LPP

FACTBOOK 2019/20

RESERVED | CROPP | house | MOHITO | sinsay

A GLOBAL BRAND, A POLISH COMPANY

39 countries

off-line + on-line

PLN **9.9 billion**

revenues

1,746

stores

24,000+

employees

We are an international retail company based in Gdańsk with almost 30 years of experience in designing and selling clothes and accessories.

We own five fashion brands.

RESERVED CROPP house MOHITO sinsay

e-commerce

12%

of revenues

LPP

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1. GROUP OVERVIEW

Vision, mission and *values* inspire us in our everyday work and influence the way we function. *Mission* determines the role and the purpose of LPP's existence, while *vision* defines our ambitions and sets the direction in which we are heading.

Values describe the manner in which LPP employees behave, regardless of their position. Values are like a DNA code. They not only influence the way we function as an organization but also determine our approach to customers, employees, business partners and all our stakeholders.

OUR VISION

Passion drives us forward, making our company the top fashion retailer in the world.

OUR MISSION

We help our customers to realize their dreams through the way they look and feel.

LPP

FIRE–FUELLED

WE ARE FUELLED BY INTERNAL FIRE.

We are full of energy. We are passionate about our business, our brands and our customers. We are proud to be part of LPP.

AMBITION–DRIVEN

AMBITION DRIVES US IN ACTION.

We seek new challenges every day and strive for excellence. We dare for more. We expect the unexpected.

SOCIALLY–RESPONSIBLE

WE ARE RESPONSIBLE FOR WHAT WE DO.

We care for our closer and further surroundings. We support our employees and partners. We listen to their needs to act in harmony with nature.

TEAM–ORIENTED

AS A TEAM WE ARE THE GREATEST STRENGTH.

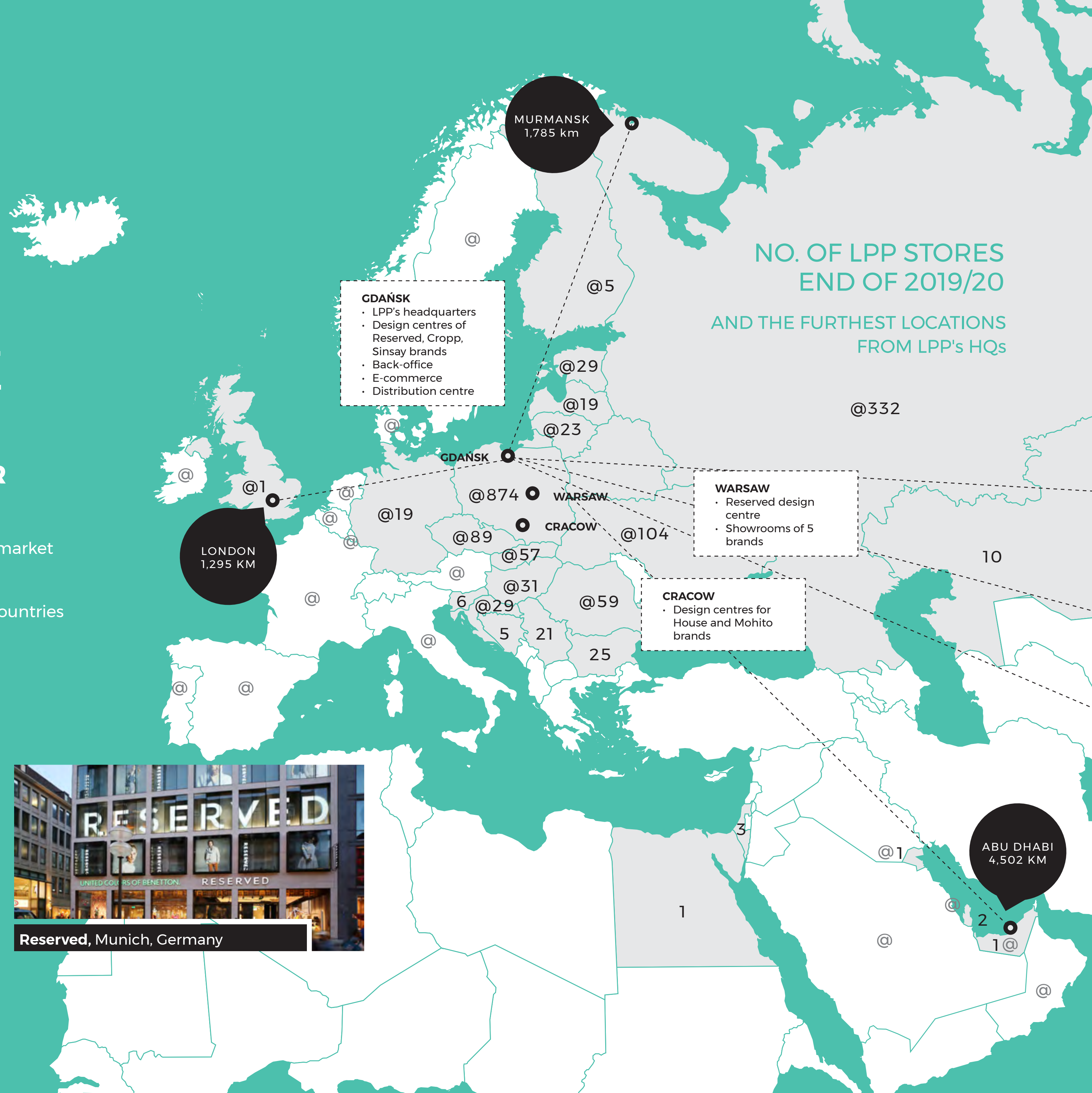
The opinion of each team member is just as important. We treat everyone as we would like to be treated ourselves. Fairness, respect, justice and tolerance are our guideposts of action.

LPP ON THE WORLD STAGE

A GLOBAL CLOTHING RETAILER

LPP is successfully developing on the core Polish market and consistently expanding on foreign markets.

At the end of 2019/20 LPP had 1,746 stores in 25 countries and on 3 continents.



Reserved, Moscow, Russia

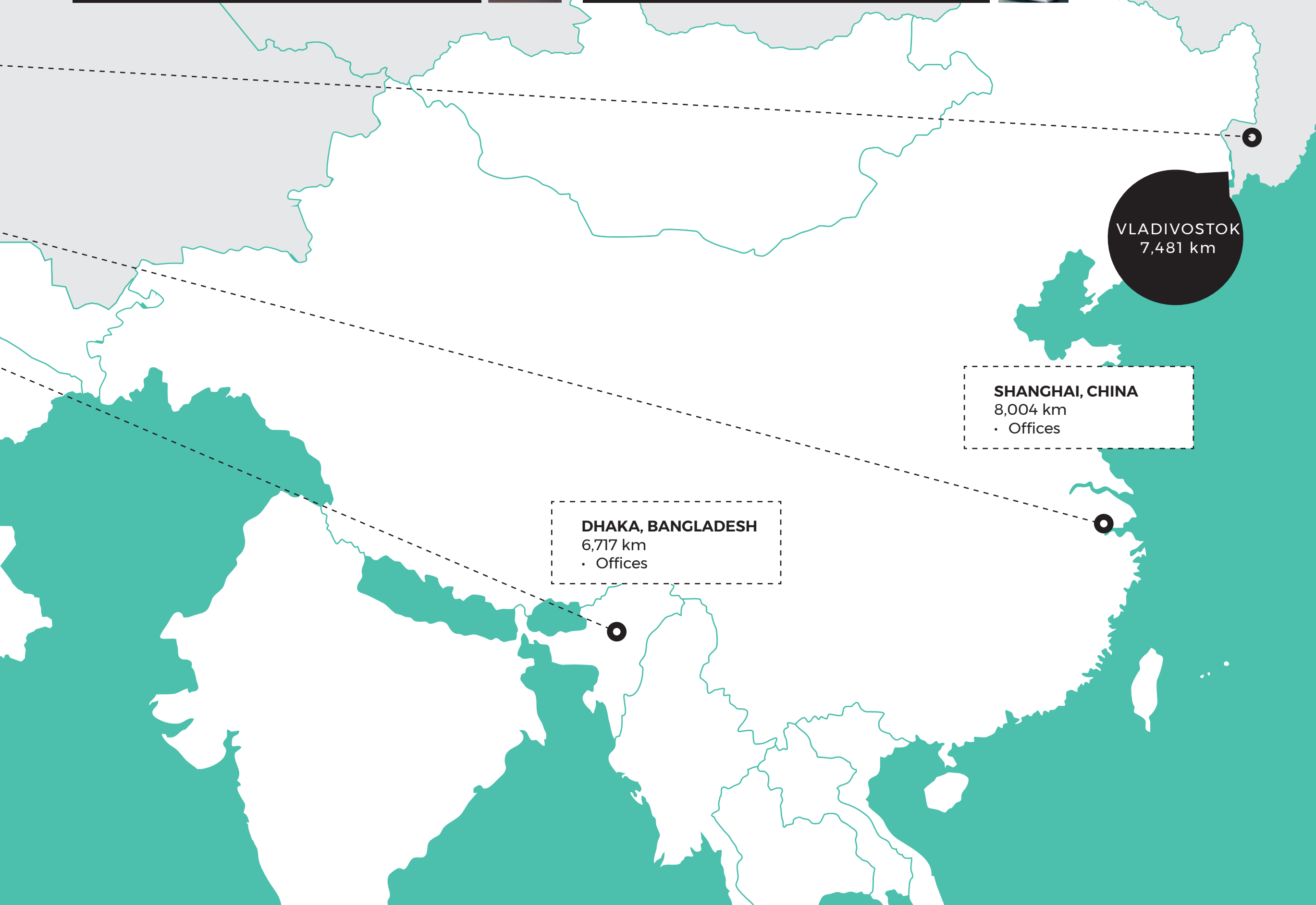
Reserved, Munich, Germany

Cropp, Prague, Czech Republic

House, Budapest, Hungary

Mohito, Moscow, Russia

Sinsay, Warsaw, Poland



LPP

Poland	
Reserved	200
Cropp	176
House	181
Mohito	142
Sinsay	173
Outlets	2

Czech Rep.	
Reserved	24
Cropp	22
House	17
Mohito	14
Sinsay	12
Outlets	0

Slovakia	
Reserved	17
Cropp	13
House	10
Mohito	8
Sinsay	9
Outlets	0

Hungary	
Reserved	15
Cropp	3
House	2
Mohito	5
Sinsay	6
Outlets	0

Lithuania	
Reserved	6
Cropp	5
House	3
Mohito	5
Sinsay	4
Outlets	0

Latvia	
Reserved	6
Cropp	4
House	3
Mohito	4
Sinsay	2
Outlets	0

Estonia	
Reserved	6
Cropp	6
House	6
Mohito	5
Sinsay	6
Outlets	0

Bulgaria	
Reserved	8
Cropp	4
House	4
Mohito	6
Sinsay	3
Outlets	0

Romania	
Reserved	15
Cropp	10
House	9
Mohito	9
Sinsay	16
Outlets	0

Croatia	
Reserved	6
Cropp	5
House	4
Mohito	5
Sinsay	9
Outlets	0

Serbia	
Reserved	6
Cropp	2
House	2
Mohito	2
Sinsay	9
Outlets	0

Slovenia	
Reserved	2
Cropp	1
House	1
Mohito	1
Sinsay	1
Outlets	0

B&H	
Reserved	1
Cropp	1
House	1
Mohito	1
Sinsay	1
Outlets	0

Russia	
Reserved	85
Cropp	81
House	52
Mohito	61
Sinsay	51
Outlets	2

Ukraine	
Reserved	25
Cropp	24
House	20
Mohito	12
Sinsay	20
Outlets	3

Kazakhstan	
Reserved	3
Cropp	2
House	2
Mohito	2
Sinsay	1
Outlets	0

Finland	
Reserved	1
Cropp	1
House	1
Mohito	1
Sinsay	1
Outlets	0

Germany	
Reserved	19

Egypt	
Reserved	1

UAE	
Reserved	1

UK	
Reserved	1

Kuwait	
Reserved	1

Israel	
Reserved	3

Qatar	
Reserved	2

Belarus **0**
change from franchise stores to own stores

2. HISTORY

MISTRAL

1991

Creation of Mistral company
by

Marek Piechocki
CEO

- Present in the retail business since 1989
- CEO of LPP since 2000
- The Best-Performing CEO according to Harvard Business Review (2013)

and

Jerzy Lubianiec
PRESIDENT of the
SUPERVISORY BOARD

- 1991–1997 ran Mistral company as a sole trader (LPP's predecessor)
- 1995–2000 CEO of LPP
- Since 2000 President of the Supervisory Board of LPP

1993

Sale of goods imported from Asia

1994

First designed clothes

1995

Mistral transformed into LPP

1997

Opening of offices in Shanghai

1998

Launch of Reserved – first retail store opened

2001

IPO on the Warsaw Stock Exchange (debut at PLN 48.4 share price)

2002

Start of international expansion (Russia, Czech Republic, Estonia, Hungary, Latvia)

2003

Further international expansion (Lithuania, Ukraine, Slovakia)

2004

Launch of Cropp brand

2005

Creation of Esotiq brand

2008

Acquisition of Artman, owner of House and Mohito brands

Launch of the modern Distribution Centre in Pruszcz Gdański

Further international expansion (Romania, Bulgaria)

2010

Payment of first dividend

2010/11

Divesture of Esotiq brand

2013

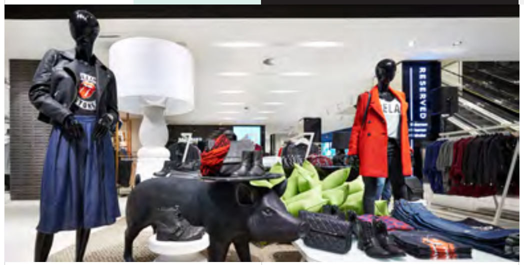
Launch of Sinsay brand

Joining the ACCORD alliance

LPP

2014

New countries: Germany, Croatia



Entry into MSCI and WIG20 indices

2015

Middle East entry (Egypt, Qatar, Kuwait, Saudi Arabia)

2016

Launch of Tallinder brand (closed down in 2017); new country in ME: United Arab Emirates

2017

Opening of Reserved London flagship. Campaign with Kate Moss. Entry to Belraus and Serbia

Signing agreement with SGS company on audits in Asian factories

LPP among family companies – LPP joins Family Business Network Poland

2018

Reserved global campaign with Cindy Crawford.

LPP entered Slovenia, Israel and Kazakhstan.

Reserved global campaign 'I Can Boogie' with actress Joanna Kulig.

LPP a family company after changes in shareholder structure

KEY EVENTS IN 2019/20

January

Due to e-commerce development, we increased the warehousing space (Fulfillment Centre) in Stryków to 46,400 m^2.

March/April

We launched on-line stores of all our brands on the Croatian market, thus increasing our own on-line presence to 12 markets.

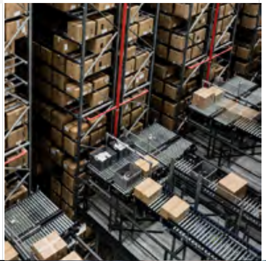
We launched our operations in Bosnia and Hercegovina, the 24th off-line market, by opening retail stores of our 5 brands with total area of 5,500 m^2.

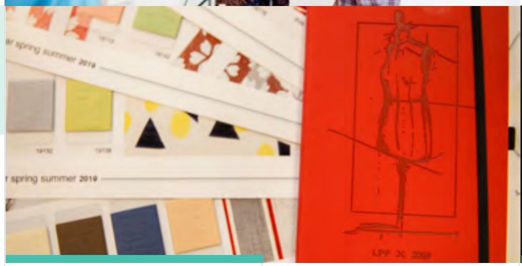
May

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 (Fulfillment Centre).

August

We made the decision to enter the 26th off-line market i.e. North Macedonia (plans for 2021/22).





September

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

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.

October

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

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

We opened stores of our all 5 brands (of an area of 6,520 m^2) 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 corporate bonds of the total nominal value of PLN 300m, quoted on the Catalyst bond market in the Alternative Trading System (ATS).

3. BRANDS

Our brands are our value and we put a lot of effort not only in creating but also in developing them. Each of our five brands stands out from the others, offering not only different types of clothes, but different stores and shopping experience.

WE CONCENTRATE ON MAINSTREAM PRICES

	RESERVED	CROPP	house	MOHITO	sinsay
KEY BRAND FEATURES	Anchor brand with a broad customer base.	Casual streetwear brand.	An optimistic fashion brand.	Fashion brand emphasizing feminity and elegance.	Clothes for every day inspirations and original party outfits.
TARGET CUSTOMERS	Women, men, children	Teenagers (boys and girls)	Teenagers (boys and girls)	Young women	Women, men, teenagers, children
YEAR OF LAUNCH	1998	2004	2001 (at LPP since 4Q08)	2008 (at LPP since 4Q08)	2013
COUNTRIES/ REGIONS PRESENT	CEE, SEE, Baltic, CIS, WE, ME	CEE, SEE, Baltic, CIS, WE	CEE, SEE, Baltic, CIS, WE	CEE, SEE, Baltic, CIS, WE	CEE, SEE, Baltic, CIS, WE
# STORES/ FLOORSPACE	454 664.8 ths m^2	360 147.9 ths m^2	318 127.4 ths m^2	283 111.7 ths m^2	324 173.3 ths m^2
AVERAGE STORE SIZE	1,464 m^2	411 m^2	401 m^2	395 m^2	535 m^2

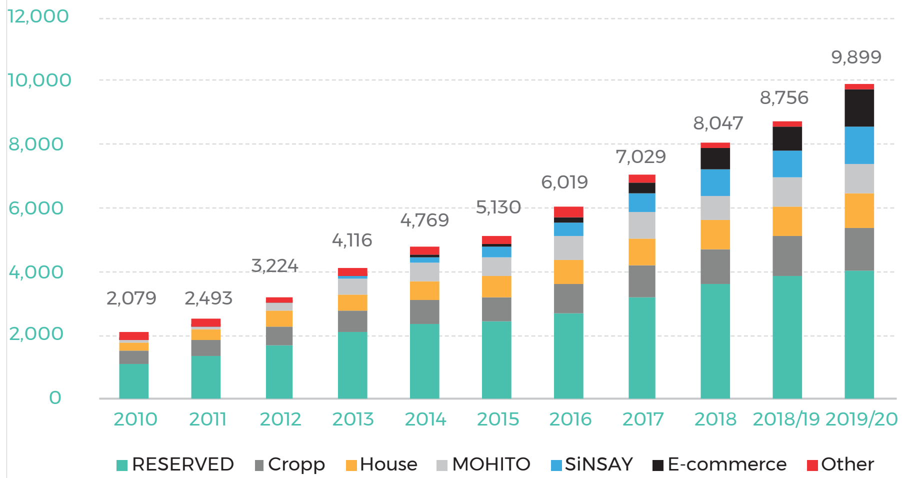
Note: sum of brands' store numbers and floorspace does not equal group's numbers due to outlets at the end of 2019/20.

LPP

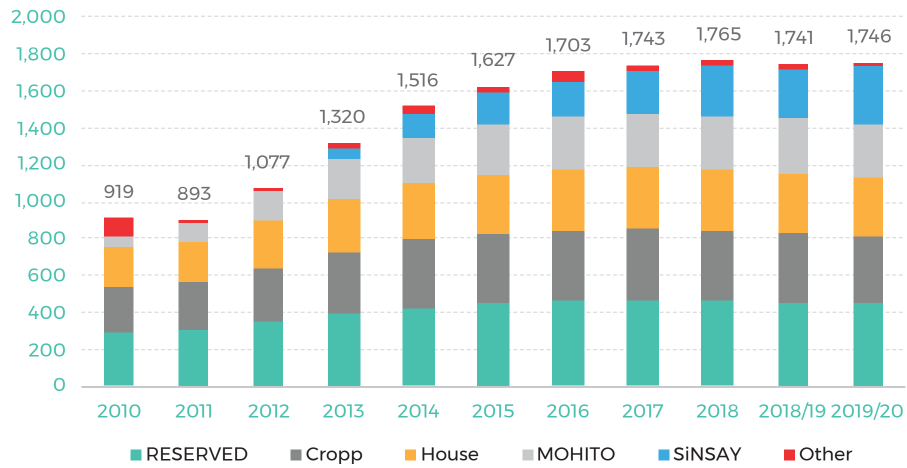
REVENUES BY BRANDS

PLN m	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Revenues	**2,079**	**2,493**	**3,224**	**4,116**	**4,769**	**5,130**	**6,019**	**7,029**	**8,047**	**8,756**	**9,899**
Reserved	1,099	1,368	1,714	2,074	2,311	2,434	2,693	3,160	3,578	3,881	4,047
Cropp	382	447	580	687	771	790	915	1,064	1,120	1,206	1,300
House	294	378	437	546	634	673	767	805	920	993	1,117
Mohito	62	104	259	456	523	586	737	829	782	846	897
Sinsay	-	-	-	74	225	329	461	610	789	851	1,208
E-commerce	4	4	6	27	65	79	173	361	712	802	1,174
Other	162	192	227	252	241	239	261	200	146	178	156
Tallinder	-	-	-	-	-	-	12	1	-	-	-
Esotiq	76	-	-	-	-	-	-	-	-	-	-
Floorspace (ths m²)	**321,818**	**343,537**	**434,050**	**588,562**	**722,510**	**843,473**	**920,724**	**1,000,611**	**1,091,320**	**1,075,639**	**1,230,860**

REVENUES BY BRANDS (PLN m)



STORES BY BRANDS



RESERVED

on-line markets
30

off-line markets
25

stores
454

revenues
PLN **4.0** bn

year of launch
1998

floorspace
665 ths m²

3.1. RESERVED BRAND

Founded in 1998 in Poland, Reserved is the flagship brand of LPP. Reserved is a brand that follows the latest trends in its collections, combining classic designs with original and latest fashion proposals. It draws inspiration from multiculturalism of great metropolises of Europe and America, but also from Tokyo's metropolitan everyday life or Seoul. The brand's offer includes lines for women, men and children. Clients can also find here unisex clothing and a broad offer for pregnant women. Reserved brand encompasses various collections reflecting the latest trends, minimalistic and premium collections with excellent quality. Reserved brand is mainstream priced with average price tag at PLN 53 in 2019/20. When creating its collections, the brand puts a lot of effort into testing of new solutions in the field sustainable fashion and consequently increases the share of environmentally friendly garments in its collections - the Eco Aware line. Eco Aware is a line of products designed to optimise material consumption and waste reduction, including the search for sustainable raw materials.

While we remain close to our Central Eastern European heritage, we have continued to grow the Reserved brand on an international scale - launching a number of international campaigns with big names, like Georgia May Jagger, Brooklyn Beckham, Sasha Pivovarova, Cara Delevigne, Magdalena Frąckowiak, Anja Rubik, to name a few. Since 2016 we have refreshed the Reserved brand for the grand opening of a new store at Oxford Street in London, with top model Kate Moss as the face of that launch and our AW17/18 collection.

Since then, we have continued to work with a number of international celebrities, models and influencers, including: Irina Shayk, Adwoa Aboah and Zuzanna Bijoch. For SS18, we collaborated with the one and only, Cindy Crawford. Every year, we launch special collections on the market. We have partnered with British Vogue and have launched the special party collection curated by British Vogue in December 2018. The campaign for AW18 starred Polish actress Joanna Kulig and French it girl Jeanne Damas re-interpreting the popular song from 70 ties ‘I can Boogie’. For SS19, we focused on ReDesign capsule (interpreting the latest fashion trends) collection and Małgosia Bela was the face of this campaign. Autumn/Winter 2019 collection was advertisied by top model Kendall Jenner, and generated a record high number of views. In 2019/20 our collections were also inspired by musical creativity of e.g. David Bowie, Queen, Ariana Grande, Justina Bieber and iconic cartoons and movies.

target customer

Women, men, children

key brand feature

Anchor brand with a broad customer base

www.reserved.com

STORE CONCEPT

Open concept, brightly-lit, inviting storefront allows for deep view insight of store interior. Freestanding panels create smooth and light background for product exposition. Modern LED lamps and LED screens illuminate the collection in a better way, creating a warm ambience.

Comfortable, large and spacious fitting rooms supported by internal navigation systems. Relax zones equipped with mobile charging stations.

Clear division of women, men and kids departments makes interior of the store more regular and ordered.

Furniture is modern, delicate and streamlined. Natural materials like wooden tables and shelfs make interior more cozy and modern.

BRAND ESSENCE

Polished (core/ 80%, fashion trends, feminine & masculine, refined, commercial)
vs
Unpolished (niche/ 20%, collaborations, be different, creative, young, designers / debutants)

BRAND PERSONALITY

trendy, fashionable, urban, chic, dynamic and creative

SUB-LINES

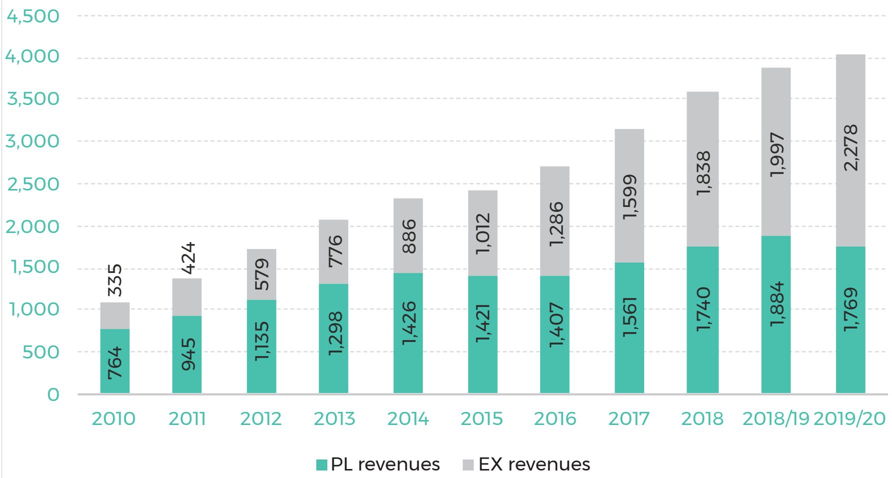
Selected lines that can be found within Reserved collections:

- **Young Fashion Lab (YFL),** combination of what is worn on the streets and in the clubs, mixed with international trends; inspired by music and art.
- **Modern Line**, combination of classic and elegant styles with seasonal trendy touches, offering independent women a variety of options to create a smart and feminine look.
- **Fashion Line**, classic always designed with up-to-date twist and the hottest items for a season, all day look, seven days a week.

RESERVED – BASIC FIGURES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Revenues (PLN m)	**1,099**	**1,368**	**1,714**	**2,074**	**2,311**	**2,434**	**2,693**	**3,160**	**3,578**	**3,881**	**4,047**
No. of stores	288	304	344	386	425	449	461	468	464	452	454
Store size (m^2)	687	697	733	835	917	1,027	1,104	1,202	1,329	1,338	1,464
Floorspace (eop, ths m^2)	198	212	252	322	390	461	509	562	617	605	665
Sales/m^2 monthly	496	566	628	617	547	483	475	514	527	525	500
% of floorspace in PL	63%	65%	62%	59%	54%	50%	49%	47%	44%	44%	41%
No. of countries off-line	10	11	11	11	13	17	18	20	23	23	25
No. of countries on-line	1	1	1	1	2	5	6	11	16	16	30

RESERVED – REVENUES (PLN m)



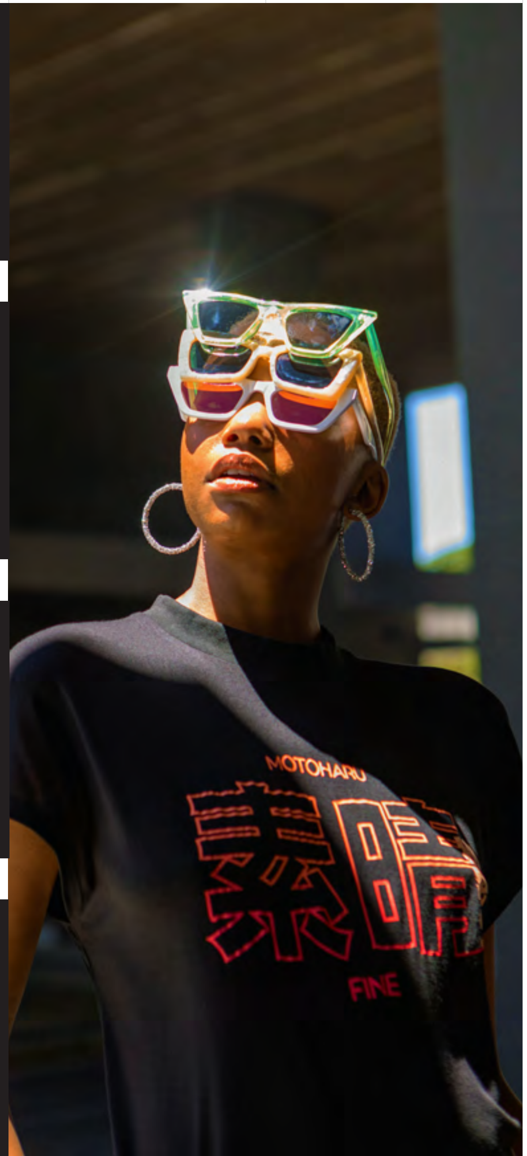
RESERVED – STORES

on-line markets
12

off-line markets
17

stores
360

revenues
PLN **1.3** bn



CROPP

year of launch
2004

floorspace
148 ths m²

3.2. CROPP BRAND

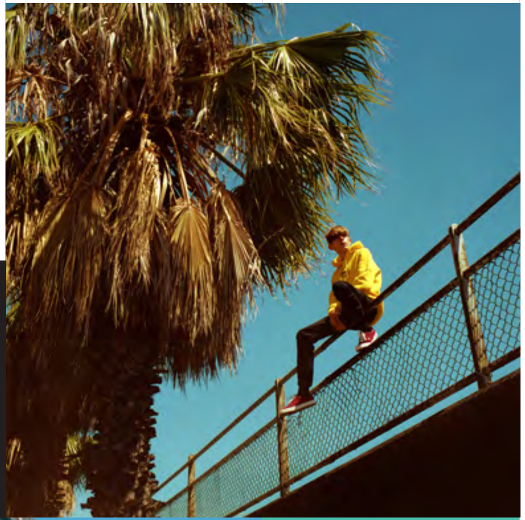
Cropp is the first brand for young-hearted people developed in-house by LPP. The launch took place in 2004. Cropp fits into the streetwear fashion, allowing its customers to create own style thanks to women and men collections, complemented by a wide range of accessories and shoes. The brand helps to express emotions and exceed borders. It draws inspiration from contemporary culture and music, creatively mixing them with latest catwalk trends. During the design process, the brand cooperates with visual artists, illustrators and graffiti artists from around the world. Cropp is a mainstream priced brand with an average price tag of PLN 54 in 2019/20. The brand is developed internationally via company-owned stores mostly. At the end of 2019/20 there were 360 Cropp stores in 17 countries all over the world.

