highest with reference to Reserved, the flagship brand, the success of which is a priority for the Management Board, while such pressure is lower, for example, with reference to Cropp or House brands.
RISK INVOLVING WEATHER CONDITIONS	**Risk:** In the business conducted, during one season, there may occur positive or negative effects of weather conditions, which may affect an increase/decrease in sales, and, consequently, an increase/decrease of our Capital Group's margins. **Actions:** The Management Board monitors on a regular basis the level of sales and margins in specific countries, adjusting a time frame and scale of clearance offers. At the same time, following changes implemented in logistics and store replenishment, we are more flexible and we are able to react quicker to adverse weather changes in a given season.

DECLARATION ON CORPORATE GOVERNANCE

APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

The Management Board of LPP declares that, in 2018, the Company applied corporate governance principles attached as Enclosure to Resolution No 26/1413/2015 of the Board of the Warsaw Stock Exchange, dated 13 October 2016, titled "Best Practice for GPW Listed Companies 2016" (Corporate Governance Principles), published in a website dedicated to good practice for companies listed on the stock exchange Giełda Papierów Wartościowych w Warszawie SA, operated by Giełda Papierów Wartościowych w Warszawie SA, at website address: https://www.gpw.pl/lad_korporacyjny_na_gpw.

The Management Board of LPP SA declares that the Company and its governing bodies applied in 2018 recommendations and detailed principles provided for in the new Collection of Good Practice for GPW Listed Companies 2016, except for:

- **Recommendation IV.R.2** – conducting of a general meeting using electronic communication means (real-life broadcast of the general meeting, real-time bilateral communication, exercise of the right to vote during a general meeting either in person or by proxy).

  The Company does not apply the said recommendation.

  The above-mentioned recommendation is not applied by the Company as its implementation would involve a technical risk. The giving to shareholders of an option to communicate in the course of the general meeting without being present at the meeting, using electronic communication means, involves both technical and legal hazards for the proper and efficient conduct of the general meeting. In particular, the above brings about a real risk of technical interference preventing continuous bilateral communication with shareholders present in venues other that the meeting room. Therefore, the Company is unable to guarantee the reliability of technical infrastructure.

  At the same time, in the Company's opinion, the currently applicable rules for participation in general meetings facilitate the proper and effective exercise of rights attached to shares and sufficiently secure the interests of all shareholders.

  Furthermore, the Company has not been informed of any expectations of shareholders in respect of conducting the General Meeting of Shareholders using electronic communication means.

- **Recommendation VI.R.1** - remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

  The Company does not apply the said recommendation.

  The Company has not implemented any remuneration policy. However, LPP does not exclude future application of the said rule.

- **Recommendation VI.R.2** - the remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

The Company does not apply the said recommendation.

The Company has not implemented any remuneration policy. However, LPP SA does not exclude future application of the said rule.

– **Detailed principle I.Z.1.20** – Display on a corporate website of an audio or video recording of a general meeting.

The Company does not apply the said principle.

The Company does not plan to make an audio or video recording of a general meeting and display it on its website. In the Company's opinion, the manner in which general meetings have been documented so far ensures transparency of the Company's operations and safeguards the rights of all shareholders.

In particular, the Company makes available the wording of resolutions adopted, in the form of current reports and website publications.

Additionally, detailed data on voting results and objections, if any, raised against adopted resolutions are made available in the same form. Consequently, investors may obtain the knowledge of the material parts of, and matters discussed at, a general meeting.

However, the Company does not exclude future application of the said principle.

– **Detailed principle IV.Z.2.** – companies should ensure publicly available real-time broadcasts of general meetings.

The Company does not apply the said principle.

The Company does not plan to provide real-time broadcasts of general meetings. In the Company's opinion, the manner in which general meetings have been documented so far ensures transparency of the Company's operations and safeguards the rights of all shareholders.

In particular, the Company makes available the wording of resolutions adopted, in the form of current reports and website publications.

Additionally, detailed data on voting results and objections, if any, raised against adopted resolutions are made available in the same form. Consequently, investors may obtain the knowledge of the material parts of, and matters discussed at, a general meeting.

However, the Company does not exclude future application of the said principle.

– **Detailed principle VI.Z.4** – publishing, in the report on the operations, of a report on the remuneration policy.

The Company does not apply the said principle.

The Company will not publish a report on its remuneration policy due to the fact that no such policy has been implemented. However, LPP SA does not exclude future application of the said principle.

The Management Board of LPP SA declares that the Company does not apply corporate governance practices beyond requirements set forth in domestic law.

DESCRIPTION OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

IN RELATION TO THE PROCESS OF PREPARING FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The CG has implemented a well-functioning internal control system, adapted to its needs and characteristics, which provides for the following:
- complete revenue invoicing,
- appropriate cost control,
- efficient use of resources and assets,
- accuracy and reliability of financial information included in financial statements and interim reports,
- adequate protection of sensitive information and prevention of uncontrolled outflow of information from the company,
- effective and prompt identification of irregularities,
- identification of, and appropriate response to, major risks.

Elements of the internal control system in our Company include:
- control activities taken at all levels and in all departments of the Company, based on procedures (permits, authorizations, verifications, reconciliation, review of operational activities, distribution of duties) ensuring compliance with guidelines of the Company's Management Board and, at the same time, enabling to identify and take actions necessary to minimise errors and risks for the Company,
- Workflow Guide – proper records and documentation circulation control system (to ensure compliance of account records with accounting evidence),
- suitably qualified controlling personnel,
- division of duties excluding a possibility that one employee performs activities associated with execution and documentation of a business transaction from the beginning to the end,
- inventory manual, specifying the rules for the use, storage and stock-taking of assets,
- principles for balance sheet amortisation of intangible and tangible fixed assets,
- IT system - from 1 January 2019, the Company's accounting books have been kept using SAP (previously, the computerised Integrated Enterprise Management System AWEK was in use), which ensures credibility, reliability and accuracy of information processed. Access to SAP information resources is limited to authorised personnel, for performance of their duties only.
- accounting policy recognising the principles of the International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and related interpretations published in the form of implementing regulations of the European Commission,
- electronic system for document processing (invoices, elements of employee documentation,

commissioning of equipment purchases, payment orders, etc.).

The auditing of financial statements by an independent statutory auditor is the basic element of internal control in the process of preparing the Company's financial statements, both separate and consolidated.

The statutory auditor is appointed by LPP's Supervisory Board. The tasks of the independent auditor include reviewing semi-annual statements and auditing annual financial statements, controlling their accuracy and compliance with accounting principles.

Three departments are responsible for preparing the financial statements, i.e. accounting, finance and investor relations departments headed, respectively, by the Chief Accountant, the Chief Financial Officer and the Investor Relations Manager. Before submitting financial statements to the independent statutory auditor, the Chief Financial Officer, responsible for the financial reporting process on behalf of the Management Board, verifies them for completeness and correctness of all economic events.

In LPP SA, the strategy and business plan performance are reviewed semi-annually. This is due to cycles occurring in the clothing trade. After closing the first half of the year, senior and middle management staff, with the participation of the finance department, review the Company's financial results. The operating results of the Company, individual trading departments or even individual stores are analysed each month.

Internal audit of, and closely related risk management in, financial reporting processes are matters of daily interest for the Management Board of our Company. LPP SA analyses business risk factors related to company operations. An important role in this respect is also played by management staff responsible for controlling the activities of their departments, including identification and assessment of risks associated with the process of preparing financial statements in an accurate, reliable and lawful manner.

OUR SHARES AND SHAREHOLDERS

OUR OWNER

The LPP SA shareholding structure as at 31 December 2018.

Shareholder	Number of shares held	Share in the share capital	Number of votes at the GM	Share in the total number of votes at the GM	Nominal value of shares
Semper Simul Foundation*	319 208	17,2%	1 019 208	31,5%	638 416
Sky Foundation**	226 338	12,2%	926 338	28,6%	452 676
Treasury shares***	18 861	1,0%	0	0,0%	37 722
Other shareholders	1 288 016	69,5%	1 288 016	39,8%	2 576 032
Total	**1 852 423**	**100,0%**	**3 233 562**	**100,0%**	**3 704 846**

*The Semper Simul Foundation is associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR)
**The Sky Foundation is associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act)
*** LPP SA may not exercise voting rights at the GM, attached to 18 861 shares, as these are treasury shares of LPP SA.

On 20 July 2018, there was a change in shareholdings and the total number of votes at the General Meeting of Shareholders. Shares held by two major shareholders, i.e. Marek Piechocki and Jerzy Lubianiec (CR no 16/2018), were transferred to the Semper Simul Foundation and the Sky Foundation. Shares in the Company, which were previously held directly by the above-mentioned major shareholders, and shares held by two funds managed by TFI Forum SA were transferred to the said foundations.

Shareholdings of key management and supervisory officers as at 31 December 2018.

Apart from the above, key management and supervisory officers hold no shares in LPP or its affiliates.

Shareholder	Number of shares held	Number of votes at the GM	Nominal value of shares
Marek Piechocki – President of the Management Board	39	39	78
Jacek Kujawa - Vice-President of the Management Board	179	179	358
Przemysław Lutkiewicz - Vice-President of the Management Board	36	36	72
Sławomir Łoboda - Vice-President of the Management Board	128	128	256
Jerzy Lubianiec – Chairman of the SB*	226 338	926 338	452 676
Antoni Tymiński – Member of the SB	11	11	22
Piotr Piechocki – Member of the SB	14	14	28

*shares held directly by a subsidiary

INFORMATION ON AGREEMENTS WHICH MAY GIVE GROUNDS FOR FUTURE CHANGES IN PROPORTIONS OF SHAREHOLDINGS HELD BY CURRENT SHAREHOLDERS

In the reporting period, an incentive plan was implemented for key management officers of the Parent Company for the years 2018-2019. As part of the said plan, if the terms and conditions provided for in the Rules for the incentive plan are met, the Company will offer its participants (key management officers) the acquisition of shares in LPP SA (from treasury shares) at a price equal to their nominal value, with the reservation that the total number of shares offered may not exceed 855.

The Company has implemented no employee share control system.

Apart from the above, the Company has no knowledge on any agreements which could give grounds for any future changes in proportions of shareholdings held by current shareholders and bondholders.

TREASURY SHARES

The LPP CG holds 18 861 treasury shares. In 2018, no treasury shares were purchased.

SHARE QUOTATIONS

Shares in LPP SA have been quoted on the main market of the Warsaw Stock Exchange (WSE) since 2001.

On the debut date, the price of the Company's shares was PLN 48.00. The lowest value of the Company's shares in the history of listings was recorded by LPP SA on 18 May 2001: PLN 47.00, and the highest value was recorded on 8 January 2018: PLN 10 170.00.

In 2018, prices of LPP SA shares were between PLN 7 535.00 and PLN 10 170.00 (at closing prices). The share quotation during the last session (at closing prices) in 2017 was PLN 8 910,00, and a year later the price amounted to PLN 7 850.00. The CG's net earnings per ordinary share were PLN 287.95 at the end of 2018, and a year before - PLN 241.36.

As at 29 December 2018, shares in LPP SA were constituents of the following stock exchange indices:

Domestic:

WIG-Poland – a national index comprising only shares in Polish companies listed on the main market of the WSE, which meet basic criteria for being index constituents. The share of LPP SA in WIG-Poland was 3.6%.

WIG20 – an index calculated on the basis of the value of the portfolio of 20 largest and most liquid companies from the main market of the WSE. LPP SA has been a constituent of the said index since 2014, with its share amounting to 4.9%.

WIG30 – index comprising 30 largest and most liquid companies listed on the main market of the WSE. The share of LPP SA in WIG30 was 4.6%.

WIG-Clothes – a sub-sector index including WIG constituents which simultaneously belong to the "clothes and cosmetics" sector. The share of LPP in WIG-Clothes was 61.9%.

Foreign:

MSCI Poland Index – an index covering over 20 key companies listed at the WSE. LPP SA has been a constituent of the said index since 2014.

CECE index – an index of the Vienna Stock Exchange, covering companies from Poland, the Czech Republic and Hungary. LPP SA has been a constituent of the said index since mid-September 2017.

STOXX Europe 600 – an index representing large, medium and small companies from 17 EU countries. This is index is part of the Deutsche Boerse Group. LPP SA has been a constituent of the said index since September 2018.

FTSE Russell Index – an index of the London Stock Exchange, covering developed countries. LPP SA has been a constituent of the said index (in the category of medium companies) since 24 September 2018, i.e. from the time from Poland was transferred from developing countries to developed ones. Poland ranks 23rd in the said index.

SHARE-RELATED LIMITATIONS AND SHAREHOLDERS WITH SPECIAL CONTROL RIGHTS

The sale or pledging of registered shares requires the Company's consent. Permits for selling or pledging shares are granted by the Supervisory Board in writing, otherwise being null and void, within 14 days from the date of application. If the Company refuses to give such permit, it should designate another buyer and define the date and place of payment of the price within 30 days.
If, within the above-mentioned time-frame, the Company does not indicate another buyer, shares may be sold without any limitations.

At the same time, registered shares carry voting rights of 5 votes per share at the General Meeting of Shareholders. Registered shares are held by two entities: the Semper Simul Foundation (associated with Mr Marek Piechocki, Article (3)(1)(26)(d) MAR) and the Sky Foundation (associated with Mr Jerzy Lubianiec, Article (3)(1)(26)(d) MAR and Article 4(15) of the Public Offering Act).

These entities hold 175 000 registered shares each, giving each of them the right to 875 000 votes at the General Meeting of Shareholders. Apart from the above, there are no other securities giving any special control rights.

ISSUANCE OF SECURITIES – UTILISATION OF PROCEEDS FROM THE ISSUANCE OF SECURITIES IN THE REPORTING PERIOD

In 2018, no securities were issued.

GOVERNING BODIES

OUR MANAGEMENT BOARD

Composition
Marek Piechocki –
President of the Management Board
Jacek Kujawa –
Vice-President of the Management Board
Przemysław Lutkiewicz –
Vice-President of the Management Board
Sławomir Łoboda –
Vice-President of the Management Board

In 2018, there were no changes in the composition of the Management Board.

RULES FOR APPOINTING AND DISMISSING KEY MANAGEMENT OFFICERS AND THE SCOPE OF COMPETENCE OF THE MANAGEMENT BOARD

The Management Board consists of two to six members, including the President, and from one to five Vice-Presidents. The number of members is determined by the Supervisory Board.

Members of the Management Board are appointed for a term of five years and dismissed by the Supervisory Board.

The scope of competence of, and rules of procedure for, the Management Board of LPP SA are set forth in the following documents:

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

The Management Board is responsible for any and all matters not falling within the scope of competence of other governing bodies of LPP SA.
The Management Board is not entitled to make decisions on the issue or buy-out of shares.

AGREEMENTS WITH KEY MANAGEMENT OFFICERS, PROVIDING FOR A COMPENSATION

No agreements were concluded with key management officers, which would provide for a compensation in case of their resignation or dismissal from their position otherwise than on solid grounds or if they are recalled or dismissed as a result of the issuer's merger by acquisition.

REMUNERATION OF KEY MANAGEMENT OFFICERS

Values of all remunerations of key management officers are given in consolidated financial statements (notes 29.3 and 29.4) and in separate financial statements (notes 31.3 and 31.4).

OUR SUPERVISORY BOARD

Composition:
Jerzy Lubianiec –
Chairman of the Supervisory Board
Wojciech Olejniczak –
Vice-Chairman of the Supervisory Board
Piotr Piechocki –
Member of the Supervisory Board
Magdalena Sekuła –
Member of the Supervisory Board

Antoni Tymiński –
Member of the Supervisory Board
Miłosz Wiśniewski –
Member of the Supervisory Board

In 2018, there were no changes in the composition of the Supervisory Board.

The scope of competence of, and the rules of procedure for, the Supervisory Board of LPP SA are set forth in the following documents:

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

REMUNERATION OF KEY SUPERVISORY OFFICERS

Values of all remunerations of key supervisory officers are given in consolidated and separate financial statements (respectively, notes 29.3 and 31.3).

SUPERVISORY BOARD COMMITTEES

Since 2017, within the Supervisory Board, the Audit Committee composed of person listed below has worked, meeting independence and other criteria set forth in Article 129 of the Act of 11 May 2017 on Statutory Auditors, Audit Companies and Public Supervision (Journal of Laws of 2017, item 1089):

Antoni Tymiński – Chairman of the Audit Committee, meeting independence criteria
Jerzy Lubianiec – Vice-Chairman of the Audit Committee
Magdalena Sekuła – Member of the Audit Committee, meeting independence criteria
Piotr Piechocki – Member of the Audit Committee
Miłosz Wiśniewski – Member of the Audit Committee, meeting independence criteria

Mr Antoni Tymiński, Chairman of the Audit Committee, has knowledge and skills in the area of accounting and the auditing of financial statements; he is a licensed statutory auditor (entered on the list of the Polish Chamber of Statutory Auditors) and gained experience as partner at Pricewaterhouse Coopers and manager at Deloitte&Touche, responsible for auditing financial statements.
Also Mr Miłosz Wiśniewski, member of the Audit Committee, has knowledge and skills in this area, gained while he was Finance Director at Cereal Partners Worldwide and Boryszew SA.

Mr Jerzy Lubianiec, Vice-Chairman of the Audit Committee, has branch-specific knowledge and skills as he used to act as President of the Management Board of LPP SA and has acted for many years as Chairman of the Supervisory Board of LPP SA. Mr Piotr Piechocki, Member of the Audit Committee, also has branch-specific knowledge and skills as he used, among others, to manage the e-commerce department of LPP SA.

In 2018, 6 meetings of the Audit Committee were held.

The tasks of the Audit Committee comprise the following:
– monitoring the financial reporting process and provision of recommendations aimed at ensuring diligence of the said process in the Company;

– monitoring the effectiveness of internal control and audit systems and the risk management system in the Company, including in terms of financial reporting;

– monitoring performance of financial audit activities in the Company, in particular the carrying out of an audit by an audit company, with due consideration of any and all motions and findings of the Audit Supervision Commission, arising from a control procedure carried out in the audit company;

– control and monitoring of the independence of a statutory auditor and an audit company, specifi-cally in cases where the audit company provides non-audit services to the Company;

– informing the Supervisory Board of audit results and explaining how such audit has contributed to reliability of the Company's financial reporting and what was the Committee's role in the audit pro-cedure;

– assessing the independence of a statutory auditor;

– granting consent for using permissible services other the audit of financial statements, provided by an audit company or a statutory auditor;

– developing a policy for choosing an audit company for audit purposes;

– developing a policy for the provision of permissible non-audit services by an audit company carrying out the audit, entities affiliated with such audit company and a member of the audit company's group;

– determining a procedure for choosing an audit company by the Company;

– providing the Supervisory Board with recommendations in accordance with Article 130(1)(8), 130(2) and 130(3) of the Act;

– verifying work performance of a person (entity) performing the duties of statutory auditor, in par-ticular, by contacting the statutory auditor in the course of auditing the financial statements of the Company and its subsidiaries to discuss the advancement of works and clarify any doubtful issues and reservations of the statutory auditor in terms of the applied accounting policy or internal con-trol systems;

– discussing with the Company's statutory auditors the features and scope of the annual report and reviews of interim financial statements;

– reviewing the Company's interim and annual (separate and consolidated) financial statements audited, focusing, in particular, on:
any and all changes in the accounting standards, principles and practice,
main areas to be audited,
key adjustments resulting from the audit,
compliance with applicable accounting and financial reporting laws;

– issuing opinions for the Supervisory Board on termination of the agreement with an entity authorised to audit the Company's financial statements;

– granting consent for appointment and dismissal by the Management Board of a person performing in the Company a key function covering internal audit duties;

– monitoring the compliance system applicable in the Company.

– If there is no separate internal audit position in the Company, the Audit Committee evaluates every year whether there is a need for such separate position.

KEY PRINCIPLES OF THE POLICY FOR CHOOSING AN AUDIT COMPANY TO CARRY OUT AN AUDIT

Criteria for choosing an audit company

1. In the course of preparation by the Audit Committee of recommendations and, subsequently, in the course of choosing the Eligible Entity by the Supervisory Board of LPP SA, the following criteria are taken into consideration:
   a) experience gained so far by the Eligible Company as well as qualifications and experience of persons delegated to carry out financial audit activities;
   b) knowledge of the industry in which the Company operates;
   c) price conditions offered by the Eligible Company;
   d) suggested time schedule covering works related to financial audit activities;
   e) comprehensiveness of services declared to be provided by the Eligible Company;
   f) renown of the Eligible Company;

2. In the course of preparation by the Audit Committee of recommendations and, subsequently, in the course of choosing the Eligible Entity by the Supervisory Board of LPP SA, recognition is given also to the assessment made by the Eligible Company and the key statutory auditor of the following issues:
   a) meeting by the Eligible Company of independence requirements referred to in Articles 69–73 of the Statutory Auditors Act;
   b) existence of hazards for the independence of the Eligible Company and the application of safe-guards to minimise them;
   c) availability of competent staff of the Eligible Company, time and other resources to carry out the audit as required;
   d) holding by a person appointed to as key statutory auditor of a license to carry out mandatory audits of financial statements, obtained in a EU country in which such audit is required, including verification whether such person has been recorded in relevant registers of statutory auditors, kept in the EU country requiring the audit.

3. Before issuing its recommendation, the Audit Committee evaluates also:
   a) the independence of the Eligible Company and persons engaged in financial audit activities in light of Articles 69–73 the Statutory Auditors Act;
   b) statutory limitations relating to the possibility of providing services to the Company, motions, if any, and instructions provided for in the annual audit report issued by the Audit Supervision Commission, as referred to in Article 90(5) of the Statutory Auditors Act, in respect of the Eligible Company, which may affect the choice of an audit company.

4. It is impermissible to accept any pressure or suggestions of any third parties in respect of selection of the Eligible Company; it also impermissible for the Company, its governing bodies or the Audit Committee to accept any instructions in respect of selection of the Eligible Company or to conclude any agreements, or enter into any undertakings, in this respect.

5. The choice is made from among audit companies which have made offers for providing services covering statutory audit activities in line with the Appointment Procedure, with the reservation that:
   a) upon expiry of the maximum period of the audit assignment, the audit company which audited the Company's financial statements may not audit such financial statements for the next four years,
   b) the organisation of the tender procedure does not exclude participation of companies which are recorded on the list of audit companies and earned less than 15% of their total consideration for auditing services from public-interest entities in a given EU country in the preceding calendar year,
   c) the Company may invite any audit companies to make offers for statutory auditing services provided that the above is not in breach of provisions referred to in the Statutory Auditors Act.

6. On a case-by-case basis, the Eligible Company is chosen on the basis of offers received by the Company and delivered in accordance with the Appointment Policy in due consideration of the Appointment Procedure.

Applicable limitations

1. Limitations in respect of selection of the Eligible Company are as follows:
   a) the maximum duration of statutory assignments executed by the Eligible Company or an audit company affiliated with the Eligible Company or any member of a network operating in EU countries, to which such audit companies belong, may not exceed 5 years;
   b) the key statutory auditor may not audit annual consolidated financial statements of the Capital Group or annual financial statements of the Company for more than 5 years;
   c) the key statutory auditor may once again audit annual consolidated financial statements of the Capital Group or annual financial statements of the Company upon expiry of at least 3 years from the last audit.

2. The first agreement on the audit of financial statements is concluded with the Eligible Company for a period of at least two years, with the possibility of its prolongation for next periods lasting at least two years.
3. The principle, referred to in section 1 point a) above, applies to the audit of financial statements drawn up for financial years commencing after 31 December 2017.
4. The principle, referred to in section 1 point c) above, applies to waiting periods commencing on or after 17 June 2016.
5. When recommending and choosing the Eligible Company, it is required to take into account also limitations arising from the Policy for the Provision of Permitted Services.

Fee

1. The fee for an audit, paid to the Eligible Company, its statutory auditors and subcontractors acting on their behalf and for them, may not:
   a) be subject to any conditions, including the audit result;
   b) be valued according to, or dependent on, the provision for the Company or its affiliates of non-audit services by the Eligible Company or any entity affiliated with the audit company or its group's member.

2. The fee for an audit reflects labour intensiveness, complexity of work and required qualifications.

No permitted non-audit services have been provided for the Company by the audit company auditing its financial statements.

