LPP

GK LPP SA
CONSOLIDATED ANNUAL REPORT FOR 2021/22

This report covers the financial year of the LPP SA Group, lasting from 1 February 2021 to 31 January 2022 (further referred as "2021/2022 financial year").

This document is not the official version (in inline XBRL format).

RESERVED CROPP house MOHITO sinsay

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1 PRESIDENT'S LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

The year 2021, though still marked by the global pandemic, has been recorded in LPP's history as the best in terms of the Company's financial results. Still, there was no shortage of challenges we had to face. Difficulties were multiplied due to disrupted supply chains, problems with sourcing materials for manufacturing purposes, first of all organic cotton, and persistent inflation. However, a major factor neutralising those adverse conditions proved to be the so-called deferred demand trend recorded on almost all European markets. Following repeated lockdowns we experienced in 2020, the following year was significantly more reassuring. With people returning to schools and offices, the need to catch up with consumption abandoned a year ago was restored in the society.

Starting already from the first quarter of the previous year, our sales in both traditional and online stores noticeably improved. Two-digit growths in traditional sales and equally high dynamics in the online channel remained unchanged for 12 months. That is why, in 2021, we generated the highest revenue in the Company's history, totalling PLN 14.0 bln. It should be noted that the sales increase of approx. 80% y/y was yielded maintaining a high margin exceeding 57% owing to several factors. Such excellent result could be reached owing to good purchase prices obtained when ordering our collections, a limited discount policy in 2021 and, simultaneously, customers' high interest in our products at the first price. Consequently, in the year 2021/22, we generated a high net profit of PLN 953,5 mln.

Owing to the Company's stable position and unfailing sales dynamics, we were able to carry out investment plans set for last year. We kept expanding our distribution network which, in 12 months only, increased by nearly half reaching today over 370 thousand m². Additionally, in only 10 months, we completed construction works in our Distribution Centre in Brześć Kujawski, which, starting from 2022, will further improve our logistics capacities. At the same time, we expanded the traditional store chain which, at the end of the financial year, was composed of as many as 2,244 stores of the total area of approx. 1.9 mln m² (+32% y/y). We focused mainly on developing the Sinsay brand, specifically in small towns where demand for value-for-money brands is the highest. This year, we want to continue developing in that direction. We will focus primarily on large-format stores in retail parks, facilitating presentation of the relaunch of the Sinsay brand expanded with product offers addressed to teenagers, women, young men and children. The offer includes also a wide selection of accessories, cosmetics and interior decoration items.

Furthermore, as previously announced, we expanded also the geographical reach of LPP's offer. In autumn 2021, we launched first stores of all our five brands in North Macedonia, thus strengthening our presence in the Balkans. In this region, we started expanding LPP's business 14 years ago when we had launched the first Reserved store in Romania. Since then, we have opened our traditional stores also on the Bulgarian, Croatian, Serbian, Slovenian and Bosnian markets. Today, having entered the Macedonian market, in that region, we operate 231 brand stores of the total area of nearly 231 thousand m². That is why we considered Macedonia a natural choice for developing LPP's operations in South-Eastern Europe which we recognise as a market with a substantial development potential for our brands. That was the reason why we decided to continue that trend in 2022 and, in autumn, launch our business on the eighth Balkan market i.e. in Albania. At the same time as entering the Macedonian market, in the third quarter, we expanded the reach of our online offer having launched our online sales on the 33rd e-commerce market i.e. in Bulgaria. Therefore, at the end of January 2022, our sales offer was available already in 39 countries worldwide, including 26 markets with traditional stores.

All that time, we remembered about the second important cornerstone of our business strategy

– digitalisation and implementation of modern technological solutions. In April 2021, from the LPP organisation, we separated Silky Coders, a new IT company employing today almost 600 highly specialized IT experts. This is our way to operate even more efficiently in the area of implementing state-of-the-art solutions, with special attention paid to developing data science know-how. The future for the increasingly competitive market and growing consumer expectations will be based on precise information, the creation of algorithms based on historic records and implementation of machine learning linked with IA solutions. That is why LPP will recognise the said area as an important development factor.

Simultaneously, we accelerated substantially the process of implementing RFID in Mohito, Cropp and House. For us, the effectiveness of the electronic tag and its functionality spectrum in Reserved, specifically during the pandemic, was a clear sign that we needed to implement it as soon as possible in the remaining brands. Today, the precise knowledge on our inventory, increased availability of brand products for customers and optimisation of supply processes seem to be the only adequate solutions.

Last year, we clearly noted the increasing trend involving the use of mobile devices by consumers on almost all markets. Today, in our brands, over 80% of online stores are visited, and almost ¾ of online shopping are made, through mobile devices. Therefore, we quite accelerated works on the first Reserved sales application delivered to customers at the beginning of this year. Simultaneously, we started working on a similar solution in Sinsay, which is currently already in the testing phase.

However, today, modernity and, first of all, high competitiveness on the market translate not only into the Company's financial standing and its technological efficiency. A need for a deepened enterprise analysis and assessment is no longer limited only to the company's capacities in terms of its solvency or execution of financial liabilities. The above is a consequence of the progressing evolution of the market on which enterprises are already assessed in terms of effective implementation of responsible business standards based on three cornerstones – environmental, social and corporate governance. Bearing that in mind, in December 2021, we decided to create, in our corporate structures, the position of ESG Director reporting directly to me. The said person has been made responsible for planning and coordinating the process of implementing ESG standards in all our areas of operation. Although we have followed the path of business responsibility and consistent sustainable development for years, we deemed it necessary to form new structures to be able to respond, in an orderly and systemic manner, to new climate and business challenges ahead of us. Last year, we hardly had a shortage of them.

During last 12 months, we consistently pursued our goals adopted in our sustainable development strategy called "For People For Our Planet". One of the said goals is eliminating in full single-use plastics and full respect for natural resources. Thus, several years ago, we changed totally our packaging policy to eliminate parts made of plastics, substituting them with recycled cardboard products. At the same time, we have widened the list of environmentally friendly fabrics for sewing our clothes, with fabrics of organic or cellulose origin constituting nowadays a large part of them. Therefore, a natural consequence of such attitude was the decision made in mid-2021 to start cooperating with Canopy, an organisation aimed at developing practices of sustainable forest management worldwide. Several months later, we became also a partner of Cotton made in Africa (CmiA), a well-recognised standard for sustainable cotton cultivation in Africa. We did that for two reasons: to continue the trend of increasing the share of environmentally friendly products in our collections and also to implement the best social practices and standards. Having joined that project, we contribute to improving social conditions of nearly a million of farmers in Sub-Saharan Africa.

Additionally, last year, for the first time, we saw fully quantifiable effects of our joining the global initiative Zero Discharge of Hazardous Chemicals (ZDHC), acting for sustainable chemical safety in the textile industry. Today, I'm very proud that as much as 70% of LPP clothes manufactured in Bangladesh and Pakistan meet the strict standards of chemical safety set by ZDHC.

Yet, the above does not end a long list of actions we took last year. Simultaneously, we were in the process of implementing sustainable construction solutions in our warehouse and office facilities which had undergone BREEAM certification procedures. Also, we consistently switch to renewable energy sources as evidenced by the fact that we have signed one of the largest contracts for purchasing renewable energy for our offices and the distribution network, effective from the beginning of 2023, with Figene Energia. We plan to continue such activities also in subsequent years.

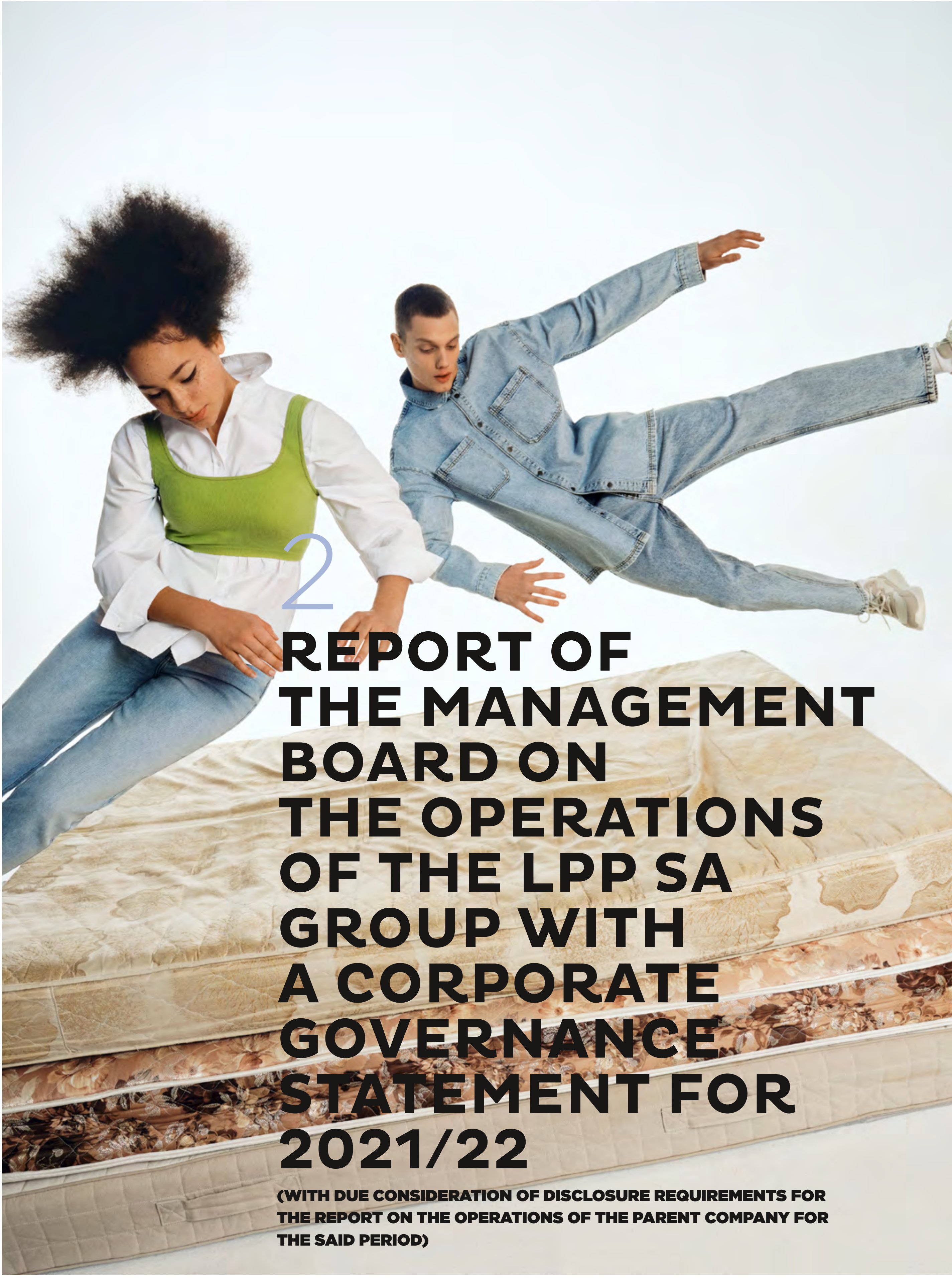
At the same time, we intend to continue two-digit sales growths both in traditional and online stores, with special emphasis being put on Central and Southern Europe. However, giving recognition to the current geopolitical situation in Eastern Europe and the inflation increase combined with the growing cost pressure on the market, one should expect that trade and operating margins will decrease in 2022. Nonetheless, we want to maintain a high investment level reaching PLN 1.0 bln, including approx. PLN 630 mln to be appropriated for store chain development.

It is also expected that the level of market demand will be normalising. An intense consumption increase following its first saturation in 2021 and the announced further inflation growth in 2022 will not support customers' shopping choices. Thus, it should be assumed that the year 2022 will bring normalisation of consumer demand and economic instability on all markets due to the ongoing war in Ukraine. Due to international economic sanctions imposed on, and expected large recession in, Russia, we have strongly remodelled LPP's business plans for the upcoming years. We have decided to shift the previously announced intensive development and the strengthening of our brand recognition on Eastern markets to the EU countries, with special emphasis put on Central and Southern Europe. Despite a large share of the Ukrainian and Russian markets in the LPP portfolio, I'm convinced that, owing to the large financial cushion we have and our ambitious yet viable sales plans adopted for 2022 on the European markets, we will be able to reach even higher revenue than the one yielded in 2021. In this respect, we expect an increase of approx. 13 percent y/y, with a simultaneous growth of e-commerce sales reaching approx. PLN 5 bln.

Although we are facing turbulent coming months, I believe that, in recent years, we were able to effectively prepare the Company for economic turmoil. This will be supported by high popularity of our collections on the markets we have been operating so far, especially by the format of our youngest brands representing the moderate-price segment. LPP's ambitious development plans covering the expansion of both the distribution network and the store chain, along with the Company's very stable financial position, give our business a good chance of success in the nearest months. As proven by the rough pandemic period, our preparations and the ability to adapt the Company flexibly to changing external conditions have made it possible to put LPP on the safe path, letting the Company generate record-breaking financial results along the way. I do believe that the year 2022 will bring similar results leaving LPP in a good financial condition, with stable prospects for the future.

Marek Piechocki,

President of the LPP SA Management Board



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REPORT OF THE MANAGEMENT BOARD ON THE OPERATIONS OF THE LPP SA GROUP WITH A CORPORATE GOVERNANCE STATEMENT FOR 2021/22

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

INTRODUCTION

This Report of the Management Board on the operations of the LPP SA Group for 2021/22 incorporates information the scope of which has been set forth in §§ 70-71 of the Regulation of the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities [...] (the Regulation).