Cropp collections are inspired by modern fashion trends, pop culture, and urban lifestyle. While boy's collection is strongly inspired by global streetwear, girls can find some more feminine outfits, that will allow them to incorporate the latest wordwide trends into their everyday style. The clothes are not to define oneself – it's the people that define the clothes and add their unique character. 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.

Eco trends are reflected in this brand also. In our latest 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.

target customer

Teenagers (boys and girls)



key brand feature

Casual streetwear brand

www.cropp.com

STORE CONCEPT

The shopping space is designed in the form of squat, garage and industrial halls.

Cropp stores also encompass special entertainment zones with oldshool arcade cabinets.

Shop window displays are equipped with modern multimedia.

BRAND ESSENCE

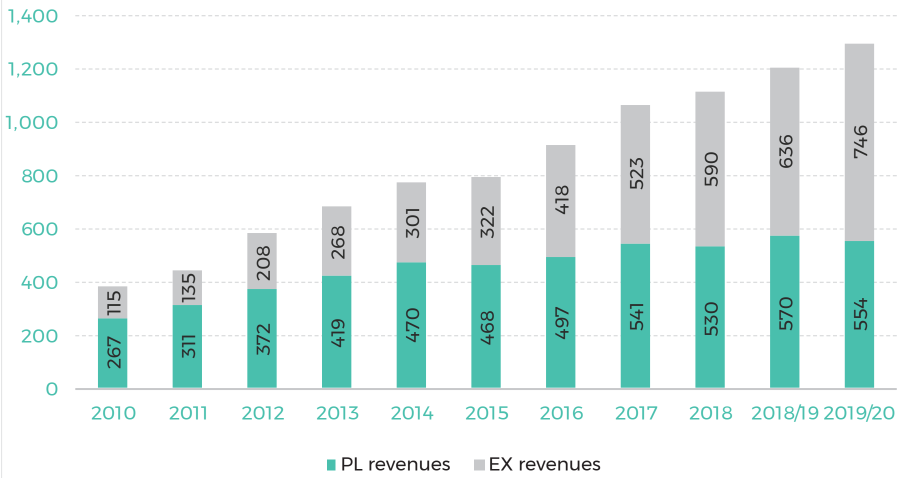
Who are we?

- We are Cropp. Each one of us is different, but we're going in the same direction.
- We make our own choices. Online or offline? Indoor or outdoor? To party or to chill?
- #YouDecide who you are. #YouDecide what to wear and how to wear it.
- Don't let them tell you otherwise.

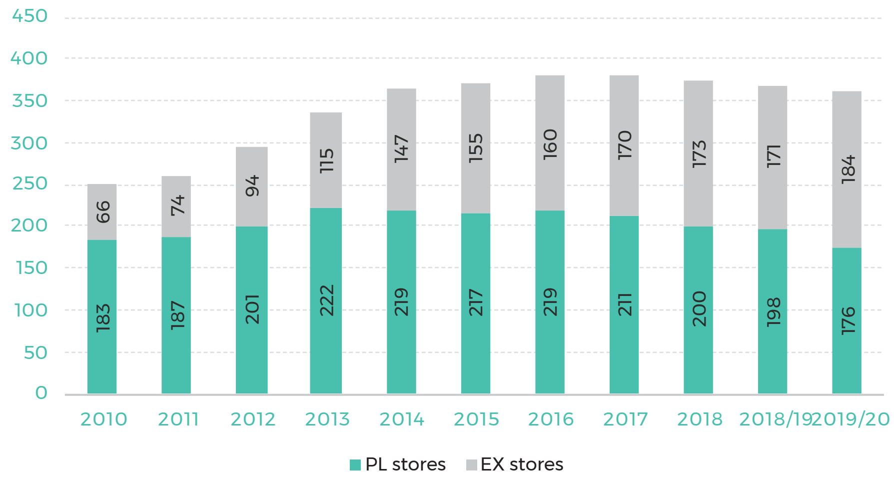
CROPP – BASIC FIGURES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Revenues (PLN m)	**382**	**447**	**580**	**687**	**771**	**790**	**915**	**1,064**	**1,120**	**1,206**	**1,300**
No. of stores	249	261	295	337	366	372	379	381	373	369	360
Store size (m^2)	224	228	244	269	288	308	318	334	359	360	411
Floorspace (eop, ths m^2)	56	59	72	91	105	114	120	127	134	133	148
Sales/m^2 monthly	607	651	756	725	647	591	653	732	729	723	717
% of floorspace in PL	69%	67%	62%	60%	55%	55%	54%	52%	50%	50%	43%
No. of countries off-line	10	10	11	11	12	12	12	13	15	15	17
No. of countries on-line	1	1	1	1	1	1	6	9	10	10	12

CROPP – REVENUES (PLN m)



CROPP – STORES



house

on-line markets
12

off-line markets
17

stores
318

revenues
PLN **1.1** bn

year of launch
2001
(at LPP since 4Q08)

floorspace
127 ths m^2

3.3. HOUSE BRAND

House is an optimistic fashion brand addressed at both women and men – students and young adults. House combines the latest trends with street style. It focuses on casual style, proposing bold combinations and expressive accessories. The brand's clients are people with young souls who have distance to themselves, appreciate comfort and are full of life. In its collections, House refers to art and pop culture and trends in social media, it draws inspiration from highstreet style. It encourages playing with fashion and conscious shaping own image.

House is a mainstream priced brand. 2019/20 average price tag came in at PLN 51. The brand is a niche one thus its stores are typically of some 400 m^2 of size. The brand is developed internationally. House stores can now be found in 17 countries. Even though the brand exists from 2001, it has been acquired by LPP along with Artman merger.

The brand focuses on peculiar and interesting combinations. The brand's designers are experienced in spotting trends and translating them into clothes that meet the customers' expectations.

In 2019/20, in House collections, we started introducing clothes made of certified, environmentally friendly materials. Further actions will follow in 2020/21.

target customer

Teenagers (boys and girls)

key brand feature

An optimistic fashion brand

www.housebrand.com

STORE CONCEPT

The interior of the store is designed as a transformed post-industrial space with warm, homely touches.

Raw industrial interior is balanced with usage of wooden elements, carpets and decorative elements.

Store decorations have DIY-feeling - hanging doors, wooden boxes, used glass jars.

BRAND ESSENCE

Brand persons:

trendy, spontaneous, dynamic, authentic young adults with sense of humour.

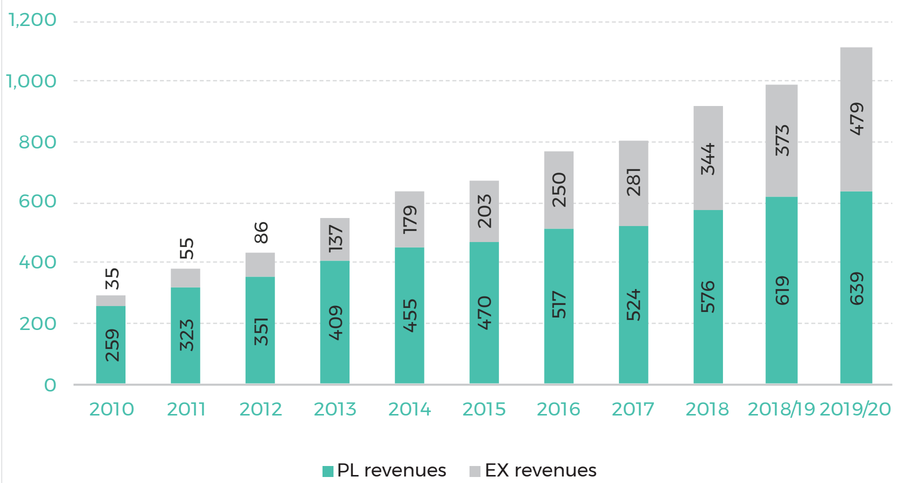
Emotions:

joy, energy, self-confidence, fun, humour.

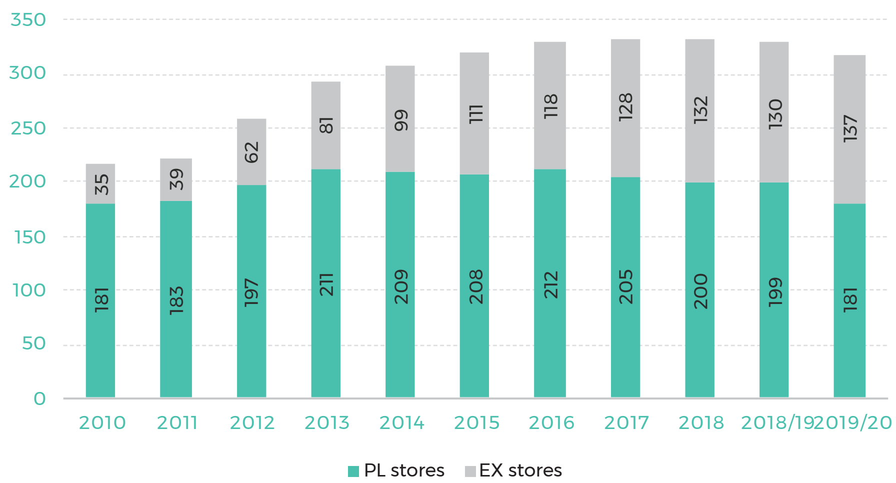
HOUSE – BASIC FIGURES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Revenues (PLN m)	**294**	**378**	**437**	**546**	**634**	**673**	**767**	**805**	**920**	**993**	**1,117**
No. of stores	216	222	259	292	308	319	330	333	332	329	318
Store size (m^2)	223	230	247	275	291	313	320	332	350	350	401
Floorspace (eop, ths m^2)	48	51	64	80	90	100	106	111	116	115	127
Sales/m^2 monthly	535	633	654	652	612	579	621	639	689	684	715
% of floorspace in PL	82%	80%	73%	69%	64%	62%	61%	59%	58%	58%	51%
No. of countries off-line	10	10	9	9	10	12	12	13	15	15	17
No. of countries on-line	1	1	1	1	1	1	6	10	10	10	12

HOUSE – REVENUES (PLN m)



HOUSE – STORES

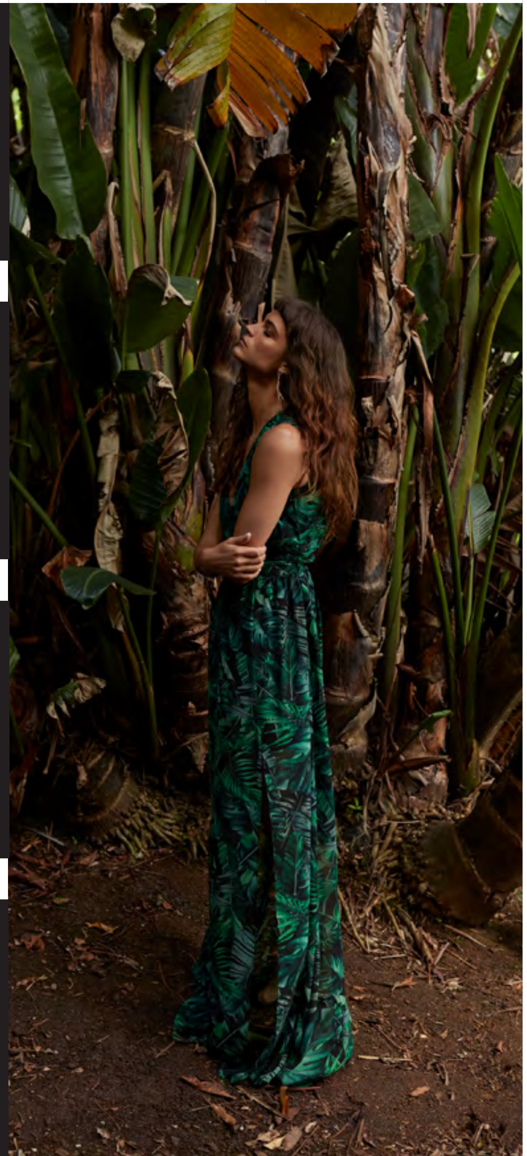


on-line markets
12

off-line markets
17

stores
283

revenues
PLN 0.9 bn



MOHITO

year of launch
2008
(at LPP since 4Q08)

floorspace
112 ths m^2

3.4. MOHITO BRAND

Mohito is another brand (after House) acquired along the Artman merger. The brand was developed in 2008 and is aimed at women solely. The target customer is every woman who needs smart casual but fashionable and occasional clothes. Mohito is a mainstream priced brand though the average price tag of PLN 64 in 2019/20 is the highest among our brands. At the end of 2019/20 Mohito stores were present in 17 countries off-line and 12 on-line.

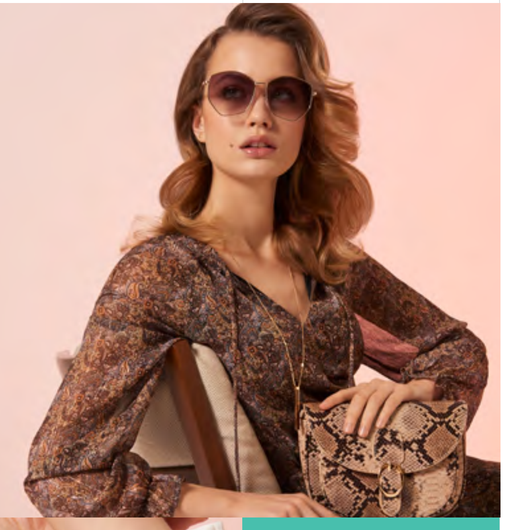
The Mohito brand is addressed at women who love trends and value original urban elegance, they are confident, know their strengths and are able to express them through their own unique style. The brand offers clothes and accessories in a full range energetic colors and patterns that emphasize femininity regardless of place and situation. Mohito looks for inspiration in culture and reacts to current events, draws from highstreets of fashion capitals and catwalks during fashion weeks.

In AW14/15 Anja Rubik created a star collection for Mohito. AW15/16 collection was advertised by top-model Zuzanna Bijoch, while SS16 by Anna Jagodzińska. AW16/17 collection was advertised by top-model Magdalena Frąckowiak. In 2018, Dominika Grosicka was invited to the charity exclusive collection. In 2019 Paulina Sykut-Jeżyna advertised the Mohito Cares eco collection.

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.

target customer

Young women



key brand feature

Fashion brand emphasizing feminity and elegance

www.mohito.com

STORE CONCEPT

The store concept relates to elegance and style.

The centre of the store is bright surrounded by a darker environment. The store has a separate display area for exclusive collection.

Strong direct lighting makes the customer feel as part of the catwalk show, before entering the dressing room sectioned.

BRAND ESSENCE

Brand person:

MOHITO is a brand developed for every woman who values feminine and urban elegance.

MOHITO Woman feels confident and is truly herself.

Brand idea:

Emphasize femininity at work and after hours. MOHITO is fashionable and romantic, suits every occasion.

Mohito is sensual, fashionable and romantic but not infantile and promiscuous.

SUB-LINES

RED Line is very feminine, but aimed at a slightly younger client. The main character of line is energetic with a hint of rock vibe in a stylish and chic way.

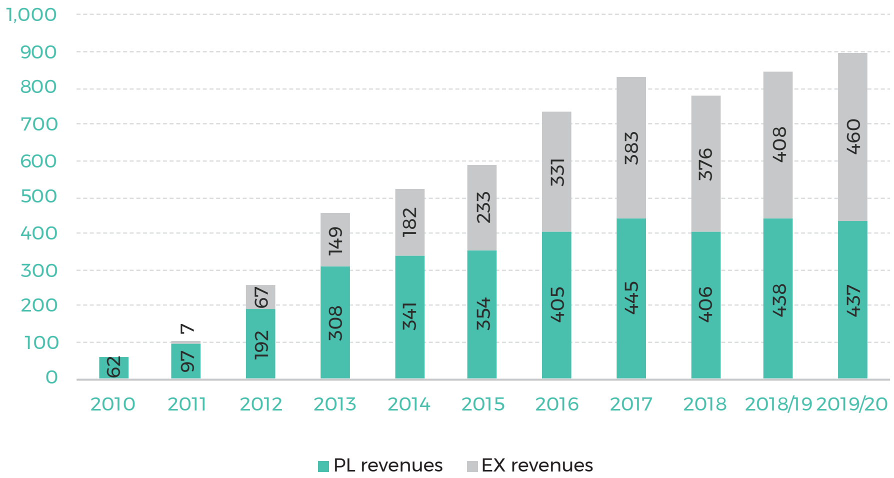
BLUE Line is focused on classic but at the same time trendy style. The blue line is harmonic, timeless and elegant. Clothes are easy to set and can be worn to the office and after hours.

KNITTED Line is directed to those women who value comfort and style. This line offers classic basic patterns and soft fabrics.

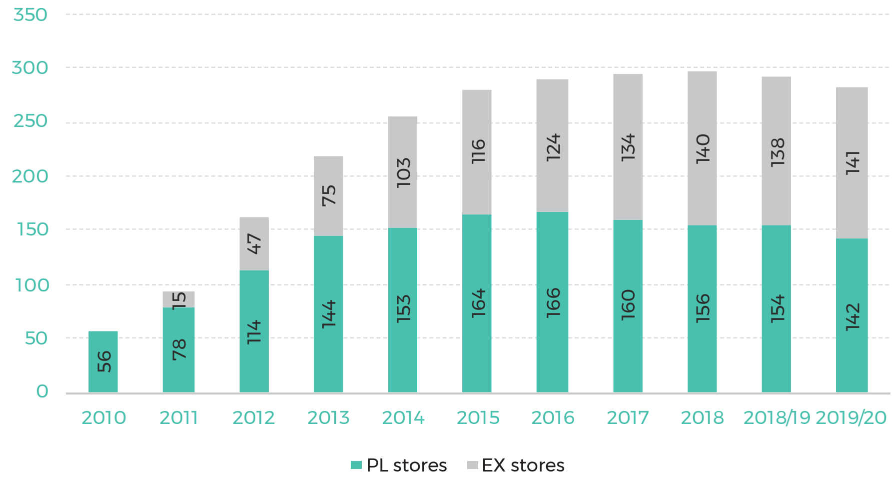
MOHITO – BASIC FIGURES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Revenues (PLN m)	**62**	**104**	**259**	**456**	**523**	**586**	**737**	**829**	**782**	**846**	**897**
No. of stores	56	93	161	219	256	280	290	294	296	292	283
Store size (m²)	180	186	242	301	323	337	342	353	370	370	395
Floorspace (eop, ths m²)	10	17	39	66	83	94	99	104	109	108	112
Sales/m² monthly	527	733	843	759	583	549	636	696	620	619	631
% of floorspace in PL	100%	87%	67%	62%	56%	55%	54%	51%	49%	50%	46%
No. of countries off-line	1	7	8	9	12	12	12	13	15	15	17
No. of countries on-line	1	1	1	1	1	1	6	10	10	10	12

MOHITO – REVENUES (PLN m)



MOHITO – STORES



sinsay

on-line markets
12

off-line markets
17

stores
324

revenues
PLN 1.2 bn

year of launch
2013

floorspace
173 ths m²

3.5. SINSAY BRAND

Sinsay is the youngest brand in our portfolio. It was launched in 2013. 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. Its offering directly responds to social media trends and is 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.

The brand is mainstream priced yet has the lowest average price tag (PLN 23 in 2019/20), so that it is affordable for the target group. The brand's advantage lies in low prices, which enable teenagers to purchase the desired T-shirts, jeans and fashionable accessories. The brand's offer is complemented by collections of garments and accessories for the youngest and items of interior design.

The stores are of c.535 m^2 size, though these are being enlarged now to accomodate for broader collections and targets group. The brand concentrates its advertising on social media. Sinsay co-operates with young influencers and models. In the past the brand was advertised by Karolina Pisarek and Aleksandra Kowalska. Sinsay collaborated with young Polish actresses – Olga Kalicka and Wiktoria Gąsiewska.

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.

target customer

Women, men, teenagers, children

key brand feature

Everyday clothes and original party outfits

www.sinsay.com

STORE CONCEPT

“Limitless” is the keyword of the new store concept. The store is open and welcoming at the entrance. The shopping interior does not divert attention from the displayed product range.

Balanced background for a great amount of colourful goods is created and the freedom of product arrangement is achieved.

Highlighting changes and unlimited freedom of the client, refer to client’s own space, residential apartment. Linearity, lightness and flexibility as the background.

Colours are neutral and do not compete with the product collection. Bigger, white surfaces of the walls or floors are brightened with minimalist graphic design.

BRAND ESSENCE

Brand persons:

girls who are loud, beautiful, expressive and have their character.

A good bad girl.

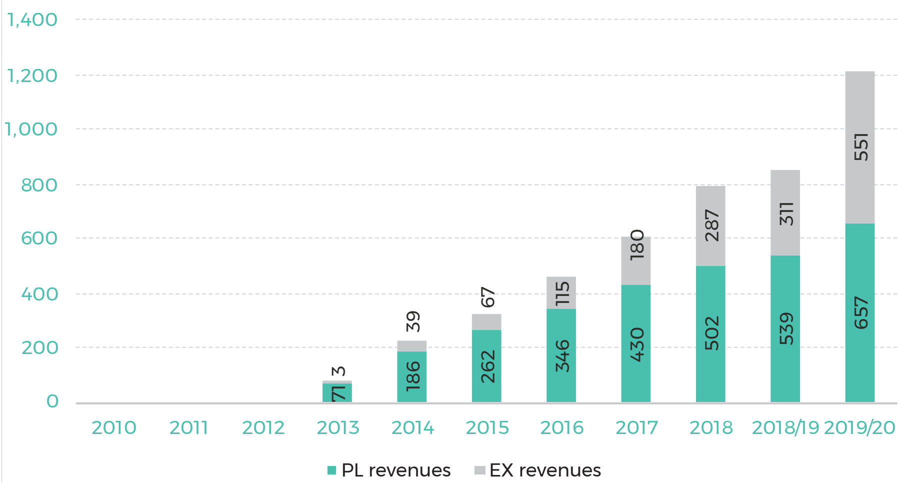
Ideas important to brand persons:

look, freedom, friendship, holidays, social media, music and fashion.

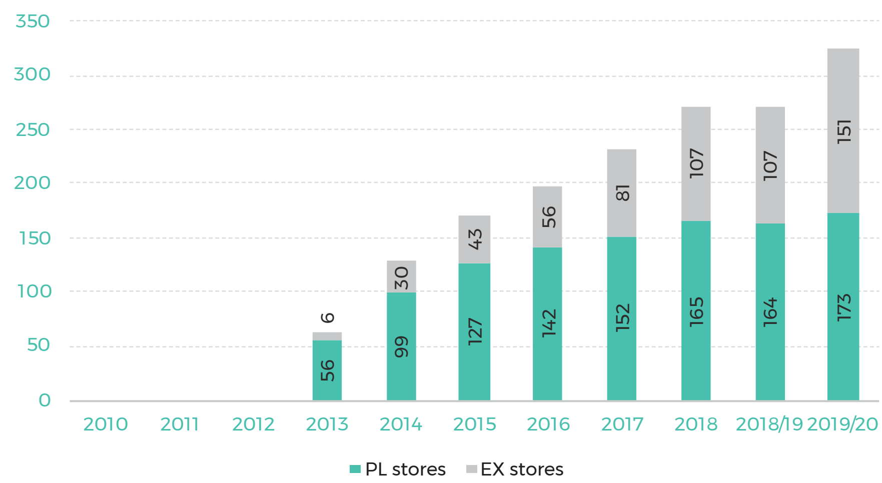
SiNSAY – BASIC FIGURES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Revenues (PLN m)	-	-	-	**74**	**225**	**329**	**461**	**610**	**789**	**851**	**1,208**
No. of stores	-	-	-	62	129	170	198	233	272	271	324
Store size (m²)	-	-	-	325	338	351	352	363	379	379	535
Floorspace (eop, ths m²)	-	-	-	20	44	60	70	85	103	103	173
Sales/m² monthly	-	-	-	670	584	531	607	690	719	709	728
% of floorspace in PL	-	-	-	89%	75%	73%	70%	63%	58%	58%	45%
No. of countries off-line	-	-	-	4	10	11	11	13	15	15	17
No. of countries on-line	-	-	-	1	1	1	6	10	10	10	12

SiNSAY – REVENUES (PLN m)



SiNSAY – STORES



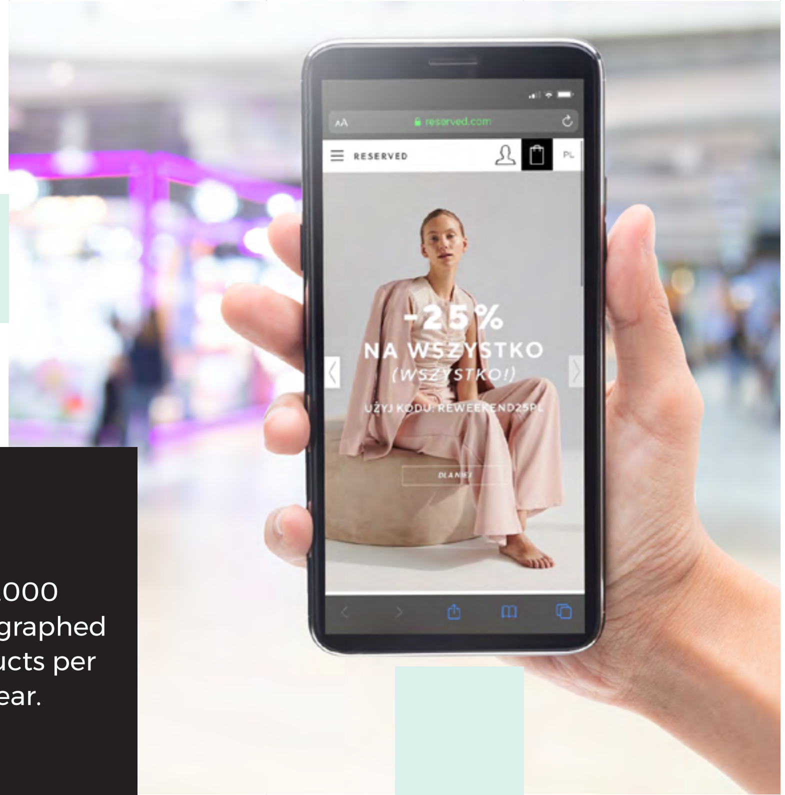
4. E-COMMERCE

Even though the majority of our business is brick-and-mortar, we accelerate investments in on-line operations, as this is where our customers are going, especially after COVID-19. In 2019/20 on-line sales constituted 12% of our group revenues.

Our e-commerce strategy is based on single brand e-stores as opposed to multibrand e-stores. All our five brands have high-quality internet stores and mobile websites.

The majority of our e-commerce revenues comes from Poland. However, apart from domestic development, we invest in internet stores abroad. At the end of 2019/20, we operated own e-commerce stores in 13 countries. We had stores of all our 5 brands in 12 countries (Poland, Czech Republic, Slovakia, Hungary, Romania, Germany, Lithuania, Latvia, Estonia, Russia, Ukraine and Croatia). We operated Reserved on-line store in the UK.

Reserved is available of Namshi.com - a Middle East platform (decision of our franchise partner). In 2019/20 we launched a pan-European on-line store for our Reserved brand, increasing the number of on-line countries to 30.



45,000 photographed products per year.

22 photographic studios and one accessories photography studio.

250 dedicated people team content production, sales, IT, operations and customer service office.

LPP

ACCELERATION OF LPP'S E-COMMERCE DEVELOPMENT

2014

RESERVED, Germany

2015

RESERVED, Slovakia, Czech Republic, Romania

2016

TALLINDER, Poland

RESERVED, Hungary

CROPP, HOUSE, MOHITO, SINSAY, Czech Republic, Hungary, Romania, Slovakia, Germany

2017

RESERVED, UK

RESERVED, CROPP, HOUSE, MOHITO, SINSAY, Lithuania, Latvia, Estonia

RESERVED, HOUSE, MOHITO, SINSAY, Russia

2018

CROPP, Russia

RESERVED, 5 ME countries (Reserved via franchise partner)

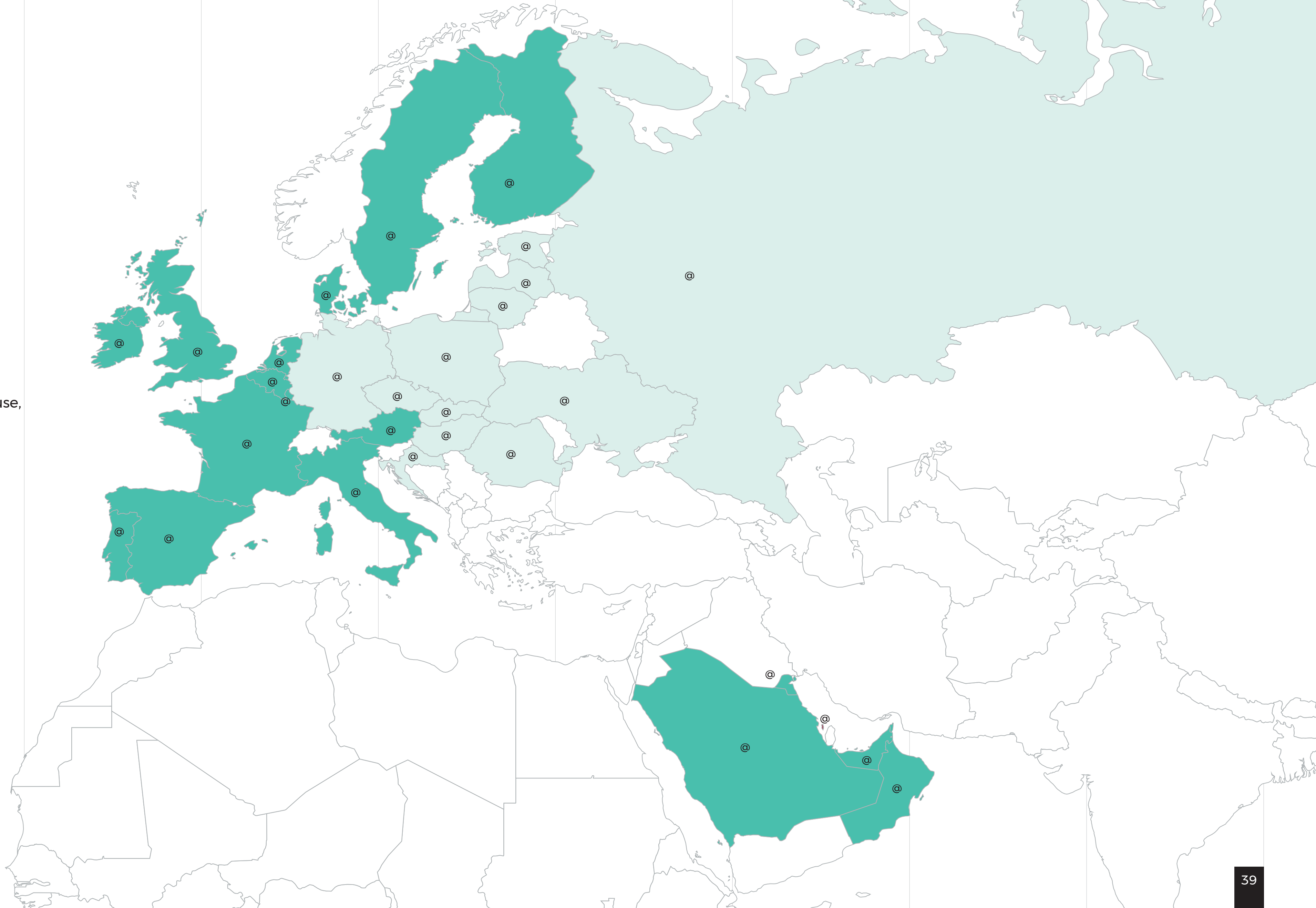
2019/20

Launching own on-line stores in Ukraine and Croatia

Opening of pan-European e-store


E-COMMERCE REVENUES (PLN m)
3.5
4.1
6.0
26.7
64.8
79.3
173.1
360.8
712.1
802.3
1,174.1
2010
2011
2012
2013
2014
2015
2016
2017
2018
2018/19
2019/20

E-COMMERCE ON 30 MARKETS



Reserved, Cropp, House, Mohito, Sinsay

Reserved

5. REGIONS

Our five brands are present in six regions, differing from one another with the level of affluence, population, climate and culture. Those regions have been chosen either due to their geographical proximity or abundant growth possibility or customer affluence.