A recommendation concerning the choice of an audit company for auditing purposes has met the requirements stemming from relevant laws and, due to the prolongation of the agreement concluded with the audit company auditing financial statements so far, the appointment procedure was not carried out in full.

KEY PRINCIPLES OF THE POLICY FOR THE PROVISION BY THE AUDITING COMPANY OF PERMITTED NON-AUDIT SERVICES

According to the *Policy for the provision by an auditing company, its affiliates and a member of its group of permitted non-audit services* drawn up by the Audit Committee of the Supervisory Board of LPP SA and applied in the Company, it is required, first of all, to ensure independence of both the audit company and the statutory auditor and to limit the possibility of the conflict of interest in case of assigning the audit company to provide permitted non-audit services by way of defining prohibited and permitted services. For example, permitted services cover due diligence procedures involving economic and financial standing, assurance services covering pro forma financial information, result forecasts or estimates, published in the audited entity's prospectus, the audit of historical financial information for the prospectus, verification of consolidation packages. Prohibited services are, in particular, the following: tax services involving preparation of tax returns, payroll taxes, customs dues, book-keeping services, drafting of accounting documentation and financial statements, development and implementation of procedures for internal control or risk management, related to the preparation or control of financial information or development and implementation of technological systems for financial information, or services involving internal audit. Permitted services may be provided only within the scope not related to the Company's tax policy, following assessment by the Audit Committee of hazards and safeguards for the independence of the audit company, the key statutory auditor and other members of the auditing team.

GENERAL MEETING OF SHAREHOLDERS

Operation of the General Meeting, its powers, description of shareholders' rights and the mode of their exercise

Convening the General Meeting of Shareholders

1) The General Meeting of Shareholders may be convened as ordinary or extraordinary meeting.
2) The General Meeting of Shareholders is held in Gdańsk, Warsaw, Sopot or Pruszcz Gdański, at a venue designated by the Management Board.
3) The Ordinary General Meeting is held annually, within six months after the end of a financial year.
4) The Extraordinary General Meeting is convened by the Management Board upon its own initiative, at the request of the Supervisory Board and upon a written request of shareholders representing one twentieth of the share capital.
5) The fact of convening the General Meeting, stating the date (day, hour) and place, is announced by the Management Board on the Company's website and in the manner set forth for providing current information in accordance with the provisions on public offering and the terms and conditions for introducing financial instruments to organised trading, and on public companies.

Scope of competence of the General Meeting

1) Examining and approving financial statements and reports of the Management Board on the operations of LPP SA for the previous year.
2) Taking all decisions relating to claims for redressing damage suffered during the establishment of LPP SA or its management or supervision.
3) Adopting a resolution on the distribution of profits or covering losses.
4) Discharging members of the LPP SA governing bodies from the performance of their duties.
5) Adopting a resolution on the issue of bonds, including convertible bonds.
6) Amending the Articles of Association.
7) Adopting resolutions on the merger, transformation, dissolution and liquidation of LPP SA.
8) Adopting resolutions on the sale and lease of the enterprise and establishing beneficial ownership.
9) Examining and deciding on motions submitted by the Supervisory Board.
10) Deciding on other matters falling within the scope of competence of the General Meeting under the Commercial Companies Code and the Company's Articles of Association.

Sessions of the General Meeting

1) The General Meeting is opened by the Chairman of the Supervisory Board or a person authorised by him, who then holds the elections for Chairperson of the General Meeting.
2) The person opening the General Meeting takes action aimed at immediate election of Chairperson of the General Meeting, who directs the works of the GM and ensures efficient and proper conduct of the session.
3) The General Meeting adopts resolutions on items put on the agenda only.
4) Draft resolutions proposed for adoption by the General Meeting and other relevant materials are presented to shareholders together with reasons and the opinion of the Supervisory Board.
5) The course of the General Meeting is minuted by a notary public.

Voting

1) Voting at the General Meeting is open. Secret voting takes place when electing governing bodies and on requests to dismiss the Company's governing bodies or liquidators or to make them accountable, and in personal matters. In addition, secret voting is held upon request of at least one shareholder or his/her/its representative.
2) The General Meeting may appoint a three-person ballot counting committee, whose duties include ensuring the proper conduct of each voting, supervising computer service (if a vote takes place using electronic technology) as well as reviewing and announcing the results.
3) Each share gives right to one vote at the General Meeting. In the case of a series B preferred share, one share gives right to five votes at the General Meeting.
4) The Chairperson announces voting results, which are then recorded in the session minutes.

DESCRIPTION OF RULES FOR AMENDING OUR ARTICLES OF ASSOCIATION

Any amendment to the Company's Articles of Association requires a resolution of the General Meeting.

DESCRIPTION OF A DIVERSITY POLICY

APPLIED TO LPP'S ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES IN TERMS OF ASPECTS INCLUDING AGE, GENDER OR EDUCATION AND PROFESSIONAL EXPERIENCE, GOALS OF SUCH DIVERSITY POLICY, THE MANNER OF POLICY EXECUTION AND ITS EFFECTS IN A GIVEN REPORTING PERIOD

The Management Board of LPP SA is aware of the importance and the need to ensure diversity in terms of gender, education, age and experience among all employees of the Company due to the conviction that this approach has an important impact on the efficiency of the entire business and the Company's position among customers, its employees as well as other stakeholders.

In managing a rich and diverse portfolio of clothing brands and also because of the nature of its business, the LPP Group naturally strengthens its company culture and work environment based on respect and appreciation of individual differences of individual team members. In this way, the personal potential of each employee contributes to the development of the Company as a whole and to its individual clothing brands.

Any employment-related actions taken by the Company guarantee equal opportunities in access to development opportunities and career advancement. The overriding principle of the Company is to be guided by objective substantive criteria and professionalism when choosing employees for various job functions within the organisation. At the same time, the Company's governing bodies strive at preventing any discriminatory behaviour.

Our commitment to the diversity policy is manifested in the development and implementation of the Company's mission and values, in which building a competitive advantage is based on fostering the development of individual talents of employees and treating them with due dignity and respect, regardless of skin colour, religion, sex, age, nationality, sexual orientation, citizenship, marital status, political opinion or disability.

SUPPLEMENTARY INFORMATION

INFORMATION ON SIGNIFICANT PROCEEDINGS PENDING BEFORE COURTS AND ARBITRATION OR PUBLIC ADMINISTRATION AUTHORITIES IN RESPECT OF LIABILITIES OR RECEIVABLES OF LPP OR ITS SUBSIDIARY, WITH THE SPECIFICATION OF THE SUBJECT MATTER OF THE PROCEEDINGS, VALUE OF THE OBJECT OF DISPUTE, DATE OF COMMENCEMENT OF THE PROCEEDINGS, PARTIES THERETO AND LPP'S STANDPOINT

Due to the tax audit procedure carried out since 2015 by the Tax and Fiscal Office in Gdynia, of which we informed in preceding quarterly reports, on 12 December 2018, the Company received the decision of the Customs and Fiscal Office for the Pomeranian voivodeship in Gdynia, dated 11 December 2018, determining a corporate income tax liability for 2012 in the amount of PLN 73 683 thousand, i.e. higher by the amount declared and paid by the Company by PLN 16 272 thousand. The said decision was issued following re-examination of the case by the 1st-instance authority. On 21 December 2018, LPP filed an appeal with the Head of the Fiscal Administration Chamber in Gdańsk, upholding its current standpoint that, in the Company's opinion, it correctly calculated its corporate income tax for 2012 and duly classified as revenue earning costs the expenses which, under applicable laws, could be recognised as such.

Both in previous years and at present, the Company has incurred expenses connected with sublicences for the use of trademarks contributed in kind to a subsidiary with its registered office in Cyprus (Gothals LTD), which, as stated in the repealed decision, was recognised as overstatement by the Company of revenue earning costs for 2012 and served as the basis for determining by the tax authority of an additional tax liability of PLN 16 391 thousand for the said period, together with interest due.

Having analysed settlements related to licence fees for the use of trademarks, referred to above, the Company created, as at 31 December 2018, a provision for potential tax risks, in the total amount of PLN 78 663 thousand.

INFORMATION ON KEY ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

Omnipresent digitalisation dynamically changes habits and expectations of today's customers. The future of the fashion industry lies in technological advancement and in creating best customer experience. Changes in stores are accompanied by evolution in the Internet, logistics, warehousing and the manner of building a product portfolio.

Growing shopping awareness, the need of personalisation and quick deliveries start to be factors more important for today's consumer that the cost of purchasing goods.

In response to current changes in the textile industry, more and more importance is being placed in our Group on works involving application of technological innovations (research and development).

We conduct research in the following areas:
– product research and development;
– customer experience research;
– research covering new technology and development of sales methods, mainly e-commerce;
– fashion tech research, i.e. application of new technologies in the entire supply chain, starting from clothing design, logistics to omnichannel sales and customer after-sales service.

Our key achievements:
Allocation system – an application permitting individual selection of available products for each brand store on all markets where we operate. The application analyses historical data and gives a forecast of a required quantity of a specific product, providing detailed information on the product in question (such as model, size, colour), it potential and inventory. It optimises product quantity and speed of delivery of goods sent to a given store, thus increasing sales performance. This is our in-house developed solution based on complex machine learning algorithms analysing billions of various data. Owing to that, the customer receives required products on time. When in use, the allocation application ensures dispatch of products to stores in which they have the highest sales potential and precise store replenishment – products are sent to stores in which they are being sold, as well as accurate distribution to stores of well-sold models.

Store Vision - another example of in-house developed mobile technology applied in our brand stores. It is used by employees of on-site stores. This is an important target group for the Company as they have direct contact with customers affecting their satisfaction. The quality of customer service is influenced by the possibility of easy product management and unlimited access to product information, for example checking inventory available, quick product finding or offering order placement with home or store delivery. All these actions are possible in the Store Vision system based on simple scanning of the product barcode with a smartphone.

Owing to that system, customer service may be effected through the omnichannel as an employee may order goods distributed through e-commerce, which are not available in a given on-site store at a given time.

RFID – this is yet another step in LPP's technological revolution. RFID (radio-frequency identification) is an electronic label enabling the implementation of numerous technically advanced solutions enhancing sales performance. The implementation of RFID will enhance delivery processes and save worktime. It will facilitate verification of order compliance and increase accuracy of information on stock details. This technology will also facilitate identification of best-selling product, which will make it possible to adjust products to customer expectations. Therefore, based on the RFID system, customers will be given personalised and more easily accessible offers, with easier product management at each stage, from a manufacturing plant through a distribution centre to retail stores.

We are currently implementing RFID technology in Reserved stores. In 2018, we tested RFID in three Reserved stores in Gdańsk, while in 2019 we plan to implement it in 438 Reserved stores.

Technologies in brand stores
Based on technologies, we modify brand stores and arrange their interior space anew. Examples of application of new technologies in brand stores are given below:
- progressive LED lighting system enabling better product display, without wasting power when the store is closed for customers,

- heat maps enabling the monitoring and analysis of customer traffic in stores, which in practice translates into better product display,

- modern and ecological ventilation and air-conditioning system monitoring customer traffic, which ensures thermal comfort in places with the highest traffic, without wasting power at times of small customer traffic,

- smart fitting rooms in Reserved stores in which tablets with marketing content are installed for customers to get fashion inspirations, or fitting rooms' availability signalling. Following implementation of RFID, it will also be possible to introduce additional solutions in fitting rooms, such as automatic hints for customers how to match apparel tried on with other products.

INFORMATION ON BUSINESS SPONSORSHIP, CHARITY OR SIMILAR POLICIES

We build community relations with full awareness. For 20 years now, we have been learning about the needs and expectations of beneficiaries and undertake relevant initiatives. Our responsibility has been defined in the Sustainable Development Strategy 2017-2019, with its part on charity activities being transferred for implementation purposes to the LPP Foundation.

The decision on the establishment of the Foundation was made in December 2017, being a natural step in developing LPP's community support activity. The Foundation's goal is community- and environment-oriented activities. According to our CSR Strategy, we pay special attention to projects covering:
- supporting persons threated with social exclusion to become self-dependent, mainly children and young people,
- material aid and projects supporting the Company's closest neighbourhood,
- innovative and ecological solutions in the textile industry.

PROJECTS AND NUMBERS:
- PLN 1.5 mln was the value of funds and goods donated in 2018 for charity purposes in Poland, including 78 thousand pieces of clothing of a value of over PLN 1 mln, delivered to 108 non-governmental institutions. Since 2018, material and financial aid has been provided by the LPP Foundation.

- **the "First Fitting"**
  10 persons in 2018 and 16 persons in 2017 leaving foster homes have been trained by LPP employees in the area of work search, CV writing and having a job interview. Some of the participants have been employed as trainees in LPP's

  sales network. The "First Fitting" programme is an investment in the development of young people at the beginning of their professional careers.

- **We cooperate with higher schools**
  Cooperation with art universities is a vital part of cooperating with community. It entails not only joint actions promoting the fashion industry but also activities aimed at attracting talented candidates and employees and facilitating professional careers.

- In 2018, LPP became once again a strategic partner of the FETA International Street Theatre Festival. Every year, shows performed near the Issuer's head office attract thousands of viewers. This is one of the largest and most highly acclaimed festivals of this type in Europe.

- **LPP X Fashion Illustration / Across Europe with Best Fashion Illustration 2018**
  We value artistic education and promotion of talented artists and, therefore, we became engaged as partner in the project encompassing an international exhibition of works of fashion illustrators — Across Europe with Best Fashion Illustration. In 2018, it was hosted by 5 Polish cities: Gdańsk, Cracow, Warsaw, Łódź and Wrocław. The exhibition comprised over 60 works of 40 outstanding fashion illustrators from all over the world, for example Milan, New York, Berlin, Tokio and Gdańsk, cooperating with key magazines and fashion houses. Among the exhibited works, there were also illustrations by Kasia Smoczyńska from the Reserved team.

- **School starter kits in Brześć Kujawski**
  Our neighbourhood is not only Gdańsk but also Brześć Kujawski, where we are developing a new distribution centre. Therefore, we have started cooperating with local community there. We made endeavours to provide all first-year pupils with required school accessories, providing school starter kits for 135 children: shoe bag, lunchbox, water bottle, school accessories, reflective band. Those kits were given at a special school ceremony for first-year pupils in October 2018.

- **Employee volunteering programme**
  In 2018, LPP's employees spent 858 hours for helping non-governmental organisations. For example, they decided to help a cat shelter facility *Pomorski Koci Dom Tymczasowy*, which had planned to renovate cat shelters in the Gdynia Shipyard and the Nauta Shipyard in Gdynia. In 2 days, our volunteers painted, insulated and renovated over a dozen of cat shelters.

  The most spectacular project was the renovation of a health centre treating cystic fibrosis upon request of the Polanki Child Hospital. Two female architects prepared a comprehensive design of renovation works in the said health centre and, subsequently, female employees of the Service and Maintenance Department chose a subcontractor to carry out key renovation works (tile and floor removal, wall disassembly, assembly of new walls). Next, a group of our volunteers painted rooms, assembled furniture and cleaned the premises.

- **Facing industry-specific challenges**
  In cooperation with the Reserved brand, since July 2018, the LPP Foundation has been collecting, on a permanent basis, second-hand clothes in 20 largest Reserved stores in Poland. All goods collected are delivered to St. Brother Albert Aid Society, which operates night shelters all over the country. Clothes are provided to the homeless and persons facing life's hardships throughout Poland. So far, we succeeded to collect over 500 kg of second-hand textiles.

IN 2018, WE CONCLUDED THE FOLLOWING AGREEMENTS:

W 2018 roku zawarliśmy:
- agreement on the provision of insurance guarantees for payment of a customs debt;
- insurance agreement – a global insurance policy covering all assets of the CG, including real property, goods, machinery and devices;
- 161 lease agreements and 112 lease prolongation agreements with owners of commercial space in Poland and abroad;
- agreements with banks (an annex prolonging the multi-purpose credit line agreement with Bank BGŻ BNP Paribas SA, Bank Handlowy w Warszawie SA, Raiffeisen Bank Polska SA, a letter of credit line agreement with Santander Bank Polska SA);
- contracts with marketing agencies on campaigns with Cindy Crawford and Joanna Kulig;
- contract for the development of a logistics centre in Brześć Kujawski;
- RFID implementation agreement;
- lease agreement for a distribution centre in Romania,
- purchase agreements covering an office building in Gdańsk, at Sadowa street, real property in Gdańsk, at Reduta Żbik Street, real property in Gdańsk, at Reduta Miś street, and a plot of land in Gdańsk, at Jaracza street.

The Group has no knowledge on any agreements concluded between shareholders, affecting its operations.

INFORMATION ON AGREEMENTS CONCLUDED AND TERMINATED IN THE REPORTING PERIOD, COVERING LOANS AND BORROWINGS, WITH THE SPECIFICATION OF AT LEAST THEIR AMOUNT, TYPE, INTEREST RATE, CURRENCY AND MATURITY DATE

Information on bank loans taken out as at 31 December 2018 and their maturity dates is given in the financial statements of LPP SA (note 25) and the financial statements of the LPP SA CG (note 23).

In the preceding year, no bank loans were taken out by the LPP SA CG.

INFORMATION ON LOANS EXTENDED IN THE REPORTING PERIOD, INCLUDING THOSE GRANTED TO THE ISSUER'S ASSOCIATES, WITH THE SPECIFICATION OF AT LEAST THEIR AMOUNT, TYPE, INTEREST RATE, CURRENCY AND MATURITY DATE

Information on loans granted is given in the financial statements of LPP SA (note 20.1) and the financial statements of the LPP SA CG (note 18.1).

INFORMATION ON GUARANTEES GRANTED AND RECEIVED IN THE REPORTING PERIOD, INCLUDING THOSE GRANTED TO THE ISSUER'S ASSOCIATES

Information on guarantees granted and received, including those granted to the issuer's affiliates, is

given in the financial statements of LPP SA (note 30) and the financial statements of the LPP SA CG (note 28).

INFORMATION ON TRANSACTIONS ENTERED INTO BY THE ISSUER OR ITS SUBSIDIARY WITH ASSOCIATES OTHERWISE THAN AT ARM'S LENGTH BASIS, INCLUDING THEIR AMOUNTS AND DETAIL SPECIFYING THEIR NATURE;

All transactions entered into by LPP with associates in the reporting period were concluded at arm's length basis.

Detailed information on transactions with associates is given in the financial statements of LPP SA (notes 31.1 and 31.2) and the financial statements of the LPP SA CG (notes 29.1 and 29.2).

INFORMATION ON THE EMPLOYEE SHARE CONTROL SYSTEM

The Company has implemented no employee share system.

INFORMATION ON THE AUDIT COMPANY AUDITING OUR FINANCIAL STATEMENTS

This information is given in in the financial statements of LPP SA (note 36) and the financial statements of the LPP SA CG (note 32).

DIFFERENCES BETWEEN FINANCIAL RESULTS SHOWN IN THE ANNUAL REPORT AND RESULT FORECASTS FOR THE REPORTING PERIOD, PUBLISHED IN ADVANCE

No financial result forecasts were published.

3 SELECTED FINANCIAL DATA OF THE LPP SA CAPITAL GROUP

SELECTED FINANCIAL DATA OF THE LPP SA CG
for the year ended 31 December 2018

Selected consolidated financial data* (in PLN thousand)	PLN 2018	PLN 2017	EUR 2018	EUR 2017
	01.01-31.12	01.01-31.12	01.01-31.12	01.01-31.12
Revenues	8 046 756	7 029 425	1 885 855	1 656 048
Operating profit (loss)	756 560	578 434	177 309	136 272
Pre-tax profit (loss)	723 680	563 671	169 603	132 794
Net profit (loss)	505 176	440 774	118 394	103 841
Profit (loss) per ordinary share	275,53	241,36	64,57	56,86
Net cash flows from operating activities	1 212 010	893 185	284 049	210 424
Net cash flows from investing activities	-704 396	-383 934	-165 084	-90 450
Net cash flows from financing activities	20 928	-359 872	4 905	-84 781
Total net cash flows	528 542	149 379	123 870	35 192

*data converted at the PLN/EUR exchange rate: 2018: 4.2669; 2017: 4.2447

Selected consolidated financial data* (in PLN thousand)	PLN 2018	PLN 2017	EUR 2018	EUR 2017
	01.01-31.12	01.01-31.12	01.01-31.12	01.01-31.12
Total assets	5 380 808	4 330 828	1 251 351	1 038 344
Long-term liabilities	346 148	324 377	80 500	77 771
Short-term liabilities	2 174 122	1 563 020	505 610	374 744
Equity	2 860 553	2 443 446	665 245	585 832
Share capital	3 705	3 705	862	888
Weighted average number of ordinary shares	1 833 483	1 826 537	1 833 483	1 826 537
Book value per share	1 560,17	1 337,75	362,83	320,73
Declared or paid dividend per share	40,00	35,74	9,30	8,57

* data converted at the PLN/EUR exchange rate: 2018: 4.3000; 2017: 4.1709

4 CONSOLIDATED FINANCIAL STATEMENTS FOR 2018

INTRODUCTION

We hereby approve the consolidated financial statements of the LPP SA CG for the financial year ended 31 December 2018, comprising the statement of financial position, with assets and liabilities totalling PLN 5 380 808 thousand, the comprehensive income statement, with comprehensive income totalling 481 689 thousand, the statement of changes in equity, showing an increase in equity by PLN 417 107 thousand, the cash flows statement, showing an increase in net cash by PLN 528 542 thousand, and notes with a description of significant accounting principles and other explanations.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki President of the Management Board	**Przemysław Lutkiewicz** Vice-President of the Management Board	**Jacek Kujawa** Vice-President of the Management Board	**Sławomir Łoboda** Vice-President of the Management Board

Gdańsk, 10 April 2019

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

for the year ended 31 December 2018

Consolidated comprehensive income statement (in PLN thousand)	Notes	2018 Year ended 31.12.2018	2017 (transformed) Year ended 31.12.2017
Continuing operations			
Revenue	10.1	8 046 756	7 029 425
Cost of goods sold	10.2	3 645 497	3 302 312
Gross profit (loss) on sales		**4 401 259**	**3 727 113**
Other operating income	10.3	35 627	28 623
Selling costs	10.5	3 023 609	2 751 848
General costs	10.5	508 564	348 091
Other operating costs	10.3	148 153	77 363
Operating profit (loss)		756 560	578 434
Financial income	10.4	8 420	4 754
Financial costs	10.4	41 300	19 517
Pre-tax profit (loss)		**723 680**	**563 671**
Income tax	11	218 504	122 897
Net profit (loss) on continuing operations		**505 176**	**440 774**
Net profit attributable to:			
Shareholders of the parent company		505 176	440 851
Non-controlling interests		0	-77
Other comprehensive income			
Items transferred to profit or loss			
Currency translation on foreign operations		-23 487	-93 239
Total comprehensive income		481 689	347 535
Attributable to:			
Shareholders of the parent company		481 689	348 093
Non-controlling interests		0	-558
Weighted average number of ordinary shares		1 833 483	1 826 537
Profit (loss) per ordinary share		275,53	241,36
Diluted profit (loss) per ordinary share		275,40	241,34

