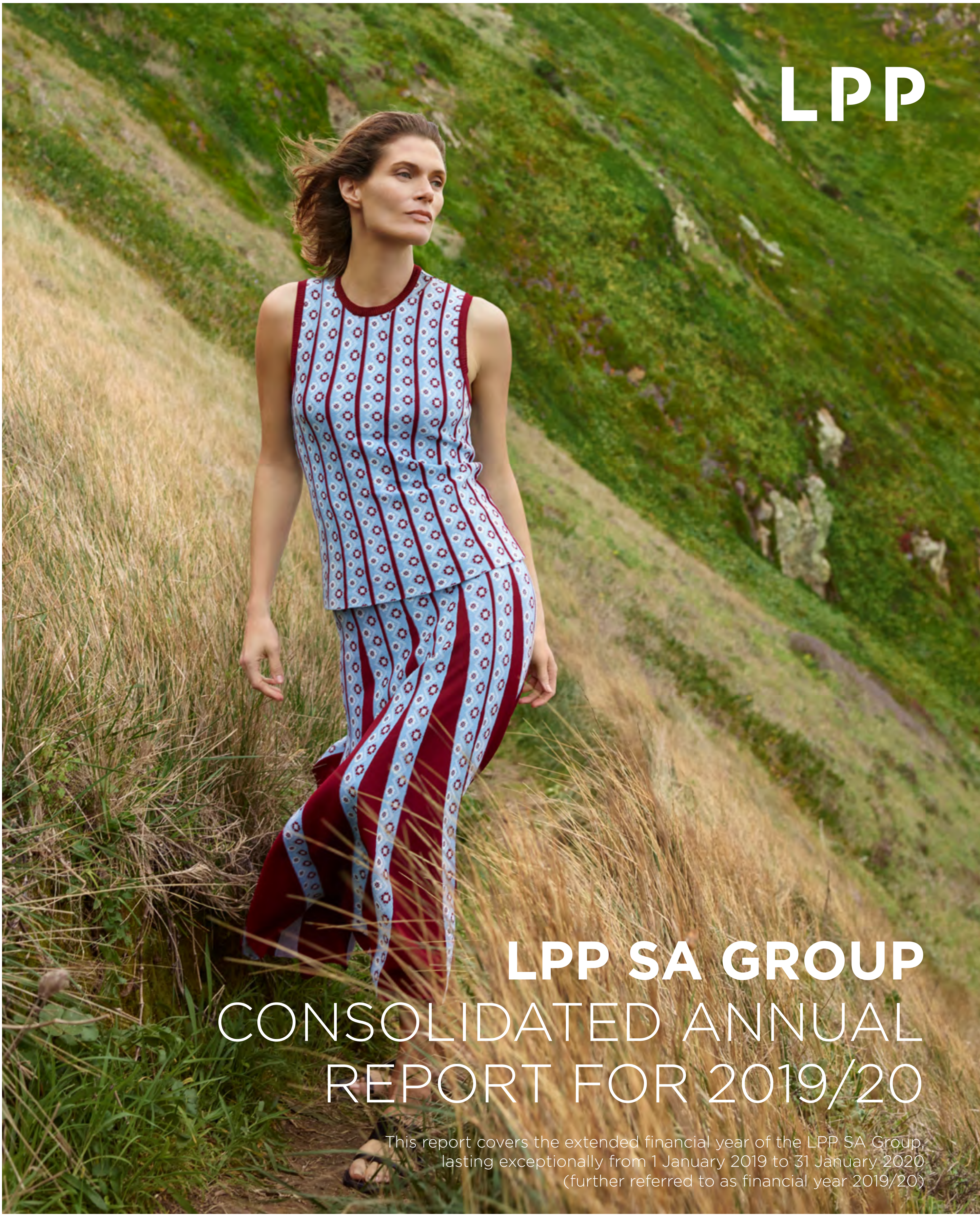
LPP



# LPP SA GROUP
# CONSOLIDATED ANNUAL REPORT FOR 2019/20

This report covers the extended financial year of the LPP SA Group, lasting exceptionally from 1 January 2019 to 31 January 2020 (further referred to as financial year 2019/20)

RESERVED CROPP house MOHITO sinsay

# CONTENTS

# 1
# PRESIDENT'S LETTER TO SHAREHOLDERS

# DEAR SHAREHOLDERS,

We entered the year 2019 being aware of major challenges we had to face: the Sunday trading ban, intensive development of omnichannel sales, customers' increasing expectations in terms of the offer and product availability.

Considering the difficulties faced by the clothing sector, I'm so proud and happy to admit that, for LPP, the year 2019 was very successful. In the said period, our sales reached the highest level in the Company's history i.e. over PLN 9 bln, with that result being higher by as much as 13.1% compared to 2018. That figure was also reflected in our operating profit (EBIT), which was higher by 17.1% y/y, reaching PLN 806 mln.

Throughout the year, we focused on strengthening our position on markets with high sales potential and further expansion abroad. In 2019, we opened our first brand stores in Bosnia and Hercegovina and Finland. On a regular basis, we developed the chain of our traditional stores, with retail space increasing by 14.4% y/y, currently reaching already 1.23 mln $m^2$. Simultaneously, we expanded our online sales to launch our sales, in 2019, on 14 new markets, including EU countries where we have no traditional stores. Owing to such development strategy, at the end of the year, the offer of our brands both online and in traditional stores was available already in 39 countries, with online sales constituting almost 12% of the entire revenue generated by the Group.

The actions we took brought us closer to one of key goals of our business strategy – transforming LPP into a global company the brands of which will be recognisable worldwide. Last year, that goal became credible as, from Q2 2019, for the first time in the Company's history, our revenues gained on foreign markets exceeded domestic sales. Furthermore, for the first time, we also recorded an LFL sales increase even on demanding markets such as the German and British ones. Our offer was appreciated in Finland, yet another market in Western Europe. In Finland, customers' interest in Polish fashion was far beyond our expectations – on the day of the debut of Reserved, our flagship brand, sales were comparable to results gained at the opening of our brand store at prestigious Oxford Street in London.

We are also proud of how our collections were appreciated on markets with the highest development potential such as Russia, Ukraine, the Czech Republic and Romania, where we recorded the largest sales. Therefore, in 2020, we intend to continue our operations aimed at strengthening the position of LPP brands and promoting Polish creativity in those countries.

The global reception of Reserved collections triggered us to present our customers with a new marketing campaign starring the global celebrity Kendall Jenner. This time, we wanted to proudly present the Polish clothing brand not only online but also in a TV advertisement. In reality, this Reserved campaign gained the best recognition in  history, gaining over 20 mln views in the first month after launching, thus beating earlier projects with the participation of superstars Cindy Crawford, Joanna Kulig and Jeanne Damas. That success stimulates us to take actions aimed at further promotion of Polish fashion worldwide.

Last year, as announced earlier, we completed the process of RFID implementation in the Reserved brand. Consequently, today, we are able to better organise sales network processes. Considering the extent of our flagship brand with over 450 stores, we may proudly say that this was the quickest RFID implementation in the world and one of the first projects in the fashion sector. Following analyses carried out in Reserved stores, having implemented the said technology, we increased product availability for customers by over 13%, with the delivery process being speeded up by 60%. Therefore, we became definitely convinced that the RFID implementation process should be continued in other brands, with Mohito being next in line.

Intensive activities of our skilful IT expert team experienced in Fashion Tech were performed along with further expansion of the distribution network. In 2019, in Romania, we launched the Fulfilment Centre to handle online sales, enabling us to make deliveries to customers from South Eastern Europe even next day after effecting a transaction. Being dedicated to handling online orders of all five LPP brands, that facility is, apart from the one operating already Moscow, the second foreign Fulfilment Centre of our Company.

However, our logistics team will be taking further action. Having regard of customers' increasing expectations in terms of delivery speed and product availability, in 2019, we also signed one of the largest warehousing contracts in Slovakia and, in January 2020, we launched the Fulfilment Centre there. The said warehouse will pay a key role in LPP's distribution network, providing services for online customers not only in Slovakia but also in the Czech Republic, Hungary, Slovenia, Croatia and Bosnia and Hercegovina. Following the launching of those two facilities, the total warehousing area for e-commerce in LPP increased to over 120 thousand $m^2$.

Throughout the year, our experts were very busy working on the process of designing our largest planned logistics investment i.e. the Distribution Centre in Brześć Kujawski to be launched in 2022. I can assure you with full responsibility that this will be one of the most state-of-the-art logistics facilities in our country and, probably, the largest private capital investment in Poland, offering jobs for several hundred people. For me as the promoter of a family-run company, it is very important to ensure that my activity has both business and social dimension.

Having regard of corporate social responsibility, last year, we made a decision to announce a new sustainable development strategy for the years 2020-2025 - "For People For Our Planet". As a family-run company, we believe that the needs of the current generation may be met without deteriorating the changes of future generations. Therefore, we decided to take uncompromising approach and decisive action which, during the next five years, will not only change us but will also set an example how to limit the environmental impact of the textile industry.

To a major extent, the commitments we made in that strategy will, in many areas, determine out activity in 2020, with the biggest changes including the increasing possibility for our customers to buy more and more environmentally friendly collections. In 2021, our goal is to have every fourth brand product to be part of Eco Aware collections and, this year already, we plan to implement the Eco Aware Production programme in the area of water management policy and energy sourcing.

Apart from pursuing the sustainable development strategy, in the nearest future, we want to continue strengthening our position as global company.

Unfortunately, the beginning of 2020 brought unexpected changes throughout the world, bringing detriment to economies of all countries. We suffer major consequences of the COVID-19 pandemic. Due to governmental restrictions including closure of shopping centres, introduced in almost all countries, 95 percent of our brand stores were closed abruptly. Despite economic hardship, we still think positive. We decided to create a new scenario for our operations to give us a chance to overcome difficulties. Therefore, we focused our attention on the following key areas: strengthening e-commerce capabilities, strict cost control, enhancing logistics and effective stock management.

Regardless of current impediments, we will continue our strategy of strengthening LPP's position, changing only the time schedule for attaining our goals. Thus, we are still willing to expand our operations in the Balkans and launch our brand stores in North Macedonia. At the same time, we will be reinforcing our position on markets with the largest sales potential in, among others, South-Eastern Europe, where we will develop the network of traditional stores. We will be building our competitive advantage also in the Fashion Tech area, taking further action to implement RFID technology in other brands. On a day-to-day basis, we will analyse benefits brought by that technology to gain deeper knowledge of our customers shopping experience and we plan to launch online deliveries directly from a brand store nearest to the customer, and not from central warehouses, to save time and costs and limit emissions caused by transporting a single delivery.

I'm exceptionally proud of the work we performed last year together with talented LPP teams. Thanks to our passion, creativity and continuing willingness to self-improve, I'm providing you with this report with full responsibility and at ease. I do believe that its content will enable you to get detailed knowledge of our Company's last-year operations performed with utmost diligence taking into consideration its interests, development and perspectives for the near and more distant future.

**Marek Piechocki**

**President of the Management Board of LPP SA**

# 2

# MANAGEMENT BOARD'S REPORT ON THE OPERATIONS OF THE LPP SA GROUP, INCLUDING THE STATEMENT ON CORPORATE GOVERNANCE FOR 2019/20

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

# INTRODUCTION

This Report of the Management Board on the operations of the LPP SA Group for 2019/20 incorporates information the scope of which has been set forth in §§ 70-71 of the Regulation of the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities [...] (the Regulation).

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

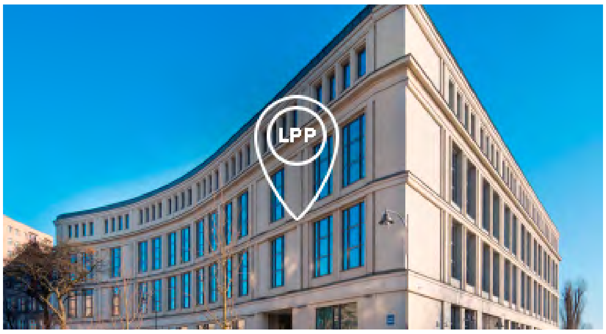
# ABOUT US

## WHO WE ARE

LPP is a Polish family-run company engaged in the design, manufacturing and distribution of clothing. We have almost 30-year experience in the clothing sector. Our sales network covers entire Poland, the countries of Central, Western and Eastern Europe, the Balkans and the Middle East. Customers visiting our traditional stores and shopping online are offered products including apparel, accessories and footwear under our five brands: Reserved, Cropp, House, Mohito and Sinsay. Each of those brands, differing in character, is targeted to a different customer group.

Although we operate on 39 markets, our brand concepts are developed, all our collections are created and all strategic decisions are made in Poland. The heart of our organisation is the head office in Gdańsk, where the company's history has begun. Our offices are located also in Cracow, Warsaw, Shanghai and Dhaka.

Our staff consists of approx. 25 thousand people employed in our offices as well as sales and distribution units in Poland and European and Asian countries. We focus on adjusting organisational culture, activities, communication and management methods to the international work environment. Openness, diversity, responsibility for common development and mutual respect are the cornerstones of LPP's culture.

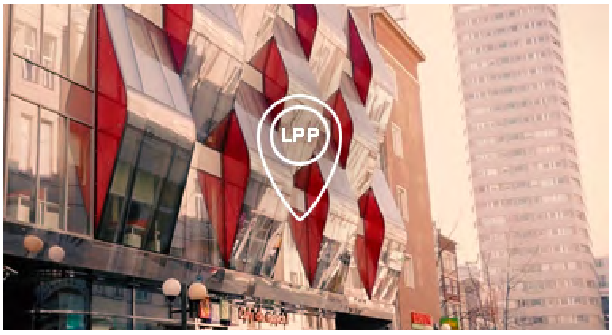



**GDAŃSK**

The head office of LPP, where designs of Reserved, Cropp and Sinsay collections are made. In Gdańsk, the Management Board of LPP takes key decisions for the Company's operations and development. The Company's all key departments are located in the head office employing approx. 1 800 people.


**CRACOW**

In Cracow, there are design offices of House and Mohito brands and their sale department. LPP's Cracow office cooperates with higher schools educating future designers i.e. the Academy of Fine Arts, the School of Art and Fashion Design and the Cracow University of Economics. In Cracow, over 300 people are employed.




**WARSAW**

In 2017, we launched the Reserved product office in Warsaw. Its 50-person team assists the product development department in Gdańsk both in creating regular collections and in special projects such ReDesign, Reserved x Vogue collections. Our showroom is also located in Warsaw.


**SHANGHAI**

Our Asian office in Shanghai has operated since 1997, currently employing 120 people being responsible, among others, for soliciting suppliers, supporting individual manufacturing stages and quality control. Furthermore, the office's major task is verification of our suppliers' compliance with the Code of Conduct in terms of safety rules and employees' rights.


**DHAKA**

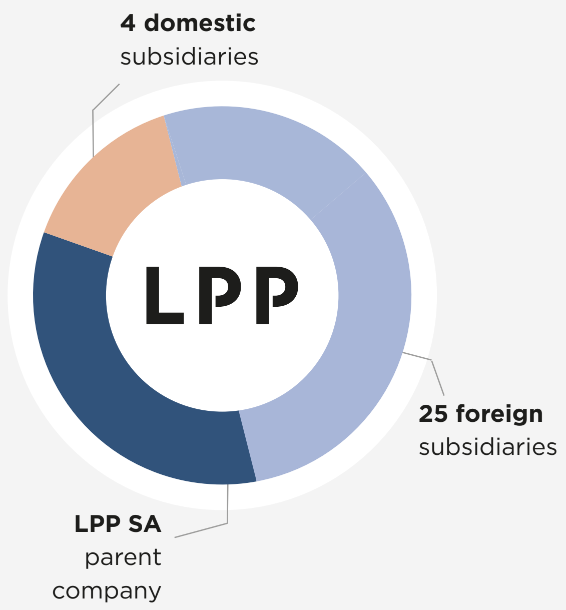
In 2015, we launched our representative office in Dhaka, the capital city of Bangladesh. The said office employs almost 40 people responsible for coordinating and supervising production of our collections in local manufacturing plants. Our employees' major task is also the auditing of manufacturing plants we cooperate with in terms of adequate working conditions and respect for human rights.

## HOW WE OPERATE AS A GROUP

The LPP SA Group is composed of 5 Polish companies (including the Parent Company) and 25 foreign companies. The Group's foreign subsidiaries are, to a major extent, engaged in the distribution of products of all our brands outside Poland.

The consolidated financial statements of the Group, covering the period between 1 January 2019 and 31 January 2020, include separate results of LPP SA, the results of foreign subsidiaries and two Polish subsidiaries (LPP Retail Sp. z o.o. engaged in the operation of stores in Poland and Printable Sp. z o.o. engaged in the sale of promotional clothing). The remaining two Polish subsidiaries (engaged in the lease of real properties where our brand stores are operated in Poland) were not consolidated due to irrelevance of data.

**LPP SA Group's structure**



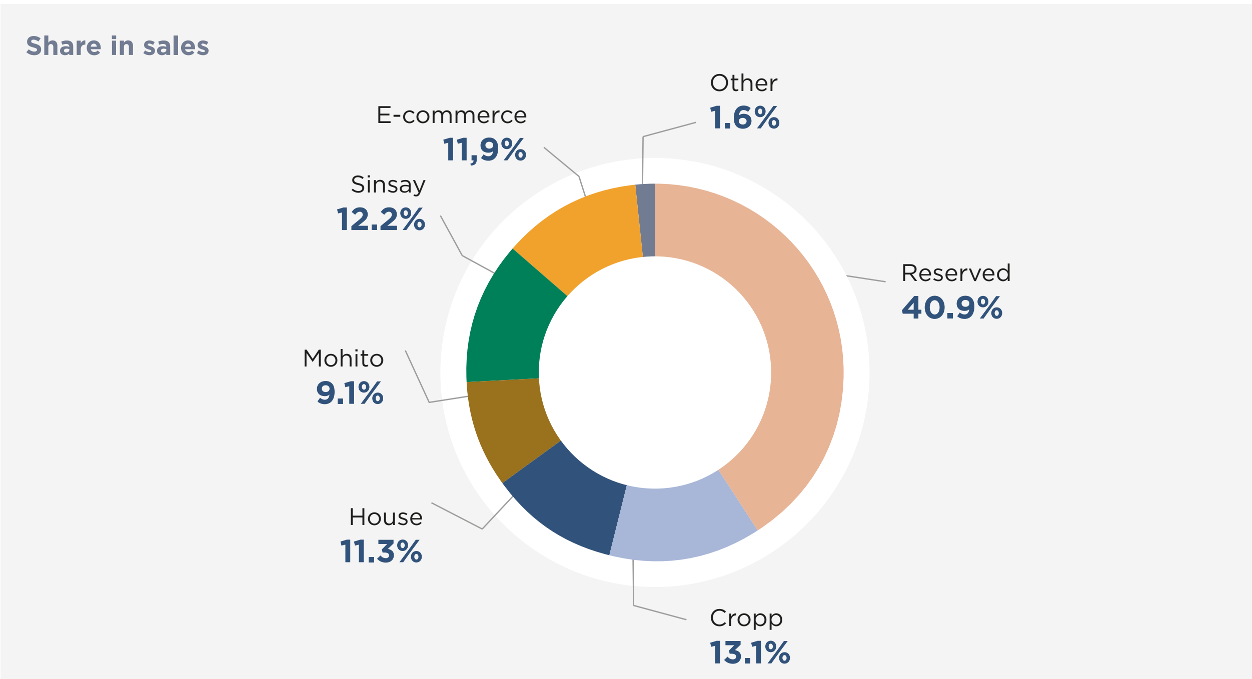

### The Group's subsidiaries:

| No | Company name | Registered office | Shareholding |
|---|---|---|---|
| 1. | LPP Retail Sp. z o.o. | Gdańsk, Poland | 100% |
| 2. | DP&SL Sp. z o.o. | Gdańsk, Poland | 100% |
| 3. | IL&DL Sp. z o.o. | Gdańsk, Poland | 100% |
| 4. | Printable Sp. z o.o. | Gdańsk, Poland | 100% |
| 5. | LPP Estonia OU | Tallinn, Estonia | 100% |
| 6. | LPP Czech Republic s.r.o. | Prague, the Czech Republic | 100% |
| 7. | LPP Hungary KFT | Budapest, Hungary | 100% |
| 8. | LPP Latvia Ltd | Riga, Latvia | 100% |
| 9. | LPP Lithuania UAB | Vilnius, Lithuania | 100% |
| 10. | LPP Ukraina AT | Peremyshliany, Ukraine | 100% |
| 11. | RE Trading OOO | Moscow, Russia | 100% |
| 12. | LPP Romania Fashion SRL | Bucharest, Romania | 100% |
| 13. | LPP Bulgaria EOOD | Sofia, Bulgaria | 100% |
| 14. | LPP Slovakia s.r.o. | Bańska Bystrzyca, Slovakia | 100% |
| 15. | LPP Fashion Bulgaria EOOD | Sofia, Bulgaria | 100% |
| 16. | Gothals LTD | Nicosia, Cyprus | 100% |
| 17. | LPP Croatia DOO | Zagreb, Croatia | 100% |
| 18. | LPP Deutschland GmbH | Hamburg, Germany | 100% |
| 19. | IPMS Management Services FZE | Ras Al Khaimah, UAE | 100% |
| 20. | LPP Reserved UK Ltd | Altrincham, UK | 100% |
| 21. | LLC Re Development | Moscow, Russia | 100% |
| 22. | LPP Reserved doo Beograd | Belgrade, Serbia | 100% |
| 23. | P&L Marketing&Advertising Agency SAL | Beirut, Lebanon | 97.32% |
| 24. | Reserved Fashion, Modne Znamke DOO | Ljubljana, Slovenia | 100% |
| 25. | LPP Kazakstan LLP | Almaty, Kazakhstan | 100% |
| 26. | LPP BH DOO | Banja Luka, Bosnia and Herzegovina | 100% |
| 27. | OOO LPP BLR | Minsk, Belarus | 100% |
| 28. | LPP Finland LTD | Helsinki, Finland | 100% |
| 29. | LPP Macedonia DOOEL | Skopje, Macedonia | 100% |

In the reporting period, the Group was joined by the following companies: LPP BLR, LPP Finland and LPP Macedonia, engaged in the retail sale of apparel of all our brands in, respectively, Belarus, Finland and Macedonia. At the same time, the Russian company LLC Re Street was wounded up.

## OUR PORTFOLIO

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



## RESERVED

Reserved is our flagship brand. Its stores may be found in world's fashion capitals: London, Berlin or Moscow.

When creating collections, Reserved designers get inspired by multicultural atmosphere of the largest cities in Europe and America, metropolitan every-day life of Tokyo or Seoul, searching for inspiration also during fashion and cultural events such as the Premier Vision fair in Paris or an art biennale in Venice.

The Reserved offer is addressed to women, men and children.

We notice customers' individual needs, offering diverse collections reflecting latest trends as well as minimalism, simplicity of forms and high quality in premium collections, including also an offer for pregnant women and unisex collections.

Every year, we launch special collections on the market. In the reported period, we were inspired by, among others, the musical creativity of David Bowie, Queen, Ariana Grande, Justina Bieber and Whitney Houston, the photographs of William Eggleston, reflecting every-day objects and situations, and iconic cartoons and movies – Mickey Mouse, Adventure Time x Minecraft, Ghostbusters, Star Wars and Toy Story.

In our activities, we are authentic. That refers also to environmental protection. Therefore, when creating new Reserved collections, we put emphasis on testing new sustainable fashion solutions. In Reserved, we previously introduced the environmentally friendly Eco Aware collection.

Eco Aware is a line of products designed optimising material consumption and waste reduction, including the search for sustainable raw materials. We test the possibility of using organic pigments in prints. In upcoming Eco Aware models, we want to eliminate in full plastic parts and replace them with natural or recycled elements.

In children's Eco Aware collection, all clothes for infants and children up to 4 years will be made in 100% of organic cotton. Our goal for 2025 is to have 50% of Reserved clothes coming from Eco Aware collections.

In Reserved promotion campaigns, we cooperate with Polish and foreign superstars, the real fashion icons. In the 2019/20 AW season, we produced a campaign starring the top model Kendall Jenner. The commercial in which she took part has become a YouTube hit with a record-breaking number of views, being also a Polish YouTube hit in October.

Basic data on the brand:

| | |
|---|---|
| Date of establishment: | 1998 |
| Website: | www.reserved.com |
| Location of the design centre: | Gdańsk, Warsaw |
| Revenue for 2019/20 and change in % y/y: | PLN 4,047 mln, increase 4.3% y/y |
| Number of brand stores (as at 31.01.2020): | 454 |
| Store area (as at 31.01.2020) and change in % y/y: | 665 ths. m$^2$, increase by 9.9% y/y |
| Number of markets and countries in which the brand is available in on-site stores: | 25 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Belarus, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Germany, Great Britain, Finland, Egypt, United Arab Emirates, Kuwait, Qatar, Israel |
| Countries in which the brand is available in online stores: | Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Belarus, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Germany, Great Britain, Finland, Portugal, Spain, Ireland, the Netherlands, Belgium, Luxembourg, France, Italy, Austria, Sweden, Denmark, United Arab Emirates, Kuwait, Saudi Arabia, Oman, Bahrain |

## CROPP

Cropp is a streetwear brand enabling our customers to create their individual style, helping to express their emotions and cross boundaries. Brand designers get inspired by, among others, modern culture and music, creatively mixing them in projects with the latest catwalk trends. When designing a collection, Cropp brand cooperates with illustrators as well as visual arts and graffiti artists from all over the world. For many years, Cropp has been a partner of street art events, sponsoring eg. the Gdańsk music festival and Baltic Games, an extreme sports event. Cropp offers streetwear collections for men and women, supplemented with a wide variety of accessories and footwear.

Eco trends are reflected in this brand also. In our last designs, we made references to environment protection and respect for the surrounding world. Designs of the Noble Vandals collection for men, made using organic cotton, addressed ecology issues.

In 2020, the Cropp brand will focus on more sustainable collections.

Basic data on the brand:

| | |
|---|---|
| Date of establishment: | 2004 |
| Website: | www.cropp.com |
| Location of the design centre: | Gdańsk |
| Revenue for 2019/20 and change in % y/y: | PLN 1 300 mln, increase by 7.8% y/y |
| Number of brand stores (as at 31.01.2020): | 360 |
| Store area (as at 31.01.2020) and change in % y/y: | 148 ths. m², increase by 11.4% y/y |
| Number of markets and countries in which the brand is available in on-site stores: | 17 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland |
| Countries in which the brand is available in online stores: | Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Germany |

## HOUSE

The House brand mixes the latest trends with street styles. It offers casual clothing, suggesting bold combinations and distinctive accessories. Our clients are people who are young or feel young, with self-distancing, at ease, wanting to live life to the full. We inspire them to play with fashion and create their own look. We focus on listening and observing our customers' world to create unique collections for any occasion. We use professional tools to analyse fashion trends, having a close look on the style of metropolitan streets, taking part in textile fairs and being constantly present in the web. In House collections, we make references to art, pop culture and social media trends. Our campaigns are always cheerful and full of positive energy.

In 2019, in Cropp collections, we started introducing clothes made of certified, environmentally friendly materials. In 2020, we will make further changes in House, focusing on more eco-friendly solutions, especially when choosing materials for our T-shirts and denim which may be may be manufactured from eg. recycled bottles.

Basic data on the brand:

| | |
|---|---|
| Date of establishment: | 2001 |
| Website: | www.housebrand.com |
| Location of the design centre: | Cracow |
| Revenue for 2019/20 and change in % y/y: | PLN 1 117 mln,<br>increase by 12.6% y/y |
| Number of brand stores (as at 31.01.2020): | 318 |
| Store area (as at 31.01.2020) and change in % y/y: | 127 ths m², increase by 10.6% y/y |
| Number of markets and countries in which the brand is available in on-site stores: | 17 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland |
| Countries in which the brand is available in online stores: | Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Germany |

## MOHITO

Mohito is addressed to female customers in love with fashion, valuing original urban elegance, self-confident, aware of their strengths, who like to dress expressing their individual and exceptional style. Mohito offers its female customers apparel and accessories in a wide variety of energetic colours emphasising femininity in any place and at any occasion. Mohito collections reflect the latest global trends. Our designers analyse what is going on during fashion weeks, on catwalks and metropolitan streets, looking for inspiration in culture and reacting to current events to create interesting and fashionable designs.

The Mohito brand is socially engaged, organising regular charity events having real impact on the needs of today's world. Therefore, as part of Mohito Cares ecological project, each item sold with that label equalled one tree we planted.

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Basic data on the brand:

| | |
|---|---|
| Date of establishment: | 2008 |
| Website: | www.mohito.com |
| Location of the design centre: | Cracow |
| Revenue for 2019/20 and change in % y/y: | PLN 897 mln, increase by 6.0% y/y |
| Number of brand stores (as at 31.01.2020): | 283 |
| Store area (as at 31.01.2020) and change in % y/y: | 112 ths. m², increase by 3.5% y/y |
| Number of markets and countries in which the brand is available in on-site stores: | 17 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland |
| Countries in which the brand is available in online stores: | Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Germany |

## SINSAY

2019 is the year of changes and setting a new direction in Sinsay operations. At present, the brand takes effort to respond to the needs of not only teenagers but also young women, parents and their children.

The unchanged element of the brand's activity is the Teen line created for teenagers and women up to 24 years. These offers directly respond to social media trends and are appreciated by young girls who want to look smart both at school and at parties. A new bigger Sinsay collection offers a wide variety of clothes and accessories for active and independent women. The Lady line is created for fashion lovers appreciating casual look and comfort at affordable prices. Another novelty is a collection for the youngest to be found in brand stores under the Fox & Bunny label. The collection of clothes and accessories is supplemented with the Sinsay Home line offering gadgets and interior decoration items.

Sinsay puts increasing emphasis on creating and manufacturing more eco-friendly collections. The ecological collection offers denim trousers and winter jackets made of recycled polyester.

Basic data on the brand:

| | |
|---|---|
| **Date of establishment:** | 2013 |
| **Website:** | www.sinsay.com |
| **Location of the design centre:** | Gdańsk |
| **Revenue for 2019/20 and change in % y/y:** | PLN 1 208 mln, increase by 42.0% y/y |
| **Number of brand stores (as at 31.01.2020):** | 324 |
| **Store area (as at 31.01.2020) and change in % y/y:** | 173 ths. m², increase by 68.7% y/y |
| **Number of markets and countries in which the brand is available in on-site stores:** | 17 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland |
| **Countries in which the brand is available in online stores:** | Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Germany |

## OUR BUSINESS MODEL

Our business model is defined in 4 steps:

**STEP 1:**
**DESIGNING**

**3** design offices in Poland (Gdańsk, Cracow, Warsaw)

Over **300** designers, **5** different brands

Our designers monitor latest developments in fashion capitals and, on a daily basis, pay attention to street fashion to create original collections which creatively match given-season trends (colours, patterns, models) with our customers' needs.

**STEP 2:**
**MANUFACTURING**

Over **1,200** suppliers from Asia and Europe

**2** representative offices in Asia (Shanghai, Dhaka), supporting the manufacturing process

**10%** of collections of all LPP brands manufactured in close proximity

No own manufacturing plants

We do not manufacture our collections ourselves. We cooperate with duly selected manufacturing plants in Asia and Europe, producing individual  models, taking care of high quality. We focus on sustainable development in the supply chain. Our suppliers undergo audits and training courses covering respect for human rights and employees' rights. We pay attention to our suppliers' environmental impact. In Asia, we act through our representative offices. From year to year, production in Europe is on the grow.

## STEP 3:
## DISPATCH AND LOGISTICS

**240 ths. m$^2$** of the total warehousing space

Distribution centres in Poland and abroad (Moscow, Romania, Slovakia)

Almost **11 mln** e-commerce orders executed in the financial year

Customers appreciate our collections and, every year, we sell more and more items of clothing. Therefore, on a regular basis, we develop logistics. In Pruszcz Gdański, we have one of the most state-of-the-art distribution centres in this part of Europe; our other warehousing facilities are located in Brześć Kujawski (project in progress) and abroad: in Russia, Romania and Slovakia. Furthermore, we invest in new technologies facilitating the entire process of product distribution to brand stores and the e-commerce channel.

## STEP 4:
## SALES

Our collections are available (in traditional stores and online) in **39 countries** on **3** continents

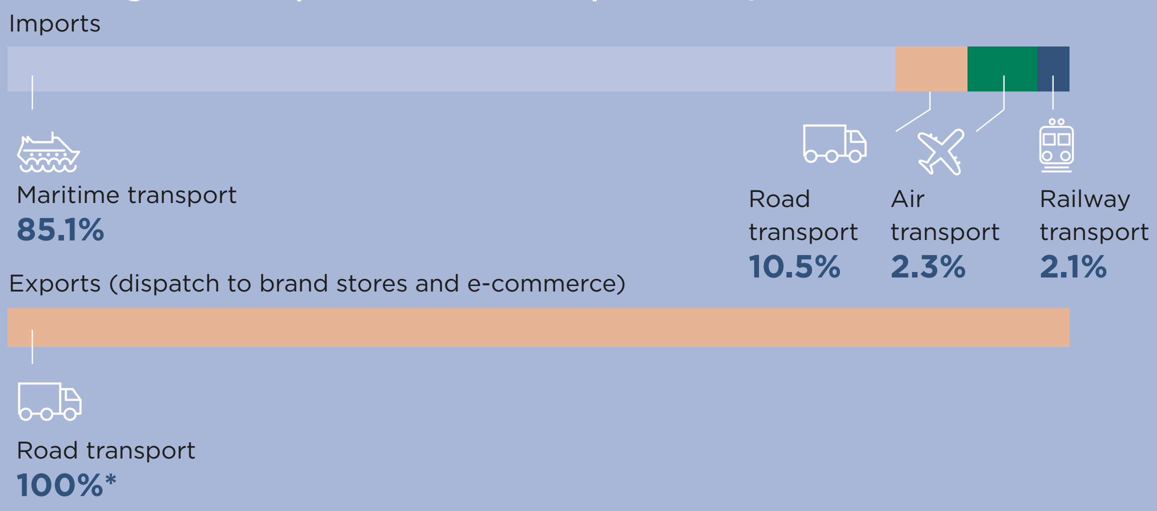
**1,746 brand** stores of the total area of **1,231 ths. m$^2$** in **25** countries

Online sales in **30** countries

Over **265 mln** of clothing items sold annually

We put emphasis on the omnichannel, offering our brand products in a constantly developing chain of traditional and online stores. Every year, LPP's collections are available for customers on new markets. We focus on customer service quality and implement contemporary Fashion Tech solutions.

**Percentage share of specific modes of transport in 2019/20:**




WHERE ARE OUR CLOTHES MADE?
Finland
Poland
Romania
Germany
Moldova
Serbia
Ukraine
Macedonia
Italy
Bulgaria
Georgia
Portugal
Turkey
Morocco
Tunisia
Egypt
Pakistan
India
Sri Lank
Mauritius

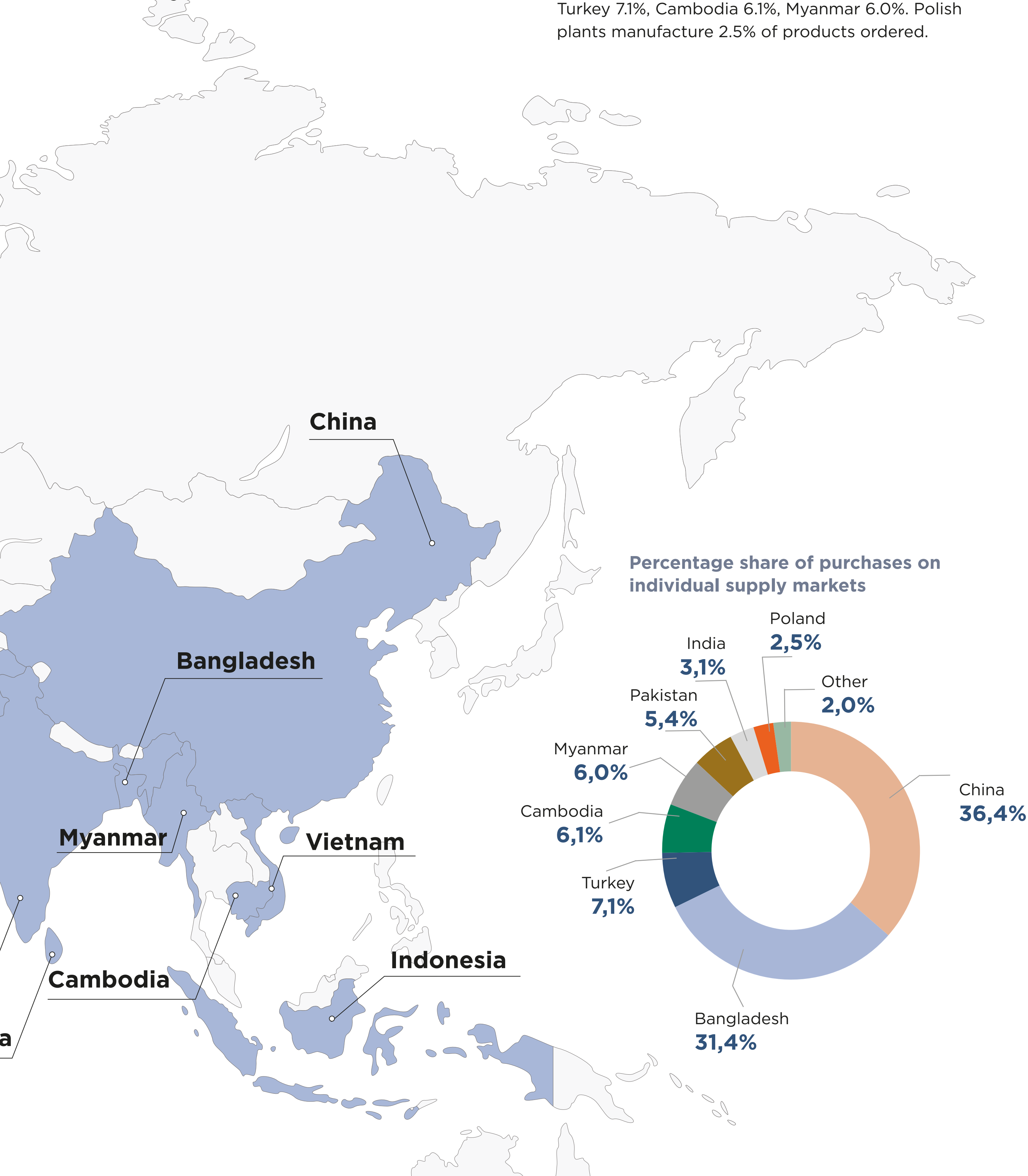
## OUR SUPPLIERS

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

Manufacturing plants cooperating with us are located in Poland, Europe and Asia.

