

# LPP

## Corporate Governance Statement

The Management Board of LPP SA declares that in 2015 the Company and its authorities complied with the principles of Best Practices for WSE Listed Companies as described in parts II, III and IV, wherein:

- the requirement of section 9a part II, which regards the necessity to publish on a corporate website a record of the General Meeting in audio or video format, was not observed,
- the requirement of section 10 part IV, which regards the necessity to provide shareholders with the possibility to participate in the general meeting by means of electronic communication, was not observed.

Information on the principles of Corporate Governance is available on the Company's website [www.lppsa.com/relacje-inwestorskie/lad-korporacyjny](http://www.lppsa.com/relacje-inwestorskie/lad-korporacyjny).

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

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

- Section 5 - the applicable principles of remuneration did not comply with all the requirements described in the recommendations of the European Commission of 14 December 2004 and Recommendations of 30 April 2009.
- Section 9 - there were no formal principles for membership in the authorities of the company in relation to gender or schemes to promote balanced participation of women and men in performing the functions of management and supervision in LPP SA. Currently, all members of the Company's authorities are men.
- Section 12 – the company did not provide its shareholders to exercise in person or by proxy to vote during the general meeting, excluding the event of the general meeting by means of electronic communication.

In addition to the information regarding the application of the principles of Best Practices, the Management Board of LPP SA hereby declares that the Company applies the recommendations and principles contained in the new ECR Best Practices of WSE Listed Companies 2016, except for:

- Recommendation IV.R.2 - conducting the annual general meeting by means of electronic communication (real-time broadcast of the meeting, two-way communication in real-time, execution, in person or by a proxy, voting rights during the general meeting).

- Recommendation VI.R.1 - The remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.
- 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.
- Detailed principle I.Z.1.20 – placing an audio or video recording of a general meeting on the corporate website.
- Detailed principle IV.Z.2. - ensuring publicly available real-time broadcasts of general meetings.
- Detailed principle VI.Z.4. - publishing a report on the remuneration policy in the report on operations.

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

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

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

Elements of the internal control system within LPP SA include:

- control activities taken at all levels and in all cells of the Company, based on procedures (permits, authorizations, verifications, reconciliation, review of operational activities, distribution of duties) ensuring compliance with guidelines of the Company's Management Board and, at the same time, enabling to identify and take the necessary actions to minimise errors and risks for the Company,
- Workflow Guide - proper records and documentation circulation control system (to ensure compliance of the account records with accounting evidence),
- suitably qualified personnel carrying out inspections,
- division of duties excluding a possibility that one employee performs an action associated with execution and documentation of a business transaction from beginning to end,
- inventory manual, specifying the rules for the use, storage and inventory of assets,
- principles for balance sheet amortisation of intangible and tangible fixed assets,

- information system - the Company's accounting books are kept with the help of computerised Integrated Enterprise Management System AWEK at the Company's headquarters, which provides credibility, reliability and accuracy of the processed information. Access to AWEK information resources is limited to authorised personnel, only for performance of their duties,
- accounting policy, taking into account the principles of the International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and related interpretations published in the form of executive regulations of the European Commission,
- electronic system for document processing (invoices, elements of employee documentation, commissions to purchase equipment, payment orders, etc.).

Audit of financial statements, carried out by an independent statutory auditor, is an essential element of internal audit in the process of preparing the Company's financial statements, both individual and consolidated.

The statutory auditor is appointed by the Supervisory Board of LPP Company. The tasks of the independent auditor include reviewing semi-annual and annual statements, controlling accuracy of their preparation and compliance with accounting rules.

Two departments are responsible for the preparation of financial statements: accounting and finance, headed by the Chief Accountant and Chief Financial Officer. Before submitting financial statements to the independent statutory auditor, 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.

Semi-annual reviews of the strategy and implementation of business plans are carried out in LPP SA. This is due to cycles occurring in the clothing trade. After closing the first half of the year, senior and middle management, with the participation of the finance department, review the Company's financial results. Operating results of the Company, individual business units or even individual stores are analysed each month.

Internal control and closely related risk management in relation to financial reporting processes are the subject of current interest of the Company's managing authorities. LPP SA performs analysis of business risk factors related to the company operations. An important role in this respect is also played by the managerial personnel responsible for monitoring activities of their departments, including identification and assessment of risks associated with the process of preparation of financial statements in an accurate, reliable manner and in compliance with the law.

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

Shareholder	Number of shares held	Number of votes at the Annual General Meeting of Shareholders	Share in the number of votes at the Annual General Meeting of Shareholders	Share capital held
Marek Piechocki	175 498	875 498	27.3%	9.6%
Jerzy Lubianiec	175 000	875 000	27.2%	9.6%
Forum TFI SA	200 728	200 728	6.2%	11.0%
Treasury shares	18 978	0	0.0%	1.0%
Other shareholders	1 260 919	1 260 919	39.3%	68.86%
<b>Total</b>	<b>1 831 123</b>	<b>3 212 145</b>	<b>100.0%</b>	<b>100.0%</b>

### **3. Information on holders of securities that give special control rights and on any restrictions on voting rights, such as restrictions on voting rights of holders of a specified proportion or number of votes and restrictions on transferring ownership rights**

Shareholders parent shares conferring the right to more than 15% at the General Meeting exercise their voting right up to 15% of votes, regardless of the number of votes arising from the shares held. Two shareholders, who have managed the company for many years, Mr. Jerzy Lubianiec and Mr. Marek Piechocki, hold each 175 000 preference shares of B series, whereas one share entitles to 5 votes at the AGM. In addition, shares of the said shareholders are not covered by the statutory limitation described above restricting voting rights only up to 15% of votes at the AGM regardless of the number of shares held. These statutory provisions give the dominant position to the two shareholders indicated above.

