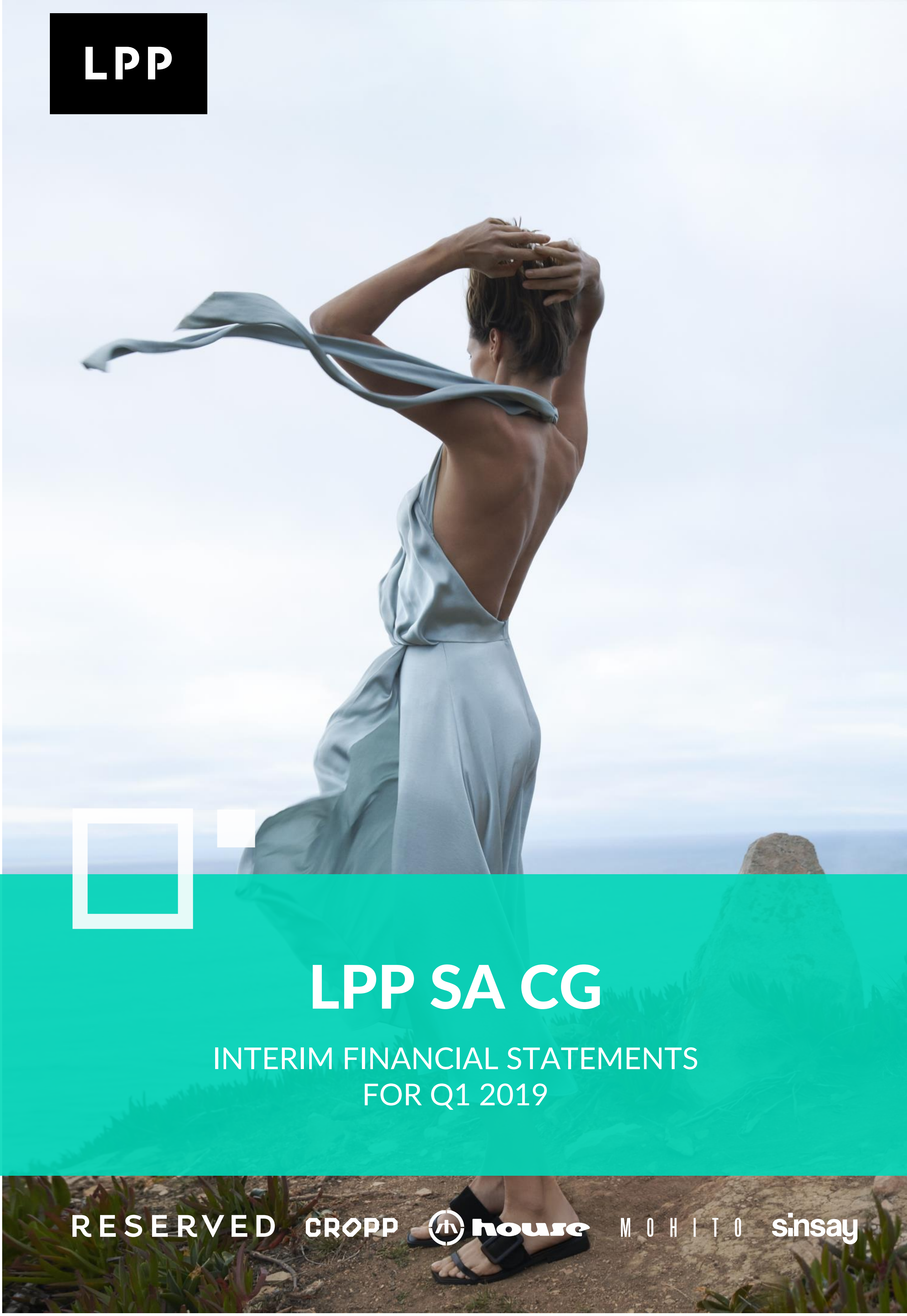
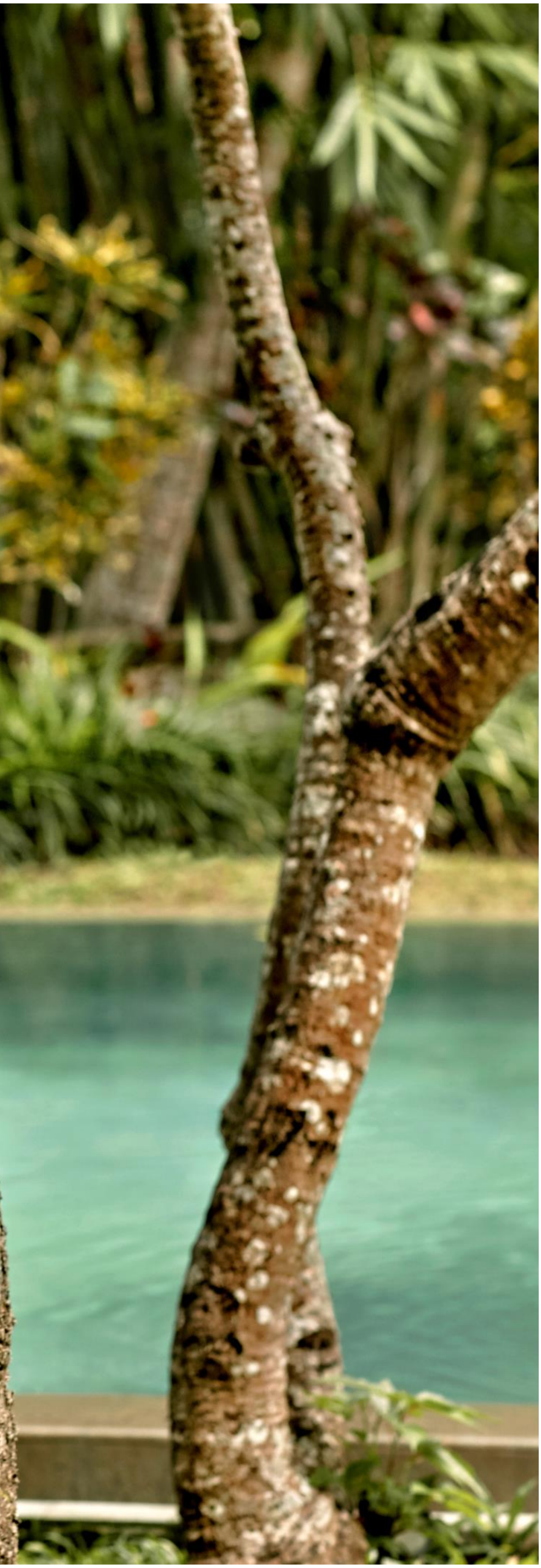


LPP SA CG

INTERIM FINANCIAL STATEMENTS
FOR Q1 2019



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01

Selected Consolidated Interim Financial Data

For 3 months ended 31 March 2019

Selected consolidated financial data	in PLN thousand		in EUR thousand	
	Cumulatively			
	2019	2018	2019	2018
	01.01 - 31.03	01.01 - 31.03	01.01 - 31.03	01.01 - 31.03
Revenues	1 827 680	1 580 352	425 259	378 219
Operating profit (loss)	-100 224	-117 732	-23 320	-28 176
Pre-tax profit (loss)	-116 853	-103 187	-27 189	-24 695
Net profit (loss)	-114 589	-104 769	-26 662	-25 074
Weighted average number of ordinary shares	1 833 483	1 833 445	1 833 483	1 833 445
Profit (loss) per ordinary share	-62.50	-57.14	-14.54	-13.68
Net cash flows from operating activities	121 869	50 958	28 356	12 196
Net cash flows from investing activities	-123 657	-146 015	-28 772	-34 945
Net cash flows from financing activities	-56 961	19 810	-13 254	4 741
Total net cash flows	-58 749	-75 247	-13 670	-18 009

Selected consolidated financial data	in PLN thousand		in EUR thousand	
	2019	2018	2019	2018
	31.03.2019	31.12.2018	31.03.2019	31.12.2018
Total assets	8 070 683	5 380 808	1 876 336	1 251 351
Long-term liabilities	2 618 763	346 148	608 831	80 500
Short-term liabilities	2 665 917	2 174 122	619 793	505 610
Equity	2 786 018	2 860 553	647 715	665 245
Share capital	3 705	3 705	861	862
Weighted average number of ordinary shares	1 833 483	1 833 483	1 833 483	1 833 483
Book value per share	1 519.52	1 560.17	353.27	362.83
Declared or paid dividend per share	60.00	40.00	13.95	9.30