In 2019/20, none of individual suppliers manufactured goods of a value exceeding 5% of total purchases. In 2019/20, the majority of orders were executed in China 36.4%, Bangladesh 31.4%, Turkey 7.1%, Cambodia 6.1%, Myanmar 6.0%. Polish plants manufacture 2.5% of products ordered.

**Percentage share of purchases on individual supply markets**



## OUR RECIPIENTS

Final recipients of our products both in on-site and online stores are individual customers preferring clothing purchases in a moderate price range. Each brand is addressed to a different customer group representing various styles, character and differing needs.

Direct recipients of LPP SA products are subsidiaries (foreign companies) and non-affiliated entities (mainly franchise partners). LPP SA sold goods in 38.5% on foreign markets, with 98.3% of goods being sold to foreign subsidiaries building the chains of retail stores of our individual brands locally and supplied with trading commodities by LPP SA. In the financial year, a share of one of the recipients affiliated with LPP SA exceeded 10% of the Company's sales. That company was Re Trading OOO, a Russian subsidiary. The sale to that company amounted to PLN 1 074.6 million, which accounted for 13.9% of revenues of LPP SA. The share of other recipients did not exceed 10% of sales of LPP SA.

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

As part of the franchise cooperation, LPP is required to provide any and all tools and know-how, ensuring support at each stage of the cooperation.

The pricing policy on a local market is determined jointly with a franchisee based on market research and competitors' strategy. Store replenishment is carried out on the same terms and conditions as those applicable to own brand stores, taking in consideration only climate differences and cultural factors, mainly religious restrictions.

Currently, we have 8 franchise stores of Reserved in 5 countries in the Middle East (Egypt, Qatar, Kuwait, United Arab Emirates and Israel), operated by two business partners from that region. Additionally, by 2019, we cooperated with two franchise partners in Belarus.

In 2019/20, exports sales to franchise partners reached PLN 41 452 thousand i.e. 0.5% of revenue of LPP SA.

## OUR MARKET PRESENCE

We operate in 39 countries on 3 continents, offering our products to customers in traditional and online stores.

Our chain of traditional stores comprises 1 765 retail stores of the total area of 1 230.9 thousand m².

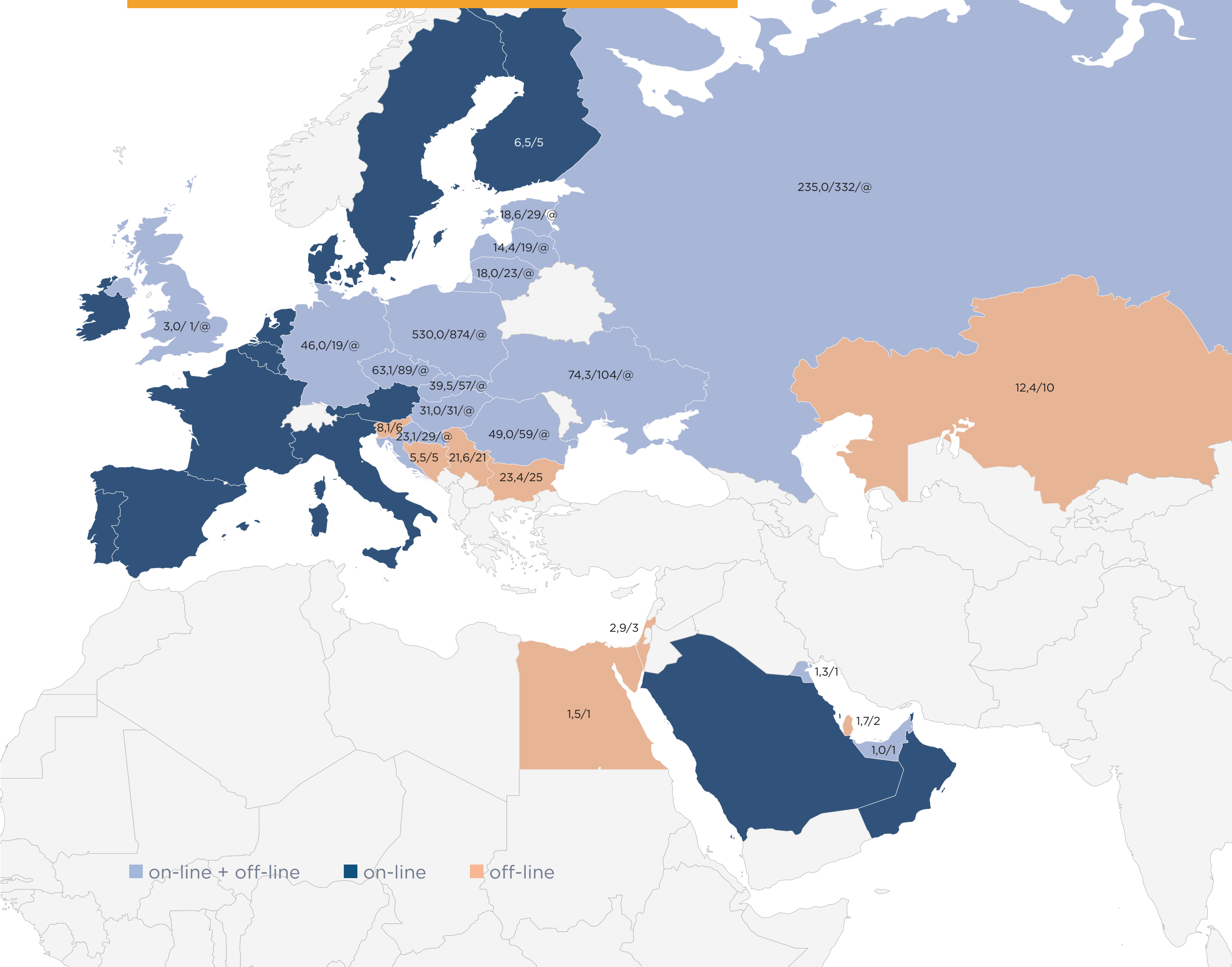
We are present online on 30 markets.

### Number and area of stores in m2 by brand as at 31.01.2020

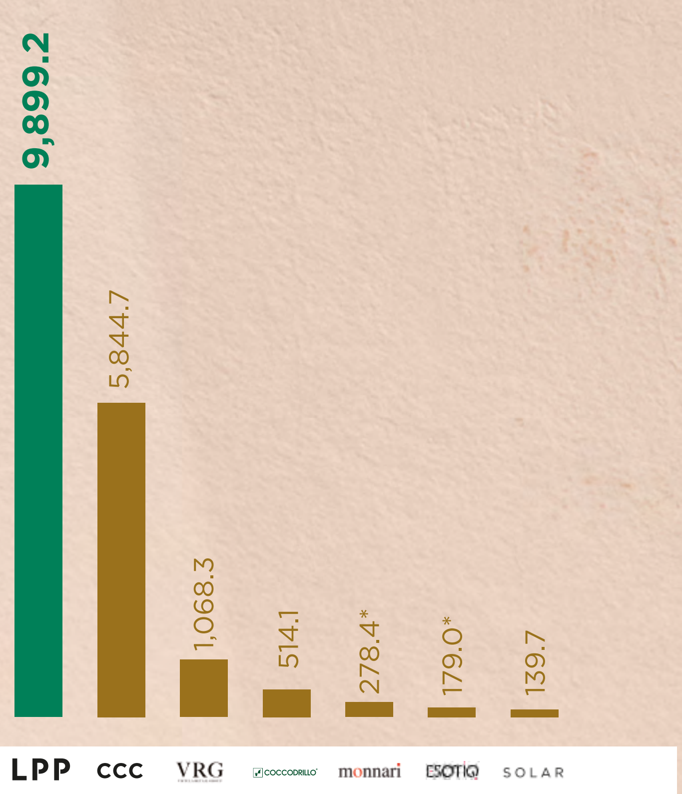
| | Reserved | Cropp | House | Mohito | Sinsay |
|---|---|---|---|---|---|
| Number of stores | 454 | 360 | 318 | 283 | 324 |
| Area of stores in m² | 664.8 | 147.9 | 127.4 | 111.7 | 173.3 |

### LPP Group worldwide

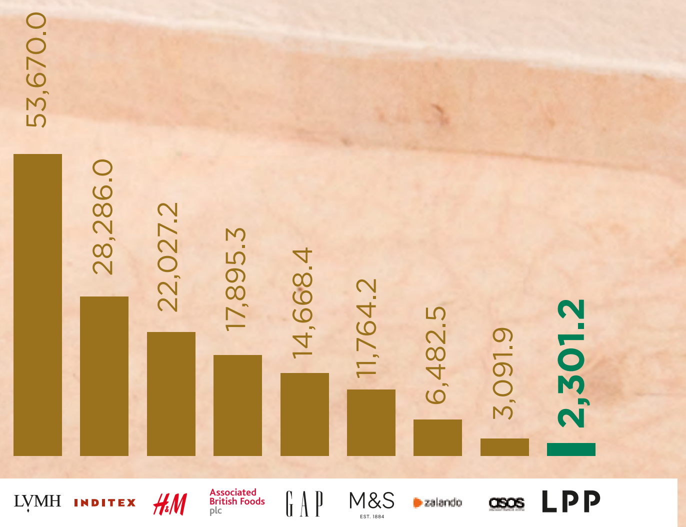
area – m² (thousands) / Number of stores/E-store



## ON THE POLISH MARKET, WE ARE A LEADER.




**LPP versus domestic competitors**
Consolidated revenues (in PLN mln)




**LPP versus global competitors**
Consolidated revenues (in EUR mln)

*estimated data

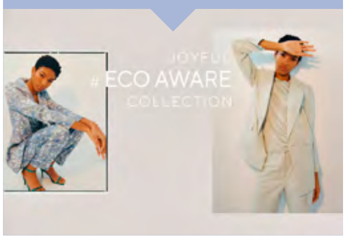
## KEY EVENTS IN 2019/20

### January

Due to e-commerce development, we increased the warehousing space (Fulfilment Centre) in Stryków to 46,400 m².

### March/April

We launched our operations in Bosnia and Hercegovina, the 24th on-site store market, by opening retail stores of our 5 brands, of the total area of 5,500 m².


We launched online stores of all our brands on the Croatian market, thus increasing out online presence to 12 markets.

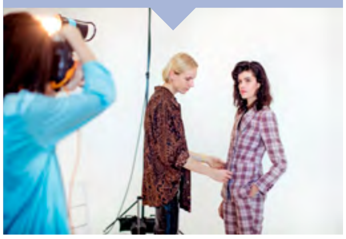
### May

We concluded the agreement on the lease of warehousing space in Slovakia where, in January 2020, we launched a warehouse dedicated to e-commerce services (Fulfilment Centre).

### August

We made the decision to enter the 26th on-site store market i.e. North Macedonia (plans for 2021).

We started online sales in Ukraine, our 13th own e-commerce market, and we launched a Pan-European online store.



## September

As the first Polish company, we joined the New Plastics Economy Global Commitment, a global initiative for circular economy in the area of plastic management.

We launched the international Reserved campaign starring the top model Kendall Jenner.

We opened a warehouse (Fulfilment Centre) in Romania, supporting our e-commerce channel in South Eastern Europe.

## October


We opened stores of our all 5 brands (of an area of 6,520 m²) in Helsinki, Finland, the 25th country in which LPP sells goods in traditional stores.


We announced the new LPP sustainable Development Strategy for the years 2020-2025.

## December


We issued 5-year LPP bonds of the total nominal value of PLN 300 mln, quoted on the Catalyst bond market in the Alternative Trading System (ATS).

# OUR FINANCIAL POSITION AND RESULTS FOR 2019/20

## NUMBER OF OUR STORES AND RETAIL SPACE

At the end of 2019/20, we had the chain of 1 746 traditional stores, of the total area of 1,230.9 thousand m², operating in 25 countries. Abroad, we operated 872 stores (700.9 thousand m²). Compared with 2018/19, the total retail space increased by 14.4%.

The largest nominal increase in retail space y/y and the largest growth dynamics y/y were recorded by Sinsay owing to the brand's consistent development both domestically and abroad.

| | 31.01.2020 | 31.01.2019 | |
|---|---|---|---|
| | Number of stores | Number of stores | Change y/y |
| Reserved | 454 | 452 | 2 |
| Cropp | 360 | 369 | -9 |
| House | 318 | 329 | -11 |
| Mohito | 283 | 292 | -9 |
| Sinsay | 324 | 271 | 53 |
| Outlet | 7 | 28 | -21 |
| **Total LPP Group** | **1,746** | **1,741** | **5** |

| | 31.01.2020 | 31.01.2019 | |
|---|---|---|---|
| | Area in thousand m² | Area in thousand m² | Change y/y (%) |
| Reserved | 664.8 | 605.0 | 9.9% |
| Cropp | 147.9 | 132.8 | 11.4% |
| House | 127.4 | 115.2 | 10.6% |
| Mohito | 111.7 | 107.9 | 3.5% |
| Sinsay | 173.3 | 102.7 | 68.7% |
| Outlet | 5.8 | 12.0 | -51.9% |
| **Total LPP Group** | **1,230.9** | **1,075.6** | **14.4%** |

## SALE BY BRAND

The highest nominal sales growth in 2019/20 was recorded by Sinsay owing to highly-appreciated collections and consistent space development (new stores opened, including new markets such as Slovenia, Bosnia and Hercegovina and Finland, and extension of existing stores).

The largest sales dynamics in 2019/20 was recorded also by Sinsay owing to a successful collection and dynamic space development.

At the same time, compared to space development, revenues of Reserved (in on-site stores) grew less dynamically due to increased migration of selected collections e.g. children's collections to the Internet.

Three brands i.e. Reserved, Cropp and Mohito generated in 2019/20 more revenue abroad than domestically.

Sales in retail stores of specific brands and online for 2019/20 is given in the table below.

| *In PLN mln* | Sales 2019/20 | Sales 2018/19 | Sales y/y (%) | Sales 2018 |
|---|---|---|---|---|
| Reserved | 4,047 | 3,881 | 4.3% | 3,578 |
| Cropp | 1,300 | 1,206 | 7.8% | 1,120 |
| House | 1,117 | 993 | 12.6% | 920 |
| Mohito | 897 | 846 | 6.0% | 782 |
| Sinsay | 1,208 | 851 | 42.0% | 789 |
| eCommerce | 1,174 | 802 | 46.3% | 712 |
| Other | 156 | 178 | -12.4% | 146 |
| **Total** | **9,899** | **8,756** | **13.1%** | **8,047** |

## OUR SALES IN LFL STORES

In 2019/20, sales revenue in like-for-like (LFL) stores in local currencies increased by 3.6%.

In the reporting period, positive LFLs were recorded by all brands. The highest (two-digit) LFLs were generated by Sinsay.

Geographically, the highest (two-digit) LFLs were recorded by countries such as Ukraine, Romania, Great Britain and Lithuania.

## ONLINE SALES

In 2019/20, the LPP SA Group generated revenue of PLN 1 174 mln from online sales, i.e. 46.3% more than a year ago. High two-digit growths in online sales result from the development of e-stores outside Poland, marketing expenses (cooperation with fashion bloggers and influencers) and changes in Polish customers' habits (Sunday trading ban). In 2019/20, revenues from online sales accounted for 11.9% of the Group's sales and 13.4% of domestic revenues. Approx. 55% of online sales were generated by domestic sales.

| | 2019/20 | 2018/19 | Change y/y (%) | 2018 |
|---|---|---|---|---|
| Sales in PLN mln | 1,174.1 | 802.3 | 46.3% | 712.1 |

## SALES REVENUES BROKEN DOWN BY COUNTRY AND REGION

In 2019/20, our Group recorded a dynamic sales growth in the Middle East and other European countries, resulting from, respectively: revenues generated on the Israeli market and high dynamics in CEE and SEE countries. A dynamic growth in sales was generated also by almost all countries of the CIS region (except Belarus).

In 2019/20, the highest nominal growth in revenues y/y was recorded in Russia, Poland, Romania and Ukraine.

Poland, Russia, Ukraine, the Czech Republic and Romania are countries with the largest percentage share in revenues of the entire Group for 2019/20.

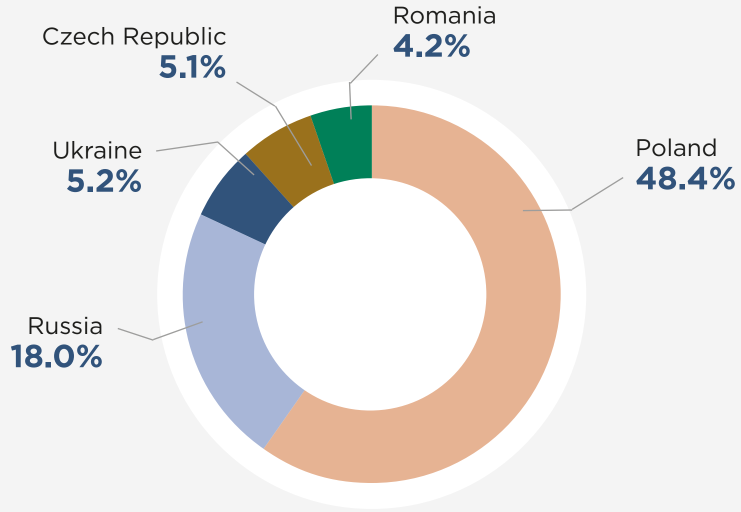
Revenues from sales generated by our companies operating in specific countries and regions are given in table below (with the exclusion of intra--Group sales):

| Country | 2019/20 | 2018/19 | Change y/y (%) | 2018 |
|---|---|---|---|---|
| Poland | 4,793,288 | 4,647,362 | 3.1% | 4,274,487 |
| Czech Republic | 504,207 | 448,498 | 12.4% | 412,477 |
| Slovakia | 303,004 | 270,302 | 12.1% | 249,086 |
| Hungary | 250,712 | 196,254 | 27.7% | 178,575 |
| Lithuania | 163,802 | 141,283 | 15.9% | 131,110 |
| Latvia | 129,512 | 107,509 | 20.5% | 98,796 |
| Estonia | 143,511 | 138,875 | 3.3% | 128,104 |
| Russia | 1,779,836 | 1,520,813 | 17.0% | 1,404,776 |
| Ukraine | 509,837 | 376,840 | 35.3% | 344,509 |
| Belarus* | 10,895 | 19,033 | -42.8% | 17,293 |
| Kazakhstan | 32,155 | 6,970 | 361.3% | 3,558 |
| Bulgaria | 111,697 | 89,814 | 24.4% | 82,438 |
| Romania | 416,386 | 280,166 | 48.6% | 251,898 |
| Croatia | 157,282 | 106,099 | 48.2% | 96,657 |
| Serbia | 82,837 | 34,256 | 141.8% | 29,252 |
| Slovenia | 23,009 | 2,972 | 674.2% | 2,338 |
| Bosnia and Hercegovina | 21,242 | - | - | - |
| Germany | 356,414 | 295,978 | 20.4% | 274,115 |
| Great Britain | 56,657 | 48,728 | 16.3% | 45,575 |
| Finland | 20,153 | - | - | - |
| Middle East* | 32,806 | 24,156 | 35.8% | 21,712 |
| **Total** | **9,899,243** | **8,755,909** | **13.1%** | **8,046,756** |

| Country | 2019/20 | 2018/19 | Change y/y (%) | 2018 |
|---|---|---|---|---|
| Poland | 4,793,288 | 4,647,362 | 3.1% | 4,274,487 |
| Other European countries | 2,740,426 | 2,160,735 | 26.8% | 1,980,421 |
| Russia, Ukraine, Belarus*, Kazakhstan | 2,332,723 | 1,923,656 | 21.3% | 1,770,136 |
| Middle East* | 32,806 | 24,156 | 35.8% | 21,712 |
| **Total** | **9,899,243** | **8,755,909** | **13.1%** | **8,046,756** |

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

TOP 5 countries by revenue




## SALE BY M²

In 2019/20, retail sales per m² of the LPP Group (in on-site stores) decreased by 1.0% compared to the preceding year.

| | 2019/20 | 2018/19 | Change y/y (%) | 2018 |
|---|---|---|---|---|
| Retail sales per m²/month in PLN* | 586 | 592 | -1.0% | 613 |

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

In 2019/20, the Group's total sales per m² increased by 2.2% compared to the preceding year.

| | 2019/20 | 2018/19 | Change y/y (%) | 2018 |
|---|---|---|---|---|
| Total sales per m²/month in PLN* | 671 | 657 | 2.2% | 662 |

* This indicator is calculated as the Group's sales divided by the average total working floor space / 13

## OPERATING COSTS

Our operating costs include costs of own stores and franchise stores in Poland, distribution costs and general costs. Costs of own stores comprise rental, payroll and other costs while distribution costs comprise the costs of logistics and e-commerce. General costs include marketing costs, back-office costs, costs of the sales and product departments – costs of the head office in Gdańsk, offices in Cracow and Warsaw and offices of foreign subsidiaries.

In 2019/20, the Group recorded an increase in operating costs by 10.2%, mainly due to the increase in distribution costs i.e. e-commerce, logistics and general costs, including marketing costs.

| | 2019/20 (IFRS 16) | 2018/19 (IAS 17) | Change y/y (%) | 2018 |
|---|---|---|---|---|
| Operating costs (in PLN mln) | 4,213 | 3,822 | 10.2% | 3,532 |
| Operating costs per m²/month | 287 | 289 | -0.8% | 291 |

## CAPITAL INVESTMENTS AND EXPENDITURES

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

In 2019/20, our capital expenditures (CAPEX) amounted to PLN 1 003.8 mln, of which PLN 729 mln were designated for the construction of new brand stores and modernisation of existing stores both domestically and abroad. We spent PLN 86 mln on the construction and extension of our offices. Capital expenditures in logistics, amounting to PLN 133 mln, were made for the expansion of the existing Distribution Centre in Pruszcz Gdański. IT expenditures amounted to PLN 56 mln. In total, capital expenditures in 2019/20 were 7.7% higher compared to 2018, with such increase resulting from investments made for extending our brand stores, head offices and the Distribution Centre.

## INVENTORY

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

In 2019/20, the inventory level was higher by 58.7% and the inventory level per m² was higher by 38.0% compared to 2018 due to space and online sales development as well as consequent increase in replenishment, specifically in Sinsay (planned openings of new Sinsay stores).

The inventory increase resulted also from the continued strategy of earlier introduction to trading of spring collections and shortened clearance sales of winter collections.

Our long-term goal is to balance trade liabilities with inventory. We reached that goal in Q3 2018.

| | 31.01.2020 | 31.01.2019 | Change y/y (%) | 31.12.2018 |
|---|---|---|---|---|
| Inventory (PLN mln) | 1,921 | 1,210 | 58.7% | 1,590 |
| Inventory per m² in PLN | 1,572 | 1,138 | 38.0% | 1,474 |

## EQUITY (STRUCTURE OF OUR ASSETS AND LIABILITIES)

The assets of our Group comprise two major components: (1) fixed assets being store fixtures and equipment, in the amount of PLN 2 312 mln, and (2) inventories of trading commodities in the amount of PLN 1 921 mln as at the end of 2019/20. The value of fixed assets will increase along with development of our sales network and the increase in the number of stores. The volume of inventories depends on the size of retail space and increases as subsequent online stores are being launched. At the same time, we work on diminishing our financial engagement in inventories by reducing store replenishment and, simultaneously, by accelerating goods rotation which should translate into an increased efficiency of operations.

The LPP SA Group pursues a conservative liabilities management policy aimed at maintaining a safe financing structure. Before implementation of IFRS 16, our goal was to maintain an over 50% share of equity capital in liabilities, after its implementation – the goal is to maintain an over 30% share. At the end of 2019/20, the share of equity capital in liabilities was 33.8%, with equity capital amounting to PLN 3 247 mln. We finance our operations also with liabilities owed to suppliers (aiming at prolonging the liabilities turnover cycle) and employing credit facilities, investment loans and overdrafts. At the end of 2019/20, the balance of bank loans was PLN 281 mln and was higher by PLN 51.3 mln compared to the balance as at the end of the preceding year.

## BASIC ECONOMIC AND FINANCIAL FIGURES OF THE LPP SA GROUP AND SELECTED INDICATORS

| | 2019/20 | 2018/19 | Change y/y (%) | 2018 |
|---|---|---|---|---|
| Revenues | 9,899,243 | 8,755,909 | 13.1% | 8,046,756 |
| Gross profit on sales | 5,145,715 | 4,628,270 | 11.2% | 4,401,259 |
| Costs of stores and general costs | 4,213,102 | 3,822,348 | 10.2% | 3,532,173 |
| EBITDA | 1,899,456 | 1,115,166 | 70.3% | 1,105,723 |
| Operating profit (loss) | 805,672 | 688,249 | 17.1% | 756,560 |
| Net profit (loss) | 421,039 | 442,486 | -4.8% | 505,176 |
| Equity | 3,247,491 | 2,815,702 | 15.3% | 2,860,553 |
| Liabilities and provisions for liabilities: | 6,358,386 | 5,090,631 | 24.9% | 2,520,270 |
| Long-term liabilities | 3,159,266 | 2,634,305 | 19.9% | 346,148 |
| Short-term liabilities: | 3,199,120 | 2,456,326 | 30.2% | 2,174,122 |
| - bank loans | 109,451 | 145,301 | -24.7% | 203,196 |
| - owed to suppliers and other | 2,053,635 | 1,286,535 | 59.6% | 1,497,511 |
| Non-current assets | 5,870,719 | 5,279,524 | 11.2% | 2,417,752 |
| Current assets, including: | 3,735,143 | 2,626,794 | 42.2% | 2,963,056 |
| Inventory | 1,921,139 | 1,210,260 | 58.7% | 1,590,368 |
| Trade receivables | 143,783 | 103,557 | 38.8% | 121,729 |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## PROFITABILITY RATIOS

| | 2019/20 | 2018/19 | Change y/y (p.p) | 2018 |
|---|---|---|---|---|
| Gross profit margin on sales | 52.0% | 52.9% | -0.9 | 54.7% |
| Operating profit margin | 8.1% | 7.9% | 0.3 | 9.4% |
| Return on sales (ROS) | 4.3% | 5.1% | -0.8 | 6.3% |
| Return on assets (ROA) | 4.8% | 7.2% | -2.4 | 10.4% |
| Return on equity (ROE) | 13.9% | 16.8% | -2.9 | 19.0% |

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

## LIQUIDITY RATIOS

| | 2019/20 | 2018/19 | Change y/y (%) | 2018 |
|---|---|---|---|---|
| Current liquidity ratio | 1.2 | 1.1 | 9.2% | 1.4 |
| Quick liquidity ratio | 0.6 | 0.6 | -1.7% | 0.6 |
| Inventory turnover (days) | 130 | 129 | 1.3% | 153 |
| Receivables turnover (days) | 5 | 7 | -27.8% | 7 |
| Trade liabilities turnover (days) | 139 | 125 | 11.0% | 141 |

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

## ASSET MANAGEMENT RATIOS

| | 2019/20 | 2018/19 | Change y/y (pp) | 2018 |
|---|---|---|---|---|
| Fixed assets to equity ratio | 55.3% | 53.3% | 2.0 | 118.3% |
| Total debt ratio | 66.2% | 64.4% | 1.8 | 46.8% |
| Short-term debt ratio | 33.3% | 31.1% | 2.2 | 40.4% |
| Long-term debt ratio | 32.9% | 33.3% | -0.4 | 6.4% |
| Rotacja zobowiązań handlowych (dni) | 139 | 125 | 11,0% | 141 |

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

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

In 2019/20, the increase by 13.1% in sales revenues compared to the previous year was achieved owing to very goods sales through both channels: traditional stores and e-commerce. The increase in sales in traditional stores resulted from increased retail space (by 14.4% y/y) and positive LFLs. The increase in online sales stemmed from geographical growth and marketing outlays.

In 2019/20, the trade margin decreased to 52%, i.e. by 0.9 pp compared to 2018/19 due to disadvantageous weather in May and December and a higher share of the Sinsay brand in sales, generating lower trade margins.

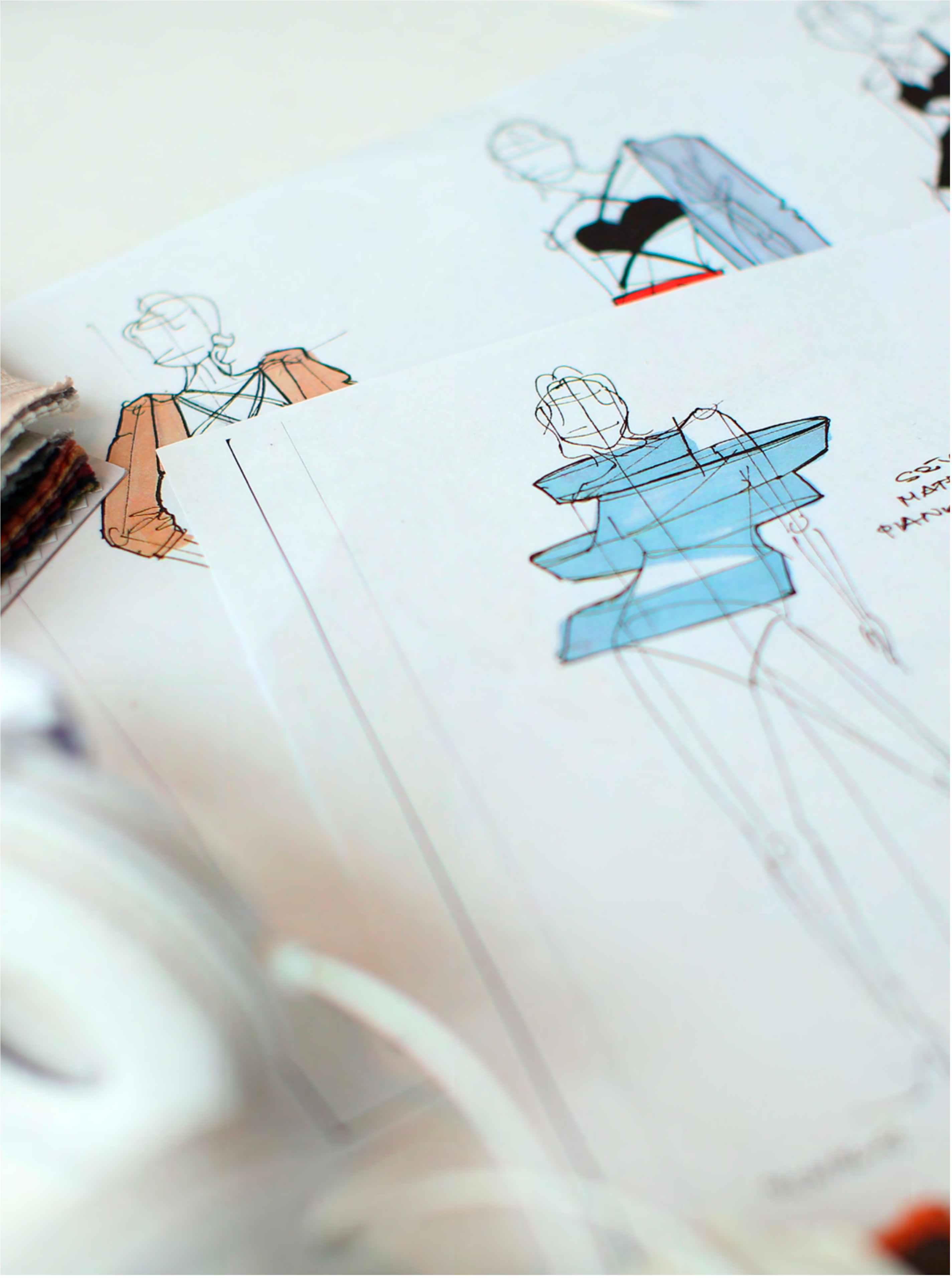
Operating costs increased in 2019/20 by 10.2% y/y, with growth values being lower, however, than the increase in sales revenues. At the same time, comparability of operating cost dynamics y/y is limited due to the application of IFRS 16.

As regards financial activity, in 2019/20, we recorded a less advantageous impact y/y of net financial activity due to negative foreign exchange differences and application of IFRS 16.

Consequently, in 2019/20, the LPP Group generated net profit of PLN 421 039 thousand, i.e. lower by 4.8% y/y, being affected by IFRS 16.

## BASIC ECONOMIC AND FINANCIAL FIGURES OF LPP SA (PARENT COMPANY)

| | 2019/20 | 2018/19 | Change y/y (%) | 2018 |
|---|---|---|---|---|
| Revenues | 7,718,922 | 6,934,622 | 11.3% | 6,368,237 |
| Gross profit on sales | 2,960,187 | 2,892,307 | 2.3% | 2,745,068 |
| Costs of stores and general costs | 2,587,728 | 2,459,215 | 5.2% | 2,290,702 |
| EBITDA | 763,909 | 576,811 | 32.4% | 564,974 |
| Operating profit (loss) | 301,705 | 360,575 | -16.3% | 382,942 |
| **Net profit (loss)** | **421,697** | **570,601** | **-26.1%** | **592,295** |
| Equity | 3,393,887 | 3,053,448 | 11.1% | 3,075,142 |
| Liabilities and provisions for liabilities: | 3,861,955 | 2,761,442 | 39.9% | 2,068,124 |
| Long-term liabilities | 1,340,554 | 989,556 | 35.5% | 237,490 |
| Short-term liabilities, including: | 2,521,401 | 1,771,886 | 42.3% | 1,830,634 |
| - bank loans | 60,162 | 53,179 | 13.1% | 89,695 |
| - owed to suppliers and other | 1,934,036 | 1,141,142 | 69.5% | 1,363,900 |
| Non-current assets | 4,432,309 | 4,030,032 | 10.0% | 3,067,956 |
| Current assets, including: | 2,823,533 | 1,784,858 | 58.2% | 2,075,310 |
| Inventories | 1,365,814 | 768,894 | 77.6% | 1,164,410 |
| Trade receivables | 225,195 | 145,748 | 54.5% | 114,525 |



# GOALS SET AND FINANCIAL RISK MANAGEMENT METHODS ADOPTED

## FINANCIAL LIQUIDITY RISK

Financial liquidity is the company's capacity to timely pay financial liabilities. This is closely related to the company's ability to generate cash and manage its funds.

The business model adopted by our Group (sale of goods for cash to an end-purchaser) guarantees that we will generate, on a constant basis, day-to-day cash proceeds, and that we will not depend on single large recipients. Liquidity management consists in goods management, in determining adequate prices and margins and in the strict control of costs and expenses. The Company uses also external financing (bank letters of credit) to cover short-term liquidity fluctuations resulting mainly from the seasonality of sales and the goods ordering cycle.

The Company's liquidity is audited by way of day-to-day monitoring of the balance of bank accounts, creating cash flow forecasts for monthly periods and by planning cash flows between subsidiaries and LPP SA.

The important element of liquidity risk management is also adequate management of working capital. To that end, the Company uses the supplier financing programme (reversed factoring). Owing to that programme, the Company attains its long-term goal of balancing trade liabilities with inventory i.e. the release of working capital.

## CREDIT RISK

The yielding by the Group of profit on a long-term basis increases financial safety and makes it possible to gain creditworthiness on the market, which is an important element of the company's image, guaranteeing its development and stability.

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

## INVESTMENT RISK

The investment risk involves failure to gain expected results from an investment venture or prolongation in time of investment completion. Such risk may stem from the lack of detailed knowledge of the investment-related issues, excessive financial engagement considering the company's capacities and occurrence of unexpected circumstances.

The Group invests in ventures falling within the scope of its competences, which makes a success

more probable. The Company's key investments involve the development of the sales network in Poland and abroad, construction of Distribution Centres and Fashion Tech projects.

Simultaneously, the Group avoids investments in other sectors and capital market instruments.

## INTEREST RATE RISK

The interest rate risk is related to the utilisation by the Company of bank loans and, a to a lesser extent, loans extended.

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

## CURRENCY RISK

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

# MANAGEMENT OF FINANCIAL RESOURCES

The management of financial resources entails the adoption of decisions concerning the sourcing of funds utilised for the company's operations and development.

To pursue its operations, the Group must have both material resources (goods) and funds i.e. financial resources. Material and financial resources are inter-related. The Group needs to have financial resources to finance both its day-to-day transactions (eg. payment for goods and services) and investments (brand stores, distribution centres), supporting ongoing operations and being, indirectly, the source of inflows for the Group. Funds gained increase the Group's financial resources and are used in a subsequent cycle of its operations. The cash flow timing and intensity are of importance, and that requires to be managed properly.

In our Group, the management of financial resources consists in controlling indebtedness, timely performance of liabilities as well as monitoring of the level and structure of our Company's current assets. Owing to effective management of financial resources, the Group is capable of gaining profits and carrying out the adopted strategy.

Our basic business model consisting in retail sales allows to receive immediate payments for goods sold. Proceeds generated and bank loan agreements concluded safeguard in full the discharge of liabilities incurred.