Restrictions on transferring the ownership of securities concern registered shares.

Sale or mortgage of shares depends on the approval of the Company. Shares sale or mortgage permits are granted by the Supervisory Board in writing, under pain of nullity, within 14 days from the date of application. If the Company refuses to give the permit, it should designate another buyer and define the date and place of payment within 30 days. If the Company, within the specified time, does not indicate another buyer, the shares may be sold without restriction.

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

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 and dismissed by the Supervisory Board for a term of five years.

Competencies and working rules of 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 Bylaws (available on the Company's website)
- Code of Commercial Companies

The Management Board is responsible for all and any affairs not reserved for other authorities of LPP SA.

The Management Board is not entitled to make decision on the issue or repurchase of shares.

## **5. Description of rules for amending the issuer's articles of association**

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

## **6. Mode of action of the General Meeting, its powers, the description of shareholders' rights and the way of their execution**

### **Convention of the General Meeting of Shareholders**

- 1) The General Meeting of Shareholders may be convened in an ordinary or extraordinary mode.
- 2) The General Meeting of Shareholders is held in Gdańsk, Warsaw or Sopot, at the place designated by the Management Board.
- 3) Annual General Meeting is held within six months after the end of a financial year.
- 4) Extraordinary General Meeting is convened by the Management Board on its own initiative, at the request of the Supervisory Board and at the written request of shareholders representing one twentieth of the equity 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, in the manner provided for conveying current information and in accordance with the provisions on public offering, as well as terms and conditions of introducing financial instruments to an organised trading system and on public limited companies.

### **Competencies of the General Meeting**

- 1) Examining and approving financial statements and reports of the Management Board on the activity of LPP SA for the previous year.
- 2) Taking all decisions relating to claims for damages 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) Granting to the members of LPP SA acknowledgement of the fulfilment of duties.
- 5) Adopting a resolution on the issue of bonds, including convertible bonds.
- 6) Amending the Articles of Association.
- 7) Adopting resolutions concerning a merger, conversion of LPP SA, its dissolution and liquidation.
- 8) Adopting resolutions concerning the sale and lease of the company and establishing beneficial ownership.

- 9) Examining and deciding on proposals submitted by the Supervisory Board.
- 10) Deciding on other matters reserved to the competence of the General Meeting in the Commercial Companies Code and the provisions of the Company's Articles of Association.

### **Sessions of General Meeting of Shareholders**

- 1) General Meeting is opened by the Chairman of the Supervisory Board or a person authorised by him, who then holds the elections of the President of the General Meeting.
- 2) The person opening the General Meeting provides for an immediate election of the President of the General Meeting who directs the works of the GM and ensures efficient and proper conduct of the session.
- 3) The General Meeting adopts resolutions only on matters included in the agenda.
- 4) Draft resolutions proposed for adoption by the General Meeting and other relevant issues are presented to the shareholders together with the rationale and the opinion of the Supervisory Board.
- 5) The course of the General Meeting is recorded by a notary.

### **Voting**

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

### **Membership and changes that occurred during the financial year, as well as description of the actions of managing, supervisory or administrative bodies and their committees.**

#### **Management Board of LPP SA:**

Composition of the Management Board as at 31 December 2015:

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

In October of the financial year, there was a change in the composition of the Management Board involving the appointment of a new member - Mr. Sławomir Łoboda (CR 39/2015), and in March this year, a change involving resignation from the position of a Member of the Management Board of LPP SA, Mr. Piotr Dyka (CR 12/2016).

Competencies and working rules of 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 Bylaws (available on the Company's website)
- Code of Commercial Companies

### **The Supervisory Board**

Composition of the Supervisory Board as at 31 December 2015 was as follows:

- Jerzy Lubianiec - Chairman of the Supervisory Board
- Krzysztof Olszewski - member of the Supervisory Board
- Wojciech Olejniczak - member of the Supervisory Board
- Maciej Matusiak - member of the Supervisory Board
- Dariusz Pachla - member of the Supervisory Board

During the financial year, there were changes in the composition of the Supervisory Board - resignation of Mr. Krzysztof Fąferek (CR 16/2015) and appointment of a member of the Supervisory Board, Mr. Dariusz Pachla (CR 29/2015).

Competence and working rules of LPP SA Supervisory Board 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)
- Code of Commercial Companies

**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 .....

Hubert Komorowski – Vice President of the Management Board .....

Sławomir Łoboda – Vice-President of the Management Board .....

Gdańsk, 18 April 2016