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

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the
Management Board

Przemysław Lutkiewicz
Vice-President of
the Management Board

Jacek Kujawa
Vice-President of
the Management Board

Sławomir Łoboda
Vice-President of
the Management Board

Marcin Piechocki
Vice-President of
the Management Board

Gdańsk, 19 April 2022

ABOUT US

WHO WE ARE

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

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

Our staff consists of approx. 31.8 thousand people employed in our offices as well as sales and distribution units in Poland and European and Asian countries. Openness, diversity, responsibility for our development and mutual respect are the cornerstones of LPP's culture.

GDAŃSK

In Gdańsk, there is the LPP head office where designs of Reserved, Cropp and Sinsay collections are made. In Gdańsk, the Management Board of LPP takes key decisions for the Company's operations and development. Furthermore, the Company's all key departments are located in the head office.

CRACOW

In Cracow, there are design offices of House and Mohito and their sales and administrative departments of both brands.

WARSAW

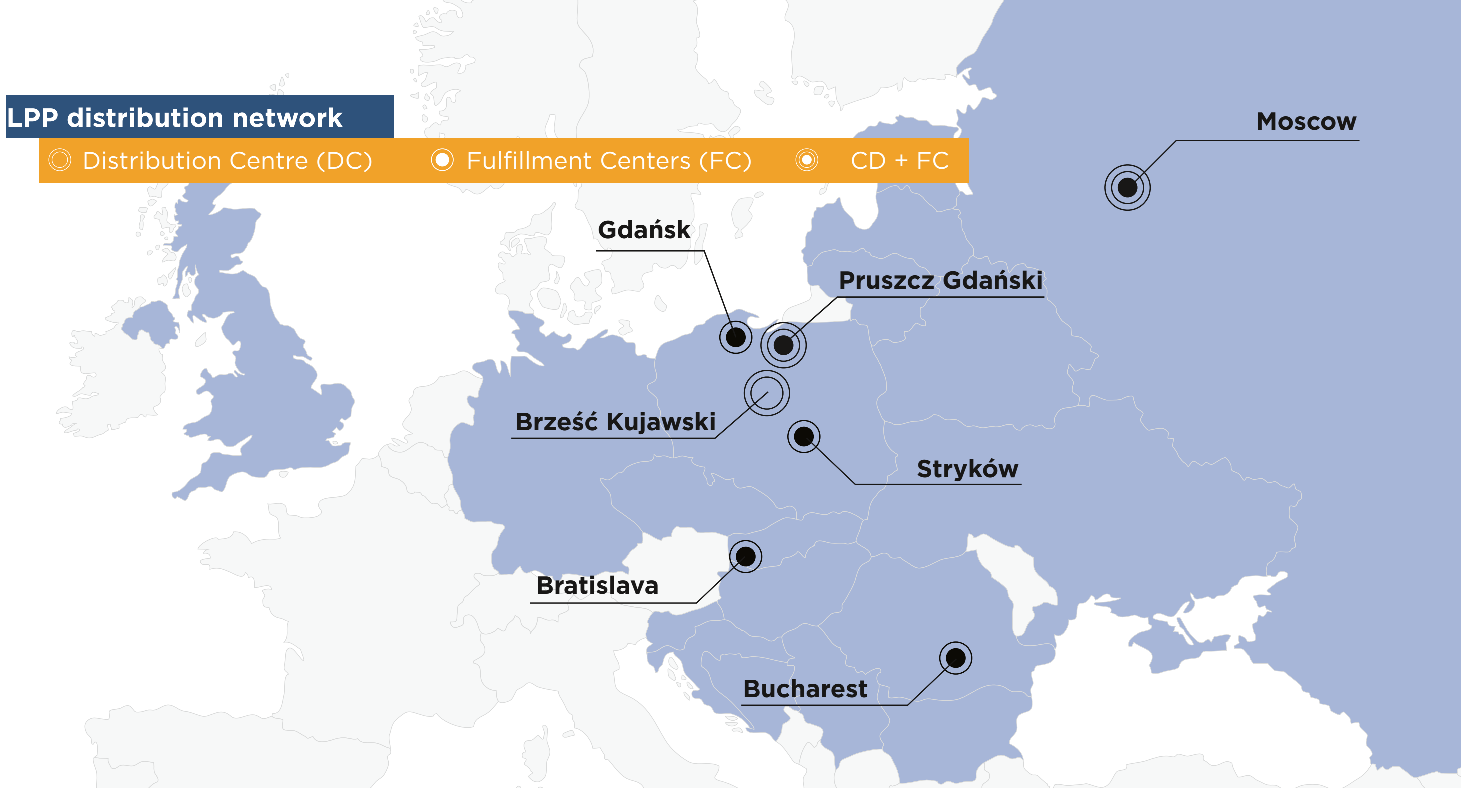
In 2017, in Warsaw, we launched the Reserved product office. The Reserved team assists the product development department in Gdańsk both in creating regular collections, including Eco Aware, and in special projects.

SHANGHAI

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

DHAKA

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



In each country where we have ours sales network (our on-site brand stores), there is a local representative unit of LPP. Foreign LPP companies are led by the best fashion specialists successfully managing our business in specific countries.

Furthermore, we have a distribution network providing services to on-site stores (Distribution Centres) and online stores (Fulfilment Centers) located both in Poland and abroad.

HOW WE OPERATE AS A GROUP

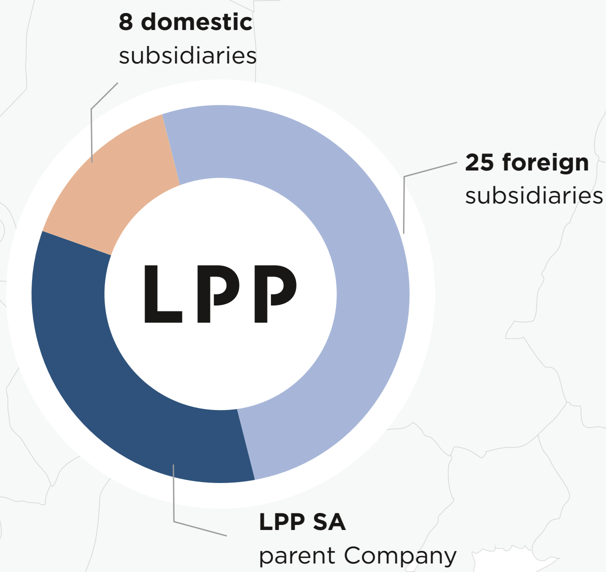
The LPP SA Group is composed of the Parent Company, 8 domestic companies with their registered offices in Poland and 25 foreign companies. The Group's foreign subsidiaries are, to a major extent, engaged in the distribution of products of all our brands outside Poland.

Our Polish companies are engaged in the following business areas: the handling of brand stores in Poland (LPP Retail Sp. z o.o), sales of promotional clothing (Printable Sp. z o.o.), logistics services (LPP Logistics Sp. z o.o.), construction works involving logistics centres (Veviera Investments Sp. z o.o.), management of IT projects for the Group (Silky Coders Sp. z o.o. and Dock IT Sp. z o.o.) and business activities covering the lease of real property in Poland, in locations where our brand stores are located (DP&SL Sp. z o.o., IL&DL Sp. z o.o.).

In the reporting period, there were changes in the Group's structure following establishment of three Polish companies: Silky Coders Sp. z o.o., Dock IT Sp. z o.o and Veviera Investments Sp. z o.o. and one foreign subsidiary: Reserved Fashion BIS, Modne Znamke DOO> Furthermore, there was a merger of LPP SA with Gothals Ltd.

The consolidated financial statements of the Group, covering the period between 1 February 2021 and 31 January 2022, include separate results of LPP SA, the results of foreign subsidiaries and six Polish subsidiaries. The remaining two Polish subsidiaries (engaged in the lease of real properties in Poland) were not consolidated due to irrelevance of data.

Structure of the LPP SA Group



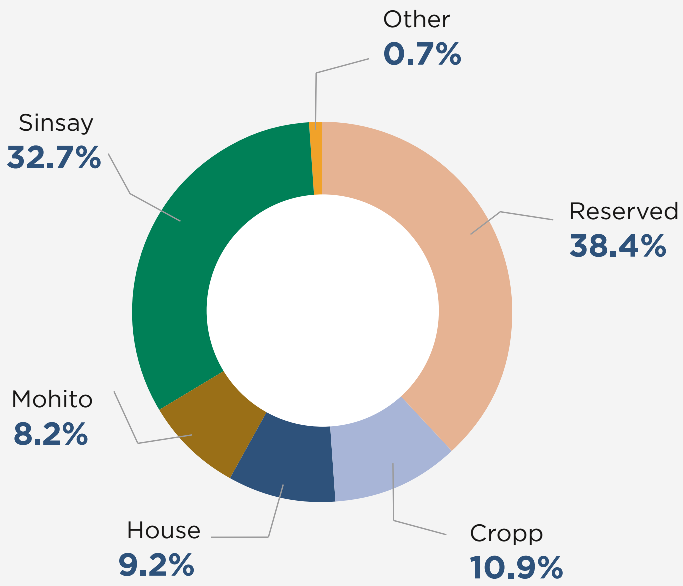
Spółki zależne wchodzące w skład naszej Grupy:

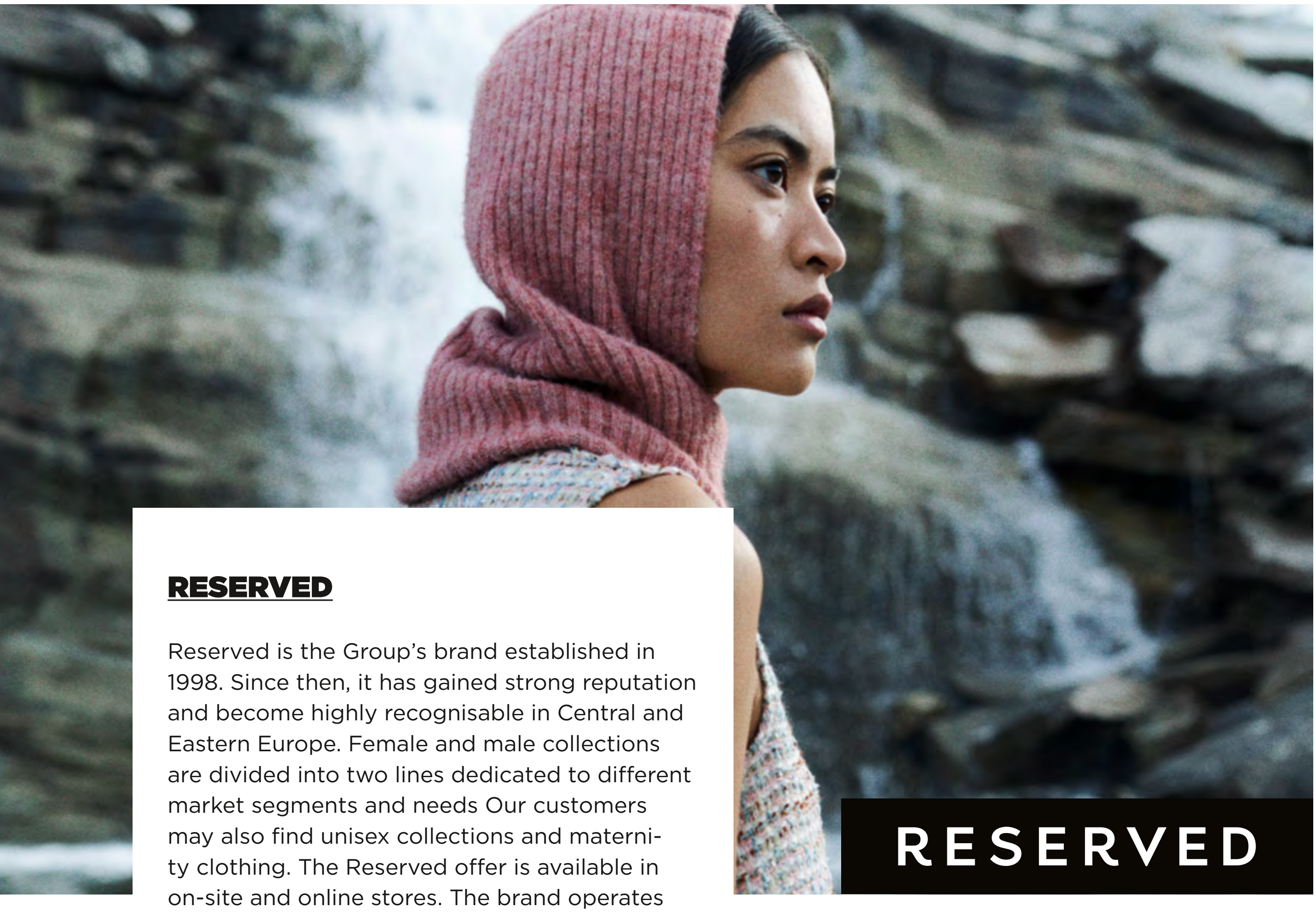
No	Company name	Registered office	Shareholding
1.	LPP Retail Sp. zo.o.	Gdańsk, Poland	100.0%
2.	DP&SL Sp. z o.o.	Gdańsk, Poland	100.0%
3.	IL&DL Sp. z o.o.	Gdańsk, Poland	100.0%
4.	LPP Printable Sp. z o.o.	Gdańsk, Poland	100.0%
5.	LPP Logistics Sp. Z o.o.	Gdańsk, Poland	100.0%
6.	Dock IT Sp. z o.o.	Gdańsk, Poland	100.0%
7.	Silky Coders Sp. z o.o.	Gdańsk, Poland	100.0%
8.	Veviera Investments Sp. z o.o.	Gdańsk, Poland	100.0%
9.	LPP Czech Republik SRO	Prague, the Czech Republic	100.0%
10.	LPP Slovakia SRO	Banska Bistrica, Slovakia	100.0%
11.	LPP Hungary KFT	Budapest, Hungary	100.0%
12.	LPP Lithuania UAB	Vilnius, Lithuania	100.0%
13.	LPP Latvia LTD	Riga, Latvia	100.0%
14.	LPP Estonia OU	Tallin, Estonia	100.0%
15.	RE TRADING OOO	Moscow, Russia	100.0%
16.	LLC Re Development	Moscow, Russia	100.0%
17.	LPP Ukraina AT	Peremyshliany, Ukraine	100.0%
18.	OOO LPP BLR	Minsk, Byelarus	100.0%
19.	LPP Kazakhstan LLP	Almaty, Kazakhstan	100.0%
20.	LPP Bulgaria EOOD	Sofia, Bulgaria	100.0%
21.	LPP Fashion Bulgaria EOOD	Sofia, Bulgaria	100.0%
22.	LPP Romania Fashion SRL	Bukarest, Romania	100.0%
23.	LPP Croatia DOO	Zagreb, Croatia	100.0%
24.	LPP Reserved DOO Beograd	Belgrad, Serbia	100.0%
25.	Reserved Fashion, Modne Znamke DOO	Lublana, Slovenia	100.0%
26.	Reserved Fashion BIS, Modne Znamke DOO	Lublana, Slovenia	100.0%
27.	LPP BH DOO	Banja Luka, Bosnia and Her-cegovina	100.0%
28.	LPP Macedonia DOOEL	Skopje, Macedonia	100.0%
29.	LPP Deutschland GmbH	Hamburg, Germany	100.0%
30.	LPP Reserved UK LTD	Altrincham, Great Britain	100.0%
31.	LPP Finland LTD	Helsinki, Finland	100.0%
32.	IPMS Management Services FZE	Ras Al. Khaimah, UAE	100.0%
33.	P&L Marketing&Advertising Agency SAL	Beirut, Liban	97.3%