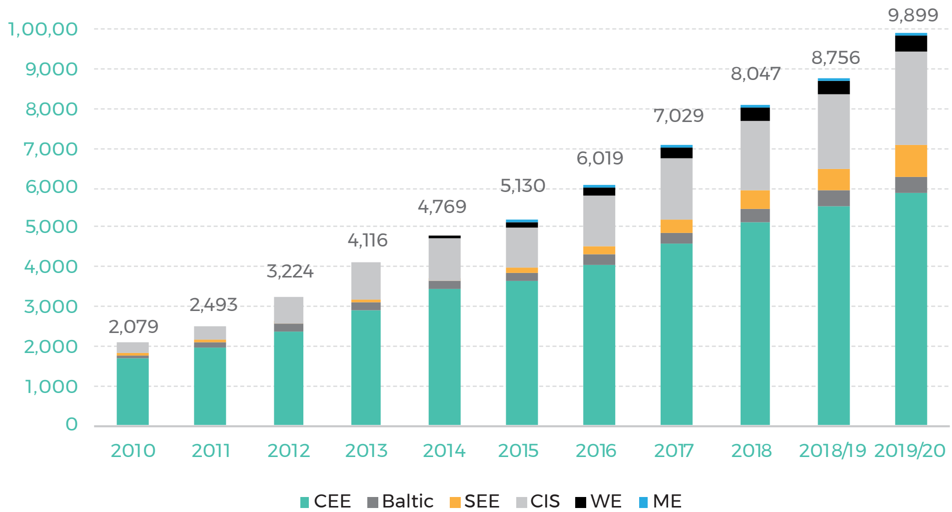
We believe we will be successful on the developing and early stage markets as the price-to-quality ratio offering in our stores meets the customers' expectations.

	MATURITY		DEVELOPING		EARLY STAGE	
DEVELOPMENT STAGE	**CEE**	**BALTIC**	**CIS**	**SEE**	**WE**	**ME**
COUNTRIES PRESENT	Czech Republic, Hungary, Poland, Slovakia	Lithuania, Latvia, Estonia	Russia, Ukraine, Belarus, Kazakhstan	Bulgaria, Romania, Croatia, Serbia, Slovenia, B&H	Germany, UK, Finland	Egypt, Qatar, Kuwait, United Arab Emirates, Israel
BRANDS	Reserved, Cropp, House, Mohito, Sinsay	Reserved, Cropp, House, Mohito, Sinsay	Reserved, Cropp, House, Mohito, Sinsay	Reserved, Cropp, House, Mohito, Sinsay	Reserved (in all countries), Cropp, House, Mohito, Sinsay (in Finland only)	Reserved
# COUNTRIES PRESENT	4	3	4	6	3	5
# STORES FLOORSPACE	1,051 663.5 ths m²	71 51.0 ths m²	446 321.8 ths m²	145 130.7 ths m²	25 55.5 ths m²	8 8.4 ths m²
TYPE OF STORES	Own (majority), franchise	Own	Own (majority), franchise	Own	Own	Franchise

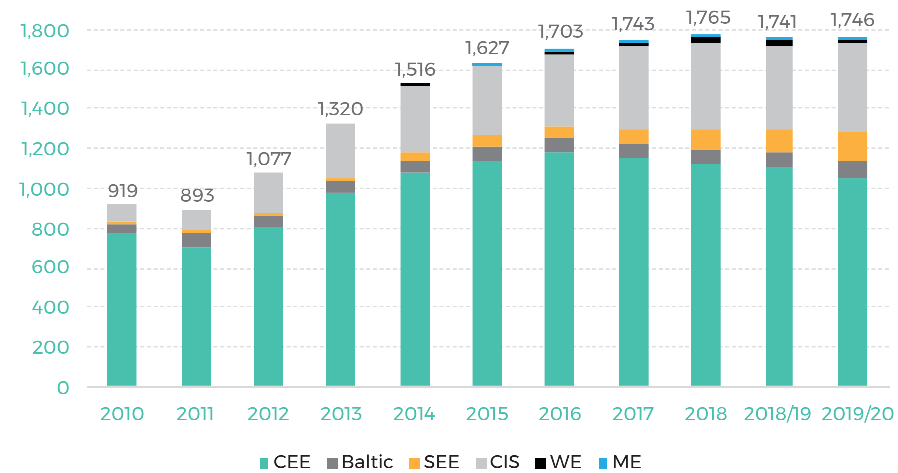
REVENUES BY REGIONS

PLN m	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Revenues	**2,079**	**2,493**	**3,224**	**4,116**	**4,769**	**5,130**	**6,019**	**7,029**	**8,047**	**8,756**	**9,899**
CEE	1,679	1,973	2,382	2,927	3,414	3,634	4,039	4,572	5,115	5,562	5,851
Baltic	91	120	162	186	200	222	256	295	358	388	437
CIS	279	359	638	952	1,076	1,025	1,269	1,542	1,770	1,924	2,333
SEE	31	40	42	52	65	134	230	317	463	513	812
WE	-	-	-	-	15	94	194	279	320	345	433
ME	-	-	-	-	-	23	31	24	22	24	33
Floorspace (ths m²)	**321,818**	**343,537**	**434,050**	**588,562**	**722,510**	**843,473**	**920,724**	**1,000,611**	**1,091,320**	**1,075,639**	**1,230,860**

REVENUES BY REGIONS (PLN m)



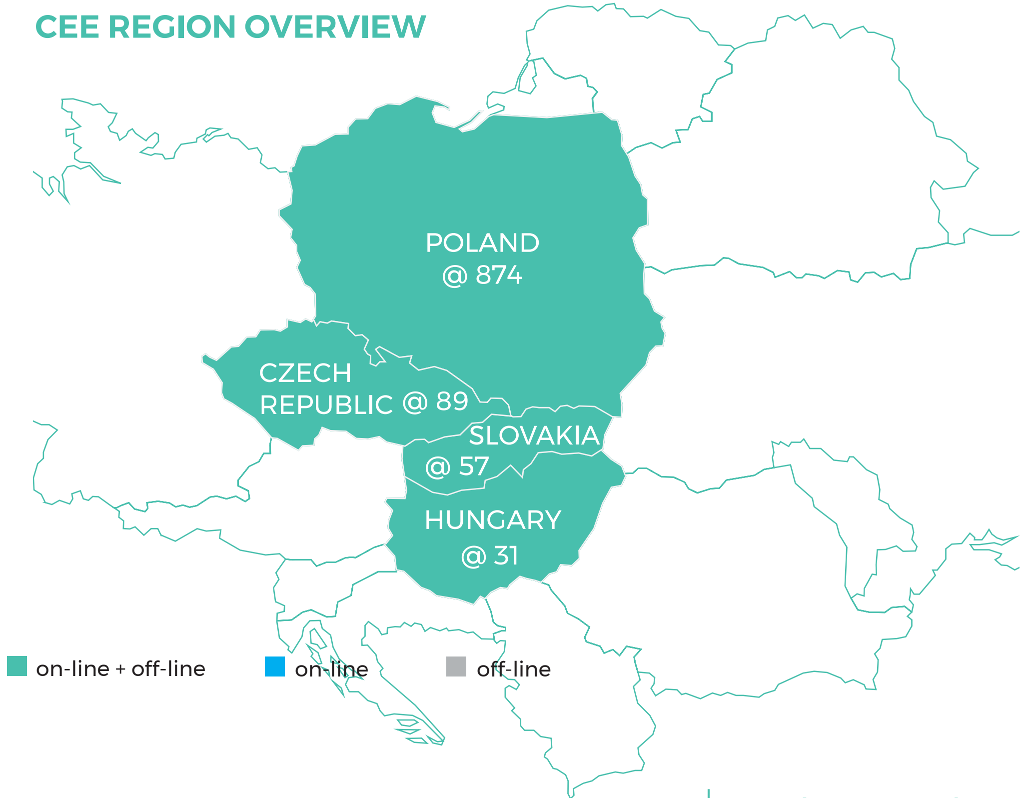
STORES BY REGIONS



5.1. CEE REGION

The CEE region comprises of Poland, Czech Republic, Slovakia and Hungary. Poland has been our first market and is by far the most important market currently, generating 59% of group revenues. Development in Czech Republic and Hungary was gradual and took place via company-owned stores, while Slovakia had been developed via franchise until April 2014. The CEE region is a mature market for us with the exception of Hungary, where we have the lowest number of stores in the region. We have e-stores of all our brands in each of the countries in the region.

CEE REGION OVERVIEW



CEE REGION – STORES & FLOORSPACE BY COUNTRY

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**770**	**709**	**809**	**976**	**1,075**	**1,144**	**1,177**	**1,149**	**1,122**	**1,109**	**1,051**
Poland	715	659	745	886	943	986	1,017	990	959	949	874
Other CEE	55	50	64	90	132	158	160	159	163	160	177
Floorspace (ths m²)	**246**	**259**	**309**	**409**	**475**	**545**	**581**	**602**	**635**	**627**	**663**
Poland	222	237	279	366	414	465	497	514	529	523	530
Other CEE	24	22	30	43	62	80	84	88	106	104	134

LPP

CEE REGION – STORES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**770**	**709**	**809**	**976**	**1,075**	**1,144**	**1,177**	**1,149**	**1,122**	**1,109**	**1,051**
Reserved	213	223	246	266	286	293	293	286	268	262	256
Cropp	195	198	214	241	256	259	261	253	238	236	214
House	197	198	216	235	233	239	243	236	229	227	210
Mohito	56	78	117	154	167	183	186	181	181	179	169
Sinsay	-	-	-	60	105	136	151	162	183	182	200
Tallinder	-	-	-	-	-	-	9	-	-	-	-
Outlets	9	12	16	20	28	34	34	31	23	23	2
Esotiq	100	-	-	-	-	-	-	-	-	-	-

CEE REGION – FLOORSPACE

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Floorspace (ths m²)	**246**	**259**	**309**	**409**	**475**	**545**	**581**	**602**	**635**	**627**	**663**
Reserved	142	153	177	216	248	281	301	322	340	333	347
Cropp	41	43	48	60	68	75	77	78	79	78	77
House	43	44	51	62	64	71	74	74	76	76	78
Mohito	10	15	27	44	51	59	60	61	64	64	63
Sinsay	-	-	-	19	35	47	52	57	68	68	96
Tallinder	-	-	-	-	-	-	4	-	-	-	-
Outlets	3	4	6	8	10	12	12	11	8	8	1
Esotiq	7	-	-	-	-	-	-	-	-	-	-

5.2. POLAND

Poland is our anchor market and is going to remain one over the next years. Although dependency has fallen from 79% in 2006 to 48% in 2019/20, the market remains the center of our interest and profits.

The dominance of the domestic market results from:

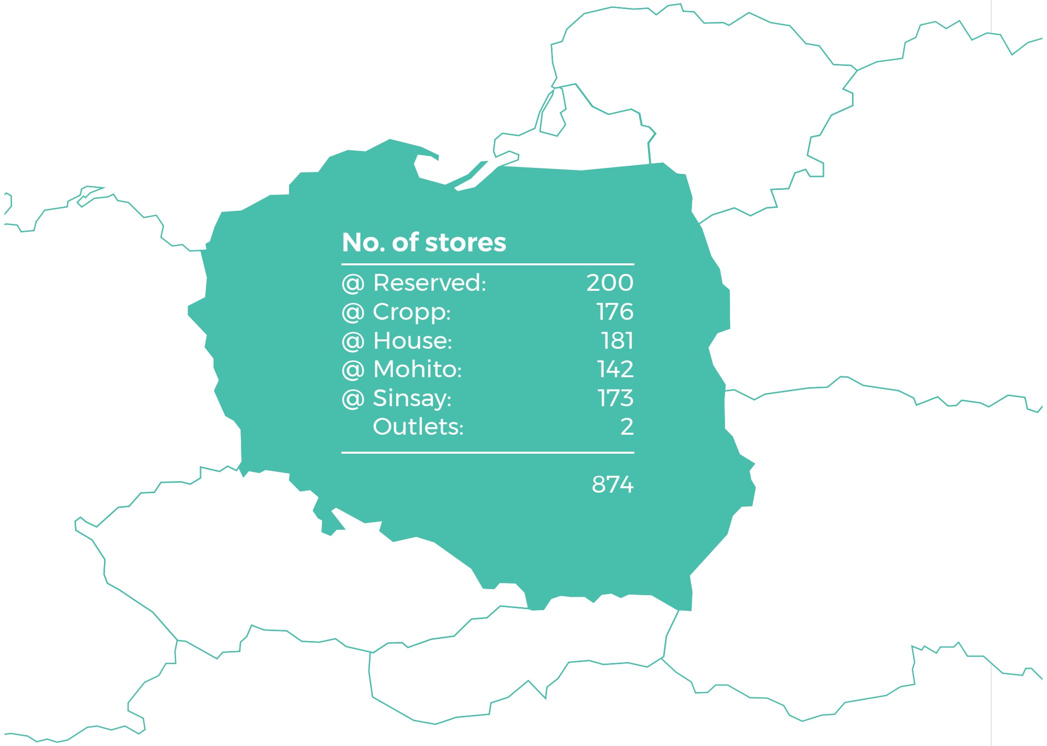
- the highest number of stores (874 in 2019/20);
- development of each new brand starting on the core market;
- the highest sales per square meter as a consequence of strong brand recognition.

Development of company owned stores started in 1998 with Reserved stores. Currently, stores of all brands are present in Poland in best shopping malls and high streets. Poland is also the market where sales per sqm are the highest due to strong brand recognition, consequence of first entry and the scale of the network.

Looking at the number of stores, maturity (but not saturation) has been reached with Reserved, Cropp and House brands. Further development is going to be oriented on entering new shopping malls and best high street locations. We still see domestic development potential with Mohito and Sinsay brands, which have not yet crossed the 200 store hurdle. Thus, further development of those brands is planned. At the end of 2019/20, the number of stores was lower YoY while the floorspace expanded. That was because in 2019/20 we concentrated on network quality not quantity. We resigned from suboptimal locations where rental agreements were expiring and we focused on stores that can properly display our collections. Now we are focused on full omnichannel implementation.

12% SHARE IN THE DOMESTIC POLISH MARKET.

STORES IN POLAND
(END OF 2019/20)



POLAND – STORES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**715**	**659**	**745**	**886**	**943**	**986**	**1,017**	**990**	**959**	**949**	**874**
Reserved	186	199	217	233	235	237	236	232	216	212	200
Cropp	183	187	201	222	219	217	219	211	200	198	176
House	181	183	197	211	209	208	212	205	200	199	181
Mohito	56	78	114	144	153	164	166	160	156	154	142
Sinsay	-	-	-	56	99	127	142	152	165	164	173
Tallinder	-	-	-	-	-	-	9	-	-	-	-
Outlets	9	12	16	20	28	33	33	30	22	22	2
Esotiq	100	-	-	-	-	-	-	-	-	-	-

POLAND – FLOORSPACE

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Floorspace (ths m²)	**222**	**237**	**279**	**366**	**414**	**465**	**497**	**514**	**529**	**523**	**530**
Reserved	124	138	156	189	209	233	249	267	273	269	270
Cropp	38	40	45	55	58	63	65	66	67	66	63
House	39	41	46	55	57	62	65	65	67	67	66
Mohito	10	15	26	41	46	52	53	53	54	53	51
Sinsay	-	-	-	18	33	44	49	53	60	60	78
Tallinder	-	-	-	-	-	-	4	-	-	-	-
Outlets	3	4	6	8	10	12	12	10	8	8	1
Esotiq	7	-	-	-	-	-	-	-	-	-	-

5.3. OTHER CEE

We have a strong position in other CEE region, by which we understand Czech Republic, Slovakia and Hungary. Combined, those three countries have a smaller population and potential than Poland. All five mainstream brands are present in Czech Republic where maturity has been reached. Further growth could take place via selected new locations, network optimization and emphasis on brand awareness. At the end of 2018, all five mainstream brands were also present in Hungary. This is the country with the lowest number of stores and the highest growth potential. Slovak development took place differently. As the market was the smallest out of those three countries, development took place via franchise stores (Reserved and Cropp stores were operated by a Slovak Koba company). Later, along with Artman acquisition, we took over House Slovak stores. Only in April 2014, we acquired the franchisee Koba along with 35 stores (12 ths m^2 of floorspace) at that time. We still see development potential in Slovakia, even though the number of stores doubled since the acquisition. Similarly to Poland, we are in the process of implementing omnichannel.

OTHER CEE (EXCL. POLAND) REGION OVERVIEW (END OF 2019/20)

OTHER CEE REGION (EXCL. POLAND) – STORES & FLOORSPACE BY COUNTRY

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**55**	**50**	**64**	**90**	**132**	**158**	**160**	**159**	**163**	**160**	**177**
Czech Republic	36	32	43	66	73	80	80	83	82	79	89
Slovakia	11	10	12	13	48	61	62	57	56	56	57
Hungary	8	8	9	11	11	17	18	19	25	25	31
Floorspace (ths m^2)	**24**	**22**	**30**	**43**	**62**	**80**	**84**	**88**	**106**	**104**	**134**
Czech Republic	17	15	21	33	37	43	43	44	48	46	63
Slovakia	2	2	3	4	18	25	28	27	33	33	39
Hungary	4	4	5	7	7	12	14	17	25	25	31

OTHER CEE REGION (EXCL. POLAND) – STORES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**55**	**50**	**64**	**90**	**132**	**158**	**160**	**159**	**163**	**160**	**177**
Reserved	27	24	29	33	51	56	57	54	52	50	56
Cropp	12	11	13	19	37	42	42	42	38	38	38
House	16	15	19	24	24	31	31	31	29	28	29
Mohito	-	-	3	10	14	19	20	21	25	25	27
Sinsay	-	-	-	4	6	9	9	10	18	18	27
Outlets	-	-	-	-	-	1	1	1	1	1	0
Esotiq	-	-	-	-	-	-	-	-	-	-	-

OTHER CEE REGION (EXCL. POLAND) – FLOORSPACE

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Floorspace (ths m²)	**24**	**22**	**30**	**43**	**62**	**80**	**84**	**88**	**106**	**104**	**134**
Reserved	17	16	21	27	39	48	53	55	66	64	77
Cropp	3	3	3	6	10	12	12	12	13	13	14
House	3	3	4	6	6	9	9	9	9	9	13
Mohito	-	-	1	3	5	7	7	8	10	10	12
Sinsay	-	-	-	1	2	3	3	4	8	8	18
Outlets	-	-	-	-	-	0	0	0	0	0	0
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.4. BALTIC REGION

The Baltic region by which we understand Lithuania, Latvia and Estonia is the second one after CEE where we have reached maturity. We are in all countries of the region. We can see medium to long-term potential for entry into new shopping malls and upgrades of stores in high streets, yet the targets are now set at efficiency improvements. We are in the process of modernising our floorspace in the region. All Baltic countries are now in Eurozone, however their macroeconomic situation is also linked to their neighbour Russia. We have e-stores of all our brands in each country of the region and similarly to the CEE we focus on omnichannel implementation.

BALTIC REGION OVERVIEW (END OF 2019/20)

BALTIC REGION – STORES & FLOORSPACE BY COUNTRY

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**44**	**59**	**59**	**58**	**70**	**71**	**73**	**79**	**75**	**71**	**71**
Lithuania	19	26	25	23	25	26	28	28	23	20	23
Latvia	10	15	14	16	19	19	19	19	19	18	19
Estonia	15	18	20	19	26	26	26	32	33	33	29
Floorspace (ths m^2)	**22**	**24**	**24**	**27**	**36**	**38**	**40**	**43**	**43**	**41**	**51**
Lithuania	10	10	10	11	12	14	15	15	13	11	18
Latvia	5	6	6	7	11	11	11	11	11	10	14
Estonia	7	8	8	9	14	14	14	17	20	20	19

LPP

BALTIC REGION – STORES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**44**	**59**	**59**	**58**	**70**	**71**	**73**	**79**	**75**	**71**	**71**
Reserved	23	24	24	24	24	23	23	23	21	19	18
Cropp	13	17	16	15	16	16	16	17	16	15	15
House	8	10	9	8	11	11	11	12	11	11	12
Mohito	-	8	10	10	14	15	16	17	16	15	14
Sinsay	-	-	-	1	5	6	7	10	11	11	12
Outlets	-	-	-	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

BALTIC REGION – FLOORSPACE

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Floorspace (ths m²)	**22**	**24**	**24**	**27**	**36**	**38**	**40**	**43**	**43**	**41**	**51**
Reserved	16	16	16	18	22	23	23	23	24	22	28
Cropp	3	4	4	4	5	5	5	6	6	6	7
House	2	3	2	2	3	3	3	4	4	4	5
Mohito	-	1	2	3	4	5	5	6	6	5	6
Sinsay	-	-	-	0	2	2	2	4	4	4	5
Outlets	-	-	-	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.5. CIS REGION

The CIS is the Commonwealth of Independent States, i.e. the countries of the former Soviet Union. At the end of 2016, we were only present in Russia and Ukraine. Expansion in Russia was originated in 2002, i.e. only four years after the start of the first Reserved store in Poland. Now the region is the second most important one after CEE, contributing 24% of group revenues. The CIS expansion so far took place in three stages: (1) first was development in the European part of Russia and in Ukraine, (2) the second stage was accelerated expansion especially in Eastern or Asian part of Russia and to a smaller extent in Ukraine, along with appearing possibilities of shopping malls openings in towns with more than 1 million inhabitants; and (3) the slowdown in expansion that we have been experiencing since mid-2014 following the geopolitical issues between Russia and Ukraine. We see long-term potential in this region. As a result, we are now in the fourth stage of our CIS expansion. In April 2017 we opened the first franchise stores of Reserved, Cropp and House in Minsk, Belarus. Mohito and Sinsay stores followed during the year. In 2018 we opened our first own stores in Kazakhstan. In 2018 we also launched e-commerce in Russia. At the end of 2019/20 we had no stores in Belarus as we were in the process of changing our franchise network into own stores. 2019/20 marked the start of e-store of all our brands in Ukraine.

CIS REGION OVERVIEW (END OF 2019/20)

CIS REGION – STORES & FLOORSPACE BY COUNTRY

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**85**	**106**	**198**	**272**	**336**	**349**	**368**	**420**	**443**	**436**	**446**
Russia	65	84	159	219	267	280	296	327	336	333	332
Ukraine	20	22	39	53	69	69	72	88	93	89	104
Belarus	-	-	-	-	-	-	-	5	8	8	0
Kazakhstan	-	-	-	-	-	-	-	-	6	6	10
Floorspace (ths m²)	**43**	**51**	**94**	**142**	**180**	**194**	**207**	**247**	**275**	**271**	**322**
Russia	34	42	76	117	146	158	170	194	206	204	235
Ukraine	9	9	17	26	34	36	37	49	56	54	74
Belarus	-	-	-	-	-	-	-	4	6	6	0
Kazakhstan	-	-	-	-	-	-	-	-	8	8	12

CIS REGION – STORES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**85**	**106**	**198**	**272**	**336**	**349**	**368**	**420**	**443**	**436**	**446**
Reserved	43	49	69	89	99	101	103	111	116	112	113
Cropp	34	40	63	78	88	89	92	101	105	104	107
House	7	11	33	47	60	63	67	76	79	78	74
Mohito	-	6	33	53	68	71	74	81	81	80	75
Sinsay	-	-	-	1	17	22	30	48	57	57	72
Outlets	-	-	-	4	4	3	2	3	5	5	5
Esotiq	1	-	-	-	-	-	-	-	-	-	-

CIS REGION – FLOORSPACE

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Floorspace (ths m²)	**43**	**51**	**94**	**142**	**180**	**194**	**207**	**247**	**275**	**271**	**322**
Reserved	32	36	55	81	97	103	109	128	145	141	161
Cropp	9	11	19	25	30	32	34	39	43	42	50
House	2	3	10	16	21	22	24	29	30	30	32
Mohito	-	1	10	19	25	26	28	31	32	31	31
Sinsay	-	-	-	0	7	9	12	19	23	23	44
Outlets	-	-	-	1	1	2	1	2	4	4	5
Esotiq	0	-	-	-	-	-	-	-	-	-	-

5.6. SEE REGION

The second of two developing regions that we are present in is the SEE region which we understand as the Balkan region. We entered Romania in 2008 and Bulgaria in 2009, as CIS region was given priority due to higher growth potential. However, the entry was followed by a prolonged economic crisis. As a result, the financial performance of our stores has been disappointing for many years (some were turned into outlets, some were closed; at the end 2012 there were 11 stores versus 19 at the end of 2011). This changed in 2014, when the economic situation improved and new quality floorspace became available. At the end of 2013 we had 14 stores in Romania and Bulgaria, while 2014 marked the entry to Croatia and the overall store number increased to 31. By the end of 2019/20 this number trippled and reached 145. We entered Serbia in 2017, Slovenia in 2018 and Bosnia & Herzegovina in 2019/20. We plan further development in the region, also including e-commerce. 2019/20 also marked the start of own e-stores of our brands in Croatia.

SEE REGION OVERVIEW (END OF 2019/20)

SEE REGION – STORES & FLOORSPACE BY COUNTRY

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**20**	**19**	**11**	**14**	**31**	**47**	**63**	**69**	**98**	**98**	**145**
Bulgaria	8	7	6	9	15	15	12	13	18	18	25
Romania	12	12	5	5	11	22	34	35	41	41	59
Croatia	-	-	-	-	5	10	17	18	24	24	29
Serbia	-	-	-	-	-	-	-	3	14	14	21
Slovenia	-	-	-	-	-	-	-	-	1	1	6
B&H	-	-	-	-	-	-	-	-	-	-	5
Floorspace (ths m²)	**11**	**10**	**7**	**10**	**23**	**34**	**48**	**53**	**81**	**81**	**131**
Bulgaria	5	4	4	7	11	11	11	11	15	15	23
Romania	6	6	3	3	7	15	26	26	30	30	49
Croatia	-	-	-	-	4	7	12	12	19	19	23
Serbia	-	-	-	-	-	-	-	4	15	15	22
Slovenia	-	-	-	-	-	-	-	-	2	2	8
B&H	-	-	-	-	-	-	-	-	-	-	5

SEE REGION – STORES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**20**	**19**	**11**	**14**	**31**	**47**	**63**	**69**	**98**	**98**	**145**
Reserved	9	8	5	7	12	16	20	22	32	32	38
Cropp	7	6	2	3	6	8	10	10	14	14	23
House	4	3	1	2	4	6	9	9	13	13	21
Mohito	-	1	1	2	7	11	14	15	18	18	24
Sinsay	-	-	-	-	2	6	10	13	21	21	39
Outlets	-	1	2	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

SEE REGION – FLOORSPACE

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Floorspace (ths m²)	**11**	**10**	**7**	**10**	**23**	**34**	**48**	**53**	**81**	**81**	**131**
Reserved	8	7	4	8	15	22	31	34	53	53	68
Cropp	2	2	1	1	2	3	4	4	6	6	13
House	1	1	0	1	2	3	4	4	6	6	12
Mohito	-	0	0	1	3	4	6	6	8	8	12
Sinsay	-	-	-	-	1	2	4	5	8	8	27
Outlets	-	0	1	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.7. WE REGION

The Western Europe although geographically close to Poland, was not our priority in the past. Firstly, because we saw more opportunities in the East and we thought that 'war on two fronts' was too difficult. Secondly, we thought that the competitive landscape in the West was unlikely to change dramatically, while in the East we were starting from the same point as our international competition.

Along with geopolitical issues in the CIS and withholding the expansion there, we thought the right time had come to set the foothold on the Western European markets. The most appealing elements of WE markets are high customer affluence, sizeable population and high quality floorspace (both in terms of high streets and shopping malls). On top, it is now our goal to increase the brand recognition of our anchor Reserved brand.

Germany was the first country that we entered. German entry was unique for us, due to several reasons: (1) the country was first entered via internet store (in July 2014) and only later (September 2014) the first brick-and-mortar store followed; (2) the stores are sizeable (twice the size of an average Reserved store) allowing for the display of the full range of our collections; (3) we started by opening flagships on high streets instead of shopping mall floorspace only and (4) the start was marked by co-operation with international star, Georgia May Jagger. We believe this approach is going to be successful in the medium- to long-term. We had 19 stores operating in Germany at the end of 2019/20, though in 2Q20/21 we decided to initiate restructuring proceedings as we suffered from COVID-19.

Step-by-step, we pursue further WE expansion. Our first Reserved store in the UK was opened in September 2017. It is situated in London city centre – Oxford Street. The UK launch was combined with the start of our e-store. In 2019/20 we entered Finland with all our brands (in Germany and in the UK only Reserved stores are present). We also launched a pan-European e-store.

WESTERN EUROPE REGION OVERVIEW
(END OF 2019/20)

LPP

WE REGION – STORES & FLOORSPACE BY COUNTRY

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**-**	**-**	**-**	**-**	**4**	**12**	**16**	**20**	**20**	**20**	**25**
Germany	-	-	-	-	4	12	16	19	19	19	19
UK	-	-	-	-	-	-	-	1	1	1	1
Finaland	-	-	-	-	-	-	-	-	-	0	5
Floorspace (ths m²)	**-**	**-**	**-**	**-**	**8**	**27**	**38**	**48**	**49**	**49**	**56**
Germany	-	-	-	-	8	27	38	45	46	46	46
UK	-	-	-	-	-	-	-	3	3	3	3
Finaland	-	-	-	-	-	-	-	-	-	0	7

WE REGION – STORES & FLOORSPACE

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**-**	**-**	**-**	**-**	**4**	**12**	**16**	**20**	**20**	**20**	**25**
Reserved	-	-	-	-	4	12	16	20	20	20	25
Floorspace (ths m²)	**-**	**-**	**-**	**-**	**8**	**27**	**38**	**48**	**49**	**49**	**56**
Reserved	-	-	-	-	8	27	38	48	49	49	56

5.8. ME REGION

The Middle East is the region we have entered most recently. The expansion was initiated in 1Q15. The development takes place via franchise stores with the openings run mostly by our franchise partner Azadea.