02

Consolidated Condensed Interim Statement of Comprehensive Income

for 3 months ended 31 March 2019

Statement of comprehensive income (in PLN thousand)	2019 01.01 - 31.03	2018 01.01 - 31.03
Continuing operations		
Revenue	1 827 680	1 580 352
Cost of goods sold	1 034 723	867 519
Gross profit (loss) on sales	**792 957**	**712 833**
Costs of stores and distribution	758 426	700 655
General costs	115 620	119 800
Other operating income	5 630	2 265
Other operating costs	24 765	12 375
Operating profit (loss)	**-100 224**	**-117 732**
Financial income	12 327	17 087
Financial costs	28 956	2 542
Pre-tax profit (loss)	**-116 853**	**-103 187**
Income tax	-2 264	1 582
Net profit (loss) on continuing operations	**-114 589**	**-104 769**
Net profit attributable to:		
Shareholders of the parent company	-114 589	-104 769
Non-controlling interests	0	0
Other comprehensive income		
Items transferred to profit or loss		
Currency translation on foreign operations	40 054	1 740
Total comprehensive income	**-74 535**	**-103 029**
Attributable to:		
Shareholders of the parent company	-74 535	-103 029
Non-controlling interests	0	0

03

Consolidated Condensed Interim Statement of Financial Position

as at 31 March 2019

Statement of financial position	As at:		
(in PLN thousand)	31.03.2019	31.12.2018	31.03.2018
ASSETS			
Non-current assets	**5 320 512**	**2 417 752**	**2 043 844**
1. Fixed assets	1 861 889	1 818 316	1 480 127
2. Intangible assets	97 453	89 630	67 546
3. Right of usufruct	2 888 996	0	0
4. Goodwill	209 598	209 598	209 598
5. Trademark	77 508	77 508	77 508
6. Other financial assets	8 294	7 822	7 046
7. Deferred tax assets	173 620	164 277	152 226
8. Prepayments	3 154	50 601	49 793
Current assets	**2 750 171**	**2 963 056**	**2 163 819**
1. Inventory	1 370 024	1 590 368	1 402 901
2. Trade receivables	177 120	121 729	143 976
3. Income tax receivables	12 574	377	16 051
4. Other financial assets	131 572	134 827	54 911
5. Other non-financial assets	39 185	37 843	54 222
6. Prepayments	27 848	32 943	50 897
7. Cash and cash equivalents	991 848	1 044 969	440 861
TOTAL assets	8 070 683	5 380 808	4 207 663

Statement of financial position (in PLN thousand)	As at: 31.03.2019	31.12.2018	31.03.2018
EQUITY AND LIABILITIES			
Equity	**2 786 018**	**2 860 553**	**2 340 417**
1. Share capital	3 705	3 705	3 705
2. Treasury shares	-43 067	-43 067	-43 334
3. Share premium	278 591	278 591	277 631
4. Other reserves	2 252 122	2 251 623	1 823 978
5. Currency translation on foreign operations	-191 600	-231 654	-206 427
6. Retained earnings	486 267	601 355	484 864
- profit (loss) from previous years	600 856	96 179	589 633
- net profit (loss) for the current period	-114 589	505 176	-104 769
Non-controlling interest capital	**-15**	**-15**	**-15**
Long-term liabilities	**2 618 763**	**346 148**	**317 929**
1. Bank loans and borrowings	75 233	88 575	128 529
2. Lease liabilities	2 432 128	0	0
3. Employee liabilities	1 005	1 012	751
4. Deferred tax liabilities	311	686	26
5. Accruals	110 086	255 774	188 542
6. Other long-term liabilities	0	101	81
Short-term liabilities	**2 665 917**	**2 174 122**	**1 549 332**
1. Trade and other liabilities	1 517 978	1 497 511	1 296 303
2. Contract liabilities	19 923	23 140	0
3. Customer refund liabilities	28 701	36 731	0
4. Bank loans and borrowings	322 706	203 196	91 208
5. Lease liabilities	586 484	0	0
6. Employee liabilities	72 942	86 707	29 276
7. Income tax liabilities	78 930	234 434	47 151
8. Provisions	986	20 397	8 780
9. Accruals	37 267	72 006	76 614
TOTAL equity and liabilities	**8 070 683**	**5 380 808**	**4 207 663**

04

Consolidated Condensed Interim Cash Flow Statement

for 3 months ended 31 March 2019

Cash flow statement (in PLN thousand)	01.01-31.03.2019	01.01-31.03.2018
I. Pre-tax profit (loss)	-116 853	-103 187
II. Total adjustments	238 722	154 145
1. Amortisation and depreciation	232 376	84 449
2. Foreign exchange gains (losses)	-12 652	-8 125
3. Interest and dividends	8 109	1 244
4. Profit (loss) on investing activities	-3 919	-4 730
5. Income tax paid	-167 744	-14 687
6. Change in provisions and employee benefits	-39 955	-13 643
7. Change in inventories	232 421	69 393
8. Change in receivables and other assets	-97 585	44 314
9. Change in short-term liabilities, excluding bank loans and borrowings	99 166	-1 333
10. Change in prepayments and accruals	-9 317	-8 585
11. Other adjustments	-2 178	5 848
III. Net cash flows from operating activities	**121 869**	**50 958**
I. Inflows	168 277	129 672
1. Disposal of intangible and fixed assets	15 824	24 250
2. From financial assets, including:	412	422
a) in associates	0	0
b) in other entities	412	422
- repayment of loans	23	15
- interest and other inflows from financial assets	389	407
3. Other investing inflows (investment funds)	152 041	105 000
II. Outflows	291 934	275 687
1. Purchase of intangible and fixed assets	191 934	148 647
2. For financial assets, including:	0	40
a) in associates	0	0
b) in other entities	0	40
- loans granted	0	40
3. Other investing outflows (investment funds)	100 000	127 000

Cash flow statement (in PLN thousand)	01.01-31.03.2019	01.01-31.03.2018
III. Net cash flows from financing activities	**-123 657**	**-146 015**
I. Inflows	259 245	35 741
1. Proceeds from issuance of shares	0	0
2. Bank loans and borrowings	259 245	35 741
3. Other financial inflows	0	0
II. Outflows	316 206	15 931
1. Cost of maintenance of treasury shares	0	0
2. Dividends and other payments to owners	0	0
3. Repayment of bank loans and borrowings	158 948	14 388
4. Financial lease liabilities paid	131 632	0
5. Interest	25 626	1 543
6. Other financial outflows	0	0
III. Net cash flows from financing activities	**-56 961**	**19 810**
D. Total net cash flows	-58 749	-75 247
E. Balance sheet change in cash, including:	-53 121	-73 929
- change in cash due to foreign currency translation	5 628	1 318
F. Opening balance of cash	1 043 947	515 405
G. Closing balance of cash	985 198	440 158

05

Consolidated Condensed Interim Statement of Changes in Equity

for 3 months ended 31 March 2019

Statement of changes in equity (in PLN thousand)	Share capital	Treasury shares	Share premium	Other reserves	Comprehensive 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 2019	**3 705**	**-43 067**	**278 591**	**2 251 623**	**-231 654**	**601 355**	**0**	**2 860 553**	**-15**	**2 860 538**
Distribution of profit for 2018	0	0	0	499	0	-499	0	0	0	0
Transactions with owners	**0**	**0**	**0**	**499**	**0**	**-499**	**0**	**0**	**0**	**0**
Net loss for Q1 2019	0	0	0	0	0	0	-114 589	-114 589	0	-114 589
Currency translation on foreign operations	0	0	0	0	40 054	0	0	40 054	0	40 054
Balance as at 31 March 2019	**3 705**	**-43 067**	**278 591**	**2 252 122**	**-191 600**	**600 856**	**-114 589**	**2 786 018**	**-15**	**2 786 003**

Statement of changes in equity (in PLN thousand)	Share capital	Treasury shares	Share premium	Other reserves	Comprehensive 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**
Distribution of profit for 2017	0	0	0	525	0	-525	0	0	0	0
Transactions with owners	**0**	**0**	**0**	**525**	**0**	**-525**	**0**	**0**	**0**	**0**
Net loss for Q1 2018	0	0	0	0	0	0	-104 769	-104 769	0	-104 769
Currency translation on foreign operations	0	0	0	0	1 740	0	0	1 740	0	1 740
Balance as at 31 March 2018	**3 705**	**-43 334**	**277 631**	**1 823 978**	**-206 427**	**589 633**	**-104 769**	**2 340 417**	**-15**	**2 340 402**

