

STATEMENT ON CORPORATE GOVERNANCE

APPLIED CORPORATE GOVERNANCE PRINCIPLES

The Management Board of LPP declares that, in 2019/20, 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 2019/20 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 technical risks. 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 than 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 no remuneration policy, yet it is in the course of implementing such 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.
- The Company does not apply the said recommendation.

The Company has no remuneration policy, yet it is in the course of implementing such policy.

- **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 publish a report on its remuneration policy following its implementation. The Company is in the course of implementing the said policy.

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 RELATIONS TO THE PROCESS OF PREPARING FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Group 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 take actions necessary to identify and minimise errors and threats for the Company,
- Workflow Guide - proper records and documentation circulation control system (to ensure compliance of account records with accounting evidence),
- duly 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 - the Company's accounting books have been kept using SAP systems ensuring 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, parts of employee documentation, commissioning of equipment purchases, payment orders, etc.).

In the process of preparing the Company's financial statements, both separate and consolidated, the auditing of financial statements by an independent statutory auditor, i.e. the external control, is an element supporting the system of internal control.

The statutory auditor is appointed by LPP's Supervisory Board. The tasks of the independent auditor include reviewing semi-annual financial 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. CSC (the Common Services Centre), the Reporting Department and the Investor Relations Department headed, respectively, by the Chief Accountant, the Controlling Director 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 in terms of 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.

The 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 the Company's 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

LPP SA shareholding structure as at 31 January 2020

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***	18,006	1.0%	0	0.0%	36,012
Other shareholders	1,288,871	69.6%	1,288,871	39.9%	2,577,742
Total	1,852,423	100.0%	3,234,417	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 18 006 shares, as these are treasury shares of LPP SA.

In the financial year, there was a change in key shareholdings, involving treasury shares. As part of the incentive programme, eligible persons received 855 treasury shares. Therefore, the total number of treasury shares decreased by 855, from

18 861 to 18 006, and the number of shares held by "other shareholders" increased by that number.

Shareholdings of key management and supervisory officers as at 31 January 2020

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	342	342	684
Jacek Kujawa - Vice-President of the Management Board	220	220	440
Przemysław Lutkiewicz - Vice-President of the Management Board	363	363	726
Sławomir Łoboda - Vice-President of the Management Board	312	312	624
Jerzy Lubianiec - Chairman of the Supervisory Board*	226 338	926 338	452 676
Piotr Piechocki - Member of the Supervisory Board	14	14	28
Antoni Tymiąński - Member of the Supervisory Board	11	11	22

*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 Company for the financial year commencing on 1 January 2019 and ending 31 January 2020. As part of the said plan, if the terms and conditions provided for in the incentive plan rules 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 907.

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. In the Company, there is no employee share control system applied.

TREASURY SHARES

LPP holds 18 006 treasury shares. In the financial year, no treasury shares were purchased, yet their number changed. In 2019, as part of the incentive programme, eligible persons received 855 treasury

shares. Consequently, the number of treasury shares decreased by 855, currently totalling 18 006.

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 2019/20, prices of LPP SA shares were between PLN 6 945.00 and PLN 9 125.00 (at closing prices). The share quotation during the last session (at closing prices) in the financial year i.e. on 31 January 2020 was PLN 8 465.00.

At the end of 2019/20, the Group's net earnings per share were PLN 229.55, and a year before - PLN 241.36.

As at 31 January 2019, 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 4.1%.

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 5.6%.

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 5.2%.

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 75.3%.

WIG ESG – index published from 3 September 2019 based on the value of the portfolio of shares in companies recognised as socially responsible i.e. observing the principles of socially responsible business, specifically in terms of environmental, social, economic issues and corporate governance. LPP’s share in WIG ESG was 5.3%.

- Foreign:

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

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

FTSE Russell 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) from 24 September 2018, i.e. from the time when Poland was transferred from the index of developing countries to the index of developed countries.

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 the financial year, the Company issued debt securities i.e. bonds.