Franchise operations mean that we sell to our franchise partner as to a wholesaler, i.e. without the retail margin. As a result, we obtain a wholesale not a retail margin on these revenues. However, the benefit is that we do not bear capex for store openings. Our offering for the Middle East encompasses almost all the items that are available in other countries, however the mix and proportions are different, taking climate and cultural differences into account. The offer is targeted not only at the Middle East citizens but also at tourists.

The Middle East region is a diverse one. We started our expansion in Egypt, in Cairo. The second market was Qatar and then Kuwait, which have much lower populations than Egypt, yet much higher affluence. Saudi Arabia was the fourth country entered in 2015, while at the beginning of 2016 we launched our first store in United Arab Emirates. However, in 2017 our partner decided to close down the store in Saudi Arabia. Currently, only Reserved brand is being developed. In 2018 first franchise stores were opened in Israel. The cooperation was expanded with 3 franchise stores now operating in Israel. We have a different franchisee in Israel than in other ME countries. In 2018 our franchise partner took the decision to enter Namshi.com e-commerce platform, which opened us to new Middle East markets.

MIDDLE EAST REGION OVERVIEW
(END OF 2019/20)

ME REGION – STORES & FLOORSPACE BY COUNTRY

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**-**	**-**	**-**	**-**	**-**	**4**	**6**	**6**	**7**	**7**	**8**
Egypt	-	-	-	-	-	1	1	1	1	1	1
Kuwait	-	-	-	-	-	1	1	1	1	1	1
Qatar	-	-	-	-	-	1	2	3	2	2	2
Saudi Arabia	-	-	-	-	-	1	1	-	-	-	-
United Arab Emirates	-	-	-	-	-	-	1	1	1	1	1
Israel	-	-	-	-	-	-	-	-	2	2	3
Floorspace (ths m²)	**-**	**-**	**-**	**-**	**-**	**5**	**8**	**7**	**7**	**7**	**8**
Egypt	-	-	-	-	-	2	2	2	2	2	2
Kuwait	-	-	-	-	-	1	1	1	1	1	1
Qatar	-	-	-	-	-	1	2	2	2	2	2
Saudi Arabia	-	-	-	-	-	2	2	-	-	-	-
United Arab Emirates	-	-	-	-	-	-	1	1	1	1	1
Israel	-	-	-	-	-	-	-	-	2	2	3

ME REGION – STORES BY BRAND

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of stores	**-**	**-**	**-**	**-**	**-**	**4**	**6**	**6**	**7**	**7**	**8**
Reserved	-	-	-	-	-	4	6	6	7	7	8
Floorspace (ths m²)	**-**	**-**	**-**	**-**	**-**	**5**	**8**	**7**	**7**	**7**	**8**
Reserved	-	-	-	-	-	5	8	7	7	7	8

6. VALUE CHAIN

We create value for our customers by offering them interesting designs matching their tastes at attractive prices and in high quality stores. The value chain is managed by a calendar which points when works on collection should start and when the goods should hit the stores.

DESIGN	PRODUCTION	LOGISTICS	STORES	CUSTOMERS
3 design centres **300+** designers	**1,200+** suppliers **c. 90%** goods sourced from Asia	**240 ths m²** of warehousing space **11 m** e-commerce orders executed	on-line sales in **30 countries** **1,746 stores** in 25 countries **3 continents** Europe, Asia, Africa	**265m+** clothing items sold annually

6.1. DESIGN

Our added value lies in designing the clothes that we sell. We have an approximately 300-strong team of designers while the total number of people creating collections exceeds 1,000. They originate mostly from various art schools in Poland, among other from Gdańsk, Warsaw, Poznan, Cracow or Łódź. We increasingly often employ foreign designers to bring in new fresh ideas, eg. the head of Reserved women collection is Sho Kondo. We run three designing centres, one in Gdańsk (in our headquarters, responsible for Reserved, Cropp, Sinsay), one in Cracow (responsible for House and Mohito) and third centre in Warsaw (a back-up design centre for Reserved). We search for the most talented people, co-operate with design schools and run employer branding projects, in order to find most creative and suited individuals.

The designing process is quite a complex one and starts several months before the clothes hit the stores. Our designers look for inspirations in all possible places.

Fashion fairs

by participating in numerous fashion fairs and closely watching the catwalks, mostly abroad but also domestically.

Fashion catalogues and lookbooks

studying publications aiming to predict the main trends in upcoming seasons.

Market research

conducted on selected groups in order to improve customer understanding, monitoring fashion-devoted internet portals, blogs and highstreets.

Sales analysis

the top-quality IT systems enables to capture trends and shows what types of garments customers of all five brands prefer (fabric, texture, colour and style).

Street fashion

we take inspiration also from the streets of the most fashionable cities, as this is where trends are often born. Our designers not only visit London, Paris and Milan but Tokio and Seul as well.

Social media

another place where trends are born and popularised are social media which we follow to know which trends are being accepted by stars and by the general public.

DESIGN CENTRES IN 3 LARGEST CITIES IN POLAND

GDAŃSK

- LPP's largest design centre.
- The centre is responsible for Reserved, Cropp and Sinsay brands.

CRACOW

- Design centre for House and Mohito brands.
- Co-operation with designing schools.

WARSAW

- Design centre responsible for Reserved.
- Showroom of all brands.

Individual ideas of designers are summed up and collection books are prepared by combined forces of designers, purchase department, product managers and heads of departments. As a result, a detailed documentation of each planned model is created, which not only takes the design but also available fabrics into account.

Once a piece of clothing has been designed, a sample garment has to be created. Once all the samples have been obtained, a so called Mile Stone Meeting (MSM) is organised with all interested parties and the samples are judged. This encompasses checking whether they fit the design, whether the cut is a proper one and assessing the quality of fabrics and the usefulness of the design in real life. The samples are prepared in various sizes and these are also verified. After the MSM, comments are sent to suppliers.

We prepare two main collections for all our brands: Spring/Summer (SS) and Autumn/Winter (AW) and each season consists of two phases. Phases are then split into intakes, whose number depends on the brand. The collections are structured so as to incorporate: a base (a set of universal clothing), core (a mix of latest trends with types of garment that customers want to wear) and directional (must-haves, most fashionable items). It is the degree of these trends that differs depending on the brand.

Preparation of project models and sending documentation to suppliers	Placing orders for models (price, dates, quality, quantity)	Co-ordination of the production process	Shipping, display and sale of models	Introduction of sell-offs and withdrawal of unsold products
1	2	3	4	5
STAGE 1: Analysis of previous seasons and determination of demand **STAGE 2:** Inspirational meeting **STAGE 3:** Preparation of projects **STAGE 4:** Projects sent to suppliers	**STAGE 5:** Evaluation of designs prepared by suppliers **STAGE 6:** MSM (meeting to decide on orders) **STAGE 7:** Sending comments to suppliers **STAGE 8:** Placing orders and negotiating terms of a contract	**STAGE 9:** Production monitoring	**STAGE 10:** Allocation, organization of delivery and transportation **STAGE 11:** Visual merchandising **STAGE 12:** Sale and customer service **STAGE 13:** Replenishment	**STAGE 14:** Competition price survey **STAGE 15:** Price adjustments in seasonal sell-offs **STAGE 16:** Changing seasons and withdrawal of the end of line products

6.1. DESIGN

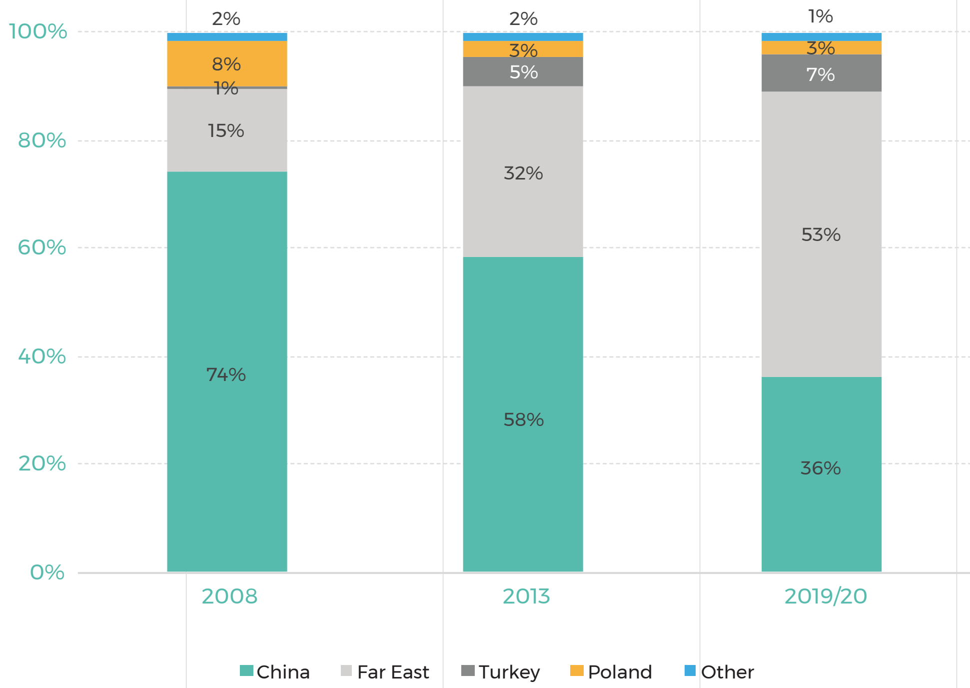
We run a lean business model and thus do not own factories. Production is sourced mostly from the Far East. China constitutes 36% of our supplies while the remaining Far East countries 53%. These are Bangladesh, Cambodia, Myanmar, Pakistan, India. 7% of our production is sourced from Turkey. We believe that the sourcing structure should remain relatively stable in the upcoming seasons, though we will continue to look for favourable new sourcing countries.

Sourcing in the Far East is supervised by our offices in Shanghai (China, opened in 1997) and in Dhaka (Bangladesh, opened in 2015). Shanghai office is run by natives mostly and employs over 100 people. The office is responsible for quality checks, finding new suppliers, supporting production and negotiating contracts. Our office in Dhaka currently deals with quality checks among Bangladesh suppliers, conducts audits of workers safety and working conditions of the factories, in which LPP's clothes are produced.

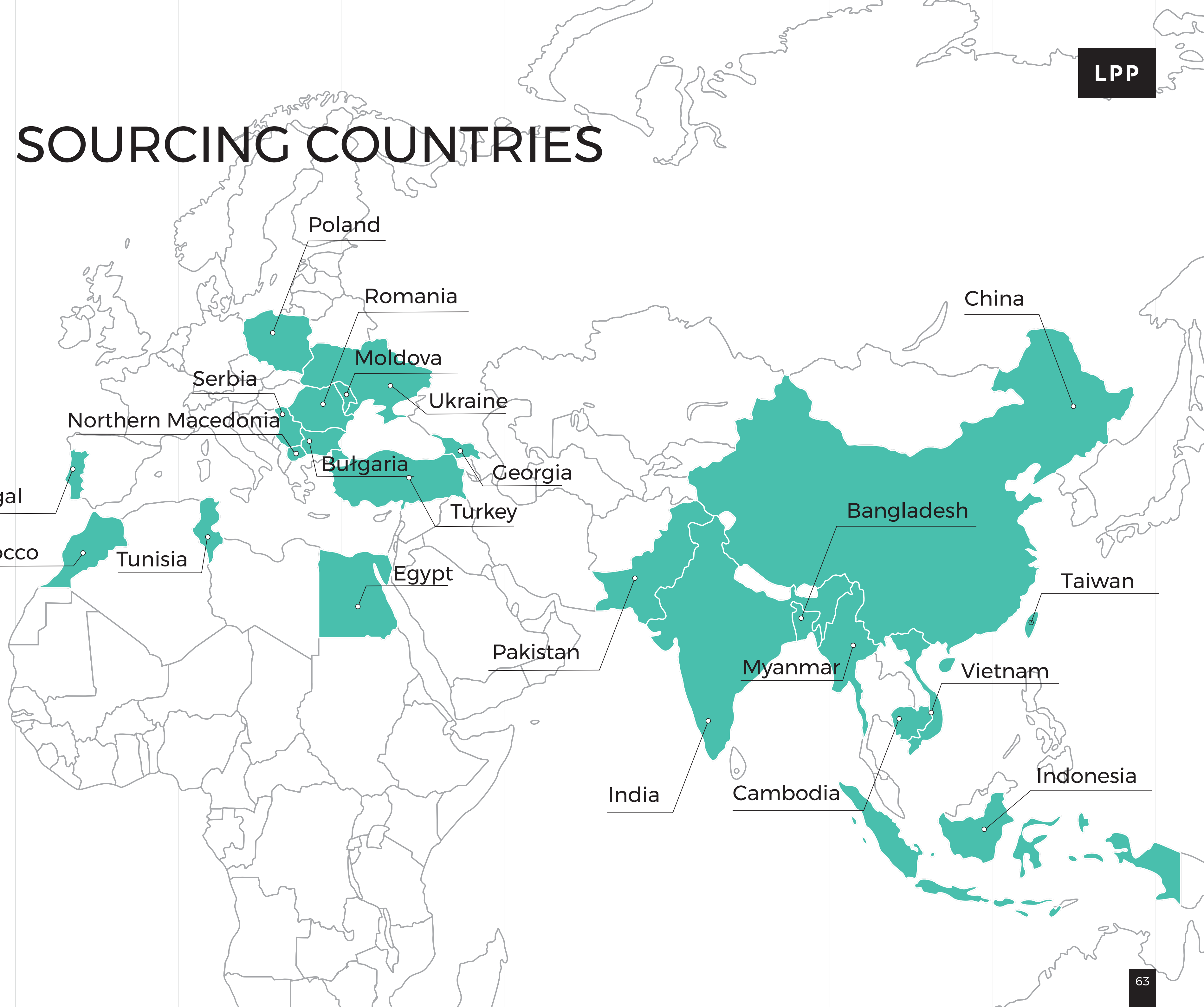
The production process is dependent on the outcome of the designing process. Once designs have been approved, an Ordering Application is created in LPP's IT system. It indicates the amount of pieces to be produced for each model, in which stores the clothing is to be sold as well as the required delivery dates. These are sent to the purchasing department which is responsible: 1) for negotiating the best prices for these parameters and 2) for confirmation of delivery dates. After this, orders are sent to suppliers which need to confirm their receipt and terms via a sales confirmation document. Only then, can the production process begin.

Before producing the garments, the supplier needs to obtain the fabrics, from which the clothes are to be produced. At this stage final product documentation is confirmed. Once the production has been completed, the supplier files for a quality control. Production lead time is much shorter if European countries are the sourcing partners. In such situations the cycle takes even as little as 30 days. It usually refers to must-have collections. Information about responsible production processes can be found in Corporate Social Responsibility chapter later in this document.

CHANGES IN PRODUCTION SPLIT



SOURCING COUNTRIES



6.3. LOGISTICS

Once the goods are produced, they need to be delivered to our distribution centres and later to stores and e-commerce customers. The suppliers ship them in containers (majority of goods; journey takes between 30 to 40 days) or use road or air transport.

The goods are sent directly to one of our distribution centres. The first one (larger and more important) is located in Pruszcz Gdański (near Gdańsk, Poland, where headquarters are located) while the second one is near Moscow (Russia). On average the goods spent some two weeks in a distribution centre where they are repacked and sent to stores. Depending on the suppliers, the goods are either sent packed by type (e.g. trousers in all sizes) or as pre-packs (specific number of items in specific sizes and colours) or cross-docs (allowing for fast delivery to stores). Once the goods are in the distribution centre, they are repacked for each of the stores possessed.

Since 2H17 we started changing our logistics process to make it more aligned to growing e-commerce part of our business. We outsourced selected operations to Arvato with a FC (Fulfillment Centre) in Stryków in central Poland. We also have an FC in Gdańsk. Along with growing on-line sales abroad, we have decided to open more FCs - we now have one in Moscow, Romania and Slovakia. Each is responsible for deliveries for the region.

FULFILLMENT CENTRES

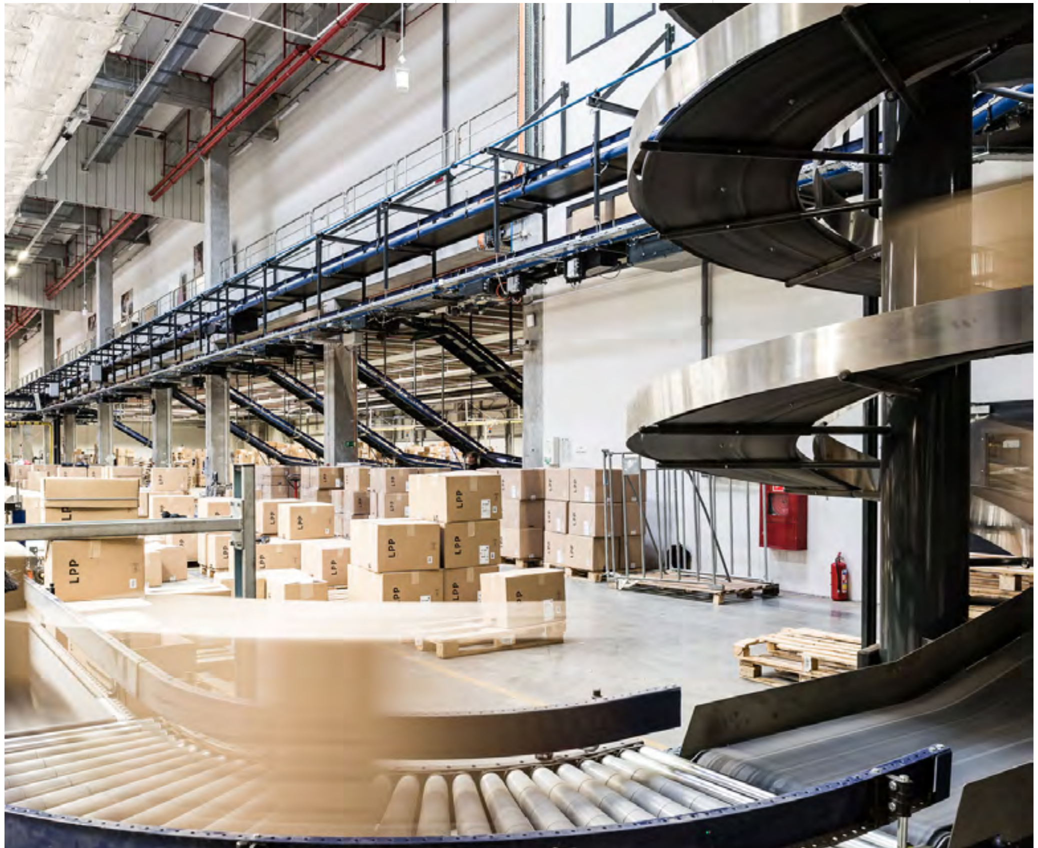
Stryków
46 ths m^2
e-commerce, rented

Gdańsk
20 ths m^2
e-commerce, rented

Moscow
8 ths m^2
e-commerce, rented

Romania
22 ths m^2
e-commerce, rented

Slovakia
32 ths m^2
e-commerce, rented



DISTRIBUTION CENTRES

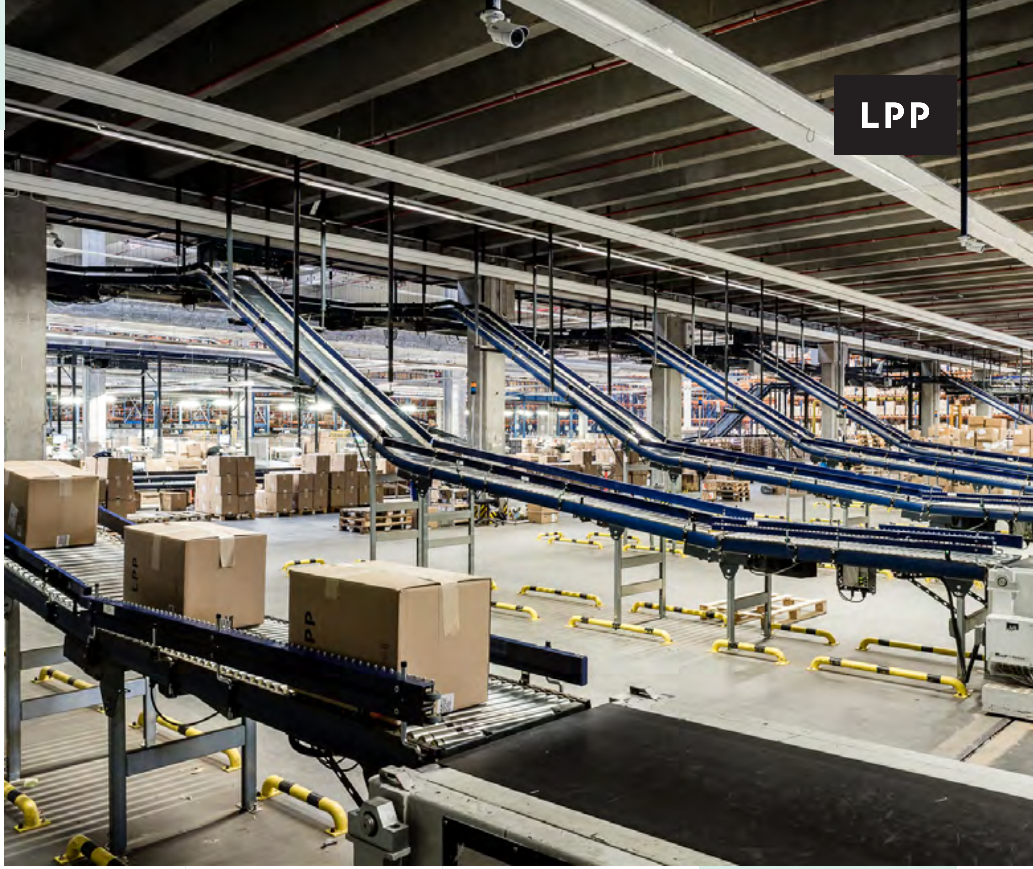
Pruszcz Gdański
91 ths m^2
traditional stores, owned

Brześć Kujawski
120 ths m^2
traditional stores, owned

planned

Moscow
14 ths m^2
traditional stores, rented

Deliveries to stores take place every day, yet a store obtains new goods on average every 2 to 3 days. We do not own transportation vehicles. The logistics process is outsourced to couriers. The Moscow centre supplies Russian stores, while to all other countries goods are delivered from Pruszcz Gdański. The two possessed distribution centres responsible for the traditional stores differ from one another. The Pruszcz Gdański centre is owned and is located on a plot of land owned by LPP. The location in Gdańsk proximity is highly convenient for the marine transportation used. The centre's size was expanded in 2015 and in 2020. When built in 2007, the centre had 30.5 ths m^2, its expansion added 35.5 ths m^2 , while the second expansion added another 25 ths m^2. The Moscow centre, on the contrary, is rented only and the number of m^2 rented depends on the season (typically it is 9.5 ths m^2). 60% of goods that are delivered to Russia are sourced from this centre. Stores in Kazkhstan are also sourced from this centre. A new distribution centre is planned in the centre of Poland in Brześć Kujawski. It is to be larger than Pruszcz Gdański with some 120 ths m2 of space and will be equipped with the latest technology.



PRUSZCZ GDAŃSKI DISTRIBUTION CENTRE

LOGISTICS

8.5m
pieces sent weekly
(up to 1.84m per day)

212 ths
cardboard boxes
sent weekly

240
containers accepted
per week

1,000
workers in distribution
centre

MINILOAD

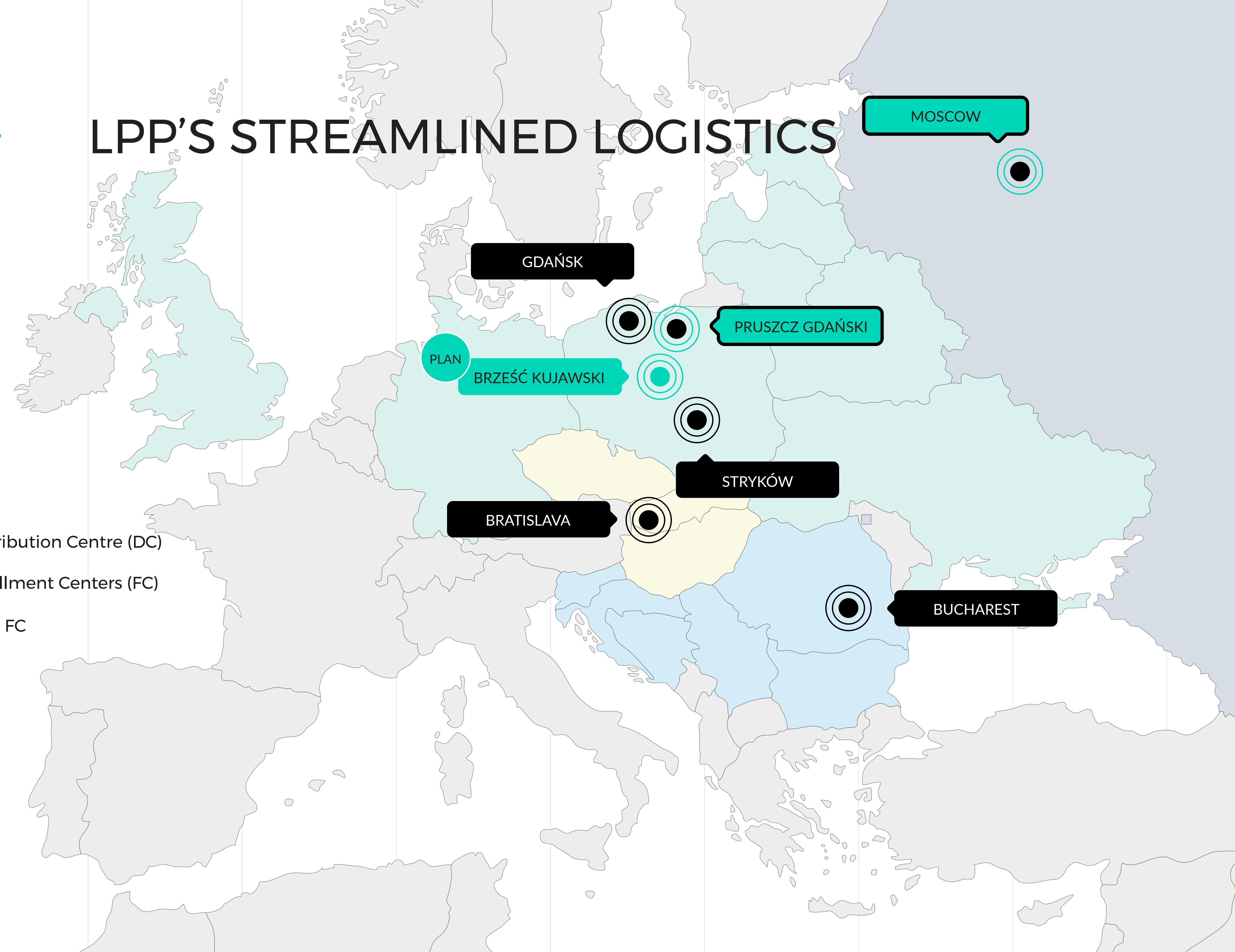
1,177 ths
storage positions for boxes

18m
high warehouse

57 alleys
120 and 83 m long

7,500
operations per hour

LPP'S STREAMLINED LOGISTICS

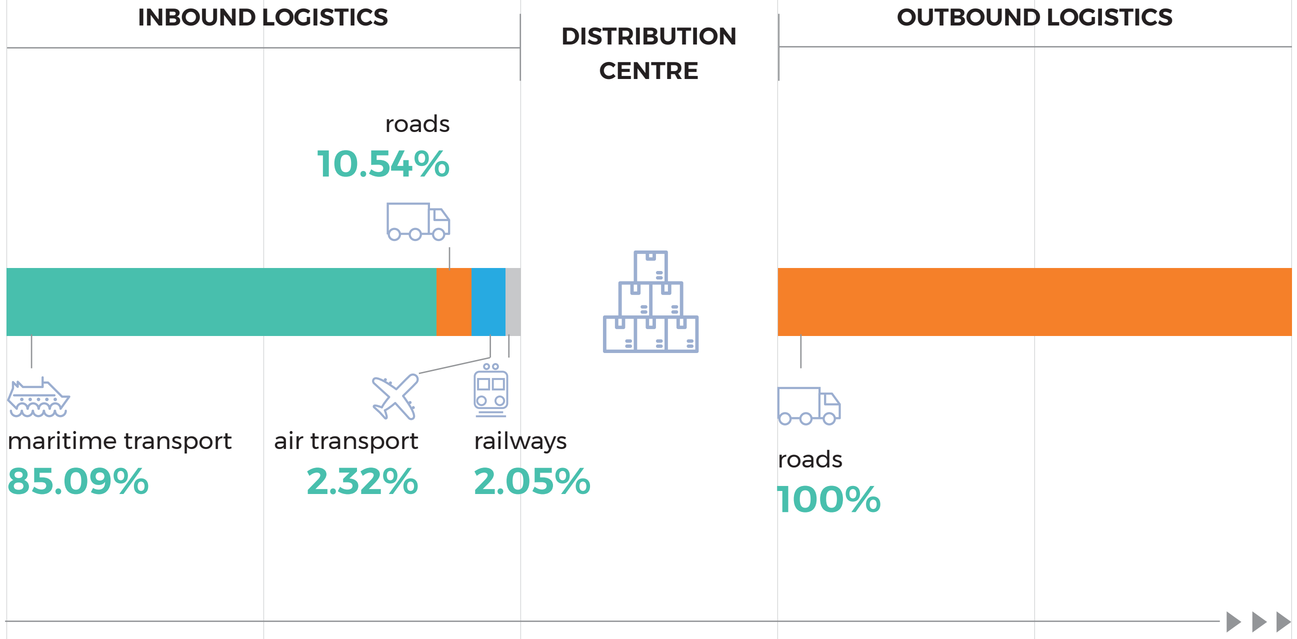


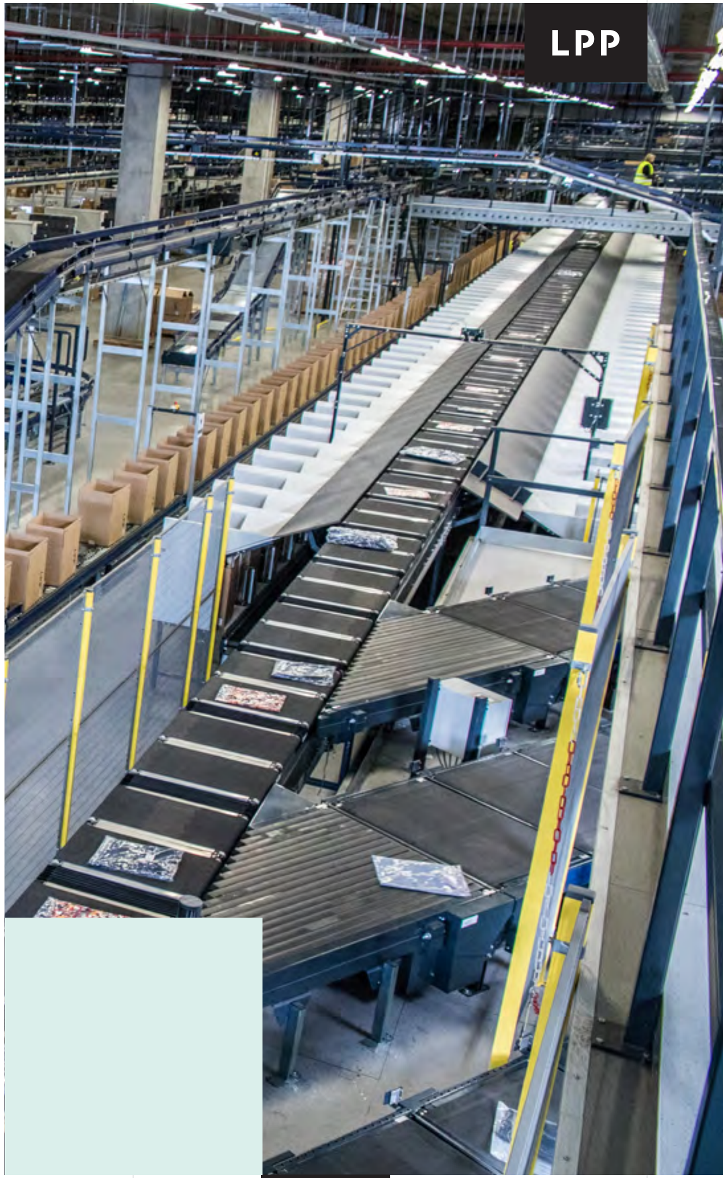
Distribution Centre (DC)

Fulfillment Centers (FC)

DC + FC

SHARE OF DIFFERENT MODES OF TRANSPORTATION IN 2019/20
(by the number of items shipped)





6.4. SELLING

STORES

We invest in modern stores, inviting customers to enter them.