06

Selected Separate Interim Financial Data

for 3 months ended 31 March 2019

Selected separate financial data	in PLN thousand		in EUR thousand	
	Cumulatively			
	2019	2018	2019	2018
	01.01 - 31.03	01.01 - 31.03	01.01 - 31.03	01.01 - 31.03
Revenues	1 512 737	1 342 685	351 979	321 340
Operating profit (loss)	-64 451	-48 218	-14 996	-11 540
Pre-tax profit (loss)	-70 960	-8 333	-16 511	-1 994
Net profit (loss)	-69 857	-14 902	-16 254	-3 566
Weighted average number of ordinary shares	1 833 483	1 833 445	1 833 483	1 833 445
Profit (loss) per ordinary share	-38.10	-8.13	-8.87	-1.95
Net cash flows from operating activities	-108 672	74 379	-25 285	17 801
Net cash flows from investing activities	-13 527	-85 785	-3 147	-20 531
Net cash flows from financing activities	115 852	19 798	26 956	4 738
Total net cash flows	-6 347	8 392	-1 477	2 008

Selected separate financial data	in PLN thousand		in EUR thousand	
	2019	2018	2019	2018
	31.03.2019	31.12.2018	31.03.2019	31.12.2018
Total assets	6 122 900	5 143 266	1 423 500	1 196 108
Long-term liabilities	960 446	237 490	223 292	55 230
Short-term liabilities	2 157 169	1 830 634	501 516	425 729
Equity	3 005 285	3 075 142	698 692	715 149
Share capital	3 705	3 705	861	862
Weighted average number of ordinary shares	1 833 483	1 833 483	1 833 483	1 833 483
Book value per share	1 639.11	1 677.21	381.07	390.05
Declared or paid dividend per share	60.00	40.00	13.95	9.30

07

Separate Condensed Interim Statement of Comprehensive Income

for 3 months ended 31 March 2019

Statement of comprehensive income (in PLN thousand)	2019	2018
	01.01 - 31.03	01.01 - 31.03
Continuing operations		
Revenue	1 512 737	1 342 685
Cost of goods sold	1 025 142	855 797
Gross profit (loss) on sales	**487 595**	**486 888**
Costs of stores and distribution	384 901	378 787
General costs	157 037	150 013
Other operating income	2 054	1 702
Other operating costs	12 162	8 008
Operating profit (loss)	**-64 451**	**-48 218**
Financial income	3 680	42 370
Financial costs	10 189	2 485
Pre-tax profit (loss)	**-70 960**	**-8 333**
Income tax	-1 103	6 569
Net profit (loss)	**-69 857**	**-14 902**
Total comprehensive income	-69 857	-14 902

08

Separate Condensed Interim Statement of Financial Position

as at 31 March 2019

Statement of financial position (in PLN thousand)	As at: 31.03.2019	 31.12.2018	 31.03.2018
ASSETS			
Non-current assets	**4 004 933**	**3 067 956**	**2 488 969**
1. Fixed assets	1 140 747	1 155 114	895 074
2. Intangible assets	94 281	86 349	64 608
3. Right of usufruct	951 610	0	0
4. Goodwill	179 618	179 618	179 618
5. Investments in subsidiaries	1 564 680	1 573 700	1 276 031
6. Other financial assets	1 630	1 711	1 949
7. Deferred tax assets	71 361	70 251	71 485
8. Prepayments	1 006	1 213	204
Current assets	**2 117 967**	**2 075 310**	**1 749 848**
1. Inventory	933 474	1 164 410	1 023 766
2. Trade receivables	397 901	114 525	393 145
3. Income tax receivables	6 747	0	9 584
4. Other financial assets	97 061	108 910	39 079
5. Other non-financial assets	1 898	15 334	17 517
6. Prepayments	16 752	7 278	16 334
7. Cash and cash equivalents	664 134	664 853	250 423
TOTAL assets	6 122 900	5 143 266	4 238 817

Statement of financial position (in PLN thousand)	As at: 31.03.2019	31.12.2018	31.03.2018
EQUITY AND LIABILITIES			
Equity	**3 005 285**	**3 075 142**	**2 532 500**
1. Share capital	3 705	3 705	3 705
2. Treasury shares	-43 067	-43 067	-43 334
3. Share premium	278 591	278 591	277 631
4. Other reserves	2 243 618	2 243 618	1 815 973
5. Retained earnings	522 438	592 295	478 525
- profit (loss) from previous years	592 295	0	493 427
- net profit (loss) for the current period	-69 857	592 295	-14 902
Long-term liabilities	**960 446**	**237 490**	**261 233**
1. Bank loans and borrowings	75 233	88 575	128 529
2. Lease liabilities	823 809	0	0
3. Employee liabilities	944	944	733
4. Accruals	60 460	147 873	131 890
5. Other long-term liabilities	0	98	81
Short-term liabilities	**2 157 169**	**1 830 634**	**1 445 084**
1. Trade and other liabilities	1 446 825	1 363 900	1 238 545
2. Lease liabilities	235 489	0	0
3. Contract liabilities	13 601	18 407	0
4. Customer refund liabilities	24 340	10 024	0
5. Income tax liabilities	78 663	218 354	45 905
6. Bank loans and borrowings	284 341	89 695	91 208
7. Employee liabilities	50 729	64 648	10 654
8. Provisions	0	17 900	5 442
9. Accruals	23 181	47 706	53 330
TOTAL equity and liabilities	**6 122 900**	**5 143 266**	**4 238 817**

09

Separate Condensed Interim Cash Flow Statement

for 3 months ended 31 March 2019

Cash flow statement (in PLN thousand)	01.01-31.03.2019	01.01-31.03.2018
I. Pre-tax profit (loss)	-70 960	-8 333
II. Total adjustments	-37 712	82 712
1. Amortisation and depreciation	101 142	44 869
2. Foreign exchange gains (losses)	-12 766	-8 133
3. Interest and dividends	8 033	-21 270
4. Profit (loss) on investing activities	-4 373	-4 948
5. Income tax paid	-146 483	-4 637
6. Change in provisions and employee benefits	-31 819	-17 802
7. Change in inventories	227 460	79 377
8. Change in receivables and other assets	-304 604	-57 759
9. Change in short-term liabilities, excluding bank loans and borrowings	133 825	72 198
10. Change in prepayments and accruals	-8 127	817
III. Net cash flows from operating activities	**-108 672**	**74 379**
I. Inflows	216 774	152 141
1. Disposal of intangible and fixed assets	12 991	24 208
2. From financial assets, including:	51 742	22 933
a) in associates	51 333	22 514
- dividends	0	22 514
- other (repayment of additional capital contributions)	51 333	0
b) in other entities	409	419
- repayment of loans	20	15
- interest and other inflows from financial assets	389	404
3. Other investing inflows	152 041	105 000
II. Outflows	230 301	237 926
1. Purchase of intangible and fixed assets	87 987	106 044
2. For financial assets, including:	42 314	4 882
a) in associates	42 314	4 842
- purchase of shares	42 314	4 842
b) in other entities	0	40
- loans granted	0	40
3. Other investing outflows	100 000	127 000

Cash flow statement (in PLN thousand)	01.01-31.03.2019	01.01-31.03.2018
III. Net cash flows from investing activities	**-13 527**	**-85 785**
I. Inflows	190 229	35 730
1. Proceeds from issuance of shares	0	0
2. Bank loans and borrowings	190 229	35 730
3. Other inflows from financing activities	0	0
II. Outflows	74 377	15 932
1. Cost of maintenance of treasury shares	0	0
2. Dividends and other payments to owners	0	0
3. Repayment of bank loans and borrowings	9 206	14 388
4. Financial lease liabilities paid	57 030	0
5. Interest	8 141	1 544
6. Other outflows from financing activities	0	0
III. Net cash flows from financing activities	**115 852**	**19 798**
D. Total net cash flows	-6 347	8 392
E. Balance sheet change in cash, including:	-719	9 710
- change in cash due to foreign currency translation	5 628	1 318
F. Opening balance of cash	663 831	241 327
G. Closing balance of cash	657 484	249 719

10

Separate Condensed Interim Statement of Changes in Equity

for 3 months ended 31 March 2019

Statement of changes in equity (in PLN thousand)	Share capital	Treasury shares	Share premium	Other reserves	Profit (loss) from previous years	Profit (loss) for the current period	TOTAL equity
Balance as at 1 January 2019	**3 705**	**-43 067**	**278 591**	**2 243 618**	**592 295**	**0**	**3 075 142**
Net loss for Q1 2019	0	0	0	0	0	-69 857	-69 857
Balance as at 31 March 2019	**3 705**	**-43 067**	**278 591**	**2 243 618**	**592 295**	**-69 857**	**3 005 285**

Statement of changes in equity (in PLN thousand)	Share capital	Treasury shares	Share premium	Other reserves	Profit (loss) from previous years	Profit (loss) for the current period	TOTAL equity
Balance as at 1 January 2018	**3 705**	**-43 334**	**277 631**	**1 815 973**	**493 427**	**0**	**2 547 402**
Net loss for Q1 2018	0	0	0	0	0	-14 902	-14 902
Balance as at 31 March 2018	**3 705**	**-43 334**	**277 631**	**1 815 973**	**493 427**	**-14 902**	**2 532 500**

11

Additional Information on the Consolidated Condensed Interim Financial Statements

1. Overview of the LPP SA Capital Group

The LPP SA Capital Group (further referred to as the "Capital Group", "Group", "CG") is composed of LPP SA ("Parent Company", "Company") and its subsidiaries.