OUR PORTFOLIO

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

Share in sales





RESERVED

Reserved is the Group's brand established in 1998. Since then, it has gained strong reputation and become highly recognisable in Central and Eastern Europe. Female and male collections are divided into two lines dedicated to different market segments and needs Our customers may also find unisex collections and maternity clothing. The Reserved offer is available in on-site and online stores. The brand operates in line with the omnichannel strategy giving full access to products regardless of the sales channel. It is supported by an innovative distribution system and the latest technological solutions, including RFID. Owing to the above, it is possible to precisely allocate goods as required in individual locations and adjust the product range to customers' preferences.

Reserved carries out the assumptions of the new sustainable development strategy "For People, For Our Planet", in which LPP undertook to reduce its environment impact thus bringing benefits both to our planet and future generations. The brand has repeatedly, in line with LPP's sustainable development, increased the share of environmentally friendly projects of the Eco Aware line. In 2021/22, the said share reached 13.1% of our sales 54.5% of the entire Eco Aware collection sold. By 2025, the brand plans to have 100% of its stores covered by the Eco Aware Stores project. At the same time, starting from 2021, Reserved has been implementing its plan to have its servers and online stores supplied with renewable energy. By 2023, it intends to have met further environmentally sustainable goals i.e. using recycled packaging only.

Basic data on the brand for 2021/22:

Date of establishment:	1998
Website:	www.reserved.com
Location of the design centre:	Gdańsk, Warsaw
Revenue for 2021/2022 and change in % y/y:	PLN 5.386 mln, increase 55.4% y/y
Number of brand stores (as at 31.01.2022):	447
Number of markets and countries in which the brand is available in on-site stores:	26 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Belarus, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Germany, Great Britain, Finland, Egypt, United Arab Emirates, Kuwait, Qatar, Israel, North Macedonia
Countries in which the brand is available in online stores:	33 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Slovenia, Germany, Great Britain, Finland, Portugal, Spain, Ireland, the Netherlands, Belgium, Luxembourg, France, Greece, Italy, Austria, Sweden, Denmark, United Arab Emirates, Saudi Arabia, Israel, Kuwait, Qatar, Bulgaria

Basic data on the brand for 2021/22:

Date of establishment:	2004
Website:	www.cropp.com
Location of the design centre:	Gdańsk
Revenue for 2021/2022 and change in % y/y:	PLN 1.526 mln, increase 57.0 % y/y
Number of brand stores (as at 31.01.2022):	398
Number of markets and countries in which the brand is available in on-site stores:	19 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland, Belarus, North Macedonia
Countries in which the brand is available in online stores:	14 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Slovenia, Germany, Bulgaria

CROPP

Cropp is a streetwear brand enabling our customers to create their individual style from our female and male collections supplemented with a wide variety of footwear and modern accessories. The brand helps to express emotions and cross boundaries. Brand designers get inspired by modern culture and music, creatively mixing them in projects with fashion straight from catwalks around the world.

Cropp's customers are persons following the latest trends but do not blindly, opting for individuality and expressing a unique style.

Furthermore, Cropp gives attention to ecology. Year by year, the brand has been expanding the Eco Aware line comprising clothes designed in line with the idea of sustainable development. In Polish brand stores, plastic shopping bags have been substituted with paper ones while online orders are packed in 100% recycled foil.

HOUSE

House makes creative space for young people who want, through their style, to show who they are and how they feel, and they see experimenting with fashion as a way to express their emotions.

The brand offers interesting combinations of the latest trends with a casual style. It also inspires to be brave, play with styles and consciously shape your own image. House focuses on listening to customers' needs and observing their environment: things they are interested in, hobbies, plans and dreams. Knowing their world, it is possible to meet their expectations and adjust to their dynamic pace of life, creating fashionable and, at the same time, casual every-day outfits for men and women.

House collections are created following observations of the style of metropolitan streets and pop-culture, being also inspired by trends present in social media, music and art. Brand designers use professional tools to analyse fashion trends and take part in textile fairs. House cares for eco quality and its strategy covers social responsibility to create more sustainable future in fashion.

Basic data on the brand for 2021/22:

Date of establishment:	2001
Website:	www.housebrand.com
Location of the design centre:	Cracow
Revenue for 2021/2022 and change in % y/y:	PLN 1.295 mln, increase 47.9% y/y
Number of brand stores (as at 31.01.2022):	368
Number of markets and countries in which the brand is available in on-site stores:	19 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland, Belarus, North Macedonia
Countries in which the brand is available in online stores:	14 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Slovenia, Germany, Bulgaria

Basic data on the brand for 2021/22:

Date of establishment:	2008
Website:	www.mohito.com
Location of the design centre:	Cracow
Revenue for 2021/2022 and change in % y/y:	PLN 1.144 mln, increase 61.6% y/y
Number of brand stores (as at 31.01.2022):	286
Number of markets and countries in which the brand is available in on-site stores:	19 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Belarus, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland, North Macedonia
Countries in which the brand is available in online stores:	15 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Slovenia, Germany, Bulgaria, United Arab Emirates

MOHITO

Mohito is a proposal for women who love fashion and appreciate original urban elegance. Casual, confident, sensual and loving life - this is how designers from the Polish brand see each woman. The brand carefully follows global trends, maintaining in its design the balance between fashion inspiration, comfort and functionality which is particularly expected now. The collections include classic and modern cuts, a wide range of colours, original prints and fashionable patterns.

Year after year, the brand increases the quantity of Eco Aware products in its collections. When creating an ecological line of clothes and accessories, brand designers use environmentally friendly raw materials from sustainable sources. Eco Aware materials include organic cotton, linen, recycled polyester and ecological viscose.

SINSAY

Sinsay responds to customers' extensive needs, offering the latest trends at affordable prices. The diversity of our collections allows customers to freely create trendy looks for any occasion. The brand designs product lines that are a daily source of inspiration for teenagers and women as well as men preferring a casual urban style. Sinsay also offers comfortable and functional clothing for mums and cute products and accessories for children. The brand's offer is complemented by interior design products and a line of make-up and beauty products.

Basic data on the brand for 2021/22:

Date of establishment:	2013
Website:	www.sinsay.com
Location of the design centre:	Gdańsk
Revenue for 2021/2022 and change in % y/y:	PLN 4.587 mln, increase 163.9% y/y
Number of brand stores (as at 31.01.2022):	743
Number of markets and countries in which the brand is available in on-site stores:	19 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Belarus, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland, North Macedonia
Countries in which the brand is available in online stores:	14 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Slovenia, Germany, Bulgaria

OUR BUSINESS MODEL

Our business model is defined in 4 steps.

STEP 1:
DESIGNING

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

Approx.
300 designers,
5 different brands

Our designers take part in fashion fairs (organised online during the pandemic) in fashion capitals around the world, and, on a daily basis, follow street fashion and social media to create original collections which creatively match given-season trends (colours, patterns, models) with our customers' needs.

STEP 2:
MANUFACTURING

Over
1,100 suppliers
from Asia and Europe

Approx. 7% of collections of all LPP brands manufactured in close proximity and approx. 93% in Asia

No own manufacturing plants.

Our collections are sewn by third parties. We cooperate with duly selected manufacturing plants in Asia and Europe, producing individual models and taking care of high quality. We focus on sustainable development in the supply chain. Our suppliers undergo audits and training courses covering respect for human rights and employees' rights. We pay attention to our suppliers' environmental impact. In Asia, we operate through our representative offices.

STEP 3:
DISPATCH AND LOGISTICS

371 thousand m² of the total warehousing space

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

Over **41 mln** e-commerce orders executed in the financial year

Currently, apart from successful collections, the quality of logistics services is of major importance for customers in the shopping process. Therefore, on a regular basis, we develop our distribution network. In Pruszcz Gdański, we have one of the most state-of-the-art distribution centres in this part of Europe; our other warehousing facilities are located in Stryków (Central Poland), Brześć Kujawski (project in progress) and abroad: in Russia (Moscow), Romania (Bucharest) and Slovakia (Bratislava). Furthermore, we invest in new technologies facilitating the entire process of product distribution to brand stores and in the e-commerce channel.

STEP 4:
SALE

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

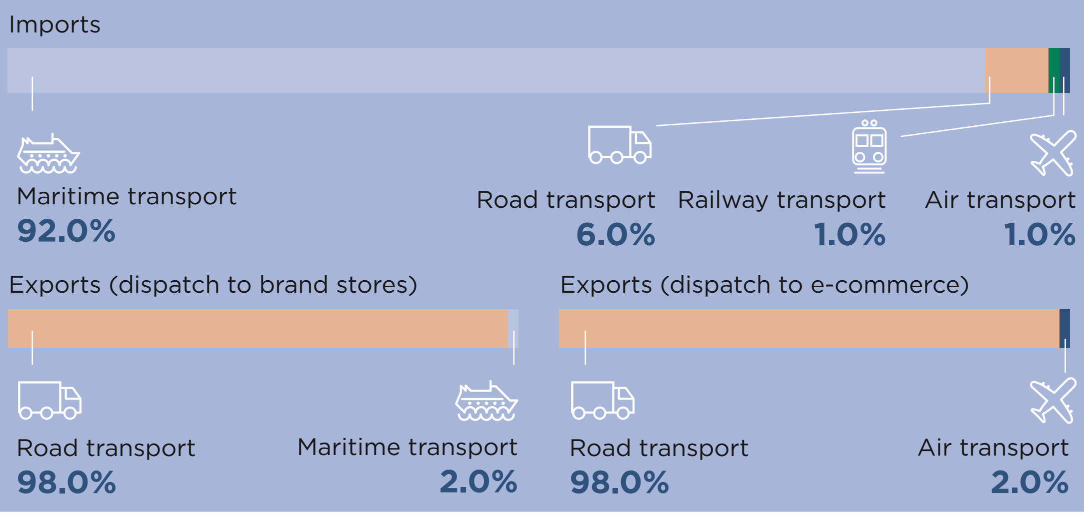
2,244 brand stores of the total area of **1,888 thousand m²** in **26** countries

Online sales in **33** countries

Almost **412 mln** of clothing items sold annually.

Due to customers' changing preferences and behaviour and pervasive digitalisation and transformation in retail trade, we put emphasis on the omnichannel. We take a holistic approach to both sales channels (traditional and online) offering our brand products in constantly developing brand stores and online. Simultaneously, we focus on the highest-quality customer service, implementing state-of-the-art Fashion Tech solutions.