INTERNET

We invest in modern logistics, increasing the pace of obtaining purchases and in IT, increasing on-line purchases comfort.

OMNICHANNEL

We believe that the future belongs to omnichannel and stores support on-line sales.

WE FOCUS ON FLAGSHIPS

Reserved in Moscow, Russia

Reserved in Munich, Germany

Reserved in Belgrade, Serbia

Reserved in Helsinki, Finland

Reserved in London, UK

Reserved in Warsaw, Poland

RESERVED IN FASHION CITIES

LPP's stores
Cities where we take inspiration from

Tel Aviv, Israel

Munich, Germany


London, UK

Moscow, Russia


RESERVED
399
RESERVED
1299

6.5. ADVERTISING

We aim to attract as many customers as possible, as traffic and brand recognition are the key to our success and growth in value. Growing conversion rates and average ticket sales are what we strive for at all our brands in traditional stores but also in e-commerce.

Due to diversity of our brands, people in all ages are our customers and target customers. As a result, we use various types of advertising to communicate with our customers:

Internet and social media
we want to be present on the most important fashion blogs. All our brands have dedicated profiles on Facebook,YouTube and Instagram.

Star collections
designed by international or local celebrities. In 2019/20 Reserved collections were advertised by Kendall Jenner (top model and global influencer).

Sponsorship
brands take part in projects that could increase their recognition (eg. fashion fairs, artistic projects, Cropp Baltic Games).

Fashion influencers
we promote our clothes by co-operating with fashion influencers who show our collections on their social media.

We also monitor what the customers purchase in both the traditional and on-line stores. A detailed sales analysis conducted by types of clothes, cities, countries, sizes and colours is a useful tool in determining the shapes of future collections.

LPP'S SELECTED FASHION CAMPAIGNS

SS08

Star collection with
Paprocki&Brzozowski

AW08/09

Star collection with
Gosia Baczyńska

AW10/11

Anna Jagodzińska

Karmen Pedaru

SS11/ AW11/12

Magdalena Frąckowiak

Sasha Pivovarowa

SS12 / AW12/13

Anna Vialicyna

Julia Stegner

SS13 / AW13/14

Cara Delevingne

Freja Beha Erichsen

SS14

Frida Gustavsson

AW14/15

Georgia May Jagger

Anja Rubik

SS15

Georgia May Jagger
star collection

Elizabeth Jagger

Jerry Hall

Brooklyn Beckham

AW15/16

Georgia May Jagger

Zuzanna Bijoch

SS16 / AW16/17

Anna Jagodzińska

Magdalena Frąckowiak

AW17/18

Kate Moss

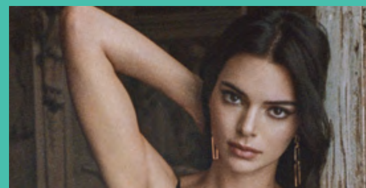
Irina Shayk

SS18/ AW18/19

Cindy Crawford

Joanna Kulig

AW19/20



Kendall Jenner

7. BUSINESS MODEL

Below we present an in-depth description of our business model and details on how our financial results are generated. Please note that two important changes took place in the way we present our financials. The first one encompassed a change in our fiscal year which moved away from calendar year. 2019/20 was the only 13-month-long year in our history. We thus present unaudited 2018/19 numbers for comparison purpouses. The second change encompassed introduction of IFRS16 from 1 January 2019, which replaced IAS17. As a result, some of our operating leases were reclasified into finance leases.

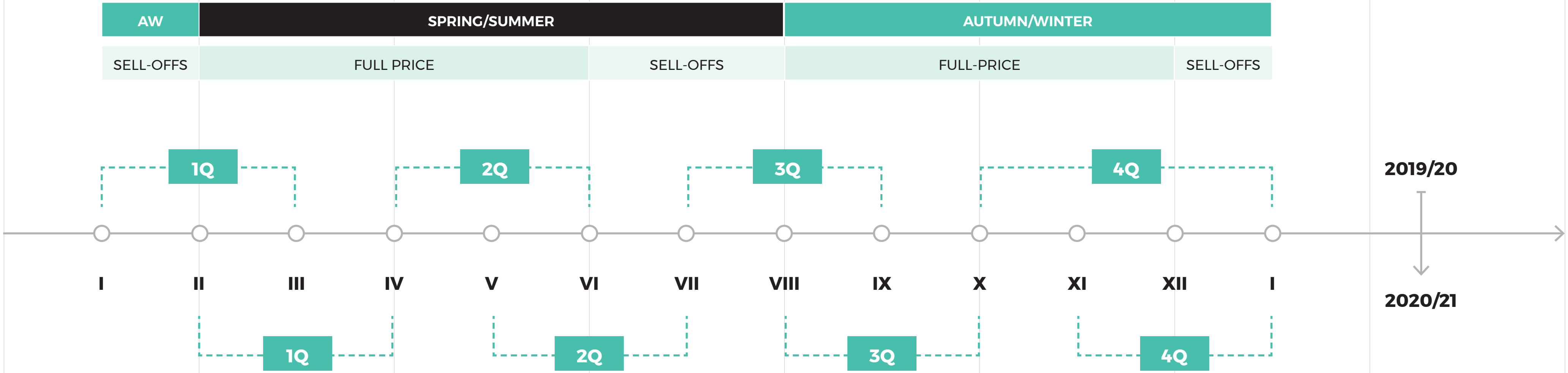
Fiscal year 2019/20 was the only 13-month-long year.

It encompassed the period from the beginning of January 2019 till the end of January 2020.

The YoY dynamics are given in relation to unaudited data for a comparable 13-month-long period, marked as 2018/19.

The next fiscal years will be 12-month-long.

CHANGE IN THE FISCAL YEAR FROM 2019



The aim behind the fiscal year change is to align the fiscal year with fashion seasons (collection assessment, lower seasonality).

The fiscal year in 2019 was 13-month-long and 4Q19 was 4-month-long. These were marked as 2019/20 and 4Q19/20.

The first 12-month financial year after the fiscal year change started February 1, 2020.

7.1. REVENUES

The revenues we generate are made up of two parts: the retail and the wholesale one. The retail portion is generated in our stores and e-stores. The wholesale part is made up of sales to franchisees and sale of promotional clothing. The retail part of our revenues continues to grow strongly not only due to tradional stores but also e-commerce development. Below we present the retail line split into: store revenues and e-commerce.

7.1.1. STORE REVENUES

Store revenues encompass revenues of our five brands: Reserved, Cropp, House, Mohito and Sinsay. The scale of store revenues depends on: (1) the scale of the retail network and (2) average sales per m² recorded.

Network size. The network size is a derivate of number of stores and their average floorspace. For forecasting purposes the scale of the network is better to be looked at from the perspective of square meters of floorspace than number of stores, as the square meters decide on the level of selected costs of stores. The network size is generated by multiplying the number of stores by average store size. We look at our floorspace through the perspective of brands possessed, as these differ in terms of store size. Even though the networks of Reserved, Cropp and House have a similar number of stores, the floorspace of Reserved dominates in terms of square meters. Over the past years, the average store size has been expanding, accommodating for growing number of items within collections. We believe such a situation is going to continue, as we need larger stores to accomodate for more elaborate collections and to support omnichannel implementation (larger stores have more room to accomodate goods which can be shipped directly from them to e-commerce customers).

The development targets of brands are set at the country level. Such an approach allows to judge further expansion potential. It is our intention to be in the best shopping malls and the most important high streets. Naturally, the lower the number of stores and the higher the affluence of customers, the more abundant the growth

GROUP REVENUES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Revenues (PLN m)	2,079	2,493	3,224	4,116	4,769	5,130	6,019	7,029	8,047	8,756	9,899
YoY growth	4%	20%	29%	28%	16%	8%	17%	17%	14%	-	13%
Revenues/m² monthly (PLN)	572	610	675	664	589	536	575	628	662	657	671
YoY growth	-15%	7%	11%	-2%	-11%	-9%	7%	9%	5%	-	2%
Store revenues	1,933	2,364	3,054	3,921	4,560	4,937	5,703	6,571	7,235	7,776	8,569
YoY growth	5%	22%	29%	28%	16%	8%	16%	15%	10%	-	10%
E-commerce	4	4	6	27	65	79	173	361	712	802	1,174
YoY growth	-	16%	46%	343%	143%	22%	118%	108%	97%	-	46%
Wholesale revenues	143	125	164	169	145	114	143	97	100	178	156
YoY growth	-10%	-15%	31%	3%	-14%	-22%	26%	-32%	2%	-	-12%

perspectives are within selected towns, cities and countries. We do not set ourselves saturation targets, however see more expansion opportunities on the new markets entered. We concentrate on store quality not quantity.

Sales per sqm. Sales per square meter are best calculated on average floorspace and looked at on an average monthly basis. This indicator shows the average performance of all LPP's stores opened in the reporting period, both the mature and the new ones. Typically, it takes a new store up to 36 months to mature and start generating target turnover levels of a mature store. Due to stronger brand awareness maturity is easier to reach domestically than abroad. In times of fast floorspace expansion, the sales per sqm ratio may be falling. Then, the performance of the network is judged by LFLs (like-for-like, same store sales).

LFLs are the key indicator of our traditional store business' success. We measure these at stores that have been the same as a year before (i.e. have not changed their floorspace, have not undergone upgrades) and have been in operation for the past 12 months (without a break longer than 7 days). Calculations are conducted in local currencies, i.e. without taking into account changes in currencies in countries in which LPP's stores are run. LFLs are dependent on many factors, both internal and external ones. Internal factors include: the quality of collections and the degree to which these suit the customers' tastes, the pricing policy and price to quality ratio but also the proximity of other stores in the neighbourhood (cannibalization) and the amount of customers switching to internet purchases. External factors include traffic to shopping centres and stores, average ticket sales, number of pieces purchased by customers.

We actively work on LFLs levels. The actions that we undertake include: (1) increasing the number of types of items within collections, (2) working to have the must-haves in the stores, (3) constantly upgrading the quality of floorspace (new store concepts), (4) investing in advertising and (5) conducting well-thought promotions.

7.1.2 E-COMMERCE

The fastest growing part of our operations is the e-commerce business. This is related to: (1) the number of brands in e-commerce, (2) the number of countries where we offer internet purchases, (3) the quality of our e-stores and as well as mobile applications and (4) time of delivery. We are in the process of introducing omnichannel which should support both our store and on-line operations.

7.1.3. WHOLESALE

Our revenues not only comprise of retail but also from wholesale. The two most important sources of wholesale revenues are: (1) franchise revenues – sales to our Middle East franchisee, sales of Russian and Ukrainian subsidiaries to wholesale operators; from 2017 this number also encompasses sales to Belarus (only until end of 2019/20, we are changing franchise stores to own ones) and from 2018 Israel and (2) Promostars – offer for business customers with promotional clothes (includes T-shirts, sweaters, trousers, jackets, hats etc). The latter has been separated to a different entity, as its operations substantially differed from other our businesses.

GROUP LFLs

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
LFLs	-9.5%	15.7%	11.3%	5.6%	-2.5%	0.6%	6.4%	10.1%	7.2%	7.8%	3.6%

Successful collection recovery

7.2. GROSS PROFIT MARGIN

Gross profit is the amount of money that remains in the company after taking into account the costs of goods sold. These include production costs, customs duties and shipping the goods to our distribution centres. Also, since 2017 the line includes inventory write-offs.

The largest cost is the cost of suppliers. We do not own factories and thus look for the most attractive sources of clothes and accessories among third parties. Such an approach gives us flexibility to react to changing macroeconomic conditions and lowers cash outlflows (no construction capex needed). China has been our most important supplier since the company's inception. However, we have not produced in the same place over the years. Our office in Shanghai, supervising the production, is constantly on the lookout for new suppliers or better offers, taking the growing production quantities into account. Although China is our most important sourcing partner, we also produce in other Far East countries. The key reason is growing prices in China and its orientation on more sophisticated and value added production (e.g. we do not source simple T-shirts from China). Other countries that we produce in are: Bangladesh, Cambodia, Myanmar, Pakistan, India. Overall, the Far East constituted c.90% of our supplies. The rest is almost entirely split between Turkey and Poland.

2019/20 CUSTOMS DUTIES BY COUNTRIES

Bangladesh	0%	Myanmar	0%
Cambodia	0%	Pakistan	0%
China	12%	Thailand	12%
India	9.6%	Vietnam	9.6%
Indonesia	9.6%	Turkey	0%

The production countries are important as some of them bear exports duties on textiles, aimed at protecting the EU markets. The customs duty reaches 12% from China and almost 10% from Vietnam, India and Indonesia. There are none relating to Bangladesh. Details can be found in the table below. Once manufactured, goods are transported to our distribution centres. Please note that customs duties are also important while selling goods abroad, e.g. to Russia and Ukraine.

The geographical divergence exposes us not only to customs duties but also to FX risks. The purchases from the Far East are denominated in US$ mostly, while our revenues are linked to zloty and euro in majority. We do not hedge the purchases and try to include any changes in PLN/US$ in prices for the end customers. Appreciation of zloty to US$ is thus favourable for us and we can split the benefit with our customers. However, depreciation of zloty versus US$ increases our costs of purchase and we try to at least partially transfer this additional cost onto the end customer. Due to the lead time from the Far East, the PLN/US$ exchange rate lagged by two quarters is a good proxy of our gross profit margin trends. That is because prices of goods sourced in the Far East are set up while ordering them based on our FX rates forecasts. Price tags are printed in the Far East. Thus, changing price tags requires manual re-labelling of all the goods affected. That is conducted only in rare cases of strong currency movements in our distribution centre.

The gross profit margin is affected not only by the US$/ PLN relationship, but also by competitive pressure (the decisions of competitors), the affluence of customers and their propensity to consume as well as by the collections (whether or not they meet the needs of the customers).

The gross profit margin varies between quarters. We used to have high margins in the second and the fourth quarter when we sell our collections in full prices. That is now likely to change with the shifted fiscal year. In 2H16 we introduced a new inventory management policy. As a result, we tend to minimise the number and scale of sell-offs after the arrival of new collections, but tend to maximise the amount of goods sold during the sell-off months. Post-season inventory is sold to third parties and does not return to our stores. In December 2016 we sold off obsolete inventory to improve our cash flows and lower inventory levels. Without this transaction, 2016 gross profit margin would come in at 50.8%. In 2017 our gross profit margin increased to 53.0% along with successful Reserved brand restructuring, while in 2018 it reached the level of 54.7%. In 2019/20 gross profit margin came in at 52.0%, down 0.9 pp. YoY. Decrease in gross margin despite good acceptance of the SS19 and AW19 collections, was due to negative impact of weather in May and December 2019, high US$ as well as a higher Sinsay share in revenues (gross margin lower than at other brands).

Also, it should be noted that since 2017 annual numbers we have changed the way we recognise inventory write-offs in our financial statements. Historically, these were booked in other operating line. However, since 2017 annual numbers we have shifted these into the gross profit margin, alining our reporting with the international retail giants.

For analytical purposes, apart from percentage margin, the gross profit should also be looked at in nominal per square meter level. This ratio is superior to sales per square meter as it takes also the pricing and discount policy into account.

GROSS PROFIT MARGIN

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Gross profit (PLN m)	1,133	1,424	1,827	2,409	2,793	2,743	2,934	3,727	4,401	4,628	5,146
YoY growth	7.1%	25.6%	28.3%	31.9%	15.9%	-1.8%	7.0%	27.0%	18.1%	-	11.2%
Gross profit/ m^2 monthly (PLN)	312	367	403	405	356	293	280	333	358	347	349
YoY growth	-12%	18%	10%	0%	-12%	-18%	-4%	19%	8%	-	0%
Gross profit margin	54.5%	57.1%	56.7%	58.5%	58.6%	53.5%	48.7%	53.0%	54.7%	52.9%	52.0%
USD/PLN average rate	3.02	3.23	3.26	3.16	3.15	3.77	3.94	3.78	3.61	3.62	3.84

IFRS 16 APPLICATION FROM 2019

IFRS16 Leases had a sizeable impact on our financial statements since 2019. The standard replaces IAS17 and indicates that all leases should be treated as finance leases versus the so-far division of leases into operating and finance ones. As a result, a new right-of-use asset was created on the balance sheet which will be amortised during the course of the lease (equivalent to the weighted average length of rental agreement). Also, a corresponding liability was created, which will be recognised under amortised cost.

BALANCE SHEET	INCOME STATEMENT	CASH FLOW STATEMENT
• Assets higher by some PLN 3 bn. • Liabilities higher by some PLN 3 bn. • Only basic rental agreements within the scope of IFRS16 (no additional charges, no floating rates).	• Some half of rental expenses was recognised under IFRS16. • PLN 0.6bn depreciation pick-up, equal to the amount of rentals excluded from EBIT. • C. PLN 0.1bn of additional annual interest on new liability.	• Operating cash flow: growth due to higher depreciation charge. • Financing cash flow: higher costs, lease payments.
+ ASSETS / +LIABILITIES	**++ EBITDA /+EBIT**	**+ OPERATING CASH FLOWS**

IFRS 16 IMPACT SUMMARY ON 2019/20 NUMBERS

EBITDA 2019/20

PLN 655.8m
of additional amortisation of right of use asset.

EBIT 2019/20

62% of rentals under IFRS16 (PLN 655m). These are replaced with amortisation of right of use asset.

NET INCOME 2019/20

Financial costs related to the asset (-PLN 119.9m) and FX gains (+PLN 24.1m).

7.3. SG&A COSTS

Apart from COGS our costs also comprise of SG&A costs (selling and general administration costs). However, we believe that our business model is easier to understand if we split the operating costs into costs of stores and costs of headquarters. For managerial purposes we look at costs at the per sqm basis and suggest a similar approach while analysing and forecasting our results. We are constantly working on improving the SG&A/m^2 ratio on a monthly basis. These have reached PLN 300 in 2012 while PLN 289 in 2019/20, despite inflation and growing salaries. Costs of stores dominate over costs of headquarters. Costs of stores took up 70% in 2019/20 SG&A costs, leaving 30% for HQ.

One of the characteristics of our business is a high operating leverage. 27% of our SG&A costs are variable while as much as 73% are fixed (IAS17), i.e. this portion of operating costs does not change along with changes in revenues. The high operating leverage is favourable for us in moments of positive LFLs and growing sales, as the positive effect on EBIT is more than proportional. However, in times of slowdown and falling LFLs the operating leverage is working against us, requiring cost reductions to maintain EBIT levels.

Costs of stores (under IAS17) comprise of two elements: costs of own stores and costs of franchise stores. Costs of franchise stores are constituted by the proportion of turnover that is paid by us to franchisees to cover for their costs. Costs of own stores are best looked at per sqm per month basis. The costs of own stores can be divided into three parts: rental costs, HR costs and other costs of own stores.

Rental costs (44% of 2019/20 costs of own stores) are typically denominated in EUR (67%), however other currencies also appear: 6% US$ (mostly in CIS), overall 27%: RUB, PLN and CZK. The rental formulas tend to be complex and include a fixed and a floating element. The contracts we sign tend to have a fixed floor value which is paid until a certain level of store revenue is reached. Once the stipulated threshold is crossed, a certain percentage of turnover is paid to the landlord. As a result, we share to a larger extent with our landlord in times of economic prosperity, yet we have to cope with fixed cost in times of slowdown. We continuously work on more favourable rental levels, both domestically and abroad. This became especially important to us during the COVID-19 pandemia.

SG&A COSTS

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20
SG&A costs (PLN m)	928	1,070	1,361	1,759	2,148	2,192	2,609	3,100	3,532	3,822	4,213
YoY growth	8%	15%	27%	29%	22%	2%	19%	19%	14%	-	10.2%
SG&A/m^2 monthly (PLN)	255	276	300	296	274	234	237	280	291	287	289
YoY growth	-12%	8%	9%	-1%	-8%	-14%	1%	11%	4%	-	1%
% of sales	45%	43%	42%	43%	45%	43%	43%	44%	44%	44%	43%
Costs of stores (PLN m)	745	833	1,075	1,423	1,731	1,780	2,080	2,377	2,555	2,751	2,959
YoY growth	15%	12%	29%	32%	22%	2%	17%	14%	7%	-	8%
Costs of headquarters (PLN m)	183	237	286	336	417	411	528	723	977	1,071	1,254
YoY growth	-13%	27%	21%	17%	24%	2%	28%	37%	35%	-	17%

HR costs (27% in 2019/20 costs of own stores) are costs of employees working in our stores, both domestically and abroad. We try to optimize the number of employees per store. Although this differs from brand to brand (large Reserved stores versus medium size of other brands) on average there are 12 people per store. Their remuneration consists of a fixed and a variable portion, with the fixed portion being usually the minimum wage while the variable portion depending on the revenues of the store. We often recruit students to our stores for whom this is the first job.

Other costs of stores (29% in 2019/20) include many items like costs of media and electricity, security of the stores, payment card commission, depreciation (the largest part - half of the whole amount). Capex for the stores is depreciated over a 7-year period.

Costs of headquarters are all other costs not related directly to costs of stores. These include the costs of the management, accounting department, marketing, designing clothes and supervision over their production as well as e-commerce and logistics, i.e. the cost of shipping the goods from the distribution centres to stores.

Please note that the group's approach to HR has changed over the years. While showing the number of group employees, we take into account: 1) employees of the Gdańsk headquarters, Pruszcz Gdański Distribution Centre and Cracow and Warsaw offices, 2) employees of our foreign subsidiaries (foreign offices including Shanghai and foreign stores personnel) and 3) the personnel of Polish stores. Until the end of 2016, the personnel of Polish stores was not treated as our employees in financial statements, as these people were not directly employed by us. Within the group's operating cost structure, costs of employees could be found under HR costs line, while costs of personnel in Polish stores constituted part of third party services. This changed in 2017 - from this year, store personnel are our employees and their cost is treated as personnel cost. 2018 has been an exceptional year in terms of number of employees, as this has fallen in nominal terms. There are two key reasons: (1) transfer of part of responsibilities of employees to third party companies in search of efficiency, and (2) partial ban on trade on Sundays in Poland which allowed us to alter the working schedules. It remained relatively stable YoY in 2019/20, as we optimised our store network.

Group's HR costs also include the costs of stock option programs for the management. These are based on shares and aim to align the goals of shareholders (growth in value) with the goals of the management. There have been several of these since LPP's inception.

EMPLOYEES DATA

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
No. of group employees	7,880	9,277	12,014	15,854	19,970	21,563	25,106	25,635	25,174	24,588	24,447
Employees in Poland	5,847	6,762	8,198	10,515	12,767	13,894	16,239	14,736	14,294	13,827	14,061
office & warehouse	1,353	1,380	1,370	1,651	2,039	2,200	2,708	3,320	3,347	3,414	3,776
stores	4,494	5,382	6,828	8,864	10,728	11,694	13,531	11,416	10,947	10,413	10,285
Employees abroad	2,034	2,515	3,816	5,339	7,203	7,669	8,867	10,899	10,880	10,761	10,386
office	241	266	331	383	455	454	486	539	501	550	625
stores	1,793	2,249	3,485	4,956	6,748	7,215	8,381	10,360	10,379	10,211	9,761

7.4. EBIT

EBIT is generated by the difference between gross profit per sqm and SG&A costs per sqm. Thus, maximization of this amount is our key focus. We do it bothways: 1) aiming to maximize gross profit per sqm and 2) minimizing costs per sqm.

However, the operating profit also needs to be adjusted for the other operating line, which has been and is going to remain a negative contributor. The key reason behind the negative result are the inventory losses (thefts and damages of goods in the stores). Until 2017 annual numbers, the other operating line included write-offs for unsold inventory, yet these have been moved to the gross profit line.

EBIT

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20
EBIT (PLN m)	199	343	454	616	609	503	226	578	757	688	806
YoY growth	10%	72%	32%	35%	-1%	-17%	-55%	155%	31%	-	17%
EBIT margin	10%	14%	14%	15%	13%	10%	4%	8%	9%	8%	8%

7.5. NET FINANCIALS LINE

There are two key elements influencing the net financials line, interest paid on debt, interest obtained on cash held and foreign exchange differences. Since 2019 the line also includes IFRS16 lease interest payments.

7.5.1. INTEREST PAYMENTS

The interest payments are a consequence of the level of debt and net interest payments depend on the scale of net debt. Over the past years we have used different sources of funding, including bank loans as well as convertible bonds. Currently, bank loans are used yet to a lower extent, while at the end of 2019/20 we issued PLN 300m worth corporate bonds. The level of short-term debt, used to finance ongoing operations, is lower than the long-term indebtedness which largely consists of loans taken to finance distribution centre and headquarters expansion. Financial costs line also includes provisions and fees for the banks as well as finance lease charges from January, 1 2019 along with IFRS16 application.

7.5.2. FX DIFFERENCES

We calculate FX differences at each balance sheet date, i.e. their level changes every quarter.

There are two areas of FX differences in our net financial line: (1) FX differences resulting from balance sheet items (mostly liabilities which constitute payments for goods ordered) and (2) receivables from subsidiaries to be paid to the parent company (a way of financing foreign subsidiaries). Historically, we did not hedge, yet we changed our approach from 2H17.

Over the past years we have taken steps to reduce this exposure. Firstly, in 2Q14 we converted the Russian rubble denominated receivables into the equity of our subsidiary. The aim was to lower the scale of volatility the depreciation of Russian rubble would have on the group's earnings in the following years. The aim has been achieved. However, we point out that historically when we faced negative equity at selected foreign subsidiaries (e.g. Hungary, Romania, Czech Republic) receivables from them had been converted into equity.

Secondly, we decided to lower the scale of receivables along with our foreign subsidiaries growing in scale and strength. Thirdly, since 2H17 we introduced hedging of invoices from our suppliers. This should also lower the variability of the net financials line. We hedge the invoice value the moment it is sent to us by our supplier. We use delivery forwards. As the transactions do not constitute hedge accounting, the impact is visible in the net financials line only.

The situation changed in 2019/20 along with introduction of IFRS16. As the majority of our rental agreements and thus liabilities are in foreign currencies, we have a sizeable FX exposure due to translation risk. This sizeable liability is recalculated to PLN at each balance sheet date resulting in a large scale of FX gains or losses.

NET FINANCIALS

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20
Net financials (PLN m)	-18	-12	-30	-92	-149	-88	-32	-15	-33	-31	-140
Financial income	11	14	2	2	3	2	1	5	8	9	11
Financial costs	29	26	32	94	152	90	34	20	41	-41	-151

7.6. TAXES

Taxes in the income statement consist of current and deferred taxation. Current taxation is the amount of income taxes payable for the period. It consists of sum of taxes paid by all the subsidiaries of LPP group. It is important to note that the tax bases are not cumulated and tax is paid in each of the countries present. Thus, a loss in one country does not offset income earned in another country.

Deferred taxation is an accounting adjustment aimed to match the tax effect of transactions to the relevant accounting period. Thus, deferred taxes line estimates future tax consequences of transactions and events recognised in the financial statements of current and previous periods. We have both permanent and temporary differences between the accounting and tax treatment. Permanent differences result from some types of the costs not being allowed by tax office (eg. entertainment, penalties and fines) and temporary ones (different methods of depreciation of assets for the purpose of financial statements and tax accounting). Deferred taxion relates to the latter.

However, it should be noted that there are differences between the tax in financial statements and tax paid (visible in cash flow) is the simplified method of taxes paid, chosen by us in 2005. The normal tax advances method requires calculation of advances based on monthly earnings. The simplified method allows to pay monthly advances based on T-2 audited earnings and an equal monthly instalment is paid each month. The difference is then corrected in March next year and paid to the tax office.

2019/20 TAX RATES BY COUNTRIES

Poland	19%	Estonia	0%	Germany	30.5%
Czech Rep.	19%	Russia	20%	UK	15%
Slovakia	21%	Serbia	15%	Slovenia	15%
Hungary	9%	Ukraine	18%	Kazakhstan	20%
Croatia	18%	Bulgaria	10%	Finland	20%
Lithuania	15%	Romania	16%	B&H	10%
Latvia	0%	Cyprus	2,5%	Belarus	18%

*20% CIT if profit is distributed.

TAXES

PLN m	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20
Taxes	43	62	70	91	-22	63	19	123	219	214	244
Current taxation	40	64	72	97	95	56	27	135	231	235	212
Deferred taxation	4	-3	-2	-6	-117	7	-7	-12	-12	-21	32
Effective tax rate	24%	19%	17%	17%	-5%	15%	10%	22%	30%	33%	37%

7.7. NET PROFIT

The level of net profit is a derivative of all the actions described above. On top, historically we recorded a small level of minorities which had to be taken out from the group net income. This resulted from the parent company not having a 100% stake in some small subsidiaries. Between 2012 and 2014 the level of minorities shown was related to our subsidiary in United Arab Emirates. There were no minorities in 2015 and 2016. A small amount appeared in 2017 yet not in 2018.

NET INCOME

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20
Net income (PLN m)	137	269	352	431	480	351	175	441	505	442	421
YoY growth	31%	96%	31%	22%	11%	-27%	-50%	152%	15%	-	-5%
Net margin	7%	11%	11%	10%	10%	7%	3%	6%	6%	5%	4%

7.8. CASH CYCLE

The net working capital and the cash conversion cycle are important cash flow elements that show the performance and characteristics of our business model.