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.

During 3 months ended 31 March 2019, there were changes in the composition of the Group as compared to 31 December 2018 due to the establishment of OOO LPP BLR, a new subsidiary with its registered office in Minsk.

The said company will handle the distribution of goods in Belarus.

2. Basis for preparation of the consolidated condensed interim financial statements and information on changes in applied accounting principles

These consolidated condensed interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34"), approved by the European Union.

The consolidated condensed interim financial statements do not contain all the information and disclosures required in the annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2018, approved for publishing on 10 April 2019.

The currency of these consolidated condensed interim financial statements is Polish Zloty and, unless provided otherwise, all amounts are expressed in PLN thousand.

In the periods covered by these consolidated condensed financial statements, the following PLN/EUR exchange rates fixed by the National Bank of Poland were applied to convert selected financial data:

- exchange rate as at the last day of the reporting period: 30.09.2019 - PLN/EUR 4.3013, 31.12.2018 – PLN/EUR 4.3000,

- average exchange rate for the period, calculated as an arithmetic average of the rates as at the last day of each month in a given period: 01.01-31.03.2019 - PLN/EUR 4.2978, 01.01.-31.03.2018 - PLN/EUR 4.1784.

These consolidated condensed interim financial statements were prepared based on the assumption that the Group companies subject to consolidation will remain a going concern in a foreseeable future. As at the date of approval of these consolidated condensed financial statements for publishing, there were no circumstances that could pose a threat to the continued operations of these companies.

The accounting policy applied for preparing these financial statements complies in all material respects with the accounting policy adopted for preparing the annual consolidated financial statements of the LPP SA Capital Group for the financial year 2018, in accordance with International Financial Reporting Standards.

In 2019, the Group made several changes in presenting data in the financial statements.

- Change in presentation of receivables from payment card providers

Since January 2019, receivables arising from card payments are shown by the Group in "other financial assets".

Previously, the Group presented the said receivables in "trade receivables".

Data for 2018 and as at 31 March 2018 were transformed, with values given in the table below.

- Change in presentation of inventory surpluses and shortages

Since January 2019, inventory surpluses and shortages are presented in a single item, in a net amount, in the operating part of the statement of comprehensive income, and not separately for assets and liabilities as before, in other operating income and costs.

Data as at 31 March 2018 were transformed, with values given in the table below.

In 2019, there was also a change in the presentation of operating costs. The previous division in to selling and general costs was replaced with (1) costs of sales and distribution and (2) general costs.

The costs of sales and distribution comprise the costs of store operation and store logistics as well as the costs of online store operation (e-commerce) together with logistics. General costs include the costs of marketing, product and sales departments as well as back-office costs.

Following the implementation of changes in presentation, adjustments given below were made in financial data as at 31 December 2018:

Changes during 12 months of 2018	Value in PLN thousand	Data approved	Data transformed
Receivables from payment card providers	34 523	Trade receivables	Other financial assets

Changes were made also as at 31 March 2018:

Changes during 3 months of 2018	Value in PLN thousand	Data approved	Data transformed
Receivables from payment card providers	31 203	Trade receivables	Other financial assets
Inventory surpluses	3 889	Other operating income	Other operating costs

3. Achievements of the LPP SA Capital Group in the reporting period

Key achievements of the Capital Group in Q1 2019

1. Number of stores and retail space

At the end of Q1 2019, the LPP SA CG had 1 724 stores in 24 countries, of a total area of 1 085.4 thousand m2. The CG had 804 stores abroad (571.5 thousand square metres). Compared to Q1 2018, the total retail space increased by 8.4%.

In Q1 2019, the largest nominal increase in space compared to Q1 2018 was recorded by the Reserved brand (48.6 thousand m2). The growth dynamics was the highest in the Sinsay brand (25.0% y/y).

As at 31 March 2019	Number of stores	Change y/y	Q1 2019	Q1 2018	Change y/y
			Area in thousand m2	Area in thousand m2	
Reserved	451	-7	609.7	561.0	8.7%
Cropp	365	-12	134.3	127.7	5.2%
House	320	-12	115.0	110.9	3.8%
Mohito	289	-2	108.1	103.4	4.5%
Sinsay	274	38	107.3	85.8	25.0%
Outlet	25	-9	11.0	12.1	-8.6%
Total LPP CG	**1 724**	**-4**	**1 085.4**	**1 000.9**	**8.4%**

2. Sales broken down by brand

In Q1 2019, the highest nominal sales growth was generated by Reserved. This result has been achieved by the brand owing to collections highly recognised by customers and the consistent development of retail space (opening of new brand stores, including new markets such as Kazakhstan, Slovenia, Bosnia and Hercegovina and Israel).

The highest sales dynamics in Q1 2019 were yielded by Sinsay owing to a successful collection and the dynamic development of retail space, and House owing to continued improvement of the said brand's collection y/y. The Mohito brand recorded an increase in sales y/y owing to the improved 2019 Spring/Summer collection.

Two brands, i.e. Reserved and Cropp, generated in Q1 2019 more revenue abroad than in Poland.

Sales in retail stores of specific brands and online, generated in Q1 2019, are given in tables below.

	in PLN mln		
	Sales in Q1 2019	Sales in Q1 2018	Change y/y
Reserved	813	728	11.8%
Cropp	233	210	11.0%
House	204	170	20.0%
Mohito	179	162	10.5%
Sinsay	186	142	31.0%
E-commerce	192	131	46.8%
Other	20	38	-47.5%
Total	**1 828**	**1 580**	**15.7%**

3. Sales in LFL stores

Sales revenues in LFL stores (in local currencies) in Q1 2019 increased by 11.4%, remaining positive in each month of the first quarter. In Q1, positive LFL performance was recorded by all our brands. In the reporting period, the highest (two-digit) LFL performance was reached in Latvia, Romania, Ukraine and Russia. Positive LFL levels were reached also in Western Europe (both in Great Britain and Germany).

4. Online sales

In Q1 2019, the LPP SA CG gained revenue of PLN 192 million from online sales, i.e. 46.8% more than a year ago. A two-digit growth in online sales was gained owing to the development of e-stores outside Poland, marketing expenditures (cooperation with female bloggers and influencers) and changes in customers' habits in Poland (stores closed on specific Sundays). In Q1 2019, revenue from online stores constituted 10.5% of the Capital Group's sales and 12.0% of domestic revenue. Approx. 58% of online sales were generated domestically.

	Q1 2019	Q1 2018	Change y/y (%)
Sales in PLN mln	192.2	130.9	46.8%

5. Sales revenues broken down by country and region

In Q1 2019, the LPP CG recorded dynamic sales growths in the Middle East and Europe. The sales growth in the Middle East resulted from a successful debut on the Israeli market in Q3 2018, while in Europe the sales increase stemmed from high dynamics in CEE and SEE countries. Dynamic sales growths were generated by the Group also in CIS countries owing to sales growths in all countries of the said region and the impact of a new market (Kazakhstan).

In Q1 2019, the highest nominal growth in revenues y/y was recorded in Poland and Russia.

Sales revenues generated by the Group companies operating in individual countries and regions are given in tables below (excluding intra-Group sales).

Country	Revenues Q1 2019	Revenues Q1 2018	Change y/y (%)
Poland	922 278	867 236	6.3%
Czech Republic	90 162	79 173	13.9%
Slovakia	57 164	46 514	22.9%
Hungary	47 900	31 830	50.5%
Lithuania	25 895	24 234	6.9%
Latvia	21 447	18 756	14.3%
Estonia	28 490	24 275	17.4%
Russia	321 580	278 962	15.3%
Ukraine	86 254	59 401	45.2%
Belarus*	4 831	3 649	32.4%
Kazakhstan	7 447	0	100.0%
Bulgaria	19 095	14 632	30.5%
Romania	72 543	46 158	57.2%
Croatia	23 643	15 162	55.9%
Serbia	11 598	2 734	324.2%
Slovenia	1 556	0	100.0%
Bosnia and Hercegovina	566	0	100.0%
Germany	67 655	54 351	24.5%
Great Britain	10 544	9 079	16.1%
Middle East*	7 033	4 204	67.3%
Total	**1 827 680**	**1 580 352**	**15.7%**

	Revenues Q1 2019	Revenues Q1 2018	Change y/y (%)
Poland	922 278	867 236	6.3%
Other European countries	478 258	366 899	30.4%
Russia, Ukraine, Belarus*, Kazakhstan	420 112	342 012	22.8%
Middle East*	7 033	4 204	67.3%
Total	**1 827 680**	**1 580 352**	**15.7%**

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

6. Retail sales per m2

In Q1 2019, retail sales (in traditional stores) per m2 of the LPP CG (with this indicator calculated as sales in own retails stores divided by an average number of meters operating in a given period) decreased by 2.1% compared to the preceding year.