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

Statement of financial position (in PLN thousand)	Notes	2018 31 December 2018	2017 (transformed) 31 December 2017
Non-current assets		**2 417 752**	**2 041 365**
1. Fixed assets	14	1 818 316	1 478 164
2. Intangible assets	16	89 630	64 071
3. Goodwill	17	209 598	209 598
4. Trademark	16	77 508	77 508
5. Other financial assets	18.1	7 822	4 937
6. Deferred tax assets	11.3	164 277	151 335
7. Prepayments	27	50 601	55 752
Current assets		**2 963 056**	**2 289 463**
1. Inventory	19	1 590 368	1 475 187
2. Trade receivables	20	156 252	199 648
3. Income tax receivables		377	6 394
4. Other financial assets	18.1	100 304	1 755
5. Other non-financial assets	18.2	37 843	47 569
6. Prepayments	27	32 943	44 120
7. Cash and cash equivalents	21	1 044 969	514 790
TOTAL assets		**5 380 808**	**4 330 828**
Equity		**2 860 553**	**2 443 446**
1. Share capital	22.1	3 705	3 705
2. Treasury shares		-43 067	-43 334
3. Share premium	22.2	278 591	277 631
4. Other reserves	22.3	2 251 623	1 823 453
5. Currency translation on foreign operations		-231 654	-208 167
6. Retained earnings		601 355	590 158
- profit (loss) from previous years		96 179	149 307
- net profit (loss) for the current period		505 176	440 851
Non-controlling interest capital		**-15**	**-15**
Long-term liabilities		**346 148**	**324 377**
1. Bank loans and borrowings	23	88 575	141 824
2. Employee liabilities	24.1	1 012	751
3. Deferred tax liabilities		686	31
4. Accruals	27	255 774	181 690
5. Other long-term liabilities		101	81
Short-term liabilities		**2 174 122**	**1 563 020**
1. Trade and other liabilities	26	1 497 511	1 325 278
2. Contract liabilities	8.1	23 140	0
3. Customer refund liabilities	8.1	36 731	0
3. Income tax liabilities		234 434	53 462
4. Bank loans and borrowings	23	203 196	56 496
5. Employee liabilities	24.2	86 707	43 572
6. Provisions	25	20 397	9 944
7. Accruals	27	72 006	74 268
TOTAL EQUITY AND LIABILITIES		**5 380 808**	**4 330 828**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

Statement of changes in equity (in PLN thousand)	Share capital	Treasury shares	Share premium	Other capitals	Total income	Profit (loss) from previous years	Profit (loss) for the current period	Equity attributable to the parent company	Minority interests	TOTAL equity
Balance as at 1 January 2018	**3 705**	**-43 334**	**277 631**	**1 823 453**	**-208 167**	**590 158**	**0**	**2 443 446**	**-15**	**2 443 431**
Incentive programme implementation	0	0	960	-960	0	0	0	0	0	0
Distribution of profit for 2017	0	0	0	420 610	0	-420 610	0	0	0	0
Dividend paid	0	0	0	0	0	-73 342	0	-73 342	0	-73 342
Shares taken into treasury	0	267	0	-267	0	0	0	0	0	0
Consolidation of a subsidiary	0	0	0	0	0	-27	0	-27	0	-27
Remuneration paid in shares	0	0	0	8 787	0	0	0	8 787	0	8 787
Transactions with owners	**0**	**267**	**960**	**428 170**	**0**	**-493 979**	**0**	**-64 582**	**0**	**-64 582**
Net profit (loss) for 2018	0	0	0	0	0	0	505 176	505 176	0	505 176
Currency translation on foreign operations	0	0	0	0	-23 487	0	0	-23 487	0	-23 487
Balance as at 31 December 2018	**3 705**	**-43 067**	**278 591**	**2 251 623**	**-231 654**	**96 179**	**505 176**	**2 860 553**	**-15**	**2 860 538**
Balance as at 1 January 2017	**3 679**	**-43 318**	**251 393**	**1 608 298**	**-114 928**	**429 607**	**0**	**2 134 731**	**0**	**2 134 731**
Treasury share purchases	0	-16	0	0	0	0	0	-16	0	-16
Distribution of profit for 2016	0	0	0	214 747	0	-214 747	0	0	0	0
Dividend paid	0	0	0	0	0	-65 526	0	-65 526	0	-65 526
Share issue	26	0	26 238	0	0	0	0	26 264	0	26 264
Consolidation of a subsidiary	0	0	0	0	0	-27	0	-27	0	-27
Contribution by non-controlling shareholders	0	0	0	0	0	0	0	0	62	62
Remuneration paid in shares	0	0	0	408	0	0	0	408	0	408
Transactions with owners	**26**	**-16**	**26 238**	**215 155**	**0**	**-280 300**	**0**	**-38 897**	**62**	**-38 835**
Net profit (loss) for 2017	0	0	0	0	0	0	440 851	440 851	-77	440 774
Currency translation on foreign operations	0	0	0	0	-93 239	0	0	-93 239	0	-93 239
Balance as at 31 December 2017	**3 705**	**-43 334**	**277 631**	**1 823 453**	**-208 167**	**149 307**	**440 851**	**2 443 446**	**-15**	**2 443 431**

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2018

		2018	2017 *(transformed)*
Cash flow statement (in PLN thousand	Notes	Year ended 31.12.2018	Year ended 31.12.2017
A. Cash flows from operating activities – indirect method			
I. Pre-tax profit (loss)		**723 680**	**563 671**
II. Total adjustments		**488 330**	**329 514**
1. Amortisation and depreciation		349 163	293 429
2. Foreign exchange gains (losses)		-11 383	414
3. Interest and dividends		4 825	8 673
4. Profit (loss) on investing activities		-21 006	6 383
5. Income tax paid		-42 106	-92 385
6. Change in provisions and employee benefits	24,25	60 536	20 610
7. Change in inventories	19	-133 164	-356 641
8. Change in receivables and non-financial assets	18,20	4 128	-38 654
9. Change in short-term liabilities, excluding bank loans and borrowings	26	254 207	496 555
10. Change in prepayments and accruals	27	10 013	24 733
11. Other adjustments		13 117	-33 603
III. Net cash flows from operating activities		**1 212 010**	**893 185**
B. Cash flows from investing activities			
I. Inflows		634 506	57 712
1. Disposal of intangible and fixed assets		146 438	57 442
2. From financial assets, including:		3 004	266
a) in associates		96	165
- interest and dividends		96	165
b) in other entities		2 908	101
- interest		2 818	4
- repayment of loans		90	97
3. Other investing inflows	18	485 064	4
II. Outflows		1 338 902	441 646
1. Purchase of intangible and fixed assets		798 851	441 596
2. For financial assets, including:		51	50
a) in associates		0	0
b) in other entities		51	50
- loans granted		51	50
3. Other investing outflows	18	540 000	0
III. Net cash flows from investing activities		**-704 396**	**-383 934**

C. Cash flows from financing activities			
I. Inflows		369 230	26 264
1. Loans and borrowings		369 230	0
2. Proceeds from issuance of shares		0	26 264
3. Other financial inflows		0	0
II. Outflows		348 302	386 136
1. Cost of maintenance of treasury shares		0	16
2. Dividends and other payments to owners		73 342	65 527
3. Repayment of bank loans and borrowings		260 706	308 979
4. Interest		14 254	11 614
5. Other financial outflows		0	0
III. Net cash flows from financing activity		**20 928**	**-359 872**
D. Total net cash flows		**528 542**	**149 379**
E. Balance sheet change in cash, including:		**530 179**	**149 037**
- change in cash due to foreign currency translation		**1 637**	**-342**
F. Opening balance of cash		**515 405**	**366 026**
G. Closing balance of cash		**1 043 947**	**515 405**

NAZWA I SIEDZIBA LPP SA:

LPP SPÓŁKA AKCYJNA z siedzibą w Polsce, ul. Łąkowa 39/44,80-769 Gdańsk

ACCOUNTING PRINCIPLES (POLICIES) AND ADDITIONAL EXPLANATORY NOTES

1. OVERVIEW

The LPP SA Capital Group ("CG", "Group") is composed of LPP SA ("Parent Company", "Company") and its subsidiaries (note 2). The Group's consolidated financial statements cover the year ended 31 December 2018 and incorporate comparative data for the year ended 31 December 2017.

The Parent Company is recorded in the register of entrepreneurs of the National Court Register kept by the District Court for Gdańsk-North in Gdańsk, 7th Economic Division of the National Court Register, under number KRS 0000000778.

The Parent Company and the Group companies have been established for an unlimited period of time.

The Group's basic scope of business is:
– retail sale of clothing,
– wholesale of clothing.

2. GROUP COMPOSITION

The Group is composed of LPP SA and the following subsidiaries:

	Company name	Registered office	Shareholding
1.	LPP Retail Sp. z o.o.	Gdańsk, Poland	100,0%
2.	DP&SL Sp. z o.o.	Gdańsk, Poland	100,0%
3.	IL&DL Sp. z o.o.	Gdańsk, Poland	100,0%
4.	Printable Sp. z o.o.	Gdańsk, Poland	100,0%
5.	LPP Estonia OU	Tallinn, Estonia	100,0%
6.	LPP Czech Republic s.r.o.	Prague, the Czech Republic	100,0%
7.	LPP Hungary KFT	Budapest, Hungary	100,0%
8.	LPP Latvia Ltd	Riga, Latvia	100,0%
9.	LPP Lithuania UAB	Vilnius, Lithuania	100,0%
10.	LPP Ukraina AT	Peremyshliany, Ukraine	100,0%
11.	RE Trading OOO	Moscow, Russia	100,0%
12.	LPP Romania Fashion SRL	Bucharest, Romania	100,0%
13.	LPP Bulgaria EOOD	Sofia, Bulgaria	100,0%
14.	LPP Slovakia s.r.o.	Bańska Bystrzyca, Slovakia	100,0%
15.	LPP Fashion Bulgaria EOOD	Sofia, Bulgaria	100,0%
16.	Gothals LTD	Nicosia, Cyprus	100,0%
17.	LPP Croatia DOO	Zagreb, Croatia	100,0%
18.	LPP Deutschland GmbH	Hamburg, Germany	100,0%
19.	IPMS Management Services FZE	Ras Al Khaimah, UAE	100,0%
20.	LPP Reserved UK Ltd	Altrincham, UK	100,0%
21.	LLC Re Development	Moscow, Russia	100,0%
22.	LLC Re Street	Moscow, Russia	100,0%
23.	LPP Reserved doo Beograd	Belgrade, Serbia	100,0%
24.	P&L Marketing&Advertising Agency SAL	Beirut, Lebanon	97,3%
25.	Reserved Fashion, Modne Znamke DOO	Ljubljana, Slovenia	100,0%
26.	LPP Kazakstan LLP	Almaty, Kazakhstan	100,0%
27.	LPP BH DOO	Banja Luka, Bosnia and Hercegovina	100,0%

As at 31 December 2018 and as at 31 December 2017, the share in the total number of votes, held by the Group in subsidiaries, was equal to the Group's shareholdings in those entities, with no changes compared with the preceding year.

In the reporting period, the Group was joined by LPP Kazakhstan, Reserved Fashion in Slovenia and LPP BH in Bosnia and Hercegovina, handling retails sales of LPP SA brands, i.e. Reserved, Cropp, Mohito, House and Sinsay.

3. COMPOSITION OF THE MANAGEMENT BOARD OF THE PARENT COMPANY

In the reporting period and by the date of approving these financial statements, the composition of the Management Board remained unchanged.

Composition of the Parent Company's Management Board as at 31 December 2018:

Marek Piechocki
President of the Management Board

Przemysław Lutkiewicz
Vice-President of the Management Board

Jacek Kujawa
Vice-President of the Management Board

Sławomir Łoboda
Vice-President of the Management Board

4. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Management Board of LPP SA for publishing on 10 April 2019.

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

5.1. PROFESSIONAL JUDGMENT

The preparation of the Group's consolidated financial statements requires the Management Board of the Parent Company to make judgments, estimates and assumptions affecting presented revenues, costs, assets and liabilities and related additional notes as well as disclosures regarding contingent liabilities. Uncertainty over these assumptions and estimates may, in the future, result in major adjustments in balance sheet values of assets and liabilities.

While applying accounting principles, the Management Board made the following judgments affecting to the largest extent the presented balance sheet values of assets and liabilities.

- **Classification of lease agreements**
  The Group classifies lease as operating or financial lease based on the assessment of the extent in which risk and benefits arising from the possession of a leased object are attributable to the lessor and to the lessee. This assessment is based on the economic substance of each transaction.

  The Group has concluded lease agreements for retail space to operate brand stores.

- **Recognition of revenue**
  In the financial statements, the Group calculates and recognises a product return asset as part of "inventory", "customer refund liabilities", and makes relevant adjustments of sales revenues and the respective cost of goods sold. The Group makes judgment of the value of refunds in a given period, as described in note 9.2.

5.2. UNCERTAINTY OVER ESTIMATES AND ASSUMPTIONS

Basic assumptions for the future and other key sources of uncertainties, occurring as at the balance sheet date, involving a major risk of adjustments in the values of assets and liabilities in the next financial year, are given below.

The methodology employed for determining estimated values is based on the best knowledge of the Management Board of the Parent Company and is in line with IFRS requirements. Assumptions and estimates made may be changed due to future events resulting from market changes or changes beyond the Group's control.

The estimates of the Parent Company's Management Board, affecting the values disclosed in the financial statements, cover the following:

- **depreciation rates**
  The value of depreciation rates is determined based on the estimated economic useful life of property, plant and equipment and intangible assets. Each year, based on current estimates, the Group verifies the economic useful life applied.

- **percentage of returns of goods sold in the reporting period, to be made in the next reporting period**
  Due to the fact that customers make product claims and return goods purchased at retail and wholesale, sales revenues are updated by adjusting the estimated cost of returns. Based on historical data, a percentage rate reflecting the ratio of product returns versus the sales volume is estimated. At the end of each reporting period, this ratio is re-estimated.

- **revaluation write-off on assets**
  As at each balance sheet date, the Group assesses whether there is objective evidence for permanent impairment of an asset or a group of assets. The Group treats individual retail sales units as separate cash generating units and, at their level, estimates such impairment, if any. Furthermore, as estimated by the Group, the initial phase of the store's operations lasts 3 years (5 years in the countries of Western Europe), during which newly opened stores may generate losses. After that period, the Group analyses the profitability of individual retail sales units. In case of identifying stores without any promising perspectives for improving results within a given time-frame, the CG makes a decision on an impairment write-off on assets assigned to such an unprofitable store.

  If there is such objective evidence and a need to make the write-off in question, the Group determines an estimated recoverable value of an asset and makes an impairment write-off in an amount equal to a difference between the recoverable value and the balance sheet value. An impairment loss is recognised in the profit and loss statement in the current period in which it was identified.

- **valuation of provisions for retirement and pension benefits**
  The Group makes a provision for future liabilities arising from retirement and pension benefits, applying actuarial methods. Assumptions made in this respect are presented in note 24. A change in financial indices serving as the basis for the estimate, i.e. an increase in the discount rate by 0.5 pp and a decrease in the remuneration index by 0.5 pp would result in the decrease of the provision by PLN 71 thousand.

- **future tax results taken into account when calculating deferred income tax assets**
  The Group recognises a deferred income tax asset based on the assumption that, in the future, tax profit will be generated allowing for its application. Furthermore, LPP SA will still be burdened with license fees for utilising trademarks of the Group company Gothals in Cyprus.

- **assumptions made for reviewing trademark and goodwill impairment**
  Intangible assets with an unspecified useful life are annually tested for impairment. The assumptions made in this respect are discussed in note 17.

Methods for determining estimated values are applied on a continuous basis versus the previous reporting period.

Estimates covering the scope given below were changed (in line with the methodology employed):

- estimated economic useful life of property, plant and equipment – applicable to outlays in third-party premises (determination of a new depreciation period after modernisation),
- future tax results taken into account when determining deferred income tax assets,
- sales adjustment ratio related to product returns to be made in the next reporting period,
- valuation of the provision for retirement and pension benefits,
- assumptions made for reviewing trademark and goodwill impairment,
- uncertainty over tax settlement.

The Group's tax settlements are subject to tax audit. Due to the fact that, in case of numerous transactions, the construing of tax laws may differ from that applied by the Management Board in the utmost good faith, amounts disclosed in the financial statements may be changed at a later time upon their final determination by authorities authorised to carry out tax audits. Similar changes may affect, depending on future interpretations of tax authorities, the possibilities of employing tax benefits recognised in the financial statements as deferred income tax assets.

On 15 July 2016, the Tax Ordinance was amended to give recognition to the General Anti-Abuse Rule (GAAR). GAAR is intended to prevent the creation and implementation of artificial legal arrangements to avoid payment of tax in Poland. Under new regulations, a substantially higher degree of judgment will be required to be made when assessing the effects of individual transactions.

GAAR should be applied to transactions concluded after its entry into force and to transactions effected before its entry into force, yet involving benefits gained after the said date or those still gainable. Following implementation of the said provisions, Polish fiscal control authorities will be able to question arrangements made, and agreements entered into by taxpayers, such as group restructuring and reorganisation.

The Group recognises and measures current and deferred tax assets or liabilities satisfying the criteria of IAS 12 Income Taxes based on tax profit (loss), taxable basis, unsettled tax losses, unused tax reliefs and tax rates, with due regard of the assessment of uncertainty over tax settlements.

If there is any uncertainty over the extent in which a tax authority will approve specific tax settlements for a given transaction, the Group recognizes such settlements in due recognition of such uncertainty.

6. BASIS FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2019, item 351), from 1 January 2005, LPP SA has presented its consolidated financial statements based on International Financial Reporting Standards (IFRS), approved by the EU (IFRS EU).

These consolidated financial statements have been drawn up in accordance with the historical cost accounting model, except for financial instruments measured at fair value.

These consolidated financial statements have been drawn up based on the assumption that the Group companies remain a going concern in the foreseeable future. As at the date of approval of these financial statements, there is no evidence indicating that the Group companies will be unable to continue its operations as a going concern.

These financial statements are presented in PLN, and, unless given otherwise, all figures are given in PLN thousand.

6.1. DECLARATION OF COMPLIANCE WITH IFRS

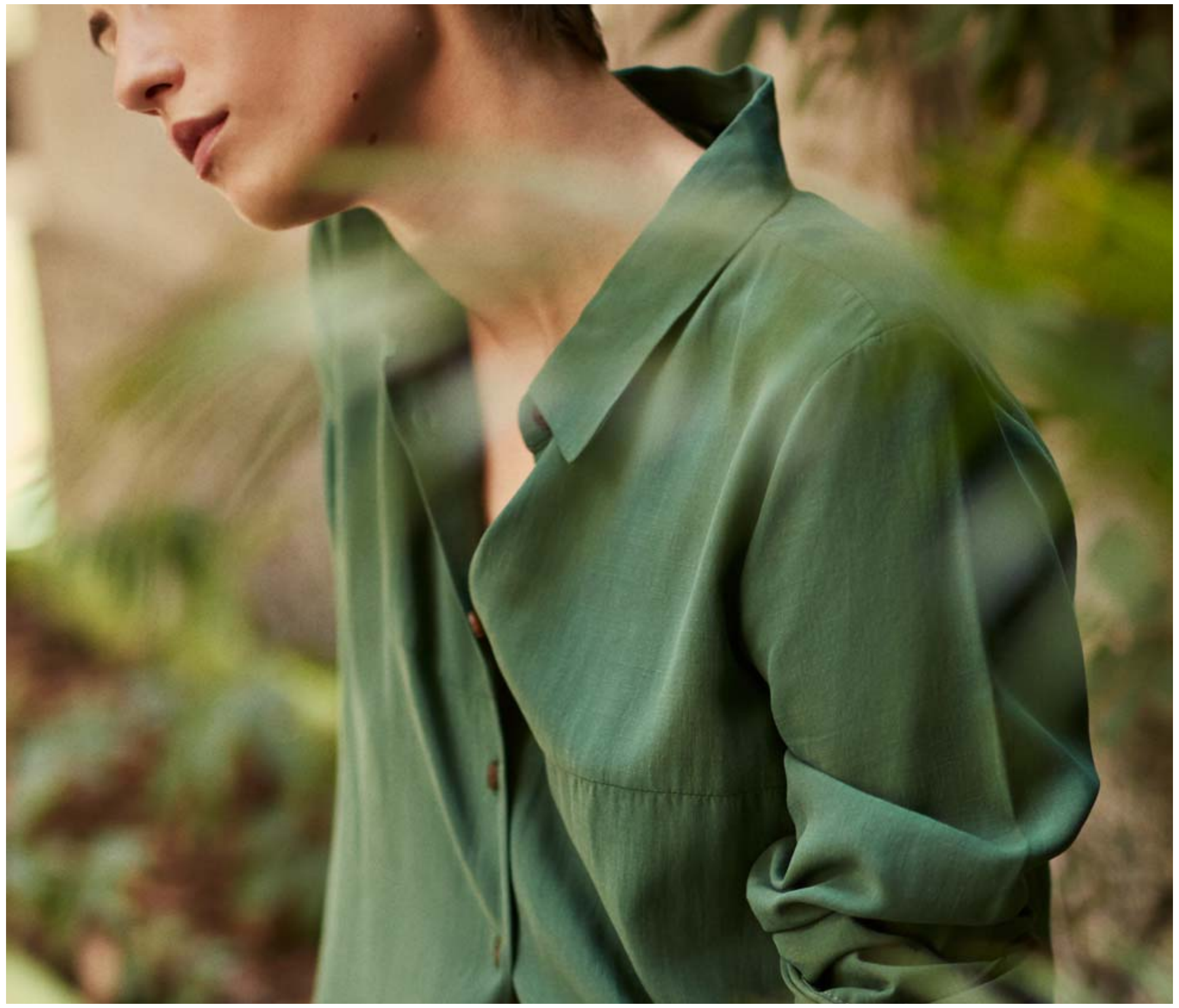
The presented consolidated financial statements cover the period between 1 January 2018 and 31 December 2018. Comparative data is presented for the period between 1 January 2017 and 31 December 2017.

These consolidated financial statements have been drawn up in line with the International Financial Reporting Standards (IFRS) approved by the European Union, covering standards and interpretations approved by the International Accounting Standards Board. As at the date of approval of these financial statements for publishing, considering the pending process of implementation of IFRS in the EU, IFRS applicable to these financial statements do not differ from IFRS EU.

In these financial statements, no standard or interpretation has been voluntarily adopted early.

6.2. NEW STANDARDS AND INTERPRETATIONS PUBLISHED, YET NOT IN FORCE

The following standards and interpretations had been published by the International Accounting Standards Board, yet did not enter into force before 31 December 2018.



Standard/interpretation	Effective date
IFRS 14 *Regulatory Deferral Accounts*	– annual periods beginning on or after 1 January 2016 – published on 30 January 2014 – as decided by the European Commission, the approval process for the standard in its initial form will not commence before the standard is published in its final wording; not approved by the EU by the date of approval of these financial statements
Sale or Contribution of Assets between *an Investor and its Associate or Joint Venture* (Amendment to IFRS 10 and IAS 28)	– no date for entry into force – voluntary application – published on 11 September 2014 – the EU approval procedure suspended
IFRS 16 *Leases*	– annual periods beginning on or after 1 January 2019 published on 13 January 2016
IFRS 17 *Insurance Contracts*	– annual periods beginning on or after 1 January 2021 – published on 18 May 2017 – not approved by the EU by the date of approval of these financial statements
IFRIC 23 *Uncertainty over Income Tax Treatments*	– annual periods beginning on or after 1 January 2019 – published on 7 June 2017
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	– annual periods beginning on or after 1 January 2019 – published on 7 June 2017
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	– annual periods beginning on or after 1 January 2019 – published on 12 October 2017 – not approved by the EU by the date of approval of these financial statements
Annual Improvements to IFRS Standards 2015-2017 Cycle	– annual periods beginning on or after 1 January 2019 – published on 12 December 2017 – not approved by the EU by the date of approval of these financial statements
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	– annual periods beginning on or after 1 January 2019 – published on 7 February 2018 – not approved by the EU by the date of approval of these financial statements
References to the Conceptual Framework in IFRS Standards (Amendments)	– annual periods beginning on or after 1 January 2020 – published on 29 March 2018 – not approved by the EU by the date of approval of these financial statements
Business Combinations (Amendment to IFRS 3)	– annual periods beginning on or after 1 January 2020 – published on 22 October 2018 – not approved by the EU by the date of approval of these financial statements
Definition of Material (Amendments to IAS 1 and IAS 8)	– annual periods beginning on or after 1 January 2020 – published on 31 October 2018 – not approved by the EU by the date of approval of these financial statements

Implementation of IFRS 16

In January 2016, the International Accounting Standards Board issued IFRS 16 Leases ("IFRS 16"), replacing IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 specifies rules how to recognise, measure, present and disclose leases.

IFRS 16 implements a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with a lease term above 12 months, unless the underlying asset has a low value. At the effective date, the lessee recognizes an asset arising from the right to control the use of the underlying asset and the lease liability, reflecting its obligation to make lease payments.

The lessee recognises separately the depreciation of the asset arising from the right to control the use and interest on the lease liability.