Net working capital is defined as trade receivables plus inventories minus trade liabilities. Once these are translated into days, the formula defines a cash conversion cycle. Please note that in calculations we use a 365 day year and average values of inventory, receivables and liabilities. Due to a long lead time of production in the Far East, the net working capital used to take away from our operating cash flows. This was because we sold the inventory slower than we paid our liabilities. This has now been changed as for the last two years we have been using supply chain financing.

Trade receivables include receivables from our clients. As a vast majority of our clients are retail customers, the related receivables turnover is very short, ranging up to 2 days maximum if credit card not cash is used as a payment mode. However, the trade receivables line also includes receivables related to the wholesale business. These are responsible for the receivables days ratio ranging below 10 days. As we do not use pre-payments while ordering goods from the Far East, these do not affect the trade receivables line.

Inventory consists of three elements: (1) goods in transit – from factories to the final port (FOB, i.e. Free on Board, method used), (2) goods in the warehouse, (3) goods in stores. The nominal level of inventory has been growing and may continue to do so. This results from ongoing network expansion – each new store increases the demand for working capital as more goods need to be ordered. Thus, it is more practical to look at inventory from a per square meter perspective. For analysis we use end-of-period group floorspace with exception of the ME and Belarus franchise stores (Belarus until the end of 2019/20). This ratio has been relatively stable in the past though appreciating US$ versus zloty puts a pressure on working capital and increases the value of inventory held and inventory ratios. Over the past years inventory days have oscillated around 150 days. That is however now also changing as fast growing internet operations are blurring the per sqm picture.

The level of liabilities depends on Far East purchases. Some 12% of settlements with suppliers is conducted in the form of a letter of credit. We also use other payment modes like like bank transfers, yet we have resigned from documentary collection. Goods are ordered 3-4 months in advance of their shipment and the latter takes up to 30-40 days to Poland. Our liabilities cycle grew from below 100 days to over some 140 days.

Please also note that the cash cycle ratio underwent changes between 2016-18. At the end of 2016 we disposed off obsolete inventory which improved the inventory days. We have also started implementing the supplier financing programme which expanded in 2017 and continued till the end of 2019/20. We have expanded our trade liabilities period by using supply chain financing and offering our suppliers the possibility to discount their invoices at the banking platform with the use of LPP's discount rate. We have reached our aim to finance inventory with trade liabilities.

CASH CYCLE

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20
Net working capital (PLN m)	207	331	309	421	538	713	448	350	155	-27	-36
Receivables	96	114	130	163	177	115	165	200	122	104	144
Inventory	424	595	656	805	979	1,320	1,164	1,473	1,590	1,210	1,921
Liabilities	313	378	478	548	619	721	881	1,323	1,557	1,341	2,101

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Cash cycle (days)	56	72	66	60	70	84	61	33	16	11	-4
Receivables (days)	15	15	14	13	13	10	9	9	7	7	5
Inventory (days)	144	174	163	156	165	176	147	145	153	129	130
Liabilities (days)	104	118	112	110	108	102	95	122	144	125	139

Note: In calculations we use a 365 day year and average values of inventory, trade receivables and liabilities.

7.9. CAPEX

SPLIT OF CAPEX

Apart from net working capital, capex is our most important cash outflow. Capital expenditure incurred can be divided into three areas:

Capex on stores: Outlays include costs of setting up new stores in shopping malls and high streets as well as costs of refurbishing and upgrades. The majority of outlays is conducted for new stores. Maintenance capex (understood as rebuilts and extentions) constitutes c.10% of all store capex spending. Our capex spending is reduced by fit-outs from shopping mall developers. Our target capex is now close to PLN 3,000/m^2 and may go up in the future if we decide for more openings in Western Europe. It should also be noted that capex per sqm meter is calculated not on net additions (difference in end-of-period values) but on gross floorspace additions (not made public). In 2019/20 we incurred higher than historical level of store capex. This was not only related to larger network but also a sizeable portion of our store rental agreements expiring. We have decided to thoroughly renew these stores that are to remain.

Capex on logistics: Historically, this capex line was oriented on the Pruszcz Gdański Distribution Dentre. There were two waves of the outlays. The first when the new Distribution Centre was built. The second one, when the distribution centre was expanded (finished in 2Q15). Construction cost PLN 120m, while expansion PLN 177m. The DC was also expanded in 2019/20. The current distribution centre together with rented warehouses should be sufficient until 2022. We have decided to locate the next distribution centre in Brześć Kujawski. The centre is already being built.

Other capex: The latter includes, among others, spending for refurbishing of headquarters and IT. E-commerce outlays are an increasingly important contributor to this line.

FIT-OUTS

Fits-outs are a form of compensation for investment in stores given to us by shopping mall operators and developers. In general these constitute a reduction of capex and should be looked at combined with the capex levels shown as outflow in the investing cash flow.

The treatment of fit-outs has changed over the years. Since 2019 recognition of fit-outs in the financial statements depends on whether rental expenses related to them are recognised under IFRS16 or not. If the rental agreement is recognised along with IFRS16, then the fit-out value lowers the right-of-use asset, which is then amortised in the lower value. If the rental agreement is not under IFRS16, then the whole value of fit-out lowers rental expenses in SG&A costs proportionally to the length of the agreement.

Still, a portion of fit-outs is booked as a cash inflow in the investing cash flow and comes back to us in cash. Historically the treatment of fit-outs was different. Until the end of 2014 this gain constituted part of other operating income. From 2015 the accounting treatment changed, and the gain was depreciated over the useful life of the store (7 years) and treated as a reduction in rentals. Another change took place in 2018 with the whole value of fit-out reducing the level of rentals, proportionally to the lenght of the agreement.

HEADQUARTERS

Our headquarters have not changed since the company's inception. These are located in Gdańsk at Łąkowa street. On top, we rent some additional floorspace in Gdańsk to accommodate all personnel. In Poland, we also have offices in Pruszcz Gdański, Cracow and Warsaw.

Our Gdańsk headquarters have been expanded and revitalised. The project was initiated mid-2013 while finalised in September 2015. The refurbished space includes a restaurant for employees as well as showers and changing rooms for those commuting by bicycles.

The current floorspace is not enough and works are underway to conduct further expansion of our offices. Nearby land plots have been purchased. Contrary to current modernised offices, the new buildings are to be built from scratch. We have space to build four new buildings. New buildings are under construction.

CAPEX

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20
Capex (PLN m)	101	129	288	542	551	491	272	442	799	932	1,004
Stores	87	109	272	455	386	392	230	376	489	620	729
Logistics	1	8	4	56	100	31	5	5	181	180	133
Other	13	12	13	30	65	67	37	61	129	132	142
YoY growth	6%	28%	123%	88%	2%	-11%	-45%	62%	81%	-	8%
% of sales	5%	5%	9%	13%	12%	10%	5%	6%	10%	11%	10%

INFRASTRUCTURE SPENDING PLAN FOR 2019/20 - 2021/22

PLN m	2020/21	2021/22	2022/23	2020/21-2022/23
Stores	**300**	**600**	**500**	**1,400**
Stores domestically and abroad	300	600	500	1,400
HQs	**30**	**20**	**130**	**180**
New HQs Gdańsk Łąkowa - Building 2	20	20	0	40
New HQs Gdańsk Łąkowa - Building 3	0	0	130	130
New offices in Cracow	10	0	0	10
Logistics	**20**	**430**	**170**	**620**
New DC in Brześć Kujawski	20	430	170	620
IT & Other	**50**	**50**	**50**	**150**
Total	**400**	**1,100**	**850**	**2,350**

VISUALISATION OF THE EXPANDED LPP HEADQUARTERS IN GDAŃSK

7.10. NET DEBT VERSUS DIVIDEND

We use debt in financing our growth in order to: 1) speed-up our development, 2) increase ROE and 3) lower WACC (weighted average cost of capital). Short-term debt is used to finance net working capital charges and store openings. Long-term debt is related to longer tenure projects, mostly financing of distribution centre expansion and refurbishing of the headquarters and financing new store openings. Historically, debt was also used to acquire our competitor Artman. Currently, we use bank debt yet to a lower extent and do not have any corporate bonds outstanding. Our banking exposure is split into several large banks in Poland. Debt is taken at the parent company level (centralisation). Exemption is made for two CIS subsidiaries. Due to cash generation of the business in 2017 we have moved from net debt to net cash and we have doubled the net cash position in 2019/20 versus 2017 levels. We believe the net cash levels should continue. Usage of debt and fast floorspace growth have not stopped us from dividend payments. The first dividend was paid from 2009 earnings in 2010. Dividend per share has grown at a 2010-14 CAGR of 17%, picking up from PLN 50 to PLN 93.6. The external turbulences in 2014-16 have led us to the decision to cut the dividend payment in 2015 (DPS of PLN 32 from 2014 earnings) and in 2016 (DPS of PLN 33 from 2015 earnings). Since then dividends have been on the rise, reaching PLN 60 per share and PLN 110.1m from 2018 earnings, paid out in June 2019. No dividend is planned from 2019/20 earnings due to negative impact of COVID-19.

NET DEBT

IAS17	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Net debt (PLN m)	272	173	27	209	399	621	144	-316	-753	-841	-789
Cash and equivalents	96	117	159	149	184	224	366	515	1,045	1,070	1,361
Long-term debt	278	86	125	184	204	284	195	142	89	84	463
Short-term debt	91	204	61	174	378	561	315	56	203	145	109
Net debt/EBITDA (x)	0.9	0.4	0.0	0.3	0.5	0.9	0.3	-0.4	-0.7	-0.7	-0.6
Dividends (PLN m)	86	135	140	154	170	58	60	66	73	73	110
YoY growth	-	56%	4%	10%	10%	-66%	3%	9%	12%	-	50%

Note: Dividends are shown under the year paid.

7.11. GOODWILL

The goodwill and trademark values recognized on our balance sheet relate to acquisitions of Artman SA (majority) and Slovak franchisee (Koba AS). As purchase of Artman SA in 2008 encompassed taking private a WSE-listed competitor, a controlling premium had to be offered to minority investors to de-list the target. Given the sizeable scale of cost synergies generated from acquisition of two additional brands (House and Mohito), the value allocated to goodwill and trademark has not changed over the years, even though an impairment test had been conducted annually. We do not see risk of write-offs in the foreseeable future. Should we cancel goodwill out, our tangible equity still remains sizably in the black.

GOODWILL

PLN m	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Intangible assets	11	12	18	20	29	37	44	64	90	93	126
Goodwill	184	184	184	184	210	210	210	210	210	210	210
Trademark	78	78	78	78	78	78	78	78	78	78	78
Equity	734	909	1,211	1,496	1,638	1,890	2,135	2,443	2,861	2,816	3,247
Tangible equity	462	637	932	1,215	1,323	1,565	1,804	2,092	2,484	2,436	2,834
Assets	1,426	1,614	1,932	2,492	2,934	3,565	3,678	4,207	5,381	7,906	9,606

Note: Tangible equity is calculated as total consolidated equity minus all intangibles.


LPP
FACT SHEET
2018

8. FINANCIALS

CONSOLIDATED INCOME STATEMENT

PLN m	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20
Revenues	2,079	2,493	3,224	4,116	4,769	5,130	6,019	7,029	8,047	8,756	9,899
COGS	946	1,069	1,397	1,707	1,977	2,388	3,085	3,302	3,645	4,128	4,754
Gross profit	**1,133**	**1,424**	**1,827**	**2,409**	**2,793**	**2,743**	**2,934**	**3,727**	**4,401**	**4,628**	**5,146**
SG&A costs	928	1,070	1,361	1,759	2,148	2,192	2,609	3,100	3,532	3,822	4,213
Other operating line	-6	-10	-12	-34	-35	-48	-99	-42	-113	-118	-127
EBIT	**199**	**343**	**454**	**616**	**609**	**503**	**226**	**578**	**757**	**688**	**806**
Net financials	-18	-12	-30	-92	-149	-88	-32	-15	-33	-31	-140
Taxes	43	62	70	91	-22	63	19	123	219	214	244
Minorities & discontinued operations	0	0	2	2	2	0	0	0	0	0	0
Net income	**137**	**269**	**352**	**431**	**480**	**351**	**175**	**441**	**505**	**442**	**421**
Depreciation	96	95	109	148	194	224	267	293	349	427	1,094
EBITDA	**295**	**439**	**563**	**764**	**803**	**726**	**494**	**872**	**1,106**	**1,115**	**1,899**

CONSOLIDATED INCOME STATEMENT, YOY DYNAMICS

PLN m	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20
Revenues	4%	20%	29%	28%	16%	8%	17%	17%	14%	-	13%
COGS	0%	13%	31%	22%	16%	21%	29%	7%	10%	-	15%
Gross profit	**7%**	**26%**	**28%**	**32%**	**16%**	**-2%**	**7%**	**27%**	**18%**	-	**11%**
SG&A costs	8%	15%	27%	29%	22%	2%	19%	19%	14%	-	10%
Costs of sales	8%	16%	27%	31%	21%	4%	20%	14%	11%	-	8%
EBIT	**10%**	**72%**	**32%**	**35%**	**-1%**	**-17%**	**-55%**	**155%**	**31%**	-	**17%**
Net financials	-57%	-34%	151%	203%	63%	-41%	-63%	-54%	123%	-	347%
Taxes	26%	43%	13%	30%	-124%	-387%	-69%	537%	78%	-	14%
Minorities & discontinued operations	-100%	-	268%	22%	22%	-100%	-	-	-	-	-
Net income	**31%**	**96%**	**31%**	**22%**	**11%**	**-27%**	**-50%**	**152%**	**15%**	-	**-5%**
Depreciation	0%	-1%	14%	36%	31%	15%	20%	10%	19%	-	156%
EBITDA	**6%**	**49%**	**28%**	**36%**	**5%**	**-10%**	**-32%**	**77%**	**27%**	-	**70%**

CONSOLIDATED BALANCE SHEET

PLN m	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20
Non-current assets	**710**	**745**	**910**	**1,232**	**1,516**	**1,797**	**1,839**	**1,920**	**2,418**	**5,280**	**5,871**
Tangible fixed assets	420	448	599	897	1,039	1,259	1,291	1,348	1,818	1,821	2,312
Right-of-use assets	0	0	0	0	0	0	0	0	0	2,894	3,000
Intangible assets	11	12	18	20	29	37	44	64	90	93	126
Goodwill	184	184	184	184	210	210	210	210	210	210	210
Trademark	78	78	78	78	78	78	78	78	78	78	78
Other investments	0	1	1	10	2	2	0	0	0	0	0
Receivables and loans	1	5	9	13	6	6	6	5	8	8	8
Deferred tax assets	16	19	23	30	144	139	144	159	164	173	135
Pre-payments	0	0	0	0	9	67	67	57	51	4	2
Current assets	**716**	**869**	**1,022**	**1,260**	**1,417**	**1,768**	**1,839**	**2,287**	**2,963**	**2,627**	**3,735**
Inventory	424	595	656	805	979	1,320	1,164	1,473	1,590	1,210	1,921
Trade receivables	96	114	130	163	177	115	165	200	122	104	144
Receivables from income tax	1	2	5	17	11	47	75	6	0	1	8
Other receivables	23	31	60	97	46	35	0	0	0	0	0
Loans	0	0	0	12	0	0	2	2	135	170	211
Other financial assets	69	0	0	0	0	0	29	48	38	45	53
Pre-payments	7	10	11	16	20	27	38	44	33	26	37
Cash and cash equivalents	96	117	159	149	184	224	366	515	1,045	1,070	1,361
Total assets	**1,426**	**1,614**	**1,932**	**2,492**	**2,934**	**3,565**	**3,678**	**4,207**	**5,381**	**7,906**	**9,606**

LPP

CONSOLIDATED BALANCE SHEET

PLN m	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20
Equity	**734**	**909**	**1,211**	**1,496**	**1,638**	**1,890**	**2,135**	**2,443**	**2,861**	**2,816**	**3,247**
Share capital	4	4	4	4	4	4	4	4	4	4	4
Treasury shares	-49	-49	-49	-49	-43	-43	-43	-43	-43	-43	-41
Additional paid-in capital	108	150	235	235	235	235	251	278	279	279	285
Other capital	548	562	657	860	1,092	1,324	1,608	1,823	2,252	2,252	2,733
Foreign exchange differences from subsidiaries	-1	-5	-3	-4	-184	-229	-115	-208	-232	-214	-163
Retained earnings	124	244	365	447	532	599	430	590	601	539	430
Profit (loss) from previous years	-13	-25	13	16	52	248	255	149	96	96	9
Net profit (loss) for the current period	137	269	352	431	480	351	175	441	505	442	421
Minority interest	0	3	3	3	3	0	0	0	0	0	0
Long-term liabilities	**281**	**89**	**131**	**192**	**211**	**344**	**267**	**233**	**346**	**2,634**	**3,159**
Bank loans	156	86	125	184	204	284	195	142	89	84	171
Other financial liabilities	122	0	0	0	0	0	0	0	0	0	292
Finance lease (IFRS16)	0	0	0	0	0	0	0	0	0	2,439	2,568
Provisions for employee benefits	1	1	1	3	2	2	3	1	1	1	1
Provision for deferred income tax	2	2	4	5	5	7	4	7	1	0	0
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0	0
Accruals	0	0	0	0	0	51	66	83	256	109	127
Short-term liabilities	**411**	**615**	**590**	**803**	**1,085**	**1,331**	**1,276**	**1,530**	**2,174**	**2,456**	**3,199**
Trade and other liabilities	313	378	478	548	619	721	881	1,323	1,557	1,341	2,101
Income tax liabilities	1	12	19	38	38	3	7	53	234	236	174
Bank loans	87	118	61	174	378	561	315	56	203	145	109
Other financial liabilities	4	86	0	0	0	0	0	0	0	0	0
Finance lease (IFRS16)	0	0	0	0	0	0	0	0	0	566	680
Provisions	3	15	20	25	20	18	38	54	107	132	90
Special funds	0	0	0	0	0	0	0	0	0	36	45
Accruals	4	7	12	19	29	28	34	44	72	0	0
Total liabilities	**1,426**	**1,614**	**1,932**	**2,492**	**2,934**	**3,565**	**3,678**	**4,207**	**5,381**	**7,906**	**9,606**

CONSOLIDATED CASH FLOW STATEMENT

PLN m	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20
Pre-tax profit (loss)	**181**	**331**	**424**	**524**	**460**	**414**	**194**	**564**	**724**	**657**	**665**
Total adjustments	17	-77	57	-15	33	-160	524	330	488	943	1,183
Amortisation and depreciation	96	95	109	148	194	224	267	293	349	427	1,094
Income tax paid	-53	-53	-56	-92	-91	-128	-59	-92	-42	-45	-296
Net working capital	-43	-145	-22	-96	-127	-223	256	101	125	469	269
- Change in inventories	-103	-159	-72	-178	-259	-382	212	-354	-133	330	-315
- Change in receivables	-28	-17	-103	-82	52	7	-36	-39	4	52	-66
- Change in liabilities	88	31	153	165	80	152	80	494	254	87	650
Change in provisions	0	13	5	8	0	-1	16	15	61	78	-22
Other adjustments	15	12	21	17	58	-31	44	12	-4	14	139
Net operating cash flow	**197**	**254**	**481**	**509**	**493**	**254**	**718**	**893**	**1,212**	**1,600**	**1,848**
Investing inflows	62	95	31	49	88	75	91	58	635	639	480
Capex	-101	-129	-288	-542	-551	-491	-272	-442	-799	-932	-1,004
Other investing outflows	-92	-5	-3	-25	-13	0	0	0	-540	-640	-338
Investing cash flow	**-131**	**-40**	**-261**	**-518**	**-476**	**-416**	**-181**	**-384**	**-704**	**-933**	**-861**
Financing inflows	15	6	4	220	283	365	16	26	369	390	949
Interest bearing debt	15	3	4	220	283	365	16	26	369	390	949
Other	0	3	0	0	0	0	0	0	0	0	0
Financing outflows	-183	-200	-182	-220	-265	-164	-410	-386	-348	-497	-1,632
Treasury shares	0	0	0	0	0	0	0	0	0	0	0
Dividends	-86	-135	-140	-154	-170	-58	-60	-66	-73	-73	-110
Interest bearing debt	-75	-46	-23	-52	-79	-87	-329	-309	-261	-349	-664
Interest and finance lease	-22	-19	-20	-14	-17	-19	-22	-17	-14	-75	-858
Financing cash flow	**-168**	**-194**	**-178**	**-1**	**17**	**201**	**-394**	**-360**	**21**	**-106**	**-682**

CONSOLIDATED RATIOS

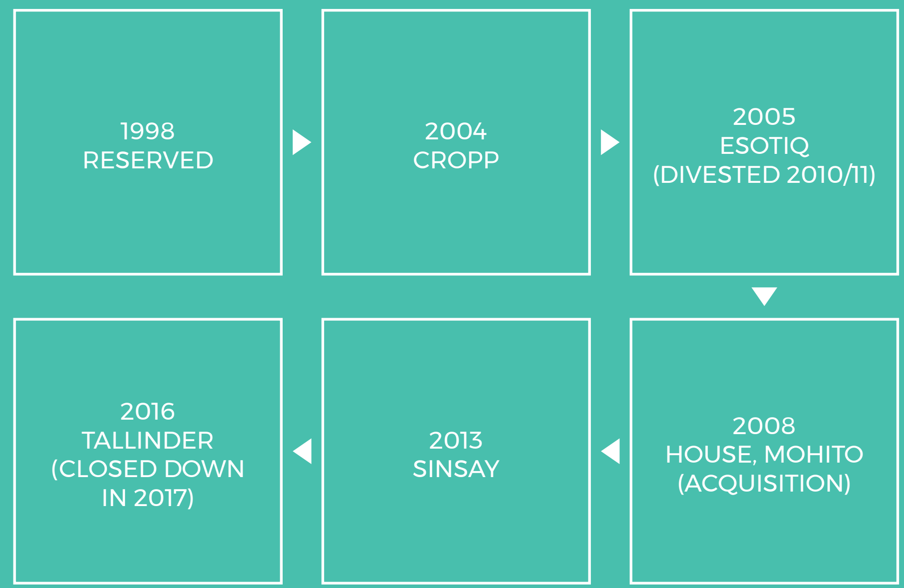
PLN m	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Gross profit margin	54.5%	57.1%	56.7%	58.5%	58.6%	53.5%	48.7%	53.0%	54.7%	52.9%	52.0%
EBITDA margin	14.2%	17.6%	17.5%	18.6%	16.8%	14.2%	8.2%	12.4%	13.7%	12.7%	19.2%
EBIT margin	9.6%	13.8%	14.1%	15.0%	12.8%	9.8%	3.8%	8.2%	9.4%	7.9%	8.1%
Net income margin	6.6%	10.8%	10.9%	10.5%	10.1%	6.8%	2.9%	6.3%	6.3%	5.1%	4.3%
ROE	18.7%	29.6%	29.1%	28.8%	29.3%	30.6%	19.9%	8.7%	19.3%	16.8%	13.9%
Cash cycle (days)	56	72	66	60	70	84	61	33	16	11	-4
receivables	15	15	14	13	13	10	9	9	7	7	5
inventory	144	174	163	156	165	176	147	145	153	129	130
liabilities	104	118	112	110	108	102	95	122	144	125	139
Net debt/ EBITDA	0.9	0.4	0.0	0.3	0.5	0.9	0.3	-0.4	-0.7	-0.7	-0.6
Net debt/ equity	0.4	0.2	0.0	0.1	0.2	0.3	0.1	-0.1	-0.3	-0,3	-0.2

9. STRATEGY

The base of strategy has not altered over the past years. We aim to grow, developing our existing brands as well as expanding the number of countries present. While we grow, we tailor our offer to meet the preferences of our customers in different countries. However, given changes on the retail market, we also invest and develop e-commerce. We aim to become a global company with our brands being recognized all over the world.

9.1 EXPANSION BY BRANDS

EXPANSION BY BRANDS



It is our strategy to continue to develop our existing five brands. The intention is to capture new customers, achieve economies of scale during the design and sourcing process and increase the leverage while negotiating the level of rentals and fit-outs as well as the quality of floorspace with the shopping mall operators. On top, it allows us to develop niches within a selected price range and helps us target customers with different affluence. Furthermore, our brand portfolio diversifies the fashion risk, especially the risk borne by the largest Reserved brand.

Our past performance shows that we have been able to execute our strategy effectively. Even though we only started with Reserved brand in 1998, we have successfully developed Cropp, Esotiq (divested, management buyout) and Sinsay. Two brands have been acquired along with the Artman merger (House and Mohito).

Our brands have different customers, starting with children (part of Reserved, RE Kids, and Fox&Bunny at Sinsay) through teenagers (Cropp, House, Sinsay) and ending with more mature customers (Mohito, Reserved and expanded Sinsay offer).

All these brands are in the mainstream part of the retail market. We wanted to diversify away from the mainstream pricing to benefit from growing customer affluence within the majority of regions we are present in. In February 2016 we launched our first up-market brand, Tallinder, which offered classical designs made of high quality materials. However, due to unsatisfactory sales results in September 2016 we decided to close down Tallinder stores as of the end of February 2017. For the time being, we do not have plans for yet another brand launch.

9.2 EXPANSION BY COUNTRIES

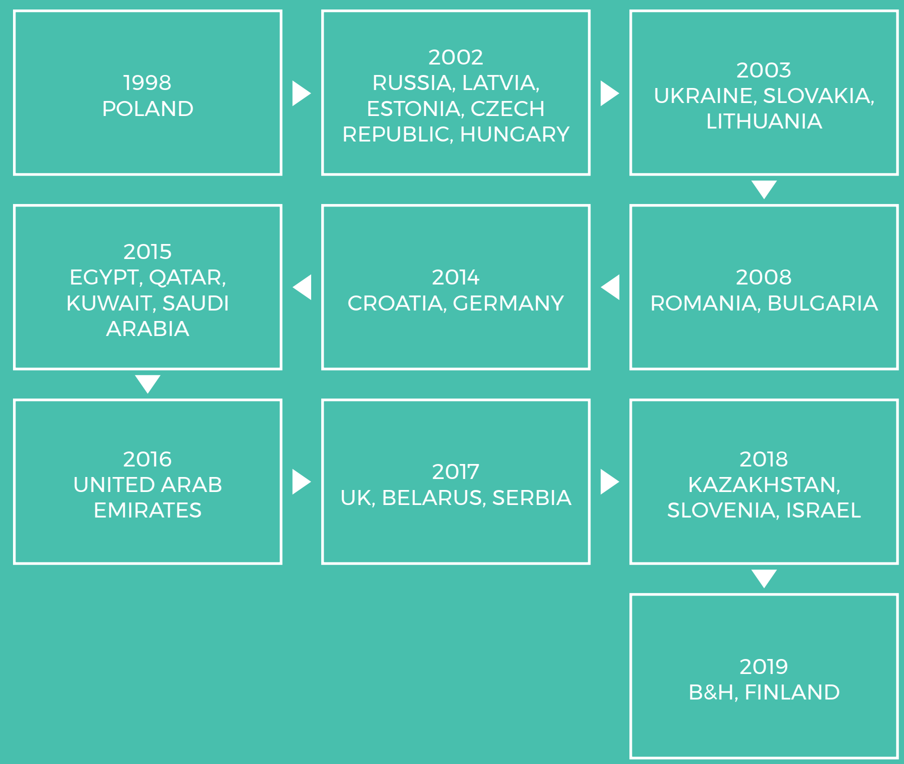
Growth by number of brands would not be complete if it had not been for development by countries. The key intention is to diversify the performance of the group from the anchor Polish market and gain exposure to higher-growth-potential or more affluent countries. It is our long-term target to have all the brands in all countries present. The strategy is gradually put into practice. A new market is typically tested with the broad Reserved brand, while in later stages the remaining brands are added. Such a situation currently takes place in selected Western European and in the Middle East.

We are currently present in six geographical areas on three continents. Each of the markets is at a different stage of development and has different growth prospects. The Central and Eastern Europe (CEE) consisting of Poland, Czech Republic, Slovakia and Hungary is a mature market for us, due to early entry. A similar situation takes place in the Baltic region, encompassing Lithuania, Latvia and Estonia. Growth on both these markets could come from selected new openings and work on efficiency of existing operations via omnichannel implementation.

We see higher growth potential in CIS (Commonwealth of Independent States) and SEE (South Eastern Europe). Due to geopolitical issues development in Russia and Ukraine has been put on hold in 2015. Selective openings took place in 2016, yet from 2017 we accelerated floorspace development, which continued until the end of 2019/20. We see long-term growth potential in Russia, due to large number of towns with population above 1 million. In 2017-18 we enlarged the number of CIS countries present and launched franchise operations in Belarus (stores currently changed into own ones) and own in Kazakhstan. We are present in six countries of South Eastern Europe (Bulgaria, Romania, Croatia, Serbia, Slovenia and B&H) leaving the potential to expand in these and enter new countries. We opened our first store in Serbia in August 2017. We entered Slovenia in 2018 and Bosnia&Herzegovina in 2019.

The highest growth potential lies in two markets at early stage of development – Western Europe (WE) and the Middle East (ME). In Western Europe so far we are only present in Germany, the UK and Finland. We are looking at other WE countries, yet we await BEP in Germany before taking decision on further moves in that country. On top, due to COVID-19 impact in 2020/21 our German operations are under restructuring. In 2019/20 we entered the third WE market which is Finland. We are also on the look-out for a venue for flagships. In September 2017 we opened our first flagship in London, at Oxford Street. At the end of 2019/20 we were present in five Middle East countries with our franchise stores, as we entered Israel in 2018.

EXPANSION BY COUNTRIES



9.3 E-COMMERCE

We see that e-commerce and the overall experience in the form of omnichannel are the future. This is why we continue to invest in logistics and technology that allows us to double e-commerce revenues. We plan to gradually have e-stores of all our 5 brands in all the countries that we have our brick-and-mortar operations. Although Poland is more important to e-commerce revenues than it is to traditional stores, this should gradually changing. Our approach to e-commerce is a comprehensive one. We have own e-stores of five our brands in 12 countries and Reserved e-store is operational in the UK. On top, via decision of our franchise partner, Reserved clothes and accessories are available on ME e-sommerce platform Namshi.com. Additionally, Reserved brand offering is also available on our pan-European e-store. As a result, Reserved brand was present in 25 countries off-line and 30-countries on-line at the end of 2019/20. We are also moving towards more and more towards omnichannel.