	Q1 2019	Q1 2018	Change y/y (%)
Retail sales m2/month in PLN	510	521	-2.1%

7. Operating costs

The operating costs of the LPP Capital Group include the costs of own stores and franchise stores in Poland as well as distribution and general costs. The costs of own stores comprise rent, payroll and other costs, while distribution costs include the costs of logistics and e-commerce. General costs comprise the costs of marketing, back-office as well as sales and products departments.

In Q1 2019, the Capital Group recorded an increase in operating costs by 6.5% mainly due to the increased costs of logistics, e-commerce and marketing.

	Q1 2019 (IFRS 16)	Q1 2018 (IAS 17)	Change y/y (%)
Operating costs (in PLN mln)	874	821	6.5%
Operating costs per m2/month	274	279	-1.8%

8. Capital expenditures

In Q1 2019, capital expenditures (CAPEX) amounted to PLN 192.0 mln, being higher than in Q3 2018 by 29.2% due to the costs of development of the sales network abroad as well as the expansion of the logistics centre in Pruszcz Gdański and offices in Gdańsk and Cracow.

9. Inventory per m2

The inventory level and its optimisation are important elements of working capital management – it is important to observe inventory per m2 over time. The Group's inventory consists of goods in stores, warehoused goods and merchandise in transit - from the manufacturer to a logistics centre. The CG strives at minimising inventory and, at the same time, maintaining a sufficient product volume to maximise sales. In Q1 2019, the inventory level per m2 was lower by 10.0% compared to Q1 2018 owing to the development of retail space and more effective inventory management. The Company's long-term goal was equalling trade liabilities with inventories. This goal was attained in Q3 2018.

	31.03.2019	31.03.2018	Change y/y (%)
Inventory (in PLN mln)	1 370	1 403	-2.3%
Inventory per m2 in PLN	1 277	1 419	-10.0%

10. Debt

LPP has credit lines in 7 banks in the total amount of PLN 1.36 billion, utilised for bank guarantees, letters of credit for trade financing or as a revolving loan. At the end of Q1 2019, LPP utilised specific credit line products as follows: PLN 104.6 mln, PLN 463.5 mln, PLN 228.3 mln respectively. At the same time, two subsidiaries, i.e. the Russian and Ukrainian companies, utilise credit lines extended by local banks, which, at the end of Q1 2019, were utilised as follows: PLN 29.9 mln and PLN 8.5 mln respectively.

Additionally, the Group uses a supplier financing programme (reversed factoring). At the end of Q1 2019, the limit was utilised in the amount of PLN 910 mln.

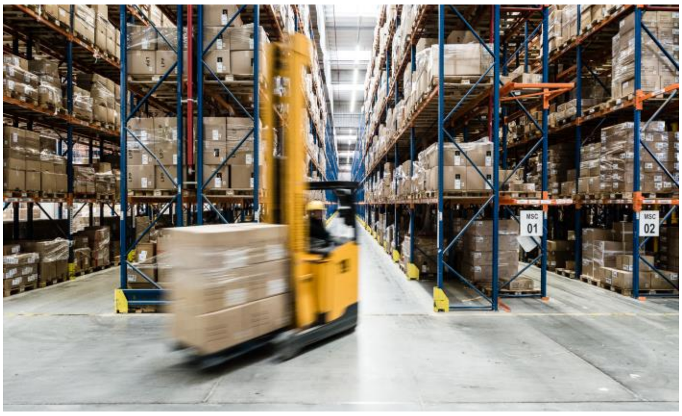
Furthermore, the Group has a debt arising from investment credit facilities extended to finance the expansion of the logistics centre and the head office in Gdańsk, with the said credit facilities totalling PLN 130.7 mln at the end of Q1 2019.

Due to the seasonality of sales, LPP increases the financing of purchases with a bank loan in the first and third quarter to finance inventories and reduces lending in the second and fourth quarters, during periods of regular sales. The Company strives at minimising the level of debt to maintain financial security. At the end of Q1 2019, the Group held cash of PLN 992 mln, showing net cash of PLN 594 compared to PLN 221 mln year ago. The following tables show the level of net debt (cash) in PLN thousand and the utilisation of loans as at 31 March 2019.

	Q1 2019 (IAS 17)	Q1 2018 (IAS 17)	Change y/y (%)
Short-term loans	322 706	91 208	253.8%
Long-term loans	75 233	128 529	-41.5%
Cash	991 848	440 861	125.0%
Net debt (net cash)	**-593 909**	**-221 124**	**168.6%**

Bank (in PLN thousand)	Bank loan utilisation as at 31 March 2019		Bank loan utilisation as at 31 December 2018	
	in PLN thousand	currency in thousands	in PLN thousand	currency in thousands
PKO BP SA	81 111	-	84 611	-
PKO BP SA	30 562	-	33 862	-
PKO BP SA	111 714	-	0	-
Pekao SA	19 013	-	20 762	-
Pekao SA	5 769	-	0	-
Citibank Bank Handlowy	13	-	14	-
Raiffeisen Bank Polska SA	34 521	-	23 613	-
BGŻ BNP Paribas Bank Polska SA	76 870	-	15 408	-
Ukrsibbank	8 466	UAH 60 000	15 551	UAH 114 600
Citibank Russia	29 900	RUB 504 208	97 950	RUB 1 810 532
Total	**397 939**		**291 771**	

Other major events in Q1 2019 and in the period preceding publication of this report



JANUARY 2019

INCREASE IN THE E-COMMERCE WAREHOUSE SPACE IN STRYKÓW

Owing to the development of e-commerce, we increased warehouse space for e-commerce in Poland to 46 400 m2.

MARCH/APRIL 2019

EXPANSION IN BOSNIA AND HERCEGOVINA

We opened 5 brand stores on the 24th market, i.e. in Bosnia and Hercegovina, of the total area of 5 500 m2.

MARCH/APRIL 2019

E-COMMERCE IN CROATIA

We opened online stores of our 5 brands in Croatia, thus increasing our online presence to 12 markets.

MAY 2019

DISTRIBUTION CENTRE IN SLOVAKIA DEDICATED TO ONLINE SALES

We concluded an agreement for the rental of warehouse space in Slovakia (25 400 m2), dedicated to online sales.

4. Factors and events, including those of extraordinary nature, significantly affecting condensed financial statements

In Q1 2019, sales revenues increased by 15.7% compared to the same period of the preceding year, mainly owing to very good sales in both channels, i.e. in traditional stores (specifically Sinsay and Reserved) and online stores. The sales increase in traditional stores resulted from the increase in retail space by 8.4% y/y. The increased online sales were a consequence of increased operations abroad and marketing expenditures. In Q1 2019, despite high appreciation of spring/summer collections, a sales margin decreased by 1.7 p.p., i.e. to 43.4% (compared to 45.1% a year ago), due to increased clearance sales in January and February and the impact of USD.

In Q1 2019, operating costs increased by 6.5%, with such increase being lower than the sales growth owing to the positive effect of operating leverage. In Q1 2019, due to the application of IFRS 16, the impact of the Capital Group's financing operations was less advantageous. Consequently, in the quarter that is least advantageous in terms of sales seasons, the LPP CG recorded a net loss of PLN 114.6 mln, compared to the loss of PLN 104.8 mln a year ago.

Basic figures reflecting the Group's performance and margins gained in Q1 are given in tables below.

	Q1 2019 (IFRS 16)	Q1 2018 (IAS 17)	Change y/y (%)	Q1 2019 (IAS 17)
Revenues	1 827 680	1 580 352	15.7%	1 827 680
Gross sales profit	792 957	712 833	11.2%	792 957
Costs of stores and distribution and general costs	874 046	820 455	6.5%	882 718
EBITDA	132 152	-33 283	-497.1%	-7 972
Operating profit (loss)	-100 224	-117 732	-14.9%	-108 896
Net profit (loss)	-114 589	-104 769	9.4%	-131 382

Margin (%)	Q1 2019	Q1 2018	Change y/y (p.p.)
Gross sales margin	43.4%	45.1%	-1.7
EBITDA	7.2%	-2.1%	-
Operating	-5.5%	-7.4%	2.0
Net	-6.3%	-6.6%	0.4

5. Explanations of the seasonal or cyclical nature of the LPP SA Capital Group's operations in the reporting period

The seasonal nature of sales is a feature of the entire clothing market both in Poland and abroad. The first quarter of a calendar year covers two months (January and February), during which, traditionally, the clearance sales of the AW collection are organised. Usually, this process results in attaining a lower margin compared to the average yearly gross margin on sales in the entire quarter.