Percentage share of specific modes of transport in 2021/22:



COUNTRIES WHERE OUR CLOTHES ARE MANUFACTURED

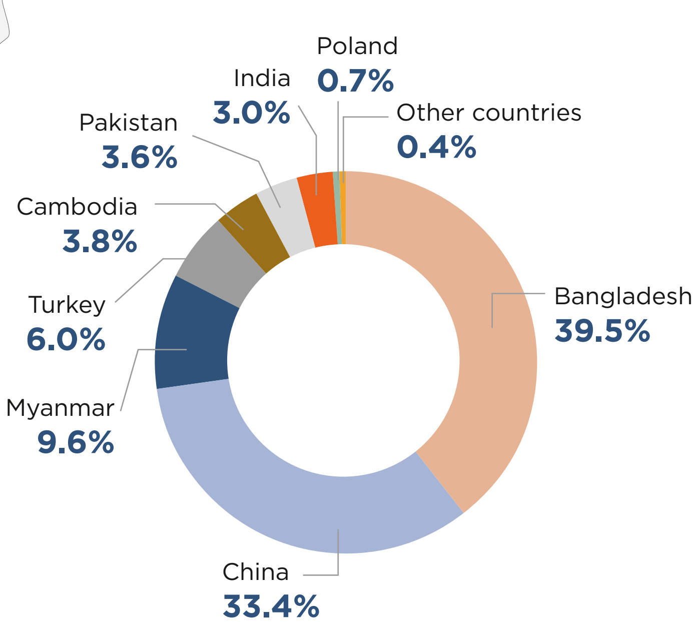
OUR SUPPLIERS

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

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

In 2021/22, none of individual suppliers manufactured goods of a value exceeding 5% of total purchases. The majority of orders were executed in Bangladesh 39.5%, China 33.4%, Myanmar 9.6%, Turkey 6.0%, Cambodia 3.8%, Pakistan 3.6%, India 3.0%. In 2021/22, Polish plants manufactured 0.7% of products ordered.

Percentage share of purchases on individual markets in 2021/22



OUR RECIPIENTS

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

Direct recipients of products of LPP SA (parent company) are subsidiaries (foreign companies) and non-affiliated entities (mainly franchise partners).

Subsidiaries build the chains of retail stores of our individual brands locally and are supplied with trading commodities by LPP SA, the parent company.

Due to the specific character of certain local markets, we decide to sell goods in the franchise model based on which our products are sold by entities more experienced in this area, i.e. local business partners. They are responsible for finding the best location, building a store in line with our standards and for its management. As part of the franchise cooperation, LPP supplies the franchisee with our brand collections and undertakes to provide any and all tools and know-how, ensuring support at each stage of the cooperation. The pricing policy on a local market is determined jointly with a franchisee based on market research and competitors' strategy. Store replenishment is carried out on the same terms and conditions as those applicable to own brand stores, taking in consideration only climate differences and cultural factors, mainly religious restrictions.

Currently, we have 9 franchise stores of Reserved in 5 countries in the Middle East (Egypt, Qatar, Kuwait, United Arab Emirates and Israel), operated by two business partners from that region.

OUR MARKET PRESENCE

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

Our chain of traditional stores comprises 2,244 retail stores in 26 countries, of the total area of 1,888.1 thousand m².

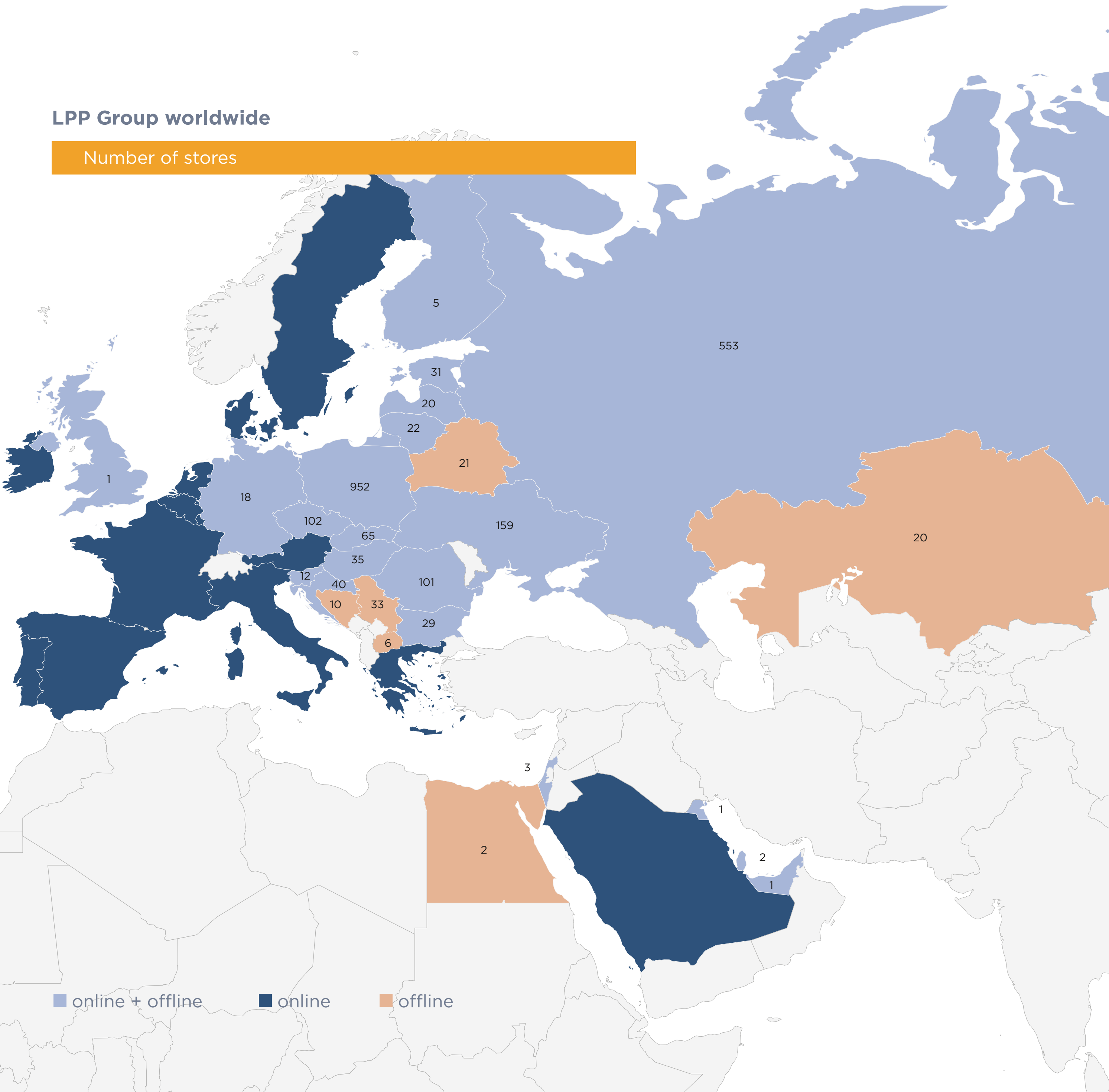
We are present on 33 markets online.

Number and area of stores by brand as at 31.01.2022

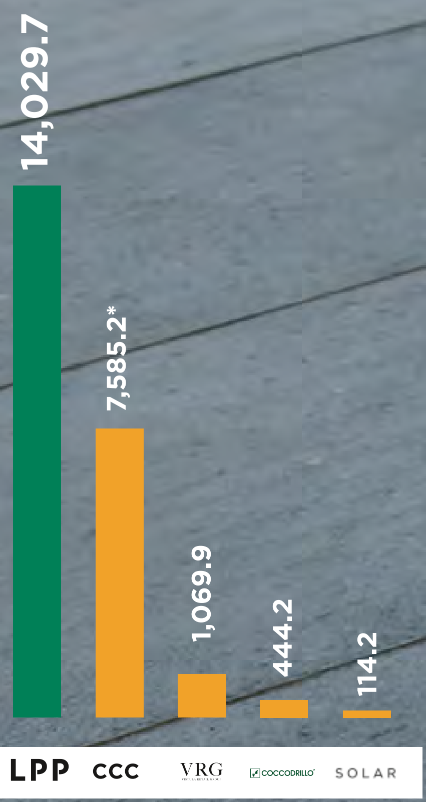
	Reserved	Cropp	House	Mohito	Sinsay	Outlet
Store number	447	398	368	286	743	2
Store area in thousands m²	710.2	191.5	173.4	122.5	689.1	1.4

LPP Group worldwide

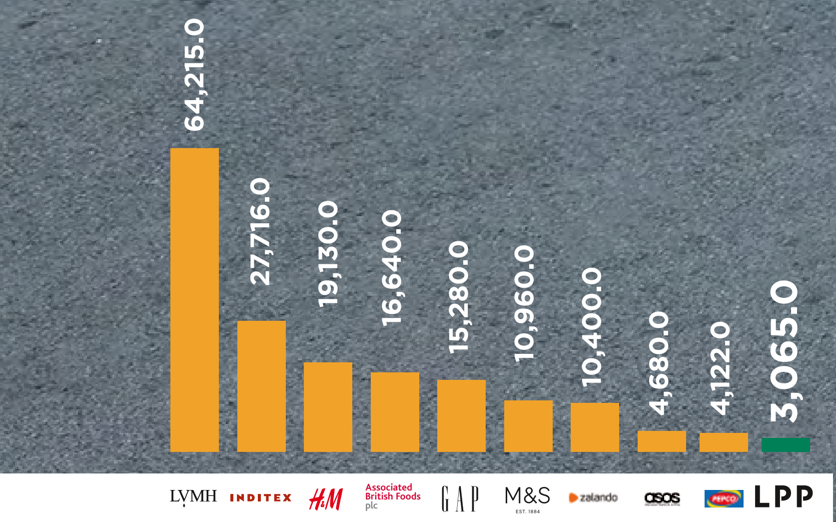
Number of stores



LPP GROUP VERSUS COMPETITORS



LPP versus domestic competitors
Revenues (in PLN mln)



LPP versus global competitors
Revenue (in EUR mln)

* *estimated data*

KEY EVENTS IN 2021/22

MARCH

Launching another warehouse for handling e-commerce in Russia

Doubling warehouse space in Romania

MARCH – NOVEMBER

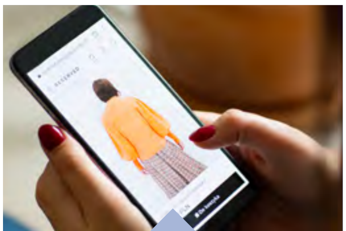
Construction of the Distribution Centre in Brześć Kujawski

MAY

Starting cooperation with CANOPY, an organisation aimed at developing business practices among entrepreneurs for the sustainable use of global forest resources by implementing changes in the purchases of paper, packaging and pulp textiles.

JUNE

Decisions of the Annual General Meeting of LPP:
- appointment of a new member of the Management Board of LPP and the Supervisory Board of LPP
- resolving to disburse a dividend



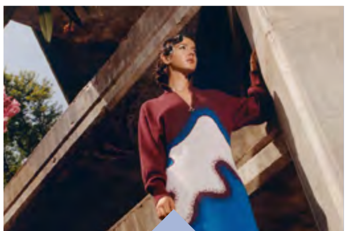
Launching the Polish version of the Reserved app.

SEPTEMBER

Signing a letter of intent with FIGENE for the supply of RES energy

Launching an online store on the Bulgarian market

Entering the Macedonian market



BRODKA X RESERVED limited collection

SEPTEMBER

Installation of 4 thousand photovoltaic panels on the roof of the LPP Distribution Centre in Brześć Kujawski

OCTOBER

Agreement on the lease of a new Fulfillment Center in Pruszcz Gdański, in the Panattoni Park Tricity South II

NOVEMBER

LPP ranked second in WIG 20 and mWIG 40 of companies best reporting climate issued

OCTOBER

First price in the Office Superstar competition, in the "Best Tricity Office" category for the Fashion Lab2 LPP office building in Gdańsk

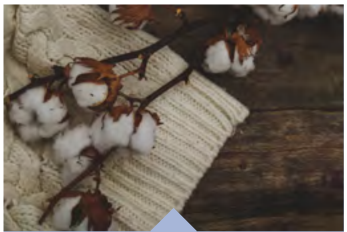
Breeam certificate (buildings' assessment in terms of environmental standards) for the head office of the LPP Cracow branch

NOVEMBER

Implementation of the automated sorting system in the Slovakian Fulfillment Center

Signing the agreement with Panattoni on the lease of warehouse space (67,000 m^2) in the Rzeszów region

JANUARY



Joining Cotton Made in Africa (CmiA), an internationally recognised standard for sustainable cotton farming in Africa

OUR FINANCIAL POSITION AND RESULTS FOR 2020/21

NUMBER OF STORES AND RETAIL SPACE

At the end of 2021/22, the LPP SA Group had 2,244 stores in 26 countries, having the total area of approx. 1,888.1 thousand sq. m., with 1,292 stores located abroad (1,210.9 thousand sq. m.). Compared to 2020/21, the total retail space increased by 31.5%.

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

Number of stores	31.01.2022	31.01.2021	Change y/y
Reserved	447	440	7
Cropp	398	369	29
House	368	332	36
Mohito	286	278	8
Sinsay	743	434	309
Outlet	2	3	-1
Total LPP Group	**2,244**	**1,856**	**388**

Area in thousands m^2	31.01.2022	31.01.2021	Change y/y
Reserved	710.2	674.7	5.3%
Cropp	191.5	166.1	15.3%
House	173.4	146.8	18.1%
Mohito	122.5	115.2	6.3%
Sinsay	689.1	329.8	109.0%
Outlet	1.4	2.8	-49.2%
Total LPP Group	**1,888.1**	**1,435.4**	**31.5%**

SALES OF OUR INDIVIDUAL BRANDS

In 2021/22, the Group's revenue was generated from the revenue of five brands, yielded from their on-site and online stores. At the same time, these values were approx. 80% lower than those recorded by the Group a year ago. The increase in revenue of all brands resulted from several factors. First of all, the above is the effect of the deferred demand trend observed on almost all European markets in consequence of restricted shopping of clothes in the preceding pandemic 2020. After a series of lockdowns, the return to schools and offices sprung the need and desire to make up for consumption, including clothing, which was abandoned a year earlier. An additional motivating factor for purchasing clothing from our brands was their successful collections and positive customer reception.