EXPANSION BY COUNTRIES

2011
POLAND

2014
GERMANY

2015
CZECH REPUBLIC, SLOVAKIA, ROMANIA

2016
HUNGARY

2017
LITHUANIA, LATVIA, ESTONIA, THE UK, RUSSIA

2018
BAHRAIN, KUWAIT, UAE, SAUDI ARABIA, OMAN (ME REGION THROUGH FRANCHISE PARTNER)

2019
UKRAINE, UKRAINE, CROATIA, PAN-EUROPEAN E-STORE

9.4 LPP TECH

OWN STORE VISION APPLICATION

\+

RFID USAGE IN STORES

=

BIG DATA

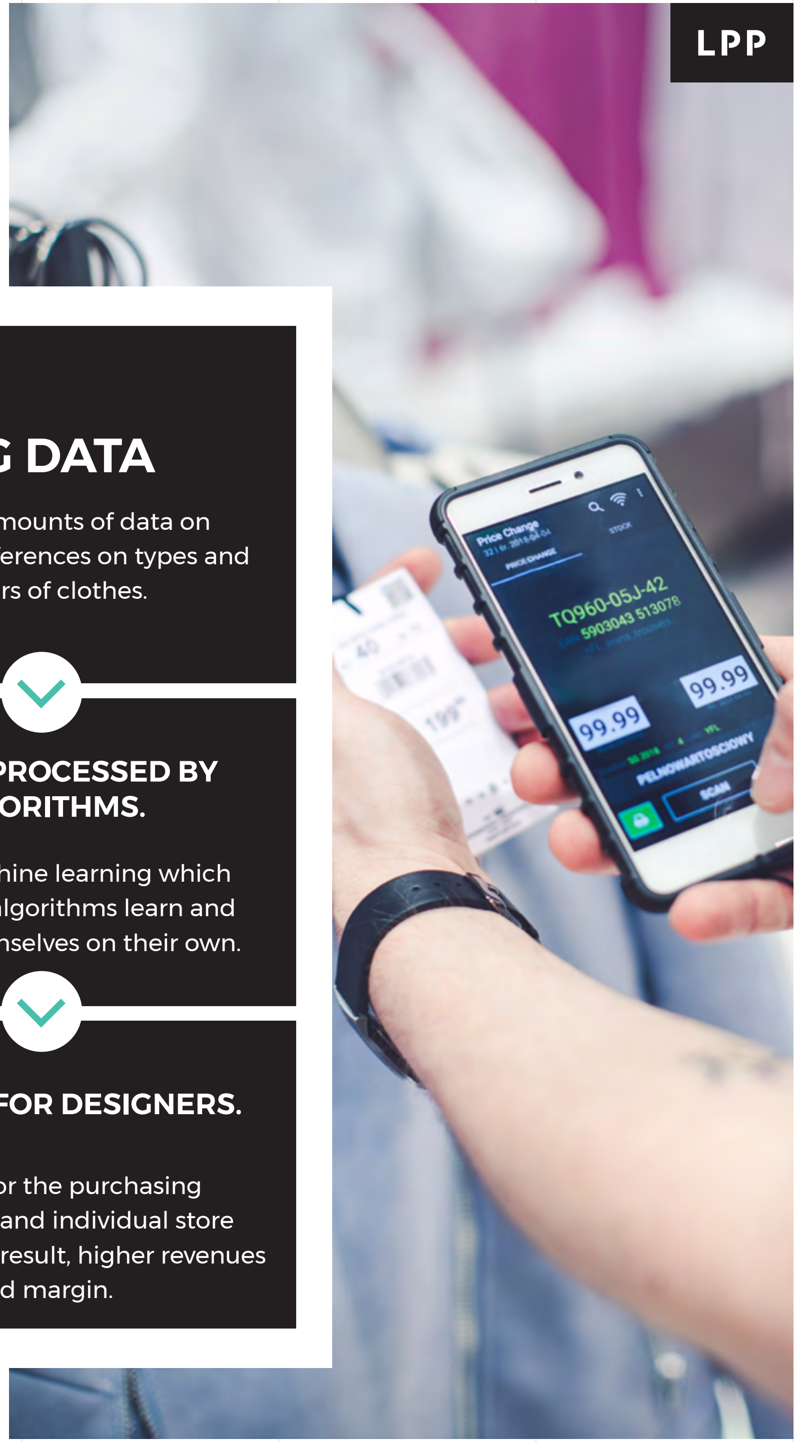
Sizeable amounts of data on customer preferences on types and colours of clothes.

DATA IS PROCESSED BY ALGORITHMS.

We use machine learning which means that algorithms learn and improve themselves on their own.

SUPPORT FOR DESIGNERS.

Support for the purchasing department and individual store allocation. As a result, higher revenues and margin.



RFID TO SUPPORT BUSINESS

HOW STORES BENEFIT?

60% faster delivery receipt

70% shorter time of product registration at the counter

Faster transfer of goods from the storage room to the sales room (availability of 95% of models and sizes)

PLN 60m annually - cost of electronic tags that will be circulating between stores and suppliers.

Additional costs: IT department work time, purchase of new IT tools, investments in stores and distribution centers.

COSTS

LPP

RFID TO SUPPORT OMNICHANNEL

2019	2020	2021	2022+
RFID implementation in Reserved brand.	Achieving first benefits in Reserved. On-line deliveries from stores.	RFID implementation in Cropp, House, Mohito and Sinsay.	Achieving full integrity in the supply chain and some 3% sales increase.

10. OUTLOOK

Our development is to be oriented on omnichannel: i.e. merging of off-line with on-line operations. Both have been impacted by the COVID-19 pandemics which started in 2020, though in different ways: off-line negatively and on-line positively. In terms of traditional network, we plan to have 1,330.5 ths m2 of floorspace at the end of 2020/21, i.e. 8% higher YoY. This target was reduced from double-digit growth expectations after the pandemic started. The majority of the openings have already taken place. In terms of on-line, we will continue to focus on own e-stores, which are increasingly important in 'the new normal'. We do not plan development of new brands. As we are present in several geographies, each having different growth opportunities, we present outlook by key regions.

Central Eastern Europe

The region is a mature one with development being now focused on omnichannel rather than floorspace itself. Since 2017 in Poland we focus on network quality not quantity and that will continue. In terms of brands, the younger ones like Cropp, House and especially Sinsay have higher development opportunities than Reserved and Mohito brand (both offering casual but also soft-office collections). Similar situation takes place in other countries from the Central Eastern Europe region like Czech Republic, Slovakia and Hungary. On-line stores of all brands are present in each country of the region. We streamline the logistics process in those countries to assure timely deliveries of our goods to our on-line customers. We will also continue to focus on full omnichannel implementation.

Baltic

Similarly to the CEE region, we think that the Baltic markets like Lithuania, Latvia and Estonia are relatively mature ones. There, we plan to focus on sales efficiency rather than on new openings. On-line stores of all five brands were opened in three regional countries in April 2017 and this is where we see further growth. We are also implementing omnichannel solutions in this region.

Commonwealth of Independent States

We still see development potential in the CIS markets, especially in Russia and Ukraine, due to population of both countries and the amount of high quality shopping mall floorspace available. These are the countries in which we plan dynamic floorspace development on top of growth of our on-line stores. We changed franchise stores in Belarus into own ones, which should allow for further expansion. We still see some floorspace development opportunities in Kazakhstan.

South Eastern Europe

We are optimistic about growth opportunities in the South Eastern Europe region. At the end of 2019/20 we were present in six countries: Bulgaria, Romania, Croatia, Serbia, Slovenia and B&H, leaving upside in terms of number of countries in the long-term. We see significant improvement in our Romanian operations. Successful management change, new store openings and improved macroeconomic situation, have all led to a new start in this high-growth potential market, which we plan to continue in the medium-term. Romanian openings should dominate over the Bulgarian and Croatian ones. Entry to Northern Macedonia is planned for 2021/22. We see also development opportunities in e-commerce, as our own e-stores are operational only in Romania and Croatia, leaving upside potential.

WE HAVE GLOBAL ASPIRATIONS

Western Europe

Western Europe is a region where we are still a fledgling. In terms of off-line operations, we are present in three countries: Germany, the UK and Finland. That will continue in 2020/21. Germany was the first Western Europe market that we entered – this took place in 2H14. Even though in 2019/20 Germany was the sixth largest market by revenues, it 2020/21 we filled for restructuring of our operations due to a negative impact of COVID-19.Yet, we still see long-term development opportunities. Currently, all five brands are present on-line in Germany, but only Reserved brand has traditional stores on the ground. Situation looks similar in the UK, where in September 2017 we opened our first flagship Reserved store in London (Oxford Street). It is supported by Reserved on-line operations. We have applied a different approach in 2019/20, when traditional stores of all five brands were opened in a shopping mall in Helsinki (Finland). The reception was very strong. Also, 2H19/20 marked the start of our pan-European on-line store, present in majority of EU countries. This stores gives us an opportunity to learn the tastes of customers in different European countries and judge which country we can enter with traditional stores.

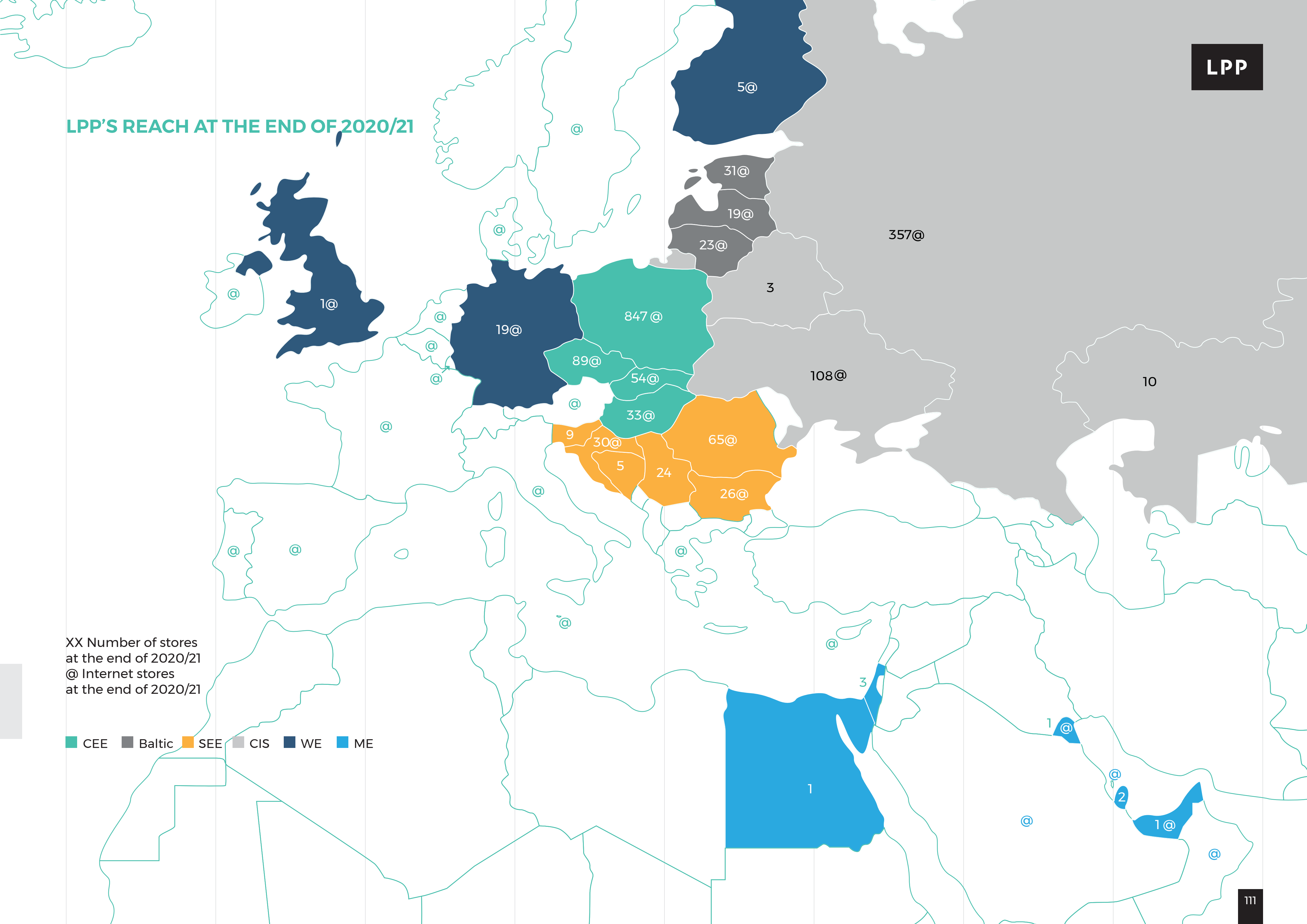
Middle East

We plan to continue our expansion on the Middle East market via franchise stores. In the medium-term, more countries in the region could be entered (such as Bahrain, Jordan, Lebanon and Oman) however, the growth is dependent on the macroeconomic and political situation as well as the number of tourists in the region. We see highest potential in Israel, which we entered in 2018 and developed in 2019 (now we have 3 franchise stores). Similarly to Germany and the UK, so far only Reserved stores have been opened, leaving upside potential for other brands. Our franchise partner took the decision to take the Reserved brand on an external e-commerce platform. From July 2018 Reserved products are available on-line in Saudi Arabia, UAE, Bahrain, Oman and Kuwait.

FLOORSPACE DEVELOPMENT TARGETS

	I.2020	I.2021 target	YoY
BY BRANDS			
Reserved	664.8	676.6	2%
Cropp	147.9	161.8	9%
House	127.4	139.9	10%
Mohito	111.7	113.3	1%
Sinsay	173.3	233.5	35%
Outlets	5.8	5.3	-8%
BY REGION			
Poland	530.0	542.9	2%
Europe	370.7	408.3	10%
CIS	321.8	369.5	15%
ME	8.4	9.9	17%
TOTAL	**1,230.9**	**1,330.5**	**8%**

LPP'S REACH AT THE END OF 2020/21



XX Number of stores
at the end of 2020/21
@ Internet stores
at the end of 2020/21

CEE Baltic SEE CIS WE ME

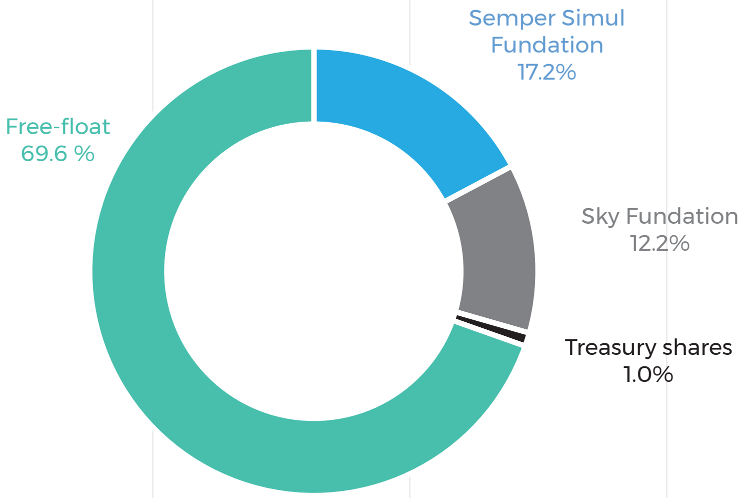
11. PRESENCE ON WARSAW STOCK EXCHANGE

LPP has been listed on the WSE since 2001. Within those years, due to our consistent and well-executed growth strategy, we have advanced from a mid-cap company to a WIG20 blue-chip, attracting not only Polish but also international investors.

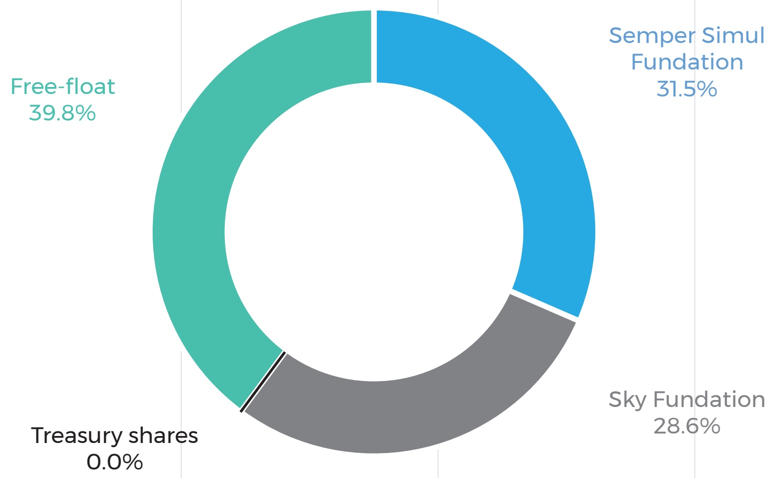
11.1. SHAREHOLDER STRUCTURE

LPP's shareholder structure underwent sizeable changes in the past years. The founders Marek Piechocki and Jerzy Lubianiec have transferred their shares to foundations in order to: protect the company against fragmentation of capital in the future, ensure the family status of the company and maintain the current culture and longevity of the company. The CEO, Marek Piechocki, transferred shares to the Semper Simul Foundation, which currently holds 17.2% of equity and 31.5% of votes. The Chairman of the Supervisory Board, Jerzy Lubianiec, transferred his shares to the Sky Foundation, which currently holds 12.2% of capital and 28.6% of votes. Transfer of shares does not mean an automatic succession - both founders remain in their positions. Both ordinary and privileged shares (1 to 5 in votes) are deposited in the foundations. LPP has a sizeable 69% free-float. The company holds a c.1% of its equity in treasury shares, which are used for the purpose of stock option plans.

SHAREHOLDERS BY EQUITY – 31.01.2020



SHAREHOLDERS BY VOTES – 31.01.2020



LPP's stock performance shows the success story of the company since its debut on the Warsaw Stock Exchange (WSE).

In 2001 a successful IPO of G series shares took place. New investors subscribed for 300,000 shares, each for PLN 48 issue price. In 2003 the company issued new H series shares. The investors subscribed for 190,000 shares at issuing price of PLN 265. The funds gathered from both issuances were used to develop the network of Reserved stores and investments in IT systems. The highest LPP share price on WSE was PLN 10,170 reached in January 2018.

TICKERS		PERFORMANCE AS OF 31.01.2020	
WSE	LPP	1Y	+1%
BLOOMBERG	LPP PW	3Y	+44%
REUTERS	LPPP.WA	5Y	+16%

LPP'S SHARE PRICE: From IPO until 31.01.2020

LPP'S SHARE PRICE SUMMARY

PLN	2010	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20
Share price eop	2,165	2,016	4,550	9,000	7,235	5,555	5,674	8,910	7,850	8,370	8,465
Min cob	1,640	1,803	1,960	4,406	7,235	5,230	3,820	5,090	7,535	7,535	6,945
Max cob	2,255	2,371	4,800	9,477	10,100	8,099	6,210	9,063	10,170	10,170	9,125
EPS basic	79.48	154.08	198.77	239.18	264.98	193.87	96.19	241.36	275.53	241.34	229.55
DPS	50.0	76.9	77.4	85.1	93.6	32.0	33.0	35.7	40.0	40.0	60.0
Dividend yield	2.3%	3.8%	1.7%	0.9%	1.3%	0.6%	0.6%	0.4%	0.5%	0.5%	0.7%
Payout ratio	83%	98%	52%	44%	39%	12%	17%	37%	22%	-	22%
Weighted average number of shares	1,728,879	1,746,800	1,780,848	1,809,725	1,809,725	1,812,145	1,816,932	1,826,537	1,833,483	1,833,489	1,834,192

Note: Prices from infostrefa.com. Cob stands for close of business. Dividends shown under the year in which they were paid.

11.2. INDEX PRESENCE

LPP's successful business model has been reflected in increased interest of foreign institutional shareholders in the stock. Along with rising earnings and growing share price, the liquidity of the shares has also augmented. Domestically, LPP is a member of WIG20, WIG30, WIG, WIG ESG, WIG ODZIEŻ and WIG Poland indices. WIG20 is the most important index on the WSE. LPP has entered the index in March 2014 and currently is the sole clothing retailer in it. At the end of 2019/20 LPP had a 5.6% weight in WIG20 index. WIG30 is the index of the most liquid companies on the WSE, introduced in September 2013. LPP has been its member since inception and held a 5.2% weight in this index at the end of 2019/20. LPP is also a member of the broadest index of the WSE - the WIG Index. At the end of 2019/20 LPP had a 4.0% weight in the index. Apart from domestic indices, LPP is also a member of important foreign indices. Firstly, since August 2014 LPP has been a member of MSCI Poland index, the key benchmark index for foreign financial institutions investing in Poland. LPP's shares are also present in three FTSE indices: All-World Index, Emerging Index and Global-Style Index (FTSE indices are tracked e.g. by ETFs) , CECE Index and STOXX Europe 600 Index.

LPP

POLISH INDICES

WIG20

- The most important index of the WSE
- Member since March 2014
- 5.6% LPP's weight
- The sole clothing retailer in the index

WIG30

- WIG30 index of the 30 most liquid companies on the WSE, launched September 2013
- Member since index inception
- 5.2% LPP's weight

WIG

- The broadest index of the WSE
- 4.0% LPP's weight
- The largest clothing retailer in the index

WIG ESG

- The index comprises of WIG20 and mWIG40 companies, published since September 2019
- Weight in the index is among others based on ESG standing
- 5.3% weight

WIG POLAND

- The index comprises companies in WIG index with Polish origins only
- 4.1% weight

WIG ODZIEŻ

- The index comprises companies in WIG index and classified into the Apparel segment
- 75.3% weight

INTERNATIONAL INDICES

MSCI POLAND

- Key index for international institutions investing in Poland
- Encompasses 20+ companies from WSE
- LPP member since August 2014

FTSE Russel Index

- Poland is a developed market for FTSE from 24 September 2018. LPP is part of FTSE Developed Index (Medium Classification)
- LPP member of All-World Index

CECE

- Created by the Vienna Stock Exchange, the index comprises of companies from Poland, Czech Republic and Hungary
- LPP re-entered the index mid-September 2017

STOXX EUROPE 600

- The index represents large, mid and small cap companies from 17 countries of the EU
- Stoxx is part of Deutsche Boerse Group
- LPP entered the index in September 2018

11.3. AWARDS

We have always strived to run an open dialogue with our shareholders and stakeholders. We are pleased that our company has been several times awarded by its shareholders and financial media.

SELECTED AWARDS RELATED TO INVESTOR RELATIONS:

- Top Investor Relations awarded by Parkiet newswire (2017, 2018).
- Top Listed Company of the Year by Puls Biznesu (2017, 2018, 2019).
- Number 1 in the Investor Relations category in the ranking run by Parkiet (Polish financial newswire) in 2014, 2015 and in 2019.
- The Company of the Year title in the ranking Puls Biznesu (Polish financial newswire) in 2017, 2018 and 2019.

SELECTED AWARDS RELATED TO BUSINESS:

- Award of the President of Poland in the category of National Success (2019).
- Digital Excellence Awards for Store Vision (2018).
- Polish company - International Champion: distinction in the Exporter category: Polish private company - a large enterprise (2017).
- Index of Success awarded by Deloitte and Rzeczpospolita newswire in 2016 for the last 10-year performance.
- Number 31 in the Most Innovative Growth Companies' ranking 2015 awarded by US Forbes Magazine granted to 100 companies worldwide.
- The most dynamically growing company in the Pomeranian region by Forbes in 2014.
- The Brand of the Year in the Trade category granted by Ministry of Economy and Rzeczpospolita daily in 2014.
- The CEE Retail Award, The Fashion Retailer of the Year 2011.

Award of the President of Poland in the category of National Success (2019)

Digital Excellence Awards for Store Vision (2018)

Top Stock Company of the Year by Puls Biznesu (2017, 2018, 2019)

Top Investor Relations by Parkiet (2017, 2018, 2019)

Index of Success awarded by Deloitte and Rzeczpospolita newswire in 2016 for the last 10-year performance

Most effective CEO by Harvard Business Review (2013)

12. CORPORATE SOCIAL RESPONSIBILITY

GENERAL SHAREHOLDER MEETING

- appoints Supervisory Board members
- approves annual financial statements
- grants discharge to the Management and Supervisory Board members

appoints

SUPERVISORY BOARD

- consists of 5 to 6 members
- appointed for a 5 year term
- appoints Management Board

AUDIT COMMITTEE

- review of the financial statements
- assessment of the financial standing
- control and assessment of the internal audit reports
- assesment of risk management and internal audit

appoints

MANAGEMENT BOARD

- consists of 2 to 6 members
- appointed for a 5 year term
- CEO can represent the company by himself
- additionally two management board members as well as management board member and legal representative can sign binding agreements

12.1. CORPORATE GOVERNANCE

Corporate governance and transparency are of key importance for us. There are three levels on which corporate governance is exercised, the general shareholders' meeting, the supervisory board and the management board.

The general shareholders' meeting takes place at least once a year. It appoints the supervisory board of the company, approves the consolidated and non-consolidated financial statements as well as grants discharge to the actions of management and supervisory board members.

According to our bylaws, the supervisory board consists of between 5 to 6 members. It is appointed for a 5-year term. The board appoints and supervises the actions of the management board and serves as an audit committee. The audit committee performs several functions: reviews the financial statements, assesses the financial standing of the company and the group, supervises the internal audit department and evaluates the development strategy of the group.

The bylaws also define the role and responsibilities of the management board. The latter can consist of between 2 to 6 members. The management board members are appointed concurrently for a joint 5-year term. From 2015 an evolutionary change took place at the CFO post. Dariusz Pachla resigned and was replaced by his deputy, Przemyslaw Lutkiewicz. In October 2015 the management board was expanded by Sławomir Łoboda, responsible for new floorspace acquisition and legal issues. In 2016, Piotr Dyka, responsible for the Reserved brand and Hubert Komorowski, responsible for House, Mohito and Sinsay brands, resigned from their posts. Since then, the composition of the management board has been stable.

The CEO can represent the company by himself. Contracts binding for the company can also be signed by two management board members and one management board member and one legal representative.

LPP'S SUPERVISORY BOARD

	Function	Independent	Audit Committee Member
Jerzy Lubianiec	President of the Board, Deputy Chairman of the Audit Committee	-	✓
Wojciech Olejniczak	Deputy-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, Chairman of the Audit Committee	✓	✓
Miłosz Wiśniewski	Member of the Supervisory Board	✓	✓

12.2. MANAGEMENT BOARD

MAREK PIECHOCKI

CEO & Founder

Marek Piechocki (59), one of LPP's two founders, has been involved with the retail industry since 1989. He is a graduate of the Civil Engineering Faculty at the Gdańsk University of Technology. In 1991 together with Jerzy Lubianiec he founded a Mistral company, activities of which were transferred into LPP in 1995. He has been the CEO of LPP since 2000. As Chief Executive Officer, Marek Piechocki is responsible for all aspects of the company's operations. He manages the domestic and foreign strategic investment projects and participates in rental negotiations with the largest property developers on the market. He is currently responsbile for all five brands. In 2013 he was awarded the title of The Best-Performing CEO by Harvard Business Review in 2013.

JACEK KUJAWA

Management Board Member

Jacek Kujawa (45) has been employed at LPP since 2004. Initially, he held the position of IT Director, responsible for implementation of Business Intelligence and Point of Sale systems. He was also in charge of IT systems' integration during the LPP and Artman merger. His duties encompassed, among others, coordination of the Pruszcz Gdański Distribution Centre expansion on the basis of world's best standards of logistic solutions. His key current tasks include implementing LPP's strategic projects, such as the RFID technology, developing the e-commerce segment as well as expanding the company's storage areas as part of developing the distribution network in Europe. Before joining LPP, between 1999 and 2004, Jacek Kujawa has been employed at Wirtualna Polska. He graduated from the IT faculty at the Gdańsk University of Technology.

PRZEMYSŁAW LUTKIEWICZ

CFO

Przemysław Lutkiewicz (49) started his career at LPP in 2008 as a Financial Controller. He was responsible for creation of a controlling department and implementation of IT management tools at LPP Group. Przemysław Lutkiewicz has been the Chief Financial Officer of LPP Group since 2015. Przemysław Lutkiewicz is not only a graduate of Gdynia Maritime University and Gdańsk University but also accomplished Postgraduate Studies at Gdańsk University of Technology. He started his career in 1994 at Powszechny Bank Kredytowy SA. Between 1995 and 2008, he worked for PolCard SA / First Data Polska SA, where he advanced form the post of a Financial Planning and Reporting Unit Manager to a Financial Planning and a Finance and Controlling Director. In 2006-2007, he was a member of the Management Board and Chief Financial Officer of First Data Polska SA. Between 2007-2008, he was involved in establishing First Data's Shared Services Centre in Gdańsk, serving as Finance and Controlling Director.

SŁAWOMIR ŁOBODA

Management Board Member

Sławomir Łoboda (55) has been co-operating with LPP since 1997. Initially, as a Managing Partner at an external legal company, he provided legal counselling for LPP. Since 2005, in addition to managing LPP legal services, he has been responsible for acquiring new retail space and store development. The latter remained his responsibilities as a management board member. During his co-operation with LPP, he has completed a number of significant projects, including creation of a franchise network, taking the company public, merger with Artman SA, disposal of the Esotiq brand and development of LPP's store network. Sławomir Łoboda is a graduate of the Law Faculty at the University of Gdańsk.

12.3. SUPERVISORY BOARD

JERZY LUBIANIEC

PRESIDENT & FOUNDER

Jerzy Lubianiec (60) is the co-founder of LPP and a graduate of Gdańsk University of Technology. Between 1991 and 1997 he has been running Mistral company. Jerzy Lubianiec has been the CEO of LPP (Mistral's successor) between 1995 and 2000. Later on he became the President of the Supervisory Board of LPP, supporting the development of the group. He is also a supervisory board member of Quercus Towarzystwo Funduszy Inwestycyjnych SA, where he indrectly holds a stake. The activity of the above-mentioned company is not competitive to that carried out by LPP SA.

WOJCIECH OLEJNICZAK

MEMBER

Wojciech Olejniczak (64) has been a supervisory board member since 1999. Concurrently, he has held the post of CEO at BBK SA, a company where both Marek Piechocki and Jerzy Lubianiec are shareholders (equal stakes). The company in no aspect competes with LPP. Before joining the supervisory board, Wojciech Olejniczak participated in LPP's operations. Between 1991 and 1996, he was a partner at Mistral company and a management board member of LPP between 1996-1997.

50% OF THE SUPERVISORY BOARD MEMBERS ARE INDEPENDENT.

PIOTR PIECHOCKI

MEMBER

Piotr Piechocki (32) a graduate of the Warsaw School of Economics and IE Business School in Madrid. In the years 2010-2011, he carried out his traineeship in, among others, Procter&Gamble and The Boston Consulting Group. In the years 2012-2017, he co-created and managed the e-commerce department in LPP SA. Piotr Piechocki was responsible for the entire sales in this channel and for launching of on-line stores on new markets (Germany, Czech Republic, Slovakia, Romania, Hungary). At present, he acts as President of the Management Board of Family Investment sp. z o.o. with its registered office in Sopot and Family Investment 2 sp. z o.o. with its registered office in Sopot, both of which are operating on the real estate and hotel accommodation market. This activity is not competitive to LPP SA. Piotr Piechocki has family ties with Marek Piechocki, shareholder and CEO of LPP SA.