The Company issued 300 thousand unsecured ordinary 5-year bearer bonds of the nominal value of PLN 1 thousand per bond. The proceeds from the issuance of bonds totalled PLN 300 mIn and are planned to be appropriated for the investment involving the construction of the distribution centre in Brześć Kujawski. In the reported period, funds deriving from the issuance of bonds were not used as the investment has been postponed in time.

In the financial year, apart from the above-mentioned bonds, the Company issued no other securities.

LPP'S GOVERNING BODIES

OUR MANAGEMENT BOARD AS AT 31 JANUARY 2020

Composition

- Marek Piechocki – President of LPP's Management Board
- Jacek Kujawa – Vice-President of LPP's Management Board
- Przemysław Lutkiewicz – Vice-President of LPP's Management Board
- Sławomir Łoboda – Vice-President of LPP's Management Board

In 2019/20, there were no changes in the composition of LPP's Management Board.

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

LPP's 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 LPP's 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 issuance 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 28.2 and 28.3) and in separate financial statements (notes 30.3 and 30.4).

OUR SUPERVISORY BOARD AS AT 31 JANUARY 2020

Composition:

- Jerzy Lubianiec – Chairman of LPP's Supervisory Board
- Wojciech Olejniczak – Vice-Chairman of LPP's Supervisory Board
- Piotr Piechocki – Member of LPP's Supervisory Board
- Magdalena Sekuła – independent* Member of

LPP's Supervisory Board

- Antoni Tymiński – independent* Member of LPP's Supervisory Board
- Miłosz Wiśniewski – independent* Member of LPP's Supervisory Board

*independence criteria set forth in the Act on Statutory Auditors, Audit Companies and Public Supervision of 11 May 2017 and the requirements specified in the Best Practice for GPW Listed Companies.

In 2019/20, 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 28.2 and 30.3).

LPP'S 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 statutory independence criteria
- Jerzy Lubianiec – Vice-Chairman of the Audit Committee
- Magdalena Sekuła – Member of the Audit Committee, meeting statutory independence criteria
- Piotr Piechocki – Member of the Audit Committee
- Miłosz Wiśniewski – Member of the Audit Committee, meeting statutory independence criteria

Mr Antoni Tymiński, Chairman of the Audit Committee, has the knowledge and skills in the area of accounting and the auditing of financial statements; he is a licensed statutory auditor 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 the 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, and Mr Piotr Piechocki, Member of the Audit Committee also have branch-specific knowledge and skills. Mr Jerzy Lubianiec 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 managed the e-commerce department of LPP SA.

In 2019/20, 4 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, specifically 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 procedure;
- 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 particular, 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 control 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.
- involving financial audit activities;
- comprehensiveness of services declared to be provided by the Eligible Company;
 - 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:
 - meeting by the Eligible Company of independence requirements referred to in Articles 69–73 of the Statutory Auditors Act;
 - existence of hazards for the independence of the Eligible Company and the application of safeguards to minimise them;
 - availability of competent staff of the Eligible Company, time and other resources to carry out the audit as required;
 - 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:
 - the independence of the Eligible Company and persons engaged in financial audit activities in light of Articles 69–73 the Statutory Auditors Act;
 - 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:
 - upon expiry of the maximum period of the audit assignment, the audit company which

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:
 - knowledge of the industry in which the Company operates;
 - price conditions offered by the Eligible Company;
 - suggested time schedule covering works
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:
 - 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,

- 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,
 - the Company may invite any audit companies to make offers for statutory auditing services provided that the above is not in breach of provisions of the Statutory Auditors Act.
6. On a case-by-case basis, the Eligible Company is chosen based on offers received by the Company and delivered in accordance with the Appointment Policy with due consideration of the Appointment Procedure.