Simultaneously, it should be noted that, in 2021/22, almost all our brands (except House) generated more revenue abroad than domestically which proves that they are gaining more and more global recognition.

Sales of individual brands in both channels, i.e. in on-site and online stores in 2021/22, are given in the table below.

In PLN mln	Sales 2021/22	Sales 2020/21	Change y/y (%)
Reserved	5,386	3,467	55.4%
Cropp	1,526	972	57.0%
House	1,295	875	47.9%
Mohito	1,144	708	61.6%
Sinsay	4,587	1,738	163.9%
Other	92	88	3.7%
Total	**14,030**	**7,848**	**78.8%**

OUR SALES IN LFL STORES

In 2021/22, sales revenue in like-for-like (LFL) stores in local currencies increased by 55.8% y/y.

In the reporting period, positive two-digit LFLs were recorded by all our brands, with the highest ones recorded by Mohito. Geographically, all countries recorded high positive LFL sales. At the same time, high LFL in financial year 2021/22 resulted from the low base of the previous year in which the Group's on-site stores were closed due to repeated lockdowns.

ONLINE SALES

In 2021/22, the LPP SA Group generated revenue of PLN 3,961 mln from online sales, i.e. 77.7% more than a year ago. High two-digit growths in online sales result from changing customer habits i.e. the convenience trend. The said trend became popular in pandemic 2020 when on-site stores were closed and online shopping had become an alternative for the traditional shopping channel. The popularity of online shopping showed no signs of decline during the next year.
Consequently, in 2021/22, revenue from online sales constituted 28.2% of the Group's sales and 27.8% of domestic revenue compared to 28.4% and 32.0% a year ago, respectively.
Approx. 39% of online sales in 2021/22 were generated by domestic sales.

	2021/22	2020/21	Change y/y (%)
Sales in PLN mln	3,961.1	2,229.3	77.7%

SALES REVENUES BROKEN DOWN BY REGION

In 2021/22, revenue generated abroad exceeded domestic revenue, which confirms our Group's global range. At the same time, all sales regions recorded, in the reporting period, an increase in revenue y/y resulted from the development of our sales networks of all our brands (in the traditional and online channels), the emerging effect of deferred demand as well as successful collections and their acceptance by customers.

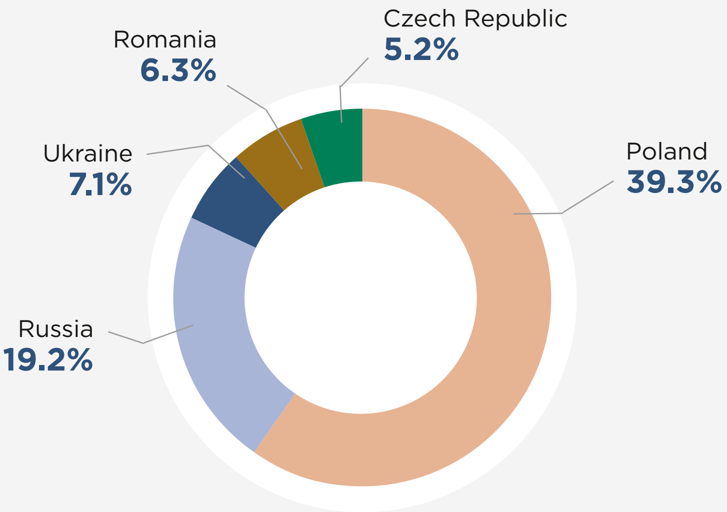
The largest increase in revenue was recorded in the countries of Eastern Europe owing to our development in that region.

Revenue from sales generated by our companies operating in individual regions is given in the table below.

Region/country	2021/22	2020/21	Change y/y (%)
Poland	5,513,024	3,397,742	62.3%
Other European countries	4,594,717	2,504,280	83.5%
East European countries	3,892,433	1,929,281	101.8%
Middle East*	29,500	16,776	75.8%
Total	**14,029,674**	**7,848,079**	**78.8%**

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

TOP 5 countries by revenue



SALES BY M²

In 2021/22, total sales per m² of the LPP Group increased by 42.9% compared to the preceding year.

	2021/22	2020/21	Change y/y (%)
Total sales per m²/month in PLN*	715	500	42.9%

* This indicator is calculated as the Group's sales divided by the average total working floor space / 12.

OPERATING COSTS

Our operating costs include costs of own stores and franchise stores in Poland, distribution costs and general costs. Costs of own stores comprise rental, payroll and other costs (power supply, depreciation, material consumption and services). Distribution costs comprise the costs of logistics and e-commerce. General costs include costs of marketing, back-office as well as the sales and product departments i.e. the head office in Gdańsk, offices in Cracow and Warsaw and offices of foreign subsidiaries.

In 2021/22, the Group recorded an increase in operating costs by 54.9% mainly due to the development of the sales network (on-site and online stores) and logistics.

	2021/22 (IFRS 16)	2020/21 (IFRS 16)	Change y/y (%)
Operating costs (in PLN mln)	5,961	3,848	54.9%
Operating costs per m^2/month	305	247	23.7%

CAPITAL INVESTMENTS AND EXPENDITURES

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

In 2021/22, our capital expenditures (CAPEX) for the development of the sales network, the distribution network, offices and technologies amounted to PLN 1,325 mln. From the said amount, we allocated PLN 912 mln for the construction of new brand stores and modernisation of existing ones both domestically and abroad. We spent PLN 360 mln on infrastructure (logistics, among others, the construction of the Distribution Centre in Brześć Kujawski, investments in the expansion of our offices). We spent PLN 53 mln on IT.

In total, capital expenditures in 2021/22 were 61% higher compared to the previous year. Higher outlays resulted from the decision of the LPP Management Board to return to investment plans from before the pandemic that caused their reduction.

INVENTORY

Our inventory consists of goods in stores, stock in warehouses (including those handling online stores) and merchandise in transit - from the manufacturer to a logistics centre. We strive at minimising inventory and, at the same time, maintaining a sufficient product volume to maximise sales.

In 2021/22, the inventory level was higher by 86.3% compared to the previous year, which was the outcome of plans associated with the development of both the on-site store network (including, first of all, Sinsay) and e-commerce.

At the same time, at the end of 2021/22, the inventory level per m^2 was 41.4% higher than a year ago.

In this case, the increase in inventory per m^2 resulted from the change in our product ordering policy, consisting in acceleration of orders (stockpiling) to minimise the risk of delayed collection display due to delays and disturbances in supply chains. The increased inventory per m^2 results also from increased order volume associated with the planned development of traditional stores and e-commerce.

	31.01.2022	31.01.2021	Change y/y (%)
Inventory (PLN mln)	3,864	2,074	86.3%
Inventory per m^2 in PLN	2,057	1,455	41.4%

EQUITY (STRUCTURE OF OUR ASSETS AND LIABILITIES)

The assets of our Group comprise two major components: (1) fixed assets being store fixtures and equipment, of the value of PLN 2,760 mln as at the end of 2021/22, and (2) inventories of trading commodities of the value of PLN 3,864 mln as at the balance sheet date. The value of fixed assets increases along with development of our sales network and the increase in the number of stores. The volume of trade inventory depends on the size of retail space and increases as subsequent online stores are being launched. At the same time, we constantly work on diminishing our financial engagement in inventories by reducing store replenishment and, simultaneously, by accelerating goods rotation which should translate into an increased efficiency of operations.

The LPP SA Group pursues a conservative liabilities management policy aimed at maintaining a safe financing structure. Before implementation of IFRS 16, our goal was to maintain an over 50% share of equity capital in liabilities, after its implementation – the goal is to maintain the share of above 20%. At the end of 2021/22, the share of equity capital in liabilities was 23.1%, with equity capital amounting to PLN 3,272 mln. We finance our operations also with liabilities owed to suppliers (aiming at prolonging the liabilities turnover cycle) and employing credit facilities, investment loans and overdrafts. At the end of 2021/22, the balance of bank loans was PLN 679 mln and was lower by PLN 32.5 mln compared to the balance as at the end of the preceding year.

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

	2021/22	2020/21	Change y/y (%)
Revenues	14,029,674	7,848,079	78.8%
Gross profit on sales	8,107,243	4,083,939	98.5%
Costs of stores and distribution and general costs	5,960,932	3,847,572	54.9%
EBITDA	2,626,622	1,226,069	114.2%
Operating profit (loss)	1,478,971	153,024	866.5%
Net profit (loss)	953,522	-190,130	n/m
Equity	3,272,097	3,068,376	6.6%
Liabilities and provisions for liabilities	10,863,151	7,285,392	49.1%
Long-term liabilities	3,983,219	3,114,193	27.9%
Short-term liabilities, including:	6,879,932	4,171,199	64.9%
- bank loans	535,036	521,097	2.7%
- owed to suppliers and other	4,970,841	2,775,815	79.1%
Non-current assets	7,027,715	5,620,568	25.0%
Current assets, including:	7,107,533	4,733,200	50.2%
Inventory	3,864,113	2,074,447	86.3%
Trade receivables	246,077	158,055	55.7%

PROFITABILITY RATIOS

	2021/22	2020/21	Change y/y (p.p)
Gross profit margin on sales	57.8%	52.0%	5.7
Operating profit margin	10.5%	1.9%	8.6
Return on sales (ROS)	6.8%	-2.4%	9.2
Return on assets (ROA)	7.8%	-1.9%	9.7
Return on equity (ROE)	30.1%	-6.0%	36.1

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

LIQUIDITY RATIOS

	2021/22	2020/21	Change y/y (%)
Current liquidity ratio	1.0	1.1	-9.0%
Quick liquidity ratio	0.5	0.6	-26.0%
Inventory turnover (days)	183	194	-5.7%
Receivables turnover (days)	5	7	-24.9%
Trade liabilities turnover (days)	244	235	3.8%

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

ASSET MANAGEMENT RATIOS

	2021/22	2020/21	Change y/y (p.p)
Fixed assets to equity ratio	46.6%	54.6%	-8.0
Total debt ratio	76.9%	70.4%	6.5
Short-term debt ratio	48.7%	40.3%	8.4
Long-term debt ratio	28.2%	30.1%	-1.9

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

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

In 2021/22, the Group's financial performance was substantially affected by several factors and events (including those of extraordinary nature). The Group generated revenue of PLN 14,0 bln i.e. approx. 80% higher y/y than a year ago. Such high two-digit increase in revenue resulted, among others, from the deferred demand trend noticeable on almost all markets where the Group is present. The said trend resulted from the return to normal life after the series of lockdowns during the 2020 pandemic. It reinstated the society's need to catch up on shopping abandoned the year before and was already noticeable from the first quarter of last year both in traditional and online stores.

Additionally, favourable purchase prices reached when ordering our collections, customers' wide acceptance of collections of all our brands and the limited discount policy in the preceding year translated into a very good result in terms of the generated trade margin of 57.8%, being 5.7 p.p. higher that a year ago.

Simultaneously, the outbreak of war in Ukraine and sanctions imposed on Russia brought about the Company's decisions to suspend operations in both countries (closure of traditional and online stores, halting stock supplies and suspending our expansion on those markets). Following the said decisions, though made after the balance sheet date, the Management Board of LPP decided, as regards other operating costs in financial year 2021/22, to write off the value of assets of the Ukrainian company in the amount of PLN 273 mln, and the Russian company in the amount of PLN 335 mln.

The said write-offs were of extraordinary nature and, due to them, the Group generated the operating margin of 10.5%, i.e. by 4.4 p.p. lower than if they had not been made.

Due to losses on foreign exchange differences, resulting from IFRS 16 in the financial year 2021/22, the Group recorded a less favourable impact of net financing operations.

Owing to the above and also in consequence of the extraordinary factors, in 2021/22, the LPP Group generated a net profit of PLN 953.5 mln compared to the loss of PLN 190.1 mln incurred a year ago.

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

Item	2021/22	2020/21	Change y/y (%)
Revenues	11,313,911	5,948,241	90.2%
Gross profit on sales	5,004,909	2,267,077	120.8%
Costs of stores and distribution and general costs	3,260,312	2,300,113	41.7%
EBITDA	2,198,271	411,752	433.9%
Operating profit (loss)	1,761,284	-34,952	n/m
Net profit (loss)	1,431,493	-409,997	n/m
Equity	4,061,869	3,097,356	31.1%
Liabilities and provisions for liabilities	7,174,830	5,203,244	37.9%
Long-term liabilities	1,633,128	1,561,418	4.6%
Short-term liabilities, including:	5,541,702	3,641,826	52.2%
- bank loans	228,800	421,252	-45.7%
- owed to suppliers and other	4,603,458	2,841,349	62.0%
Non-current assets	5,237,251	4,701,883	11.4%
Current assets, including:	5,999,448	3,598,717	66.7%
Inventories	2,799,900	1,590,682	76.0%
Trade receivables	1,228,974	203,126	505.0%

GOALS SET AND METHODS ADOPTED FOR FINANCIAL RISK MANAGEMENT

FINANCIAL LIQUIDITY RISK

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

The business model adopted by our Group (sale of goods for cash to an end-purchaser) guarantees that we will generate, on a constant basis, day-to-day cash proceeds, and that we will not depend on single large recipients. Liquidity management consists in goods management, in determining adequate prices and margins and in the strict control of costs and expenses. The Company uses also external financing (bank loans) to cover short-term liquidity fluctuations resulting mainly from the seasonality of sales and the goods ordering cycle or temporary hindrances affecting the Company's basic operations, such as closure of on-site stores, due the spreading of the COVID-19 pandemic in 2020/21 or suspension of operations in Ukraine and Russia, caused by the armed conflict in the territory of Ukraine and international sanctions imposed on Russia.