MAGDALENA SEKUŁA

INDEPENDENT MEMBER

Magdalena Sekuła (45) is a graduate of the Gdańsk University, the Institute of European Sciences in Gdańsk, Université des Sciences Sociales in Toulouse and Université d'Orléans. She started her professional career in the Sopot City Hall at the position of Inspector in the City Strategy and Development Department, in the years 2004-2005. She also acted as Vice-President of the Management Board of Plan 40 Sp. z o.o. oraz Vincole Sp. z o.o., in which she was responsible for contacts with foreign contracting parties and executing new projects in co-operation with French partners. In the years 2007-2010, she was responsible for carrying out promotion and information activities related to the construction of a multi-purpose sports and entertainment arena between Gdańsk and Sopot. Since March 2010, she has continuously held the position of CEO of the company Hala Gdańsk-Sopot.

ANTONI TYMIŃSKI

INDEPENDENT MEMBER

Antoni Tymiński (70) holds a PhD in economics. In the years 1979-1991, he held the position of senior research associate at the Faculty of Accounting of the Gdańsk University. He was awarded a PhD degree in 1988. He is also a graduate of the Mikołaj Kopernik University. Apart from scientific excellence, Mr Antoni Tymiński has more than 16 years of experience as consultant and auditor in leading global advisory companies such as Deloitte&Touche, Coopers&Lybrand and PricewaterhouseCoopers, in which he acted as, among others, Partner (1999-2008) and Member of the Management Board (2001-2008). Since July, he is a retired partner of PricewaterhouseCoopers. Furthermore, he is qualified as Statutory Auditor and he is a member of the Polish Chamber of Statutory Auditors. From July 2008 to June 2009, he was a member of the Supervisory Board of LPP SA.

MIŁOSZ WIŚNIEWSKI

INDEPENDENT MEMBER

Miłosz Wiśniewski (56) is a graduate of the Mikołaj Kopernik University in Toruń and Executive M.B.A. École Nationale des Ponts et Chaussées in Paris. He gained his experience in finance and management in Cereal Partners Worldwide, working there from September 1992 to May 2012 at the position of, among others, Regional Financial Controller for Western and South Europe, CPW Finance Director in Poland, Regional Director for Greece and the Balkans and Development Director for Central Europe. From May 2012 to January 2015, he acted as Finance Director of Boryszew SA. In March 2016, he became President of the Management Board of Robod SA.

12.4. TOWARDS SUSTAINABLE FASHION

SUMMARY OF OUR CSR ACTIONS

2013
joining the ACCORD alliance

2014
establishing of factory audit division

resignation from angora

2015
setting up offices in Dhaka (Bangladesh)

update of Code of Conduct for suppliers

introduction of organic cotton

2016
resignation from natural furs

2017
stronger supervision over factories in Asia

start of cooperation with SGS

2018
second ACCORD agreement

launch of the Eco Aware collection

2019
new CSR strategy For People For Our Planet

joining the New Plastics Economy Global Commitment

joining United Nations Global Compact

DESIGN AND MATERIAL SELECTION

Our designers and merchandisers take part in special workshops to learn about the use of eco-friendly materials in design and conservation of natural resources.

We use materials such as organic cotton, close-loop cellulose fibres, organic linen or recycled polyester recovered from PET bottles collected from sea waters. More environmentally friendly materials are defined in the LPP Eco Aware standard, among others.

The offices where our designers work in Poland are organised in line with the ECOffice principles, which are an expression of our green approach in the workplace.

TRANSPORT AND DISTRIBUTION NETWORK

We increase our reliance on maritime transport since it produces the least emissions.

Our new warehouses are located in properties with environmental certificates.

PRODUCTION

We develop partnerships with factories that reduce their water and energy consumption (e.g. in the process of dying, finishing or washing the products).

Eco Aware amounted to 8.2% of LPP's collections.

LPP auditors conducted 1,564 audits to evaluate occupational health and safety, working conditions and human rights protection in 2019/20.

SALES

We want our stores to be located in eco-certified properties which score high on energy efficiency, water conservation, waste management or reducing pollution.

We increase our use of renewable energy.

We opt for recycled packaging in our physical stores and on-line sales.

We get our customers involved by collecting used clothes in our stores and donating them to those in need. In giving the clothes a new life, we help protect the environment.

PRODUCTION

We work hard not only to make sure that the employees of our subcontractors are treated fairly but also to make sure that our products are safe and meet the quality standards.

LPP QUALITY STANDARDS

At LPP, we pay the utmost attention to the quality and safety of our products, setting precise standards for all our suppliers, regardless of their factory's location. The standards have all been collected in The LPP Quality Guidebook which defines such utility properties as colorfastness, propensity to shrink or the thickness of the wool fibre. It also includes a list of banned chemicals and permitted concentrations according to the EU-wide REACH regulation.

The guidebook stipulates that the suppliers must use humidity detectors and – in the case of children's products – metal detectors. Basing on the AQL standard we have defined expected quality levels for all our brands.

We carried out an in-depth analysis of the product complaints we received and changed our quality standards accordingly. The updated LPP Quality Guidebook of November 2019 requires, among other things, that the suppliers run basic quality tests of the materials they use, and keep their records. It also details an anti-mould procedure and product humidity limits.

Just as in the previous years, we held training sessions on our quality standards for those of our employees who deal with procurement and work directly with the suppliers. Importantly, we had inspections carried out in our suppliers' factories and monitored their manufacturing process.

COLLABORATION WITH SUPPLIERS IN BANGLADESH

In December 2019 we launched a pilot Quality Assurance System as part of which workers of twelve selected Bangladeshi factories underwent our product training. Each manufacturer appointed a person in charge of checking the compliance of our orders with our quality standards. We carried our audits in all the factories to check if they implemented our guidelines. In the next phase of the project we will repeat the audit to detect any potential shortcomings and help their representatives implement the system. We know of no health issues linked to our garments in 2019/20.

EVEN STRICTER APPROACH TO CHEMICALS

For us, being a sustainable fashion business means that we continually strive to eliminate all hazardous chemicals in the supply chain.

According to the Sustainable Development Strategy For People, For the Planet, in 2020 we will probably become the first Polish company to join Zero Discharge of Hazardous Chemicals (ZDHC), a coalition working to minimise the use of chemicals in the textile, leather and shoe industry, and will achieve complete compliance with the ZDHC standards in 2025.

ECO AWARE COLLECTIONS

% SHARE OF ECO AWARE IN COLLECTIONS IN 2019/20

Reserved	16.65%
Cropp	0.62%
House	3.36%
Mohito	7.93%
Sinsay	1.68%

2025 target: 50% of Reserved collections as Eco Aware

Since October 2017 till the present day, we have reduced the consumption of e-commerce packaging by 8.3m units, which translates into elimination of almost 250 tonnes of plastic until end-2019.

WE CONTROL OUR SUPPLY CHAIN

PLN 5m

LPP's outlays to increase safety in suppliers' factories in 2019/20.

PLN 25.4m

outlays to increase safety in suppliers' factories since 2013.

In the reported period LPP auditors conducted a total of **1,564 audits** of occupational health and safety, working conditions and human rights observance in 10 countries (Bangladesh, China, Cambodia, Myanmar, Pakistan, India, Turkey, Ukraine, Bulgaria and Georgia).

CODE OF CONDUCT FOR SUPPLIERS (UPDATED APRIL 2015)

Code of Conduct is the base for all our actions. It encompasses our requirements against our subcontractors. It includes international guidelines relating to safety of working conditions, decent pay and remuneration policy.

Fulfillment of Code of Conduct requirements is verified by our own and external auditors.

LPP's requirements against foreign suppliers:

- safety in factories is a priority,
- obligation to provide a decent pay,
- max 48 hours of work per week and paid overtime,
- ban to hire children < 15 years old.

THE EFFECTS OF ACCORD AGREEMENT:

97% of factories had their electrical installations modernised or changed,

91% of factories ended up with additional anti-fire alarms and installations,

88% of factories had their constructions strengthened. In many cases the production was transferred to other venues.

EMPLOYEES

DIVERSE AND FAMILIAL: LPP'S ORGANISATIONAL CULTURE

We make sure that the company's culture as well as its management and communication styles are in tune with the multigenerational and multina-tional environment that LPP is and the large number of young people who work for the company. The atmosphere at LPP is familial. The values we go by every day are openness and respect, which includes appreciating diversity and taking responsibility for LPP's future. These are the foundations of our unique organisational culture.

There is no prescribed dress code at LPP. Our managers make sure that their team meetings are as informal as possible without impeding on their effectiveness. Good atmosphere translates into the engagement and innovativeness of employees in the fashion industry. That is one of the reasons why every employee may freely approach the members of the Management Board: they all work side by side in open offices. Employees are the most valuable source of information about LPP and that is why we encourage them to freely express their opinions. To make our workplace management even more effective and to react to any issue that might arise faster, in 2018 we intro-duced an ethical code titled The LPP Principles and a whistleblowing system.

In our organisation there are no labour unions and collective agreements.

To underscore the value of diversity in our company, in 2019 we set up a Diversity Team formed by different representatives of our HR and communications departments. To confirm our commitment to promoting and developing diversity in our organisation, we became a signatory to a Diversity Charter. This way we formally undertook to ban discrimination and actively promote diversity. We are also obligated to include our employees and business partners in these efforts.

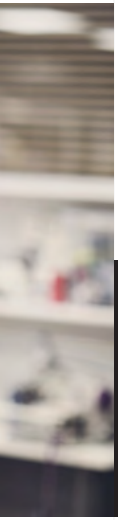
61%

of all managers and directors at LPP's HQs are women

84%

employees are women

70%
of all vacant managerial positions filled by internal candidates



61%
of all managers and directors at LPP's HQs are women

24,447
employees

EMPLOYEE BENEFITS OFFERED BY LPP SA

- private healthcare packages for employees and their families — LPP covers 50% of the cost,
- shopping discounts — 25% off the regular price,
- life insurance on preferential terms,
- Multisport card on preferential terms,
- restaurant for employees at the Gdańsk offices,
- daytime camps for children during the summer holidays,
- baby clothes set for newborns,
- 10-year work anniversary party and memorable gift,
- vouchers and gifts for Christmas.

WE MEASURE OUR CARBON FOOTPRINT

Just like every other organisation, LPP has an impact on the climate. In the process of our operations, greenhouse gases are emitted to the atmosphere by vehicles as a result of fuel combustion, electricity is used to power our offices, stores and distribution centres, and – most importantly – to produce materials and garments, ship them and while they are used, that is throughout their lifecycle. To measure our impact on the climate, we have been evaluating our carbon footprint, that is our greenhouse gas (GHG) emissions. Our carbon footprint was calculated in accordance of the GHG Protocol Corporate Accounting and Reporting Standard. We chose 2019 as the base year – the reference point for the subsequent years – as our calculations for 2019 were much more robust than for 2018. Our key corporate environmental impact comes from Scope 3 of GHG emissions.

Our Sustainable Development Strategy sets the ultimate target of reducing our Scope 1 and 2 GHG emissions by 15% as compared to the 2019 levels by 2025.

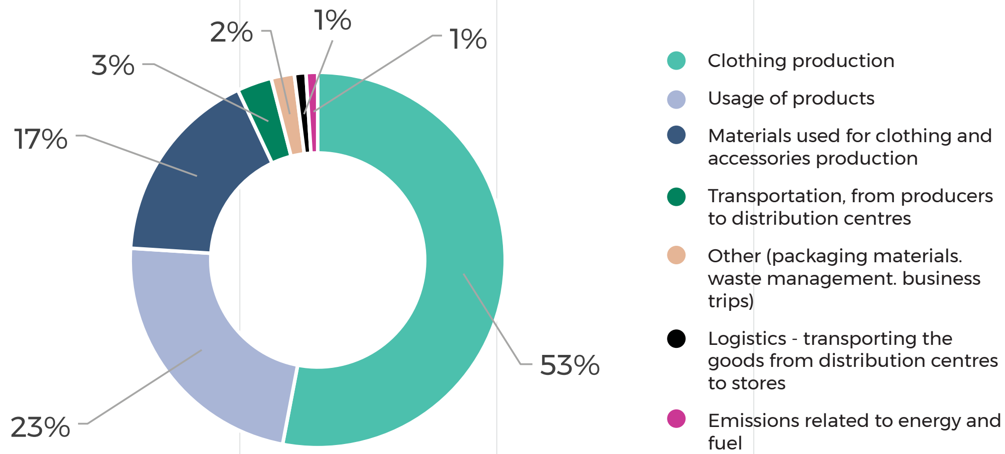
We plan to achieve the target, inter alia, by:

- increased use of recycled and organic materials e.g. organic cotton,
- educating and changing our suppliers towards Eco Aware Production standard,
- improved energy efficiency at our stores,
- purchasing low-carbon footprint power,
- servers and on-line shops running on 100% green energy,
- new building construction complaint with BREEAM/LEAD requirements.

LPP Group GHG emissions in tonnes of CO_2E, 2019

Total LPP Group GHG emissions per item sold in kilos of CO_2E

Scope 3 GHG emissions of LPP Group by sources



LPP

SUSTAINABLE DEVELOPMENT STRATEGY

ECO AWARE – PRODUCT AND PRODUCTION

2020

- Implementing Eco Aware Production programme in the areas of water management and energy sourcing

2021

- 25% of clothes produced by LPP are Eco Aware collections
- 30% of factories in Southern Asia covered by Eco Aware Production programme

2023

- 100% of denim production factories covered by Eco Aware Production programme
- Used garments collection system in 100% of stores
- PLN 1m on investment in new technologies allowing for textile waste utilisation

2025

- 50% of Reserved garments in Eco Aware collection
- CO_2 reduction by 15%

CHEMICAL SAFETY IN PRODUCTION

2020

- ZDHC membership

2021

- 100% of products containing wool or down will have RDS/RWS certificate

2025

- Full compliance with ZDHC standards

PACKAGING AWARE – PLASTIC UNDER CONTROL

2020

- 100% of on-line orders packaging of MO and RE without single use plastic
- 100% of film for HO, CR and SI on-line orders shipment recycled
- Limiting single-use film for commercial samples packaging by 50%

2021

- 100% of price tags film-free

2023

- 100% of cardboard boxes with FSC certificate or recycled
- 100% of store packaging recycled

2025

- 100% of plastic in packaging suitable for re-use, recyclable or biodegradable

SUSTAINABLE DEVELOPMENT IN HQ BUILDINGS AND SALES NETWORK

2020

- Implementing Eco Aware STORES programme

2021

- 100% of green energy powering our servers and on-line stores

2023

- All new buildings with environmental certification (BREEAM/LEED)

2025

- 100% of stores covered by Eco Aware STORES programme

THE UN SUSTAINABLE DEVELOPMENT GOALS FOR 2015–2030

We contribute to the achievement of the UN Sustainable Development Goals. The following are the SDGs which we consider the most important for our industry and our operations.

4 QUALITY EDUCATION

- We constantly invest in the development of our employees. We help them improve their skills by providing them with training and long-term development programmes.
- We support the development of the fashion industry and educate young people in partnership with art colleges.
- We promote fashion occupations by presenting and offering opportunities for professional development.
- We support young people at risk of exclusion through the First Fitting programme.
- We improve educational opportunities for children and young people in the areas where we invest.

8 DECENT WORK AND ECONOMIC GROWTH

- We are one of the largest taxpayers in Poland and the largest taxpayer among the companies based on the Polish coast of the Baltic.
- We create over 24,000 jobs, over 13,000 of which are based in Poland.
- As a Polish family firm from the region of Pomerania, we invest in the development of local entrepreneurship.
- We outsource production to Asian manufacturers, contributing to the development of the textile and garment industry in the region. According, to the LPP Code of Conduct for Suppliers, they must provide decent conditions of work to their employers.
- We develop our collaboration with manufacturers in the close neighbourhood, their share in our clothing production is continually increasing.

9 INDUSTRY, INNOVATI AND INFRASTRUCTURE

- We own one of the largest and most technologically advanced garment Distribution Centres in Central and Eastern Europe. We invest in new warehousing spaces in Poland and abroad.
- We implemented solutions that shorten delivery times to our on-line to a minimum. We launched a pan-European on-line shop.
- We invest in the development of Fashion Tech. We implemented RFID tags in Reserved stores in Poland.

10 REDUCED INEQUALITIES

- We promote diversity through a committed Diversity Team.
- Over 60% of managerial positions at LPP SA are filled by women.
- We support activation of people with disabilities.
- We help underprivileged youth to gain job experiences and build social skills. We invest in education and improve living conditions. Through our Foundation, we support people from disadvantaged communities.
- We monitor the conditions of work and pay offered by our suppliers.
- Our employees carry out social service projects as volunteers.

- We contribute to the development of Gdańsk and Cracow, and the districts where our offices are located.
- We carry out educational, cultural and leisure programmes in Brześć Kujawski, the town where our new Distribution Centre is being prepared, and its surrounding area.
- We respond to the needs of the local communities in our immediate environment.

- We prioritise product quality and check our garments for hazardous chemicals.
- More and more of our collections are made of more environmentally friendly materials.
- We educate our suppliers with respect to The LPP Code of Conduct and run audits in Asian manufacturing plants.
- Our stores in Poland collect used clothes; we give them a new life by donating them to those in need.

- Our newly adopted Sustainable Development Strategy for 2020-2025 dictates, among others, that we use 100% eco-friendly packaging and signifi cantly reduce our carbon footprint.
- We intensify our collaboration with the manufacturers that take efforts to reduce their environmental impact.
- We apply the ECOoffice principles and work to minimise our environmental impact.
- We use advance technologies to reduce the energy consumption in our stores and Distribution Centres.

- We joined the New Plastics Economy Global Commitment, a global initiative for a circular economy for plastic.
- We joined the United Nations Global Compact, the world's largest business initiative for sustainable development.
- We take part in events promoting sustainable development and responsible business.
- We work together with colleges and universities to improve the quality of education they offer.

13. RISK MANAGEMENT

13.1 INTERNAL RISK FACTORS

BUSINESS MODEL RISK

Risk: We focus our activity on designing and distribution of clothing as well as building our brands. We have no own manufacturing capacities and do not plan to develop our own manufacturing plants, and we outsource manufacturing activities to professional entities in different parts of the world. Outsourcing enables effective production placement and gives access to modern and constantly changing technologies. We choose suppliers not only based on the price offered but also based on the scope of their offer, advancement of machinery and ethical treatment of workers. Our investments are directed at creating our own distribution network and at e-commerce, logistics, development and technology as well as at attracting loyal consumers.

Actions: We are not dependent on any of over 1,200 cooperating suppliers (none of them has exceeded the threshold of 6% of annual purchases). Additionally, on a regular basis, we evaluate our suppliers, who are supervised by the LPP office in Shanghai, China (established in 1997), and in Dhaka, Bangladesh (established in 2015).

RISK OF UNCUSSEFUL COLLECTION

Risk: The clothing market is characterised by a wide variety of customer expectations and is closely correlated with changes in fashion trends. A key factor in a clothing company's success is the sense of changes in fashion trends and the adjustment of its product range to current consumer needs.

Actions: We pay significant attention to fashion, constantly increasing our product team which is currently comprised of over 300 designers. In total, over 1,000 persons work in the product development department. Each brand has a separate design team following fashion trends in the brand's target group. Designers and persons engaged in the process of collection creation not only participate in exhibitions and fairs worldwide but also follow trends in the Internet (including social media) and street fashion in the most popular fashion capitals i.e. Paris, New York, Seoul, Tokyo. Inspirations found and world trends are used in the process of collection creation and, therefore, the risk of unsuccessful collections is reduced.

RIKS OF LOOSING KEY EMPLOYEES

Risk: We employ over 24,000 employees indispensable to carry out our basic operations in an effective and profitable way. In particular, we face the risk of losing key management officers, persons involved in the designing and preparation of collections and high rotation of employees in retail stores. There is also a risk that we will not be able to attract new talents.

Actions: We take numerous actions aimed at reducing this risk. Key management officers take part in a share-based incentive programme. We put emphasis on friendly working conditions – employees are given numerous training opportunities to ensure constant development of their skills and offered a well-defined career model. We offer work in a contemporary and friendly environment, with market salaries ensured.

RISK OF MISSED STORE LOCATION

Risk: Our development strategy provides for the rapid expansion of our sales network. The opening of new stores involves the risk that specific locations may prove to be missed. This may result in a failure to meet a projected revenue level, which, in consequence, may adversely affect our Group's financial performance.

Actions: We reduce the risk of missed locations owing to good market surveillance and a detailed analysis of each potential new location. At present, we optimise the development of our sales network. On one hand, locations with unsatisfactory sales level are closed upon contract termination, and, on the other hand, stores in good locations are expanded to offer customers full collections. We undertake optimisation activities both in Poland and globally, on each market where we have operated for more than 5-7 years. We are also moving towards full omnichannel implementation.

RISK OF INEFFECTIVE LOGISTICS

Risk: The dynamic development of retail space and on-line 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 on-line orders, with simultaneous minimisation of the quantity of goods in distribution centres. Along with the planned increase of our sales, there is an increased risk involving the handling of logistics needs.

Actions: As this issue is of vital importance, the Management Board of LPP gives it a high priority, consistently introducing new solutions such as: expansion, along with the increasing demand, of logistics facilities both domestically and abroad, cooperation with specialised external providers in the area of on-line sales logistics, implementation of IT improvements in logistics. 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: traditional sales: in Pruszcz Gdański (91 thousand m²), Moscow (14 thousand m²) and Brześć Kujawski (120 thousand m² – investment in progress), on-line sales: in Gdańsk (20 thousand m²), Stryków (46 thousand m²), Moscow (8 thousand m²), Slovakia (32 thousand m²) and Romania (22 thousand m²).

RISK OF SALES MIGRATION FROM TRADITIONAL STORES TO INTERNET

Risk: The increase in the popularity of on-line purchases results in a global trend reflecting sales migration from traditional stores to on-line stores. This tendency puts pressure on sales in traditional stores, the majority of which generate fixed costs, and, consequently, affects the Group's profitability.

Actions: 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. The Group operates modern on-line stores of all of our brands and continuously takes actions aimed at further development of this sales channel. We gradually open on-line 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. 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 on-line sales and at integrating these two sales channels into the omnichannel, thus mitigating the risk of sales migration from traditional stores to the Internet.

13.2 EXTERNAL RISK FACTORS

MACROECONOMIC RISK

Risk: The economic situation in countries where we sell our products and the situation in countries where factories manufacturing goods for us are located are crucial for our standing. Our 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.

Actions: Each of our five brands is addressed to a wide group of consumers at affordable prices. We focus on offering products with an advantageous price-quality ratio. Although this will not safeguard us against adverse effects of a potential economic slowdown, yet it may minimise such negative impact. The risk is also being reduced by developing our operations in different countries on different continents (at the end of 2019/20, our brand stores were located in 25 countries on 3 continents), with further development to be achieved in subsequent years.

FOREIGN EXCHANGE RISK

Risk: An adverse change in currency exchange poses substantial risk for our Group. 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). The highest FX exposure of our Group concerns USD and EUR. The USD exposure is related to the location of goods production and purchases (mainly Asian countries), while the EUR exposure is related to rent payments for stores. Due to the fact that Russia yields approx. 18% of our sales, our Group faces also substantial RUB exposure. 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.

Actions: Due to the relevance of the foreign exchange risk, in June 2017, we 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).

RISK OF CHANGES IN CUSTOMS AND TAX REGULATIONS

Risk: Customs and tax regulations have a significant impact on our activity. Therefore, changes in this area may significantly affect our operations. We are exposed to changes in customs laws due to the scale of imports, specifically from Asian countries. The introduction of potential import quotas and heavy customs duties could result in the reduction of our margins. The introduction of possible legal changes in each of the countries where we are present may result in the requirement to incur additional costs or reduce revenue, thus adversely affecting our profitability. An example of such potential risk is the prospective implementation of turnover tax on large stores in Poland, which could adversely affect the operation of LPP and poses a potential risk (law enforcement has been suspended until the end of August 2019; from September 2019 the tax will be calculated, yet not paid. Payment is to take place after the appeal of the EC has been settled). Another example of law amendments is gradual introduction, from March 2018, of a Sunday trading ban in Poland. In the first year, the law permitted trading on the first and last Sunday each month, during the second year – on one Sunday a month, with a total Sunday trading ban to be introduced starting from the third year (before this change, the trading ban applied to statutory days off only).

RISK OF CHANGES IN CUSTOMS AND TAX REGULATIONS

Actions: Our HQs and the majority of our brand stores are located in the EU. As assessed by us, the European Union pursues a stable customs policy. Moreover, any changes in the customs policy would affect all entities operating in the retail sector in the EU. A more important risk is the one involving legislative changes, which relates to both domestic and EU laws. If any such risk occurs, we will focus its activities on minimising their impact on our financials performance, as in the case of legislative changes concerning the Sunday closure of stores in Poland. Following the analysis of sales from the time of implementation of trading limitations in Poland, we recorded a decrease in sales in domestic stores, with sales in stores being transferred to other weekdays, and an increase in on-line sales. This is the reason why, among others, we improve the operation of our e-stores and logistics on a day-to-day basis.

RISK OF INTENSIFIED COMPETITION

Risk: With barriers to the clothing market entry being low, the number of competitors increases, thus enhancing competitiveness. Each year, new players appear on, and leave, the markets where we operate. On each market, we compete with both local competitors and international players.

Actions: Our success on each market depends on the quality of collections and their acceptance by customers. Therefore, we focus our activities on the offering of products best reflecting current trends and meeting customers' expectations at affordable prices. As we noted, competitive pressure is highest with reference to Reserved, the flagship brand, the success of which is our priority, while such pressure is lower, for example, with reference to Cropp or House brands.

RISK OF UNFAVOURABLE 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 margins.

Actions: We monitor on a regular basis the level of sales and margins in specific countries, adjusting a time frame and scale of clearance offers. At the same time, following changes implemented in logistics and store replenishment, we are more flexible and we are able to react quicker to adverse weather changes in a given season.

GLOSSARY

Poland	Retail sales in Poland and other sales of LPP SA.
CEE	Region including: Czech Republic, Slovakia, Hungary and Poland (if not stated otherwise).
Baltic	Region including: Lithuania, Latvia, Estonia.
CIS	Region including: Russia, Ukraine and Belarus (from 2017) and Kazakhstan (from 2018).
SEE	Region including: Bulgaria, Romania, Croatia, Serbia (from 2017), Slovenia (from 2018) and Bosnia & Herzegovina (from 2019).
WE	Region including Germany, the UK (from 2017) and Finland (from 2019).
ME	Region including: Egypt, Qatar, Kuwait, UAE and Isreal (from 2018). Until mid-2017 the region included also Saudi Arabia.
Europe	Region including: CEE, Baltic, SEE and WE.
EBITDA	EBIT + depreciation from cash flow statement.
Average monthly revenues/m²	Revenues of segment or brand / average working total floorspace / 12.
Average monthly costs of own stores/ m²	Costs of own stores / average working floorspace of own stores (ie. excluding all franchise stores which represent c. 3.7% of the working floorspace) / 12.
Average monthly SG&A PLN/m²	SG&A costs/ average working total floorspace excluding stores located in ME and Belarus / 12.
Inventory/ m²	End of period group inventory/ total floorspace without franchise stores in ME and Belarus.
Inventory days	Average inventory/ group COGS * 365 days.
Receivables days	Average receivables/ group revenues * 365 days.
Liabilities days	Average short-term liabilities/ group COGS * 365 days.
Cash conversion cycle	Inventory days + receivables days – liabilities days.

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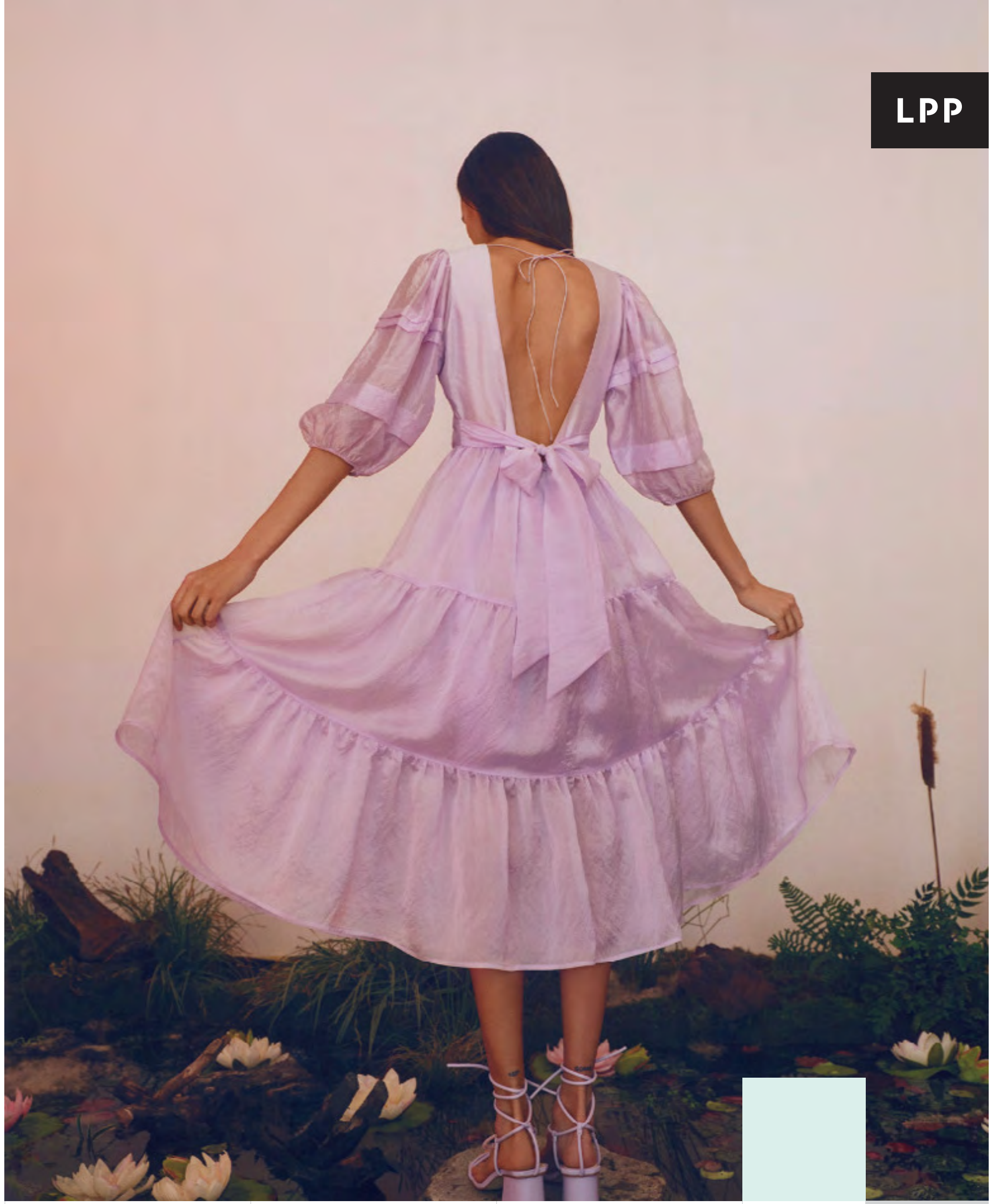

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