The lessee remeasures a lease liability upon occurrence of specific events (for example, changes regarding a lease term, a change in future lease payments, resulting from a change in an index or rate used to determine those payments). As a rule, remeasurements are treated by the lessee as adjustments to the right-of-use asset.

The Group is a lessee in agreements on the lease of retail and office space and cars, as discussed in detail in note 15.

According to IFRS 16, the lessee is required to make disclosures wider than those required under IAS 17.

The lessee has the right to apply IFRS with either full or modified retrospective effect, while transitional provisions provide for some practical solutions.

IFRS 16 applies to annual periods commencing on or after 1 January 2019. Early application is permitted for entities applying IFRS 15 as of the date, or before the date, of the first application of IFRS 16. The Company made no decision in respect of early application of IFRS 16 and started applying it since 2019, using a modified retrospective approach, i.e. without modifying previous years.

In conclusion, the LPP SA CG estimates that the implementation of IFRS 16 will have the following impact.

(in PLN thousand)	Adjustments	Adjusted value
Assets		
Right of use	2 926 806	2 926 806
Long-term prepayments*	(45 843)	4 758
Short-term prepayments*	(6 296)	26 647
Total assets	**2 874 667**	**2 958 211**
Liabilities		
Long-term lease liabilities**	2 466 288	2 466 288
Long-term accruals	(141 980)	113 794
Short-term lease liabilities**	585 322	585 322
Short-term accruals	(34 963)	37 043
Total liabilities	**2 874 667**	**3 202 447**

*According to IFRS 16, the Group presents agents' commissions as an increase in the right-of-use asset.
** According to IFRS 16, the Group presents a consideration for the sale of outlays for the lessor as the decrease in the right-of-use asset.

Implementation of other standards and interpretations

By the date of approving these financial statement for publishing, the Parent Company's Management Board did not complete works involving the assessment of the impact of introducing other standards and interpretations on the accounting principles (policy) applied by the Group in relation to the CG's operations or financial results.

7. KEY ACCOUNTING PRINCIPLES

The key accounting principles applied when preparing these consolidated financial statements are given in relevant subsequent notes.

These principles were applied in all presented years on a continuous basis, except for IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9 *Financial Instruments* ("IFRS 9"), applied for the first time.

7.1. CONVERSION OF ITEMS DENOMINATED IN FOREIGN CURRENCIES

The functional currency of the Parent Company and the presentation currency of the Capital Group is PLN.

The functional currency of foreign subsidiaries is their local currency.

Foreign exchange differences from conversion are recognised, respectively, in financial income or costs.

As at the balance sheet date, assets and liabilities of foreign subsidiaries are converted into the Group's presentation currency according to an exchange rate of the National Bank of Poland, applicable on the balance sheet date. Their comprehensive income statements are converted according an average weighted exchange rate for a given financial period. Foreign exchange differences arising from currency translation are recognised in other comprehensive income and accumulated in a separate equity item.

At the time of transfer of a foreign entity, foreign exchange differences accumulated in the equity of a given foreign entity are recognised in profit or loss.

For balance sheet measurement, the following foreign exchange rates have been applied.

	EUR	CZK	BGN	HUF	RUB	UAH	HRK	RON	RSD	KZT	BAM	GBP
2018	4,3000	0,1673	2,1985	0,013394	0,0541	0,1357	0,5799	0,9229	0,0363	0,010124	2,1899	4,7895
2017	4,1709	0,1632	2,1326	0,013449	0,0604	0,1236	0,5595	0,8953	0,0354	-	-	4,7001

Average weighted exchange rates for specific financial periods were as follows.

	EUR	CZK	BGN	HUF	RUB	UAH	HRK	RON	RSD	KZT	BAM	GBP
2018	4,2697	0,1663	2,1939	0,013400	0,0575	0,1336	0,5763	0,9174	0,0363	0,010200	2,1972	4,8214
2017	4,2514	0,1622	2,1740	0,013700	0,0643	0,1406	0,5693	0,9283	0,0356	-	-	4,7698

7.2. CONSOLIDATION PRINCIPLES

Financial statements of subsidiaries are prepared based on accounting standards applicable in specific countries, however, for consolidation purposes, their financial data has been transformed to ensure that the consolidated financial statements are drawn up based on uniform accounting principles. Adjustments are implemented to eliminate any discrepancies in the accounting principles applied.

All material balances and transactions between the Group companies, including unrealised profit from intra-Group transactions, have been eliminated in full.

Subsidiaries are consolidated in the period from the date on which the Group takes control of them, and cease to be consolidated on the date such control expires. The Parent Company exercises control over a subsidiary if:

– it has power over such entity,
– it is exposed to, or holds the rights to, variable returns arising from its engagement in a given entity,
– it may use its powers to shape the level of returns generated.

The Group verifies the exercise of control over other entities in cases where there might be a change in at least one condition for exercising the same.

8. CHANGES IN APPLIED ACCOUNTING PRINCIPLES

Accounting principles applied for preparing these consolidated financial statement are coherent with those applied when drawing up the Group's financial statements for the year ended 31 December 2017, except for those given below.

The Group has applied for the first time IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. Other new or amended standards and interpretations applied for the first time in 2018 do not substantially affect the Capital Group's financial statements.

8.1. IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 repeals IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and applies to all contracts with customers, except for those falling within the scope of other standards. The new standard introduces the so-called Five-Step Model for recognising revenue from contracts with customers. According to IFRS 15, revenue is recognised in the amount of the consideration to which the entity expects to be entitled in exchange for the transfer of promised goods and services to the customer.

Application of IFRS 15 requires the Company's Management Board to make judgments at each of the model's five steps.

The Group implemented IFRS 15 applying a modified retrospective method.

The accounting policy covering recognition of revenue is described in note 10.1.

The CG pursues business activity covering:

Sale of goods

The Group pursues business activity covering mainly the sale of goods, including retail sales in on-site and online stores and as well as wholesale.

According to the said standard, if a contract provides for a single performance obligation, i.e. the sale of goods, then revenue is recognised at a point of time (which is when the customer obtains control of that good). As regards retail sales points (brand stores), revenue is recognised at the time of effecting a transaction. Recognition of revenue in wholesale is dependent on incoterms applied for a given transaction. In e-commerce sales, the Group recognises revenue at the time of invoice issuance, with due consideration of estimated returns. Following application of this principle in previous periods, the CG noted no changes in the applied accounting policy and showed no differences in recognising revenue compared to previous periods.

Due to the applied product return policy, the Group reduces the value of revenue with the estimated cost of such returns. According to IFRS 15, this methodology will be continued.

According to IFRS 15, the Group changed the presentation of the customer refund liability as given in the table below:

In PLN thousand	Adjustments	31.12.2018 Adjusted value
Assets		
Inventory	23 667	1 590 368
Total assets	**23 667**	**1 590 368**
Liabilities		
Customer refund liabilities	36 731	36 731
Provisions	(13 064)	20 397
Total liabilities	**23 667**	**57 128**

Sales of gift cards

So far, the Group presented the sale of gift cards in "accruals". According to IFRS 15, there was a change in presentation and, at present, amounts received from customers are presented in "contract liabilities", as given in the table below.

In PLN thousand	Adjustments	31.12.2018 Adjusted value
Liabilities		
Contract liabilities	23 140	23 140
Short-term accruals	(23 140)	72 006
Total liabilities	**0**	**95 146**

Provision of franchise services

The Group provides services to franchisees operating domestic brand stores by providing know-how as well as marketing and telecommunications services. According to IFRS 15, the Group presented consequent revenue and corresponding costs in net amounts, which was neutral for the CG's result. This change is presented in the table below.

In PLN thousand	Adjustments	31.12.2018 Adjusted value
Revenues	(14 088)	8 046 756
Sales costs	(14 088)	3 023 609
Total difference	**0**	**5 023 147**

8.2. IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 replaced IAS 39 *Financial Instruments: Recognition* and Measurements and applies to annual periods beginning on or after 1 January 2018. IFRS 9 addresses three areas covering financial instruments: classification and measurement, impairment and hedging accounting.

The Group applied IFRS 9 from its effective date, without transforming comparable data.

Classification and measurement

The Group's accounting policy in terms of classification and measurements of financial instruments is described in note 32.

The Group's statement of financial position and equity were not substantially affected by the application of IFRS 9 in terms of classification and measurement. All financial assets measured so far at fair value will still be measured that way.

Trade receivables are maintained to create cash flows resulting from a contract, and the Group does not factor trade receivables – they will still be measures at amortised cost through profit or loss.

Impairment

The Group's accounting policy on impairment of financial instruments is described in note 32. In principle, IFRS 9 substantially changes the approach to impairment of financial assets by moving away from the concept of a loss incurred to a loss expected, where a full credit loss is recognised ex-ante.

The Group has analysed the application of IFRS 9 to calculate a write-off on expected credit losses, without ascertaining any major differences as compared to previous calculation of an impairment write-off according to IAS 39.

Furthermore, IFRS 9 changes the approach to measurements of liabilities arising from financial guarantee agreements, having introduced a model based on the concept of expected loss. The Group has analysed the liability arising from financial guarantees, which was calculated under IFRS 9, without ascertaining any major differences as compared to the previous approach.

Hedging accounting

The Group applies no hedging accounting and, therefore, this part of the standard does not apply.

8.3. OTHER

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

According to this interpretation, the date of the transaction, for the purpose of determining the exchange rate to be applied at initial recognition of a related asset, expense or income (or part thereof), is the date of initial recognition of a non-monetary asset or non-monetary liability arising from payment or receipt of an advance consideration. If there are multiple payments or receipts in advance, then the transaction date is established for each payment or receipt.

This interpretation does not substantially affect the financial statements of the Capital Group.

***Transfers of Investment Property* (Amendments to IAS 40)**

In these amendments, it is specified when an entity transfers a property, including property in construction, to, or from, investment property. It is clarified that a change in use occurs if property meets, or ceases to meet, the definition of investment property and when there is evidence on a change in use. The very change in management's intentions for the use of a property does not constitute evidence of a change in use.

These amendments do not substantially affect the financial statements of the Capital Group.

***Classification and Measurement of Share Based Payment Transactions* (Amendments to IFRS 2)**

The International Accounting Standards Board (IASB) has published amendments to IFRS 2 *Share-Based Payment* to clarify the following issues: the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions; the accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

These amendments do not substantially affect the financial statements of the Capital Group.

Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Amendments to IFRS 4)

According to these amendments, entities pursuing insurance activity may postpone the effective date of IFRS 9 by 1 January 2021. Consequently, entities interested may further prepare financial statements in line with the applicable standard, i.e. IAS 39.

The said amendments to not apply to the Group.

***Investments in Associates and Joint Ventures Being Part of Annual Improvements to IFRS Standards 2014-2016 Cycle* (Amendments to IAS 28)**

According to these amendments, an entity being a venture capital organisation, mutual fund, trust fund or a similar entity, including an investment-related insurance fund, may elect to measure at fair value through profit or loss an investment in an associate or a joint venture in line with IFRS 9. The entity makes the said decision separately for each associate or joint venture upon their initial recognition. If an entity not being an investment vehicle holds interests in an associate or a joint venture not being investment vehicles, then such entity may, applying the equity method, decide to keep measuring at fair value as applied by the said associate or joint venture, being investment vehicles, to interests of the associate or joint venture, being investment vehicles, held in subsidiaries. The choice is made separately for each associate or joint venture at the date: a) of initial recognition of such associate or joint venture, being investment vehicles; b) at which such associate or joint venture become an investment vehicle; c) at which such associate or joint venture, being investment vehicles, become dominant entities.

The said amendments to not apply to the Group.

***First-Time Adoption of International Financial Reporting Standards Being Part of Annual Improvements to IFRS Standards 2014-2016 Cycle* (Amendments to IFRS 1)**

Short-term exemptions from the requirement to comply with other IFRS, provided in paragraphs E3-E7 IFRS 1, have been deleted.

These amendments do not substantially affect the financial statements of the Capital Group.

The Capital Group made no decision on early application of any standard, interpretation or amendment published, yet not in force under the EU provisions.

At the same time, the Group made several changes in presenting data in the financial statements.

– Change in presentation of the revaluation write-off on inventories

In the current reporting period, in the consolidated statement of comprehensive income, the CG changed the presentation of the revaluation write-off on inventories. The said change consisted in transferring the value of write-offs from other operating income or costs to the "cost of goods sold".

In the statement of comprehensive income, data for 2017 were transformed, with values given below.

– Change in presentation of transactions involving sales of outlays in third-party premises

In the statement of financial position, the Group changed the presentation of sales of outlays in third-party premises.

Following the change, the sale of outlays in third-party premises was presented as follows:
a) outlays in third-party premises are shown in fixed assets and depreciated in the usability period,
b) the value of a net sale invoice for such outlays is reported in full in prepayments/accruals and settled over time throughout contract duration.

So far, the Group presented the net value of such transaction in prepayments/accruals and settled it over time.

Data for 2017 in the statement of comprehensive income have been transformed, with values given in the table below.

– Change in presentation of deferred tax assets and liabilities

In the current reporting period, the Group changed the presentation of deferred tax assets and liabilities. At present, these figures are shown in a single item as a net amount, and not separately for assets and liabilities as before.

Data for 2017 in the statement of financial position have been transformed, with values given in the table below.

– Change in presentation of license liabilities

In the statement of financial position, the Group changed the presentation of license liabilities by transferring the value of licenses from "inventories" to "trade liabilities".

Data for 2017 in the statement of financial position have been transformed, with values given in the table below.

Following the implementation of changes in presentation, adjustments given below were made in financial data as at 31 December 2017.

Changes in 2017	Value in PLN thousand	Data approved	Data transformed
Sale of outlays in third-party premises	130 594	Accruals (liabilities)	Fixed assets
Sale of outlays in third-party premises	312	Prepayments (short-term assets)	Accruals (liabilities)
Sale of outlays in third-party premises	1 627	Prepayments (long-term assets)	Accruals (liabilities)
License liabilities	2 650	Inventories	Trade liabilities
Deferred tax liabilities	7 296	Deferred tax liabilities	Deferred tax assets
Revaluation write-off on inventories	7 147	Other operating income	Cost of goods sold

Changes were made also as at 1 January 2017.

Changes as at 1 January 2017	Value in PLN thousand	Data approved	Data transformed
Sale of outlays in third-party premises	100 544	Accruals (liabilities)	Fixed assets
Sale of outlays in third-party premises	165	Prepayments (short-term assets)	Accruals (liabilities)
Sale of outlays in third-party premises	1 228	Prepayments (long-term assets)	Accruals (liabilities)
License liabilities	2 423	Inventories	Trade liabilities
Deferred tax liabilities	3 890	Deferred tax liabilities	Deferred tax assets

9. REVENUE FROM CONTRACTS WITH CUSTOMERS

9.1. REVENUE BROKEN DOWN BY CATEGORY

The table below shows revenue from contracts with customers, broken down by categories reflecting the manner in which economic factors affect the nature, amount, payment date and uncertainty of revenue and cash flows.

in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Type of sale		
Sale of goods, including	7 994 960	7 005 440
E-commerce	*712 056*	*360 826*
Sale of services	51 796	23 985
Total:	**8 046 756**	**7 029 425**
Brand		
Reserved	3 578 445	3 159 506
Cropp	1 119 876	1 063 935
House	919 954	805 339
Mohito	781 569	828 576
Sinsay	788 924	610 215
E-commerce	*712 056*	*360 826*
Other	145 933	201 027
Total:	**8 046 756**	**7 029 425**

9.2. ASSETS AND LIABILITIES UNDER CONTRACTS WITH CUSTOMERS

The Capital Group sells clothes and accessories to customers in its own stores and online in Poland and abroad, with payments made in cash or by credit/debit cards. Due to this business model, the balance of receivables is relatively low. Trade receivables comprise wholesale settlements, rent advances and credit/debit card settlements. As at 31 December 2018, the value of credit/debit card settlements was PLN 49 374 thousand.

Contract liabilities cover gift cards purchased. Such gift cards will be utilised by customers for purchasing clothes in on-site stores. As estimated by the Group, an average gift card utilisation period is 12 months.

Considering that the main distribution channel is retail sale and, to a lesser extent, wholesale, and taking into account product returns envisaged in the Company's policy, LPP SA estimates, as at each balance sheet date, the value of customer refund liabilities. As each brand has a separate product return policy, such an estimate is made based on a percentage of returns determined based on the preceding quarter. The said value is presented in "customer refund liabilities".

The Group has recognised the following assets and liabilities under contracts with customers.

in PLN thousand	Year ended 31 December 2018	Year ended 31 December 2017
Trade receivables	156 252	199 648
Customer refund liabilities	36 731	0
Contract liabilities	23 140	0
Total short-term liabilities	59 871	0

10. REVENUE AND COSTS

10.1. REVENUE

ACCOUNTING POLICY

From 1 January 2018, the Group has applied IFRS 15 *Revenue from Contracts with Customers* to all contracts with customers, except for lease agreements and financial instruments. The basic principle of IFRS 15 is that revenue is recognised, at the time of transfer of goods or services to the customer, in the amount of the consideration to which the entity expects to be entitled in exchange for the transfer of such goods and services.

These principles are applied according to the five-stem model in line with IFRS 15, i.e.:
- A contract with a customer has been identified;
- Performance obligations under such contract have been identified;
- The transaction price has been set;
- The transaction price for performance obligations has been allocated;
- Revenue was recognised at the time of executing the obligation under the contract.

Upon contract conclusion, the Group evaluates whether a contract meets all required criteria, i.e.:
- The parties concluded a contract (in written or oral form or in accordance with adopted trading practice) and are obligated to perform their duties;
- The Group is able to identify rights of each party to goods or services to be transferred;
- The Group is able to identify payment conditions for goods or services to be transferred;
- The contract has economic content (i.e. one may expect that, as a result of the contract, there will be a change in risk, timing or amount of the entity's future cash flows); and
- It is probable that the Group will be paid a consideration due in exchange for goods or services to be transferred to the customer.

Next, the Group evaluates goods and services promised in the contract with the customer and identifies specific contractual obligations. The CG analyses whether a good or service is different or similar and, depending on findings made, performance obligations to which revenue is allocated are recognised as required.

The Capital Group allocates a transaction price to each obligation in an amount reflecting the value of consideration payable in exchange for the transfer of promised goods or services.

Revenues are recognised at the time, or in the course, of fulfilling a performance obligation by transferring a promised good or service to the customer. The above takes place when an entity transfers "control" over goods or services to a contracting party. Such control is the ability to manage the use of a given asset and obtain all major benefits from it.

As regards contracts for permanent services, under which the Group has the right to receive from the customer a consideration in an amount directly reflecting the value for the customer of a performance made so far. The Group recognises revenue over time, versus benefits transferred.

By 31 December 2017, revenue was recognised in a probable amount of economic benefits to be obtained by the Group in connection with a given transaction and when the amount of revenue could be credibly valued. Revenue is recognised at fair value of payments made or due, less discounts and VAT.

Revenue from sale of goods and materials

Revenue from sale of goods and materials is recognised when control over the goods is transferred to the purchaser. The Group has identified the following moments when risk and benefits are transferred in specific sales channels:

- Sale of goods in brand stores – at the time of effecting a transaction in the store;
- Wholesale – in accordance with Incoterms;
- Online sales – at the time of invoice issuance, equivalent to the hand-over of goods to a messenger

Due to customer complaints and product returns, revenue from the sale of goods is subject to an adjustment involving an estimate of costs of such returns. The value of the said liability is provided in note 8.1.

Revenue from the sale of services

Revenue from sales of services relates to:

- The sale of accounting and HR services;
- rental by the parent company of its own means of transportation, subletting of real property, design services.

Revenue (in PLN thousand)	Year ended 31 December 2018	Year ended 31 December 2017
Revenue from sales of services	6 221	23 985
Revenue from sales of goods and materials	8 040 535	7 005 440
Total revenue	**8 046 756**	**7 029 425**

10.2. COST OF GOODS SOLD

A detailed division of elements comprised in the total value of the cost of goods sold is given in the table below.

In the current reporting period, there was a change in presentation of revaluation write-offs on inventories. Previously, the values of changes in revaluation write-offs were presented in other operating income or costs. As of 1 January 2018, this value is shown in the cost of goods sold. Additionally, changes were made in the presentation of data for 2017.

Cost of goods sold (in PLN thousand)	Year ended 31 December 2018	Year ended (transformed) 31 December 2017
Cost of goods and services sold	3 602 291	3 309 459
Revaluation write-off on inventories	43 206	- 7 147
Total cost of goods sold	**3 645 497**	**3 302 312**

10.3. OTHER OPERATING INCOME AND COSTS

ACCOUNTING POLICY

Other operating income and costs comprise income on, and costs of, operations other than the Group's basic operations, for example profit or loss on the sale of tangible fixed assets, fines and charges, donations, revaluation write-offs on assets etc.

Other operating income (in PLN thousand)	Year ended 31 December 2018	Year ended (transformed) 31 December 2017
Profit on sale of non-financial fixed assets	1 724	6 521
Subsidies	0	0
Other operating income, including:	33 903	22 102
- inventory surpluses	15 798	10 631
Total other operating income	**35 627**	**28 623**

Other operating costs (in PLN thousand)	Year ended 31 December 2018	Year ended (przekształcony) 31 December 2017
Revaluation of non-financial assets, including:	45 130	2 243
- revaluation write-offs on fixed assets net	32 052	1 969
- revaluation write-offs on receivables net	13 078	274
Other operating costs, including:	103 023	75 120
- losses on current and fixed assets	77 916	66 608
Other operating costs, in total	**148 153**	**77 363**

The majority of write-offs on fixed assets concern the non-depreciated value of investments in stores which, as at the balance sheet date, are in operation over 3 years, yet are unprofitable, and outlets to be closed. The write-off on receivables involves receivables from the sale of goods to wholesalers, which are overdue for more than 30 days.

10.4. FINANCIAL INCOME AND COSTS

Financial income (in PLN thousand)	Year ended 31 December 2018	Year ended 31 December 2017
Interest, including:	8 080	4 541
- on deposits	4 675	3 462
- on loans and receivables	115	234
- state budget interest	0	845
- on investment funds	3 290	0
Dividend	96	165
Other financial income	244	48
Total financial income	**8 420**	**4 754**

Financial costs (in PLN thousand)	Year ended 31 December 2018	Year ended 31 December 2017
Interest, including:	14 952	12 315
- on bank loans	14 253	11 698
Other, including:	26 348	7 202
- balance of foreign exchange differences	22 750	4 332
Total financial costs	**41 300**	**19 517**

10.5. COSTS BY TYPE

Costs by type (in PLN thousand)	Year ended 31 December 2018	Year ended (transformed) 31 December 2017
Depreciation	349 163	293 429
Consumption of materials and energy	225 998	183 844
Outsourced services, including	1 724 679	1 718 405
- rents and leaseholds	1 033 012	948 321
Taxes and fees	31 334	28 245
Remuneration*	832 398	581 109
Social insurance and other benefits, including:	163 445	126 955
- retirement contribution	39 092	13 070
Other costs by type	205 156	167 952
Total costs by type	**3 532 173**	**3 099 939**

*) The increase in remunerations stems from the fact that employees of Polish stores are employed by LPP. In the previous year, they were employed by external companies.

Reconciliation of costs by nature and function is given in the table below:

Costs by type (in PLN thousand)	Year ended 31 December 2018	Year ended (transformed) 31 December 2017
Costs by type, including:	3 532 173	3 099 939
Items recognised in selling costs	3 023 609	2 751 848
Items recognised in general costs	508 564	348 091

10.6. COSTS OF DEPRECIATION, EMPLOYEE BENEFITS AND INVENTORIES

Items recognised in cost of goods sold (in PLN thousand)	Year ended 31 December 2018	Year ended (transformed) 31 December 2017
Measurement of inventories at purchase price	3 606 291	3 309 274
Revaluation write-off on inventories	43 206	- 7 147
Estimated product returns	(4 258)	185
Total	**3 645 239**	**3 302 312**

Items recognised in selling costs (in PLN thousand)	Year ended 31 December 2018	Year ended (transformed) 31 December 2017
Depreciation of fixed assets	276 661	255 884
Depreciation of intangible assets	1 778	2 757
Costs of inventory consumption for advertising purposes	20 152	14 854
Costs of employee benefits	891 239	631 978
Total	**1 189 830**	**905 473**

Items recognised in general costs (in PLN thousand)	Year ended 31 December 2018	Year ended (transformed) 31 December 2017
Depreciation of fixed assets	57 076	26 452
Depreciation of intangible assets	13 648	8 335
Costs of employee benefits	99 027	69 187
Total	**169 751**	**103 974**

Items recognised in other operating costs (in PLN thousand)	Year ended 31 December 2018	Year ended 31 December 2017
Inventory deficits	65 393	53 415
Liquidated inventories	1 524	2 724
Donations	1 555	1 852
Total	**68 472**	**57 991**

11. 1. INCOME TAX

ACCOUNTING POLICY

Obligatory burdens on the financial result comprise current and deferred income tax not recognised in other comprehensive income or directly in equity.