The Company's liquidity is audited by way of day-to-day monitoring of the balance of bank accounts, creating cash flow forecasts for monthly periods and by planning cash flows between subsidiaries and LPP SA. In the last financial year, due to extraordinary circumstances arising from the pandemic, the Management Board of LPP continued the daily liquidity monitoring initiated in 2020 and, on a regular basis, carried out stress tests covering several months of further operating activities. Analyses of prognosed cash flows were based on hypothetical cautious assumptions that the Company would remain a going concern, facing the circumstances affecting the fashion branch in retail trade. According to those analyses, revenue generated by on-site stores would be quite adversely affected and, at the same time, there would be an increase in online sales and the Management Board would be undertaking numerous steps to minimise the liquidity risk (limitation of investing activities, no dividend, optimisation of operating costs). Stress tests served as a tool for the Group to manage the liquidity risk by taking, on a day-to-day basis, steps aimed at continuing its business in the event of a scaling-down of operational capacities due to the closure of retail and operating space on some of the markets (the Eastern Europe region).

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

CREDIT RISK

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

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

INVESTMENT RISK

The investment risk involves failure to gain expected results from an investment venture or prolongation in time of investment completion. Such risk may stem from the lack of detailed knowledge of the investment-related issues, excessive financial engagement considering the company's capacities and occurrence of unexpected circumstances, such as the outbreak of the COVID-19 pandemic in 2020 or the war outbreak in Ukraine in 2022.

The Group invests in ventures falling within the scope of its competence, which increases the chance of success. The Company's key investments involve the development of the sales network in Poland and abroad, construction of Distribution Centres and Fashion Tech projects.

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

Furthermore, the Company's Management Board regularly evaluates investments capacities with due consideration of needs, adjusting to the dynamically changing circumstances as exemplified by the 2020 events and temporary 4-month suspension by the Company of the construction of the distribution centre in Brześć Kujawski and subsequent resumption of the project in a modified and fit-to-needs form. Additionally, due to the circumstances caused by the pandemic during the financial year, it was required to implement quick changes to improve online sales by redirecting investment projects to that sales channel. Additionally, the Group's investment plans had to be revised and changed due to events occurring in 2022 in the Eastern Europe region i.e. Russia's invasion of Ukraine.

INTEREST RATE RISK

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

Bank loans taken out by LPP are charged with a variable interest rate depending on changes in market interest rates. According to the Management Board, based on the analysis of the value of current interest rates and their changes in recent years, any potential increase of this parameter, determining the costs of the obligations incurred, cannot substantially affect the financial results achieved by the Group.

Additionally, the Company may be exposed to the interest rate risk correlated with a negative interest rate due to the depositing of a financial surplus and introduction by banks of commissions charged on deposits.

Dealing with low interest rates, on one hand, LPP generates lower costs arising from credit lines extended but, on the other hand, yields no interest on its cash surpluses. Therefore, at the interest rate market, the Company balances its loan and deposit policy in terms of costs.

CURRENCY RISK

Currently, approx. 39% of sales inflows are generated by the Group in PLN. The basic settlement currency for a majority of transactions involving the purchase of trade commodities is USD. A minor part of settlements in that respect is made in EUR. The Company hedges 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 the operating profit). Apart from the currency risk relating to the settlement currency used for purchasing trade commodities, there is also the risk related to the settlement of rents under retail space lease agreements in EUR and the risk related to the depreciation of the exchange rate of RUB in which the Group derives its revenues from its second largest country (in 2021/22 revenues from Russia in RUB amounted to approx. 19% of the Group's revenues).

MANAGEMENT OF FINANCIAL RESOURCES

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

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

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

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

CREDIT COMMITMENTS

Our internal policy of entering into and paying credit commitments is centralised and implemented by LPP SA, the Parent Company.

As part of its short-term borrowings, LPP SA may utilise multi-purpose credit lines which may be appropriated for bank guarantees, letters of credit or as a revolving loan used occasionally, if need be, and repaid from on-going inflows.

At the end of the financial year, LPP SA had multi-purpose credit lines in 5 banks, in the total amount of PLN 1,54 bln, utilised for specific products as follows: PLN 119.7 mln - bank guarantees, PLN 182.7 mln - letters of credit, with no overdraft utilised.

The only exceptions from the centralisation principle are two subsidiaries: LPP Russia and LPP Ukraine, utilising short-term borrowings in the form of revolving loans extended by local banks in Russia and Ukraine. Liabilities owed to creditors are repaid by the said companies from on-going inflows. As at the end of the financial year, credit lines converted into PLN were utilised in the amount of PLN 296.6 mln by the Russian company and PLN 19,1 mln by the Ukrainian company.

Additionally, the Company uses the supplier financing programme (reversed factoring) based on which it may negotiate better conditions for payment deferral with suppliers, reduce financing costs and increase LPP's financial liquidity. As at 31 January 2022, reversed factoring was utilised in the amount of PLN 3.3 bln.

Furthermore, LPP SA has long-term debts utilised for investment projects (among others, extension of the head office). At the end of the financial year, the value of investment loans was PLN 172,6 mln.

At the same time, the Group strives at minimising indebtedness to maintain financial security.

BONDS

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

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

FINANCIAL SURPLUSES

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

At the end of 2021/22, the Group had PLN 1,355 mln in cash; after deducting debts, we showed net cash of PLN 381 mln, compared to PLN 272 mln a year ago. Additionally, we held PLN 1,303 mln in deposits allocated for reversed factoring and money market funds, which are not shown in the "cash" item.

The balance of short-term and long-term loans, bonds and net cash in PLN thousands is given in the table below. Credit consumption as at 31 January 2022 is shown in a relevant table in the consolidated financial statements (note 23) and separate financial statements (note 25).

	31.01.2022	31.01.2021	Change y/y (%)
Short-term debt	535,036	521,097	2.7%
Long-term debt	144,174	190,596	-24.4%
Bond	294,665	294,104	0.2%
Cash	1,354,891	1,277,854	6.0%
Net debt (net cash)	**-381,016**	**-272,057**	**40.1%**

TRANSFER PRICING POLICY AND CENTRALISED CURRENCY MANAGEMENT

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

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

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

FINANCIAL PRODUCTS

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

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

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

OUR STRATEGY, PLANS, PERSPECTIVES AND DEVELOPMENT DIRECTIONS

OUR STRATEGY

LPP is a Polish family-run company.

Our goal is to develop LPP on a constant basis, transforming it into a more sustainable company responding to current climate challenges. We keep improving our offer and adjust it to customers' changing expectations. We increase the availability of our collections by further expansion involving development of the traditional store chain (increasing retail space y/y) and online stores. We develop our operations through the omnichannel to make all our products available to customers regardless of the sales channel. At the same time, we keep abreast with technological and environmental challenges of the surrounding world.

Therefore, in view of the said LPP development plan set for the years to come, our strategy has been based on the following three cornerstones: the omnichannel, digitalization and sustainable development.

1. OMNICHANNEL ORGANISATION

LPP is an omnichannel organisation with traditional and online sales being integrated in full. We aim at giving our customers the best shopping experience both when purchasing our collections in on-site stores and online. That is why we develop both these channels having regard of a coherent offer presentation.

Our priority is to:
- further develop our 5 fashion brands (Reserved, Cropp, House, Mohito and Sinsay) falling within a moderate price range or in the Affordable Fashion Retail branch, dedicated to various customer groups;
- increase the availability of brand offers by expanding simultaneously the on-site store chain and the online offer to give our customers the possibility of shopping where and what they want in the integrated channels.

EXPANSION THROUGH BRANDS

We concentrate on attracting new customers and making current customers even more satisfied.

We started building our portfolio with the Reserved brand which opened its first store in 1998. At present, we manage already five brands dedicated to different customer groups, starting with men and women (Reserved, Mohito and Sinsay) through clothing for children (part of Reserved and Sinsay) and teenagers (Cropp, House, Sinsay).

Reserved, Cropp, House and Mohito fall within a moderate price range while Sinsay offer products in the Affordable Fashion Retail segment.

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

Originally, the said brand was dedicated to teenage girls. At present, Sinsay offers fashionable outfits also for men and women. Its offer encompasses also collections for mums as well as products and accessories for children. Addjitionally, the brand's offer includes interior design products and a make-up and care cosmetic line. Customers' positive response to the new Sinsay concept and parallel intense development of its chain of traditional stores, mainly in small towns, will, in the years to come, result in a regular increase of Sinsay's share in the portfolio of LPP brands.

Expansion through brands

1998 Reserved

2004 Cropp

2005 Esotiq *(sold in 2010/2011)*

2008 House, Mohito *(both brands acquired due to the acquisition of Artman)*

2013 Sinsay

2016 Tallinder *(closed in 2017)*

EXPANSION THROUGH DEVELOPMENT OF THE TRADITIONAL AND ONLINE SALES NETWORKS

Brand development would not be comprehensive if not correlated with the expansion of our on-site and on-line sales networks.

Our goal is to diversify the Group's revenues, i.e. maintaining our current domestic position and increasing the share of sales abroad, specifically in EU countries.

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

- **Poland** is our domestic, most important market generating a major part of our revenue. Having recognition of its considerate maturity and dense sales network, we focus on maintaining the current position of brands owned by, refreshing store concepts and expanding retail space. Any potential extension of the on-site store chains will be carried out concentrating, first of all, on stores of our younger brands.
- **Central and Eastern Europe (CEE)**, covering countries such as the Czech Republic, Slovakia, Hungary. As in Poland, we focus mainly on developing the traditional store chain in smaller towns where we see a potential for younger brands, first of all Sinsay. We expand the traditional store chain mainly through retail parks, yet also by opening stores located at commercial streets. At the same time, in large cities, we modernise the traditional store chain and gradually increase and refresh store concepts to implement in full the omnichannel model and adapt brand stores to new market requirements and customer expectations.
- **Baltic Sea Region (BSR)**, with our brand stores operating in Lithuania, Latvia and Estonia. Just like the CEE markets, these three markets are considered mature, with emphasis put mainly on developing mainly Sinsay, Cropp and House. The price segment of younger brands corresponds to their development, particularly in smaller towns, in retail space like retail parks.
- **Eastern Europe** i.e. Russia, Ukraine, Belarus, Kazakhstan. Due to military operations in Ukraine, our operating activity in this country has been partially suspended. For the same reason, considering also economic sanctions imposed on Russia by the UE countries, we decided to suspend both on-site and online sales and cease developing LPP brands in the Russian Federation.
- **South Eastern Europe (SEE)** i.e. Romania, Bulgaria, Croatia, Serbia, Slovenia, Bosnia and Hercegovina as well as North Macedonia. These are markets with a large development potential for all LPP brands. In that region, we gradually expand the traditional store chain, strengthening our presence in the Balkans. In 2022, we plan to launch all 5 LPP brands in Albania and, a year later, own Sinsay stores in Greece and sell the Reserved collections in Cyprus via a franchise partner.
- **Western Europe (WE)** i.e. Germany, Great Britain and Finland. This is a region where we want to strengthen the position of our brands and develop the retail chain. In 2023, we plan to launch our first Sinsay stores in Italy.
- **Middle East (ME)** i.e. Egypt, Qatar, Kuwait, United Arab Emirates and Israel. Our presence with the Reserved brand in that region is based on the cooperation with a franchise partner. Simultaneously, we continue online sales in the United Arab Emirates, Saudi Arabia and Israel based on external sales platforms.

Expansion by country

1998	Poland
2002	Russia, Latvia, Estonia, the Czech Republic, Hungary
2003	Ukraine, Slovakia, Lithuania
2007	Romania
2008	Bulgaria
2014	Croatia, Germany
2015	Egypt, Qatar, Kuwait, Saudi Arabia
2016	United Arab Emirates
2017	Great Britain, Belarus, Serbia
2018	Kazakhstan, Slovenia, Israel
2019	Bosnia and Hercegovina, Finland
2021	North Macedonia

Expansion of online stores by country

2011	Poland
2014	Germany
2015	Czech Republic, Slovakia, Romania
2016	Hungary
2017	Latvia, Lithuania, Estonia, Great Britain, Russia
2018	Bahrain, Kuwait, United Arab Emirates, Saudi Arabia, Oman
2019	Croatia, Ukraine, Pan-European online store – EU countries
2020	Slovenia, Israel
2021	Bulgaria

In response to changing customer preferences and habits as well as omnipresent digitalisation and retail market transformation, our omnichannel strategy encompasses a holistic approach to the on-site and on-line sales channels. Due to the outbreak of COVID-19 epidemic, development of the online channel, based on quality and quantity, has become our priority. Development of the online channel would not be possible without logistics and technology which are determinant for e-commerce success and customer satisfaction. Therefore, our Company focuses on the expansion of the distribution network (distribution and fulfilment centres) in Poland and abroad and on the regular increase of high-tech involvement in logistics and customer service processes.

At the end of 2021/22, our brand offer was available, in total, in 39 countries: offline in 26 countries and online in 33 countries.