## CREDIT COMMITMENTS

Our internal policy of entering into and paying credit commitments is centralised and implemented by LPP SA, the Parent Company. As part of short-term borrowings, LPP SA may utilise multi-purpose credit lines which may be appropriated for bank guarantees, letters of credit or as a revolving loan used occasionally if need be and repaid from on-going inflows. We strive at minimising indebtedness to maintain financial security.

At the end of the financial year, LPP had multi-purpose credit lines in 6 banks, in the total amount of PLN 1.4 billion, utilised for specific products: PLN 111 mln - bank guarantees, PLN 207 mln - letters of credit, with no overdraft utilised.

The only exceptions from the centralisation principle are two subsidiaries: LPP Russia and LPP Ukraine, utilising short-term borrowings in the form of revolving loans (extended by local banks in Russia and Ukraine), with such commitments being repaid to creditors from on-going inflows. At the end of the financial year, following conversion to PLN, revolving loans were utilised in the amount of PLN 49.3 mln by the Russian company only.

Additionally, the Company uses the supplier financing programme (reversed factoring) based on which it is possible to negotiate better conditions for payment deferral with suppliers, reduce financing costs and increase LPP's liquidity. As at 31 January 2020, reversed factoring was utilised in the amount of PLN 1.1. bln.

Furthermore, the Company has a long-term debt utilised for investment projects (construction and extension of distribution centres and the head office). At the end of the financial year, the value of investment loans was PLN 231.7 mln.

## BONDS

In 2019, to diversify sources of financial resources, the Company issued 300 thousand unsecured ordinary 5-year bearer bonds of the A series. Bonds of the nominal value of PLN 1 thousand per bond, of the total value of PLN 300 mln, charged with WIBOR 6M increased with a margin of 1.1%, will be redeemed on 12 December 2024. Bonds were issued as part of non-public placement and were offered to specific qualified investors.

Bonds have no paper form and are registered in the depository of securities kept by Krajowy Depozyt Papierów Wartościowych SA and were introduced to trading on the Catalyst bond market in the Alternative Trading System operated by Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange).

## FINANCIAL SURPLUSES

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

At the end of 2019/20, the Group had PLN 1 361 mln in cash; after deducting the debt, we showed PLN 789 mln, compared to PLN 841 mln a year ago. Additionally, we held PLN 97 mln in money market funds (financial assets), which are not shown in the "cash" item.

The balance of short-term, long-term loans and bonds and net cash in PLN thousand is given in the table below. Credit consumption as at 31 January 2020 is shown in a relevant table in the consolidated financial statements (note 22) and separate financial statements (note 24).

| | 31.01.2020 | 31.01.2019 | Change y/y (%) | 31.12.2018 |
|---|---|---|---|---|
| Short-term debt | 109,451 | 145,301 | -24.7% | 203,196 |
| Long-term debt | 171,234 | 84,123 | 103.6% | 88,575 |
| Bonds | 291,675 | 0 | - | 0 |
| Cash | 1,361,474 | 1,070,337 | 27.2% | 1,044,969 |
| **Net debt (net cash)** | **-789,114** | **-840,913** | **-6.2%** | **-753,198** |

## TRANSFER PRICING POLICY AND CENTRALISED CURRENCY MANAGEMENT

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

By selling goods to subsidiaries and also by applying the transfer pricing policy and issuing invoices to subsidiaries, LPP SA regulates their profitability and its flow of revenues. By centralising the money flow received as given above from part of revenues yielded by subsidiaries, LPP SA generates multi-currency revenues. The FC position is managed based on spot and futures transactions.

The Company performs currency operations with financial institutions both domestically and abroad.

## FINANCIAL PRODUCTS

The following financial instruments were identified in the Company: bank loans taken out, bank deposits, participation units in money market funds, bonds, loans extended, derivatives transactions i.e. forward foreign exchange contracts aimed at managing foreign exchange risk involved in the purchase of trading commodities abroad.

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

Additionally, the Company utilises embedded currency derivatives related to retail space lease agreements, with rent calculated based on the currency exchange rate, and receivables in foreign currencies, resulting from the sale of trade commodities to foreign contracting parties. These instruments are neither measured nor shown in the balance sheet, which is compliant with IAS on the detailed principles for the recognition, measurement, disclosure and presentation of financial instruments.

# STRATEGY, PLANS AND PERSPECTIVES

For several years now, our strategy has been invariably based on three pillars:
- development of our 5 fashion brands, with a moderate price range, dedicated to different customer groups,
- foreign expansion by further extension of the on-site store chain and
- development of online stores by increasing their availability in new countries.

At the same time, in response to the technological revolution in the clothing sector, we focus on engaging in Fashion Tech projects without which our business strategy could not be carried out.

As the importance of responsible business is on the grow, our strategy involves also care for our environment i.e. LPP's development based on sustainable rules governing all processes in our Company.

Our goal is to become a global company with brands recognisable all over the world. In a long-term perspective, we want to achieve that goal by further expansion involving development of the traditional store chain (increasing retail space y/y) and the online store network. We plan to develop the sale of our collections simultaneously in both channels which, permeating, create the omnichannel. The pursuit of our strategy will allow us to gain successive increases in the Group's revenue y/y.

## BRAND EXPANSION

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

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

Our brands are dedicated to different customer groups, starting from children (part of the Reserved brand) through teenagers (Cropp, House, Sinsay) to more mature customers (Reserved, Mohito). All our brands fall within a moderate price range.

At present, we have no plans for creating any new brands, with our efforts being concentrated on developing the brands we already own, with special emphasis put on Sinsay, our youngest brand.

**Brand expansion**

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

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

Brand development would not be comprehensive if not effected in individual countries. Our goal is to diversify the Group's revenues, i.e. to increase the share of sales abroad. Currently, revenues from foreign markets constitute already over the half of our Group's revenues.

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

- **Central and Eastern Europe (CEE)**, covering countries such as Poland, the Czech Republic, Slovakia, Hungary. For us, this is a mature market due to the long-standing presence of our brands in this area. Therefore, on this market, we focus mainly on quality and not the number of stores. Consequently, as provided for in our strategy, in Central and Eastern Europe, we plan to implement the project involving modernisation of the on-site store network and regularly expand stores to implement the omnichannel concept in full.

- **Baltic Sea Region (BSR)**, with our brand stores operating in Lithuania, Latvia and Estonia. Just like the CEE markets, these three markets are considered mature, with emphasis put mainly on quality and not the number of stores.

- **Commonwealth of Independent States (CIS)** i.e. Russia, Ukraine, Belarus, Kazakhstan – these are the markets where we see a long-term brand development potential, specifically on the Russian market being the second largest source of the Group's revenue after Poland.

- **South Eastern Europe (SEE)** i.e. Bulgaria, Romania, Croatia, Serbia and Slovenia - markets with a large development potential for all LPP's brands. In 2019, we strengthened our presence there by opening brand stores in Bosnia and Hercegovina. Further expansion is planned for 2021 – the launching of our brand stores in North Macedonia.

- **Western Europe (WE)** i.e. Germany, Great Britain and Finland - this is an early-growth region with a substantial development potential. In Germany, we operate 19 Reserved stores in major cities and, at present, we plan no new openings on this market. Our goal is to increase recognisability of the Reserved brand based on the current retail network in Germany and to gradually increase its profitability.
In Great Britain, we have pursued business activity since 2017, having launched the Reserved flagship store in a prestigious venue – at the famous Oxford Street in London.

  In Finland, we launched stores of all our brands in the second half of 2019, with our stores opened in one of the most important shopping centres in Helsinki.

  Our strategy for Western Europe entails, among others, building the recognition of the Reserved brand, which will enable us to become a global company in the future.

- **Middle East (ME)** i.e. Egypt, Qatar, Kuwait, United Arab Emirates, Israel. Having launched the Reserved brand in that region, we expand our presence in cooperation with a franchise partner. For us, this is an early-growth region, with quite a potential recognised specifically in Israel.

### Expansion by country:

| | |
|---|---|
| **1998** | Poland |
| **2002** | Russia, Latvia, Estonia, the Czech Republic, Hungary |
| **2003** | Ukraine, Slovakia, Lithuania |
| **2007** | Romania |
| **2008** | Bulgaria |
| **2014** | Croatia, Germany |
| **2015** | Egypt, Qatar, Kuwait, Saudi Arabia |
| **2016** | United Arab Emirates |
| **2017** | Great Britain, Belarus, Serbia |
| **2018** | Kazakhstan, Slovenia, Israel |
| **2019** | Bosnia and Hercegovina, Finland |

## EXPANSION BY DEVELOPING ONLINE STORES IN SPECIFIC COUNTRIES

In response to changing customer preferences and habits as well as omnipresent digitalisation and consequent retail market transformation, our strategy provides for the development of the online store network, apart from the development of on-site stores. Due to the outbreak of COVID-19 epidemic, our strategy has evolved towards more intensified development of the online sales channel which has become our priority.

In 2019, we launched a Pan-European online store. Consequently, at the end of 2019/20, our online offer was available in 30 countries.

**Expansion of e-stores by country:**

| | |
|---|---|
| **2011** | Poland |
| **2014** | Germany |
| **2015** | Czech Republic, Slovakia, Romania |
| **2016** | Hungary |
| **2017** | Latvia, Lithuania, Estonia, Great Britain, Russia |
| **2018** | countries of the Middle East through our franchise partner: Bahrain, Kuwait, United Arab Emirates, Oman, Saudi Arabia |
| **2019** | Croatia, Ukraine, the Pan-European online store – EU countries |

## OUR SHORT-TERM PLANS AND FINANCIAL GOALS

Due to the outbreak of the COVID-19 pandemic and consequent global socio-economic changes, we have reviewed and modified our short-term development plans and financial goals for the next financial year.

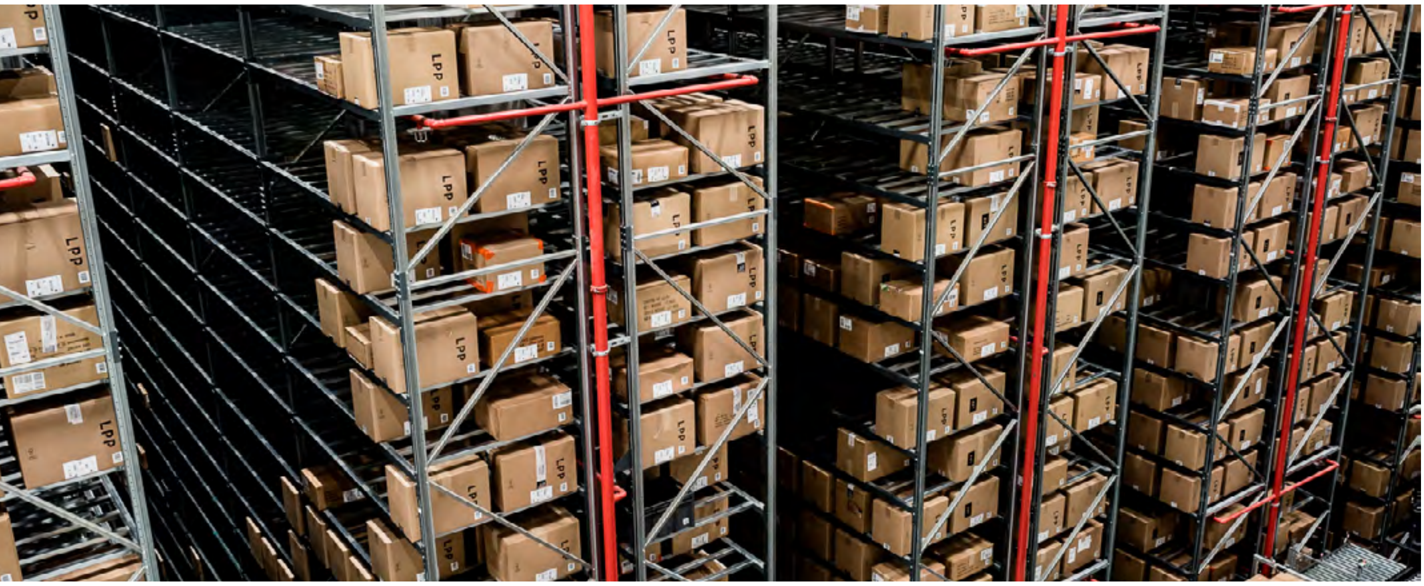
In 2020/21, we plan a 8% increase in retail space, putting special emphasis on space development in our younger brands: Sinsay, House and Cropp. In geographical terms, we assume that retail space in Poland will grow selectively and we will continue to develop the on-site sale network in Europe and accelerate our operations in the CIS region.

Simultaneously, in consideration of the large potential of online sales, we plan to continue its dynamic development. We intend to develop e-commerce through new markets, use implemented RFiD in this channel and introduce further improvements in logistics. We plan that, owing to such actions, in 2020/21, we will double our sales revenue in this channel y/y, reaching PLN 2 bln.

However, having regard of the consequences of the COVID-19 pandemic, we expect that, in 2020/21, our revenue will decrease to 30%. Nonetheless, we expect that the decrease in sales will be temporary and, when the consequences of the pandemic recede, in subsequent years, we will once again continue to generate increased revenue and develop our operations in line with our long-term strategy.

The effects of COVID-19 will probably affect our gross margin yielded, which, in 2020/21, may range from 47% to 49%.

Our superior goal for 2020/21 is to maintain the financial liquidity of the LPP Group.



## OUR INVESTMENT PLANS

Our investments cover several areas encompassing:
- construction and modernisation of on-site stores (in Poland and abroad),
- construction of distribution centres,
- extension and modernisation of head offices and
- e-commerce and IT.

In 2020/21, we plan to spend PLN 400 mln on our investments.

In 2020/21, we plan to allocate PLN 300 mln for sales network investments.

This year, we plan to spend PLN 50 mln on a logistics project involving expenditures on the construction of a new distribution centre in Poland (in Brześć Kujawski). Owing to the state-of-the-art automation solutions, the investment covering 120 thousand m$^2$ will enable us to increase the effectiveness of our logistics and, following its implementation, reduce operating costs. We plan to allocate for the entire investment project PLN 860 mln in total.

We plan to spend PLN 50 mln for capital expenditures for IT and e-commerce.

We have full capacity to finance pending and planned investment projects with funds deriving from equity capital, bank loans and bonds issued. Investments aimed at expanding the store chain will be financed from our own funds while investments involving the extension of the head office and the distribution centre will be financed with bank loans taken out and funds deriving from the issuance of bonds.

| CAPEX (PLN mln) 3-year plan | 2020/21 | 2021/22 | 2022/23 | Total |
|---|---|---|---|---|
| **Stores:** | | | | |
| Stores in Poland and abroad | 300 | 600 | 500 | 1,400 |
| **Offices:** | | | | |
| New office Gdańsk Łąkowa – Building 2 | | 40 | | 40 |
| New office Gdańsk Łąkowa - Building 3 | | | 140 | 140 |
| **Offices in total** | | **40** | **140** | **180** |
| **Logistics** | | | | |
| New DC Brześć Kujawski | 50 | 650 | 160 | 860 |
| **Logistics in total** | **50** | **650** | **160** | **860** |
| IT & other | 50 | 50 | 50 | 150 |
| **Total** | **400** | **1,340** | **850** | **2,590** |

# RISK MANAGEMENT

## INTERNAL RISK FACTORS

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|---|---|
| **BUSINESS MODEL RISK** | **Risk:** Our Company focuses its activity on the designing and distribution of clothing as well as building its brands. Our business models involves the outsourcing of manufacturing activities to professional entities in different parts of the world, without own manufacturing capacities. Our investments are directed at creating our own on-site sales network and at e-commerce, logistics, development and technology as well as at attracting loyal consumers.<br><br>On one hand, outsourcing enables effective production placement and gives access to modern and constantly changing technologies. On the other hand, however, it involves the risk of choosing inadequate suppliers and is closely related to the economic and political situation in suppliers' countries.<br><br>**Actions:** Risks related to our business model are minimised by choosing suppliers not only in terms of price but also their offer, modern machinery and ethical treatment of workers. We make sure that the Group is not dependent on any of over 1 200 cooperating suppliers (none of them has exceeded the threshold of 5% of annual purchases). Additionally, on a regular basis, we evaluate our suppliers, who are supervised by the LPP offices in Shanghai, China, and Dhaka, Bangladesh. Simultaneously, we minimise the business model risk by diversifying production countries. |
| **COLLECTION-RELATED RISK** | **Risk:** The clothing market is characterised by a wide variety of customer expectations and is closely correlated with changes in fashion trends and changeable customer preferences. A key factor in a clothing company's success is, on one hand, the sensing of changes in fashion trends and the adjustment of the product range (also in terms of quality) to current consumer needs and, on the other hand, a quick reaction to such needs.<br><br>**Actions:** We pay significant attention to fashion. in our design team, we currently employ 300 designers. In total, in the product development department, there are over 1 100 employees. Each brand has a separate team of designers following fashion trend in the brand's dedicated customer group. The work of designer teams is organised so as to minimise the impact of a single designer on entire collections. Designers and persons engaged in the process of collection creation not only participate in exhibitions and fairs worldwide but also keep track of street fashion in the most popular fashion capitals i.e. Paris, New York, Seoul, Tokyo. Due to technology development and smartphone use, our designers get inspirations not only from catwalk collections but, first of all, from the Internet and social media. Inspirations found and world trends are used in the process |

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| **PRODUCT QUALITY RISK** | **Risk:** Collection quality is a key element on the highly competitive clothing market. No major player may willingly reduce quality below an expected standard as, at the times of quick information flow and social media popularity, that may result in the loss of customers' trust and a negative attitude towards a given brand.<br><br>**Actions:** Our Company's merchants are to exercise diligence in term of adequate quality of clothes purchased. To that end, before placing an order, they require suppliers to send clothing specimens and designs to evaluate both material and workmanship quality. Thanks to our long-standing market presence and supplier surveys, we can cooperate with suppliers guaranteeing proper product quality.<br><br>Additionally, in LPP, there is the Quality Control Department responsible for the verification of goods after being warehoused, before they are dispatched for sale purposes.<br><br>At the same time, in case of customer claims, we apply a simplified claim examination procedure as trust for our brands and customers' after-shopping satisfaction and opinions is our priority. |
| **PRICING POLICY RISK** | **Risk:** High market competitiveness requires an adequate pricing policy. Prices may not be too high to avoid diminishing the volume of products sold and maintain their comprehensive availability. However, they may not be too low as they will generate no adequate margin and may depreciate our brands and their market position.<br><br>**Actions:** According to our pricing policy, prices are maintained at levels corresponding to popular clothing companies with middle price brackets. To minimise the risk of inadequate pricing policy, our employees monitor, a day-to-day basis, prices of similar goods offered by our competitors to similar customer groups, adjusting prices of our products to market levels. At the same time, groups of products with higher demand are priced higher respectively.<br><br>During clearance sales, just like our competitors, we sell out products from the passing season's collections, which were not sold at regular prices, simultaneously applying price incentives. |
| **SUPPLIER CREDIBILITY RISK AND SINGLE SUPPLIER DEPENDENCE RISK** | **Risk:** As regards large orders for goods and services, it is important to have credible suppliers diligent in terms of quality and continuity of supplies and to diversify orders for goods and services by engaging a larger number of suppliers.<br><br>**Actions:** Placing orders with different suppliers in various countries, we minimise the risk of being dependent upon a single contracting party. Purchase departments rank and assess cooperation with suppliers and, therefore, we eliminate unreliable suppliers and cooperate on a long-term basis with verified and reliable partners.<br><br>Goods transported by sea are dispatched by several shipping companies, and the Logistics Department monitors, on a regular basis, the quality and prices of logistics services.<br><br>As we use no unique services, we are not dependent on any single supplier. All outsourced services i.e. messenger services, store construction, packaging production, lease of retail space, banking and finance intermediation services are easily accessible, being offered by numerous companies operating on the market.<br><br>The important aspect is the reliability of, and dependency on, suppliers of IT systems. We minimise that risk by engaging different companies with a well-recognised position and long-term presence on the market. |

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| **SINGLE SEGMENT CONCENTRATION RISK** | **Risk:** The risk of concentrating on a single market segment involves too narrow market concentration, which may be dangerous on a long-term basis. In the event of occurrence of disadvantageous macroeconomic, political or legal factors in a country or in a region where the company operates, with simultaneous absence on other markets or in other regions, this risk may be multiplied.<br><br>The risk of single segment concentration is related not only to the geographical aspect, but also to the sales channel. The above occurs when the company concentrates only on the traditional sales segment regardless of the recently changing shopping model i.e. the increased popularity of online shopping.<br><br>**Actions:** We have minimised this risk from the very beginning of our operations. We offer products under different brands, addressed to numerous age groups, thus diversifying the recipient segment. Owing to our presence in several countries and regions, we are exposed to a lesser risk of adverse consequences of legal changes occurring in a single country e.g. introduction of the Sunday trading ban in Poland. Following market trends and adjusting to customers' preferences, apart from the traditional sales channels existing from the very beginning, we have developed the online sales channel, thus limiting the single segment concentration risk. |
| **RISK OF MISSED STORE LOCATION** | **Risk:** Our development strategy provides for the expansion of our sales network. The opening of new stores involves the risk that specific locations may prove to be missed. This may result in a stores' failure to reach expected revenue performance, which, in consequence, may adversely affect our Group's financial results.<br><br>**Actions:** We reduce the risk of missed locations owing to good market surveillance and a detailed analysis of each potential new location. At present, we optimise the development of our sales network. On one hand, locations with unsatisfactory sales level are closed upon contract termination, and, on the other hand, stores in good locations are expanded to offer customers full collections. We undertake optimisation activities both in Poland and globally, on each market where we have operated for more than 5-7 years. |
| **RISK OF INEFFECTIVE LOGISTICS** | **Risk:** The dynamic development of retail space and online sales requires investments in logistics improvements. The task of the logistics team is to quickly gather a relevant number of clothing dispatches to stores and, directly, to customers making online orders, with simultaneous minimisation of the quantity of goods in distribution centres. Along with the planned increase of our Group's sales (including online sales) and the increasing importance of speedy deliveries, there is an increased risk involving the handling of logistics needs.<br><br>**Actions:** As this issue is of vital importance, the Management Board of LPP gives it a high priority, consistently introducing new solutions such as:<br>– expansion, along with the increasing demand, of logistics facilities both domestically and abroad,<br>– cooperation with specialised external providers in the area of online sales logistics,<br>– implementation of IT improvements in logistics.<br><br>Owing to the above-mentioned activities, the Group has a diversified modern logistics facilities minimising the risk of ineffective logistics, composed of the following distributions centres dedicated to:<br>– traditional sales: in Pruszcz Gdański (91 thousand m²), Moscow (14 thousand m²) and Brześć Kujawski (120 thousand m² – investment in progress),<br>– online sales: in Gdańsk (20 thousand m²), Stryków (46 thousand m²), Moscow (8 thousand m²), Slovakia (32 thousand m²) and Romania (22 thousand m²). |

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| **RISK OF SALES MIGRATION FROM TRADITIONAL STORES TO THE INTERNET** | **Risk:** The increase in the popularity of online shopping results in a global trend reflecting sales migration from traditional stores to online stores. This tendency puts pressure on sales in traditional stores, the majority of which generate fixed costs, and, consequently, affects the Group's profitability.<br><br>For customers, both the online and offline world are of equal importance. Both shopping channels permeate to create the omnichannel. The online channel generates numerous shopping-related activities, often assisting offline purchases (reviewing offers, pictures, looking for inspiration, use of applications, comparing offers, social media). Online shopping will become more and more popular and easier. However, despite development of online stores, traditional ones will not vanish and they will be implementing new solutions and will change their format.<br><br>**Actions:** A solution minimising the risk of sales migration from traditional stores to the Internet is to adjust to the current trend of increasing popularity of Internet shopping and to ingrate these two channels.<br><br>The Group operates modern online stores of all of our brands and continuously takes actions aimed at further development of this sales channel. We gradually open online stores both on the markets where we have launched our traditional stores and in other EU countries, and we improve mobile sales platforms and supply logistics.<br><br>To encourage customers to visit our traditional stores, we are constantly adjusting to customers' changing needs and requirements and current trends. Developing and implementing new store concepts for our brands, we take actions aimed at levelling technological differences between on-site and online sales and at integrating these two sales channels into the omnichannel, thus mitigating the risk of sales migration from traditional stores to the Internet. |
| **RISK OF LOSING KEY EMPLOYEES** | **Risk:** Highly qualified and fully engaged staff guarantees that companies will be able to make adequate market offers, approach customers in a proper way, duly manage the company and, consequently, reach a market success. However, there is also a risk that the company will become excessively dependent on several key officers or a highly specialised team with unique skills in a given sector (the company may face serious difficulties if such persons leave the company within a short period, without having educated their successors). We employ approx. 25 thousand employees who are indispensable to carry out our basic operations in a profitable way. In particular, we face the risk of losing key management officers, persons involved in the process of designing and preparing our collections and high rotation of employees in retail stores and distribution centres. There is also a risk that the Group will not be able to attract new talents and will face difficulties in soliciting an adequate number of staff, including highly qualified employees.<br><br>**Actions:** Our Company takes numerous actions aimed at mitigating this risk. Key management officers take part in a share-based incentive programme. The Group puts emphasis on friendly working conditions – employees are given numerous training opportunities to ensure constant development of their skills and offered a well-defined career model. To minimise the risk of having difficulty finding employees, our Company has decided to make large investments in technologies and development of an integrated logistics system, automation and artificial intelligence. Simultaneously, to attract new talented employees, on a constant basis, by taking various actions, the Group works actively on employer branding. |

| | |
|---|---|
| **RISK OF REPUTATION LOSS** | **Risk:** The risk of reputation loss and a consequent image crisis may adversely affect the company's revenues and underestimate its value. Due to the development of the Internet and social media and increasing consumer awareness, in recent years, this risk has become more and more important. As observed, this trend will be strengthening in the future. The risk of reputation loss may cover several areas: products, ethics and integrity, security and third parties. For the company, it is easier to manage risk in the area which may be actually influenced by the company e.g. products, ethics, unlike in situations beyond the company's control e.g. competitors' attacks, fortuitous events.<br><br>**Actions:** Considering the fact that manufacturing orders are placed in the Global South countries and having regard of methods of sourcing raw materials for collection production as well as of operations in the fast-fashion sector with adverse environmental effect, our Group faces, first of all, the risk of image crisis, involving its products. To manage and minimise that risk, we have undertaken numerous actions, the examples of which are given below.<br><br>We have joined the ACCORD initiative aimed at improving work conditions in the clothing industry in Bangladesh.<br><br>In our organisational structure, we have formed an internal unit responsible for auditing our suppliers' plants in terms of compliance with work and safety conditions, human rights, wages and environmental protection.<br><br>We have changed the model of cooperation with independent agents to place manufacturing orders with certified suppliers only.<br><br>We have decided not to use angora and natural fur and source down for our collections from reliable sources only i.e. exclusively from suppliers holding up-to-date certificates and applying ethical methods of raw material production.<br><br>We have initiated numerous pro-ecological projects i.e. in our collections, we have created the Eco Aware line in which we use raw materials from sustainable sources (organic cotton, TencelTM, Lyocell made of wood pulp, organic linen, recycled fibres e.g. polyester made from bottles). Our brands' e-commerce deliveries are made in recycled packaging only.<br><br>We have announced the Sustainable Development Strategy for the years 2020-2025, accounting for changes in the following areas: environmentally friendly production (chemical safety in manufacturing), elimination of plastic packaging not reusable in a closed cycle, ecological solutions implemented in head offices and the sales network, investments in technologies aimed at future management of textile waste.<br><br>Furthermore, our Company may be exposed to the risk of reputation loss arising from the improper use of other entities' copyright by using unlicensed photographs or graphics. To minimise that risk, we have developed internal procedures for purchasing photographs and graphic licences and we have duly trained our staff directly engaged in the designing process.<br><br>The risk of reputation loss may also arise from hazards such as the loss of personal data protection, unethical advertising or unfortunate statements made in media by our employees. Our investments in technologies, internal procedures and cooperation with a PR agency in terms of a communication crisis counteract this threat or minimise the risk of losing reputation by the Group. |

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| **BRIBERY RISK** | **Risk:** The Group cooperates with numerous suppliers and recipients. Since we have subsidiaries and have implemented a decentralised purchasing process, we are exposed to the risk of misappropriation of funds or signing disadvantageous commercial contracts.<br><br>**Actions:** In our Group, the bribery risk is minimised by identifying areas most exposed to that risk and determining the rules for counteracting it. The key documents for counteracting bribery, introduced and applied in our Group are as follows:<br>– "LPP Rules" (the code of ethics) applicable in the head office and foreign subsidiaries,<br>– "Rules of Cooperation with Contracting Parties" applicable in LPP's head office,<br>– "Business Trips Rules", applicable in LPP's head office,<br>– "LPP Rules for Store Employees" currently applicable on the domestic market.<br><br>In these documents, we have discussed ethical issues, setting forth proper conduct standards to be complied with in our Company. The "LPP Rules" (the code of ethics) and the "LPP Rules for Store Employees" have been made available to employees online. All new employees get the knowledge of the said documents as part of the introductory programme developed by the HR department. Furthermore, our new employees in Poland are presented with the "Rules of Cooperation with Contracting Parties" and confirm having reviewed them by placing their signature on a document attached to their personal files.<br><br>To mitigate the bribery risk, we undertake numerous actions, in particular:<br>– we carry out periodical internal audits and conduct investigations,<br>– we build anti-fraud awareness,<br>– we comply with the rules of transparency in the purchasing process,<br>– we inform our suppliers of applicable procedures,<br>– we set best ethical standards,<br>– we have implemented the procedure of multi-level acceptance of cost documents and the internal audit system,<br>– In our Group, we have implemented also a whistleblower system for reporting any irregularities found. |

## EXTERNAL RISK FACTORS

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| **MACROECONO-MIC RISK** | **Risk:** The situation in countries where we sell our products and where factories manufacturing goods for us are located are crucial for our Group. The above involves such countries' economic standing and unexpected events like armed conflicts or epidemics.<br><br>The Group's revenues and margins depend on the economic situation of households and consumption inclinations. An economic growth or decline in countries where our brand stores are located may translate into an increase or decrease in consumers' spending, including clothing expenses. Similarly, an economic growth or decline in countries where the manufacturing of goods is located may translate into an increase, decrease or, relatively, stabilisation of manufacturing costs.<br><br>**Actions:** We minimise the macroeconomic risk in several ways. Being present on numerous markets (at the end of the financial year 2019/20, we were present in 25 countries on 3 continents), we diversify the risk into numerous countries with diverse macroeconomic situation. We sell our goods under several brands, thus splitting the risk into several age groups. Our goods fall within a wide price range, from cheaper and easily accessible products to more expensive items. We diversify also sales channels (on-site and online stores).<br><br>As regards purchases of goods, we minimise risk by placing manufacturing orders with numerous manufacturers in several countries on different continents, including countries with lower manufacturing costs such as Bangladesh, India, China as well as European countries such as Turkey and Poland. Having cooperated on a long-term basis with selected suppliers, we are able to negotiate good prices and, therefore, minimise the adverse impact of macroeconomic changes in manufacturing countries on the Group. |

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| **RISK OF EPIDEMIC AND PANDEMIC** | **Risk:** The outbreak of an epidemic on markets where we have our collections manufactured and where we sell them may substantially affect the situation in those countries and, in consequence, adversely affect the Group's results.<br><br>The epidemic spreading in countries where our suppliers' plants are located may cause disturbances in the continuity of our supply chain i.e. delays in, or lack of, supplies of textiles, raw materials, accessories or even the closure of manufacturing and sewing plants. The above may halt the manufacturing process. Additionally, during an epidemic, there might be logistics problems in transporting and warehousing goods. In consequence, these factors may adversely affect our product offer and its availability.<br><br>At the same time, the outbreak of an epidemic on markets where we sell our collections may have a negative impact on customer demand. Restricted mobility resulting from the fear of contracting a disease and regulations implemented by governments to minimise the epidemic spread may cause a decrease in shopping or even putting a halt on purchases in case of closure of on-site stores.<br><br>Furthermore, an epidemic may bring about an economic crisis in the countries of its occurrence or even a global crisis as in the case of the COVID-19 pandemic.<br><br>Due to the fact that the Group's revenues and margins depend on the economic situation of households and their consumption habits, the economic crisis may translate into a decrease in consumer spending, including clothing purchases, and, therefore, the Group is exposed to the risk of economic crisis caused by the epidemic/pandemic.<br><br>**Actions:** Although it is difficult to be safeguarded against the risk of epidemic, our Group aims at minimising this type of risk in several ways.<br><br>As regards the sale of our products, we are present on numerous markets, thus diversifying the risk into various countries.<br><br>Our brands fall within the middle price range and, therefore, are available to customers at times of economic crisis.<br><br>We diversify sales channels by developing e-commerce being the alternative shopping channel for customers while on-site stores are closed during the quarantine.<br><br>In crisis situations like the epidemic, the Management Board of LPP reacts, on a day-to-day basis, by making decisions aimed at maintaining the Group's liquidity position by reducing operating costs or capital expenditures.<br><br>Although these actions will not safeguard the Group against the risk of epidemic and the consequential economic slow-down, they may minimise its impact. |

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| **RISK OF INCREASED PRODUCT COSTS** | **Risk:** The majority of our collection orders are placed with suppliers from co-untries with lower manufacturing costs, mainly from Asia, with the settlement currency being USD in approx. 90%. Therefore, there is a risk of increased pro-duct costs, caused by two basic factors: (1) increased manufacturing costs (the increase in costs of materials or payroll costs) and (2) an increase in the USD/PLN exchange rate.<br><br>**Actions:** We aim at minimising this type of risk by: (1) placing larger orders, co-operating in that respect with reliable suppliers for a longer period, which makes it possible to decrease unit prices, (2) placing manufacturing orders in different countries with due consideration of the capacities, specialisation and standards of manufacturers operating in different countries (e.g. manufacturers in Bangladesh specialise in manufacturing good-quality and inexpensive T-shirts, while Chine-se suppliers specialise in more demanding products like jackets). The negative impact of changes in exchange rates is minimised by due adjustment of prices of selected products and simultaneous compliance with pricing policy rules. Additio-nally, continuous product supplies throughout the year reduce the risk of purcha-sing entire collections at exchange rate peaks. |
| **FOREIGN EXCHANGE RISK** | **Risk:** An adverse change in currency exchange poses substantial risk for our Gro-up. In 2019/20, approx. 52% of revenue were denominated in foreign currencies (mainly EUR and local currencies), the costs of goods purchases – in approx. 90% in USD, and operating costs – in 59% in foreign currencies (mainly EUR).<br><br>The highest FX exposure of our Group concerns USD and EUR. The USD exposure is related to the location of goods production and purchases (mainly Asian coun-tries), while the EUR exposure is related to rent payments for stores. Due to the fact that Russia yields approx. 18% of our sales, our Group faces also substantial RUB exposure.<br><br>LPP reports financial results in PLN. Consequently, the strong position of PLN against USD and EURO has a positive impact on our Group's margins, while its weak position against key currencies reduces our profitability.<br><br>**Actions:** Due to the relevance of the foreign exchange risk, in June 2017, we de-cided to start hedging the USD/PLN exchange rate by entering into forward con-tracts for payments in USD to suppliers. The transactions are aimed at minimising foreign exchange differences in financial operations (i.e. below operating profit). |

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| **RISK OF LAW AMENDMENTS** | **Risk:** Tax and customs laws have a significant impact on the Group's activity. Therefore, law amendments in this area may significantly affect our operations. The Group is exposed to customs law amendments due to the scale of imports, specifically from Asian countries. The introduction of potential import quotas and heavy customs duties could result in the reduction of the Group's margins. The introduction of possible law amendments in each of the countries where we are present may result in the requirement to incur additional costs or reduce revenue, thus adversely affecting the Group's profitability. An example of such potential risk is gradual introduction of the Sunday trading ban or prospective implementation of turnover tax to be charged on large stores in Poland.<br><br>**Actions:** Our head office and the majority of our brand stores are located in the EU. As assessed by the Group, the European Union pursues a stable customs policy. Moreover, any changes in the customs policy would affect all entities operating in the retail sector in the EU. The more important risk is the one involving legislative changes, which arises from both domestic and EU laws. If any such risk occurs, the Management Board of LPP will focus its activities on minimising their impact on the Group's financial performance, as in the case of legislative changes concerning the Sunday trading ban in Poland. Following the analysis of sales since implementation of trading restrictions in Poland, we recorded a decrease in sales in domestic stores, with sales being transferred to other weekdays, and an increase in online sales. This is the reason why, among others, on a day-to-day basis, we improve the operation of our e-stores and logistics, thus minimising the risk of disadvantageous provisions of law. |
| **RISK OF INTENSIFIED COMPETITION** | **Risk:** With barriers to the clothing market entry being low, the number of competitors increases, thus enhancing competitiveness. Additionally, in recent years, globally, apparel online shopping has become more and more popular, which caused even more intensified competitiveness in this sector. Each year, new players enter and leave the markets where we operate. On each market, we compete with both local competitors and international players.<br><br>**Actions:** Our success on each market depends on the quality of collections and their acceptance by customers. It is important to know customers' habits, the time of reacting to customer needs and the quality of customer experience we offer. Another equally important factor of our success is being competitive on the market. Therefore, to minimise the risk of intensified competition, we focus our activities on offering products best reflecting current trends and meeting customers' expectations at affordable prices. Owing to investments in state-of-the-art technologies, we increasingly gain customer satisfaction, which, at present, determines the company's competitiveness. Simultaneously, we do not forget about our competitors, analysing their operations and monitoring their financial results, development of their sales networks, their product offers and prices. |

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| **RISK OF TECHNOLOGICAL ADVANCEMENT AND INNOVATIONS** | **Risk:** In recent years, speedy technological advancement brought revolutionary changes in the apparel sector. Today, these changes concern not only new technologically advanced machines and devices, but first of all computerisation of internal systems, automation of logistics processes and development of artificial intelligence. Big data and advanced data processing systems facilitate prediction of supply, advanced analytics of consumer behaviour and personalised online communication. Therefore, we better understand customer needs and quickly react to meet them. Currently, IT technologies as well as logistics automation and robotization are indispensable to effectively manage the supply chain as they influence not only cost reduction but also customer experience. All these activities affect the company's competitiveness and, consequently, its financial performance. A failure to change old technologies and solutions in today's world of state-of-the art technologies and customers' varying needs poses a risk leading to the company's decreased competitiveness.<br><br>**Actions:** Being aware of the technological revolution in the apparel sector and the key role of Fashion Tech i.e. modern technologies being implemented in the fashion world, we take numerous actions in the area of technology and innovation.<br><br>Currently, to be competitive in the clothing sector, the company must have, apart from good designers and sales people, a team of skilled IT specialists and analysists. Investing in people, new tools and analysis departments the work of which becomes a starting point for other units, we are not only a clothing manufacturer but also a tech company.<br><br>We carry out development works in the following areas: 1) product research and development; 2) customer experience research; 3) research on new technologies and development of sales forms, especially in e-commerce; 4) research on Fashion Tech in the entire supply chain, from clothing designs through logistics to multi-channel sales and post-sales customer service.<br><br>The effects of such works are our investments in projects such as: RFID (electronic tags) facilitating identification of a single product at each sales stage, construction of technically advanced on-site stores (intelligent fitting rooms, progressive lighting and air-conditioning systems), investments in modern distribution centres, development of online sales (mobile, machine learning, artificial intelligence). |
| **RISK INVOLVING WEATHER CONDITIONS** | **Risk:** In the business conducted, during one season, there may occur positive or negative effects of weather conditions, which may affect an increase/decrease in sales, and, consequently, an increase/decrease of our Group's margins. In recent years, we have noticed that weather is less predictable, with specific seasons permeating (no sharp winters), which is a consequence of climate changes.<br><br>**Actions:** To minimise negative effects of weather conditions on the sales of our collections, we monitor, on a regular basis, the level of sales and margins in specific countries, adjusting a time frame and scale of clearance offers.<br><br>At the same time, following changes implemented, in previous quarters, in logistics and store replenishment, the Group is more flexible and may react quicker to adverse weather changes in a given season.<br><br>In consideration of weather changes, we have reviewed our model of collections to make it more multi-seasonal e.g. by adequate choice of textiles which may be sold all year round. Therefore, our collections include more and more all-year products. The multi-seasonal model reduces the business risk due to the fact that, if a given product is not sold in SS season, the Group will be able to sell it, changing the manner of its presentation, in the AW season. |

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| **CLIMATE RISK** | **Risk:** The environment and climate inevitably become risk elements. Climate changes or a climate crisis (fires, droughts, floods, global warming) cause, most probably, the most significant changes in the world we could observe in recent years. The climate risk will be faced by all of us regardless of location or sector. Risk management in this area and adjusting to changes will be of key importance for each company willing to continue its operations in the future.<br><br>**Actions:** Climate risk management in the clothing sector will follow two tracks. On one hand, companies will fight directly with effects of climate changes. On the other hand, companies will fight climate changes themselves (mitigating their negative climate impact). The first track requires searching new resources and solutions (in the clothing sector, e.g. new materials for manufacturing clothes). The second track requires outlays on changes in energy sources, land cultivation, non-emission transport infrastructure, construction of ecological buildings or industrial systems.<br><br>Being motivated by legal regulations (actions of international organisations and governments) and being aware of the negative impact of the climate crisis on financial performance and consumer trends, companies start working towards climate neutrality by conducting socially responsible business operations. Especially in the clothing sector, due to customers' growing awareness and social expectations, companies will take action aimed at sustainable development as society's trust will be of key importance in building competitive advantage.<br><br>Being aware of climate risks and aiming at minimising them, our Group decided to adopt the Sustainable Development Strategy "For People For Our Planet" for the years 2020-2025 and has created a special organizational unit responsible for implementing relevant changes.<br><br>This strategy requires our engagement at each stage of our supply chain – from collection designs through selection of raw materials for manufacturing purposes, cooperation with suppliers, transport, the distribution network, to pro-ecological solutions in our brand stores and the e-commerce channel, including eco-friendly approach in our offices and building customer engagement.<br><br>In the newly adopted Sustainable Development Strategy, we declared that we will make a decisive shift to ecology, setting ambitious and measurable goals to be reached by 2025, including, among others, the increased share of more environmentally friendly collections (Eco Aware), decreasing plastics use and production as well as reducing our carbon footprint.<br><br>In 2019, we joined the New Plastics Economy Global Commitment uniting representatives of businesses and governments, acting to eliminate plastic waste and pollution and fighting plastic waste not reusable in a closed cycle. We declared that, by 2025, all plastic packaging we use (both in brand stores, in online sales and in logistics operations) will meet one of the following criteria: it will be 100% usable, recyclable or compostable.<br><br>We declared that, in 2020, we will join the Zero Discharge of Hazardous Chemicals (ZDHC), a programme initiated to reduce chemical footprint in the textile, leather and footwear industries and aimed at limiting the use of chemical substances hazardous for people and the environment. The Group's goal is to achieve, by 2025, full compliance with ZDHC requirements for eliminating hazardous chemicals in our supply chain.<br><br>We believe that all these actions will contribute to minimising the climate risk. |

# 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 that the meeting room. Therefore, the Company is unable to guarantee the reliability of technical infrastructure.