The current tax due is calculated on the basis of the tax result in a given financial year. Estimate changes referring to previous years are recognised as an adjustment of the amount due for the current year. Tax due is calculated based on tax rates applicable in a given financial year.

Deferred tax is calculated applying the balance sheet method as tax to be paid or returned in the future based on differences between the balance sheet values of assets and liabilities and the corresponding tax values applied to determine the tax base.

Deferred tax liability is made based on all taxable positive temporary differences, while the deferred tax asset is recognised to the extent that recognised negative temporary differences may be likely deducted from future tax profits.

The Group compensates deferred income tax assets and liabilities, showing the value in the statement on financial position, in a net amount separately for each Group company.

The main components of income tax for 2018 and a comparative period are given below.

Income tax (in PLN thousand)	Year ended 31 December 2018	Year ended 31 December 2017
Current income tax	230 960	135 007
Deferred income tax	-12 456	-12 110
Total income tax	**218 504**	**122 897**

11.1. EFFECTIVE INTEREST RATE

Reconciliation of income tax on the financial result before tax at a statutory tax rate, with income tax presented in the financial result for the period from 1 January to 31 December 2018 and for 2017, is given in the table below.

Income tax (in PLN thousand)	Year ended 31 December 2018	Year ended 31 December 2017
Profit/loss before taxation	723 680	563 671
Tax at statutory rate applicable in Poland 19% (2017: 19%)	**137 499**	**107 097**
Effect of tax rate differences between countries	-2 884	-32 962
Adjustments of current tax from previous years	-241	1 501
Income tax provisions	33 328	45 335
Revaluation write-off on a trademark-related tax asset	45 532	0
Permanent differences	5 417	1 206
Other	-147	720
Income tax (burden) recognised in profit or loss	**218 504**	**122 897**

Income tax was increased with income tax provisions of PLN 33 328 thousand. The reason for creating such provision is specified in detail in note 28.2. Tax settlements. Additionally, this value was increased with a revaluation write-off on part of a tax asset recognised in previous years due to a difference between the carrying value and the tax value of trademarks, totalling PLN 45 532 thousand. The reason for creating such revaluation write-off is specified in note 37 After-balance-sheet events.

Income tax is calculated based on the following tax rates.

Poland	Estonia	Russia	Lithuania	Latvia	Ukraine	Hungary	Croatia	Cyprus	Cypr
19%	0%	20%	15%	15%	0%	18%	9%	18%	2,5%

Czech. Rep.	Bulgaria	Serbia	Great Britain	Romania	Slovakia	Slovenia	Kazakhstan	Bosnia and Hercegovina
19%	10%	15%	16%	21%	15%	20%	10%	30,5%

11.2. DEFERRED INCOME TAX – FINANCIAL RESULT

Deferred income tax recognised in the financial result for the period from 1 January to 31 December 2018 and for 2017 resulted from the following items.

In the current reporting period, the Group made a revaluation write-off on part of a tax asset recognised in previous years due to a difference between the carrying value and the tax value of trademarks, totalling PLN 45 532 thousand. The reason for creating such revaluation write-off is specified in note 37 After-balance-sheet events.

	Year ended	Year ended (transformed)
Deferred income tax (in PLN thousand)	31 December 2018	31 December 2017
Difference between balance sheet and tax depreciation of fixed assets	-21 518	-1 732
Depreciation of trademarks	-5 346	-5 346
Revaluation write-off on a trademark-related tax asset	-45 532	0
Revaluation of inventories	11 527	395
Revaluation of trade receivables	2 224	126
Margin on goods unsold outside the Group	5 499	9 672
Margin on sale of investments	24 835	1 152
Tax loss	31 010	47
Unpaid remuneration and surcharges	3 093	9 972
Provision for product returns	542	76
Estimated expenses	9 575	-3 957
Other temporary differences	-3 653	1 132
Exchange differences from currency translation	200	573
Total	**12 456**	**12 110**

11.3. DEFERRED TAX ASSETS AND LIABILITIES

The value of deferred tax assets and liabilities recognised in the statement of financial position results from items and figures given in the table below.

In the current reporting period, the Group made a revaluation write-off on part of a tax asset recognised in previous years due to a difference between the carrying value and the tax value of trademarks, totalling PLN 45 532 thousand. The reason for creating such revaluation write-off is specified in note 37 After-balance-sheet events.

	Year ended	Year ended (transformed)
Deferred tax assets (in PLN thousand)	31 December 2018	31 December 2017
Difference between balance sheet and tax depreciation of fixed assets	-3 172	17 660
Depreciation of trademarks	40 000	90 878
Revaluation of inventories	13 461	1 934
Revaluation of trade receivables	2 599	375
Margin on goods unsold outside the Group	21 119	15 620
Margin on the sale of investments	36 336	11 501
Tax loss	31 057	47
Unpaid remuneration and surcharges	16 079	12 986
Provision for product returns	1 704	1 162
Estimated expenses	6 725	-2 850
Other temporary differences	-1 631	2 022
Total	**164 277**	**151 335**

	Year ended	Year ended (transformed)
Deferred tax liabilities (in PLN thousand)	31 December 2018	31 December 2017
Difference between balance sheet and tax depreciation of fixed assets	686	0
Other temporary differences	0	31
Total	**686**	**31**

12. EARNINGS PER SHARE

ACCOUNTING POLICY

The earnings per share (EPS) ratio is calculated by dividing net profit for a given period by the weighted average number of issued ordinary shares in LPP SA, existing in a given period.

Diluted earnings per share are calculated by dividing net profit for a given period by the weighted average number of ordinary shares existing during the period, adjusted by the number of ordinary shares which would be issued upon conversion of all dilutive, prospective capital instruments to ordinary shares.

The calculation of the EPS and diluted earnings per share is given below.

(in PLN thousand)	Year ended 31 December 2018	Year ended 31 December 2017
Number of shares in the formula's denominator		
Weighted average number of ordinary shares	1 833 483	1 826 537
Dilutive effect of convertible warrants	853	117
Diluted weighted average number of ordinary shares	1 834 336	1 826 654
Earnings per share		
Net profit (loss) for the current period, attributable to shareholders of the parent company	505 176	440 851
Profit (loss) per share	275,53	241,36
Diluted profit (loss) per share	275,40	241,34

In the period from the balance sheet date and the date of drawing up these financial statements, there were no other transactions involving ordinary or prospective ordinary shares.

13. DIVIDENDS PAID AND OFFERED FOR PAYMENT

ACCOUNTING POLICY

Dividends are recognised at the time of determining the rights of eligible shareholders or stockholders.

The dividend on ordinary shares for 2017, paid on 14 September 2018, amounted to PLN 73 342 thousand (for 2016: paid on 20 September 2017: PLN 65 527 thousand).

The dividend's value per ordinary share paid for 2017 amounted to PLN 40.00 (for 2016: PLN 35.74).

Currently, the Management Board of LPP SA recommended payment of a dividend for 2018 (the amount of PLN 110 mln i.e. PLN 60.00 per share, the dividend date on 18 June 2019, with the dividend payment date falling on 27 June 2019.

14. TANGIBLE FIXED ASSETS

ACCOUNTING POLICY

Tangible fixed assets are initially carried at purchase price increased with all costs directly related to the purchase and adaptation of the asset to the working condition for its intended use. Costs incurred after the date when a fixed asset was put to use, such as costs of maintenance and repairs, are charged to the financial result as they are incurred.

As at the balance sheet date, tangible fixed assets are measured at cost less accumulated depreciation and impairment write-offs.

Depreciation is made by the Group on the straight-line basis. Fixed assets are depreciated over their pre-determined expected useful life. This period is revised annually.

Depreciation rates applied for specific groups of fixed assets are as follows.

Asset group	Depreciation rate
Buildings, premises, civil engineering works, including:	2,5-50%
Outlays in third-party premises	14,28%
Plant and machinery	2,5-50%
Means of transportation	10-25%
Other fixed assets, including:	10-40%
Furniture	20%

The value of fixed assets is also periodically tested for impairment, if any, resulting from any events or changes in the business environment or within the Company, which could cause an impairment of these assets below their current book value.

When fixing depreciation rates for individual tangible fixed assets, the Company determines whether there are any components of such an asset, the purchase price of which is important as compared with the purchase price of the entire asset, and whether the usability period for these components is different from the usability period for the remaining part of the asset.

Fixed assets under construction – as at the balance sheet date, they are carried in the total amount of costs directly related to their acquisition or production, less impairment write-offs.

A given item of tangible fixed assets may be removed from the statement of financial position after its sale or when no economic benefits of the asset's further use are expected. Profits or losses arising from the sale, liquidation or cessation of use of fixed assets are specified as a difference between sales revenue and their net value and are recognised in the result, in other operating income or costs.

External financing costs are capitalised as part of costs of production of fixed assets and intangible assets. External financing costs comprise interest calculated applying the effective interest rate method and foreign exchange differences involved in external financing, up to the amount corresponding to the adjustment of the interest cost.

Changes in fixed assets (by type) in the period from 1 January 2018 to 31 December 2018 (in PLN thousand)	Land	Buildings, facilities, civil engineering works	Plant and machinery	Transportation means	Other fixed assets	Fixed assets in construction	Advances for fixed assets	Fixed assets, total
Opening balance gross value of fixed assets	42 814	1 587 267	400 083	10 674	596 125	42 998	22 399	2 702 360
Foreign exchange differences	0	-12 409	-1 628	-51	-10 326	-81	0	-24 495
Increase	20 635	319 547	65 993	2 760	136 444	547 810	119 768	1 212 957
Decrease	0	105 059	33 280	1 920	53 369	454 120	12 362	660 110
Closing balance gross value of fixed assets	**63 449**	**1 789 346**	**431 168**	**11 463**	**668 874**	**136 607**	**129 805**	**3 230 712**
Opening balance accumulated depreciation (amortisation)	0	665 195	207 162	6 260	338 165	0	0	1 216 782
Foreign exchange differences	0	-6 536	-821	-44	-6 611	0	0	-14 012
Depreciation for the period	0	180 348	49 251	1 512	102 588	0	0	333 699
Decrease	0	83 315	22 729	1 658	48 245	0	0	155 947
Closing balance accumulated depreciation (amortisation)	**0**	**755 692**	**232 863**	**6 070**	**385 897**	**0**	**0**	**1 380 522**
Opening balance impairment write-offs	0	7 198	88	0	128	0	0	7 414
Increase	0	31 272	603	0	180	0	0	32 055
Decrease	0	7 459	42	0	94	0	0	7 595
Closing balance impairment write-offs	**0**	**31 011**	**649**	**0**	**214**	**0**	**0**	**31 874**
Total net value of fixed assets as at 1 January 2018	**42 814**	**914 874**	**192 833**	**4 414**	**257 832**	**42 998**	**22 399**	**1 478 164**
Total net value of fixed assets as at 31 December 2018	**63 449**	**1 002 643**	**197 656**	**5 393**	**282 763**	**136 607**	**129 805**	**1 818 316**

Impairment write-off – items in the comprehensive income statement	Amount
- increase – other operating costs, revaluation of non-financial assets	32 052

Changes in fixed assets (by type) in the period from 1 January 2017 to 31 December 2017 (in PLN thousand)	Land	Buildings, facilities, civil engineering works	Plant and machinery	Transportation means	Other fixed assets	Fixed assets in construction	Advances for fixed assets	Fixed assets, total
Opening balance gross value of fixed assets	42 814	1 381 621	375 415	9 461	546 688	22 843	0	2 378 842
Foreign exchange differences	0	-35 939	-6 546	-309	-23 769	-621	0	-67 184
Increase	0	186 940	52 935	2 727	104 830	360 840	22 399	730 671
Change in presentation (note 8.3)	0	130 594	0	0	0	0	0	130 594
Decrease	0	75 949	21 721	1 205	31 624	340 064	0	470 563
Closing balance gross value of fixed assets	**42 814**	**1 587 267**	**400 083**	**10 674**	**596 125**	**42 998**	**22 399**	**2 702 360**
Opening balance accumulated depreciation (amortisation)	0	593 485	182 753	6 273	285 296	0	0	1 067 807
Foreign exchange differences	0	-13 352	-4 446	-146	-14 131	0	0	-32 075
Depreciation for the period	0	138 816	49 046	1 145	93 330	0	0	282 337
Decrease	0	53 754	20 191	1 012	26 330	0	0	101 287
Closing balance accumulated depreciation (amortisation)	**0**	**665 195**	**207 162**	**6 260**	**338 165**	**0**	**0**	**1 216 782**
Opening balance impairment write-offs	0	14 653	575	0	4 469	0	0	19 697
Increase	0	4 777	73	0	50	0	0	4 900
Decrease	0	12 232	560	0	4 391	0	0	17 183
Closing balance impairment write-offs	**0**	**7 198**	**88**	**0**	**128**	**0**	**0**	**7 414**
Total net value of fixed assets as at 1 January 2017	**42 814**	**773 483**	**192 087**	**3 188**	**256 923**	**22 843**	**0**	**1 291 338**
Total net value of fixed assets as at 31 December 2017	**42 814**	**914 874**	**192 833**	**4 414**	**257 832**	**42 998**	**22 399**	**1 478 164**

Impairment write-off – items in the comprehensive income statement	Amount
- increase – other operating costs, revaluation of non-financial assets	1 969

In 2018, the Group made impairment write-offs on tangible fixed assets, relating to unprofitable stores, for PLN 32 055 thousand (2017: PLN 4 900 thousand).

In 2018, revaluation write-offs made were utilised due to the closing of brand stores.

As at the end of 2018, the Company had contractual obligations to acquire tangible fixed assets of PLN 255 644 thousand (2017: PLN 155 418 thousand).

The said amount comprised the following obligations:
– Obligations related to the development of LPP brand stores – PLN 38 480 thousand
– Obligations under contracts on the extension of logistics centres – PLN 110 315 thousand
– Obligations under contracts on the development of office buildings – PLN 106 849 thousand

As at the balance sheet date, there were limitations in the disposal of real property in Pruszcz Gdański and Gdańsk due to investment loans. A detailed description is provided in note 23.

15. LEASED ASSETS

ACCOUNTING POLICY

Finance lease agreements under which substantially all risks and benefits arising from the possession of a leased object are transferred to the Group are recognised in assets and liabilities as at the lease commencement date. The value of assets and liabilities is measured as at the lease commencement date based on the lower of the following values: the fair value of a fixed asset being the leased object or the current value of the minimum lease payments.

The minimum lease payments are divided into financial costs and the reduction in the balance of an unpaid lease-based liability in a way facilitating the obtaining of a fixed interest rate for the unpaid liability balance. Conditional lease payments are recognised in the costs of the period in which they were incurred.

Fixed assets used under finance lease agreements are depreciated according to the same rules as those applied to the Group's own assets. However, if there is no satisfactory assurance that the lessee will obtain the ownership title before the end of the lease term, a given asset is depreciated for a shorter of two periods, i.e. the lease term or the period of use.

Lease agreements under which the lessor retains substantially all risks and benefits resulting from the ownership of the leased object are qualified as operating lease agreements.

Operating lease payments are recognised as costs applying the straight-line method for the lease term unless another systematic method better reflects the way in which the Group's benefits are spread in time.

Conditional lease payments are recognised as cost in the period in which they become due and payable.

LPP SA and its subsidiaries are parties to retail space lease agreements under which they use space to operate brand stores.

The provisions of lease agreements are standard ones. Apart from the rent, these agreements usually provide for contingent rent if a specific level of revenues in a given store is exceeded, given as a percentage value of such revenues. The agreements contain also adjustment clauses under which the value of rent is matched with statistical price indices. Some of them contain provisions permitting prolongation of a lease agreement for a subsequent period, leaving a decision in that respect to the lessee.

Additionally, the Group has concluded long-term lease agreements for means of transportation. These agreements contain provisions on monthly instalments only.

The lessee has the right to terminate a lease agreement covering means of transportation with a 30-day notice. Agreements do not contain any limitations relating, for example, to dividends, additional debt or additional lease agreements.
As at 31 December 2018 and 31 December 2017, future minimum lease payments under non-cancellable operating leases are as follows.

Specification (in PLN thousand)	31 December 2018	31 December 2017
Within 1 year	966 586	1 031 455
From 1 to 5 years	2 563 001	2 984 223
Above 5 years	916 226	1 295 813
Total minimum lease payments	**4 445 813**	**5 311 491**

The above disclosure has been prepared in line with IAS 17 *Leases*.

Reconciliation of the values of lease liabilities under MSR 17 and MSSF 16, provided for in point 7, is given below:

(in PLN thousand)	31 December 2018
Value of the minimum lease payments according to IAS 17	**4 445 813**
Reasons for change in value according to IFRS 16	
Agreements not subject to measurement under IFRS 16*	(1 204 730)
Agreements measured in line with IFRS 16, which were not measured so far under IAS 17**	4 000
Discount	(193 473)
Value of the liability according to IFRS 16	**3 051 610**

*Among others, short-term agreements – payable in 2019
**Right of perpetual usufruct

16. INTANGIBLE ASSETS

ACCOUNTING POLICY

Intangible assets include patents and licenses, computer software, costs of brand store concepts and other intangible assets meeting criteria set forth in IAS 38.

As at the balance sheet date, intangible assets are recognised at their purchase price or their manufacturing cost, less depreciation and impairment write-offs. Intangible assets with a determined useful life are depreciated on the straight-line basis for the period of their economic usability. Useful lives of specific intangible assets are verified annually.

Depreciation rates applied to specific groups of intangible assets are as follows.

Asset group	Depreciation rate
Costs of completed store concept works	20%
Acquired concessions, patents, licences and similar assets	10-50%

Intangible assets with unspecified useful lives are not depreciated but they are tested for impairment annually.

Costs of brand store concept works
The Group's companies carry out works involving the designing and construction of model showrooms.

Outlays directly associated with such works are recognised as intangible assets.

Outlays made for concept works carried out as part of a given venture are transferred to a subsequent period if one may consider that they will be recovered in the future. Future benefits are assessed based on the principles provided for in IAS 36.

Upon initial recognition of outlays for store concept works, the historical cost model is applied, according to which assets are recognised at their purchase prices or their manufacturing cost less accumulated depreciation and accumulated impairment write-offs. Completed works are depreciated applying the straight-line method over an expected benefit-gaining period lasting five years.

The key intangible asset is the House trademark recognised in the statement of financial position under a separate item of fixed assets "trademark". Its balance sheet value as at 31 December 2018 was PLN 77 508 thousand (2017: PLN 77 508 thousand).

The useful life of the said asset is unspecified. In the current reporting period, the Group carried out an annual impairment test involving this asset. According to test results, no impairment write-off was required for the asset in question.

The detailed analysis is given below.

The recoverable value of cash-generating units to which a value was assigned was determined on the basis of their value in use, applying the royalty relief method.

Detailed assumptions for the estimates are as follows.

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

– the estimate is based on sales generated by clothing under the House brand, which amounted to PLN 920 mln in 2018 (retail sale and wholesale) and was higher by 212% as compared with the turnover for 12 months (November 2007-October 2008), adopted for the initial balance sheet measurement,

– royalty fee amounting to 3% of turnover was adopted,

– the capitalisation ratio adopted for measurement applying CAPM (the forecast period is not defined here because it is based on the perpetual rent model) amounted to 11% and consisted of several elements:

– risk-free rate – 1.59%, equal to the profitability of 52-week treasury bills

– annual inflation rate – 2%

– risk premium – 7.50%

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

Upon review, it was established that the trademark's value exceeds the carrying value of these intangible assets as at the balance sheet date, and, therefore, there was no need to make any impairment write-offs.

As at 31 December 2018, other key intangible assets were as follows:

– E-commerce software for Reserved, Cropp, Mohito, House and Sinsay. As at 31 December 2018, the balance sheet value of the said asset amounted to PLN 1 475 thousand. The remaining depreciation period for the said asset is 2 years.

– System for invoicing e-commerce sales. As at 31 December 2018, the balance sheet value of the said asset was PLN 2 895 thousand. For this asset, the remaining depreciation period is 3 years.

– Software supporting sales in Russian retail stores. As at 31 December 2018, the balance sheet value of the said asset was PLN 5 056 thousand. For this asset, the remaining depreciation period is 4 years.

– Software for managing the designing of clothes. As at 31 December 2018, the balance sheet value of the said asset was PLN 2 376 thousand. The remaining depreciation period is 3 years.

– SAP. As at 31 December 2018, the balance sheet value of the said asset was PLN 2 388 thousand. The remaining depreciation period is 4 years.

– Product allocation software. As at 31 December 2018, the balance sheet value of the said asset was PLN 9 025 thousand. The remaining depreciation period is 4 years.

Changes in intangible assets in 2018 and in a comparative period are specified in tables below.

Changes in intangible assets in the period from 1 January 2018 to 31 December 2018 (in PLN thousand)	Costs of completed store concept works	Acquired concessions, patents, licenses and similar assets, including: Total	Computer software	Intangible assets in construction	Total
Opening balance gross value of intangible assets	10 191	101 354	98 015	22 260	133 805
Foreign exchange differences	0	-132	-132	0	-132
Increase	1 150	24 600	23 749	40 280	66 030
Decrease	0	3 783	3 715	25 085	28 868
Closing balance gross value of intangible assets	**11 341**	**122 039**	**117 917**	**37 455**	**170 835**
Opening balance accumulated depreciation (amortisation)	7 217	62 517	59 973	0	69 734
Foreign exchange differences	0	-123	-123	0	-123
Amortisation for the period	1 372	14 092	13 332	0	15 464
Decrease	0	3 870	3 682	0	3 870
Closing balance accumulated depreciation (amortisation)	**8 589**	**72 616**	**69 500**	**0**	**81 205**
Opening balance impairment write-offs	0	0	0	0	0
Decreases	0	0	0	0	0
Closing balance impairment write-offs	**0**	**0**	**0**	**0**	**0**
Total closing balance net value of intangible assets	**2 752**	**49 423**	**48 416**	**37 455**	**89 630**

Changes in intangible assets in the period from 1 January 2017 to 31 December 2017 (in PLN thousand)	Costs of completed store concept works	Acquired concessions, patents, licenses and similar assets, including:		Intangible assets in construction	Total
		Total	Computer software		
Opening balance gross value of intangible assets	12 583	80 050	76 526	13 018	105 651
Foreign exchange differences	0	-250	-247	0	-250
Increase	0	22 426	22 280	31 176	53 602
Decrease	2 392	872	544	21 934	25 198
Closing balance gross value of intangible assets	**10 191**	**101 354**	**98 015**	**22 260**	**133 805**
Opening balance accumulated depreciation (amortisation)	5 425	53 895	51 584	0	59 320
Foreign exchange differences	0	-354	-354	0	-354
Amortisation for the period	2 151	8 941	8 652	0	11 092
Decrease	359	-35	-91	0	324
Closing balance accumulated depreciation (amortisation)	**7 217**	**62 517**	**59 973**	**0**	**69 734**
Opening balance impairment write-offs	2 033	787	514	0	2 820
Decreases	2 033	787	514	0	2 820
Closing balance impairment write-offs	**0**	**0**	**0**	**0**	**0**
Total closing balance net value of intangible assets	**2 974**	**38 837**	**38 042**	**22 260**	**64 071**

In 2017, impairment write-offs made a year before were used, in the amount of PLN 2 820 thousand, due to the closing of Tallinder stores.

In 2018, no impairment write-offs on intangible assets were made.

17. GOODWILL

ACCOUNTING POLICY

Goodwill is initially recognised at cost of purchase and is calculated as a difference between the two values:
– the sum of a consideration for the control, non-controlling interests and the fair value of blocks of shares (stocks) held in the acquired entity before the acquisition date, and

– the fair value of the entity's identifiable acquired net assets.