6. Information on revaluation write-offs on inventories to a net realisable value and their reversal

Detailed information is provided for in Note 35.2.

7. Information on impairment losses on financial assets, fixed and intangible assets or other assets and their reversal

Detailed information is provided for in Note 35.2.

8. Information on the creation, increase, utilisation and reversal of provisions

Relevant information is provided for in Note 35.6.

9. Information on deferred income tax assets and liabilities

Detailed information is provided for in Note 35.8.

10. Information on material transactions involving the purchase and sale of tangible fixed assets

In the reporting period, there were no such events.

11. Information on material liabilities arising from the purchase of tangible fixed assets

In the reporting period, there were no such events.

12. Information on material litigation-related settlements

In the reporting period, there were no such events.

13. Specification of adjusted errors from previous periods

In the reporting period, there were no such events.

14. Information on changes in economic and business conditions substantially affecting the fair value of the Company's financial assets and liabilities

In the reporting period, there were no such events.

15. Information on non-repayment of loans or borrowings or a breach of any material provisions of credit facility or loan agreements

In the reporting period, there were no such events.

16. Information on one or more transactions effected by the Issuer or its subsidiary with associates if executed on terms other than at arm's length basis, with a specification of their value

In the reporting period, there were no such events.

17. For financial instruments measured at fair value – information on the change of the method of determining such value

Not applicable.

18. Information on changes in the classification of financial assets due to their changed purpose or utilisation

Not applicable.

19. Division into operating segments – revenues and results by segment

The LPP SA Capital Group is involved in one type of business activity (one trade segment regarded as the core one). A division into two geographical segments was applied: activity within and outside the European Union. The division into geographical segments was based on the criterion of location of the Group's assets.

Revenue and results attributable to specific segments in Q1 2019 and for the comparable period are presented in Note 35.10.

20. Information on the issuance, redemption and repayment of debt and equity securities

In Q1 2019, the Issuer neither issued nor redeemed or repaid any debt or equity securities.

21. Information on the dividend paid (or declared), in total and per share, broken down by ordinary and other shares

On 25 March 2019, the Management Board of LPP SA decided to submit a motion to the Supervisory Board and the General Meeting of Shareholders on the distribution of the Company's net profit earned in the financial year ended 31 December 2018, recommending payment of a dividend of PLN 110 065 020, i.e. PLN 60 per eligible share. The dividend date was set for 18 June 2019, and the dividend payment date was set for 27 June 2019.

22. Date of approval of the financial statements for publishing

These financial statements were approved for publishing by the Management Board of the Parent Company on 27 May 2019.

23. Events occurring after the balance sheet date, not disclosed in the financial statements, which may significantly affect future financial results of the LPP SA Capital Group

There were no such events.

24. Changes in the LPP Capital Group's structure, including those resulting from mergers, gaining or losing control over subsidiaries or long-term investments as well as from division, restructuring or discontinuation of operations

There were no such events.

25. Changes in contingent liabilities or assets, subsequent to the end of the previous financial year

In Q1 2019, the companies of the LPP SA Capital Group utilised bank guarantees to secure payment of rent for the leased space for brand stores, offices and a warehouse.

As at 31 March 2019, the total value of bank guarantees granted upon request and under responsibility of LPP SA amounted to PLN 258 122 thousand, allocated as follows.

PLN 81 654 thousand	guarantees granted to secure agreements concluded by LPP SA
PLN 165 865 thousand	guarantees granted to secure agreements concluded by consolidated associates
PLN 10 603 thousand	guarantees granted to secure lease agreements concluded by LPP SA for warehouse and office space

In Q1 2019, the Company also received guarantees. These guarantees secured payments by a contracting party, and their value as at 31 March 2019 amounted to PLN 9 856 thousand.

In the reporting period, the Parent Company provided guarantees. As at 31 March 2019, their value amounted to PLN 122 800 thousand and decreased compared to 31 December 2018 by PLN 3 223 thousand.

26. Estimates concerning future liabilities under lease agreements concluded

The Group companies are parties to lease agreements under which they use retail premises for operating Reserved, Cropp, House, Mohito and Sinsay brand stores.

On 1 January 2019, the Group implemented IFRS 16, under which it recognised in the statement of financial position an asset deriving from the right of usufruct and a lease liability in respect of lease agreements for retail and office space and cars, with a period of validity exceeding 12 months, unless the value of an underlying asset was low.

As at 31 December 2018, the minimum future payments under irrevocable lease agreements amounted to PLN 4 445 813 thousand PLN and are shown in the table below.

PLN 966 586 thousand	payables maturing within 12 months after the balance sheet date
PLN 2 563 001 thousand	payables maturing in the period from 12 months to 5 years after the balance sheet date
PLN 916 226 thousand	payables maturing within more than 5 years after the balance sheet date

The said disclosure was made in accordance with IAS 17 *Lease*.

The reconciliation of values between lease liabilities calculated under IAS 17 and IFRS 16, shown in section 7 above, is given below.

(in PLN thousand)	31 December 2018
Value of the minimum lease fees under IAS 17	**4 445 813**
Reasons for a change in value under IFRS 16	
Agreements not valued under IFRS 16*	(1 206 340)
Agreements valued under IFRS 16, which previously were not valued under IAS 17**	4 000
Discount	(193 473)
Value of liability under IFRS 16	**3 050 000**

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

27. Position of the Management Board on the feasibility of forecasts of annual consolidated results

The Company published no annual result forecasts.

28. Shareholders holding directly or indirectly, through subsidiaries, at least 5% of the total number of votes at the General Meeting of Shareholders of LPP SA as at the date of report submission, along with the number of shares held by those entities, their percentage share in the share capital, the number of votes attached, and their percentage share in total votes at the General Meeting of Shareholders, and changes in the structure of major shareholdings in LPP SA following submission of the previous periodical report

The shareholding structure of the Parent Company as at the date of submission of the report for Q1 2019 is given in the table below.

Shareholder	Number of shares held	Share in the share capital	Number of votes at the GM	Share in total votes at the GM
Semper Simul Foundation*	319 208	17.2%	1 019 208	31.5%
Sky Foundation**	226 338	12.2%	926 338	28.6%
Treasury shares***	18 006	1.0%	0	0.0%
Other shareholders	1 288 871	69.6%	1 288 871	39.8%
Total	**1 852 423**	**100.0%**	**3 234 417**	**100.0%**

*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) MAR and Article 4(15) of the Public Offering Act).

*** Voting rights at the GM, attached to 18 006 shares, may not be exercised as these are treasury shares of LPP SA.

In the period following submission of the previous periodical report (the one for 2018), there was a change in the ownership of major shareholdings, relating to treasury shares. Due to the implementation of an incentive programme, eligible persons were given 855 treasury shares. Consequently, the number of treasury shares decreased by 855 shares, from 18 861 to 18 006, while the number of shares held by “other shareholders” increased with the said number.

29. Structure of shareholdings in LPP SA or rights attached to shares, held by the Issuer’s management and supervisory officers as at the date of submission of a quarterly report, including changes in the shareholding structure following submission of the previous periodical report, broken down by person

The shareholdings in LPP SA, owned by key management and supervisory officers, as at the date of submission of the report for Q1 2019, are given in the table below.

Shareholder	Number of shares held	Number of votes at the GM
Marek Piechocki – President of the Management Board	342	342
Przemysław Lutkiewicz - Vice-President of the Management Board	220	220
Jacek Kujawa - Vice-President of the Management Board	363	363
Sławomir Łoboda - Vice-President of the Management Board	312	312
Jerzy Lubianiec – Chairman of the Supervisory Board*	226 338	926 338
Piotr Piechocki – Member of the Supervisory Board	14	14
Antoni Tymiński – Member of the Supervisory Board	11	11

* shares held indirectly through a subsidiary

After submission of the last periodical report (the one for 2018), there were changes in the ownership structure of LPP SA shares held by members of the Issuer's Management and Supervisory Boards. These changes involved an increase in the number of shares held by key management officers. Due to the implementation of the incentive programme, eligible persons, i.e. Management Board members, were awarded 855 treasury shares in total (184 shares awarded to each Vice-President of the Management Board and 303 shares awarded to the President of the Management Board).