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

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

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

  The Company does not apply the said recommendation.

  The Company has 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.).

Tn 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 Tymiński - 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 is index is part of the Deutsche Boerse Group. LPP SA has been a constituent of the said index since September 2018.

  FTSE Russell Index 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 mln 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.

## 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 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

   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**

- 1The 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’ 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 man 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, psychical 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.


160
pracowników zaangażowanych w akcje „LPP TEAM for KIDS"
35 tys

# SUPPLEMENTARY INFORMATION

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

Due to the tax audit procedure carried out since 2015 by the Tax and Fiscal Office in Gdynia, of which we informed in preceding quarterly reports, on 3 March 2020, the Company received the results of customs and fiscal audits carried out by the Head of the Customs and Fiscal Office for the Pomeranian voivodeship in Gdynia, initiated to verify declared taxable bases and correctness of calculation and payment of corporate income tax for the years 2011, 2013 and 2016. Following the findings made by relevant authorities, the Company adjusted its tax returns for the above-mentioned years and, simultaneously, paid additional tax liabilities in the amount of PLN 30 864 235, increased with interest for delay.

The above-mentioned activities finally close tax audits carried out in LPP SA for the years given above.

At the same time, the Company informs that the primary objective of its operations is to maintain full tax transparency in all activities being undertaken. Following that direction, the Company has decided to take action to conclude with the Head of the National Fiscal Administration Authority (Head of NFAA) a cooperation agreement under the provisions of Chapter 2B of the Tax Ordinance. To that end, the Company plans to take action to obtain a positive opinion following a preliminary tax audit, which constitutes one of the conditions for conclusion of the agreement in question. Consequently, all tax activities undertaken by the Company will be performed in agreement with, and upon approval of, the Head of NFAA, thus ensuring full transparency of the Company's operations.

## INFORMATION ON KEY ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

Omnipresent digitalisation dynamically changes habits and expectations of today's customers. The revolution in the retail brand entails not only changes in the Internet, but also in logistics, warehousing, onsite stores as well as changes in approaching ecology issues. The future of the fashion industry lies in technological advancement, creating best customer experience and directing activities at sustainable i.e. eco-friendly fashion. In response to current trends, more and more importance is being placed in our Group on works involving application of technological innovations (research and development).
We carry out research works in the following areas:
- product research and development;
- customer experience research;
- research covering new technology and development of sales methods, including e-commerce;
- Fashion Tech research, i.e. application of new technologies in the entire supply chain, from


clothing design through logistics to omnichannel sales and customer after-sales service.

In 2019/20, our best achievement in R&D was the **implementation of RFID (radio-frequency identification)** technology in the Reserved brand.

RFID is the radio-frequency identification system consisting of two elements: a tiny chip, also called an electronic tag, added at the manufacturing stage to each item to be sold and reader devices enabling the simultaneous reading of numerous labels, even from a distance of several meters.

The electronic tag is used for immediate product identification which gives full and precise control over each item of clothing.

Our envisaged goals of the RFID project have been achieved. Following its implementation, we have gained numerous advantages:

– **Reducing lost sales**
Owing to RFID, we are able to analyse in detail stock in store and update information on the number of clothing items in specific sizes and, therefore, we have improved product availability by over 13% and, consequently, reduced lost sales rates.

– **Shortened stock-taking**
The RFID technology reduced our stock-taking process one hundred times, gaining simultaneously increased process quality. Owing to solutions increasing precise determination of resources, replenishment is more effective by over 95%.

– **Conformity of inventory levels with product availability in online stores**
Owing to RFIT technology, we can closely correlate inventory levels with the offer in our online stores, which is of key importance considering the popularity of initiating the shopping process by customers online and, subsequently, continuing the shopping in on-site stores. Thanks to inventory level conformity, we are sure that, when vising an on-site store, the customer will finds products searched for online.

– **Shortened shopping process**
As, at cashier's desks,  product prices are scanned directly using RFID, the time of goods registration at check-out stands has been reduced by approx. 70%.

– **Easier control of order conformity**
Thanks to RFID, we can verify quality of deliveries i.e. control the contents of cardboard boxes containing clothes with no need to open them at the time when a given delivery enters and leaves the warehouse and enters the store. The possibility of distance checking of contents of packages delivered to the brand store has shortened delivery acceptance time by 60%.

– **Identification of bestsellers**
The RFID technology makes it possible to identify best-selling items, which, in turn, facilitates adjusting products to customer expectations. As the chip records data such as the number of individual products purchased or the number of customers taking such products to the fitting room, we can better adjust products to customer expectations.

– **On-site stores with highly advanced technologies**
In the future, the RFID implementation will give the possibility of self-checkout already at the stage of a fitting room.

– **Dispatches of products purchased online, made directly from on-site stores**
Ultimately, owing to RFID technology, we will be able to deliver our products purchased online directly from a brand store (back-up facility) located nearest the customer's place of residence. Therefore, delivery timing will be shortened, costs will be reduced and customer satisfaction will increase. This is of key importance specifically on the Russian market being a major logistics challenge due to large distances.

Almost 140 people were engaged in project implementation. The annual cost of system maintenance is PLN 60 mln. Following RFID implementation in the Reserved brand, this technology will be gradually introduced in other brands.

**OTHER SELECTED R&D ACHIEVEMENTS:**

– **Technologies in brand stores**
Based on modern technologies, we constantly modify our brand stores, introducing not only solutions concerning products and customer service, but also those substantially reducing our environmental impact:
- energy-saving screens and smart steering of video walls, which, along with adequate preparation of screened contents, reduces power consumption by 40%,
- progressive LED lighting system saving energy when the store is closed, enabling better product display,
- modern air-conditioning system with the highest power efficiency rating, making adjustments to customer traffic intensity,
- heat maps enabling the monitoring and analysis of customer traffic in stores, which, in practice, translates into better product display,
- escalators with motion sensors, which slow down when not in use;
- smart fitting rooms in Reserved stores, with tablets with special marketing content installed for customers to get fashion inspirations on a day-to-day basis, or with fitting rooms' availability signalling.
- Store Vision i.e. the internally developed application used on our brand stores by shop assistants to provide customer services through the omnichannel.

– **E-commerce technologies**
In 2019, our key e-commerce achievements were projects involving the launching of new online stores creating the Pan-European online store in the European Union (in countries where we were not present so far i.e. Austria, France, Belgium, Spain, the Netherlands, Finland, Greece, Sweden, Denmark, Italy, Luxembourg, Ireland, Portugal) and the online store in Ukraine.

We take the mobile-first approach to facilitate the use of all functionalities of our online stores by users of mobile devices (in the reported period, traffic on our websites was generated in 70% through mobile devices, and sales through smartphones constituted over 50% in the structure of the Group's online sales).

We implement new payment methods adjusted to individual markets (BLIK, KLARNA, YANDEX, TWISTO, GOOGLE PAY).

We develop IT infrastructure in the cloud environment – this is how Mohito stores operate already, with stores of other brands being transferred respectively. Owing to that, we are not required to maintain, replace and service equipment, which reduces power consumption. We plan that, in 2021, our online stores will be powered from renewable sources only.

The implementation of modern and eco-friendly technology in e-commerce involved also packaging issues. In the reported period, we started to make Reserved and Mohito deliveries from online stores in cardboard packaging made in 100% from recycled paper. Cardboard boxes have been designed so that they may be reused in product returns. We plan that, by the end of 2020, plastic will be eliminated from Reserved and Mohito online orders. We carry out tests to replace plastic fillers (bubble wrap and packaging air bags) with recycled paper fillers and corrugated fibreboards. Plastic tapes are replaced with paper tapes with starch glue.

This year, in the remaining brands, we plan to eliminate single-use foil and replace it with recycled and recyclable foil packets.

– **Technologies in distribution centres**
In 2019 , in our Distribution Centre in Pruszcz Gdański, we build another facility i.e. a high-storage warehouse with a sorting facility and a new office building. This project involved application of modern and eco-friendly technologies in the facility itself and machinery, including also  integration of the WMS 2.1 system with automatic devices. What we achieved in this project is the optimum flow of goods and matching existing processes with newly built warehouse infrastructure, en-

suring at the same time continuity of the Distribution Centre's operations.

In 2020, we will start constructing our new Distribution Centre (in Brześć Kujawski). This will be a warehousing facility with highly advanced technology, certified by BREEAM (Building Research Establishment Environmental Assessment Method) to confirm application of sustainable construction standards. In the reporting period, this investment was in the designing phase, and we focused on the preparation of architectural and technological concepts.

– **SAP**
We completed the implementation of the first phase of the SAP system aimed at optimising and shortening the time of closing financial periods as well as at standardising financial processes.

– **BI Markdown Optimization**
We implemented BI Markdown Optimization RE, a project aimed at optimisation of clearance sales. Owing to this solution, based on advanced statistical algorithms, we can prognose clearance sales performance, with simultaneous optimisation of price reduction. As a result of these activities, we maximise sales revenue and gain profit on sales.

– **Allocations**
We extended the "Allocations16" application by adding a new module handling e-commerce warehouses. Owing to that, we can allocate goods with due consideration of the offer presented in our online stores. The allocation application is a solution based on complex algorithms of machine learning, analysing billions of various data. Consequently, customers receive on time exactly what they need. Owing to the analysis of historical data and a prognosed quantity of a given product (model, size, colour), this application enables individual replenishment in all brand stores on all our markets. When implemented, this solution makes it possible to send goods to venues with the highest sales potential (adequate distribution of highly selling models to brand stores) and precise stock replenishment in stores (goods send to stores where they sell well).

By using the application and optimising the quantity and speediness of product deliveries to a given store, we increase sales performance.

– **Product research and development**
Considering the fact that we are heading towards sustainable i.e. eco-friendly fashion, which is the expression of our social responsibility arising from the announced sustainable development strategy, the Eco Aware line forms part of our collections in all our brands. Eco Aware is based on two pillars i.e. gradually increasing variety of eco-friendly materials from reliable sources and responsible production. Our R&D activities are focused on searching for sustainable raw and semi-raw materials, new fibre production technologies, examining ways to use organic dyes in prints and testing recycled leather in the manufacturing of footwear and accessories.

Our goal is to reach a 25% share of the Eco Aware line in all LPP brands by 2021.

## INFORMATION ON BUSINESS SPONSORSHIP, CHARITY OR SIMILAR POLICIES

The Group builds community relations with full awareness. For 20 years now, we have been actively learning about the needs and expectations of beneficiaries and undertaking corresponding initiatives. Our responsibility has been defined in the Sustainable Development Strategy, with its part on charity activities being transferred for implementation purposes to the LPP Foundation.

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

**PROJECTS AND NUMBERS:**

- **Funds and goods designated for charity purposes**
  Over PLN 2.8 mln was the total value of funds and goods donated in 2019 for charity purposes in Poland, including over 135 thousand clothing items of a value exceeding PLN 2 mln, delivered to 114 organisations pursuing our goals. Since 2018, material and financial aid has been provided by the LPP Foundation.

- **The "First Fitting"**
  30 persons leaving foster homes in Gdańsk and Warsaw have been trained by LPP employees in

the area of work search, CV writing and having a job interview. 9 participants have been employed as trainees in LPP's sales network. The "First Fitting" programme is an investment in the development of young people at the beginning of their professional careers.

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

- **Cooperation with local community**
  In 2019, LPP became once again a strategic partner of the FETA International Street Theatre Festival. Every year, shows performed near our head office attract thousands of viewers. This is one of the largest and most highly acclaimed festivals of this type in Europe. Our Company sponsored projects with funds totalling over PLN 172 thousand.

- **School starter kits in Brześć Kujawski**
  Our neighbourhood is not only Gdańsk and Cracow, but also Brześć Kujawski, where our new Distribution Centre will be built. Therefore, we have started cooperating with local community there. Once again, we made endeavours to provide all first-year pupils with required school accessories, providing school starter kits for 114 children: colourful cups, backpacks, shoe bags, water bottles, lunch boxes, pendants and pens. Those kits were given at a special school ceremony for first-year pupils in October 2019.

- **„English with LPP" project**
  This project was addressed to children from primary schools (classes 1-6) in the Brześć Kujawski commune (381 pupils altogether). As part of this project, LPP financed English lessons held once a week from October 2019 to May 2020.

  Additionally, we funded interactive whiteboards for foreign language classrooms in 5 primary schools and 1 nursery schools in the Brześć Kujawski commune.

- **Partnership in "King Łokietek goes to town" project**
  We organised 11 meetings with children from the Brześć Kujawski commune, each in a different location, during which children took part in sports activities in housing districts in the city area and in smaller towns in the commune area. This project was aimed at encouraging children to be active in sports and at integrating them.

- **Support for the Pruszcz Gdański commune**
  We provided additional equipment for children's playground situated in the Post-Glacial Landscape Park in Pruszcz Gdański. We partnered in Pruszcz Gdański Days and II Local Championships in first aid for uniformed services.

- **Employee volunteering programme**
  In 2019, LPP's employees spent 1 650 hours helping non-governmental organisations as volunteers. They decided to help once again a cat shelter facility Pomorski Koci Dom Tymczasowy, which, during summer holidays, renovates cat shelters in the Gdynia Shipyard. In 2 days, our volunteers painted, insulated and renovated over a dozen of cat shelters.

- **Children and young people threatened with social exclusion**
  In this project, the most spectacular action was the re-arrangement of restaurant premises in a hotel which, being a social business, employs people leaving foster care to enable them to start leaving on their own in a safe environment. In that project, a female architect from LPP made a space re-arrangement design and a graphic designer created a mural in Gdańsk, which was subsequently transferred by a group volunteers to the restaurant's walls.

- **Cooperation with children's hospitals**
  In 2018, we renovated a health centre treating cystic fibrosis upon request of the Polanki Children's Hospital. In 2019, in the same hospital, we supported the renovation of the Night Health Care Centre and, in the Copernicus Hospital, our volunteers decorated the hall in the Anaesthesiology and Intensive Child Care Ward. On the Children's Day and the St. Nicolas Day, our employees played fairy-tale characters distributing gifts to children treated in the Children's University Hospital in Cracow.

  In 2019, this initiative was warmly welcomed by children we visited for the first time in the Polish Association for Persons with Mental Disability in Gdańsk.

- **The First Edition of Small Grants**
  In 2019, for the first time, we launched a small--grants project. Our employees were given the opportunity to propose their own projects in the following areas: education, safety, culture, health, ecology, social and sports activities, diversity and the environmental impact of work in LPP. The best four projects received out financial

support: help was offered to the Single Mother's Home in Matemblewo and a school in Bangladesh, we organised sports trainings for the LPP TEAM in Cracow and a garden for employees was made on the roof of our head office in Gdańsk.

- **Forest planting**
  We became an official partner of the forest planting event organised by TORUS and aimed at forest restoration in the area of Lipusz, following forest destruction by tempest in 2017. On 19 and 26 October 2019, together with approx. 1 500 employees from 40 companies, we restored the forest in the area of 11 hectares. This project was joined by 200 LPP employees.

- **Facing industry-specific challenges**
  In cooperation with the Reserved brand, since July 2018, the LPP Foundation has been collecting, on a permanent basis, second-hand clothes in 20 largest Reserved stores in Poland. In 2019, this initiative was joined by other two brands House and Mohito. All goods collected are delivered to St. Brother Albert Aid Society operating night shelters all over the country. Clothes are provided to the homeless and persons facing life's hardships throughout Poland. So far, we succeeded to collect over 3 tonnes of second-hand textiles.

## INFORMATION ON SIGNIFICANT AGREEMENTS CONCLUDED, INCLUDING AGREEMENTS BETWEEN SHAREHOLDERS AS WELL AS INSURANCE AND COOPERATION AGREEMENTS

In 2019/20, we concluded the following agreements:
- agreement on the provision of insurance guarantees for payment of a customs debt;
- insurance agreement – a global insurance policy covering all assets of the Group, including real property, goods, machinery and devices;
- 285 lease agreements and 249 lease prolongation agreements with owners of commercial space in Poland and abroad;
- agreements with banks, including annexes to existing agreements, with:
  - Pekao SA (the investment loan agreement, annexes to investment loan agreements, an annex to the multi-purpose credit line agreement);
  - BNP Paribas Bank Polska SA (annexes to the multi-purpose credit line agreements);
  - Citi Bank Handlowy SA (annexes to the letter of credit line agreement and the overdraft agreement);
  - HSBC France SA (annex to the letter of credit line agreement);
  - Santander SA  (annexes to the letter of credit line agreement and factoring contracts).
- agreement with a marketing agency on the Kendall Jenner campaign;
- lease agreement for a distribution centre in in Slovakia.

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

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

Information on bank loans taken out as at 31 January 2020 and their maturity dates is given in the financial statements of the LPP SA Group (note 22) and the financial statements of LPP SA (note 24).

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

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

Information on loans extended in the financial year is given in the financial statements of the LPP SA Group (note 17.1) and the financial statements of LPP SA (note 19.1).

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

Information on guarantees granted and received, including those granted to the issuer's affiliates, is given in the financial statements of the LPP SA Group (note 27) and the financial statements of LPP SA (note 29).

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

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

Detailed information on transactions with associates is given in the financial statements of the LPP SA Group (note 28.1) and the financial statements of LPP SA (notes 30.1 and 30.2).

## INFORMATION ON THE EMPLOYEE SHARE CONTROL SYSTEM

The Company has implemented no employee share control system.

## INFORMATION ON THE AUDIT COMPANY AUDITING OUR FINANCIAL STATEMENTS

This information is given in in the financial statements of the LPP SA Group (note 35) and the financial statements of LPP SA (note 31).

## DIFFERENCES BETWEEN FINANCIAL RESULTS SHOWN IN THE ANNUAL REPORT AND THOSE PREVIOUSLY PUBLISHED FOR A GIVEN YEAR

We published no prognoses of financial results.

# 3 CONSOLIDATED FINANCIAL STATEMENTS OF THE LPP SA GROUP

# INTRODUCTION

We hereby approve the consolidated financial statements of the LPP SA Group for the period of 13 months ended 31 January 2020, comprising the comprehensive income statement, with comprehensive income totalling PLN 489,890 thousand, the statement of financial position, with assets and liabilities totalling PLN 9,605,862 thousand, the cash flows statement, showing an increase in net cash by PLN 304,364 thousand, the statement of changes in equity, showing an increase in equity by PLN 386,938 thousand, and notes with a description of material accounting principles and other explanations.

**MANAGEMENT BOARD OF LPP SA:**

**Marek Piechocki**
President of the Management Board

**Przemysław Lutkiewicz**
Vice-President of the Management Board

**Jacek Kujawa**
Vice-President of the Management Board

**Sławomir Łoboda**
Vice-President of the Management Board

Gdańsk, 20 May 2020

# SELECTED FINANCIAL DATA

For the period of 13 months ended 31 January 2020

| | PLN | | | EUR | | |
|---|---|---|---|---|---|---|
| **Selected consolidated financial data** | **2019/20** | **2018/19** | **2018*** | **2019/20** | **2018/19** | **2018*** |
| | 01.01.2019 – 31.01.2020 | 01.01.2018 – 31.01.2019 | 01.01.2018 – 31.12.2018 | 01.01.2019 – 31.01.2020 | 01.01.2018 – 31.01.2019 | 01.01.2018 - 31.12.2018 |
| Revenues | 9,899,243 | 8,755,909 | 8,046,756 | 2,301,240 | 2,051,573 | 1,885,855 |
| Operating profit (loss) | 805,672 | 688,249 | 756,560 | 187,292 | 161,262 | 177,309 |
| Pre-tax profit (loss) | 665,190 | 656,813 | 723,680 | 154,634 | 153,896 | 169,603 |
| Net profit (loss) | 421,039 | 442,486 | 505,176 | 97,877 | 103,678 | 118,394 |
| Weighted average number of shares | 1,834,192 | 1,833,489 | 1,833,483 | 1,834,192 | 1,833,489 | 1,833,483 |
| Profit (loss) per share | 229.55 | 241.34 | 275.53 | 53.36 | 56.55 | 64.57 |
| Net cash flows from operating activities | 1,848,301 | 1,600,027 | 1,212,010 | 429,668 | 374,898 | 284,049 |
| Net cash flows from investing activities | -861,467 | -933,046 | -704,396 | -200,262 | -218,619 | -165,084 |
| Net cash flows from financing activities | -682,470 | -106,491 | 20,928 | -158,651 | -24,952 | 4,905 |
| Total net cash flows | 304,364 | 560,490 | 528,542 | 70,754 | 131,327 | 123,870 |

*audited year

| | PLN | | | EUR | | |
|---|---|---|---|---|---|---|
| **Selected consolidated financial data** | **2019/20** | **2018/19** | **2018*** | **2019/20** | **2018/19** | **2018*** |
| | 01.01.2019 – 31.01.2020 | 01.01.2018 – 31.01.2019 | 01.01.2018 – 31.12.2018 | 01.01.2019 – 31.01.2020 | 01.01.2018 – 31.01.2019 | 01.01.2018 – 31.12.2018 |
| Total assets | 9,605,862 | 7,906,318 | 5,380,808 | 2,233,402 | 1,847,184 | 1,251,351 |
| Long-term liabilities | 3,159,266 | 2,634,305 | 346,148 | 734,542 | 615,463 | 80,500 |
| Short-term liabilities | 3,199,120 | 2,456,326 | 2,174,122 | 743,808 | 573,881 | 505,610 |
| Equity | 3,247,491 | 2,815,702 | 2,860,553 | 755,055 | 657,844 | 665,245 |
| Share capital | 3,705 | 3,705 | 3,705 | 861 | 866 | 862 |
| Weighted average number of shares | 1,834,192 | 1,833,489 | 1,833,483 | 1,834,192 | 1,833,489 | 1,833,483 |
| Book value per share | 1,770.53 | 1,535.71 | 1,560.17 | 411.66 | 358.79 | 362.83 |
| Declared or paid dividend per share | 60.00 | 40.00 | 40.00 | 13.95 | 9.35 | 9.30 |

*audited year

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

for the period of 13 months ended 31 January 2020

| Comprehensive income statement (in PLN thousand) | Notes | For the period of 13 months ended 31.01.2020 | For the period of 13 months ended 31.01.2019 (unaudited) | For the period of 12 months ended 31.12.2018 (transformed) |
|---|---|---|---|---|
| Continuing operations | | | | |
| Revenue | 9.1 | 9,899,243 | 8,755,909 | 8,046,756 |
| Cost of goods sold | 9.2 | 4,753,528 | 4,127,639 | 3,645,497 |
| **Gross profit (loss) on sales** | | **5,145,715** | **4,628,270** | **4,401,259** |
| Costs of stores and distribution | 9.5 | 3,676,135 | 3,342,223 | 3,091,502 |
| General costs | 9.5 | 536,967 | 480,125 | 440,671 |
| Other operating income | 9.3 | 21,518 | 25,008 | 19,829 |
| Other operating costs | 9.3 | 148,459 | 142,681 | 132,355 |
| **Operating profit (loss)** | | **805,672** | **688,249** | **756,560** |
| Financial income | 9.4 | 10,914 | 9,247 | 8,420 |
| Financial costs | 9.4 | 151,396 | 40,683 | 41,300 |
| **Pre-tax profit (loss)** | | **665,190** | **656,813** | **723,680** |
| Income tax | 10 | 244,151 | 214,327 | 218,504 |
| **Net profit (loss) on continuing operations** | | **421,039** | **442,486** | **505,176** |
| Net profit attributable to: | | | | |
| Shareholders of the parent company | | 421,039 | 442,486 | 505,176 |
| Non-controlling interests | | 0 | 0 | 0 |
| **Other comprehensive income** | | | | |
| **Items transferred to profit or loss** | | | | |
| Currency translation on foreign operations | | 68,851 | -5,648 | -23,487 |
| **Total comprehensive income** | | **489,890** | **436,838** | **481,689** |
| Attributable to: | | | | |
| Shareholders of the parent company | | 489,890 | 436,838 | 481,689 |
| Non-controlling interests | | 0 | 0 | 0 |
| Weighted average number of shares | | 1,834,192 | 1,833,489 | 1,833,483 |
| Profit (loss) per share | 11 | 229.55 | 241.34 | 275.53 |
| Diluted profit (loss) per share | 11 | 229.44 | 241.22 | 275.40 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 January 2020

| Statement of financial position (in PLN thousand) | Notes | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 (transformed) |
|---|---|---|---|---|
| **Non-current assets** | | **5,870,719** | **5,279,524** | **2,417,752** |
| 1. Fixed assets | 13 | 2,312,386 | 1,821,128 | 1,818,316 |
| 2. Intangible assets | 15 | 126,234 | 92,737 | 89,630 |
| 3. Right-of-use assets | 14 | 3,000,237 | 2,894,072 | 0 |
| 4. Goodwill | 16 | 209,598 | 209,598 | 209,598 |
| 5. Trademark | 15 | 77,508 | 77,508 | 77,508 |
| 6. Other financial assets | 17.1 | 7,965 | 7,857 | 7,822 |
| 7. Deferred tax assets | 10.3 | 134,795 | 172,784 | 164,277 |
| 8. Prepayments | 26 | 1,996 | 3,840 | 50,601 |
| **Current assets** | | **3,735,143** | **2,626,794** | **2,963,056** |
| 1. Inventory | 18 | 1,921,139 | 1,210,260 | 1,590,368 |
| 2. Trade receivables | 19 | 143,783 | 103,557 | 121,729 |
| 3. Income tax receivables | | 7,870 | 1,327 | 377 |
| 4. Other financial assets | 17.1 | 210,968 | 170,223 | 134,827 |
| 5. Other non-financial assets | 17.2 | 53,017 | 44,705 | 37,843 |
| 6. Prepayments | 26 | 36,892 | 26,385 | 32,943 |
| 7. Cash and cash equivalents | 20 | 1,361,474 | 1,070,337 | 1,044,969 |
| **TOTAL assets** | | **9,605,862** | **7,906,318** | **5,380,808** |
| | | | | |
| **Equity** | | **3,247,491** | **2,815,702** | **2,860,553** |
| 1. Share capital | 21.1 | 3,705 | 3,705 | 3,705 |
| 2. Treasury shares | 21.1 | -41,115 | -43,067 | -43,067 |
| 3. Share premium | 21.2 | 284,877 | 278,591 | 278,591 |
| 4. Other reserves | 21.3 | 2,733,227 | 2,251,623 | 2,251,623 |
| 5. Currency translation on foreign operations | | -162,803 | -213,815 | -231,654 |
| 6. Retained earnings | | 429,600 | 538,665 | 601,355 |
| - profit (loss) from previous years | | 8,561 | 96,179 | 96,179 |
| - net profit (loss) for the current period | | 421,039 | 442,486 | 505,176 |
| **Non-controlling interest capital** | | **-15** | **-15** | **-15** |
| **Long-term liabilities** | | **3,159,266** | **2,634,305** | **346,148** |
| 1. Bank loans and borrowings | 22 | 171,234 | 84,123 | 88,575 |
| 2. Lease liabilities | 14 | 2,567,953 | 2,439,447 | 0 |
| 3. Other financial liabilities | 25 | 291,675 | 0 | 0 |
| 2. Employee liabilities | 23.1 | 1,463 | 1,012 | 1,012 |
| 3. Deferred tax liabilities | 10.3 | 276 | 309 | 686 |
| 4. Accruals | 26 | 126,665 | 109,414 | 255,774 |
| 5. Other long-term liabilities | | 0 | 0 | 101 |
| **Short-term liabilities** | | **3,199,120** | **2,456,326** | **2,174,122** |
| 1. Trade and other liabilities | 25 | 2,053,635 | 1,286,535 | 1,497,511 |
| 2. Contract liabilities | 9.1 | 19,929 | 18,335 | 23,140 |
| 3. Customer refund liabilities | 9.1 | 27,207 | 36,240 | 36,731 |
| 4. Bank loans and borrowings | 22 | 109,451 | 145,301 | 203,196 |
| 5. Lease liabilities | 14 | 680,184 | 565,994 | 0 |
| 6. Employee liabilities | 23.2 | 80,483 | 112,143 | 86,707 |
| 7. Income tax liabilities | | 174,363 | 236,474 | 234,434 |
| 8. Provisions | 24 | 9,097 | 19,501 | 20,397 |
| 9. Accruals | 26 | 44,771 | 35,803 | 72,006 |
| **TOTAL EQUITY AND LIABILITIES** | | **9,605,862** | **7,906,318** | **5,380,808** |


recycled polyester
printed dress

# CONSOLIDATED CASH FLOW STATEMENT

for the period of 13 months, ended 31 January 2020

| **Cash flow statement (in PLN thousand)** | Notes | For the period of 13 months ended 31.01.2020 | For the period of 13 months ended 31.01.2019 (unaudited) | For the period of 12 months ended 31.12.2018 (transformed) |
|---|---|---|---|---|
| **A. Cash flow statement from operating activities – indirect method** | | | | |
| **I. Pre-tax profit (loss)** | | **665,190** | **656,813** | **723,680** |
| **II. Total adjustments** | | **1,183,111** | **943,214** | **488,330** |
| 1. Amortisation and depreciation | | 1,093,784 | 426,917 | 349,163 |
| 2. Foreign exchange gains (losses) | | -7,042 | -5,228 | -11,383 |
| 3. Interest and dividends | | 133,523 | 16,067 | 4,825 |
| 4. Profit (loss) on investing activities | | 10,743 | -38,983 | -21,006 |
| 5. Income tax paid | | -295,820 | -44,812 | -42,106 |
| 6. Change in provisions and employee benefits | 23,24 | -22,357 | 78,462 | 60,536 |
| 7. Change in inventories | 18 | -315,200 | 330,081 | -133,164 |
| 8. Change in receivables and other assets | 17,19 | -66,127 | 51,987 | 4,128 |
| 9. Change in liabilities, excluding bank loans and borrowings | 25 | 650,157 | 87,038 | 254,207 |
| 10. Change in prepayments and accruals | 26 | -9,897 | 27,556 | 10,013 |
| 11. Other adjustments | | 11,347 | 14,129 | 13,117 |
| **III. Net cash flows from operating activities** | | **1,848,301** | **1,600,027** | **1,212,010** |
| **B. Cash flows from investing activities** | | | | |
| **I. Inflows** | | **480,047** | **638,780** | **634,506** |
| 1. Disposal of intangible and fixed assets | | 185,440 | 150,678 | 146,438 |
| 2. From financial assets, including: | | 1,601 | 3,038 | 3,004 |
| a) in associates | | 24 | 125 | 96 |
| - dividends | | 24 | 125 | 96 |
| b) in other entities | | 1,577 | 2,913 | 2,908 |
| - repayment of loans | | 70 | 95 | 90 |
| - interest and other inflows from financial assets | | 1,507 | 2,818 | 2,818 |
| 3. Other investing inflows (investment funds) | | 293,006 | 485,064 | 485,064 |
| **II. Outflows** | | **1,341,514** | **1,571,826** | **1,338,902** |
| 1. Purchase of intangible and fixed assets | | 1,003,794 | 931,775 | 798,851 |
| 2. For financial assets, including: | | 2,720 | 51 | 51 |
| a) in associates | | 0 | 0 | 0 |
| - purchase of shares | | 0 | 0 | 0 |

| | | | | |
|---|---|---|---|---|
| b) in other entities | | 2,720 | 51 | 51 |
| - purchase of shares | | 2,628 | 0 | 0 |
| - loans granted | | 92 | 51 | 51 |
| 3. Other investing outflows (investment funds) | | 335,000 | 640,000 | 540,000 |
| **III. Net cash flows from investing activities** | | **-861,467** | **-933,046** | **-704,396** |
| **C. Cash flows from financing activities** | | | | |
| **I. Inflows** | | **949,239** | **390,194** | **369,230** |
| 1. Inflows from the issuance of shares | | 2 | 0 | 0 |
| 2. Bank loans and borrowings | | 649,486 | 390,194 | 369,230 |
| 3. Issuance of bonds | | 299,751 | 0 | 0 |
| **II. Outflows** | | **1,631,709** | **496,685** | **348,302** |
| 1. Cost of maintenance of treasury shares | | 0 | 0 | 0 |
| 2. Dividends and other payments to owners | | 110,065 | 73,342 | 73,342 |
| 3. Repayment of bank loans and borrowings | | 663,512 | 348,522 | 260,706 |
| 4. Lease liabilities paid | | 721,137 | 47,450 | 0 |
| 4. Interest | | 136,995 | 27,371 | 14,254 |
| 5. Other financial outflows | | 0 | 0 | 0 |
| **III. Net cash flows from financing activity** | | **-682,470** | **-106,491** | **20,928** |
| **D. Total net cash flows** | | **304,364** | **560,490** | **528,542** |
| **E. Balance sheet change in cash, including:** | | **316,505** | **555,547** | **530,179** |
| - change in cash due to foreign currency translation | | 12,141 | -4,943 | 1,637 |
| **F. Opening balance of cash** | | **1,043,947** | **515,405** | **515,405** |
| **G. Closing balance of cash** | | **1,348,311** | **1,075,895** | **1,043,947** |