The excess of the sum calculated as given above over the fair value of the entity's identifiable acquired net assets is recognised in the assets of the separate statement of the financial position as goodwill. Goodwill represents a payment made by the acquiring company expecting future economic benefits from assets which may not be identified individually or recognised separately.

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

Goodwill is reviewed for impairment before the end of the reporting period in which the merger occurred, and then in each subsequent annual reporting period. If there are any prerequisites for impairment, an impairment test is carried out before the end of each reporting period in which such prerequisites occurred.

In the current reporting period, goodwill presented in the consolidated statement of financial position did not change as compared with the previous year. It was created as a result of the following transactions:

– merger of LPP SA and Artman SA in July 2009, for the amount of PLN 183 203 thousand;

– acquisition of UAB House Plius upon merger of LPP SA and Artman SA, for the amount of PLN 406 thousand,

– purchase of the shares in Koba AS with its registered office in Slovakia in April 2014, for the amount of PLN 25 989 thousand.

As at 31 December 2017, goodwill did not change and amounted to PLN 209 598 thousand. Changes in goodwill are presented in the table below.

Gross value (in PLN thousand)	2018	2017
As at 1 January	209 598	209 598
Increases	0	0
Decreases	0	0
As at 31 December	**209 598**	**209 598**

Revaluation write-offs (in PLN thousand)	2018	2017
As at 1 January	0	0
As at 31 December	0	0

Net value (in PLN thousand)	2018	2017
As at 1 December	209 598	209 598
As at 31 December	209 598	209 598

According to IAS 36 and the accounting policy, as at 31 December 2018, an impairment test was carried out for the value of Artman of a balance sheet value of PLN 183 203 thousand, and for the value of Koba of a balance sheet value of PLN 25 989 thousand.

The recoverable value of cash-generating units with an allocated value was determined based on their value in use, applying the discounted cash flow (DCF) model.

Detailed assumptions for estimates are as follows. Value of Artman – estimated applying the DCF method for cash flows generated by House stores.

The valuation was based on the following assumptions:

– period covering estimated cash flows 5 years (2019-2023), without recognising a residual value,

– annual forecasts of revenues and costs in 2018 (based on actual performance), which, in subsequent years, will increase at a pace around the inflation rate,

– annual sales in 2019-2023 in stores tested – at a level similar to 2018, increased with enlargement of retail space;

– operating costs of stores tested – maintaining approx. 2% of the increase in costs per m² in subsequent years;

– in the forecast period, a discount rate is variable and calculated based on weighted average capital cost (WACC). In 2018, the WACC rate was 10.0% and will remain unchanged by 2023.

The above-mentioned parameters comply with experience gained so far (for costs-sales assumptions) and are coherent with information originating from external sources for other figures.

Value of Koba – estimated applying the DCF method for cash flows generated by Reserved and Cropp retail stores acquired from Koba in 2014 (by acquiring shares in Koba). The valuation was based on the following assumptions:

– period covering estimated cash flows 15 years (2019-2033), without recognising a residual value,

– annual forecasts for revenues and costs in 2018 (in line with the Company's budget), which, in subsequent years, will increase at a pace around the inflation rate,

– revenues and costs forecasted for stores acquired together with Koba and still in operation (19 own stores),

– increase in the annual sales of stores tested – at a sales level similar to 2018, i.e. approx. 3% in subsequent years,

– operating costs of stores tested – maintaining the increase of approx. 3.7% in subsequent years,

– in the forecast period, a discount rate is variable and calculated based on weighted average capital cost (WACC). In 2018, the WACC rate was 10.0% and will remain unchanged by 2033.

As a result of the tests carried out, it was found that no impairment write-offs were required.

18. OTHER ASSETS

18.1. OTHER FINANCIAL ASSETS

ACCOUNTING POLICY

Other financial assets comprise items such as shares in non-consolidated subsidiaries, receivables involving security deposits, loans granted, value of participation units in money market funds, forward contract measurement and the value of foreign currency sold.

The accounting policy on financial assets is specified in note 8.2.

Other financial assets (in PLN thousand)	31 December 2018	31 December 2017
Fixed assets:		
Other receivables	7 764	4 857
Loans granted	58	80
Other long-term financial assets	**7 822**	**4 937**
Current assets		
Other receivables	1 378	1 675
Loans granted	46	80
Participation units in funds	55 425	0
Forward contract valuation	23	0
Foreign currency sold	43 432	0
Other short-term financial assets	**100 304**	**1 755**
Other financial assets in total	**108 126**	**6 692**

In the reporting period, the Group acquired participation units in money market funds. As at 31 December 2018, the value of participation units was PLN 55 425 thousand, comprising the value of acquired units on the purchase date, in the amount of PLN 54 953 thousand, and their measured value, in the amount of PLN 472 thousand. In the cash flow statement, in investing activities, the Group reports the acquisition in the amount of PLN 540 000 thousand and depreciation of funds amounting to PLN 485 047 thousand. The measured value of PLN 472 thousand, together with profit earned from depreciated units, amounting to PLN 2 818 thousand, is recognised in operating activities, in "interest on investment funds". The measurement of the above-mentioned instrument is at level 2 of the fair value hierarchy in respect of participation units in unquoted funds.

In the reporting period, the Group sold foreign currency of the value of PLN 43 432 thousand on the inter-bank market. Due to a Christmas season and breaks in foreign banks' operations, funds were credited on the bank account of LPP SA after the balance sheet date.

Loans granted are measured at amortised cost applying the effective percentage rate method. Due to the absence of an active market, it was assumed that the balance sheet value of loans is the same as their fair value.

As at 31 December 2018, the Group granted loans in PLN, of the value of PLN 101 thousand (2017: PLN 126 thousand) and in EUR, of the value of PLN 3 thousand (2017: PLN 16 thousand).

Interest on loans in PLN is approx. 4%, with maturity dates falling between 2019 and 2023.

Loans in EUR bear no interest according to local laws and are concluded for a period from 1 to 3 years.

Changes in the balance sheet value of loans and revaluation write-offs is given in the table below.

Changes in balance sheet value (in PLN thousand)	2018	2017
As at 1 January	160	195
Loans granted in the period	51	66
Interest charged	7	8
Loans repaid with interest	(112)	(111)
Revaluation write-off	(2)	2
Other changes (foreign exchange differences)	0	0
As at 31 December	**104**	**160**

Revaluation write-off (in PLN thousand)	2018	2017
As at 1 January	27	29
Write-offs recognised as cost in the period	2	0
Write-offs reversed in the period	0	2
As at 31 December	**29**	**27**

18.2. OTHER NON-FINANCIAL ASSETS

ACCOUNTING POLICY

Other non-financial assets include state budget receivables, except for corporate income tax receivables constituting a separate item in the financial statements, and other benefits not treated as financial instruments. The most important item is VAT receivables.

This value may be adjusted with a revaluation write-off if there are prerequisites for doing so.

Other non-financial assets (in PLN thousand)	31 December 2018	31 December 2017
Current assets		
State budget receivables	35 233	44 752
Other receivables	2 610	2 817
Other short-term non-financial assets	**37 843**	**47 569**
Other non-financial assets in total	**37 843**	**47 569**

As at 31 December 2018, the value of other receivables was adjusted with a revaluation write-off amounting to PLN 190 thousand (2017: PLN 592 thousand).

Changes in the value of revaluation write-offs in the reporting period and a comparative period are given in the table below.

Revaluation write-off (in PLN thousand)	2018	2017
As at 1 January	592	579
Write-offs made in the period	9	13
Reversed write-offs in the period	411	0
As at 31 December	**190**	**592**

19. INVENTORIES

ACCOUNTING POLICY

As at the balance sheet date, inventories are measured at cost of purchase not exceeding their net sale prices.

The following items as recognised as inventories:
– trade commodities,
– materials (fabrics and sewing accessories) purchased and delivered to external contracting parties for processing purposes,
– IT consumables related to the operation, maintenance and development of the computer network,
– spare parts for devices in the logistics centre,
– advertising materials.

Trade commodities in domestic warehouses are recorded in quantities and in terms of value and measured:
– in case of imported goods – at purchase cost comprising the purchase price, costs of transportation outside and inside Poland to the first unloading point in Poland as well as customs duties; the following foreign exchange rate is applied to convert the value in a foreign currency:
– the one resulting from a customs document,
– the one applicable on the day preceding the date of purchase invoice issuance in case of deliveries made directly to Russia,
– in case of goods purchased in Poland – at cost of purchase; purchase costs are charged directly to operating costs when incurred as their value is immaterial.

Trade commodities sold from Reserved, Cropp, House, Mohito and Sinsay collections are measured at average weighted prices.

Trade commodities in bonded warehouses are valued at cost comprising a purchase price and the costs of transportation outside and inside Poland to the first unloading point in Poland.

The value of goods delivered from bonded warehouses (moved to local warehouses or sold directly abroad) is measured based on the detailed identification of goods for individual lots delivered to bonded warehouses.

The Parent Company's trade commodities in transit are measured at purchase prices increased with the costs of transportation outside and inside Poland, known at the time of preparing the statement of financial position. As regards imported goods in transit, the Company applies an average exchange rate of the National Bank of Poland, applicable on the balance sheet date.

Inventories with trading and useful value impaired are written off according to the following rule:

– goods designated for outlet stores – a write-off of 10% of their value,

– goods not designated for outlet stores - a write-off of 80% of their value,

The value of a write-off in the period is shown in the cost of goods sold.

Write-offs in the comprehensive income statement are presented in net amounts.

The key item in the Capital Group's inventories is trade commodities. A detailed structure of inventories is given in the table below.

Inventories (in PLN thousand)	31 December 2018	31 December 2017 (transformed)
Materials	22 175	13 668
Goods	1 544 526	1 461 519
Product return assets	23 667	0
Total	**1 590 368**	**1 475 187**

Due to estimated measurement of outlet goods, the Group, according to the revaluation write-off policy, made in the reporting period relevant impairment write-offs on inventories in the statement of financial position. Changes in their value in the reporting period and a comparative period are given in the table below.

Revaluation write-off (in PLN thousand)	2018	2017
As at 1 January	53 674	57 865
Write-offs made in the period	43 206	0
Write-offs reversed in the period	0	7 147
Foreign exchange differences	-3 755	2 957
As at 31 December	**93 125**	**53 674**

20. TRADE RECEIVABLES

ACCOUNTING POLICY

The Group implements a simplified approach to trade receivables, measuring a write-off for expected credit losses, in the amount equal to expected credit losses over lifetime using a provision matrix. The Group uses its historical data on credit losses, adjusted when required with the impact of information regarding the future. Trade receivables are recognised and shown in originally invoiced amounts, with due consideration of a write-off on expected credit losses over lifetime.

Short-term receivables are measured in amounts payable due to negligible discounting.

Detailed information on the structure of the Group's short-term receivables is given in the table below.

Trade receivables (in PLN thousand)	31 December 2018	31 December 2017
Trade receivables net	156 252	199 648
Revaluation write-offs on trade receivables	28 372	16 046
Trade receivables gross	**184 624**	**215 694**

Changes in the value of revaluation write-offs in the reporting period and a comparative period are given in the table below.

Revaluation write-off (in PLN thousand)	2018	2017
As at 1 January	16 046	15 333
Write-offs made in the period	15 460	2 515
Write-offs reversed in the period	2 842	1 210
Foreign exchange differences	-292	-592
As at 31 December	**28 372**	**16 046**

21. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents comprise cash in hand and at bank, demand deposits and short-term highly liquid investments (up to 3 months).

The balance of cash and cash equivalents, shown in the cash flow statement, is adjusted with foreign exchange differences from the balance sheet measurement of cash in a foreign currency.

The fair value of cash and cash equivalents as at 31 December 2018 was PLN 1 044 969 thousand (2017: PLN 514 790 thousand).

As at 31 December 2018, the Group had unemployed bank loans of PLN 900 017 thousand (2017: PLN 999 150 thousand), in respect of which all conditions had been fulfilled.

Cash (in PLN thousand)	31 December 2018	31 December 2017
Cash in hand and at bank	682 867	436 693
Cash in foreign currency	362 102	78 097
Total	**1 044 969**	**514 790**

For the purpose of preparing the cash flow statement, the Capital Group classifies cash in the manner adopted for presenting financial position. The difference in the value of cash shown in the statement of financial position and in the cash flow statement is affected by the following:

Cash (in PLN thousand)	31 December 2018	31 December 2017
Cash and cash equivalents in the statement of financial position	1 044 969	514 790
Adjustments:		
Foreign exchange differences from balance sheet measurement of cash in foreign currency	(1 022)	615
Cash and cash equivalents recognised in CF	**1 043 947**	**515 405**

22. SHARE AND OTHER CAPITALS

ACCOUNTING POLICY

According to the Articles of Association of LPP SA and a record made in the National Court Register, the stated capital is shown in the nominal value of issued shares.

Shares acquired in the Parent Company and retained reduce equity. Treasury shares are measured at cost of purchase.

Capital from the sale of shares above their nominal value is created from the surplus of the issue price above the shares' nominal value, decreased with share issue costs.

Other capital comprises:
– spare capital,
– capital from settling the merger transaction and
– capital component of convertible bonds,
– reserve capital.

The value of the spare capital comprises:
– profit brought forward from previous years, qualified based on decision of General Meetings of Shareholders,
– remunerations paid in shares, awarded in compliance with the incentive programme addressed to specific persons.

The capital from settling the merger transaction was created at the time of settling goodwill arising upon acquisition of Artman SA.

22.1. STATED CAPITAL

As at 31 December 2018, the stated capital of LPP SA amounted to PLN 3 705 thousand. It was divided into 1 852 423 shares of a nominal value of PLN 2 per share.

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

Series/issue	Type of share	Type of privilege	Type of limitation on rights attached to shares	31 December 2018	31 December 2017
A	bearer	ordinary	none	100	100
B	registered	preferred	none	350 000	350 000
C	bearer	ordinary	none	400 000	400 000
D	bearer	ordinary	none	350 000	350 000
E	bearer	ordinary	none	56 700	56 700
F	bearer	ordinary	none	56 700	56 700
G	bearer	ordinary	none	300 000	300 000
H	bearer	ordinary	none	190 000	190 000
I	bearer	ordinary	none	6 777	6 777
J	bearer	ordinary	none	40 000	40 000
K	bearer	ordinary	none	80 846	80 846
L	bearer	ordinary	none	21 300	21 300
Total number of shares				**1 852 423**	**1 852 423**

All issued shares are paid up in full.

Registered shares held by the Semper Simul Foundation and the Sky Foundation, in the total number of 350 000, are preferred in terms of voting rights at the General Meeting of Shareholders. Each registered share gives 5 votes.

The LPP SA shareholding structure as at 31 December 2018 was as follows.

Shareholder	Number of shares held	Share in the share capital	Number of votes at the GM	Share in the total number of votes at the GM	Nominal value of shares
Semper Simul Foundation*	175 000	9.4%	875 000	27.1%	350 000
Semper Simul Foundation*	144 208	7.8%	144 208	4.5%	288 416
Sky Foundation**	175 000	9.4%	875 000	27.1%	350 000
Sky Foundation**	51 338	2.8%	51 338	1.6%	102 676
Treasury shares***	18 861	1.0%	0	0.0%	37 722
Other shareholders	1 288 016	69.6%	1 288 016	39.7%	2 576 032
Total	**1 852 423**	**100.0%**	**3 233 562**	**100.0%**	**3 704 846**

*The Semper Simul Foundation is closely associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR)
**The Sky Foundation is closely associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act)
*** LPP SA may not exercise voting rights at the GM, attached to 18 861 shares, as these are treasury shares of LPP SA.

The LPP SA shareholding structure as at 31 December 2017 was as follows.

Shareholder	Number of shares held	Share in the share capital	Number of votes at the GM	Share in the total number of votes at the GM	Nominal value of shares
Marek Piechocki	175 497	9.5%	875 493	27.1%	350 994
Jerzy Lubianiec	174 999	9.4%	874 995	27.1%	349 998
Forum TFI SA*	195 050	10.5%	195 058	6.0%	390 100
Treasury shares**	18 978	1.0%	0	0.0%	37 956
Other shareholders	1 287 899	69.5%	1 287 899	39.8%	2 575 798
Total	**1 852 423**	**100.0%**	**3 233 562**	**100.0%**	**3 704 846**

*Forum TFI SA manages the funds of Forum 64 Closed-End Investment Fund (entity affiliated with Mr Jerzy Lubianiec, shareholder of LPP SA) and Forum 65 Closed-End Investment Fund (entity affiliated with Mr Marek Piechocki, shareholder of LPP SA).
** LPP SA may not exercise voting rights at the GM, attached to 18 978 shares, as these are treasury shares of LPP SA.

As at 31 December 2017, the number of shares amounted to 3 704 846 and was the same as on 31 December 2018.

22.2. SHARE PREMIUM

This item is a separated value of spare capital, resulting from the surplus on the sale of shares beyond their nominal value, with the carrying value of PLN 278 591 thousand (2017: PLN 277 631 thousand).

22.3. OTHER CAPITAL

The values of specific types of capital are given in the table below.

Type of capital (in PLN thousand)	31 December 2018	31 December 2017
Spare capital	2 223 467	1 795 030
Capital from settling the merger transaction	-1 410	-1 410
Reserve capital	29 566	29 833
Total	**2 251 623**	**1 823 453**

The spare capital presented under equity as at 31 December 2018, was created mainly from net profit brought forward from previous years and following measurement of remunerations paid in shares.

The structure of the spare capital is as follows.

Type of spare capital (in PLN thousand)	31 December 2018	31 December 2017
Created under statutory law based on the write-off on financial result	1 349	1 349
Created according to the Articles of Association based on the write-off on financial result	2 180 161	1 759 552
Created from remunerations paid in shares	41 957	34 129
Total	**2 223 467**	**1 795 030**

23. BANK LOANS AND BORROWINGS

ACCOUNTING POLICY

On initial recognition, all credit and loan instruments and debt securities are measured at fair value reduced with the costs of obtaining a credit or loan instrument.

Following initial recognition, all credit and loan instruments and other debt instruments are measured at depreciated cost applying the effective interest rate method.

Revenues and costs are measured in profit or loss at the time of removing a liability from the balance sheet and as a result of settlement of an effective interest rate.

As at 31 December 2018, the debt arising from bank loans was as follows.

Bank	Utilisation of bank loans as at 31 December 2018		Bank loan cost	Maturity date
	In PLN thousand	Currency in thousands		
PKO BP SA	84 611	0	wibor 1 m + bank's margin	31.12.2022
PKO BP SA	33 862	0	wibor 1 m + bank's margin	04.08.2020
Pekao SA	20 762	0	wibor 1 m + bank's margin	30.09.2020
Citibank Bank Handlowy	14	0	wibor 1 m + bank's margin	10.01.2020
Raiffeisen Bank Polska SA	23 613	0	eurlibor 1 m + bank's margin	30.11.2020
BGŻ BNP Paribas Bank Polska SA	15 408	0	wibor 1 m + bank's margin	31.01.2020
Ukrsibbank	15 551	114 600 UAH	libor 1m + bank's margin	28.02.2019
Citibank Russia	97 950	1 810 532 RUB	libor 1m + bank's margin	10.04.2019
Razem	**291 771**			

Bank loans amounting to PLN 291 771 thousand included:
- long-term loans in the amount of PLN 88 575 thousand,
- short-term loans in the amount of PLN 203 196 thousand (including PLN 50 858 thousand as part of long-term investment loans to be repaid within 12 months after the balance sheet date).

Long-term loans outstanding as at 31 December 2018 were as follows:
- PLN 63 397 thousand – investment loan designated for the construction of the logistics centre in Pruszcz Gdański,
- PLN 15 218 thousand - investment loan designated for financing the development of the sales network,
- PLN 9 960 thousand - investment loan designated for the modernisation of the registered office of LPP SA.

As at 31 December 2017, the debt arising from bank loans was as follows.

Bank	Utilisation of bank loans as at 31 December 2018		Bank loan cost	Maturity date
	In PLN thousand	Currency in thousands		
PKO BP SA	107 446	0	wibor 1 m + bank's margin	31.12.2022
PKO BP SA	55 970	0	wibor 1 m + bank's margin	04.08.2020
Pekao SA	34 006	0	wibor 1 m + bank's margin	30.09.2020
Citibank Bank Handlowy	74	0	wibor 1 m + bank's margin	10.01.2020
Raiffeisen Bank Polska SA	21	0	wibor 1 m + bank's margin	30.11.2018
BGŻ BNP Paribas Bank Polska SA	803	0	wibor 1m +bank's margin	30.01.2019
Razem	**198 320**			

Bank loans amounting to PLN 198 320 thousand included:
- long-term loans in the amount of PLN 141 824 thousand,
- short-term loans in the amount of PLN 56 496 thousand (including PLN 55 321 thousand as part of long-term investment loans to be repaid within 12 months after the balance sheet date).

Detailed information on bank loans as at 31 December 2018 is given below.

Bank	Type of loan /credit line	Loan amount and currency in thousands	currency	Security
PKO BP SA	Multi-purpose and multi-currency credit line	280 000	PLN	blank promissory note, statement on submission to enforcement, current account and currency account deductions clause
PKO BP SA	Investment loan	166 000	PLN	ordinary and capped mortgage, assignment of receivables under insurance policy, blank promissory note, current account deductions clause
PKO BP SA	Investment loan	100 000	PLN	contractual mortgage, assignment of receivables under insurance policy, blank promissory note
Pekao SA	Multi-purpose and multi-currency credit line	330 000	PLN	statement on submission to enforcement, power of attorney in respect of bank accounts
Pekao SA	Investment loan	60 000	PLN	ordinary mortgage, assignment of receivables under insurance policy, power of attorney in respect of bank accounts held in Pekao SA
BGŻ BNP Paribas Bank Polska SA	Multi-purpose and multi-currency credit line	280 000	PLN	blank promissory note with a promissory note declaration and statement on submission to enforcement
Raiffeisen Bank Polska SA	Multi-purpose and multi-currency credit line	180 000	PLN	blank promissory note with a promissory note declaration and statement on submission to enforcement, power of attorney in respect of bank accounts
Citibank Bank Handlowy	Multi-purpose and multi-currency credit line	60 000	PLN	blank promissory note with a promissory note declaration and statement on submission to enforcement
Citibank Bank Handlowy	Revolving line for opening letters of credit	15 700	PLN	blank promissory note with a promissory note declaration and statement on submission to enforcement
Citibank Bank Handlowy	Revolving line for stand-by letters of credit	60 000	PLN	blank promissory note with a promissory note declaration and statement on submission to enforcement
HSBC	Letters of credit line	30 000	USD	blank promissory note with a promissory note declaration and statement on submission to enforcement, power of attorney in respect of bank accounts
Santander	Letters of credit line	70 000	PLN	blank promissory note with a promissory note declaration and statement on submission to enforcement
Ukrsibbank	Credit line	400 000	UAH	Guarantee of LPP SA
Citibank Russia	Credit line	2 000 000	RUB	Guarantee of Citibank Polska
Raiffeisen Russia	Credit line	1 000 000	RUB	Guarantee of LPP SA

In the reporting period, as regards bank loans taken out, the Group neither was in default with payments nor breached any terms and conditions of contract.

24. EMPLOYEE BENEFITS

ACCOUNTING POLICY

According to remuneration schemes, the Group's employees have the right to retirement and pension benefits paid as one-off payments when an employee retires. The value of the said benefits depends on the duration of work and the employee's average remuneration. The Group creates a provision for future retirement-related liabilities in order to allocate costs to relevant periods.

The current value of such liabilities is calculated by an independent actuary. Accumulated liabilities equal discounted future payments, with due consideration of labour turnover, and relate to the period until the balance sheet date. Demographic and labour turnover information is based on historical data. This value is shown in the non-current part of the statement of financial position.

Re-evaluation of liabilities arising from employee benefits and involving specified benefit schemes, covering actuarial profit and loss, is recognised in other comprehensive income, without later reclassification to profit or loss.
Furthermore, the Group calculates liabilities arising from unused holiday leave and unpaid remuneration, comprising also bonuses for the current period to be disbursed in the next reporting period. These liabilities are shown in the current part of the statement.