30. Significant proceedings pending before courts and arbitration or public administration authorities in respect of liabilities or receivables of the Issuer or its subsidiary, with the specification of the subject matter of the proceedings, value of the object in dispute, date of commencement of the proceedings, parties thereto and the Issuer's standpoint

Due to the tax audit procedure carried out since 2015 by the Customs and Fiscal Office for the Pomeranian voivodeship in Gdynia (of which we informed in previous 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 than 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 been incurring expenses connected with sub-licenses for the use of trademarks contributed in kind to a subsidiary with its registered office in Cyprus (Gothals LTD). According to the decision appealed, the above resulted in the overestimation by the Company of revenue-earning costs for 2012 and served as the basis for determining an additional tax liability for the said period by the auditing authority, in the amount of PLN 16 391 thousand, with due interest.

Having analysed settlements related to licence fees for the use of trademarks, referred to above, the Company created, as at 31 March 2019, a provision for potential tax risks, in the total amount of PLN 78 663 thousand.

By the date of publishing the enclosed financial statements, there were no events occurring after the balance sheet date and requiring to be additionally disclosed.

31. Transactions with associates

31.1. Key management officers

The Group recognises members of the Management and Supervisory Boards as key management officers of the Parent Company.

The value of short-term benefits of members of the Management Board of the Parent Company, received between 1 January and 31 March 2019, amounted to PLN 1 814 thousand.

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

First name and surname (in PLN thousand)	Position	31 March 2019	31 March 2018
Marek Piechocki	President of the Management Board	644	858
Przemysław Lutkiewicz	Vice-President of the Management Board	390	520
Jacek Kujawa	Vice-President of the Management Board	390	520
Sławomir Łoboda	Vice-President of the Management Board	390	520

The value of short-term benefits of members of the Supervisory Board of the Parent Company, received between 1 January and 31 March 2019, amounted to PLN 65 thousand.

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

First name and surname (in PLN thousand)	Position	31 March 2019	31 March 2018
Jerzy Lubianiec	Chairman of the Supervisory Board	30	0
Wojciech Olejniczak	Member of the Supervisory Board	7	7
Piotr Piechocki	Member of the Supervisory Board	7	10,5
Magdalena Sekuła	Member of the Supervisory Board	7	10,5
Antoni Tymiński	Member of the Supervisory Board	7	10,5
Miłosz Wiśniewski	Member of the Supervisory Board	7	10,5

32. Information on the granting by the issuer or its subsidiary of credit or loan sureties or guarantees – jointly to a single entity or its subsidiary if the total value of existing sureties or guarantees is significant

In the reporting period, neither the Issuer nor any of its subsidiaries granted any substantial credit or loan sureties or guarantees to a single entity or its subsidiary.

Detailed information on conditional liabilities are provided in section 25 hereof.

33. Other information which may significantly affect the evaluation of the staffing, property and financial standing and the financial result of the LPP SA Capital Group as well as information relevant for evaluating the capacity of the Issuer's Capital Group to perform its liabilities

This report contains basic information essential for evaluating the standing of the Issuer's Capital Group. In the opinion of the Management Board, currently, the performance of the Capital Group's liabilities remains unthreatened.

34. Factors which, according to LPP SA, will affect results gained by its Capital Group within at least the next quarter

The Group's goal for 2019 is to continue two-digit sales growths (owing to the development of retail space, positive LFL dynamics, e-commerce development), attaining a margin of 53-54%, control of operating costs and maintenance of net cash. Basic factors affecting results to be achieved by the LPP SA CG are as follows:

a) Attractiveness of collections

The attractiveness of collections of specific brands and their high appreciation by customers will decisively affect the results of the LPP Group. Therefore, LPP designers focus on fashion-related issues. Each brand has a separate design team following fashion trends in the brand's group of end customers, who take part in exhibitions and events all over the world and follow trends online (also in social media) and street fashion in the hottest fashion capitals, i.e. in Paris, New York, Seul, Tokio. Inspirations found and worldwide trends are given attention in the process of creating our collection.

b) PLN/USD, PLN/EUR and PLN/RUB exchange rates

Due to the fact that less than a half of the Group's revenues are denominated in foreign currencies (with costs of purchases of goods being denominated in approx. 90% in USD, and SG&A in approx. 60% in EUR), the USD/PLN and EUR/PLN exchange rates will affect the Group's results. USD exposure is related to the venue of manufacturing and purchasing goods (mainly Asian countries), while EUR exposure is related to payments of rent in brand stores. Considering the fact that Russia is responsible for approx. 18% of the CG's sales, the Company is substantially exposed to Russian rubble.

The CG reports its financial results in PLN. Consequently, the strengthening of PLN versus USD and EUR positively affects our margins, while the weakening of PLN versus key currencies decreases the Group's profitability.

c) Economic and political situation in Poland and countries where the stores of the LPP SA CG are operated

The economic situation in countries where we sell our products is 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.

d) Tightening of the Sunday trading ban

Gradual introduction, from March 2018, of a Sunday trading ban in Poland may affect the CG's domestic sales revenues. In the first year, the law permitted trading on the first and last Sunday each month, during the second (current) 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). In 2017, the Sunday share in domestic sales was 18%, and last year - 12%.

e) Turnover tax to be charged on large stores

Results generated by the Company may be affected by turnover tax to be charged on large stores in Poland. Initially, the said tax was to be implemented in September 2016, however, it was suspended upon initiation by the European Commission (EC) of the procedure involving a violation by Poland of EU law due to its introduction. After a relevant judgment becomes final and following introduction of the said tax in Poland, the Company will incur additional costs affecting the Group's financial result.

f) Control of operating costs (SG&A)

In the nearest future, the control of operating costs will affect the Group's financial results. The operating costs of the Capital Group include the costs of own stores and franchise stores in Poland as well as distribution and general costs. The costs of own stores comprise rent, payroll and other costs, while distribution costs include the costs of logistics and e-commerce. General costs comprise the costs of marketing, back-office as well as sales and products departments.

g) Development of the chain of traditional stores

Our goal is to develop the chain of traditional stores of all our brands, with simultaneous optimisation of retail space (closing of unprofitable stores and expanding profitable ones). We plan to accelerate growths in Europe, specifically in South-East Europe, continue our development in the CIS region and open new brand stores in the Middle East (in Israel). Owing to the launching of our operations on new markets, i.e. Finland and Bosnia and Hercegovina, at the end of 2019, we will be present in 25 countries. In 2019, we plan to increase our retail space by approx. 12.4% y/y, i.e. by approx. 135.6 thousand m2.

h) Dynamic e-commerce development

Adjusting to the current tendency involving increasing popularity of online shopping, we take actions aimed at further development of this sales channel by launching own e-stores. Owing to the above, we have direct access to customers and control the goods, without any intermediaries. In the second half of 2019, we plan to launch an e-store for all EU countries and in Ukraine. We envisage that, following actions related to the development of online stores, in 2019, the Group will exceed PLN 1 bln of revenue from the said sales channel.

i) Logistics development

The development of the sales network (both traditional and online stores) entails the development of logistics. The lease of warehouse space in Romania (22 thousand m2) and Slovenia (25.4 thousand m2), dedicated to e-commerce, will make it possible for us to reach our online sales goals, while the construction of a distribution centre in Brześć Kujawski will enable us to attain sales goals in traditional stores.

j) Omnichannel

The development of the omnichannel system will affect results generated by the Group. Owing to the omnichannel system, a customer will be able to freely purchase goods in both channels, with both sales channels permeating. Traditional stores support online sales and, therefore, it is necessary to invest in modern stores encouraging customers to pay a visit. Building the omnichannel system, the CG invests in the development of modern stores, logistics and state-of-the-art technology.

k) RFID

The implementation of the RFID (radio-frequency identification) technology will enable us to manage, in a very precise way, the supply chain in terms of inventory and product availability at each of its stages. Having invested in the RFID technology, we will be able to identify products quickly and precisely, accept deliveries quicker, shorten the time for registering goods at the cashier's desk and, in the nearest future, deliver online purchases from traditional stores. All these elements will affect the results gained by the Group. In 2019, we plan to take actions aimed at implementing RFID in the Reserved brand and, since 2020, in the remaining brands.

l) CAPEX

The Group's results will be affected by replacement investments. Capital expenditures planned in 2019 will amount to approx. PLN 870 mln, comprising the following expenditures: stores - PLN 680 mln, head offices - PLN 100 mln, logistics - PLN 30 mln and IT - 50 mln PLN.

35. Explanatory notes to the consolidated condensed interim financial statements

35.1. Lease

On 1 January 2019, the Group implemented IFRS 16, applying a modified retrospective method, i.e. without modification of previous years.

As at 1 January 2019, the value of the right of usufruct amounted to PLN 2 931 611 thousand, while the lease liability amounted to PLN 3 050 000 thousand.