**NAME AND HEAD OFFICE:**

LPP SA with its office in Poland, ul. Łąkowa 39/44, 80-769 Gdańsk

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period of 13 months ended 31 January 2020

| Statement of changes in equity (in PLN thousand) | Share capital | Treasury shares | Share premium | Other capitals |
|---|---|---|---|---|
| **Balance as at 1 January 2019** | **3,705** | **-43,067** | **278,591** | **2,251,623** |
| Distribution of profit for 2018 | 0 | 0 | 0 | 482,729 |
| Dividend paid | 0 | 0 | 0 | 0 |
| Remuneration paid in shares | 0 | 0 | 0 | 7,111 |
| Settlement of the incentive programme | 0 | 1,952 | 6,286 | -8,236 |
| **Transactions with shareholders** | **0** | **1,952** | **6,286** | **481,604** |
| Net profit for the period of 13 months ended 31 January 2020 | 0 | 0 | 0 | 0 |
| Exchange differences on conversion of foreign units | 0 | 0 | 0 | 0 |
| **Balance as at 31 January 2020** | **3,705** | **-41,115** | **284,877** | **2,733,227** |
| | | | | |
| **Balance as at 1 January 2018** | **3,705** | **-43,334** | **277,631** | **1,823,453** |
| Incentive programme implementation | 0 | 0 | 960 | -960 |
| Distribution of profit for 2017 | 0 | 0 | 0 | 420,610 |
| Dividend paid | 0 | 0 | 0 | 0 |
| Remuneration paid in shares | 0 | 0 | 0 | 8,787 |
| Consolidation of a subsidiary | 0 | 0 | 0 | 0 |
| Acquisition of own shares | 0 | 267 | 0 | -267 |
| **Transactions with owners** | **0** | **267** | **960** | **428,170** |
| Net profit for the period of 13 months ended 31 January 2019 | 0 | 0 | 0 | 0 |
| Exchange differences on conversion of foreign units | 0 | 0 | 0 | 0 |
| **Balance as at 31 January 2019 (unaudited)** | **3,705** | **-43,067** | **278,591** | **2,251,623** |
| | | | | |
| **Balance as at 1 January 2018** | **3,705** | **-43,334** | **277,631** | **1,823,453** |
| Distribution of profit for 2017 | 0 | 0 | 0 | 420,610 |
| Dividend paid | 0 | 0 | 0 | 0 |
| Remuneration paid in shares | 0 | 0 | 0 | 8,787 |
| Consolidation of a subsidiary | 0 | 0 | 0 | 0 |
| Acquisition of own shares | 0 | 267 | 0 | -267 |
| **Transactions with owners** | **0** | **267** | **0** | **429,130** |
| Net profit for 2018 | 0 | 0 | 0 | 0 |
| Exchange differences on conversion of foreign units | 0 | 0 | 0 | 0 |
| **Balance as at 31 December 2018** | **3,705** | **-43,067** | **277,631** | **2,252,583** |

| Currency translation on foreign operation | Profit (loss) from previous years | Profit (loss) for the current period | Equity attributable to the parent company | Non-controlling interests | TOTAL equity |
|---|---|---|---|---|---|
| **-231,654** | **601,355** | **0** | **2,860,553** | **-15** | **2,860,538** |
| 0 | -482,729 | 0 | 0 | 0 | 0 |
| 0 | -110,065 | 0 | -110,065 | 0 | -110,065 |
| 0 | 0 | 0 | 7,111 | 0 | 7,111 |
| 0 | 0 | 0 | 2 | 0 | 2 |
| **0** | **-592,794** | **0** | **-102,952** | **0** | **-102,952** |
| 0 | 0 | 421,039 | 421,039 | 0 | 421,039 |
| 68,851 | 0 | 0 | 68,851 | 0 | 68,851 |
| **-162,803** | **8,561** | **421,039** | **3,247,491** | **-15** | **3,247,476** |
| **-208,167** | **590,158** | **0** | **2,443,446** | **-15** | **2,443,431** |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | -420,610 | 0 | 0 | 0 | 0 |
| 0 | -73,342 | 0 | -73,342 | 0 | -73,342 |
| 0 | 0 | 0 | 8,787 | 0 | 8,787 |
| 0 | -27 | 0 | -27 | 0 | -27 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| **0** | **-493,979** | **0** | **-64,582** | **0** | **-64,582** |
| 0 | 0 | 442,486 | 442,486 | 0 | 442,486 |
| -5,648 | 0 | 0 | -5,648 | 0 | -5,648 |
| **-213,815** | **96,179** | **442,486** | **2,815,702** | **-15** | **2,815,687** |
| **-208,167** | **590,158** | **0** | **2,443,446** | **-15** | **2,443,431** |
| 0 | -420,610 | 0 | 0 | 0 | 0 |
| 0 | -73,342 | 0 | -73,342 | 0 | -73,342 |
| 0 | 0 | 0 | 8,787 | 0 | 8,787 |
| 0 | -27 | 0 | -27 | 0 | -27 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| **0** | **-493,979** | **0** | **-64,582** | **0** | **-64,582** |
| 0 | 0 | 505,176 | 505,176 | 0 | 505,176 |
| -23,487 | 0 | 0 | -23,487 | 0 | -23,487 |
| **-231,654** | **96,179** | **505,176** | **2,860,553** | **-15** | **2,860,538** |

# ACCOUNTING PRINCIPLES (POLICIES) AND ADDITIONAL EXPLANATORY NOTES

## 1. OVERVIEW

The LPP SA Group ("Group") is composed of LPP SA ("Parent Company", "Company") and its subsidiaries. The Group's consolidated financial statements cover the year ended 31 January 2020 and incorporate comparative data for the year ended 31 December 2018 and additional data for the period of 13 months ended 31 January 2019.

On 25 May 2018, the Ordinary General Meeting of Shareholders of LPP SA adopted a resolution on the change of the Company's financial year to last, ultimately, from 1 February 31 January of a subsequent calendar year. Under the same resolution, it was decided that the financial year will commence on 1 January 2019 and end on 31 January 2020.

This change resulted from the inherent calendar of the clothing sector, with new collections being sold from February and a clearance sales period ending in January.

Therefore, the current financial statements cover the extended period of 13 months i.e. from 1 January 2019 to 31 January 2020. Subsequent reporting period will cover the period of 12 months from 1 February to 31 January of a subsequent calendar year.

Comparative periods cover both the financial year lasting 12 calendar months, audited by a statutory auditor, i.e. from 1 January to 31 December 2018, and an additional period of 13 months from 1 January 2018 to 31 January 2019, not audited by the statutory auditor.

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

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

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

## 2. GROUP COMPOSITION

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

| No | Company name | Registered office | Shareholding |
|---|---|---|---|
| 1. | LPP Retail Sp. z o.o. | Gdańsk, Poland | 100% |
| 2. | DP&SL Sp. z o.o. | Gdańsk, Poland | 100% |
| 3. | IL&DL Sp. z o.o. | Gdańsk, Poland | 100% |
| 4. | Printable Sp. z o.o. | Gdańsk, Poland | 100% |
| 5. | LPP Estonia OU | Tallinn, Estonia | 100% |
| 6. | LPP Czech Republic s.r.o. | Prague, the Czech Republic | 100% |
| 7. | LPP Hungary KFT | Budapest, Hungary | 100% |
| 8. | LPP Latvia Ltd | Riga, Latvia | 100% |
| 9. | LPP Lithuania UAB | Vilnius, Lithuania | 100% |
| 10. | LPP Ukraina AT | Peremyshliany, Ukraine | 100% |
| 11. | RE Trading OOO | Moscow, Russia | 100% |
| 12. | LPP Romania Fashion SRL | Bucharest, Romania | 100% |
| 13. | LPP Bulgaria EOOD | Sofia, Bulgaria | 100% |
| 14. | LPP Slovakia s.r.o. | Bańska Bystrzyca, Slovakia | 100% |
| 15. | LPP Fashion Bulgaria EOOD | Sofia, Bulgaria | 100% |
| 16. | Gothals LTD | Nicosia, Cyprus | 100% |
| 17. | LPP Croatia DOO | Zagreb, Croatia | 100% |
| 18. | LPP Deutschland GmbH | Hamburg, Germany | 100% |
| 19. | IPMS Management Services FZE | Ras Al Khaimah, UAE | 100% |
| 20. | LPP Reserved UK Ltd | Altrincham, UK | 100% |
| 21. | LLC Re Development | Moscow, Russia | 100% |
| 22. | LPP Reserved doo Beograd | Belgrade, Serbia | 100% |
| 23. | P&L Marketing&Advertising Agency SAL | Beirut, Lebanon | 97.32% |
| 24. | Reserved Fashion, Modne Znamke DOO | Ljubljana, Slovenia | 100% |
| 25. | LPP Kazakstan LLP | Almaty, Kazakhstan | 100% |
| 26. | LPP BH DOO | Banja Luka, Bosnia and Hercegovina | 100% |
| 27. | OOO LPP BLR | Minsk, Belarus | 100% |
| 28. | LPP Finland LTD | Helsinki, Finland | 100% |
| 29. | LPP Macedonia DOOEL | Skopje, Macedonia | 100% |

As at 31 January 2020 and as at 31 December 2018, the share in the total number of votes held by the Group in subsidiaries was equal to the Group's shareholdings in those entities, with no changes compared with the preceding year.

In the reporting period, the Group was joined by LPP BLR in Belarus, LPP Finland and "LPP Macedonia", handling retail sales of LPP SA brands, i.e. Reserved, Cropp, Mohito, House and Sinsay. At the same time, the Russian company Re Street was wounded up.

## 3. COMPOSITION OF THE MANAGEMENT BOARD OF THE PARENT COMPANY

Composition of the Management Board of LPP SA as at 31.01.2020:

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

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

## 4. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Management Board of LPP SA for publishing on 20 May 2020.

# 5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

## 5.1. PROFESSIONAL JUDGMENT

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

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

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

– **Lease – the Group as lessee**
  Judgments on lease where the Group is a lessee, in the following areas: recognition whether a given agreement incorporates a lease, agreements for an unlimited period of time, exercise of the option to prolong or shorten the lease term, are given in note 9.1 IFRS 16 Leases.
  The Group and its subsidiaries have concluded lease agreements for retail space to operate brand stores.

– **Recognition of revenue**
  In the financial statements, the Group calculates and recognises a product return asset as part of "inventory" and "customer refund liabilities" items, and makes relevant adjustments of sale revenues and the respective cost of goods sold. The Group makes judgment of the value of refunds in a given period, as described in note 9.1.

## 5.2. UNCERTAINTY OVER ESTIMATES AND ASSUMPTIONS

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

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

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

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

– **lessee's marginal interest rate**
  Estimates made when determining the lessee's marginal interest rate are given in note 8.1 IFRS 16 Leases.

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

  At present, the Parent Company adopted the following product return ratios for specific sales channels:
  - in on-site stores – 2%
  - in online stores – 11%

  The subsidiaries adopted their own product return ratios.

  By the end of 2018, the Group estimated a provision for product returns by applying an average product return ratio for both channels.

– **Impairment losses on assets**
  As at each balance sheet date, the Group assesses whether there is objective evidence for permanent impairment of an asset or a group of assets. The Group treats individual retail sales units as separate cash generating units and, at their level, estimates such impairment, if any. Fur-

thermore, as estimated by the Group, the initial phase of the store's operations lasts 3 years (5 years in the countries of Western Europe), during which newly opened stores may generate losses. After that period, the Group analyses the profitability of individual retail sales units. In case of identifying stores without any promising perspectives for improving results within a given time-frame, the Group makes a decision on an impairment loss on assets assigned to the unprofitable store.

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

- **valuation of provisions for retirement and pension benefits**
  The Group makes a provision for future liabilities arising from retirement and pension benefits, applying actuarial methods. Assumptions made in this respect are presented in note 23. A change in financial indices serving as the basis for the estimate, i.e. an increase in the discount rate by 0.5 pp and a decrease in the remuneration index by 0.5 pp would result in the decrease of the provision by PLN 97 thousand.

- **future tax results taken into account when calculating deferred income tax assets**
  The Group recognises a deferred income tax asset based on the assumption that, in the future, tax profit will be generated and, thus, utilised. A future deterioration in tax results yielded could make this assumption illegitimate.

  The Group assesses in detail the nature and scope of evidence justifying the conclusion that it is probable that the Group will yield a future taxable profit sufficient to deduct unsettled tax losses, unused tax reliefs or other negative temporary differences.

  When assessing whether it is probable that there will be future taxable income (probability exceeding 50%), the Group takes into account all evidence available, confirming both such probability and its absence.

- **assumptions made for reviewing trademark and goodwill impairment**
  Intangible assets with an unspecified useful life are annually tested for impairment. Assumptions made in this respect are discussed in notes 15 and 16.

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

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

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

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

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

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

If it is uncertain whether, and to what extent, a tax authority will approve specific tax settlements for a given transaction, the Group recognizes such settlements giving recognition of such uncertainty.

## 6. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

Pursuant to the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2019, item 351), from 1 January 2005, LPP SA has presented its consolidated financial statements based on International Financial Reporting Standards (IFRS), approved by the EU (IFRS EU). These consolidated financial statements have been drawn up in accordance with the historical cost accounting model, except for financial instruments measured at fair value.

These consolidated financial statements have been drawn up based on the assumption that the Group companies remain a going concern in the foreseeable future despite the occurrence of the following circumstances affecting the Group's going concern status in the nearest future.

In March, in many countries where LPP SA pursues its operations, due to the COVID-19 pandemic, retail and service outlets were closed based on decisions of administrative authorities. Abruptly, brand stores were closed and the company became temporarily unable to sell its goods and generate revenue in this distribution channel. The online store has become the only source of revenue.

In May 2020, individual countries started alleviating quarantine restrictions and the Group's brand stores resumed their operations. To secure financial liquidity and maintain the Company's operations, the Group's Management Board has undertaken numerous activities involving reduction of costs and expenses, increased online sales and the sourcing of governmental financial aid and additional financing from banks. Many activities aimed at ensuring safety for the Company's employees and also maintaining the Group's going concern status as well as securing financial liquidity are described in note 36 on events after the balance sheet date to these financial statements.

On a day-to-day basis, the Group's Management Board monitors financial liquidity and carries out regular stress tests covering the perspective of over a dozen of months of further operating activities i.e. by the end of June 2021. The analysed and prognosed cash flows are based on hypothetical careful assumptions to assess viability of the assumption that the company remains a going concern having regard of the situation on the fashion market in retail trade. As analysed, revenue on sales in brand stores will be adversely affected to a major extent, e-commerce sales will increase following store closure, whereas the Management Board will undertake any and all activities to mitigate the risk, including the limitation of investing activities (reduced number of stores, limited outlays on logistics offices and IT), non-payment of dividend and limitation of current operating activities (termination of lease agreements, re-negotiation of fixed rent to variable rent, reduced orders for new purchases, specifically the AW collections by 40% etc).

Key assumptions currently adopted for stress tests are given in the table below.

| | | Pessimistic scenario | Basic scenario | Optimistic scenario |
|---|---|---|---|---|
| Month in which stores will be opened | [month] | May 2020 | May 2020 | May 2020 |
| Period following which other stores will be opened [Poland] | [months] | 3 | 3 | 1 |
| Share of space after the opening of shopping centres [Poland] | [%] | 30% | 40% | 50% |
| % of space to remain closed [Poland] | [%] | 30% | 30% | 20% |
| Period in which other stores will be opened [worldwide] | [months] | 3 | 3 | 1 |
| Share of space immediately after the opening of shopping centres [worldwide] | [%] | 30% | 40% | 50% |
| % of space to remain closed [worldwide] | [%] | 0% | 0% | 0% |
| Revenue: | | | | |
| Value of revenue after store opening compared to reference values (one month after opening) | [%] | 50% | 50% | 60% |
| Target level of revenue (LFL before adjustment with space available) | [%] | 60% | 70% | 80% |
| Period of reaching target revenue | [months] | 4 | 3 | 2 |
| Payroll reduction | [%] | -20% | -20% | -20% |
| Decrease in gross margin in pp | [%] | -15% | -10% | -5% |
| USD/PLN exchange rate depreciation | [%] | 10% | 10% | 0% |
| Capital expenditures on stores, IT, offices etc. | [PLN mln] | 520 mln | 550 mln | 600 mln |
| Additional financing from banks | [PLN mln] | 0 | 0 | 700 mln |
| Minimum level of cash | [PLN mln] | 574 | 743 | 1056 |

According to stress test results, in all three scenarios, the Group will have sufficient cash resources and will be able to generate cash flows sufficient to remain a going concern having reduced its operations due to the planned closure of approx. 30% of retail space in Poland.

In the very pessimistic scenario only, according to which there would the second wave of the COVID-19 pandemic and a consequent re-closure of stores in October 2020, the Group could be short of funds at the end of 2020 to pay its liabilities to suppliers on a regular basis. However, in this very negative case, the Group still has enough time and capacities to obtain external financing in the form of bank loans, bonds issued, governmental aid such as funds from the Polish Development Fund or, ultimately, the issuance of new shares.

Having regard of the analyses made, the Group's current liquidity and assumptions prepared in respect of prognosed cash flow, the Group's Management Board has come to the conclusion that there is no major uncertainty as regards the Group remaining a going concern in the foreseeable future i.e. in the minimum period of subsequent 12 months. To the Management Board's best current knowledge, the actions undertaken bring expected effects and the Group should be able to remain a going concern in the foreseeable future.

Therefore, the enclosed financial statements have been prepared assuming that the Group remains a going concern and incorporates no adjustments relating to various methods of measurement and classification of assets and liabilities, which would be deemed required should the Group be unable to remain a going concern in the foreseeable future. At the same time, currently, it is difficult to foresee even the short- and medium-term impact of the present situation on macroeconomic conditions, financial markets, shopping habits and the buying power of consumers who may start making more selective choices when purchasing clothes or shop more and more online in fear of absence of adequate shopping conditions in stores (e.g. fitting rooms, disinfection), and, consequently, on the Group's operations. Nonetheless, the overall expected impact of this situation may be material.

## 7. KEY ACCOUNTING PRINCIPLES

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

These principles were applied in all presented years on a continuous basis, except for new standards and interpretations, referred to in point 8, applied for the first time, with specific exclusion of the first-time application of IFRS 16 Leases (IFRS 16).

### 7.1. CONVERSION OF ITEMS DENOMINATED IN FOREIGN CURRENCIES

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

The functional currency of foreign subsidiaries is their local currency.

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

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

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

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

| | EUR | CZK | BGN | HUF | RUB | UAH | HRK | RON | RSD | KZT | BAM | GBP | BYN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 31.01.20 | 4.3010 | 0.1704 | 2.1990 | 0.012777 | 0.0616 | 0.1558 | 0.5780 | 0.9003 | 0.0364 | 0.010273 | 2.1848 | 5.1160 | 1.8273 |
| 31.01.19 | 4.2802 | 0.1661 | 2.1884 | 0.013550 | 0.0572 | 0.1345 | 0.5767 | 0.9037 | 0.0363 | 0.009859 | 2.1961 | 4.8889 | - |
| 31.12.18 | 4.3000 | 0.1673 | 2.1985 | 0.013394 | 0.0541 | 0.1357 | 0.5799 | 0.9229 | 0.0363 | 0.010124 | 2.1899 | 4.7895 | - |

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

| | EUR | CZK | BGN | HUF | RUB | UAH | HRK | RON | RSD | KZT | BAM | GBP | BYN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| For 13 months ended 31.01.2020 | 4.2929 | 0.1675 | 2.1942 | 0.013200 | 0.0597 | 0.1511 | 0.5783 | 0.9030 | 0.0365 | 0.010000 | 2.1941 | 4.9087 | 1.8234 |
| For 13 months ended 31.01.2019 | 4.2717 | 0.1664 | 2.1849 | 0.013400 | 0.0574 | 0.1337 | 0.5764 | 0.9172 | 0.0363 | 0.010100 | 2.1970 | 4.8228 | - |
| For 13 months ended 31.12.2018 | 4.2697 | 0.1663 | 2.1939 | 0.013400 | 0.0575 | 0.1336 | 0.5763 | 0.9174 | 0.0363 | 0.010200 | 2.1972 | 4.8214 | - |

### 7.2. CONSOLIDATION PRINCIPLES

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

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

Subsidiaries are consolidated in the period from the date on which the Group takes control of them, and cease to be consolidated on the date such control expires. The Parent Company exercises control over a subsidiary if:
- it has power and authority over such entity,
- it is exposed to, or holds the rights to, variable returns generated due to its engagement in a given entity,
- it may use its power and authority to shape the level of returns generated.

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

## 8. CHANGES IN APPLIED ACCOUNTING PRINCIPLES

Accounting principles applied for preparing these consolidated financial statement are coherent with those applied when drawing up the Group's financial statements for the year ended 31 December 2018, except for those given below.

The Group has applied for the first time IFRS 16 Leases. Other new or amended standards and interpretations applied for the first time in 2019 do not substantially affect the Group's financial statements.

### 8.1. IFRS 16 LEASES

IFRS 16 replaces IFRS 17 Leases and related interpretations. The standard specifies how an IFRS reporter will recognise, measure, present and disclose leases, requiring lessees to settle a majority of lease contracts as part of a single balance sheet model.

The Group is a lessee in agreements on the lease of store and office space and cars, as described in greater detail in note 14.

Before adoption of IFRS 16, the Group (as lessee) classified each lease on the date of commencement of the lease term as finance or operating lease. The Lease was classified as finance lease if, principally, the entire risk and benefits arising from the possession of a leased object were transferred to the Group. Otherwise, the lease was classified as operating lease. The finance lease was capitalised at fair value of the leased object, determined as at the date of commencement of the lease term or in amounts equalling the current value of the minimum lease payments if it was lower than fair value. Lease payments were distributed as interest (recognised as financial costs) and a decrease in the lease liability. In the operating lease, the leased object was not activated, and lease payments were recognised as lease costs in the statement of comprehensive income, using the straight-line method for the lease term.

Following adoption of IFRS 16, the Group applied a single approach in recognition and measurement of all lease agreements in which it is a lessee, except for short-term and low-value leases. The Group recognised lease liabilities and assets involving the right of use of an underlying asset.

Furthermore, the Group is a party to lease agreements incorporating provisions on contingent rent in numerous situations if a specific level of revenues in a given store is exceeded, given as a percentage value of such revenues. Such rent is treated as variable and is not given recognition in the measurement of a liability or a right-of-use asset and is recognised in the statement of comprehensive income directly in the period to which it refers. The agreements contain also adjustment clauses under which the value of rent is matched with statistical price increase indices. Some of them contain provisions permitting prolongation of a lease agreement for a subsequent period, leaving a decision in that respect to the lessee.

The Group has the right to terminate agreements on the lease of the premises. Agreements are concluded most often for 5 or 10 years.

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

The lessee has the right to terminate a lease agreement covering means of transportation with a 30-day notice. Agreements do not contain any limitations relating, for example, to dividends, additional debt or additional lease agreements.

The Group implemented IFRS 16 applying the modified retrospective method i.e. with a cumulative effect of the standard's first application, recognised as at the date of first application i.e. 1 January 2019. The Group decided to use a practical solution involving application of the said standard only with respect to agreements which had earlier been identified as lease agreements in line with IAS 17 on the date of first application.

The Group applied the following permissible practical solutions for leases earlier classified as operating lease in line with IAS 17:
- the Group applied a single discounting rate for the portfolio of leases with similar features;
- the Group applied a simplified approach to lease agreements expiring before the lapse of 12 months from the date of first application, according to which these leases are recognised in line with the requirements for short-term lease agreements while the costs relating to them are disclosed in the item comprising the incurred costs of short-term lease agreements.

Following implementation of IFRS, first, the Group recognised right-of-use assets in the value equalling lease liabilities. Next, the value of the right of use was adjusted with the value of lease incentives settled over time, which the Group, as at 1 January 2019, held in its balance sheet, and the value of agents' commissions recognised as at 1 January 2019. The weighted average discount rate adopted at the time of the first application of that standard was 4.93%.

When implementing IFRS 16, the Group applied the following judgments and estimates.

### Lease term for agreements with the prolongation option

The Group determines the lease term as an irrevocable period of lease, including periods with the lease prolongation option if one may quite probably assume that this option will be exercised, and periods with the lease termination option if one may quite probably assume that this option will not be exercised.

In certain lease agreements, the Group may prolong the lease of assets. The Group makes a judgment when assessing whether it is certain enough to exercise that option. It means that the Group takes into account all significant facts and circumstances constituting an economic incentive for the prolongation of the lease agreement or an economic penalty for not prolonging the same. After the commencement date, the Group re-assesses the lease term in the event of occurrence of a major event or a change in circumstances beyond its control, affecting the Group's capacity to exercise (or not to exercise) the prolongation option (e.g. change in a business strategy).

The Group gave recognition to the period of prolongation of specific agreements e.g. retail space agreements as it is certain enough that it will exercise this option. The options for prolongation of the agreement on the lease of transport means were not given consideration as regards the lease term due to the fact that the Group's policy on the lease of the assets in question provides for the maximum period of useful life of five years. Consequently, the Group will not exercise the prolongation option.

### Lease period for agreements concluded for an unlimited period of time

The Group has concluded lease agreements for an unlimited period of time. When determining a lease term, the Group specifies a period of agreement enforceability. The lease ceases to be enforceable when both the lessee and the lessor have the right to terminate the agreement with no need to obtain the other party's approval, without incurring penalties other than minor ones. The Group assesses the importance of widely understood penalties, i.e. apart from strictly contractual or financial issues, the Groups recognises all other significant economic factors discouraging agreement termination (e.g. major investments in the leased object, availability of alternative solutions, relocation costs). If neither the Group as lessee nor the lessor are substantially penalised for termination (with such penalty being widely understood), the lease ceases to be enforceable and its term constitutes the period of notice. However, in the event where any of the parties is, following a professional judgement, substantially penalised for termination (with such penalty being widely understood), the Group specifies the lease term as sufficiently certain (i.e. a period in respect of which one may be sufficiently certain that the agreement will last).

### Marginal interest rate of the lessee

For the Group, it is not easy to determine an interest rate for lease agreements. Therefore, when measuring the lease liability, it applies the lessee's marginal interest rate. This is an interest rate which the Group would have to pay to borrow – for a similar term, in the same currency and with similar collaterals – funds required to purchase an asset of a value similar to the right-of-use asset in a similar economic environment.

The effect of implementation of IFRS 16 on the statement of financial position as at the date of first application i.e. 1 January 2019, is given in the table below.

| Lease in the statement of financial position (in PLN thousand) | 31.12.2018 | IFRS 16 adjustment | 01.01.2019 |
|---|---|---|---|
| **Assets** | | | |
| Right of use | 0 | 2,926,806 | 2,926,806 |
| Long-term prepayments** | 50,601 | (45,843) | 4,758 |
| Short-term prepayments** | 32,943 | (6,296) | 26,647 |
| **Total assets** | **83,544** | **2,874,667** | **2,958,211** |
| **Liabilities** | | | |
| Long-term lease liabilities | 0 | 2,466,288 | 2,466,288 |
| Long-term accruals* | 255,774 | (141,980) | 113,794 |
| Short-term lease liabilities | 0 | 585,322 | 585,322 |
| Short-term accruals* | 72,006 | (34,963) | 37,043 |
| **Total liabilities** | **327,780** | **2,874,667** | **3,202,447** |

*According to IFRS 16, the Group presents lease incentives received as a decrease in the right-of-use asset.
** According to IFRS 16, the Group presents agents' commissions as an increase in the right-of-use asset.

The Group's new accounting principles following implementation of IFRS 16 were described in note 14 Leases.

The reconciliation of lease payments presented in the financial statements for the year ended 31 December 2018 with the value of lease liabilities recognised as at 1 January 2019 is given in the table below.

| (in PLN thousand) | 01.01.2019 |
|---|---|
| **Value of the minimum lease payments according to IAS 17** | **3,325,771** |
| Reasons for change in value according to IFRS 16 | |
| Agreements not subject to measurement under IFRS 16* | (84,688) |
| Agreements measured in line with IFRS 16, which were not measured so far under IAS 17** | 4,000 |
| Discount | (193,473) |
| **Value of the liability according to IFRS 16** | **3,051,610** |

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

## 8.2. OTHER AMENDMENTS

Other amendments which do not substantially affect the Group's financial statements are given below.

**IFRIC 23 *Uncertainty over Income Tax Treatments***

This interpretation clarifies methods for treatment and measurement of income tax in accordance with IAS 12 if there is uncertainty over its treatment. It applies neither to taxes nor charges not falling within the scope of IAS 12 and incorporates no requirements regarding interest and penalties related to uncertainty over income tax treatment. This interpretation covers, in particular:

- separate accounting for uncertainties in income taxes;
- assumptions by the entity for taxation authorities' examinations of tax treatment;
- the manner in which an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- the manner in which an entity takes into account changes in facts and circumstances.

The Group is required to determine whether each uncertain tax treatment should be considered independently or jointly with at least one uncertain tax treatment. The decision should be based on which approach provides better predictions for resolving the uncertainty.

**Amendments to IFRS 9: *Prepayment Features with Negative Compensation***

**Amendments to IFRS 19: *Plan Amendment, Curtailment or Settlement***

**Amendments to IAS 28: *Long-term Interests in Associates and Joint Ventures***

**Amendments following review of IFRS 2015-2017:**

- IFRS 3 *Business Combinations* – in respect of multi-stage acquisitions
- IFRS 11 *Joint Arrangements* – to the extent involving gaining control over a joint operation
- IAS 12 *Income Taxes* – in respect of tax consequences of dividend payment
- IAS 23 *Borrowing Costs*

These amendments clarify that an entity accounts for all borrowings initially taken out for producing a qualifying asset as part of general borrowings when, in principle, all actions required for preparing such asset for intended use or sale are completed.

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

## 8.3. ERROR CORRECTIONS AND CHANGE IN ACCOUNTING PRINCIPLES

The financial statements comprise no corrections of errors from previous years.

Since January 2019, receivables arising from credit/debit card payments have been shown by the Group in other financial assets and not in trade receivables as before. Data as at 31 December 2018 were transformed, with values given in the table below.

- **Change in presentation of receivables payable by payment card operators**

Since January 2019, receivables arising from credit/debit card payments have been shown by the Group in other financial assets and not in trade receivables as before. Data as at 31 December 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 shown in a single item, in net value, in the operating part of the statement of comprehensive income and not separately for assets and liabilities, in other operating income and expenses as before. Data for 2018 were transformed, with values given in the table below.

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

The costs of stores and distribution comprise the costs of store operation and logistics as well as the costs of online sales (e-commerce) together with logistics. General costs include the costs of marketing, product and sales departments and the back-office. Before transformation, the Group presented the costs of online sales (e-commerce) together with logistics as general and administrative expenses.

The values of specific items after transformation in the statement of comprehensive income for 12 months ended 31 December 2018 are given in the table below.

| After transformation | 01.01-31.12.2018 |
|---|---|
| Costs of stores and distribution | 3,091,502 |
| General costs | 440,671 |
| **Total** | **3,532,173** |

The values of specific items before transformation in the statement of comprehensive income for 12 months ended 31 December 2018 are given in the table below.

| Before transformation | 01.01-31.12.2018 |
|---|---|
| Selling costs | 3,023,609 |
| General and administrative expenses | 508,564 |
| **Total** | **3,532,173** |

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

| Changes as at 31 December 2018 | Value in PLN thousand | Data approved | Data transformed |
|---|---|---|---|
| Receivables payable by payment card operators | 34,523 | Trade receivables | Other financial assets |
| Inventory surpluses | 15,798 | Other operating income | Other operating costs |

Simultaneously, adjustments to financial data as at 1 January 2018 were presented.

| Changes as at 1 January 2018 | Value in PLN thousand | Data approved | Data transformed |
|---|---|---|---|
| Receivables payable by payment card operators | 70,366 | Trade receivables | Other financial assets |

# 9. REVENUE AND COSTS

## 9.1. REVENUE

### ACCOUNTING POLICY

The Group applied IFRS 15 *Revenue from Contracts with Customers* to all contracts with customers, except for lease agreements and financial instruments. The basic principle of IFRS 15 is that revenue is recognised, at the time of transfer of goods or services to the customer, in the amount of the consideration to which the entity expects to be entitled in exchange for the transfer of such goods and services. These principles are applied according to the five-step model in line with IFRS 15, i.e.:

- A contract with a customer has been identified;
- Performance obligations under such contract have been identified;
- The transaction price has been set;
- The transaction price for performance obligations has been allocated;
- Revenue was recognised at the time of executing the obligation under the contract.

**Identification of the contract with a customer**
Upon contract conclusion, the Group evaluates whether a contract meets all required criteria, i.e.:

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

When assessing whether payment of the consideration is probable, the Group takes into account only the customer's capacity and intention to pay the amount of the consideration in due time.

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

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

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

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

Upon contract conclusion, the Group evaluates whether a contract meets all required criteria, i.e.:

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

When assessing whether payment of the consideration is probable, the Group takes into account only the customer's capacity and intention to pay the amount of the consideration in due time.

**Identification of obligations to make a performance**
At the time of contract conclusion, the Group evaluates goods and services promised in the contract with the customer and identifies specific contractual obligations. The Group analyses whether a good or service is different or similar and, depending on findings made, performance

obligations to which revenue is allocated are recognised as required.

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

**Fulfilment of obligations to effect a performance**
the customer. The above takes place when an entity transfers "control" over goods or services to a contracting party. Such control is the ability to manage the use of a given asset and obtain all major benefits from it.

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

**Contract assets**
In contract assets, the Group recognises the rights to a consideration payable in exchange for goods or services, provided by the Group to the customer if this right is subject to a condition other than the lapse of time (e.g. to the entity's future performances).The Group assesses whether there has been an asset impairment according to IFRS 9.

**Trade receivables**
In trade receivables, the Group recognises the rights to a consideration payable in exchange for goods or services, provided by the Group to the customer if this right is unconditional (with the only condition for the consideration to be due and payable is the lapse of time). The Group recognises receivables in line with IFRS 9.

**Contract liabilities**
In contract liabilities, the Group recognises the consideration received  or due from the customer, which involves the duty to provide the customer with goods or services.

**Customer refund liabilities**
Group recognises customer refund liabilities due to the fact that customers make product claims and return goods purchased. Revenue from the sale of goods is updated by adjusting the estimated value of such returns, divided into traditional and online sale.

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

According to the said standard, if a contract provides for a single performance obligation, i.e. the sale of goods, then revenue is recognised at a point of time (which is when the customer obtains control of that good). As regards retail sales points (brand stores), revenue is recognised at the time of effecting a transaction. Recognition of revenue in wholesale is dependent on incoterms applied for a given transaction. In e-commerce sales, the Group recognises revenue at the time of invoice issuance, with due consideration of estimated returns.

### Revenue broken down by category

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

| *In PLN thousand* | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 |
|---|---|---|---|
| **Type of sale** | | | |
| Sale of goods, including | 9,894,271 | 8,747,796 | 8,040,535 |
| *E-commerce* | *1,174,065* | *802,292* | *712,056* |
| Sale of services | 4,972 | 8,113 | 6,221 |
| **Total** | **9,899,243** | **8,755,909** | **8,046,756** |
| | | | |
| **Brand** | **4,046,775** | **3,880,520** | **3,578,445** |
| Reserved | 1,300,203 | 1,205,711 | 1,119,876 |
| Cropp | 1,117,347 | 992,613 | 919,954 |
| House | 896,881 | 845,958 | 781,569 |
| Mohito | 1,208,094 | 850,772 | 788,924 |
| Sinsay | 1,174,065 | 802,292 | 712,056 |
| E-commerce | 155,878 | 178,043 | 145,932 |
| Other | 9,899,243 | 8,755,909 | 8,046,756 |
| **Total** | **9 899 243** | **8 755 909** | **8 046 756** |

### Assets and liabilities under contracts with customers

The Group sells clothes and accessories to customers in its own stores and online in Poland and abroad, with payments made in cash or by credit/debit cards. Due to this business model, the balance of receivables is relatively low. Trade receivables comprise wholesale settlements and advances.

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

Considering that the main distribution channel is retail sale and, to a lesser extent, wholesale, and taking into account product returns envisaged in the Company's policy, the Group estimates, as at each balance sheet date, the value of customer refund liabilities. Such an estimate is made based on a percentage of returns determined in consideration of data from the preceding quarter. The said value is presented in the "customer refund liabilities" item.