2. OUR DIGITAL PROGRESS

As we operate in the fashion business, facing in the same time the ongoing revolution in the fashion branch, we are a technology company. We develop our own IT solutions tailored to our needs. We implement state-of-the technologies i.e. Fashion Tech in the entire value chain, from a product through logistics and sales. We have our own analytical resources enabling us to understand mega trends and customer expectations. Therefore, we have the capacity to be flexible and quickly respond to changes in shopping preferences and to design collections adjusted to our customers' current needs. Without the digitalisation process implemented in our organisation, we would be unable to execute LPP's business strategy.

In Fashion Tech projects, we concentrate on implementing modern technologies to:
- improve, on a constant basis, our collections to reflect our customers' expectations,

- expand the range of sale and post-sale services in line with global trends in retail trade,
- enhance the flexibility of our distribution network,
- integrate in full the on-site and on-line channels to create the omnichannel.

3. SUSTAINABLE DEVELOPMENT

At times of increasing awareness of the importance of responsible business, the LPP strategy reflects our care for the environment and humanity. The Company's development is based on sustainable rules governing all our processes.

Our sustainable development strategy is founded on responsible fashion i.e. we think of our collections not only in terms of designing, manufacturing, distribution and utilisation but also in terms of extending our clothes' life when no longer used by customers.

By taking such comprehensive approach, we respond to current climate challenges. Each year, we want to be efficiently limiting LPP's adverse environmental impact and also educate our customers and business partners how to join our efforts in taking care of our planet both for our sake and for the sake of future generations.

In 2019, we announced, for the second time, LPP's Sustainable Development Strategy "For People For Our Planet" to be followed in the years 2020 -2025, based on four cornerstones: designing and manufacturing, plastics elimination, chemical safety as well as infrastructure and buildings. This strategy encompasses our actions and goals for the nearest future and reflects our responsibility for the surrounding world.

Our sustainable development involves also the Company's community activities which, to a major extent, are carried out by the LPP Foundation established in 2017. We help children and young people facing life hardships and the sick. Additionally, we support medical centres and organisations helping persons threatened with social exclusion.

OUR SHORT-TERM PLANS AND FINANCIAL GOALS

In the nearest years to come, we plant to strengthen our omnichannel sales by enhancing e-commerce sales and, at the same time, carrying out the plans of increasing retail space in the traditional channel. We see opportunities for further development of the on-site store chains in our younger brands, specifically Sinsay, yet Cropp and House also, in small towns. The development of Reserved and Mohito will concentrate to a greater extent on online sales. At the same time, due to military operations in Ukraine and economic sanctions imposed on Russia, our operations and development on those markets have been suspended. Consequently, we have remodelled our business plans for upcoming years.

We have decided to shift the previously announced intensive development and the strengthening of our brand recognition on Eastern markets to the EU countries, with special emphasis being put on Central and Southern Europe.

According to sales plans for the financial year 2022/23 (except for Ukrainian and Russian markets), we are capable of reaching PLN 16 bln on sales, i.e. increasing sales by approx. 13% y/y, of which online sales will exceed PLN 5 bln.

However, giving recognition to the current geopolitical situation in Eastern Europe, economic instability on all markets and the inflation increase combined with the growing cost pressure on the market, the Group expects that trade and operating margins should decrease in 2022/23. Nonetheless, we want to maintain a high investment level reaching PLN 1.0 bln for 2022/23, including nearly PLN 630 mln to be appropriated for store chain development. Nonetheless, store area will simultaneously decrease in the next financial year by approx. 4% y/y due to suspended development in the Eastern region. We expect that, in upcoming years, increases in retail space will be restored.

OUR INVESTMENT PLANS FOR THE NEXT YEAR

To execute our development plans consistently, our investments are required to be made in several areas encompassing:
- construction and modernisation of our on-site stores (in Poland and abroad),
- construction of distribution centres,
- extension and modernisation of head offices and
- e-commerce and IT.

In 2022/23, we plan to spend, in total, PLN 1,000 mln on our investments.

We plan to allocate PLN 630 mln for sales network investments.

CAPEX (in PLN mln)	2022/23
Stores (in Poland and abroad)	630
Offices	80
Logistics	220
IT & other	70
Total	**1,000**

RISK MANAGEMENT

In the LPP Group, risk management i.e. regular identification of risks and their mitigation is handled by the Internal Audit and Risk Management Department. The risks to which the Group is exposed have been comprehensively described in in the Company internal document "Risk Management System", approved by the Management Board of LPP. The risks described therein are periodically revised.

Furthermore, in financial year 2021/22, the Company has given specific recognition to climate risks. Adjusting the climate issue reporting system to the recommendations of TCFD (Task Force on Climate-Related Financial Disclosures), we have analysed in detail the risks in question by considering prospective climate scenarios and varying probability of their unfolding as well as associated threats and chances.

The key threats comprised categories like physical risks (both sudden and chronic) and risks associated with the transfer to low-emission climate-change-proof economy (including market, regulatory, reputational and technological risks).

The process of determining major risks involved the assessment of the probability of event occurrence (on a scale from 1 to 5) and the most probable consequences (on a scale from 1 to 5) in one of the three categories: finance, image, continuity of operations. We have attempted to identify a long list of environmental hazards and, next, we have subjected them to critical evaluation and prioritised them based on the aspects given above. Following the said analysis, we were able to identify highly probable events with a major impact on our operations. Considering a time scale and nature of the challenge being the climate change, our risks and chances have been assessed in different scenarios in the short-term (2025), medium-term (2030) and long-term (2050) perspectives.

Based on the above, we have drawn up the LPP Climate Report prepared based on TCFD Recommendations. Major risks identified in the said document and the analysis of scenarios will be used for preparing adequate initiatives mitigating the risk and developing future business strategies and procedures for adapting to the changing climate.

The table below presents all risks identified by the Company, to which the Group is exposed and which are given consideration in the Risk Management System. Described in detail are those risks for the Group's development, which are currently the most significant. It should be noted that financial risks are presented in the chapter "Goals and Methods of Financial Risk Management".

RISKS IDENTIFIED BY THE COMPANY, TO WHICH THE GROUP IS EXPOSED

MARKET RISKS	– Macroeconomic risk – Risk of law amendments – Risk of intensified competition – Market trend and sales risk – Pricing accuracy risk – Risk of increased production costs – Single segment concentration risk – Supplier credibility risk – Single supplier dependence risk – Risk of increasing prices of raw materials – Risk of sales migration to the Internet
OPERATING RISKS	– Technology and technological advancement risk – Product quality risk – Staff dependency risk – Staff unavailability risk – Risk of ineffective logistics – Embezzlement risk – Reputational risk – Business model risk – Risk of unsuccessful store location – Supply chain disruption risk – Risk of compromised safety of board members
TAX RISKS	– Transfer pricing risk – Tax miscalculation risk – Risk of incomplete revenue and expense documents – Risk of increased tax burdens (existing or new)
IT RISKS	– Risk of unauthorised access to infrastructure – Risk of access to the LPP computer network – Risk of business equipment loss – Malicious software risk – Risk of physical infrastructure damage/failure – Cybercrime risk
FINANCIAL RISKS	– Financial liquidity risk – Creditworthiness risk – Risk associated with guarantees extended – Investment risk – Interest rate risk – Exchange rate risk – Capital outflow risk
GLOBAL RISKS	– Epidemic and pandemic risk

CLIMATE RISKS	**PHYSICAL CLIMATE RISKS** – Limited availability of raw materials for textile production and their increasing price – Disruption of production processes – Disruption of logistics processes – Increasing costs of store maintenance – Mismatch between the collection type and current weather conditions **CLIMATE RISKS ASSOCIATED WITH TRANSFERRING TO LOW-EMISSION, CLIMATE-CHANGE-PROOF ECONOMY** – Customers' changing shopping patterns – Need to cooperate only with suppliers meeting the requirements for environmentally neutral production – Need to comply with legislative requirements in production and distribution countries – Need to start measuring environmental resource consumption
HUMAN RIGHTS VIOLATION RISK	– Risk of violation by LPP of widely understood human rights
GEOPOLITICAL RIGHTS	– Risk of armed conflict or war – Risk of imposing an embargo on the imports or exports of goods/services – Risk of appropriation of trade commodities/nationalisation of assets – Risk of banned sale of goods in the territory of a foreign country

DESCRIPTION OF THE MOST IMPORTANT SELECTED RISKS

MARKET RISKS	**MACROECONOMIC RISK** The situation in countries where we sell our products and where factories manufacturing goods for us are located are crucial for our Group. The above involves such countries' economic and political standing as well as unexpected events like armed conflicts or epidemics. The Group's revenues and margins depend on the economic situation of households and their 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 are goods are manufactured may translate into an increase, decrease or, relatively, stabilisation of manufacturing costs. As shown by the current macroeconomic situation, prices of raw materials are on the increase, including prices of crude oil and cotton which are of key importance for the clothing industry. Actions minimising the risk in question The Group minimises the said risk as follows. Sale of goods: (1) by being present on numerous European markets, we diversify the risk into numerous countries with a diverse macroeconomic situation, (2) goods sold under several brands addressed to various groups of recipients in order to spread the risk into several age groups, (3) by offering a wide range of goods at a wide range of prices - from cheap and easily accessible to more expensive. Stock purchases: (1) by outsourcing production to numerous manufacturers in several countries, (2) by a long-term cooperation with selected suppliers, which permits negotiating advantageous product prices.

	MARKET TREND AND SALES RISK The Group operates on a highly competitive, demanding and changing fashion market that is characterised by a high level of consumer expectations and is closely correlated with changes in fashion trends and customer tastes. A key success factor is, on one hand, the sensing of changes in fashion trends and adjusting the product range to customers' current needs, and, on the other hand, a quick response to those needs. Furthermore, a natural element in our business is the cyclical nature of changing seasons, requiring changes in our collections. Actions minimising the risk in question On a constant basis, LPP monitors fashion market trends by participating in fairs, exhibitions and fashion events and by accessing the latest global publications on fashion (Internet catalogues). In the Company, a Head Designer has been appointed i.e. a multi-person team following fashion trends worldwide and educating all LPP designers on the latest ones appearing. Our Company takes actions aimed at digital advancement i.e. brand promotion in social media and cooperation with influencers and trendsetters, which has also a positive effect on limiting the market trend risk. Our collections are designed by several teams of designers and their work is organised so as to minimise the impact of a single designer on collections as a whole. Designers undergo constant assessment covering, among others, margins yielded on their collections. At the same time, the Company mitigates the risk of unsuccessful collections by offering a wide range of additional products expanding the basic apparel offer e.g. accessories, underwear, footwear, bags, and by providing an adequate structure of each collection i.e. basic i.e. classic models and fashionable products. Additionally, an important factor mitigating the said risk is addressing products to different age groups.

OPERATING RISKS	**RISK OF INEFFECTIVE LOGISTICS** The Company has the chain of traditional and online stores both domestically and abroad, requiring logistics services i.e. daily delivery of goods sent from local logistics centres. Maintaining the continuity and timeliness of deliveries is critical to the operation of our business. The task of the logistics in the fashion branch is to quickly gather a relevant number of clothing dispatches to individual on-site stores and customers making online orders, optimising simultaneously the quantity of stock in logistics centres. Investments in logistics improvements (without which the risk of failing to provide optimum logistics services increases) are required due to the following factors: development of the Group's sales, the pandemic and the consequent sharp increase of the number of online orders, changes in customers' behaviour and their expectation of speedier deliveries. **Actions minimising the risk in question** As this issue is of vital importance, our Company's Management Board gives it a high priority and consistently introduces new solutions as required. Along with the increasing demand, the Group regularly expands its logistics facilities both domestically and abroad. Currently, we have modern distribution centres in Poland (Pruszcz Gdański, Gdańsk, Stryków, Brześć Kujawski as well as projects launched in Rzeszów and Stryków) and abroad (Russia, Slovakia, Romania). At the same time, in emergency cases, the Company is able to redirect containers with trade commodities to LPP's other ancillary warehouses. As regards e-commerce deliveries, part of e-commerce dispatches addressed to individual customers may be delivered from the closest traditional store. We cooperate with specialised external service providers in logistics e.g. operators specialising in e-commerce logistics and manufacturers of hi-tech and IT solutions for the logistics sector. Reacting to the changing market situation, we constantly implement IT improvements in logistics, including projects based on AI algorithms. The Company implements in-house software facilitating the processes of order completion and product return management as well as solutions integrating systems of courier companies we cooperate with. Furthermore, it introduces innovative solutions facilitating stock management (RFID) and develops the Next Business Day service being a priority for e-commerce. All the above-mentioned activities performed by our Group enhance our logistics capacities thus minimising the risk of ineffective logistics and, ultimately, increasing our market competitiveness. In addition, projects currently being implemented by the Company, involving improvement of warehoused stock rotation and introduction of just-in-time deliveries, are aimed at enhancing supply chain management and reducing the Company's inventory loss risk.

REPUTATIONAL RISK

The reputational risk and a consequent branding crisis may adversely affect the Group's revenues and reduce its goodwill. Due to the development of the Internet and social media and increasing consumer awareness, this risk has been and will be of growing importance. Considering the fact that manufacturing orders are placed in the Global South countries with low recognition of workers' rights and safety and having regard of methods of sourcing raw materials for collection production as well as of operations in the fast-fashion sector having environmental impact, our Group is exposed, most of all, to the risk of branding crisis involving its products. Additionally, the reputational risk may arise from the improper exploitation of other entities' copyright (such as any unlicensed use of photographs or graphics) and be a consequence of hazards such as a loss of personal data protection, unethical advertising or unfortunate statements made in the media by employees. At the same time, the Group's reputational risk may be beyond its control if caused by competitors' attacks or fortuitous events.