Appointment limitations

1. Limitations in respect of selection of the Eligible Company are as follows:
 - the maximum duration of continuous statutory audit 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;
 - the key statutory auditor may not audit annual consolidated financial statements of the Group or annual financial statements of the Company for more than 5 years;
 - the key statutory auditor may once again audit annual consolidated financial statements of the 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 at least 2-year periods.
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 audit fee paid to the Eligible Company, its statutory auditors and subcontractors acting on their behalf and for them, may not:
 - be subject to any conditions, including the audit result;
 - be valued according to, or dependent on, the provision for the Company or its affiliates of additional non-audit services by the Eligible Company or any entity affiliated with the audit company or its group's member.
2. The audit fee 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

internal control or risk management procedures involving preparation or control of financial information or development and implementation of technological systems covering 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 LPP'S SHAREHOLDERS OPERATION OF THE GENERAL MEETING, ITS POWERS, DESCRIPTION OF SHAREHOLDERS' RIGHTS AND THE MODE OF THEIR EXERCISE

Convening the General Meeting of Shareholders

- The General Meeting of Shareholders may be convened as ordinary or extraordinary meeting.
- The General Meeting of Shareholders is held in Gdańsk, Warsaw, Sopot or Pruszcz Gdański, at a venue designated by the Management Board.
- The Ordinary General Meeting is held annually, within six months after the end of a financial year.
- 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.
- 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

- Examining and approving financial statements and reports of the Management Board on the operations of LPP SA for the preceding year.
- Taking all decisions relating to claims for redressing damage suffered during the establishment of LPP SA or its management or supervision.
- Adopting a resolution on the distribution of profits or covering losses.
- Discharging members of the LPP SA governing bodies from the performance of their duties.
- Adopting a resolution on the issue of bonds, including convertible bonds.
- Amending the Articles of Association.
- Adopting resolutions on the merger, transformation, dissolution and liquidation of LPP SA.
- Adopting resolutions on the sale and lease of the enterprise and establishing beneficial ownership.
- Examining and deciding on motions submitted by the Supervisory Board.
- 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

- 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.
- 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.
- The General Meeting adopts resolutions on items put on the agenda only.
- 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.
- The course of the General Meeting is minuted by a notary public.

Voting

- 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.
- 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.
- 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.
- 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 of LPP's Shareholders.

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

LPP's Management Board is composed of four men. Two of them are between 30 and 50 years of age and two - above 50 years of age. The Supervisory Board is composed of five men and one woman. Two persons are between 30 and 50 years of age and four - above 50 years of age.

Members of LPP's Management and Supervisory Boards have different education i.e. from technical

and IT education to finance, economic and legal education. They have diversified experience both in terms of the sector in which our Group operates and types of institutions where they gained their experience before.

Our Company is aware of the importance and the need to ensure diversity in terms of gender, education, age and experience not only in the governing



and supervisory bodies, but also among all employees of our Group. 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.

Furthermore, we take numerous actions promoting diversity. We have multi-generation teams, we put emphasis on employing women as managers, we employ disabled persons and carry out the project activating the disabled supporting us in recruitment activities. Since 2019, in our Company, there has been the Diversity Team composed of employees at various levels of the HR and Communications Departments. Upon the said Team's initiative, in the annual survey of the organisational climate and employee satisfaction, we added a question concerning discriminatory behaviour. The Diversity Team has carried out also an interview survey among head office employees to identify areas we should address as organisation to build the culture of openness to diversity. Employees have been requested to suggest actions which should be taken to support diversity sensitiveness in LPP. They pointed out to 4 key areas addressed by the team at the end of 2019 and the beginning of 2020: disability, age difference and support for the elderly, psychological health, LGBTQ+. Actions in these areas will be continued in 2020.

To emphasise our commitment to promoting and developing diversity in LPP, we have signed the Diversity Charter. We officially undertook to implement a discrimination ban, make an active contribution to diversity issues and take action to invite our employees and business partners to join our activities in this area.

The Diversity Charter is an international initiative launched in EU countries. Its signatories put emphasis on the importance of equal treatment regardless, among others, of gender, age, health, nationality and ethnic origin, religion, political beliefs, psychosexual orientation, gender identity, family status and other prerequisites which could result in discriminatory behaviour. Companies undertake to create an atmosphere of respect for diversity, introduce solutions supporting equal treatment, implement an equal treatment policy, monitor actions preventing mobbing and discrimination, promote dialogue with employees and report annually actions taken in that respect.