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

| *In PLN thousand* | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 (transformed) |
|---|---|---|---|
| Trade receivables | 143,783 | 103,557 | 121,729 |
| Customer refund liabilities | 27,207 | 36,240 | 36,731 |
| Contract liabilities | 19,929 | 18,335 | 23,140 |

## 9.2. COST OF GOODS SOLD

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

| **Cost of goods sold (in PLN thousand)** | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 |
|---|---|---|---|
| Cost of goods and services sold | 4,706,990 | 4,086,136 | 3,602,291 |
| Revaluation write-off on inventories | 46,538 | 41,503 | 43,206 |
| **Total cost of goods sold** | **4,753,528** | **4,127,639** | **3,645,497** |

## 9.3. OTHER OPERATING INCOME AND COSTS

### ACCOUNTING POLICY

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

| **Other operating income (in PLN thousand)** | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 (transformed) |
|---|---|---|---|
| Profit on sale of non-financial non-current assets | 0 | 1,724 | 1,724 |
| Other operating income, including: | 21,518 | 23,284 | 18,105 |
| - compensations | 4,414 | 5,720 | 5,545 |
| **Other operating income** | **21,518** | **25,008** | **19,829** |

| **Other operating costs (in PLN thousand)** | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 (transformed) |
|---|---|---|---|
| Loss on sale of non-financial non-current assets | 1,059 | 0 | 0 |
| Revaluation of non-financial assets, including: | 40,443 | 44,745 | 45,130 |
| – revaluation write-offs on non--current assets net | 30,235 | 31,708 | 32,052 |
| – revaluation write-offs on receivables net | 10,208 | 13,037 | 13,078 |
| Other operating costs, including: | 106,957 | 97,936 | 87,225 |
| – losses on current and non-current assets | 82,195 | 69,538 | 62,118 |
| **Other operating costs, in total** | **148,459** | **142,681** | **132,355** |

## 9.4. PRZYCHODY I KOSZTY FINANSOWE

| **Financial income (in PLN thousand)** | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 |
|---|---|---|---|
| Interest, including: | 8,418 | 5,614 | 4,790 |
| – on deposits | 8,418 | 5,499 | 4,675 |
| – on loans and receivables | 0 | 115 | 115 |
| – state budget interest | 0 | 0 | 0 |
| Measurement of participation units in funds | 2,440 | 3,290 | 3,290 |
| Dividend | 24 | 96 | 96 |
| Other financial income | 32 | 247 | 244 |
| **Total financial income** | **10,914** | **9,247** | **8,420** |

| Financial costs (in PLN thousand) | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 |
|---|---|---|---|
| Costs of interest – bank loans | 17,136 | 15,343 | 14,253 |
| Costs of interest – bonds | 734 | 0 | 0 |
| Costs of interest – state budget and other | 228 | 699 | 699 |
| Costs of interest – lease liabilities | 119,915 | 8,291 | 0 |
| Other, including: | 13,383 | 16,350 | 26,348 |
| – balance of foreign exchange differences | 6,834 | 12,245 | 22,750 |
| **Total financial costs** | **151,396** | **40,683** | **41,300** |

### 9.5. COSTS BY TYPE

| Costs by type (in PLN thousand) | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 (transformed) |
|---|---|---|---|
| Depreciation | 1,093,784 | 426,877 | 349,163 |
| Rents and leaseholds | 624,248 | 1,119,096 | 1,033,012 |
| Store and warehouse operation services | 166,162 | 109,142 | 100,747 |
| Taxes and fees | 40,820 | 33,934 | 31,334 |
| Payroll | 928,384 | 901,764 | 832,398 |
| Other costs by type | 1,359,704 | 1,231,535 | 1,185,519 |
| **Total costs by type** | **4,213,102** | **3,822,348** | **3,532,173** |

The reconciliation of costs by nature and function is given in the table below.

| Costs by type (in PLN thousand) | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 (transformed) |
|---|---|---|---|
| Costs by type, including: | 4,213,102 | 3,822,348 | 3,532,173 |
| Items recognised in costs of stores and distribution | 3,676,135 | 3,342,223 | 3,091,502 |
| Items recognised in general costs | 536,967 | 480,125 | 440,671 |

## 9.6. COSTS OF DEPRECIATION, EMPLOYEE BENEFITS AND INVENTORIES

| Items recognised in the cost of goods sold (in PLN thousand) | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 |
|---|---|---|---|
| Measurement of inventories at purchase price | 4,726,760 | 4,090,394 | 3,606,291 |
| Revaluation write-off on inventories | 46,538 | 41,503 | 43,206 |
| Estimated product returns | -19,770 | -4,258 | -4,258 |
| **Total** | **4,753,528** | **4,127,639** | **3,645,239** |

| Items recognised in costs of stores and distribution (in PLN thousand) | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 |
|---|---|---|---|
| Depreciation of non-current assets | 381 787 | 300 948 | 276 661 |
| Depreciation of intangible assets | 2 959 | 1 926 | 1 778 |
| Depreciation of the right of use | 635 670 | 45 606 | 0 |
| Costs of inventory consumption for advertising purposes | 34 079 | 21 832 | 20 152 |
| Costs of employee benefits, including | 947 701 | 966 175 | 891 239 |
| – payroll | 807 708 | 811 587 | 749 158 |
| – social security costs | 139 993 | 154 588 | 142 081 |
| **Total** | **2 002 196** | **1 336 487** | **1 189 830** |

| Items recognised in general costs (in PLN thousand) | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 |
|---|---|---|---|
| Depreciation of non-current assets | 33,334 | 61,826 | 57,076 |
| Depreciation of intangible assets | 19,910 | 14,847 | 13,648 |
| Depreciation of the right of use | 20,124 | 1,724 | 0 |
| Costs of employee benefits, including | 132,470 | 107,353 | 99,027 |
| – payroll | 120,676 | 90,177 | 83,240 |
| – social security costs | 11,794 | 17,176 | 15,787 |
| **Total** | **205,838** | **185,750** | **169,751** |

| Item recognised in other operating costs (in PLN thousand) | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 |
|---|---|---|---|
| Inventory deficits prevailing over inventory surpluses | 62,654 | 51,421 | 49,595 |
| Inventory disposal | 3,133 | 1,748 | 1,524 |
| Donations | 839 | 1,555 | 1,555 |
| **Total** | **66,626** | **54,724** | **52,674** |

## 10. INCOME TAX

### ACCOUNTING POLICY

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

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

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

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

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

If, in the Group's opinion, it is probable that the approach of an individual company to a given tax issue or a set of tax issues will be approved by the tax authority, then each company determines taxable income (tax loss), a taxable basis, unsettled tax losses, unused tax reliefs and tax rates with due regard of the tax approach planned or applied in its tax return. When assessing such probability, the Group assumes that tax authorities authorised to control and question tax treatment will carry out such control and have access to any and all information.

If, in the Group's opinion, it is not probable that the tax authority will accept the company's approach to a given tax issue or a set of tax issues, then the company reflects the effects of uncertainty in tax accounting in the period in which it determined the above. The Group recognises income tax liability applying one of the two methods depending on which better reflects the manner in which such uncertainty may be materialised:

- The company determines the most probable scenario – this is a single amount from among possible results or
- The company recognises an expected value – this is a sum of probability-weighted amounts from among possible results

Key components of income tax for 13 months ended 31 January 2020 and comparative periods are given in the table below.

| Income tax (in PLN thousand) | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 |
|---|---|---|---|
| Current income tax | 212,361 | 235,324 | 230,960 |
| Deferred income tax | 31,790 | -20,997 | -12,456 |
| **Total income tax** | **244,151** | **214,327** | **218,504** |

## 10.1. EFFECTIVE INTEREST RATE

The reconciliation of income tax on the financial result before tax at a statutory tax rate, with income tax presented in the financial result for the period from 1 January 2019 to 31 January 2020 and comparative periods, is given in the table below.

| Income tax (in PLN thousand) | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 |
|---|---|---|---|
| Profit/loss before taxation | 641,300 | 656,813 | 723,680 |
| **Tax at statutory rate applicable in Poland 19%** | **121,847** | **124,794** | **137,499** |
| Effect of tax rate differences between countries | -24,402 | -2,085 | -2,884 |
| Adjustments of current tax from previous years | 11,271 | -241 | -241 |
| Income tax provisions | 23,890 | 33,328 | 33,328 |
| Taxation of foreign controlled companies | 26,128 | 0 | 0 |
| Revaluation write-off on a tax asset involving trademarks | 34,104 | 45,532 | 45,532 |
| Fixed costs other than revenue earning costs | -23,770 | -3,725 | 3,526 |
| Fixed revenue other than taxable basis | 27,543 | 9,421 | 8,943 |
| Other | 0 | -147 | -147 |
| **Income tax (burden) recognised in profit or loss** | **244,151** | **214,327** | **218,504** |

The value of income tax was increased with required tax charged on foreign companies in amount of PLN 26,128 thousand. Additionally, this value was increased with the revaluation write-off on part of the tax asset recognised in previous years due to the difference between the balance sheet value and the tax value of trademarks, in the amount of PLN 34,104 thousand.

Income tax is calculated based on the following tax rates.

| Poland | Estonia | Russia | Serbia | Lithuania | Latvia | Ukraine | Hungary | Croatia | Finland | Cyprus |
|---|---|---|---|---|---|---|---|---|---|---|
| 19% | 0% | 20% | 15% | 15% | 0% | 18% | 9% | 18% | 20% | 2,5% |

| Czech Rep. | Bulgaria | Great Britain | Romania | Slovakia | Slovenia | Kazakhstan | Bosnia and Hercegovina | Belarus | Germany |
|---|---|---|---|---|---|---|---|---|---|
| 19% | 10% | 15% | 16% | 21% | 15% | 20% | 10% | 18% | 30,5% |

## 10.2. DEFERRED INCOME TAX – FINANCIAL RESULT

Deferred income tax recognised in the financial result for the period from 1 January 2019 to 31 January 2020 and comparative periods resulted from the following items.

| Deferred income tax (in PLN thousand) | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 |
|---|---|---|---|
| Difference between balance sheet and tax depreciation of non-current assets | 3,289 | -18,859 | -21,518 |
| Depreciation of trademarks | -5,896 | -5,346 | -5,346 |
| Revaluation write-off on the tax asset involving trademarks | -34,104 | -45,532 | -45,532 |
| Difference between the right of use and the lease liability | 32,596 | 21,420 | 0 |
| Revaluation of inventories | 8,426 | 10,526 | 11,527 |
| Revaluation of trade receivables | 2,121 | 2,224 | 2,224 |
| Margin on goods unsold outside the Group | -2,084 | 2,377 | 5,499 |
| Fee on outlays sold | -25,597 | 15,899 | 24,835 |
| Tax loss | 3,357 | 31,010 | 31,010 |
| Unpaid remuneration and surcharges | -3,601 | 1,214 | 3,093 |
| Provision for product returns | -712 | 542 | 542 |
| Estimated return/estimated rent grants | -10,866 | 9,270 | 9,575 |
| Other temporary differences | 3,999 | -3,296 | -3,653 |
| Exchange differences from currency translation | -2,718 | -452 | 200 |
| **Total** | **-31,790** | **20,997** | **12,456** |

In the current reporting period, the Group made a revaluation write-off on part of the tax asset recognised in previous years due to the difference between the book value and tax value of LPP trademarks, in the amount of PLN 34,104 thousand.

## 10.3. DEFERRED TAX ASSETS AND LIABILITIES

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

| **Deferred income tax assets (in PLN thousand)** | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Difference between balance sheet and tax depreciation of non-current assets | -293 | -1,199 | -3,172 |
| Difference between balance sheet and tax depreciation of trademarks | 0 | 40,000 | 40,000 |
| Difference between the right of use and the lease liability | 32,596 | 21,420 | 0 |
| Revaluation of inventories | 21,887 | 12,460 | 13,461 |
| Revaluation of trade receivables | 4,720 | 2,599 | 2,599 |
| Margin on goods unsold outside the Group | 19,035 | 17,997 | 21,119 |
| Fee on outlays sold | 10,739 | 27,400 | 36,336 |
| Tax loss | 34,414 | 31,057 | 31,057 |
| Unpaid remuneration and surcharges | 12,478 | 14,200 | 16,079 |
| Provision for product returns | 992 | 1,704 | 1,704 |
| Estimated return/estimated rent grants | -4,141 | 6,420 | 6,725 |
| Other temporary differences | 2,368 | -1,274 | -1,631 |
| **Total** | **134,795** | **172,784** | **164,277** |

| **Deferred income tax liabilities(in PLN thousand)** | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Difference between balance sheet and tax depreciation of non-current assets | 276 | 309 | 686 |
| Other temporary differences | 0 | 0 | 0 |
| **Total** | **276** | **309** | **686** |

## 11. EARNINGS PER SHARE

**ACCOUNTING POLICY**

Basic earnings per share are calculated by dividing net profit for a given period by the weighted average number of issued ordinary shares in LPP SA, existing in a given period.

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

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

| (in PLN thousand) | For 13 months ended 31.01.2020 | For 13 months ended 31.01.2019 (unaudited) | For 12 months ended 31.12.2018 |
|---|---|---|---|
| **Number of shares in the formula's denominator** | | | |
| Weighted average number of shares | 1,834,192 | 1,833,489 | 1,833,483 |
| Dilutive effect of convertible warrants | 907 | 853 | 853 |
| Diluted weighted average number of shares | 1,835,099 | 1,834,342 | 1,834,336 |
| **Earnings per share** | | | |
| Net profit (loss) for the current period, attributable to shareholders of the parent company | 421,039 | 442,486 | 505,176 |
| Profit (loss) per share | 229.55 | 241.34 | 275.53 |
| Rozwodniony zysk (strata) na akcję | 229.44 | 241.22 | 275.40 |

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

## 12. DIVIDENDS PAID AND OFFERED FOR PAYMENT

**ACCOUNTING POLICY**

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

The dividend on ordinary shares for 2018, paid on 27 June 2019, amounted to PLN 110,065 thousand (for 2017, paid on 14 September 2018: PLN 73,342 thousand).

The dividend's value per ordinary share, paid for 2018, amounted to PLN 60.00 (for 2017: PLN 40.00).

On 30 March 2020, the Management Board of LPP SA adopted a resolution on recommending to the Supervisory Board and the General Meeting of Shareholders that a dividend for the financial year ended 31 January 2020 be not paid with a view to increasing financial security during economic hardship caused by the COVID-19 pandemic.

## 13. TANGIBLE FIXED ASSETS

### ACCOUNTING POLICY

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

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

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

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

| Asset group | Depreciation rate |
|---|---|
| Buildings, premises, civil engineering works, including: | 2.5-50 % |
| – Outlays in third-party premises | 14.28 % |
| Plant and machinery | 2.5-50 % |
| Means of transportation | 10-25 % |
| Other fixed assets, including: | 10-40 % |
| – Furniture | 20 % |

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

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

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

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

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

Changes in fixed assets (by type) in the period from 1 January 2019 to 31 January 2020

| **Changes in fixed assets (by type) from 01.01.2019 to 31.01.2020 (in PLN thousand)** | Land | Buildings, facilities, civil engineering works | Plant and machinery | Transportation means | Other fixed assets | Fixed assets in construction | Advances for fixed assets | Fixed assets, total |
|---|---|---|---|---|---|---|---|---|
| Opening balance gross value of fixed assets | 63,449 | 1,789,346 | 431,168 | 11,463 | 668,874 | 136,607 | 129,805 | 3,230,712 |
| Foreign exchange differences | 0 | 39,004 | 6,380 | 339 | 22,601 | 2,306 | 1,169 | 71,799 |
| Acquisitions | 23,729 | 0 | 29,650 | 3,568 | 0 | 876,048 | 39,844 | 972,839 |
| Transfer from fixed assets in construction | 0 | 452,564 | 126,347 | 0 | 188,633 | 0 | 0 | 767,544 |
| Sale | 0 | 860 | 1,067 | 791 | 42 | 0 | 0 | 2,760 |
| Disposal | 0 | 134,587 | 30,714 | 122 | 46,917 | 0 | 0 | 212,340 |
| Other decreases | 0 | 0 | 0 | 0 | 0 | 0 | 37,690 | 37,690 |
| Transfer from fixed assets in construction | 0 | 0 | 0 | 0 | 0 | 767,544 | 0 | 767,544 |
| **Closing balance gross value of fixed assets** | **87,178** | **2,145,467** | **561,764** | **14,457** | **833,149** | **247,417** | **133,128** | **4,022,560** |
| Opening balance accumulated depreciation (amortisation) | 0 | 755,692 | 232,863 | 6,070 | 385,897 | 0 | 0 | 1,380,522 |
| Foreign exchange differences | 0 | 22,317 | 4,059 | 203 | 14,650 | 0 | 0 | 41,229 |
| Depreciation for the period | 0 | 230,960 | 60,427 | 2,012 | 121,722 | 0 | 0 | 415,121 |
| Sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposal | 0 | 103,453 | 25,498 | 747 | 45,439 | 0 | 0 | 175,137 |
| **Closing balance accumulated depreciation (amortisation)** | **0** | **905,516** | **271,851** | **7,538** | **476,830** | **0** | **0** | **1,661,735** |
| Opening balance impairment write-offs | 0 | 31,011 | 649 | 0 | 214 | 0 | 0 | 31,874 |
| Increase | 0 | 31,700 | 1,623 | 0 | 3,057 | 0 | 0 | 36,380 |
| Utilisation | 0 | 13,213 | 678 | 0 | 243 | 0 | 0 | 14,134 |
| Reversal | 0 | 5,681 | 0 | 0 | 0 | 0 | 0 | 5,681 |
| **Closing balance impairment write-offs** | **0** | **43,817** | **1,594** | **0** | **3,028** | **0** | **0** | **48,439** |
| Total net value of fixed assets as at 1 January 2019 | 63,449 | 1,002,643 | 197,656 | 5,393 | 282,763 | 136,607 | 129,805 | 1,818,316 |
| Total net value of fixed assets as at 31 January 2020 | 87,178 | 1,196,134 | 288,319 | 6,919 | 353,291 | 247,417 | 133,128 | 2,312,386 |

| Impairment write-off – items in the comprehensive income statement | Amount |
|---|---|
| Increase – other operating costs, revaluation of non-financial assets | 35,803 |
| Decrease - other operating costs, revaluation of non-financial assets | 5,568 |

Changes in fixed assets (by type) in the period from 1 January 2018 to 31 January 2019 (unaudited)

| **Changes in fixed assets (by type) from 01.01.2018 to 31.01.2019 (in PLN thousand) (unaudited)** | Land | Buildings, facilities, civil engineering works | Plant and machinery | Transportation means | Other fixed assets | Fixed assets in construction | Advances for fixed assets | Fixed assets, total |
|---|---|---|---|---|---|---|---|---|
| Opening balance gross value of fixed assets | 42,814 | 1,587,267 | 400,083 | 10,674 | 596,125 | 42,998 | 22,399 | 2,702,360 |
| Foreign exchange differences | 0 | -11,400 | -1,254 | 105 | -8,420 | 232 | 0 | -20,737 |
| Acquisitions | 20,635 | 0 | 0 | 2,817 | 59,148 | 592,400 | 122,056 | 797,056 |
| Transfer from fixed assets in construction | 0 | 328,769 | 66,372 | 0 | 86,229 | 0 | 0 | 481,370 |
| Sale | 0 | 0 | 0 | 1,651 | 0 | 0 | 0 | 1,651 |
| Disposal | 0 | 119,471 | 34,250 | 358 | 57,166 | 0 | 0 | 211,245 |
| Other decreases | 0 | 0 | 0 | 0 | 0 | 0 | 12,801 | 12,801 |
| Transfer from fixed assets in construction | 0 | 0 | 0 | 0 | 0 | 481,370 | 0 | 481,370 |
| **Closing balance gross value of fixed assets** | **63,449** | **1,785,165** | **430,951** | **11,587** | **675,916** | **154,260** | **131,654** | **3,252,982** |
| Opening balance accumulated depreciation (amortisation) | 0 | 665,195 | 207,162 | 6,260 | 338,165 | 0 | 0 | 1,216,782 |
| Foreign exchange differences | 0 | -5,431 | -520 | 81 | -4,940 | 0 | 0 | -10,810 |
| Depreciation for the period | 0 | 196,386 | 53,406 | 1,652 | 111,330 | 0 | 0 | 362,774 |
| Sale | 0 | 0 | 0 | 1,308 | 0 | 0 | 0 | 1,308 |
| Disposal | 0 | 91,714 | 23,200 | 396 | 51,785 | 0 | 0 | 167,095 |
| **Closing balance accumulated depreciation (amortisation)** | **0** | **764,436** | **236,848** | **6,289** | **392,770** | **0** | **0** | **1,400,343** |
| Opening balance impairment write-offs | 0 | 7,198 | 88 | 0 | 128 | 0 | 0 | 7,414 |
| Increase | 0 | 31,081 | 573 | 0 | 152 | 0 | 0 | 31,806 |
| Utilisation | 0 | 7,471 | 16 | 0 | 1 | 0 | 0 | 7,488 |
| Reversal | 0 | 111 | 17 | 0 | 93 | 0 | 0 | 221 |
| **Closing balance impairment write-offs** | **0** | **30,697** | **628** | **0** | **186** | **0** | **0** | **31,511** |
| Total net value of fixed assets as at 1 January 2018 | 42,814 | 914,874 | 192,833 | 4,414 | 257,832 | 42,998 | 22,399 | 1,478,164 |
| Total net value of fixed assets as at 31 January 2019 | 63,449 | 990,032 | 193,475 | 5,298 | 282,960 | 154,260 | 131,654 | 1,821,128 |

| Impairment write-off – items in the comprehensive income statement | Amount |
|---|---|
| Increase – other operating costs, revaluation of non-financial assets | 31,708 |

Changes in fixed assets (by type) in the period from 1 January 2018 to 31 December 2018

| **Changes in fixed assets (by type) from 01.01.2018 to 31.12.2018 (in PLN thousand)** | Land | Buildings, facilities, civil engineering works | Plant and machinery | Transportation means | Other fixed assets | Fixed assets in construction | Advances for fixed assets | Fixed assets, total |
|---|---|---|---|---|---|---|---|---|
| Opening balance gross value of fixed assets | 42,814 | 1,587,267 | 400,083 | 10,674 | 596,125 | 42,998 | 22,399 | 2,702,360 |
| Foreign exchange differences | 0 | -12,409 | -1,628 | -51 | -10,326 | -81 | 0 | -24,495 |
| Acquisitions | 20,635 | 0 | 0 | 2,760 | 67,864 | 547,810 | 119,768 | 758,837 |
| Transfer from fixed assets in construction | 0 | 319,547 | 65,993 | 0 | 68,580 | 0 | 0 | 454,120 |
| Sale | 0 | 0 | 0 | 1,920 | 0 | 0 | 0 | 1,920 |
| Disposal | 0 | 105,059 | 33,280 | 0 | 53,369 | 0 | 0 | 191,708 |
| Other decreases | 0 | 0 | 0 | 0 | 0 | 0 | 12,362 | 12,362 |
| Transfer from fixed assets in construction | 0 | 0 | 0 | 0 | 0 | 454,120 | 0 | 454,120 |
| **Closing balance gross value of fixed assets** | **63,449** | **1,789,346** | **431,168** | **11,463** | **668,874** | **136,607** | **129,805** | **3,230,712** |
| Opening balance accumulated depreciation (amortisation) | 0 | 665,195 | 207,162 | 6,260 | 338,165 | 0 | 0 | 1,216,782 |
| Foreign exchange differences | 0 | -6,536 | -821 | -44 | -6,611 | 0 | 0 | -14,012 |
| Depreciation for the period | 0 | 180,348 | 49,251 | 1,512 | 102,588 | 0 | 0 | 333,699 |
| Sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposal | 0 | 83,315 | 22,729 | 1,658 | 48,245 | 0 | 0 | 155,947 |
| **Closing balance accumulated depreciation (amortisation)** | **0** | **755,692** | **232,863** | **6,070** | **385,897** | **0** | **0** | **1,380,522** |
| Opening balance impairment write-offs | 0 | 7,198 | 88 | 0 | 128 | 0 | 0 | 7,414 |
| Increase | 0 | 31,272 | 603 | 0 | 180 | 0 | 0 | 32,055 |
| Utilisation | 0 | 7,456 | 42 | 0 | 94 | 0 | 0 | 7,592 |
| Reversal | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 3 |
| **Closing balance impairment write-offs** | **0** | **31,011** | **649** | **0** | **214** | **0** | **0** | **31,874** |
| Total net value of fixed assets as at 1 January 2018 | 42,814 | 914,874 | 192,833 | 4,414 | 257,832 | 42,998 | 22,399 | 1,478,164 |
| Total net value of fixed assets as at 31 December 2018 | 63,449 | 1,002,643 | 197,656 | 5,393 | 282,763 | 136,607 | 129,805 | 1,818,316 |

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

In the period ended 31 January 2020, the Group made impairment write-offs on tangible fixed assets, relating to unprofitable stores, for PLN 36,380 thousand (2018: PLN 32,055 thousand). Information on assumptions made in respect of revaluation write-offs is given in note 5.2.

In the same period, impairments write-off were partially utilised in the amount of PLN 14,134 thousand due to store closure, and such write-offs were partially reversed in the amount of PLN 5,681 thousand in the absence of prerequisites for creating the same.

The creation of impairment write-offs, decreased with their reversal, was shown in the comprehensive income statement, in item "other operating costs", in the amount of PLN 30,235 thousand.

As at 31 January 2020, the Company had contractual obligations to acquire tangible fixed assets of PLN 174,324 thousand (2018: PLN 255,644 thousand).

The said amount comprised the following obligations:
- Obligations related to the development of LPP brand stores – PLN 68,289 thousand
- Obligations under contracts on the extension of logistics centres – PLN 61,434 thousand
- Obligations under contracts on the development of office buildings – PLN 44,601 thousand

As at the balance sheet date, there were limitations in the disposal of real property in Pruszcz Gdański and Gdańsk due to investment loans. A detailed description is provided in note 22.

## 14. LEASES

### ACCOUNTING POLICY

**ACCOUNTING POLICY APPLIED SINCE JANUARY 2019**

Upon contract conclusion, the Group assesses whether a given agreement is a lease agreement or covers leased assets. The agreement is a lease agreement or covers leased assets if it transfers the right to control the use of an identified asset for a given period in exchange for a consideration.

The Group applies a single model for recognising and measuring all leases, except for short-term and low-value leases. As at the lease commencement date, the Group recognises a right-of-use asset and a lease liability.

**Right-of-use assets**

The Group recognises right-of-use assets as at the lease commencement date. The right-of-use assets are measured at cost and decreased with total depreciation write-offs and impairment losses. The cost of right-of-use assets comprises the amount of lease liabilities recognised, initial direct costs incurred as well as any and all lease payments paid on or before the commencement date, decreased with any lease incentives received.

**Lease liabilities**

As at the lease commencement date, the Group measures lease liabilities in the amount of the current value of lease payments due and payable on that date. Lease payments comprise fixed lease fees.

When calculating the current value of lease payments, the Group applies the lessee's marginal interest rate as at the lease commencement date if a percentage rate for the lease may not be easily determined. After the lease commencement date, the amount of lease liabilities is increased with interest and decreased with lease payments made. Furthermore, the balance sheet value of lease liabilities is re-measured if there is a change in the lease term and fixed lease fees.

**Short-term and low-value lease**

The Group applies an exemption as regards recognition of its short-term lease contracts (i.e. contracts with a lease term of 12 months or less, with no purchase option) as short-term lease. The Group also applies a relevant exemption as regards recognition of the lease of low-value assets. These charges are recognised as costs at their payment date.

**ACCOUNTING POLICY APPLIED BY 31 DECEMBER 2018**

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

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

Fixed assets used under finance lease agreements are depreciated according to the same rules as those applied to the Group's own assets. However, if it is not certain enough that the lessee will obtain the ownership title before the end of the lease term, a given asset is depreciated for a shorter of two periods, i.e. the lease term or the period of use.

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

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

Conditional lease payments are recognised as cost in the period in which they become due.
LPP SA and its subsidiaries are parties to lease agreements under which they operate brand stores, offices and warehouses, use transportation means and exercise the right of perpetual usufruct of land.

The following lease terms are applied:
- For brand stores – from 3 to 10 years, with the lease extension option
- For office and warehouse space – from 3 to 6 years
- For cars – from 5 to 10 years
- For the right of perpetual usufruct – as decided by the City Hall

Some of the lease agreements may be prolonged or terminated. The Management Board makes a judgment to determine a term in respect of which there is reasonable certainty that such agreements will last.

Furthermore, the Group concluded agreements on the lease of retail space and cars, with a lease term of 12 months or less, and lease agreements covering office equipment and low-value equipment. As regards short-term and low-value leases, the Group benefits from a relevant exemption.

Balance sheet values of right-of-use assets and their changes in the reporting period are given in the table below.

| **Changes in the right of use from 01.01.2019 to 31.01.2020 (in PLN thousand)** | Store lease | Other leases | Right of use, total |
|---|---|---|---|
| Opening balance gross value of the right of use | 2,770,066 | 156,740 | 2,926,806 |
| Increases (new leases) | 1,006,331 | 0 | 1,006,331 |
| Amendments to lease agreements | -235,975 | -655 | -236,630 |
| Revaluation of lease liabilities | -42,525 | -420 | -42,945 |
| **Closing balance gross value of the right of use** | **3,497,897** | **155,665** | **3,653,562** |
| Opening balance accumulated depreciation (amortisation) | 0 | 0 | 0 |
| Depreciation for the period | 631,627 | 24,167 | 655,794 |
| Revaluation | -2,387 | -82 | -2,469 |
| **Closing balance accumulated depreciation (amortisation)** | **629,240** | **24,085** | **653,325** |
| Total net value of fixed assets as at 1 January 2019 | 2,770,066 | 156,740 | 2,926,806 |
| Total net value of fixed assets as at 31 January 2020 | 2,868,657 | 131,580 | 3,000,237 |

Balance sheet values of lease liabilities and their changes in the reporting period are given in the table below.

| Lease liabilities (in PLN thousand) | As at 31.01.2020 |
|---|---|
| Opening balance | 3,051,610 |
| Increases (new agreements) | 1,088,631 |
| Amendments to lease agreements | -290,881 |
| Interest | 119,915 |
| Payments | -721,138 |
| **Closing balance** | **3,248,137** |
| Short-term | 680,184 |
| Long-term | 2,567,953 |
| **Total** | **3,248,137** |

Amendments to lease agreements involved changes in lease terms, changes in lease charges being subject to a rate or index and from measurement of a given value in a foreign currency.

In the reporting period, the Group presented the following values in the financial statements:
- Costs of depreciation of the right of use: PLN 655,794 thousand;
- Interest costs: PLN 119,915 thousand;
- Costs of rent under unmeasured agreements in line with IFRS 16: PLN 624,248 thousand.

As at 31 January 2020 and 31 January 2019, the Group shows a distribution of lease liabilities based on their maturity dates in non-discounted values.

| Lease liabilities (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Up to 1 month | 59,621 | 49,491 | 0 |
| From 1 to 3 months | 119,242 | 98,982 | 0 |
| From 3 months to 1 year | 536,593 | 445,424 | 0 |
| Above 1 year | 2,701,118 | 2,559,711 | 0 |
| **Total** | **3,416,574** | **3,153,608** | **0** |

## 15. INTANGIBLE ASSETS

### ACCOUNTING POLICY

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

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

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

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

**Costs of brand store concept works**

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

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

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

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

The key intangible asset is the House trademark recognised in the statement of financial position under a separate item of fixed assets i.e. "trademark". Its balance sheet value as at 31 January 2020 was PLN 77,508 thousand (2018: PLN 77,508 thousand).

The useful life of the said asset is unspecified.

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

The detailed analysis is given below.

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

Detailed assumptions for the estimates are as follows.

House trademark – measured by the royalty relief method, based on the determination of charges that would have to be paid by an external company for the privilege of using the brand. This fee is usually determined as a percentage of revenues:
- the estimate is based on sales generated by clothing under the House brand, which, in 2019, amounted to PLN 1,046 mln (retail sale and wholesale) and was higher by 282% as compared with the turnover for 12 months (November 2007-October 2008), adopted for the initial balance sheet measurement,
- royalty fee amounting to 3% of turnover was adopted,
- the capitalisation ratio adopted for measurement applying CAPM (the forecast period is not defined here because it is based on the perpetual rent model) amounted to 11% and consisted of several elements:
  - risk-free rate – 1.59%, equal to the profitability of 52-week treasury bills
  - annual inflation rate – 2%
  - risk premium – 7.50%

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

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

As at 31 January 2020, the key intangible assets were as follows:
- Software supporting sales in retail stores in subsidiaries. As at 31 January 2020, the balance sheet value of the said asset amounted to PLN 16,971 thousand (2018: PLN 5,056 thousand);
- Goods quantity management system. As at 31 January 2020, the balance sheet value of the said asset was PLN 14,495 thousand;
- System supporting identification and stock-taking of goods in stores and warehouses. As at 31 January 2020, the balance sheet value of the said asset was PLN 9,272 thousand;
- E-commerce software for Reserved, Cropp, Mohito, House and Sinsay brands. As at 31 January 2020, the balance sheet value of the said asset amounted to PLN 5,440 thousand (2018: PLN 1,475 thousand);
- System for invoicing e-commerce sales. As at 31 January 2020, the balance sheet value of the said asset was PLN 2,040 thousand (2018: PLN 2,895 thousand);
- Software for managing the designing process. As at 31 January 2020, the balance sheet value of the said asset was PLN 2,910 thousand (2018: PLN 2,376 thousand).
- SAP. As at 31 January 2020, the balance sheet value of the said asset was PLN 12,369 thousand (2018: PLN 2,388 thousand);
- Product allocation software. As at 31 January 2020, the balance sheet value of the said asset was PLN 10,622 thousand (2018: PLN 9,025 thousand).

Changes in intangible assets in the reporting period ended 31 January 2020 and in comparative periods are specified in tables below.

| Changes in intangible assets from 01.01.2019 to 31.01.2020 (in PLN thousand) | Opening balance gross value of intangible assets | Acquired concessions, patents, licenses and similar assets, including: Total | Computer software | Intangible assets in construction | Total |
|---|---|---|---|---|---|
| Opening balance gross value of intangible assets | 11,341 | 122,039 | 117,917 | 37,455 | 170,835 |
| Foreign exchange differences | 0 | 312 | 312 | 0 | 312 |
| Acquisitions | 0 | 0 | 0 | 59,444 | 59,444 |
| Transfer from intangible assets in construction | 0 | 74,914 | 73,268 | 0 | 74,914 |
| Disposal | 0 | 142 | 142 | 0 | 142 |
| Transfer from intangible assets in construction | 0 | 0 | 0 | 74,914 | 74,914 |
| **Closing balance gross value of intangible assets** | **11,341** | **197,123** | **191,355** | **21,985** | **230,449** |
| Opening balance accumulated depreciation (amortisation) | 8,589 | 72,616 | 69,500 | 0 | 81,205 |
| Foreign exchange differences | 0 | 279 | 279 | 0 | 279 |
| Depreciation for the period | 1,361 | 21,508 | 19,882 | 0 | 22,869 |
| Decrease | 0 | 138 | 138 | 0 | 138 |
| **Closing balance accumulated depreciation (amortisation)** | **9,950** | **94,265** | **89,523** | **0** | **104,215** |
| Opening balance impairment write-offs | 0 | 0 | 0 | 0 | 0 |
| Decreases | 0 | 0 | 0 | 0 | 0 |
| **Closing balance impairment write-offs** | **0** | **0** | **0** | **0** | **0** |
| Total net value of intangible assets as at 1 January 2019 | 2,752 | 49,423 | 48,417 | 37,455 | 89,630 |
| Total net value of intangible assets as at 31 January 2020 | 1,391 | 102,858 | 101,832 | 21,985 | 126,234 |

Changes in intangible assets from 1 January 2018 to 31 January 2019 (unaudited)

| **Changes in intangible assets from 01.01.2018 to 31.01.2019 (in PLN thousand) (unaudited)** | Costs of completed store concept works | Acquired concessions, patents, licenses and similar assets, including: | | Intangible assets in construction | Costs of completed store concept works |
|---|---|---|---|---|---|
| | | Total | Computer software | | |
| Opening balance gross value of intangible assets | 10,191 | 101,354 | 98,015 | 22,260 | 133,805 |
| Foreign exchange differences | 0 | -88 | -88 | 0 | -88 |
| Acquisitions | 665 | 0 | 0 | 44,469 | 45,134 |
| Transfer from intangible assets in construction | 485 | 25,987 | 24,720 | 0 | 26,472 |
| Disposal | 0 | 3,909 | 3,841 | 0 | 3,909 |
| Transfer from intangible assets in construction | 0 | 0 | 0 | 26,472 | 26,472 |
| **Closing balance gross value of intangible assets** | **11,341** | **123,344** | **118,806** | **40,257** | **174,942** |
| Opening balance accumulated depreciation (amortisation) | 7,217 | 62,517 | 59,973 | 0 | 69,734 |
| Foreign exchange differences | 0 | -101 | -101 | 0 | -101 |
| Depreciation for the period | 1,491 | 15,282 | 14,691 | 0 | 16,773 |
| Decrease | 0 | 4,201 | 4,007 | 0 | 4,201 |
| **Closing balance accumulated depreciation (amortisation)** | **8,708** | **73,497** | **70,556** | **0** | **82,205** |
| Opening balance impairment write-offs | 0 | 0 | 0 | 0 | 0 |
| Decreases | 0 | 0 | 0 | 0 | 0 |
| **Closing balance impairment write-offs** | **0** | **0** | **0** | **0** | **0** |
| Total net value of intangible assets as at 1 January 2018 | 2,974 | 38,837 | 38,042 | 22,260 | 64,071 |
| Total net value of intangible assets as at 31 January 2019 | 2,633 | 49,847 | 48,250 | 40,257 | 92,737 |

Changes in intangible assets from 1 January 2018 to 31 December 2018

| **Changes in intangible assets from 01.01.2018 to 31.12.2018 (in PLN thousand)** | Costs of completed store concept works | Acquired concessions, patents, licenses and similar assets, including: Total | Computer software | Intangible assets in construction | Costs of completed store concept works |
|---|---|---|---|---|---|
| Opening balance gross value of intangible assets | 10,191 | 101,354 | 98,015 | 22,260 | 133,805 |
| Foreign exchange differences | 0 | -132 | -132 | 0 | -132 |
| Acquisitions | 665 | 0 | 0 | 40,280 | 40,945 |
| Transfer from intangible assets in construction | 485 | 24,600 | 23,749 | 0 | 25,085 |
| Disposal | 0 | 3,783 | 3,715 | 0 | 3,783 |
| Transfer from intangible assets in construction | 0 | 0 | 0 | 25,085 | 25,085 |
| **Closing balance gross value of intangible assets** | **11,341** | **122,039** | **117,917** | **37,455** | **170,835** |
| Opening balance accumulated depreciation (amortisation) | 7,217 | 62,517 | 59,973 | 0 | 69,734 |
| Foreign exchange differences | 0 | -123 | -123 | 0 | -123 |
| Depreciation for the period | 1,372 | 14,092 | 13,332 | 0 | 15,464 |
| Decrease | 0 | 3,870 | 3,682 | 0 | 3,870 |
| **Closing balance accumulated depreciation (amortisation)** | **8,589** | **72,616** | **69,500** | **0** | **81,205** |
| Opening balance impairment write-offs | 0 | 0 | 0 | 0 | 0 |
| Decreases | 0 | 0 | 0 | 0 | 0 |
| **Closing balance impairment write-offs** | **0** | **0** | **0** | **0** | **0** |
| Total net value of intangible assets as at 1 January 2018 | 2,974 | 38,837 | 38,042 | 22,260 | 64,071 |
| Total net value of intangible assets as at 31 December 2018 | 2,752 | 49,423 | 48,417 | 37,455 | 89,630 |

In the reporting period ended 31 January 2020, in the period of 13 months ended 31 January 2019 and in 2018, no impairment write-offs on intangible assets were made.