24.1. RETIREMENT AND PENSION BENEFITS

The value of retirement and pension benefits following actuarial valuation is given in the table below.

Retirement and pension benefits (in PLN thousand)	31 December 2018	31 December 2017
As at 1 January 2018	751	2 711
Adjustment	0	(1 490)
Current employment costs	288	18
Benefits paid	(27)	0
As at 31 December 2018	**1 012**	**751**

In 2017, due to a change in calculation of provisions for retirement and pension benefits applying actuarial methods, the value of retirement benefits decreased compared to the preceding period. Currently, actuarial valuation is continued.

Analysis of sensitivity to changes in actuarial assumptions

Change in the adopted discount rate by 0.5 percentage point (in PLN thousand)	increase	decrease
As at 31 December 2018		
Retirement benefit	(66)	72
Pension benefit	(4)	5
As at 31 December 2017		
Retirement benefit	(47)	51
Pension benefit	(3)	3

Change in the labour turnover rate by 0.5 percentage point (in PLN thousand)	increase	decrease
As at 31 December 2018		
Retirement benefit	(36)	38
Pension benefit	(3)	3
As at 31 December 2017		
Retirement benefit	(25)	27
Pension benefit	(2)	2

Change in the remuneration increase rate by 0.5 percentage point (in PLN thousand)	increase	decrease
As at 31 December 2018		
Retirement benefit	72	(61)
Pension benefit	5	(4)
As at 31 December 2017		
Retirement benefit	52	(53)
Pension benefit	3	(3)

24.2. OTHER EMPLOYEE BENEFITS

A listing of other employee benefits is given in the table below.

In the reporting period, the provision for unpaid remuneration increased substantially due to the estimation of a bonus for the second half of 2018, to be disbursed in Q1 2019.

Employee benefits (in PLN thousand)	Unpaid remunerations	Unused holiday leave
As at 1 January 2018	21 172	22 400
- provision made	60 831	3 476
- provision utilised	19 360	0
- provision reversed	1 812	0
As at 31 December 2018	**60 831**	**25 876**

25. PROVISIONS

ACCOUNTING POLICY

Provisions are created when the Group has a duty arising from past events and when it is probable that the exercise of the said duty will affect economic benefits, and when the amount of such liability may be reliably estimated. Costs relating to a given provision are shown in the Group's profit or loss, decreased with any and all returns.

Considering that the main distribution channel is retail sale and, to a lesser extent, wholesale and having regard of product returns given recognition in the Group's policy, the value of a provision for product returns by customers is measured at each balance sheet date. By December 2017, the Group showed this liability in "provisions". Since January 2018, it is shown in "customer refund liabilities". This policy is described in notes 8.1 and 9.2.

The provision for other costs is calculated by the Group in the amount of costs incurred so far for services of this type.

Provisions and changes in the reporting period are listed in the table below.

Provisions (in PLN thousand)	Provision for product returns	Provision for early termination of agreements	Other provisions
As at 1 January 2018	7 818	0	2 126
- provision made	47 828	18 733	1 942
- provision utilised	0	817	0
- provision reversed	42 582	16	1 571
- reclassification under IFRS 15	(13 064)	0	0
As at 31 December 2018	**0**	**17 900**	**2 497**

According to IFRS 15, in 2018, the Group changed the presentation of liabilities arising from product returns. At present, this value is shown in "customer refund liabilities".

In 2018, the Group made a provision for early termination of lease agreements for unprofitable stores.

26. TRADE AND OTHER LIABILITIES

ACCOUNTING POLICY

Short-term trade liabilities are shown in the amount payable and recognised according to IFRS 9 as financial liabilities measured at amortised cost.

Other non-financial liabilities cover, in particular, liabilities owed to the tax office as VAT and are shown in the amount payable.

Short-term liabilities (in PLN thousand)	31 December 2018	31 December 2017 (transformed)
Trade liabilities	1 266 559	1 099 198
Other financial liabilities	1 318	8 204
Financial liabilities according to IFRS 9	**1 267 877**	**1 107 402**
Liabilities payable due to tax and other benefits	183 743	174 927
Other non-financial liabilities	45 891	42 949
Non-financial liabilities	**229 634**	**217 876**
Total short-term liabilities	**1 497 511**	**1 325 278**

The increase in trade liabilities as compared with the preceding year stems, first of all, from the increase in the volume of the Group's operations and prolongation of payment terms. As part of effective financial operations, the Parent Company signed reversed factoring agreements. As at 31 December 2018, LPP SA delivered to the factor domestic and foreign invoices of the value of PLN 552 mln (2017: PLN 360 mln).

In the current period, LPP SA signed forward contracts with banks. As at 31 December 2018, LPP SA made a valuation of non-performed contracts as at that date, the results of which are shown in item "other financial liabilities", in the amount of PLN 1 318 thousand (2017: PLN 8 204 thousand).

The increase in other non-financial liabilities results mainly from unpaid remunerations due to their payment date falling at the beginning of the next month.

27. PREPAYMENTS AND ACCRUALS

ACCOUNTING POLICY

In prepayments, in the assets column, the Group presents prepaid expenses relating to future reporting periods, including, first of all, rents.

In accruals, in the liabilities column of the statement of financial position, the Group presents payments received from lessors for resold outlays for store fit-out.

Fit-out resale results from the conclusion of a lease agreement, being a form of reimbursement of costs incurred to adjust the brand store for sales purposes. According to SIC 15, this kind of bonus should be deferred, on the straight-line basis, during the term of the agreement, by adjusting lease payments.

Prepayments – assets (in PLN thousand)	31 December 2018	31 December 2017 (transformed)
Long-term		
Retail space sourcing costs	45 844	50 576
Rent	2 207	4 997
Software supervision	940	0
Fixed assets maintenance	1 235	0
Other long-term prepayments	375	179
Total long-term prepayments	**50 601**	**55 752**
Short-term		
Rent	12 544	24 022
Retail space sourcing costs	6 297	6 107
Insurance	4 551	3 228
Real property tax	3 378	3 140
Software supervision	967	631
License fees, subscription fees, Internet domains	1 870	3 929
Power supply costs	391	508
Other short-term prepayments	2 945	2 555
Total short-term prepayments	**32 943**	**44 120**

Accruals – liabilities (in PLN thousand)	31 December 2018	31 December 2017 (transformed)
Long-term		
Consideration for outlays resold	221 860	159 272
Surcharges on lease agreements	15 099	12 698
Deferred rent	18 815	7 926
Other sale	0	1 794
Total long-term accruals	**255 774**	**181 690**
Short-term		
Sales based on gift cards and vouchers	0	18 236
Consideration for outlays resold	67 909	53 086
Surcharges on lease agreements	3 745	1 702
Other sale	352	1 244
Total short-term accruals	**72 006**	**74 268**

Accruals shown in liabilities increased mainly due to the increase in the sale of outlays in third-party premises, settled over time.

28. ASSETS AND CONTINGENT LIABILITIES

In 2018, the LPP SA Capital Group companies utilised bank guarantees to secure payment of rent for the leased premises in which brand stores are operated.

As at 31 December 2018, the total value of bank guarantees issued upon request and at the responsibility of LPP SA amounted to PLN 278 388 thousand, of which:

- guarantees issued to secure agreements concluded by LPP SA amounted to PLN 83 365 thousand,
- guarantees issued to secure agreements concluded by consolidated associates amounted to PLN 187 862 thousand,
- guarantees issued to secure warehouse and office space lease agreements concluded by LPP SA amounted to PLN 7 161 thousand.

In 2018, the Parent Company received also guarantees as a collateral for payments from a contracting party. The value of guarantees received is PLN 17 424 thousand.

In the reporting period, the Parent Company granted guarantees amounting to PLN 126 023 thousand as at 31 December 2018. The said value increased compared with the balance as at 31 December 2017 by PLN 34 612 thousand.

In the opinion of the Management Board of the Parent Company, any outflow of funds disclosed under off-balance sheet/contingent liabilities is very unlikely. The majority of these liabilities are related to guarantees securing payment of rent by entities of the LPP SA Capital Group.

28.1. LITIGATION

Neither LPP SA nor any of its subsidiaries is a party to any proceedings before a court, a competent arbitration authority or a public administration body, involving liabilities or receivables of a single or total value exceeding 10% of the equity of LPP SA.

28.2. TAX SETTLEMENTS

Due to the tax audit procedure carried out since 2015 by the Tax and Fiscal Office in Gdynia, on 12 December 2018, the Company received the decision of the Customs and Fiscal Office for the Pomeranian voivodeship in Gdynia, dated 11 December 2018, determining a corporate income tax liability for 2012 in the amount of PLN 73 683 085, i.e. higher by the amount declared and paid by the Company by PLN 16 272 274. The said decision was issued following re-examination of the case by the 1st-instance authority. On 21 December 2018, LPP filed an appeal with the Head of the Fiscal Administration Chamber in Gdańsk, upholding its current standpoint that, in the Company's opinion, it correctly calculated its corporate income tax for 2012 and duly classified as revenue earning costs the expenses which, under applicable laws, could be recognised as such.

Both in previous years and at present, the Company has incurred expenses connected with sublicenses for the use of trademarks contributed in kind to a subsidiary with its registered office in Cyprus (Gothals LTD).

Having analysed settlements related to licence fees for the use of trademarks, referred to in note 11.3 Transactions with entities with direct shareholding of LPP SA to the separate financial statements, and dividends received, the Company created, as at 31 December 2018, a provision for potential tax risks, in the total amount of PLN 78 663 thousand.

29. INFORMATION ON SUBSIDIARIES

29.1. TRANSACTIONS WITH ASSOCIATES, THROUGH KEY STAFF MEMBERS

In 2018, LPP SA entered into transactions with BBK SA controlled by key staff members. These transactions involved, to a large extent, lease of retail space in "Wars&Sawa" commercial centre and, to a minor extent, the sale of trading commodities.

No	Associates (in PLN thousand)	Liabilities as at 31 December 2018	Receivables as at 31 December 2018	Revenues in 2018	Purchases in 2018
1.	BBK SA	0	34	324	0
Total		**0**	**34**	**324**	**0**

No	Associates (in PLN thousand)	Liabilities as at 31 December 2017	Receivables as at 31 December 2017	Revenues in 2017	Purchases in 2017
1.	BBK SA	0	30	637	0
Total		**0**	**30**	**637**	**0**

29.2. REMUNERATION OF KEY MANAGEMENT OFFICERS OF THE PARENT COMPANY

The key management officers of LPP SA are members of the Management Board and the Supervisory Board.

The value of short-term benefits of members of the Management Board of the Parent Company, including remunerations and cash bonuses, received between 1 January and 31 December 2018, amounted to PLN 7 929 thousand (2017: PLN 7 184 thousand).

Remunerations shown separately for each key management officer were as follows.

First name and surname (in PLN thousand)	Position	Year ended 31 December 2018	Year ended 31 December 2017
Marek Piechocki	President of the Management Board	2 799	2 369
Przemysław Lutkiewicz	Vice-President of the Management Board	1 710	1 605
Jacek Kujawa	Vice-President of the Management Board	1 710	1 605
Sławomir Łoboda	Vice-President of the Management Board	1 710	1 605

The value of short-term benefits of members of the Supervisory Board of the Parent Company, received between 1 January and 31 December 2018, amounted to PLN 288 thousand (2017: PLN 210 thousand).

Remunerations shown separately for each member of the Supervisory Board were as follows.

First name and surname (in PLN thousand)	Position	Year ended 31 December 2018	Year ended 31 December 2017
Jerzy Lubianiec	Chairman of the Supervisory Board **	127	100
Maciej Matusiak	Member of the Supervisory Board*	0	15
Wojciech Olejniczak	Member of the Supervisory Board**	28	17
Krzysztof Olszewski	Member of the Supervisory Board*	0	15
Dariusz Pachla	Member of the Supervisory Board*	0	35
Piotr Piechocki	Member of the Supervisory Board**	28	7
Magdalena Sekuła	Member of the Supervisory Board**	35	7
Antoni Tymiński	Member of the Supervisory Board**	35	7
Miłosz Wiśniewski	Member of the Supervisory Board**	35	7

*Dismissed on 20 October 2017.
**Appointed on 20 October 2017.

29.3. SHARE-BASED PAYMENTS TO KEY MANAGEMENT OFFICERS OF THE PARENT COMPANY

ACCOUNTING POLICY

The Company's Management Board receives share-based bonuses under relevant resolutions. The transaction cost is measured by reference to fair value as at the date of awarding such rights. The value of remuneration for work of management officers is specified indirectly by reference to the fair value of financial instruments vested. The fair value of options is measured as at the vesting date, taking into consideration also non-market vesting conditions such as the attainment of an expected financial result, when determining the fair value of share options.

The remuneration cost and, on the other side, an increase in equity is measured based on the best available estimates on the number of options to be vested in a given period. When determining the number of options to be vested, non-market vesting conditions are taken into account. The Company adjusts the said estimates if, based on later information, the number of options vested differs from earlier estimates. Adjustments of estimates, relating to the number of options vested, are shown in the profit or loss for the current period, without making adjustments to previous periods.

The value of share-based employee benefits payable, awarded to members of the Parent Company's Management Board for 2018, amounted to PLN 8 235 thousand. This disbursement depends on the consolidated result generated in 2018.

The value of share-based payments (in PLN thousand) is given below.

First name and surname	Position	Year ended 31 December 2018	Year ended 31 December 2017
Marek Piechocki	President of the Management Board	2 922	321
Przemysław Lutkiewicz	Vice-President of the Management Board	1 771	213
Jacek Kujawa	Vice-President of the Management Board	1771	213
Sławomir Łoboda	Vice-President of the Management Board	1 771	213

30. FINANCIAL RISK MANAGEMENT

The Group is exposed to numerous risks associated with financial instruments.

Risks affecting the Capital Group include:
- credit risk,
- liquidity risk and
- market risk including currency risk and interest rate risk.

In the operations of the LPP Capital Group, main financial instruments are bank loans (note 23). Their main objective is to provide financing for the operations of the entire Capital Group. Moreover, the Group holds other financial instruments established in the course of its business operations. Those mainly include cash and deposits (note 21), trade receivables (note 20), trade liabilities (note 26) and participation units in investment funds.

Furthermore, the Parent Company enters into transactions involving derivatives, namely forward contracts. This transaction is aimed at managing currency risk occurring in the course of business activity.

The Management Board of the Parent Company verifies and agrees the rules for managing each type of risk.

According to IFRS 7, LPP SA has analysed risks related to financial instruments, affecting the Capital Group.

30.1. CREDIT RISK

The maximum credit risk is reflected by the balance sheet value of trade receivables and loans and guarantees granted.

Balance sheet values of the above-mentioned financial assets are given in the table below.

Items (in PLN thousand)	31 December 2018	31 December 2017
Loans	104	160
Trade receivables	156 252	199 648
Participation units	55 425	0
Valuation of forward contracts	23	0
Foreign currency sold	43 432	0
Cash and cash equivalents	1 044 969	514 790
Total	**1 300 205**	**714 598**

The Group constantly monitors clients' and creditors' outstanding payments, analysing credit risk individually or as part of specific classes of assets. Furthermore, as part of credit risk management, LPP SA enters into transactions with contracting parties with confirmed creditworthiness.

One of the key items is receivables and their analysis is given in tables below.

The concentration of credit risk related to trade receivables as at 31 December 2018 is presented in the table below.

	Share %
Recipient	**Share in total receivables**
Other recipients with dues not exceeding 5% of total receivables	100.0%
Total gross trade receivables	**100.0%**

The classification of gross trade receivables by the number of days past due as at 31 December 2018 and 31 December 2017 is given in the table below.

Gross trade receivables (in PLN thousand)	31 December 2018	31 December 2017
Not overdue	170 569	192 432
	13 218	22 064
Overdue up to one year	13 218	22 064
Overdue for over one year	**837**	**1 198**
Total	**184 624**	**215 694**

The increase in non-overdue and overdue trade receivables in the current reporting period results, first of all, from the Group's increased endeavours aimed at more timely repayment of dues by contracting parties.

No hedging instruments for the above financial risks and no hedge accounting are applied by LPP SA and its subsidiaries.

Compared to the previous year, credit exposure of the Group decreased significantly due to timely repayment of investment credit instalments and reduction of a current debt. At the same time, the Company has taken out no new investment credit facilities.

A detailed description of the financial position of the Group in terms of loans extended is presented in note 23.

30.2. LIQUIDITY RISK

The Group's objective is to maintain a balance between continuity and flexibility of funding by using funding sources such as overdrafts or investment credit facilities.

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

Bank loans (in PLN thousand)	31 December 2018	31 December 2017
Up to one month	16 933	5 561
From one to three months	33 866	9 260
From three months to a year	152 397	41 675
Above one year	88 575	141 824
In total	**291 771**	**198 320**

Liquidity risk must also include trade liabilities. The classification of gross trade liabilities by the number of days past due as at 31 December 2018 and 31 December 2017 is presented in the table below.

Gross trade liabilities (in PLN thousand)	31 December 2018	31 December 2017
Not overdue	1 239 278	1 057 998
Overdue up to one year	26 969	40 483
Overdue for over one year	312	717
Total	**1 266 559**	**1 099 198**

The increase in the value of trade liabilities stems, first of all, from the increase in the volume of the Group's operations and prolongation of payment terms.

30.3. CURRENCY RISK

The Group is exposed to currency risk arising from transactions concluded. Such risk occurs when the Parent Company sells or purchases goods in currencies other than its valuation currency. In LPP, the basic settlement currency in most transactions involving purchases of trade commodities is USD. Approx. 98% of transactions concluded by LPP SA are denominated in foreign currencies other than the reporting currency, while 55% of sales in the Parent Company is denominated in such reporting currency.

In addition to currency risk involved in the settlement currency used for purchasing trade commodities, there is also a risk associated with the fact of settling retail space rents in EUR.

As at 31 December 2018, the Group's financial assets and liabilities were denominated in two main foreign currencies, converted into PLN applying a closing exchange rate as at the balance sheet date, which are of importance for the financial statements, are given in the table below.

Items (in PLN thousand)	Values expressed in		Value after conversion
	USD	EUR	
Cash	370 225	23 134	393 359
Trade receivables	2 749	1 874	4 623
Trade liabilities	910 021	69 889	979 910

Since the main cost for the Parent Company is purchases of trade commodities, made mainly in USD, LPP SA started using for this currency hedging derivative instruments (forward contracts) and USD deposits to hedge the risk involved in exchange rate fluctuations. By taking such action, LPP SA is capable of adjusting, to a major extent, foreign exchange losses adversely affecting the Group's result. As at 31 December 2018, a negative mark-to-market of forward contracts amounted to PLN 1 318 thousand (2017: PLN 8 204 thousand) and was shown as other financial liabilities in item "trade and other liabilities" (note 27), and a positive mark-to-market of such contracts was PLN 23 thousand and was shown in "other financial assets" (note 19). USD deposits amounted to PLN 323 856 thousand and are included in "cash".

Negative mark-to-market of forward contracts (in PLN thousand)	31 December 2018	31 December 2017
Citi Bank Handlowy	0	4 184
Bank Pekao SA	1 318	4 020
Total	**1 318**	**8 204**

Positive mark-to-market of forward contracts (in PLN thousand)	31 December 2018	31 December 2017
Citi Bank Handlowy	23	0
Bank Pekao SA	0	0
Total	**23**	**0**

The sensitivity of gross profit (loss) to rational and probable USD and EUR exchange rate fluctuations, with assumed steadiness of other factors, is shown in the table below.

When analysing the impact of the change in USD exchange rates in 2018, it is required to take into account forward instruments used by the Parent Company and USD deposits.

Balance sheet items	Increase/decrease in the foreign exchange rate	Effect on profit/loss
31 December 2018 - USD	+5%	-21 750
	-5%	21 750
31 December 2017 - USD	+5%	-28 762
	-5%	28 762
31 December 2018 - EUR	+5%	-1 818
	-5%	1 818
31 December 2017 - EUR	+5%	-633
	-5%	633

30.4. INTEREST RATE RISK

The interest rate risk is related to the continuous use by LPP SA of debt financing based on a variable value of Wibor rates and, to a minor extent, to loans granted. Bank credit facilities with a variable interest rate involve the cash flow risk. The Management Board of the Parent Company holds the view that a change in interest rates, if any, will have no major impact on the results earned by the Capital Group.

The tables below present the analysis of impact of interest rate changes on the comprehensive income statement. This analysis covers financial items of the Group's statement of financial position as at the balance sheet date.

Interest rate risk	+/- 75 basis points of the interest rate		
Balance sheet items (in PLN thousand)	Value	Effect on profit/ loss	Effect on profit/ loss
Financial assets			
Loans	104	1	-1
Cash	1 044 969	7 837	-7 837
Participation units	55 425	416	-416
Effect on financial assets before taxation		8 254	-8 254
Tax (19%)		-1 568	1 568
Effect on financial assets after taxation		6 686	-6 686
Financial liabilities			
Bank loans	291 771	-2 188	2 188
Effect on financial liabilities before taxation		-2 188	2 188
Tax (19%)		416	-416
Effect on financial liabilities after taxation		-1 772	1 772
Total		**4 914**	**- 4 914**

As at 31 December 2018, the Group's net profit would have been higher by PLN 4 914 thousand if interest rates in PLN, EUR and USD had been higher by 75 basis points, assuming that all the remaining parameters remained unchanged. This result is due to a substantially higher balance of cash compared with existing bank credit facilities.

31. FAIR VALUES OF THE COMPANY'S ASSETS AND LIABILITIES

Fair value is defined as an amount for which, at arm's length basis, a given asset could be exchanged, and a liability could be discharged, between well-informed unrelated interested parties. As regards financial instruments for which there is an active market, their fair value is determined based on parameters deriving from the active market (sales and purchase prices). As regards financial instruments for which there is no active market, their fair value is determined on the basis of valuation techniques, where model input data is variables deriving from active markets (exchange rates, interest rates).

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

32. FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Each contract establishing a financial asset for one party and, at the same time, a financial liability or capital instrument for the other party is a financial instrument.

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

A financial asset is derecognised from the statement of financial position when rights to economic benefits and risks arising from the contract have been exercised or executed, have expired or the Group has waived them.

The Group derecognises a financial liability from the statement of financial position upon its expiry, that is when the obligation specified in the contract has been discharged, cancelled or expired.

Financial assets – accounting policy applied from 1 January 2018

Classification and measurement

According to IFRS 9, except for some trade receivables, a financial asset is initially measured at fair value which, in the case of financial assets not measured at fair value through profit or loss, is increased with transaction costs which may be directly allocated to the purchase of such assets.

After initial recognition, an asset is measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. An entity classifies an asset based on its business model applied for financial asset management and the features of cash flows resulting from an agreement for the asset ("SPPI criterion").

As at the purchase date, the Group measures financial assets and liabilities at fair value, i.e. most often, at fair value of a payment made (for assets) or a payment received (for liabilities).

As at the balance sheet date, the Group's financial assets and liabilities are measured, according to IFRS 9 , following the principles given below.

Classification of financial assets

- Measured at amortised cost,
- Measured at fair value through profit or loss,
- Measured at fair value through other comprehensive income.

Except for some trade receivables, a financial asset is initially measured at fair value which, in the case of financial assets not measured at fair value through profit or loss, is increased with transaction costs which may be directly allocated to the purchase of such assets.

For the purposes of measurement after initial recognition, financial assets are classified in one of the following four categories:

- Debt instruments measured at amortised cost,
- Debt instruments measured at fair value through other comprehensive income,
- Capital instruments measured at fair value through other comprehensive income,
- Financial assets measured at fair value through profit or loss.

The Group classifies the following as financial assets measured at amortised cost:

- Trade receivables,
- Loans granted,
- Cash and cash equivalents.

A financial asset is measured at amortised cost if the following two conditions are met:

- A financial asset is maintained in line with the business model aimed at maintaining financial assets for gaining contractual cash flows, and
- Contractual terms relating to a financial asset generate, within specific time-frames, cash flows which are mainly repayment of a principal amount and interest on an outstanding principal amount.

Financial assets not meeting criteria to be measured at amortised cost or at fair value through comprehensive income are measured at fair value through profit or loss.