The Group applied the following simplifications:

1. application of a single discount rate for assets of similar nature;
2. no valuation of short-term agreements in cases where an agreement is concluded for a period shorter than 12 months;
3. no valuation of low-value assets.

As at 31 March 2019 and as at 1 January 2019, the implementation of IFRS 16 had the following impact on the Group's statement of financial position and statement of comprehensive income.

Lease in the statement of financial position (in PLN thousand)	31.03.2019	01.01.2019
Assets		
Right of usufruct	2 888 996	2 931 611
Prepayments (long-term)*	0	(47 476)
Prepayments (short-term)*	0	(11 158)
Total Assets	**2 888 996**	**2 872 977**
Liabilities		
Lease liabilities (long-term)	2 432 128	2 454 153
Accruals (long-term)**	0	(142 058)
Lease liabilities (short-term)	586 484	595 847
Accruals (short-term)**	0	(34 965)
Total Liabilities	**3 018 612**	**2 872 977**

*According to IFRS 16, the Group presents agent commissions as an increase in the right-of-usufruct asset.
**According to IFRS 16, the Group presents the fee for the sale of outlays for the lessor as a decrease in the right-of-usufruct asset.

Lease in the statement of comprehensive income (in PLN thousand)	01.01-31.03.2019
Amortisation	
Amortisation of the right of usufruct	131 452
Financial income	
Positive foreign exchange differences	12 788
Financial costs	
Interest	24 399
Income tax	
Deferred tax asset	19 732

35.2. Revaluation write-offs on assets

Values of specific assets, presented in the consolidated financial statements drawn up as at 31 March 2019, were adjusted with revaluation write-offs. Detailed information on revaluation write-offs shown as at the last day of the reporting period and changes in the period are given in the table below.

	in PLN thousand		
	Fixed and intangible assets	Inventory	Receivables, loans and shares
As at 1 January 2019	**31 874**	**93 125**	**28 591**
Increase	501	504	2 406
Decrease	10 599	1 965	831
As at 31 March 2019	**21 776**	**91 664**	**30 166**

35.3. Other financial assets

Other financial assets (in PLN thousand)	31 March 2019	31 December 2018
Fixed assets		
Other receivables	8 207	7 764
Loans granted	87	58
Other long-term financial assets	**8 294**	**7 822**
Current assets		
Other receivables	1 245	1 378
Receivables from payment card providers	68 662	34 523
Loans granted	43	46
Participation units in funds	55 778	55 425
Valuation of forward contracts	5 844	23
Foreign currencies sold	0	43 432
Other short-term financial assets	**131 572**	**134 827**
Other financial assets in total	**139 866**	**142 649**

In the reporting period, the Group acquired participation units in money market funds. The value of such units as at 31 March 2019 amounted to PLN 55 778 thousand, comprising the value of acquired units on the purchase date, amounting to PLN 54 953 thousand, and the value stemming from their valuation, amounting to PLN 825 thousand. In the cash flows statement, in investing activities, the Group shows the acquisition of participation units in the amount of PLN 100 000 thousand and their redemption in the amount of PLN 100 000 thousand. The value after balance-sheet valuation, totalling PLN 742 thousand (calculated, unpaid), is recognised in the operating part, in interests and dividends. The value of profit earned from redeemed participation units was PLN 389 thousand (paid) and was shown in the investing part, in other inflows from financial assets. The valuation of the above-mentioned instruments is at level 1 of the fair value hierarchy as regards participation units in funds quoted on the regulated market and at level 2 of the fair value hierarchy as regards unquoted funds.

Since January 2019, the Group has changed the manner of presentation of receivables from payment card operators. As at 31 March 2019, the value of the said receivables amounted to PLN 68 662 thousand.

35.4. Cash

In order to prepare the cash flow statement, the CG classifies cash in the manner adopted for presenting its financial position. A difference in the value of cash shown in the statement of financial position and in the cash flow statement results from the following:

in PLN thousand	31.03.2019	31.03.2018
Cash and cash equivalents in the statement of financial position in bank and at hand	991 848	440 861
Adjustments:		
Exchange differences from balance sheet valuation of cash in foreign currency	-6 650	-703
Cash and cash equivalents recognised in the consolidated CF	**985 198**	**440 158**

35.5. Employee liabilities

The value of employee liabilities presented in the consolidated financial statements and their changes in the reporting period are given below.

	in PLN thousand		
	Retirement benefits	Unpaid remunerations*	Short-term liabilities for the unused holiday leave
Balance as at 1 January 2019	**1 012**	**60 831**	**25 876**
Increase	0	0	5 202
Decrease	7	18 967	0
Balance as at 31 March 2019	**1 005**	**41 864**	**31 078**

* Reversal of the provision in the amount of bonuses disbursed in Q1 2019. No impact on the financial result in Q1 2019.

35.6. Provisions

The value of provisions presented in the consolidated financial statements and their changes in the reporting period are given in the table below.

	in PLN thousand	
	Provision for early termination of agreements *	Other provisions
As at 1 January 2019	**17 900**	**2 497**
Provisions made	0	0
Provisions reversed	17 900	1 511
As at 31 March 2019	**0**	**986**

* Reversal of the provision due to disbursed compensations for the early closing of stores. This operation did not affect the financial result in Q1 2019.

35.7. Income tax

The main components of income tax of the LPP SA CG from 1 January 2019 to 31 March 2019 and in a comparative period are given in the table below.

	in PLN thousand	
	01.01 - 31.03.2019	01.01 - 31.03.2018
Current income tax	5 740	2 426
Deferred income tax	-8 004	-844
Total	**-2 264**	**1 582**

35.8. Deferred tax assets and liabilities

At the end of the reporting period, the values of deferred tax assets and liabilities were recognised in the consolidated financial statements.

Detailed information on the components of those figures is given in tables below.

in PLN thousand

Deferred tax assets	31.03.2019	31.12.2018
Difference between balance sheet and tax depreciation of fixed assets	5 034	-3 172
Difference between balance sheet and tax depreciation of trademarks	38 664	40 000
Difference between the right of usufruct and the lease liability	19 732	0
Revaluation of inventories	15 084	13 461
Revaluation of trade receivables	2 560	2 599
Margin on goods unsold outside the Group	16 503	21 119
Margin on the sale of outlays	15 892	36 336
Tax loss	42 865	31 057
Unpaid remuneration and surcharges	11 722	16 079
Provision for product returns	3 168	1 704
Estimated costs	5 305	6 725
Other temporary differences	-2 909	-1 631
Total	**173 620**	**164 277**

Deferred tax liabilities	31.03.2019	31.12.2018
Difference between balance sheet and tax depreciation of intangible and fixed assets	311	686
Total	**311**	**686**

35.9. Foreign exchange differences

In the consolidated statement of comprehensive income, prepared as at 31 March 2019, the value of foreign exchange gains exceeds the value of foreign exchange losses by PLN 8 406 thousand.

35.10. Operating segments

Revenues and financial results relating to geographical segments for the period from 1 January 2019 to 31 March 2019 and for a comparative period are given in tables below.

31.03.2019	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
	in PLN thousand				
External sales	1 400 235	427 445	0	0	1 827 680
Inter-segment sales	290 966	6 817	-297 783	0	0
Other operating income	3 360	2 270	0	0	5 630
Total revenue	**1 694 561**	**436 532**	**-297 783**	**0**	**1 833 310**
Total operating costs, including	1 150 875	819 114	-294 612	233 392	1 908 769
Costs of inter-segment sales	224 711	6 767	-231 478	0	0
Other operating costs	13 747	11 018	0	0	24 765
Segment result	**529 939**	**-393 600**	**-3 171**	**-233 392**	**-100 224**
Financial income	0	0	0	12 327	12 327
Financial costs	0	0	0	28 956	28 956
Profit/loss before taxation					**-116 853**
Income tax					-2 264
Non-controlling interests					0
Net profit/loss attributable to Shareholders of the Parent Company					**-116 853**

31.03.2018	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
	in PLN thousand				
External sales	1 053 358	526 994	0	0	1 580 352
Inter-segment sales	257 858	0	-257 858	0	0
Other operating income	1 928	337	0	0	2 265
Total revenue	**1 313 144**	**527 331**	**-257 858**	**0**	**1 582 617**
Total operating costs, including	1 208 158	608 615	-247 261	118 462	1 687 974
Costs of inter-segment sales	247 261	0	-247 261	0	0
Other operating costs	8 850	3 525	0	0	12 375
Segment result	**96 136**	**-84 809**	**-10 597**	**-118 462**	**-117 732**
Financial income	0	0	0	17 087	17 087
Financial costs	0	0	0	2 542	2 542
Profit/loss before taxation					**-103 187**
Income tax					1 582
Non-controlling interests					0
Net profit/loss attributable to Shareholders of the Parent Company					**-103 187**

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
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