## 16. GOODWILL

### ACCOUNTING POLICY

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

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

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

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

In the current reporting period, goodwill presented in the consolidated statement of financial position did not change as compared with the previous year. It was created as a result of the following transactions:
- merger of LPP SA and Artman SA in July 2009, for the amount of PLN 183,203 thousand;
- acquisition of UAB House Plius upon merger of LPP SA and Artman SA, for the amount of PLN 406 thousand,
- purchase of the shares in Koba AS with its registered office in Slovakia in April 2014, for the amount of PLN 25,989 thousand.

As at 31 January 2020, goodwill did not change and amounted to PLN 209,598 thousand.

Changes in goodwill are presented in the table below.

| Gross value (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Balance as at 1 January | 209,598 | 209,598 | 209,598 |
| Increases | 0 | 0 | 0 |
| Decreases | 0 | 0 | 0 |
| **Balance as at 31 January** | **209,598** | **209,598** | **209,598** |

| Revaluation write-offs (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Balance as at 1 January | 0 | 0 | 0 |
| **Balance as at 31 January** | **0** | **0** | **0** |

| Net value (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Balance as at 1 January | 209,598 | 0 | 209,598 |
| **Balance as at 31 January** | **209,598** | **0** | **209,598** |

According to IAS 36 and the accounting policy, as at 31 January 2020, an impairment test was carried out for Artman of the balance sheet value of PLN 183,203 thousand, and Koba of the balance sheet value of PLN 25,989 thousand.

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

Detailed assumptions for estimates are as follows. Value of Artman – estimated applying the DCF method for cash flows generated by House stores. The valuation was based on the following assumptions:

- period covering estimated cash flows - 5 years (2020-2024), without recognising a residual value,
- annual forecasts of revenues and costs in 2020 (based on actual performance), which, in subsequent years, will increase at a rate around the inflation rate,
- annual sales in 2020-2024 in stores tested – at a level similar to 2019;
- operating costs of stores tested – maintaining 2.3% of the increase in costs per m2 in subsequent years;
- in the forecast period, a discount rate is variable and calculated based on the weighted average capital cost (WACC). In 2019, the WACC rate was 11.3% and will remain unchanged by 2024.

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

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

- period covering estimated cash flows 15 years (2020-2034), without recognising a residual value,
- annual forecasts for revenues and costs in 2019 (in line with the Company's budget), which, in subsequent years, will increase at a rate around the inflation rate,
- revenues and costs forecasted for stores acquired together with Koba and still in operation (19 own stores),
- increase in the annual sales of stores tested – at a sales level similar to 2019, i.e. 3% in subsequent years,
- operating costs of stores tested – maintaining the increase of approx. 3.1% in subsequent years,
- in the forecast period, a discount rate is variable and calculated based on weighted average capital cost (WACC). In 2019, the WACC rate was 10.0% and will remain unchanged by 2034.

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

No reasonable change in assumptions made will result in the need to make a revaluation write-off on goodwill.

The Group analysed the effect of implementation of IFRS 16 on the methodology, input data applied and key assumptions for carrying out impairment tests and it identified no areas which would substantially change following implementation of the said standard and, consequently, affect tests results.

## 17. OTHER ASSETS

**ACCOUNTING POLICY**
Other financial assets comprise items such as security deposit receivables, loans granted, value of participation units in money market funds, forward contract measurement and the value of foreign currency sold.

The accounting policy applying to financial assets is specified in note 31.

| Other financial assets (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 (transformed) |
|---|---|---|---|
| **Non-current assets** | | | |
| Other receivables | 7,905 | 7,799 | 7,764 |
| Loans granted | 60 | 58 | 58 |
| **Other long-term financial assets** | **7,965** | **7,857** | **7,822** |
| **Current assets** | | | |
| Other receivables | 0 | 495 | 1,378 |
| Receivables from payment card operators | 22,236 | 14,264 | 34,523 |
| Loans granted | 55 | 39 | 46 |
| Participation units in funds | 96,877 | 155,425 | 55,425 |
| Forward contract valuation | 4,509 | 0 | 23 |
| Foreign currency sold | 87,291 | 0 | 43,432 |
| **Other short-term financial assets** | **210,968** | **170,223** | **134,827** |
| **Other financial assets in total** | **218,933** | **178,080** | **142,649** |

In the reporting period, the Group acquired participation units in money market funds. As at 31 January 2020, the value of participation units was PLN 96,877 thousand, comprising the value of acquired units on the purchase date, in the amount of PLN 95,928 thousand, and their measured value, in the amount of PLN 949 thousand. In the cash flow statement, in investing activities, the Group reports the acquisition in the amount of PLN 335,000 thousand and depreciation of funds amounting to PLN 293,006 thousand. The measured value of PLN 949 thousand is recognised in operating activities, in item "interest and dividend". The value of profit earned from depreciated units amounted to PLN 1,491 thousand and was shown in investing activities, in item "other inflows from financing activities". The measurement of the above-mentioned instruments is at level 1 of the fair value hierarchy in respect of participation units in funds quoted on a regulated market and at level 2 of the fair value hierarchy in respect of participation units in unquoted funds.

In the reporting period, the Group sold foreign currency of the value of PLN 87,291 thousand on the inter-bank market. Due to the end of the month falling on statutory days off, funds were credited on the bank account of LPP SA after the balance sheet date.

In the current period, the Group signed forward contracts with banks. As at 31 January 2020, LPP SA made a valuation of non-performed contracts as at that date, in the amount of PLN 4,509 thousand (2018: PLN 0). A detailed analysis of the above-mentioned item is given in note 29.3.

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

As at 31 January 2020, the Group granted loans in PLN, of the value of PLN 115 thousand (2018: PLN 101 thousand).

Interest on loans in PLN is approx. 4%, with maturity dates falling between 2020 and 2024.

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

| **Changes in the balance sheet value (in PLN thousand)** | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Opening balance | 104 | 160 | 160 |
| Loans granted in the period | 92 | 51 | 51 |
| Interest charged | 5 | 7 | 7 |
| Loans repaid with interest | -86 | -112 | -112 |
| Revaluation write-off | 0 | -2 | -2 |
| **Closing balance** | **115** | **104** | **104** |

| **Revaluation write-off (in PLN thousand)** | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Opening balance | 29 | 27 | 27 |
| Revaluation write-offs recognised in the period | 0 | 2 | 2 |
| Revaluation write-offs reversed in the period | 0 | 0 | 0 |
| **Closing balance** | **29** | **29** | **29** |

## 17.2. OTHER NON-FINANCIAL ASSETS

### ACCOUNTING POLICY

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

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

| Other non-financial assets (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| **Current assets:** | | | |
| State budget receivables | 42,596 | 37,394 | 35,233 |
| Other receivables | 10,421 | 7,311 | 2,610 |
| **Other short-term non-financial assets** | **53,017** | **44,705** | **37,843** |
| **Other non-financial assets in total** | **53,017** | **44,705** | **37,843** |

As at 31 January 2020, the value of other receivables was adjusted with a revaluation write-off amounting to PLN 192 thousand (2018: PLN 190 thousand).

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

| Revaluation write-off (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Opening balance | 190 | 592 | 592 |
| Revaluation write-offs made in the period | 31 | 9 | 9 |
| Revaluation write-offs reversed in the period | 29 | 417 | 411 |
| **Closing balance** | **192** | **184** | **190** |

## 18. INVENTORIES

### ACCOUNTING POLICY

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

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

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

Trade commodities sold from Reserved, Cropp, House, Mohito and Sinsay collections are measured at weighted average prices.
Trade commodities in bonded warehouses are valued at cost comprising a purchase price and the costs of transportation outside and inside Poland to the first unloading point in Poland.

Goods released from bonded warehouses (moved to local warehouses or sold directly abroad) are measured based on the detailed identification of goods in individual lots delivered to bonded warehouses.

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

The Group has two seasons of regular sales: (1) March – June for SS collections, (2) September – December for AW collections, followed by periods of clearance sales.

Inventories with trading and useful value impaired are written off according to the following rule:
- goods to be sold for outlet stores are subject to an impairment write-off of 10% of their value,
- goods to be sold in brand stores are subject to an impairment write-off in a percentage resulting from a current analysis,
- goods to be sold to external recipients are subject to impairment write-offs of 80% of their value.

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

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

The value of the Group's inventories comprises primarily trade commodities. A detailed structure of inventories is given in the table below.

| **Inventories – balance sheet value (in PLN thousand)** | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Materials | 25,700 | 23,341 | 22,175 |
| Goods | 1,876,290 | 1,163,252 | 1,544,526 |
| Product return assets | 19,149 | 23,667 | 23,667 |
| **Total** | **1,921,139** | **1,210,260** | **1,590,368** |

Due to estimated measurement of outlet goods, the Group, according to the revaluation write-off policy, made in the reporting period relevant impairment write-offs on inventories in the statement of financial position.

Changes in their value in the reporting period and a comparative period are given in the table below.

| **Revaluation write-off (in PLN thousand)** | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Opening balance | 93,125 | 53,674 | 53,674 |
| Write-offs made in the period | 46,538 | 41,503 | 43,206 |
| Write-offs reversed in the period | 0 | 0 | 0 |
| Foreign exchange differences | 3,026 | -3,806 | -3,755 |
| **Closing balance** | **142,689** | **91,371** | **93,125** |

## 19. TRADE RECEIVABLES

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

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

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

| Trade receivables (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 (transformed) |
|---|---|---|---|
| Trade receivables | 143,783 | 103,557 | 121,729 |
| Revaluation write-offs on trade receivables | 38,117 | 28,387 | 28,372 |
| **Trade receivables gross** | **181,900** | **131,944** | **150,101** |

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

| Revaluation write-off (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 (transformed) |
|---|---|---|---|
| Opening balance | 28,372 | 16,046 | 16,046 |
| Write-offs made in the period | 15,460 | 2,515 | 15,460 |
| Write-offs utilised in the period | 15,460 | 2,515 | 0 |
| Write-offs reversed in the period | 15,460 | 2,515 | 2,842 |
| Foreign exchange differences | -144 | -243 | -292 |
| **Closing balance** | **38,117** | **28,387** | **28,372** |

## 20. CASH AND CASH EQUIVALENTS

**ACCOUNTING POLICY**
Cash and cash equivalents comprise cash in hand and at bank, demand deposits and short-term highly liquid investments (up to 3 months).
The balance of cash and cash equivalents, shown in the cash flow statement, is adjusted with foreign exchange differences from the balance sheet measurement of cash in a foreign currency.

The fair value of cash and cash equivalents as at 31 January 2020 was PLN 1,361,474 thousand (2018: PLN 1,044,969 thousand).

As at 31 January 2020, the Group had unemployed bank loans of PLN 980,959 thousand (2018: PLN 900,017 thousand), in respect of which all conditions had been fulfilled.

| Cash (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Cash in hand and at bank | 590,585 | 548,871 | 682,867 |
| Other cash | 770,889 | 521,466 | 362,102 |
| **Total** | **1,361,474** | **1,070,337** | **1,044,969** |

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

| Cash (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Cash and cash equivalents in the statement of financial position | 1,361,474 | 1,070,337 | 1,044,969 |
| *Adjustments:* | | | |
| Foreign exchange differences from balance sheet measurement of cash in foreign currency | -13,163 | 5,558 | -1,022 |
| **Cash and cash equivalents recognised in CF** | **1,348,311** | **1,075,895** | **1,043,947** |

## 21. SHARE AND OTHER CAPITALS

### ACCOUNTING POLICY

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

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

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

Other capital comprises:
- supplementary capital,
- capital from settling the merger transaction,
- capital component of convertible bonds,
- reserve capital.

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

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

### 21.1. STATED CAPITAL

As at 31 January 2020, the stated capital of LPP SA amounted to PLN 3,705 thousand, with no change compared to 31 December 2018. It was divided into 1,852,423 shares of the nominal value of PLN 2 per share.

The total number of shares divided into separate issues is given in the table below..

| Series/issue | Type of share | Type of privilege | Type of limitation on rights attached to shares | As at 31.01.2020 | As at 31.01.2019 (unaudited | As at 31.12.2018 |
|---|---|---|---|---|---|---|
| A | bearer | ordinary | none | 100 | 100 | 100 |
| B | registered | preferred | none | 350,000 | 350,000 | 350,000 |
| C | bearer | ordinary | none | 400,000 | 400,000 | 400,000 |
| D | bearer | ordinary | none | 350,000 | 350,000 | 350,000 |
| E | bearer | ordinary | none | 56,700 | 56,700 | 56,700 |
| F | bearer | ordinary | none | 56,700 | 56,700 | 56,700 |
| G | bearer | ordinary | none | 300,000 | 300,000 | 300,000 |
| H | bearer | ordinary | none | 190,000 | 190,000 | 190,000 |
| I | bearer | ordinary | none | 6,777 | 6,777 | 6,777 |
| J | bearer | ordinary | none | 40,000 | 40,000 | 40,000 |
| K | bearer | ordinary | none | 80,846 | 80,846 | 80,846 |
| L | bearer | ordinary | none | 21,300 | 21,300 | 21,300 |
| **Total number of shares** | | | | **1,852,423** | **1,852,423** | **1,852,423** |

All issued shares are paid up in full.

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

Each registered share gives 5 votes.

The LPP SA shareholding structure as at 31 January 2020 was as follows.

| Shareholder | Number of shares held | Share in the share capital | Number of votes at the GM | Share in the total number of votes at the GM | Nominal value of shares |
|---|---|---|---|---|---|
| Semper Simul Foundation* | 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 closely associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR)
**The Sky Foundation is closely associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act)
*** LPP SA may not exercise voting rights at the GM, attached to 18,006 shares, as these are treasury shares of LPP SA.

The LPP SA shareholding structure as at 31 January 2019 was as follows.

| Shareholder | Number of shares held | Share in the share capital | Number of votes at the GM | Share in the total number of votes at the GM | Nominal value of shares |
|---|---|---|---|---|---|
| Semper Simul Foundation* | 319,208 | 17.2% | 1,019,208 | 31.6% | 638,416 |
| Sky Foundation** | 226,338 | 12.2% | 926,338 | 28.7% | 452,676 |
| Treasury shares*** | 18,861 | 1.0% | 0 | 0.0% | 37,722 |
| Other shareholders | 1,288,016 | 69.6% | 1,288,016 | 39.7% | 2,576,032 |
| **Total** | **1,852,423** | **100.0%** | **3,233,562** | **100.0%** | **3,704,846** |

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

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

| Shareholder | Number of shares held | Share in the share capital | Number of votes at the GM | Share in the total number of votes at the GM | Nominal value of shares |
|---|---|---|---|---|---|
| Semper Simul Foundation* | 319,208 | 17.2% | 1,019,208 | 31.6% | 638,416 |
| Sky Foundation** | 226,338 | 12.2% | 926,338 | 28.7% | 452,676 |
| Treasury shares*** | 18,861 | 1.0% | 0 | 0.0% | 37,722 |
| Other shareholders | 1,288,016 | 69.6% | 1,288,016 | 39.7% | 2,576,032 |
| **Total** | **1,852,423** | **100.0%** | **3,233,562** | **100.0%** | **3,704,846** |

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

## 21.2. SHARE PREMIUM

This item is a separated amount of supplementary capital, resulting from the surplus on the sale of shares above their nominal value, with the carrying value of PLN 286,829 thousand (2018: PLN 278,591 thousand).

## 21.3. OTHER CAPITALS

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

| Type of capital (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Supplementary capital | 2,705,071 | 2,223,467 | 2,223,467 |
| Capital from settling the merger transaction | -1,410 | -1,410 | -1,410 |
| Reserve capital | 29,566 | 29,566 | 29,566 |
| **Total** | **2,733,227** | **2,251,623** | **2,251,623** |

The supplementary capital presented under equity as at 31 January 2020, was created mainly from net profit brought forward from previous years and following measurement of remunerations paid in shares.

The structure of the supplementary capital is as follows.

| Type of supplementary capital (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Created under statutory law based on the write-off on financial result | 1,349 | 1,349 | 1,349 |
| Created according to the Articles of Association based on the write-off on financial result | 2,662,890 | 2,180,161 | 2,180,161 |
| Created from the amount of remunerations paid in shares | 40,832 | 41,957 | 41,957 |
| **Total** | **2,705,071** | **2,223,467** | **2,223,467** |

## 22. BANK LOANS, BORROWINGS AND DEBT SECURITIES

### ACCOUNTING POLICY

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

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

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

As at 31 January 2020, the debt arising from bank loans was as follows.

| Bank | Utilisation of bank loans as at 31.01.2020 | | Bank loan cost | Maturity date |
|---|---|---|---|---|
| | in PLN thousand | Currency in thousands | | |
| PKO BP SA | 61,745 | 0 | wibor 1 m + bank's margin | 31.12.2022 |
| PKO BP SA | 11,864 | 0 | wibor 1 m + bank's margin | 04.08.2020 |
| Pekao SA | 52,822 | 0 | wibor 1 m + bank's margin | 31.12.2027 |
| Pekao SA | 104,630 | 0 | wibor 1 m + bank's margin | 30.09.2025 |
| BNP Paribas Bank Polska SA | 344 | 0 | wibor 1 m + bank's margin | 31.01.2022 |
| Citibank Russia | 49,280 | 800,000 RUB | libor 1m + bank's margin | 30.04.2020 |
| **Total** | **280,685** | | | |

Bank loans amounting to PLN 280,685 thousand included:
- long-term loans in the amount of PLN 171,234 thousand,
- short-term loans in the amount of PLN 109,451 thousand (including PLN 59,827 thousand as part of long-term investment loans to be repaid within 12 months after the balance sheet date).

Long-term loans outstanding as at 31 January 2020 were as follows:
- PLN 40,522 thousand – investment loan allocated for the construction of the logistics centre in Pruszcz Gdański,
- PLN 85,880 thousand - investment loan allocated for financing the operations of LPP SA,
- PLN 44,832 thousand - investment loan designated for the modernisation of the registered office of LPP SA.

As at 31 January 2019, the debt arising from bank loans was as follows.

| Bank | Utilisation of bank loans as at 31.01.2020 (unaudited) | | Bank loan cost | Maturity date |
|---|---|---|---|---|
| | in PLN thousand | Currency in thousands | | |
| PKO BP SA | 82,849 | - | wibor 1 m + bank's margin | 31.12.2022 |
| PKO BP SA | 32,169 | - | wibor 1 m + bank's margin | 04.08.2020 |
| Pekao SA | 1,156 | 310 USD | wibor 1 m + bank's margin | 30.06.2020 |
| Citibank Bank Handlowy | 9 | - | wibor 1 m + bank's margin | 10.02.2020 |
| HSBC France SA | 677 | - | wibor 1 m + bank's margin | 28.06.2020 |
| BNP Paribas Bank Polska SA | 479 | - | wibor 1 m + bank's margin | 28.02.2020 |
| Ukrsibbank | 6,322 | 47,000 UAH | libor 1m + bank's margin | 28.02.2019 |
| Citibank Russia | 85,800 | 1,500,000 RUB | libor 1m + bank's margin | 10.04.2019 |
| **Total** | **229,424** | | | |

Bank loans amounting to PLN 229,424 thousand included:
- long-term loans in the amount of PLN 84,123 thousand,
- short-term loans in the amount of PLN 145,301 thousand (including PLN 50,858 thousand as part of long-term investment loans to be repaid within 12 months after the balance sheet date).

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

| Bank (w tys. PLN) | Utilisation of bank loans as at 31.12.2018 | | Bank loan cost | Maturity date |
|---|---|---|---|---|
| | in PLN thousand | Currency in thousands | | |
| PKO BP SA | 84 611 | - | wibor 1 m + bank's margin | 31.12.2022 |
| PKO BP SA | 33 862 | - | wibor 1 m + bank's margin | 04.08.2020 |
| Pekao SA | 20 762 | - | wibor 1 m + bank's margin | 30.09.2020 |
| Citibank Bank Handlowy | 14 | - | wibor 1 m + bank's margin | 10.01.2020 |
| Raiffeisen Bank Polska SA | 23 613 | - | eurlibor 1m + bank's margin | 30.11.2020 |
| BNP Paribas Bank Polska SA | 15 408 | - | wibor 1m + bank's margin | 31.01.2020 |
| Ukrsibbank | 15 551 | 114,600 UAH | libor 1m + bank's margin | 28.02.2019 |
| Citibank Russia | 97 950 | 1,810,532 RUB | libor 1m + bank's margin | 10.04.2019 |
| **Total** | **291 771** | | | |

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

Detailed information on bank loans as at 31 January 2020 is given below.

| Bank | Type of loan / credit line | Loan amount and currency | | Security |
|---|---|---|---|---|
| | | PKO BP SA | currency | |
| PKO BP SA | Multi-purpose and multi-currency credit line | 200,000 | PLN | blank promissory note, statement on submission to enforcement, current account and currency account deductions clause |
| PKO BP SA | Investment loan | 166,000 | PLN | ordinary and capped mortgage, assignment of receivables under insurance policy, blank promissory note, current account deductions clause |
| PKO BP SA | Investment loan | 100,000 | PLN | contractual mortgage, assignment of receivables under insurance policy, blank promissory note |
| Pekao SA | Multi-purpose and multi-currency credit line | 330,000 | PLN | statement on submission to enforcement, power of attorney in respect of bank accounts |
| Pekao SA | Investment loan | 105,000 | PLN | ordinary mortgage, assignment of receivables under insurance policy, power of attorney in respect of bank accounts held in Pekao SA |
| Pekao SA | Investment loan | 105,000 | PLN | blank promissory note, power of attorney in respect of bank accounts in Pekao SA |
| BNP Paribas Bank Polska SA | Multi-purpose and multi-currency credit line | 280,000 | PLN | blank promissory note with a promissory note declaration and statement on submission to enforcement |
| BNP Paribas Bank Polska SA | Multi-purpose and multi-currency credit line | 180,000 | PLN | blank promissory note with a promissory note declaration |
| Citibank Bank Handlowy | Multi-purpose and multi-currency credit line | 100,000 | PLN | blank promissory note with a promissory note declaration and statement on submission to enforcement |
| Citibank Russia | Credit line | 2,000,000 | RUB | guarantee of Citibank Polska |

In the reporting period, the Group issued 300,000 unsecured ordinary 5-year bonds of the A series, of the nominal value of PLN 1,000 PLN per bond.

The redemption date was set for 12 December 2024. Bonds are charged with WIBOR 6M plus a margin of 1.1%.

As at 31 January 2020, the value of bonds was PLN 300,485 thousand. In the statement on financial position, this value was shown as other financial liabilities, in the long-term part, in the amount of PLN 291,675 thousand, and in other financial liabilities being part of trade and other liabilities, in the amount of interest charged, totalling PLN 8,810 thousand. These values are given in note 25.

# 23. EMPLOYEE BENEFITS

### ACCOUNTING POLICY

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

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

Re-evaluation of liabilities arising from employee benefits and involving specified benefit schemes, covering actuarial profit and loss, is recognised in other comprehensive income, without later reclassification to profit or loss.

Furthermore, the Group calculates liabilities arising from unused holiday leave and unpaid remuneration, comprising also bonuses for the current period to be disbursed in the next reporting period. These liabilities are shown in the short-term part of the statement.

## 23.1. RETIREMENT AND PENSION BENEFITS

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

| Retirement and pension benefits (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Opening balance | 1,012 | 751 | 751 |
| Adjustment | 0 | 0 | 0 |
| Current employment costs | 482 | 288 | 288 |
| Benefits paid | -31 | -27 | -27 |
| **Closing balance** | **1,463** | **1,012** | **1,012** |

**Analysis of sensitivity to changes in actuarial assumptions**

| Change in the adopted discount rate by 0.5 pp (in PLN thousand) | increase | decrease |
|---|---|---|
| **As at 31 January 2020** | | |
| Retirement benefit | -97 | 108 |
| Pension benefit | -5 | 6 |
| **As at 31 January 2019 (unaudited)** | | |
| Retirement benefit | -66 | 72 |
| Pension benefit | -4 | 5 |
| **As at 31 December 2018** | | |
| Retirement benefit | -66 | 72 |
| Pension benefit | -4 | 5 |

| Change in the labour turnover rate by 0.5 pp (in PLN thousand) | increase | decrease |
|---|---|---|
| **As at 31 January 2020** | | |
| Retirement benefit | -54 | 59 |
| Pension benefit | -4 | 5 |
| **As at 31 January 2019 (unaudited)** | | |
| Retirement benefit | -36 | 38 |
| Pension benefit | -3 | 3 |
| **As at 31 December 2018** | | |
| Retirement benefit | -36 | 38 |
| Pension benefit | -3 | 3 |

| Change in the remuneration increase rate by 0.5 pp (in PLN thousand) | increase | decrease |
|---|---|---|
| **As at 31 January 2020** | | |
| Retirement benefit | 107 | -97 |
| Pension benefit | 7 | -5 |
| **As at 31 January 2019 (unaudited)** | | |
| Retirement benefit | 72 | -61 |
| Pension benefit | 5 | -4 |
| **As at 31 December 2018** | | |
| Retirement benefit | 72 | -61 |
| Pension benefit | 5 | -4 |

### 23.2. OTHER EMPLOYEE BENEFITS

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

| Employee benefits (in PLN thousand) | Unpaid remunerations | Unused holiday leave |
|---|---|---|
| Opening balance | 60,831 | 25,876 |
| – provision made | 49,520 | 5,087 |
| – provision utilised | 50,759 | 0 |
| – provision reversed | 10,072 | 0 |
| **As at 31 January 2020** | **49,520** | **30,963** |
| Opening balance | 21,172 | 22,400 |
| – provision made | 81,957 | 7,786 |
| – provision utilised | 19,360 | 0 |
| – provision reversed | 1,812 | 0 |
| **As at 31 January 2019 (unaudited)** | **81,957** | **30,186** |
| Opening balance | 21,172 | 22,400 |
| – provision made | 60,831 | 3,476 |
| – provision utilised | 19,360 | 0 |
| – provision reversed | 1,812 | 0 |
| **As at 31 December 2018** | **60,831** | **25,876** |

## 24. PROVISIONS

### ACCOUNTING POLICY

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

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

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

| Provisions (in PLN thousand) | Provision for product returns | Provision for early contract termination | Other provisions |
|---|---|---|---|
| Opening balance | 0 | 17,900 | 2,497 |
| – provision made | 0 | 0 | 9,097 |
| – provision utilised | 0 | 17,900 | 0 |
| – provision reversed | 0 | 0 | 2,497 |
| **As at 31 January 2020** | **0** | **0** | **9,097** |
| Opening balance | 7,818 | 0 | 2,126 |
| – provision made | 47,828 | 18,733 | 1,942 |
| – provision utilised | 0 | 817 | 0 |
| – provision reversed | 42,582 | 16 | 2,467 |
| – reclassification under IFRS 15 | -13,064 | 0 | 0 |
| **As at 31 January 2019 (unaudited)** | **0** | **17,900** | **1,601** |
| Opening balance | 7,818 | 0 | 2,126 |
| – -provision made | 47,828 | 18,733 | 1,942 |
| – provision utilised | 0 | 817 | 0 |
| – provision reversed | 42,582 | 16 | 1,571 |
| – reclassification under IFRS 15 | -13,064 | 0 | 0 |
| **As at 31 December 2018** | **0** | **17,900** | **2,497** |

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

In 2019, the Group utilised the provision made in the amount of PLN 17,900 thousand for early termination of lease agreements for unprofitable stores.

## 25. TRADE AND OTHER LIABILITIES

### ACCOUNTING POLICY

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

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

| Long-term liabilities (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Other financial liabilities (bonds) | 291,675 | 0 | 0 |
| **Financial liabilities** | **291,675** | **0** | **0** |
| **Total long-term liabilities** | **291,675** | **0** | **0** |

| Short-term liabilities (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Trade liabilities | 1,839,271 | 1,111,606 | 1,266,559 |
| Other financial liabilities | 8,810 | 4,589 | 1,318 |
| **Financial liabilities** | **1,848,081** | **1,116,195** | **1,267,877** |
| Liabilities payable due to tax and other benefits | 143,691 | 139,903 | 183,743 |
| Other non-financial liabilities | 61,863 | 30,422 | 45,891 |
| **Non-financial liabilities** | **205,554** | **170,325** | **229,634** |
| **Total short-term liabilities** | **2,053,635** | **1,286,520** | **1,497,511** |

The increase in trade liabilities as compared with the preceding year stems, first of all, from the increase in the volume of the Group's operations. As part of effective financial operations, the Parent Company signed trade finance agreements. Under the said agreements, after presentation of an invoice for purchases made, the bank (factor) pays liabilities owed to the supplier in line with the agreed payment deadline. If the supplier decides on automatic payment, the bank (factor) pays liabilities owed to suppliers within 7 business days. If the supplier does not decide on automatic payment, the bank (factor) pays liabilities owed to suppliers within 7 days from the date of notification by the supplier of the intent to have  given liability bought out. The Group repays the liability owed to the bank (factor) in the initial period specified on invoices. The Group pays no costs of early payment of liabilities to suppliers by the factor. As assessed by the Group, the type of such liabilities remains unchanged and they are still classified as trade liabilities. As at 31 January 2020, LPP SA delivered to factors domestic and foreign invoices of the value of PLN 1,135 mln (2018: PLN 552 mln).

## 26. PREPAYMENTS AND ACCRUALS

### ACCOUNTING POLICY

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

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

Fit-out resale results from the conclusion of a lease agreement, being a form of reimbursement of costs incurred to adjust the brand store for sales purposes. According to SIC 15 applicable by the end of 2018, this kind of bonus should be deferred, on the straight-line basis, during the term of the agreement, by adjusting lease payments.

| Prepayments - assets (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| **Long-term** | | | |
| Retail space sourcing costs | 0 | 0 | 45,844 |
| Rent | 1,034 | 2,629 | 2,207 |
| Software supervision | 336 | 882 | 940 |
| Fixed assets maintenance | 39 | 0 | 1,235 |
| Other long-term prepayments | 587 | 329 | 375 |
| **Total long-term prepayments** | **1,996** | **3,840** | **50,601** |
| **Short-term** | | | |
| Rent | 12,567 | 10,245 | 12,544 |
| Retail space sourcing costs | 0 | 0 | 6,297 |
| Insurance | 5,297 | 4,192 | 4,551 |
| Real property tax | 4,515 | 3,801 | 3,378 |
| Software supervision | 1,509 | 861 | 967 |
| License fees, subscription fees, Internet domains | 5,127 | 2,041 | 1,870 |
| Power consumption costs | 888 | 832 | 391 |
| Other short-term prepayments | 6,989 | 4,413 | 2,945 |
| **Total short-term prepayments** | **36,892** | **26,385** | **32,943** |

| Accruals – liabilities (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| **Long-term** | | | |
| Consideration for outlays resold | 126,466 | 109,414 | 221,860 |
| Surcharges on lease agreements | 0 | 0 | 15,099 |
| Deferred rent | 135 | 0 | 18,815 |
| Other sale | 64 | 0 | 0 |
| **Total long-term accruals** | **126,665** | **109,414** | **255,774** |
| **Short-term** | | | |
| Sales based on gift cards and vouchers | 0 | 0 | 0 |
| Consideration for outlays resold | 42,145 | 35,641 | 67,909 |
| Surcharges on lease agreements | 0 | 0 | 3,745 |
| Deferred rent | 1,645 | 0 | 0 |
| Other sale | 981 | 162 | 352 |
| **Total short-term accruals** | **44,771** | **35,803** | **72,006** |

Decreases in both prepayments and accruals, shown in assets and liabilities, resulted primarily from their partial transfer to item “right of use”. A detailed description of relevant principles is given in note 8.1 IFRS 16 Leases.

## 27. CONTINGENT ASSETS AND LIABILITIES

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

As at 31 January 2020, the total value of bank guarantees issued upon request and at the responsibility of LPP SA amounted to PLN 271,529 thousand, of which:

– guarantees issued to secure agreements concluded by LPP SA amounted to PLN 83,765 thousand,
– guarantees issued to secure agreements concluded by consolidated associates amounted to PLN 185,682 thousand,
– guarantees issued to secure warehouse and office space lease agreements concluded by LPP SA amounted to PLN 2,082 thousand.

In 2019, the Parent Company received also guarantees as a collateral for payments from a contracting party. The value of guarantees received is PLN 17,550 thousand.

The majority of these liabilities are related to guarantees securing payment of rent by the LPP SA Group companies.

### 27.1 LITIGATION

LPP SA is not a party to any proceedings before a court, a competent arbitration authority or a public administration body, involving liabilities or receivables of a single or total value exceeding 10% of the Company's equity.

### 27.2. TAX SETTLEMENTS

The Tax and Fiscal Office in Gdynia carried out customs and fiscal audits involving verification of declared taxable bases and correct calculation and payment of CIT, including expenses for the use of trademarks being contributed in kind to a subsidiary with its registered office in Cyprus (Gothals Ltd), for the years 2011, 2013 and 2016. On 3 March 2020, the Company received the results of customs and fiscal audits carried out by the Head of the Customs and Fiscal Office for the Pomorskie Voivodeship in Gdynia. Following the findings made, the Company adjusted tax returns for the above-mentioned years and, simultaneously, paid additional tax liabilities in the amount of PLN 30,864,235 plus interest for delay. The above activities ultimately close tax audits in LPP SA, covering the years given above.

## 28. INFORMATION ON SUBSIDIARIES

### 28.1. TRANSACTIONS WITH ASSOCIATES

In the reporting period ended 31 January 2020, LPP SA entered into transactions with BBK SA controlled by key staff members. These transactions involved, to a large extent, lease of retail space in "Wars&Sawa" commercial centre and, to a minor extent, the sale of trading commodities.

| Associates (in PLN thousand) | Liabilities as at 31.01.2020 | Receivables as at 31.01.2020 | Revenue from 01.01.2019 to 31.01.2020 | Purchases from 01.01.2019 to 31.01.2020 |
|---|---|---|---|---|
| BBK SA | 0 | 0 | 359 | 0 |
| **Total** | **0** | **0** | **359** | **0** |

| Associates (in PLN thousand) | Liabilities as at 31.01.2020 | Receivables as at 31.01.2020 (unaudited) | Revenue from 01.01.2019 to 31.01.2020 (unaudited) | Purchases from 01.01.2019 to 31.01.2020 (unaudited) |
|---|---|---|---|---|
| BBK SA | 0 | 34 | 352 | 0 |
| **Total** | **0** | **34** | **352** | **0** |

| Associates (in PLN thousand) | Liabilities as at 31.01.2020 | Receivables as at 31.01.2020 | Revenue from 01.01.2019 to 31.01.2020 | Purchases from 01.01.2019 to 31.01.2020 |
|---|---|---|---|---|
| BBK SA | 0 | 34 | 324 | 0 |
| **Total** | **0** | **34** | **324** | **0** |

### 28.2. REMUNERATIONS OF KEY MANAGEMENT OFFICERS OF THE PARENT COMPANY

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

The value of short-term benefits of members of the Management Board of the Parent Company, received between 1 January 2019 and 31 January 2020, amounted to PLN 7,859 thousand (2018: PLN 7,929 thousand).

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

| First name and surname (in PLN thousand) | Position | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|---|
| Marek Piechocki | President of the Management Board | 2,788 | 3,013 | 2,799 |
| Przemysław Lutkiewicz | Vice-President of the Management Board | 1,691 | 1,840 | 1,710 |
| Jacek Kujawa | Vice-President of the Management Board | 1,690 | 1,840 | 1,710 |
| Sławomir Łoboda | Vice-President of the Management Board | 1,690 | 1,840 | 1,710 |

The value of short-term benefits of members of the Supervisory Board of the Parent Company, received between 1 January 2019 and 31 January 2020, amounted to PLN 260 thousand (2018: PLN 288 thousand).

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

| First name and surname (in PLN thousand) | Position | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|---|
| Jerzy Lubianiec | Chairman of the Supervisory Board | 120 | 127 | 127 |
| Wojciech Olejniczak | Vice-Chairman of the Supervisory Board | 28 | 28 | 28 |
| Piotr Piechocki | Member of the Supervisory Board | 28 | 28 | 28 |
| Magdalena Sekuła | Member of the Supervisory Board | 28 | 35 | 35 |
| Antoni Tymiński | Member of the Supervisory Board | 28 | 35 | 35 |
| Miłosz Wiśniewski | Member of the Supervisory Board | 28 | 35 | 35 |

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

### ACCOUNTING POLICY

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

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

The value of share-based employee benefits payable, awarded to members of the Parent Company's Management Board for 2019, amounted to PLN 7,111 thousand (2018: PLN 8,235 thousand). This disbursement depends on the consolidated result generated in the period of 13 months ended 2020.

On 15 April 2019, the incentive programme for 2018 was settled in the amount of PLN 8,236 thousand. This disbursement depended on the consolidated result generated in 2018.