The Group classifies the following as capital assets measured at fair value through profit or loss:

- Participation units in money market funds,
- Other receivables.

Impairment of financial instruments

As regards trade receivables, the Group applies a simplified approach and measures a write-off on expected credit losses in an amount equal to expected credit losses in entire lifetime using a provision matrix. The Group uses its historical data on credit losses, adjusted in relevant cases with the impact of information regarding the future.

As regards other financial assets, the Group measures a write-off on expected credit losses in an amount equal to 12-month expected credit losses. If the credit risk associated with a given financial instrument substantially increased from initial recognition, then the Group measures a write-off on expected credit losses related to such financial instrument in an amount equal to expected credit losses in entire lifetime.

Financial derivatives

Financial derivatives utilised by the Company to hedge the foreign exchange risk are, first of all, forward contracts. These financial derivatives are measured at fair value. Derivatives are recognised as assets when their value is positive and as liabilities when their value is negative.

Profit or loss on changes in the fair value of derivatives not meeting the principles of hedging accounting are recognised directly in net profit or loss for the financial year.

The fair value of forward contracts is measured by reference to current forward rates for contracts of similar maturity.

Financial assets – accounting policy applied by 31 December 2017

For the purposes of measurement after initial recognition, financial assets other than hedging derivatives are classified by the Group in the following categories:

- loans and receivables,
- financial assets measured at fair value through profit or loss,
- financial assets kept by their maturity date and
- financial assets available for sale.

These categories define the principles for measurement as at the balance sheet date and for the recognition of profits and losses from measurement in profit or loss or in other comprehensive income. Profits and losses recognised in the financial result are presented as financial revenues or costs, except for revaluation write-offs on trade receivables, presented in other operating expenses.

All financial assets, except for those measured at fair value through profit or loss, are assessed as at each balance sheet date due to existence of prerequisites for value impairment. Any prerequisites for value impairment are reviewed for each category of financial assets separately, as given below.

Loans and receivables

Loans granted and receivables are non-derivative financial assets, with fixed or identifiable payments, which are not quoted on an active market.

Loans and receivables are measured at amortised cost, applying the effective interest rate method. It was assumed that short-term receivables are measured at amounts to be received due to payable due to negligible discounting.

They are recognised as current assets if their maturity date does not exceed 12 months from the balance sheet date. Loans granted and receivables with maturity dates exceeding 12 months from the balance sheet date are recognised as fixed assets. If there are objective prerequisites for a loss arising from the impairment of value of loans and receivables measured at amortised cost, then the impairment write-off is equal to the difference between the asset's carrying value and the current value of estimated future cash flows. The asset's carrying value is reduced with the impairment write-off, which is disclosed in financial costs in respect of loans, and in other operating costs in respect of receivables.

When such prerequisites expire and the situation improves, it is required to reverse, in full or in part, the write-off created depending on the assessment made. The write-off reversal is recognised in profit or loss to the extent in which, as at the reversal date, the asset's carrying value does not exceed its amortised cost.

Revaluation write-offs on receivables and loans are made as follows:
– disputable (amounts claimed in pending court proceedings and amounts due from debtors put into liquidation or in bankruptcy) – write-offs in the total amount receivable,
– other – write-offs are made based on a case-by-case review and assessment of both the situation and the risk of a potential loss.

Financial assets held to maturity

Financial assets held to maturity are non-derivative financial assets with fixed or identifiable payments and with fixed maturity, which the Group intends, and is able, to hold to maturity, except for assets classified as loans and receivables.

Financial assets held to maturity are measured at amortised cost, applying the effective interest rate method. If there is any evidence for possible impairment of investments held to maturity, assets are measured at current value of estimated future cash flows. Changes in the balance sheet value, including impairment write-offs, are recognised in profit or loss.

Financial assets measured at fair value through profit and loss

Financial assets measured at fair value through profit and loss include assets classified as designated for trading or, upon initial recognition, for measurement at fair value through profit and loss, due to the fulfilment of the criteria set forth in IAS 39.

Instruments in this category are measured at fair value, and the measurement results are recognised in profit or loss.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets designated as available for sale or not classified in any of the above-mentioned categories of financial assets.

In this category, the Company recognises shares in companies other than subsidiaries or associates. All other financial assets available for sale are measured at fair value.

Profits and losses on measurement are recognised as other comprehensive income and accumulated in revaluation capital from financial assets available for sale, except for impairment write-offs recognised in profit or loss. Profit or loss comprises also interest which would be recognised at measurement of these financial assets at amortised cost based on the effective interest rate method.

Financial liabilities

Financial liabilities other than hedging derivatives are recognised under the following items of the statement of financial position:
– bank loans and borrowings,
– trade and other liabilities.

Following initial recognition, financial liabilities are measured at amortised cost based on an effective interest rate, except for financial liabilities designated for trading or indicated as measured at fair value through profit or loss (derivatives other than hedging instruments). Short-term trade liabilities are measured based on the amount payable due to negligible discounting.

Financial derivatives

Derivatives employed by the Parent Company to hedge the risk related to foreign exchange fluctuations are, first of all, forward contracts. These derivatives are measured at fair value and presented as assets if their value is positive, or as liabilities if their value is negative.

Profit and loss on changes in the fair value of derivatives which fail to satisfy accounting principles is recognised directly in net profit or loss for the financial year.

The fair value of forward contracts is measured by reference to current forward rates applied for contracts with similar maturity periods.

The value of financial assets presented in the consolidated statement of financial position relates to the following categories of financial instruments defined in IFRS 9:
1. measured at amortised cost (aAC)
2. measured at fair value through profit or loss (fair value)

	As at 31 December 2018	
Fixed assets (in PLN thousand)	aAC	Fair value
Other financial assets	7 772	0

	As at 31 December 2018	
Current assets (in PLN thousand)	aAC	Fair value
Trade receivables	156 252	0
Other financial assets	1 424	0
Participation units in funds	0	55 425
Cash and cash equivalents	1 044 969	0

	As at 31 December 2017	
Fixed assets (in PLN thousand)	Loans and receivables	In addition to IAS 39
Other financial assets	4 836	0

	As at 31 December 2017	
Current assets (in PLN thousand)	Loans and receivables	In addition to IAS 39
Trade receivables	199 648	0
Other financial assets	1 755	0
Cash and cash equivalents	514 790	0

The value of financial liabilities presented in the statement of financial position refers to the categories of financial instruments specified in IFRS 9 as financial liabilities measured at amortised cost (LAC) and financial liabilities measured at fair value through profit or loss.

	As at 31 December 2018		
Long-term liabilities (in PLN thousand)	LAC	Fair value	In addition to IFRS 9
Loans and borrowings	88 575	0	0

	As at 31 December 2018		
Short-term liabilities (in PLN thousand)	LAC	Fair value	In addition to IFRS 9
Trade liabilities	1 266 559	0	0
Other financial liabilities (forward contracts)	0	1 318	0
Other liabilities	0	0	229 634
Loans and borrowings	203 196	0	0

Long-term liabilities (in PLN thousand)	As at 31 December 2017	
	LAC	In addition to IAS 39
Loans and borrowings	141 824	0

Short-term liabilities (in PLN thousand)	As at 31 December 2017		
	LAC	Fair value	In addition to IAS 39
Trade liabilities	1 099 198	0	0
Other financial liabilities (forward contracts)	0	8 204	0
Other liabilities	0	0	217 876
Loans and borrowings	56 496	0	0

33. SEGMENTS

Financial results and other information on geographical segments for the period from 1 January 2018 to 31 December 2018 and for a comparative period are given in the tables below.

2018 (in PLN thousand)	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
External sales	6 264 563	1 782 193	0	0	8 046 756
Inter-segment sales	1 002 708	0	(1 002 708)	0	0
Other operating income	25 052	10 575	0	0	35 627
Total revenue	**7 292 323**	**1 792 768**	**(1 002 708)**	**0**	**8 082 383**
Total operating costs, including	6 048 679	1 627 358	(1 006 931)	508 564	7 177 670
Costs of inter-segment sales	782 575	0	(782 575)	0	0
Other operating costs	114 420	33 733	0	0	148 153
Segment result	**1 129 224**	**131 677**	**4 223**	**(508 564)**	**756 560**
Financial income					8 420
Financial costs					41 300
Profit before taxation					**723 680**
Income tax					218 504
Net profit attributable to shareholders of the parent company					**505 176**
Net profit attributable to non-controlling entities					**0**

2018 (in PLN thousand)	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
Segment assets	4 444 578	846 329	(74 480)	0	5 216 427
Unallocated assets across the group	0	0	0	164 381	164 381
Consolidated total assets	**4 444 578**	**846 329**	**(74 480)**	**164 381**	**5 380 808**
Segment liabilities	2 015 514	262 945	(12 869)	0	2 265 590
Unallocated liabilities across the group	0	0	0	254 680	254 680
Consolidated total liabilities	**2 015 514**	**262 945**	**(12 869)**	**254 680**	**2 520 270**

Other disclosures	EU Member States	Other countries
Segment capital expenditures	635 476	161 161
Segment depreciation	276 311	72 852
Impairment write-offs	66 603	22 200
Reversal of impairment write-offs	0	468
Other non-cash expenses	120 411	29 654

2017 (in PLN thousand)	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
External sales	5 493 990	1 535 435	0	0	7 029 425
Inter-segment sales	887 584	0	(887 584)	0	-
Other operating income	22 306	6 317	0	0	28 623
Total revenue	**6 403 880**	**1 541 752**	**(887 584)**	**0**	**7 058 048**
Total operating costs, including	5 568 041	1 337 891	(851 772)	348 091	6 402 251
Costs of inter-segment sales	695 208	0	(695 208)	0	-
Other operating costs	46 555	30 808	0	0	77 363
Segment result	**789 284**	**173 053**	**(35 812)**	**348 091**	**578 434**
Financial income					4 754
Financial costs					19 517
Profit before taxation					**563 671**
Income tax					122 897
Net profit attributable to shareholders of the parent company					**440 851**
Net profit attributable to non-controlling entities					**(77)**

2017 (in PLN thousand)	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
Segment assets	3 691 190	702 358	(214 215)	0	4 179 333
Unallocated assets across the group	0	0	0	151 495	151 495
Consolidated total assets	**3 691 190**	**702 358**	**(214 215)**	**151 495**	**4 330 828**
Segment liabilities	1 612 229	229 635	(152 818)	0	1 689 046
Unallocated liabilities across the group	0	0	0	198 351	198 351
Consolidated total liabilities	**1 612 229**	**229 635**	**(152 818)**	**198 351**	**1 887 397**

Other disclosures	EU Member States	Other countries
Segment capital expenditures	313 947	127 649
Segment depreciation	231 457	61 972
Impairment write-offs	4 426	876
Reversal of impairment write-offs	0	10 216
Other non-cash expenses	47 288	27 832

34. CAPITAL MANAGEMENT

The Group manages capital with the aim of ensuring the Group's capacity to continue its operations and the expected rate of return for shareholders and other entities interested in the financial position of the Capital Group.

The Group analyses the indices assessing its financial position, presented and described in detail in the Management Board's report on the Group's operations.

35. EMPLOYMENT STRUCTURE

In the year ended 31 December 2018, average employment (own work posts) in the entire Capital Group was 17 121 people (2017: 16 408 people).

36. INFORMATION ON THE FEE OF THE STATUTORY AUDITOR OR AN ENTITY AUTHORISED TO AUDIT THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

On 8 June 2018, LPP SA signed annex no 1 to the agreement of 8 June 2017 on the audit of the annual financial statements of the Company and the LPP SA Capital Group for 2018 and on the review of mid-year financial statements of the Company and the LPP SA CG for the said year. The entity authorised to audit and review the financial statements of the Company and the LPP SA CG was chosen by the Supervisory Board of LPP SA under Article 35 of its Articles of Association.

The entity chosen was Ernst & Young Audyt Polska Sp. z o.o. spółka komandytowa with its registered office in Warsaw, entered on the list of Polish Board of Statutory Auditors under no 130.

The fee of the entity authorised to audit the consolidated and separate financial statements, paid or due for the year ended 31 December 2018 and 31 December 2017, broken down by types of services, is given in the table below.

In 2017, LPP SA was also provided by Ernst & Young Audyt Polska Sp. z o.o. Sp. k. with services covering the audit and review of the financial statements for 2017.

Gross trade liabilities (in PLN thousand)	Year ended 31 December 2018	Year ended 31 December 2017
Obligatory audit of annual financial statements	320	155
Review of mid-year financial statements	117	79
Other services	0	0
Total	**437**	**234**

37. AFTER-BALANCE-SHEET EVENTS

On 25 March 2019, the Management Board of LPP SA made a decision on a cross-border merger of LPP SA with its subsidiary Gothals Ltd with its registered office in Cyprus. In consequence of the merger, LPP SA will take over all assets of Gothals Ltd, including trademark rights. According to the Articles of Association of LPP SA, the merger to be effected requires to be approved by the Supervisory Board and the General Meeting of Shareholders.

At the end of 2018, the book value of a tax asset, recognized in Gothal's books - as a difference between the carrying value and the tax value of trademarks was PLN 85.5 million. Due to the said decision, the Capital Group made a revaluation write-off on part of a tax asset recognised in previous years, totalling PLN 45 532 thousand, as it may not be utilised in future reporting periods. If there is a positive decision on the merger of the Supervisory Board and the General Meeting of Shareholders, a further write-off of a tax asset is to be made in 1st half of 2019, amounting approx. PLN 40 m.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the Management Board

Przemysław Lutkiewicz
Vice-President of the Management Board

Jacek Kujawa
Vice-President of the Management Board

Sławomir Łoboda
Vice-President of the Management Board

5
STATEMENTS BY THE MANAGEMENT BOARD

STATEMENT ON RELIABILITY OF THE FINANCIAL STATEMENTS

In line with the requirements set forth in the Regulation by the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities [...] (Regulation), the Management Board of LPP SA declares that, to the best of the Board's knowledge, the annual consolidated financial statements for the financial year 2018 and comparative data have been prepared in accordance with accounting principles currently in effect and present a true and fair view of the assets and the financial standing of LPP SA and the LPP SA CG as well as the financial result in the periods presented, and that the report of the Management Board on the operations of the LPP SA Capital Group, together with the declaration of corporate governance for 2018 (with due consideration of disclosure requirements for the Report on the Operations of the Parent Company for the said period), present a true and fair view of the development, achievements and the standing of the LPP SA Capital Group and LPP SA, including a description of basic risks and threats.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the Management Board

Przemysław Lutkiewicz
Vice-President of the Management Board

Jacek Kujawa
Vice-President of the Management Board

Sławomir Łoboda
Vice-President of the Management Board

STATEMENT ON THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS

In line with the requirements set forth in the Regulation by the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities [...] (Regulation), the Management Board of LPP SA informs, based on the statement of the Supervisory Board of LPP SA, that the entity authorised to audit financial statements, which has audited the annual consolidated financial statements of the LPP Capital Group and the separate financial statements of LPP SA, has been chosen in accordance with the provisions of law, including those governing the selection of, and the procedure for selecting, an audit company.

The audit company Ernst&Young Audyt Polska Sp. Z o.o. sp.k and members of the auditing team met the conditions for preparing an impartial and independent report on the audit of the annual consolidated financial statements in accordance with binding laws as well as professional and ethical standards.

Furthermore, the Management Board of LPP SA informs, based on the statement made by the Supervisory Board of LPP SA, that binding laws governing the rotation of audit companies and a key statutory auditor as well as mandatory waiting periods have been observed.

LPP SA has implemented a policy for choosing an audit company and a policy encompassing the provision by an audit company or its affiliate or network member of additional non-audit services for the benefit of LPP SA, including services which have been conditionally permitted to be rendered by an audit company.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the Management Board

Przemysław Lutkiewicz
Vice-President of the Management Board

Jacek Kujawa
Vice-President of the Management Board

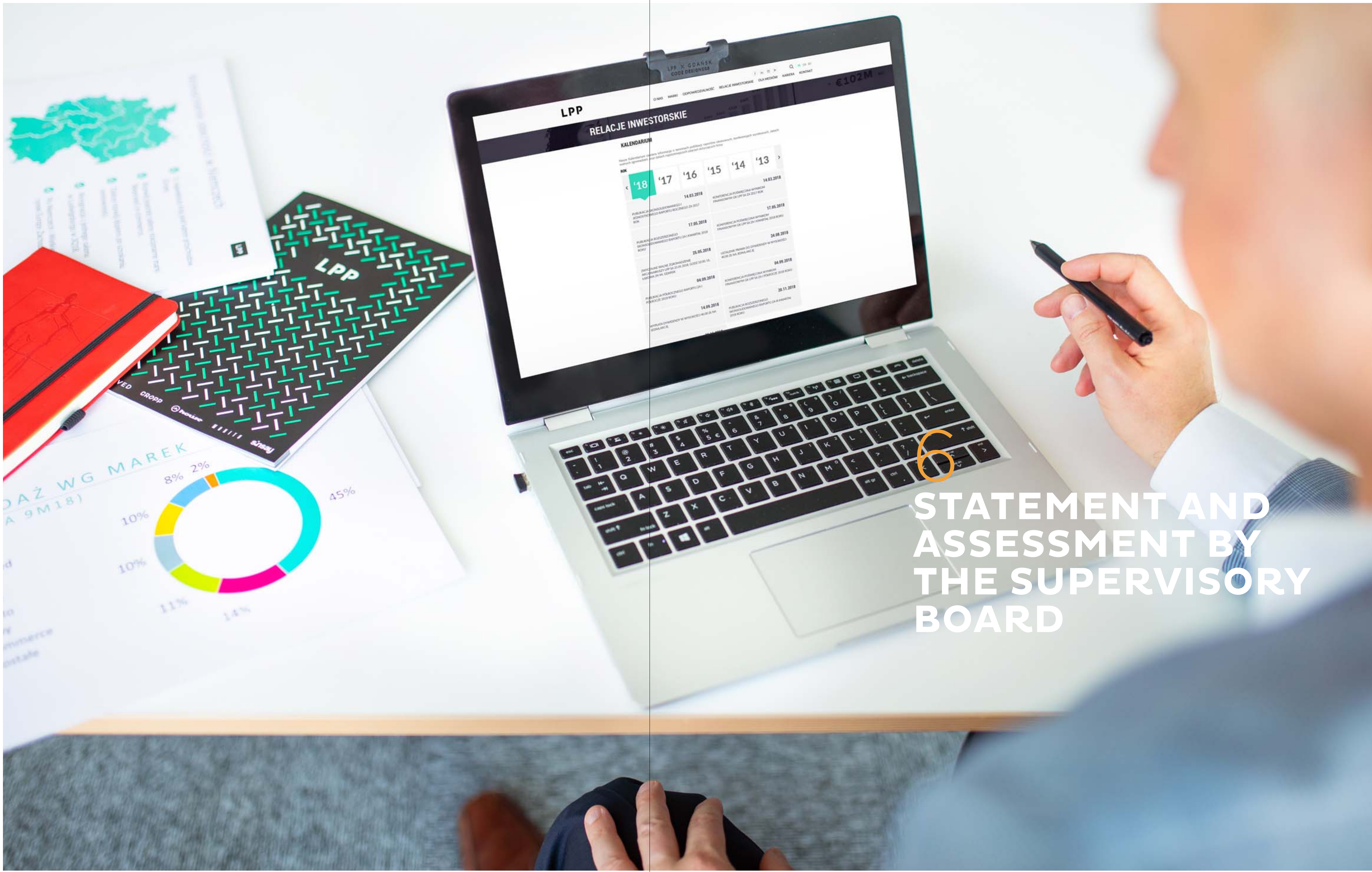
Sławomir Łoboda
Vice-President of the Management Board

STATEMENT ON NON-FINANCIAL INFORMATION

The Management Board of LPP SA declares that, together with this report being published, it publishes an integrated report for 2018, titled "Global Brand, Polish Company", which provides comprehensive information on the Issuer. The integrated report meets the requirements of the Accounting Act and, being a separate document, constitutes a statement on non-financial information.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki President of the Management Board	**Przemysław Lutkiewicz** Vice-President of the Management Board	**Jacek Kujawa** Vice-President of the Management Board	**Sławomir Łoboda** Vice-President of the Management Board



6 STATEMENT AND ASSESSMENT BY THE SUPERVISORY BOARD

STATEMENT BY THE SUPERVISORY BOARD OF LPP SA ON FULFILLMENT OF STATUTORY REQUIREMENTS BY THE AUDIT COMMITTEE

The Supervisory Board of LPP SA, fulfilling its obligation provided for in § 70(1)(8) and § 71(1)(8) of the Regulation of the Minister of Finance of 29 March 2018 on current and interim information submitted by issuers of securities and on the terms and conditions for recognition as equivalent of information required under the laws of a non-member state (Journal of Laws of 2018, item 757), hereby declares that:

a) provisions governing the appointment, composition and operation of the Audit Committee of the Supervisory Board of LPP SA, including those relating to the fulfilment by its members of independence criteria and requirements in respect of knowledge of, and expertise in, the industry sector in which LPP SA operates as well as accounting or the auditing of financial statements are observed,

b) the Board's Audit Committee has exercised the duties of an audit committee, set forth in applicable laws, specifically those provided for in Article 130(1) of the Act of 11 May 2017 on Statutory Auditors, Audit Companies and on Public Supervision (Journal of Laws of 2017, item 1089, as amended).

SUPERVISORY BOARD OF LPP SA:

Jerzy Lubianiec
Chairman of the
Supervisory Board

Wojciech Olejniczak
Vice-Chairman of the
Supervisory Board

Piotr Piechocki
Member of the
Supervisory Board

Magdalena Sekuła
Member of the
Supervisory Board

Antoni Tymiński
Member of the
Supervisory Board

Miłosz Wiśniewski
Member of the
Supervisory Board

ASSESSMENT BY THE SUPERVISORY BOARD OF LPP SA

The Supervisory Board, having reviewed:
- the financial statements of LPP SA for the financial year 2018,
- LPP SA Management Board's report on the operations of the Company's Capital Group in the financial year 2018 (incorporating the report on the Company's operations in the said period),
- the Management Board's resolution on the motion for division of the Company's net profit generated in the financial year 2018,
- the auditor's report and opinion on the audit of the Company's financial statements for the financial year 2018,
- the statutory auditor's report and opinion on the audit of the consolidated financial statements of the Company's Capital Group for the financial year 2018,

acknowledges that, in the opinion of the Supervisory Board:

- the Management Board's report on the operations of the Company's Capital Group in the financial year 2018, incorporating the Management Board's report on the Company's operations in the said period;
- the Company's financial statements for the financial year 2018,
- the consolidated financial statements of the LPP SA Capital Group for the financial year 2018,

are complete and accurate and contain data which exhaustively presents the standing of the Company and the LPP SA Capital Group.

Furthermore, the Supervisory Board indicates that the Management Board's report on the operations of the LPP SA Capital Group for 2018 incorporates also the Management Board's report on the operations of the Company (as parent company). The joint presentation of the two reports is permissible under Article 55(2a) of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2019, item 351, as amended) and § 71(8) of the Regulation of the Minister of Finance of 29 March 2018 on current and interim information submitted by issuers of securities and on the terms and conditions for recognition as equivalent of information required under the laws of a non-member state (Journal of Laws of 2018, item 757).

The Supervisory Board recommends that the Annual General Meeting of Shareholders should adopt the resolution approving:
- the Management Board's report on the operations of the Company's Capital Group and the Company's operations in the financial year 2018;
- the financial statements of the Company for the financial year 2018,
- the consolidated financial statements of the LPP SA Capital Group for the financial year 2018.

The Supervisory Board takes such view based on the analysis of documents referred to above and the results of works of the Board's Audit Committee and the Supervisory Board themselves. These activities have led to the conclusion that the said documents are complete, accurate and contain data which exhaustively presents the standing of the Company and the LPP SA Capital Group.

SUPERVISORY BOARD OF LPP SA:

Jerzy Lubianiec
Chairman of the
Supervisory Board

Wojciech Olejniczak
Vice-Chairman of the
Supervisory Board

Piotr Piechocki
Member of the
Supervisory Board

Magdalena Sekuła
Member of the
Supervisory Board

Antoni Tymiński
Member of the
Supervisory Board

Miłosz Wiśniewski
Member of the
Supervisory Board

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