The costs of the share-based incentive programme (in PLN thousand) are given in the table below.

| First name and surname (in PLN thousand) | Position | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|---|
| Marek Piechocki | President of the Management Board | 2,524 | 2,922 | 2,922 |
| Przemysław Lutkiewicz | Vice-President of the Management Board | 1,529 | 1,771 | 1,771 |
| Jacek Kujawa | Vice-President of the Management Board | 1,529 | 1,771 | 1,771 |
| Sławomir Łoboda | Vice-President of the Management Board | 1,529 | 1,771 | 1,771 |

## 29. FINANCIAL RISK MANAGEMENT

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

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

In the Group's operations, main financial instruments are bank loans (note 22) and bonds issued (note 25). Their main objective is to provide financing for the operations of the entire Group. Moreover, the Group holds other financial instruments established in the course of its business operations. Those mainly include cash and deposits (note 20), trade receivables (note 19), trade liabilities (note 25) as well as participation units in investment funds and the sale of foreign currency (note 17).

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

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

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

### 29.1. CREDIT RISK

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

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

| Items (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 (transformed) |
|---|---|---|---|
| Loans | 115 | 97 | 104 |
| Trade receivables | 143,783 | 103,557 | 121,729 |
| Participation units | 96,877 | 155,425 | 55,425 |
| Valuation of forward contracts | 4,509 | 0 | 23 |
| Foreign currency sold | 87,291 | 0 | 43,432 |
| Cash and cash equivalents | 1,361,474 | 1,070,337 | 1,044,969 |
| **Total** | **1,694,049** | **1,329,416** | **1,265,682** |

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

The Group considers as default the contracting party's non-performance of the obligation upon expiry of 90 days from its payment deadline. The Group takes into account future-related information in applied parameters of the model for estimating expected losses, by adjusting basic coefficients of insolvency probability.

The value of guarantees and sureties granted is given in note 27.

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

The concentration of credit risk related to trade receivables as at 31 January 2020 is given in the table below.

| Recipient | Share in total receivables |
|---|---|
| Other recipients with dues not exceeding 5% of total receivables | 100.00% |
| **Total gross trade receivables** | **100.0%** |

The classification of gross trade receivables by the number of days past due as at 31 January 2020 and comparative periods is given in the table below.

| Gross trade receivables (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 (transformed) |
|---|---|---|---|
| Not overdue | 164,165 | 118,055 | 136,046 |
| Overdue up to one year | 14,020 | 12,948 | 13,218 |
| Overdue for over one year | 3,715 | 941 | 837 |
| **Total** | **181,900** | **131,944** | **150,101** |

The small increase in non-overdue and overdue trade receivables in the current reporting period results, first of all, from the higher volume of wholesale.

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

The Group companies keep funds in renowned banks with the A rating. In the Group's opinion, credit risk involving funds, foreign currencies sold and participation units is immaterial.

### 29.2. LIQUIDITY RISK

The Group's objective is to maintain a balance between continuity and flexibility of funding by using funding sources such as overdrafts, investment loans and bonds. The Parent Company has appointed a special team to monitor cash flows in terms of maturity dates for both investments and financial assets.

Compared to the previous year, credit exposure of the Group increased significantly due to a new investment loan taken out and the issuance of bonds.

A detailed description of the financial position of the Group in terms of loans extended is given in note 25 and in terms of bonds issued – in  note 25.

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

| Bank loans (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Up to one month | 21,747 | 34,331 | 16,933 |
| From one to three months | 43,494 | 72,826 | 33,866 |
| From three months to one year | 44,879 | 38,144 | 152,397 |
| Above one year | 171,894 | 84,418 | 88,851 |
| **In total** | **282,014** | **229,719** | **292,047** |

| Bonds (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Up to one month | 0 | 0 | 0 |
| From one to three months | 0 | 0 | 0 |
| From three months to one year | 8,810 | 0 | 0 |
| Above one year | 290,941 | 0 | 0 |
| **In total** | **299,751** | **0** | **0** |

| Lease liabilities (w PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Up to one month | 59,621 | 49,491 | 0 |
| From one to three months | 119,242 | 98,982 | 0 |
| From three months to one year | 536,593 | 445,424 | 0 |
| Above one year | 2,701,118 | 2,559,711 | 0 |
| **In total** | **3,416,574** | **3,153,608** | **0** |

The liquidity risk involves also liabilities stemming from purchases of goods and services.

The classification of gross trade liabilities by the number of days past due as at 31 January 2020, 31 January 2019 and 31 December 2018 is given in the table below.

| Gross trade liabilities (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Not overdue | 1,833,949 | 1,083,427 | 1,239,278 |
| Overdue up to one year | 14,027 | 27,859 | 26,969 |
| Overdue for over one year | 105 | 320 | 312 |
| **Total** | **1,848,081** | **1,111,606** | **1,266,559** |

The increase in the value of trade liabilities being not overdue results primarily from the increases volume of the Group’s operations.

### 29.3. CURRENCY RISK

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

Apart from the currency risk involving the settlement currency used for purchasing trade commodities, there is also a risk associated with the fact of settling retail space rents in EUR.

As at 31 January 2020, the Group's financial assets and liabilities denominated in two main foreign currencies, converted into PLN applying a closing exchange rate as at the balance sheet date, which are of importance for the financial statements, are given in the table below.

| **As at 31.01.2020 (in PLN thousand)** | Values denominated in | | Value after conversion |
|---|---|---|---|
| | USD | EUR | |
| Cash | 737,201 | 99,703 | 836,904 |
| Trade receivables | 11,216 | 9,144 | 20,360 |
| Trade liabilities | 1,257,157 | 60,442 | 1,317,599 |
| Lease liabilities | 0 | 2,681,710 | 2,681,710 |

Since the main cost for the Parent Company is purchases of trade commodities, made mainly in USD, LPP SA started using for this currency hedging derivative instruments (forward contracts) and USD deposits to hedge the risk involved in exchange rate fluctuations. By taking such action, LPP SA is capable of adjusting, to a major extent, foreign exchange losses adversely affecting the Group's result. As at 31 January 2020, a positive mark-to-market of forward contracts amounted to PLN 4,509 thousand (2018: PLN 1,318 thousand – a negative mark-to-market value, and PLN 23 thousand – a positive mark-to-market value) and was shown as other financial assets (note 17.1). USD deposits amounted to PLN 707,970 thousand and are included in "cash".

| **Negative mark-to-market of forward contracts (in PLN thousand)** | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Citi Bank Handlowy | 0 | 0 | 0 |
| Bank Pekao SA | 0 | 4,589 | 1,318 |
| **Total** | **0** | **4,589** | **1,318** |

| **Positive mark-to-market of forward contracts (in PLN thousand)** | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Citi Bank Handlowy | 153 | 0 | 23 |
| Bank Pekao SA | 283 | 0 | 0 |
| Velocity | 4,073 | 0 | 0 |
| **Total** | **4,509** | **0** | **23** |

The sensitivity of gross profit (loss) to rational and probable USD and EUR exchange rate fluctuations, with assumed steadiness of other factors, is shown in the table below.

| Balance sheet items | Increase/decrease in the foreign exchange rate | Effect on profit/loss |
|---|---|---|
| 31 January 2020 - USD | + 5% | -20,638 |
| | - 5% | 20,638 |
| 31 January 2019 - USD | + 5% | 0 |
| | - 5% | 0 |
| 31 December 2018 - USD | + 5% | -21,750 |
| | - 5% | 21,750 |
| 31 January 2020 - EUR | + 5% | -1,960 |
| | - 5% | 1,960 |
| 31 January 2019 - EUR | + 5% | 0 |
| | - 5% | 0 |
| 31 December 2018 - EUR | + 5% | -1,818 |
| | - 5% | 1,818 |

When analysing the impact of the change in USD exchange rates in 2019, it is required to take into account forward instruments utilised by the Parent Company and USD deposits.

## 29.4. INTEREST RATE RISK

The interest rate risk is related to the continuous utilisation by LPP SA of debt financing based on a variable value of Wibor rates and, to a minor extent, to loans granted and bonds issued. Bank loans with a variable interest rate involve the cash flow risk. The Management Board of the Parent Company holds the view that a change in interest rates, if any, will have no major impact on the results earned by the Group.

The tables below present the analysis of the impact of interest rate changes on the comprehensive income statement. This analysis covers financial items of the Group's statement of financial position as at the balance sheet date

| *Interest rate risk* | +/- 75 basic points of the interest rate | | |
|---|---|---|---|
| **Balance sheet items (in PLN thousand)** | Value | Effect on profit/ loss | Effect on profit/ loss |
| **Financial assets** | | | |
| Loans | 115 | 1 | -1 |
| Cash | 1,361,474 | 10,211 | -10,211 |
| Participation units | 96,877 | 727 | -727 |
| *Effect on financial assets before taxation* | | *10,939* | *-10,939* |
| Tax (19%) | | -2,078 | 2,078 |
| *Effect on financial assets after taxation* | | *8,861* | *-8,861* |
| **Financial liabilities** | | | |
| Bank loans | 231,396 | -1,735 | 1,735 |
| Bonds | 300,485 | -2,254 | 2,254 |
| *Effect on financial liabilities before taxation* | | *-3,989* | *3,989* |
| Tax (19%) | | 758 | -758 |
| *Effect on financial liabilities after taxation* | | *-3,231* | *3,231* |
| **Total** | | **5,630** | **-5,630** |

As at 31 December 2020, the Group's net profit would have been higher by PLN 5,630 thousand if interest rates in PLN, EUR and USD had been higher by 75 basis points, assuming that all the remaining parameters remained unchanged. This result is due to a substantially higher balance of cash compared with bank loans taken out.

## 30. FAIR VALUES OF ASSETS AND LIABILITIES

Fair value is defined as an amount for which, at arm's length basis, a given asset could be exchanged, and a liability could be discharged, between well-informed unrelated interested parties. As regards financial instruments for which there is an active market, their fair value is determined based on parameters deriving from the active market (sales and purchase prices). As regards financial instruments for which there is no active market, their fair value is determined on the basis of valuation techniques, where model input data is variables deriving from active markets (exchange rates, interest rates).

In the Group's opinion, the carrying value of financial assets and liabilities is close to their fair value due to a short maturity term.

## 31. FINANCIAL INSTRUMENTS

### ACCOUNTING POLICY

Each contract establishing a financial asset for one party and, at the same time, a financial liability or capital instrument for the other party is a financial instrument.

A financial asset or liability is recognised in the statement of financial position if the Company becomes a party to that instrument. Standardised purchase and sale transactions involving financial assets and liabilities are recognised as at the transaction date.

A financial asset is derecognised from the statement of financial position when the rights to economic benefits and risks arising from the contract have been exercised or executed, have expired or the Group has waived them.

The Group derecognises a financial liability from the statement of financial position upon its expiry, that is when the obligation specified in the contract has been discharged, cancelled or expired.

**Classification and measurement**

According to IFRS 9, except for some trade receivables, a financial asset is initially measured at fair value which, in the case of financial assets not measured at fair value through profit or loss, is increased with transaction costs which may be directly allocated to the purchase of such assets.

After initial recognition, an asset is measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. An entity classifies an asset based on its business model applied for financial asset management and the features of cash flows resulting from an agreement for the financial asset ("SPPI criterion").

As at the purchase date, the Group measures financial assets and liabilities at fair value, i.e. most often, at fair value of a payment made (for assets) or a payment received (for liabilities).

As at the balance sheet date, the Group's financial assets and liabilities are measured, according to IFRS 9 , following the principles given below.
Classification of financial assets
- Measured at amortised cost,
- Measured at fair value through profit or loss,
- Measured at fair value through other comprehensive income.

Except for some trade receivables, a financial asset is initially measured at fair value which, in the case of financial assets not measured at fair value through profit or loss, is increased with transaction costs which may be directly allocated to the purchase of such assets.

For the purposes of measurement after initial recognition, financial assets are classified in one of the following four categories:
- Debt instruments measured at amortised cost,
- Debt instruments measured at fair value through other comprehensive income,
- Capital instruments measured at fair value through other comprehensive income,
- Financial assets measured at fair value through profit or loss.

The Group classifies the following as financial assets measured at amortised cost:
- Trade and other receivables,
- Loans granted,
- Cash and cash equivalents.

A financial asset is measured at amortised cost if the following two conditions are met:
- A financial asset is maintained in line with the business model aimed at maintaining financial assets for gaining contractual cash flows, and
- Contractual terms relating to a financial asset generate, within specific time-frames, cash flows which are mainly repayment of a principal amount and interest on an outstanding principal amount.

Financial assets not meeting criteria to be measured at amortised cost or at fair value through comprehensive income are measured at fair value through profit or loss.

The Group classifies the following as capital assets measured at fair value through profit or loss:
- Participation units in money market funds,
- Forward contracts.

**Impairment of financial instruments**

As regards trade receivables, the Group applies a simplified approach and measures a write-off on expected credit losses in an amount equal to expected credit losses in entire lifetime using a provision matrix. The Group uses its historical data on credit losses, adjusted in relevant cases with the impact of information regarding the future.

As regards other financial assets, the Group measures a write-off on expected credit losses in an amount equal to 12-month expected credit losses. If the credit risk associated with a given financial instrument substantially increased from initial recognition, then the Group measures a write-off on expected credit losses related to such financial instrument in an amount equal to expected credit losses in entire lifetime.

**Financial derivatives**

Financial derivatives utilised by the Company to hedge the foreign exchange risk are, first of all, forward contracts. These financial derivatives are measured at fair value. Derivatives are recognised as assets when their value is positive and as liabilities when their value is negative.

Profit or loss on changes in the fair value of derivatives not meeting the principles of hedging accounting are recognised directly in net profit or loss for the financial year.

The fair value of forward contracts is measured by reference to current forward rates for contracts of similar maturity.

**Financial liabilities**

Financial liabilities other than hedging derivatives are recognised under the following items of the statement of financial position:

- bank loans and borrowings,
- other liabilities,
- trade and other liabilities

Following initial recognition, financial liabilities are measured at amortised cost based on an effective interest rate, except for financial liabilities designated for trading or indicated as measured at fair value through profit or loss (derivatives other than hedging instruments). Short-term trade liabilities are measured based on the amount payable due to negligible discounting.

The value of financial assets presented in the consolidated statement of financial position relates to the following categories of financial instruments defined in IFRS 9:

- measured at amortised cost (aAC)
- measured at fair value through profit or loss (fair value)

| | As at 31.01.2020 | |
|---|---|---|
| **Non-current assets (in PLN thousand)** | aAC | Fair value |
| Other financial assets | 7,915 | 0 |

| Current assets (in PLN thousand) | As at 31.01.2020 | |
|---|---|---|
| | aAC | Fair value |
| Trade receivables | 143,783 | 0 |
| Other financial assets | 109,582 | 0 |
| Participation units in funds | 0 | 96,877 |
| Valuation of forward contracts | 0 | 4,509 |
| Cash and cash equivalents | 1,361,474 | 0 |

| Non-current assets (in PLN thousand) | As at 31.01.2019 (unaudited) | |
|---|---|---|
| | aAC | Fair value |
| Other financial assets | 7,807 | 0 |

| Current assets (in PLN thousand) | As at 31.01.2019 (unaudited) | |
|---|---|---|
| | ZZK | Wartość godziwa |
| Trade receivables | 103,557 | 0 |
| Other financial assets | 14,798 | 0 |
| Participation units in funds | 0 | 155,425 |
| Cash and cash equivalents | 1,070,337 | 0 |

| Non-current assets (in PLN thousand) | As at 31.12.2018 | |
|---|---|---|
| | aAC | Fair value |
| Other financial assets | 7,772 | 0 |

| Current assets (in PLN thousand) | As at 31.12.2018 | |
|---|---|---|
| | ZZK | Wartość godziwa |
| Participation units in funds | 0 | 55,425 |
| Valuation of forward contracts | 0 | 23 |
| Cash and cash equivalents | 1,044,969 | 0 |

The value of financial liabilities presented in the statement of financial position refers to the categories of financial instruments specified in IFRS 9 as financial liabilities measured at amortised cost (LAC) and financial liabilities measured at fair value through profit or loss.

| **Long-term liabilities (in PLN thousand)** | As at 31.01.2020 | | |
|---|---|---|---|
| | LAC | Fair value | In addition to IFRS 9 |
| Lease liabilities | 171,234 | 0 | 0 |
| Other financial liabilities (bonds) | 2,567,953 | 0 | 0 |
| Inne zobowiązania finansowe (obligacje) | 291,675 | 0 | 0 |

| **Short-term liabilities (in PLN thousand)** | As at 31.01.2020 | | |
|---|---|---|---|
| | LAC | Fair value | In addition to IFRS 9 |
| Lease liabilities | 1,839,271 | 0 | 0 |
| Bonds | 680,184 | 0 | 0 |
| Other liabilities | 8,810 | 0 | 0 |
| Bank loans and borrowings | 0 | 0 | 205,554 |
| Kredyty bankowe i pożyczki | 109,451 | 0 | 0 |

| **Long-term liabilities (in PLN thousand)** | As at 31.01.2019 (unaudited) | | |
|---|---|---|---|
| | LAC | Fair value | In addition to IFRS 9 |
| Kredyty bankowe i pożyczki | 84,123 | 0 | 0 |

| **Short-term liabilities (in PLN thousand)** | As at 31.01.2019 (unaudited) | | |
|---|---|---|---|
| | LAC | Fair value | In addition to IFRS 9 |
| Trade liabilities | 1,111,606 | 0 | 0 |
| Other financial liabilities (forward contracts) | 0 | 4,589 | 0 |
| Other liabilities | 0 | 0 | 170,325 |
| Bank loans and borrowings | 145,301 | 0 | 0 |

| **Long-term liabilities (in PLN thousand)** | As at 31.12.2018 | | |
|---|---|---|---|
| | LAC | Fair value | In addition to IFRS 9 |
| Bank loans and borrowings | 88,575 | 0 | 0 |

| Short-term liabilities (in PLN thousand) | As at 31.12.2018 | | |
|---|---|---|---|
| | LAC | Fair value | In addition to IFRS 9 |
| Trade liabilities | 1,266,559 | 0 | 0 |
| Other financial liabilities (forward contracts) | 0 | 1,318 | 0 |
| Other liabilities | 0 | 0 | 229,634 |
| Bank loans and borrowings | 203,196 | 0 | 0 |

## 32. OPERATING SEGMENTS

Financial results and other information on geographical segments for the period from 1 January 2019 to 31 January 2020 and for comparative periods are given in the tables below.

| For the year ended 31.01.2020 (in PLN thousand) | EU Member States | Other countries | Consolidation adjustments | Values not attributed to segments | Total |
|---|---|---|---|---|---|
| External sales | 7,473,336 | 2,425,907 | 0 | 0 | 9,899,243 |
| Inter-segment sales | 1,429,947 | 10,227 | -1,440,174 | 0 | 0 |
| Other operating income | 15,428 | 6,090 | 0 | 0 | 21,518 |
| **Total revenue** | **8,918,711** | **2,442,224** | **-1,440,174** | **0** | **9,920,761** |
| Total operating costs, including | 7,618,193 | 2,221,928 | -1,410,458 | 536,967 | 8,966,630 |
| Costs of inter-segment sales | 1,057,455 | 10,227 | -1,067,682 | 0 | 0 |
| Other operating costs | 99,735 | 48,724 | 0 | 0 | 148,459 |
| **Segment result** | **1,200,783** | **171,572** | **-29,716** | **-536,967** | **805,672** |
| Financial income | | | | | 10,914 |
| Financial costs | | | | | 151,396 |
| **Profit before taxation** | | | | | **665,190** |
| Income tax | | | | | 244,151 |
| **Net profit attributable to shareholders of the parent company** | | | | | **421,039** |
| **Net profit attributable to non-controlling entities** | | | | | **0** |

| For the year ended 31.01.2020 (in PLN thousand) | EU Member States | Other countries | Consolidation adjustments | Values not attributed to segments | Total |
|---|---|---|---|---|---|
| Segment assets | 7,972,691 | 1,648,638 | -150,377 | 0 | 9,470,952 |
| Unallocated assets across the group | 0 | 0 | 0 | 134,910 | 134,910 |
| **Consolidated total assets** | **7,972,691** | **1,648,638** | **-150,377** | **134,910** | **9,605,862** |
| Segment liabilities | 5,282,226 | 856,534 | -61,335 | 0 | 6,077,425 |
| Unallocated liabilities across the group | 0 | 0 | 0 | 280,961 | 280,961 |
| **Consolidated total liabilities** | **5,282,226** | **856,534** | **-61,335** | **280,961** | **6,358,386** |

| Other disclosures | EU Member States | Other countries |
|---|---|---|
| Segment capital expenditures | 723,632 | 280,162 |
| Segment depreciation | 868,430 | 225,354 |
| Impairment write-offs | 82,402 | 22,324 |
| Reversal of impairment write-offs | 11,689 | 6,056 |
| Other non-cash expenses | 62,890 | 45,126 |

| For the year ended 31.01.2019 (unaudited) (in PLN thousand) | EU Member States | Other countries | Consolidation adjustments | Values not attributed to segments | Total |
|---|---|---|---|---|---|
| External sales | 6,817,029 | 1,938,880 | 0 | 0 | 8,755,909 |
| Inter-segment sales | 1,101,889 | 0 | -1,101,889 | 0 | 0 |
| Other operating income | 22,481 | 2,527 | 0 | 0 | 25,008 |
| **Total revenue** | **7,941,399** | **1,941,407** | **-1,101,889** | **0** | **8,780,917** |
| Total operating costs, including | 6,777,290 | 1,805,439 | -1,112,867 | 480,125 | 7,949,987 |
| Costs of inter-segment sales | 861,657 | 0 | -861,657 | 0 | 0 |
| Other operating costs | 114,697 | 27,984 | 0 | 0 | 142,681 |
| **Segment result** | **1,049,412** | **107,984** | **10,978** | **-480,125** | **688,249** |
| Financial income | | | | | 9,247 |
| Financial costs | | | | | 40,683 |
| **Profit before taxation** | | | | | **656,813** |
| Income tax | | | | | 214,327 |
| **Net profit attributable to shareholders of the parent company** | | | | | **442,486** |
| **Net profit attributable to non-controlling entities** | | | | | **0** |

| For the year ended 31.01.2019 (unaudited) (in PLN thousand) | EU Member States | Other countries | Consolidation adjustments | Values not attributed to segments | Total |
|---|---|---|---|---|---|
| Segment assets | 6,556,437 | 1,272,834 | -95,834 | 0 | 7,733,437 |
| Unallocated assets across the group | 0 | 0 | 0 | 172,881 | 172,881 |
| **Consolidated total assets** | **6,556,437** | **1,272,834** | **-95,834** | **172,881** | **7,906,318** |
| Segment liabilities | 4,293,454 | 606,642 | -39,213 | 0 | 4,860,883 |
| Unallocated liabilities across the group | 0 | 0 | 0 | 229,733 | 229,733 |
| **Consolidated total liabilities** | **4,293,454** | **606,642** | **-39,213** | **229,733** | **5,090,616** |

| Other disclosures | EU Member States | Other countries |
|---|---|---|
| Segment capital expenditures | 726,504 | 0 |
| Segment depreciation | 339,874 | 0 |
| Impairment write-offs | 64,059 | 0 |
| Reversal of impairment write-offs | 576 | 0 |
| Other non-cash expenses | 73,292 | 0 |

| For the year ended 31.12.2018 (transformed) (in PLN thousand) | EU Member States | Other countries | Consolidation adjustments | Values not attributed to segments | Total |
|---|---|---|---|---|---|
| External sales | 6,264,563 | 1,782,193 | 0 | 0 | 8,046,756 |
| Inter-segment sales | 1,002,708 | 0 | -1,002,708 | 0 | 0 |
| Other operating income | 17,640 | 2,189 | 0 | 0 | 19,829 |
| **Total revenue** | **7,284,911** | **1,784,382** | **-1,002,708** | **0** | **8,066,585** |
| Total operating costs, including | 6,048,679 | 1,627,358 | -1,006,931 | 508,564 | 7,177,670 |
| Costs of inter-segment sales | 782,575 | 0 | -782,575 | 0 | 0 |
| Other operating costs | 107,008 | 25,347 | 0 | 0 | 132,355 |
| **Segment result** | **1,129,224** | **131,677** | **4,223** | **-508,564** | **756,560** |
| Financial income | | | | | 8,420 |
| Financial costs | | | | | 41,300 |
| **Profit before taxation** | | | | | **723,680** |
| Income tax | | | | | 218,504 |
| **Net profit attributable to shareholders of the parent company** | | | | | **505,176** |
| **Net profit attributable to non-controlling entities** | | | | | **0** |

| For the year ended 31.12.2018 (in PLN thousand) | EU Member States | Other co-untries | Consolida-tion adjust-ments | Values not attributed to seg-ments | Total |
|---|---|---|---|---|---|
| Segment assets | 4,444,578 | 846,329 | -74,480 | 0 | 5,216,427 |
| Unallocated assets across the group | 0 | 0 | 0 | 164,381 | 164,381 |
| **Consolidated total assets** | **4,444,578** | **846,329** | **-74,480** | **164,381** | **5,380,808** |
| Segment liabilities | 2,015,514 | 262,945 | -12,869 | 0 | 2,265,590 |
| Unallocated liabilities across the group | 0 | 0 | 0 | 254,680 | 254,680 |
| **Consolidated total liabilities** | **2,015,514** | **262,945** | **-12,869** | **254,680** | **2,520,270** |

| Other disclosures | EU Member States | Other countries |
|---|---|---|
| Segment capital expenditures | 635,476 | 161,161 |
| Segment depreciation | 276,311 | 72,852 |
| Impairment write-offs | 66,603 | 22,200 |
| Reversal of impairment write-offs | 0 | 468 |
| Other non-cash expenses | 112,999 | 21,268 |

## 33. CAPITAL MANAGEMENT

The Group manages capital with the aim of ensuring the Group's capacity to continue its operations and the expected rate of return for shareholders and other entities interested in the financial position of the Group.

The Group analyses the indices assessing its financial position, presented and described in detail in the Management Board's report on the Group's operations.

## 34. EMPLOYMENT STRUCTURE

In the year ended 31 January 2020, average employment (own work posts) in the entire Capital Group was 17,857 people (2018: 17,121 people).

## 35. INFORMATION ON THE FEE OF THE STATUTORY AUDITOR OR THE AUDIT COMPANY

On 5 August 2019, LPP SA signed the agreement on the audit of the annual financial statements of the Company and the LPP SA Group for the years 2019-2022 and on the review of mid-year financial statements of the Company and the LPP SA Group for the said year. The entity authorised to audit and review the financial statements of the Company and the LPP SA Group was chosen by the Supervisory Board of LPP SA under Article 35 of its Articles of Association.

The entity chosen was Ernst & Young Audyt Polska Sp. z o.o. spółka komandytowa with its registered office in Warsaw, entered on the list of Polish Board of Statutory Auditors under no 130.

The fee of the entity authorised to audit the consolidated and separate financial statements, paid or due for the year ended 31 January 2020 and comparative periods, broken down by types of services, is given in the table below.

| Gross trade liabilities (in PLN thousand) | As at 31.01.2020 | As at 31.01.2019 (unaudited) | As at 31.12.2018 |
|---|---|---|---|
| Obligatory audit of annual financial statements | 350 | 320 | 320 |
| Review of mid-year financial statements | 125 | 117 | 117 |
| Other services | 0 | 0 | 0 |
| **Total** | **475** | **437** | **437** |

## 36. EVENTS AFTER THE BALANCE SHEET DATE

Since the beginning of 2020, we have been facing unexpected changes throughout the world. Due to the outbreak of the COVID-19 coronavirus pandemic in China, the disease has quickly spread in other countries, including European countries, with Poland being no exception. The pandemic has also caused economic disturbances in almost all countries worldwide.

This event has also affected the operations of our Group, including results generated after the balance sheet date and the Group's investment and development plans.

Although the outbreak of the epidemic in China disrupted supply chains of many businesses, for LPP SA, the risk in this area was low as the majority of SS 2020 collections were delivered before closure of Chinese manufacturing plants.

However, governmental restrictions introduced in almost all countries where the LPP Group operates, requiring the closure of stores and service points, and the quarantine implemented to minimise the pandemic spread have, without any doubt, adversely affected the operations of the LPP Group.

On 13 March 2020, the Polish government announced that, from 14 March 2020 until further notice, shopping centres, i.e. consequently, all LPP stores, will be closed. Near the same time, similar restrictions (store closure) were introduced in almost entire Europe. Abruptly, the core of our business (brand stores) came to a halt. Consequently, the Group was no longer able to sell its goods and generate sales revenue. The only remaining source of revenue has been the online store.

In these circumstances, the Management Board of LPP has undertaken numerous activities aimed at keeping the employees of LLP safe, ensuring continuity of the Company's operations and securing its financial liquidity:

1. appointment of the Crisis Management Team whose key task is to ensure safety for employees and associates of LPP in all locations and introduce safety procedures in brand stores, warehouses and the head office;
2. cooperation with external organisations in terms of providing hygiene products, including face masks and gloves for the Company's employees;
3. permitting home-office work for the employees of the Company's head office;
4. reduction of orders for products from AW 2020 collections;
5. suspension of investments involving new brand stores as well as new office buildings and warehouse facilities;
6. suspension of IT projects which do not directly support online sales;
7. reduction of store rental costs – by starting negotiations with shopping centres on new rental terms and conditions (turnover-based rent instead of fixed rent);
8. reduction of stores' operating costs;
9. reduction of remunerations of staff employed both in brand stores and the Company's head office;
10. sourcing additional financing for employees' remunerations as part of governmental schemes (the anti-crisis shield).
11. Substantial increase of sales and logistics capacities of the online store.

On a day-to-day basis, the Company's Management Board monitors also the Company's current liquidity by carrying out stress tests – prognosed cash flows in terms of the Company's financial strength and solvency in a longer period, in several options – depending on when stores will be opened, how many customers will visit them and when, and how this will affect the Company's revenue. Furthermore, the Company is actively sourcing additional financing from banks, funds offered by the Polish Development Fund and additional payroll financing.

At the end of April 2020, the Polish government started alleviating quarantine-related restrictions and, on 4 May 2020, shopping centres resumed their operations and LPP stores in Poland were re-opened.

In the post-COVID-19 era, the Company focuses on restoring normal business operations in stores, warehouses and the head office. Still, the Company's priority is ensuring continuity of operations, maintaining financial liquidity and regaining profitability.

The pandemic has triggered many social changes and impacted consumer behaviour and preferences. The Group must adjust to new trends and the new situation in which the fashion market is undergoing structural changes involving the growing importance of e-commerce. Nonetheless, the main element of uncertainty is the behaviour of customers of on-site stores (how many of them will visit our brand stores).

There are also important economic factors affecting consumption in the clothing sector. One of the factors is increased unemployment which may change the buying power of the Group's customers making more selective choices when purchasing clothes.

**MANAGEMENT BOARD OF LPP SA:**

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


# 4
# STATEMENTS OF THE MANAGEMENT BOARD

# STATEMENT ON RELIABILITY OF THE FINANCIAL STATEMENTS

In line with the requirements set forth in the Regulation by the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities [...] (Regulation), the Management Board of LPP SA declares that, to the best of the Board's knowledge, the annual consolidated financial statements for the financial year 2019/20 and comparative data have been prepared in accordance with accounting principles currently in effect and present a true and fair view of the assets and the financial standing of the LPP SA Group as well as the financial result in the periods presented, and that the report of the Management Board on the operations of the LPP SA Group, together with the statement on corporate governance for 2019/20 (with due consideration of disclosure requirements for the Report on the Operations of the Parent Company for the said period), present a true and fair view of the development, achievements and the standing of the LPP SA Group and LPP SA, including a description of basic risks and threats.

**MANAGEMENT BOARD OF LPP SA:**

**Marek Piechocki**
President of the Management Board

**Przemysław Lutkiewicz**
Vice-President of the Management Board

**Jacek Kujawa**
Vice-President of the Management Board

**Sławomir Łoboda**
Vice-President of the Management Board

# STATEMENT ON THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS

In line with the requirements set forth in the Regulation by the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities [...] (Regulation), the Management Board of LPP SA informs that, based on the statement of the Supervisory Board of LPP SA, the entity authorised to audit financial statements, which has audited the annual consolidated financial statements of the LPP Group and the separate financial statements of LPP SA, has been chosen in accordance with the provisions of law, including those governing the selection of, and the procedure for selecting, an audit company.

The audit company Ernst&Young Audyt Polska Sp. Z o.o. sp.k and members of the auditing team met the conditions for preparing an impartial and independent report on the audit of the annual consolidated financial statements in accordance with binding laws as well as professional and ethical standards.

Furthermore, the Management Board of LPP SA informs that, based on the statement made by the Supervisory Board of LPP SA, binding laws governing the rotation of audit companies and a key statutory auditor as well as mandatory waiting periods have been complied with.

LPP SA has implemented a policy for choosing an audit company and a policy for the provision by an audit company or its affiliate or network member of additional non-audit services, including those conditionally permitted to be rendered by an audit company.

**MANAGEMENT BOARD OF LPP SA:**

**Marek Piechocki**
President of the Management Board

**Przemysław Lutkiewicz**
Vice-President of the Management Board

**Jacek Kujawa**
Vice-President of the Management Board

**Sławomir Łoboda**
Vice-President of the Management Board

# STATEMENT ON NON-FINANCIAL INFORMATION

The Management Board of LPP SA declares that, together with this report being published, it publishes an integrated report for 2019/20, titled “Towards Sustainable Fashion”, providing comprehensive information on the Issuer. The integrated report meets the requirements of the Accounting Act and, being a separate document, constitutes a statement on non-financial information.

**MANAGEMENT BOARD OF LPP SA:**

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

# 5 STATEMENT AND ASSESSMENT OF THE SUPERVISORY BOARD

# STATEMENT OF THE SUPERVISORY BOARD OF LPP SA ON THE FULFILMENT BY THE AUDIT COMMITTEE OF STATUTORY REQUIREMENTS

Following the duty stemming from § 70(1)(8) and § 71(1)(8) of Regulation of the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities and the terms and conditions for recognition of information required under the laws of an EU non-member state as equivalent (Journal of Laws of 2018, item 757), the Supervisory Board of LPP SA hereby declares:

- compliance with the provisions on the appointment, composition and operation of the Audit Committee of the Supervisory Board of LPP SA, including those governing fulfilment by its members of independence criteria and requirements to have knowledge and skills related to the industry sector in which LPP SA operates as well as provisions on accounting or auditing financial statements,
- that the Audit Committee of the Supervisory Board of LPP SA performed the tasks of an audit committee as provided for in binding provisions of laws, in particular those provided for in Article 130(1) of the Act dated 11 May 2017 on Statutory Auditors, Audit Companies and Public Supervision (Journal of laws of 2017, item 1089, as amended).

**SUPERVISORY BOARD OF LPP SA:**

**Jerzy Lubianiec**
Chairman
of the Supervisory Board

**Wojciech Olejniczak**
Vice-Chairman of Chairman
of the Supervisory Board

**Piotr Piechocki**
Member
of the Supervisory Board

**Magdalena Sekuła**
Member
of the Supervisory Board

**Antoni Tymiński**
Member
of the Supervisory Board

**Miłosz Wiśniewski**
Member
of the Supervisory Board

# ASSESSMENT BY THE SUPERVISORY BOARD OF LPP SA

The Supervisory Board, having reviewed:

- the financial statements of LPP SA for the financial year 2019/20,
- LPP SA Management Board's report on the operations of the Company's Capital Group in the financial year 2019/20 (incorporating the report on the Company's operations in the said peri-od),
- the Management Board's resolution on the motion for division of the Company's net profit generated in the financial year 2019/20,
- the auditor's report and opinion on the audit of the Company's financial statements for the financial year 2019/20,
- the statutory auditor's report and opinion on the audit of the consolidated financial state-ments of the Company's Capital Group for the financial year 2019/20,

acknowledges that, in the opinion of the Supervisory Board:

- the Management Board's report on the operations of the Company's Capital Group in the financial year 2019/20, incorporating the Management Board's report on the Company's operations in the said period;
- the Company's financial statements for the financial year 2019/20,
- the consolidated financial statements of the LPP SA Capital Group for the financial year 2019/20,

are complete and accurate and contain data which exhaustively presents the standing of the Company and the LPP SA Capital Group.

Furthermore, the Supervisory Board indicates that the Management Board's report on the operations of the LPP SA Capital Group for 2019/20 incorporates also the Management Board's report on the operations of the Company (as parent company). The joint presentation of the two reports is permissible under Article 55(2a) of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of

2019, item 351, as amended) and § 71(8) of the Regulation of the Minister of Finance of 29 March 2018 on current and interim information submitted by issuers of securities and on the terms and conditions for recognition as equivalent of information required under the laws of a non-member state (Journal of Laws of 2018, item 757).

The Supervisory Board recommends that the Annual General Meeting of Shareholders should adopt the resolution approving:

- the Management Board's report on the operations of the Company's Capital Group and the Company's operations in the financial year 2019/20;
- the financial statements of the Company for the financial year 2019/20,
- the consolidated financial statements of the LPP SA Capital Group for the financial year 2019/20.

The Supervisory Board takes such view based on the analysis of documents referred to above and the results of works of the Board's Audit Committee and the Supervisory Board themselves. These activities have led to the conclusion that the said documents are complete, accurate and contain data which exhaustively presents the standing of the Company and the LPP SA Capital Group.

**SUPERVISORY BOARD OF LPP SA:**

**Jerzy Lubianiec**
Chairman
of the Supervisory Board

**Wojciech Olejniczak**
Vice-Chairman
of the Supervisory Board

**Piotr Piechocki**
Member
of the Supervisory Board

**Magdalena Sekuła**
Member
of the Supervisory Board

**Antoni Tymiński**
Member
of the Supervisory Board

**Miłosz Wiśniewski**
Member
of the Supervisory Board

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