Actions minimising the risk in question

To duly manage and minimise that risk, we have undertaken numerous actions given below.

We cooperate with specialist companies monitoring the media market to obtain information on any approaching branding crisis at its earliest stage possible.

We have joined the ACCORD initiative aimed at improving work conditions in the clothing industry in Bangladesh. In our organisational structure, we have formed an internal unit responsible for auditing our suppliers' plants in terms of compliance with work and safety conditions, human rights, wages and environmental protection.

We have changed the model of cooperation with independent agents to place manufacturing orders with certified suppliers only.

We have initiated eco-friendly activities in all our brands by developing more sustainable collections.

We have joined Zero Discharge of Hazardous Chemicals (ZDHC), a programme aimed at chemical safety in clothing production.

We have decided not to use angora or natural fur and source down to be used in our collections exclusively from suppliers holding up-to-date certificates and applying ethical methods of raw material production. To minimise the reputational risk arising from the improper exploitation of other entities' copyright, we have developed internal procedures for purchasing photographs and graphic licences and we have duly trained our staff directly engaged in the designing process.

The reputational risk arising from the loss of personal data protection is mitigated by way of our technology investments, while the risk of unethical advertising or unfortunate statements made in the media by employees is counteracted through internal procedures and cooperation with a PR agency in terms of a communication crisis.

BUSINESS MODEL RISK

The LPP Group focuses its activity on the designing and distribution of clothing as well as building its brands. Our business models involves the outsourcing of manufacturing activities to professional entities in different parts of the world, without own manufacturing capacities. Our investments are directed at creating our own omnichannel sales network and at logistics, advancement and technology as well as at building our brands' recognition and attracting loyal consumers. On one hand, outsourcing enables effective production placement and gives access to modern and constantly changing technologies. On the other hand, it involves the risk of choosing inadequate suppliers and is closely related to the economic and political situation in suppliers' countries.

As part of LPP's business model, we offer our brand collections in both traditional and online stores. In case of focusing on a single sales channel only such as traditional stores, there might be a risk occurring at the time of changes in consumers' shopping pattern and increasing popularity of online shopping.

Actions minimising the risk in question

Risks related to our business model are minimised by choosing suppliers not only in terms of price but also their offer range, modern machinery (including eco-friendly solutions in manufacturing plants) and ethical treatment of workers. Additionally, on a regular basis, we evaluate our suppliers, who are supervised by the LPP offices in Shanghai, China, and Dhaka, Bangladesh, and by an external company. Simultaneously, we make sure that the Group is not dependent on any of over 1,100 cooperating suppliers (none of them has exceeded the threshold of 5% of annual purchases). Placing orders with various suppliers in different countries, we minimise the business model risk by diversifying production countries.

Following market trends and adjusting to changing customer preferences, in addition to the traditional sales channel existing from the very beginning, we gradually develop online sales and integrate both channels. We monitor, on a day-to-day basis, shopping trends in the fashion branch (increasing importance of technology, including shopping via mobile devices, apps, increasing popularity of second-hand clothes or the value-for-money segment) and adjust our business model respectively.

SUPPLY CHAIN DISRUPTION RISK

The pandemic, geopolitical turmoil and diminished competition on the transport market give rise to the increased risk of congestion and delays in transport, specifically from the Far East.

Actions minimising the risk in question

LPP reacts to the risk of disturbances in the supply chain by: 1) diversifying production countries e.g. increasing the order volume in Turkey instead of China; 2) diversifying transportation means: increasing the share of railway transport instead of maritime transport (as an alternative, there is the New Silk Road plan); 3) implementing a new ordering strategy that gives recognition to current delays in the supply chain and accelerated orders of specific items of clothing (individual models) or entire collections; 4) investments in the development of logistics facilities and technologies, including IT; owing to the above, the last mile is shortened, compensating the prolonged time of inbound deliveries.

EPIDEMIC AND PANDEMIC RISK

The outbreak of an epidemic on markets where we have our collections manufactured and where we sell them may substantially affect the situation in those countries and, in consequence, adversely affect the Group's results. The epidemic spreading in countries where our suppliers' plants are located may cause disturbances in the continuity of our supply chain i.e. delays in, or lack of, supplies of textiles, raw materials, accessories or even the closure of manufacturing and sewing plants. The above may halt the manufacturing process. Additionally, during an epidemic, there may be logistics problems in stock transporting and warehousing. In consequence, these factors may adversely affect our product offer and its availability. At the same time, the outbreak of an epidemic in countries where we sell our collections may have a negative impact on customer demand. Restricted mobility resulting from the fear of contracting a disease and regulations implemented by governments to minimise the epidemic spread may cause a decrease in shopping or even putting a halt on purchases in the event of closure of on-site stores. Furthermore, an epidemic may bring about an economic crisis in countries of its occurrence or cause even a global crisis. Considering the fact that the Group's revenues and margins depend on the economic situation of households and their consumption inclinations and that an economic crisis may translate into a decrease in consumer spending, including clothing purchases, the Group is exposed to the risk of economic crisis caused by the epidemic/pandemic.

Actions minimising the risk in question

Although it is difficult to be safeguarded against the risk of epidemic, our Group aims at minimising this type of risk in several ways. As regards the sale of our products, we are present on numerous markets, thus diversifying the risk into various countries. Our brands fall within the middle price range and, therefore, are more easily available to customers at times of economic crisis. We diversify sales channels by developing e-commerce being the alternative shopping channel for customers while on-site stores are closed during a quarantine. In crisis situations like the epidemic risk, the Management Board of LPP reacts, on a day-to-day basis, by making decisions aimed at maintaining the Group's liquidity position by reducing operating costs or capital expenditures. Although all these actions will not safeguard the Group against the risk of epidemic and the consequential economic slow-down, they may, however, minimise its impact.

GEOPOLITICAL RISKS	**RISK ASSOCIATED WITH RESTRICTIONS EMERGING DUE TO THE OCCURRENCE OF POLITICAL AND ECONOMIC CRISES, AN ARMED CONFLICT OR WAR** The occurrence of an armed conflict or even a war in the territory of countries in which the Group has its sales and distribution networks or in which our suppliers' manufacturing plants are located, may adversely affect the Group's operations. Therefore, the Company is exposed to the risk of imposition of an embargo or import or export restrictions (involving goods/services), the risk of appropriation of trade commodities, nationalisation of assets and, in consequence, the risk of losing such trade commodities or assets. There may also emerge the risk of a sales ban in the territory of countries affected by an armed conflict as well as economic and financial sanctions imposed by external organisations on countries in conflict, in which the Group pursues its business activity. Actions given above may disturb the continuity of our sales and the supply chain, hinder the transfer of cash and cause payment backlogs, which, in consequence, may affect the Group's liquidity. In extreme situations, there is the risk of the Company having to cease operations in conflict territories. Furthermore, the Company recognizes the risk involving negative impact on its corporate image in cases where it conducts its business activity in the territory of a country that has initiated a conflict. The Group operates in many countries, including those in the Eastern Europe region, where the potential risk of armed conflict has been elevated for several years. This risk has materialised following the outbreak of war in Ukraine following the invasion of Russian troops in February 2022. **Actions minimising the risk in question** Risks associated with restrictions caused by the occurrence of restrictions caused by emerging political and economic crises are difficult to mitigate due to the unpredictability of conflict situations and consequential decisions made by institutions and international organisations. The Company takes action to mitigate the following risks: (1) operations on numerous markets (the Group operates in 39 countries, and, therefore, it is possible to limit the consequences of occurrence of disturbances on given territories); (2) limiting the Group's exposure to a given country (a share in a single country's sales may not exceed 20% of the Group's total sales, except for Poland) (3) regular monitoring of the balance of financial settlements in the Group and exercising control so as to avoid excessive liabilities/receivables which might adversely affect the Group's liquidity, (4) monitoring the current political and economic situation and, following a comprehensive analysis, making by the Company's Management Board of decisions on a day-to-day basis.

CLIMATE RISKS	PHYSICAL – SUDDEN, SHORT-TERM RISKS
	LIMITED AVAILABILITY OF RAW MATERIALS FOR TEXTILE PRODUCTION AND THEIR GROWING PRICES Increasing temperatures and glacial melting bring twofold consequences for regions in which e.g. cotton is produced, being a natural raw material used in manufacturing LPP clothes. In the short to medium term, this can translate into an increased risk of flooding. In the medium to long term, on the other hand, there is an increased risk of limited access to water and prolonged periods of drought, specifically in regions where most of the world's production is concentrated. Furthermore, climate changes are causing extreme weather events such as heavy rainfall and increasingly violent monsoons, which, in some years, may cause negative supply shocks. If materialised, all the above scenarios may result in reduced availability of raw material, and, consequently, in higher prices and increased costs of purchasing goods, as a result of which the Group’s sales margin may decrease. Actions mitigating the said risk LPP has a well-developed supplier chain. Therefore, in case of occurrence of short-term and region-specific shortages of raw materials or their increased prices, it is possible to change the source of cotton. Furthermore, the Company takes initiatives supporting producers’ development in less threatened regions and those with potential development capacity e.g. the Company is engaged in the Cotton Made in Africa initiative aimed at improving life and work conditions of small farmers in Africa in exchange for sourcing sustainable cotton.
	DISRUPTION OF PRODUCTION PROCESSES Extreme weather events specific to certain regions, such as floods, cyclones, etc., can disrupt the continuity of production processes by affecting the continuity of the supply chain (delays in the delivery of semi-finished products, power outages). Actions mitigating the said risk LPP works with more than 1,000 manufacturing plants in more than a dozen of countries and has the ability to transfer its production, in full or in part, to suppliers in regions not threatened by extreme weather events.
	DISRUPTION OF LOGISTICS PROCESSES Extreme weather events such as the rising sea level or cyclones may cause damage to ports of importance for the supply chain as well as transport delays, specifically in maritime transport which constitutes a key transport type for LPP’s stock produced. The above may result in product nonavailability in our stores and adversely affect the Group’s sales. Actions mitigating the said risk LPP has the possibility of changing the transport type or route (as regards Bangladesh, it is possible to change maritime route to air transport; as regards China, it is possible to change maritime route to railway transport) as well as changing the shipping port (China).
	PHYSICAL – CHRONIC, LONG-TERM RISKS
	INCREASED COSTS OF STORE MAINTENANCE Increased temperatures may require a more intense use of air-conditioning in brand stores, which may result in alleviated power consumption and, consequently, in increased operating costs. Actions mitigating the said risk The Company invests in solutions increasing the use of renewable energy sources in its warehouses. It has signed contracts on the supply of green energy with specialised external companies. Furthermore, it invests in the latest technologies limiting energy consumption.

	MISMATCH BETWEEN COLLECTION TYPES AND CHANGING WEATHER CONDITIONS Due to permeating seasons and occurrence of extreme weather changes, there is a risk that collection types will not be adjusted to current weather conditions. Actions mitigating the said risk The Company has a system for analysing temperatures and weather conditions, connected with supply planning processes involving different countries. If it is required to deliver, in a more speedy way, stock then it is possible to change the transport type from maritime to railway transport. At the same time, the portfolio of near-shore suppliers (not distant from the Group's distribution centres) is being constantly expanded.
	RISKS ASSOCIATED WITH THE TRANSFER TO LOW-EMISSION CLIMATE-CHANGE-PROOF ECONOMY **CHANGE OF CUSTOMERS' SHOPPING PATTERNS** The increasing awareness of LPP's customers, associated with adverse climate changes, may bring about a change in shopping patterns towards products with the least environmental impact. Furthermore, customers may expect that the Company should make declarations on sustainable fashion (environmentally neutral production, transparency). Actions mitigating the said risk LPP has an extensive and highly skilled Sustainable Development Team that holistically works on all aspects of the matter in question, including solutions aimed at providing customers with products with the most neutral environmental impact, and develops projects to make the Company's overall business activities more environmentally friendly. The dynamics of changes in ESG have strengthened the team engaged in works in this area, and has intensified the work itself. Consequently, the Group meets customers' requirements in the area of sustainable development and investors' requirements as well.
	NEED TO COOPERATE WITH SUPPLIERS MEETING REQUIREMENTS IN TERMS OF ENVIRONMENTALLY NEUTRAL PRODUCTION LPP's business model transforming to become increasingly sustainable may require limitation of cooperation with suppliers, leaving in business only those who meet specific production requirements. In consideration of customers' increasing expectations towards companies (environmentally neutral production, transparency) may involve also the reputational risk. Actions mitigating the said risk The Company encourages its suppliers to join initiatives supporting them in executing the assumptions of a more environmentally friendly production model (e.g. the in-house program named Eco Aware Production or the ZDHC initiative) and carries out audits in suppliers' manufacturing plants to exercise control over eco-friendly processes in such plants. Customers' increasing awareness of climate changes and investors' conditions for investment decisions drive changes towards sustainable fashion in the Company. LPP joins numerous initiatives owing to which the entire value chain may become environmentally neutral. Furthermore, LPP develops

	NEED DO ADHERE TO LAW REQUIREMENTS IN PRODUCTION AND DISTRIBUTION COUNTRIES Due to the growing importance of climate protection issues and, first of all, increasing global warming, production and distribution countries may introduce regulations aimed at mitigating climate changes (involving manufacturing processes, transport or sales). The above may require a change in the business model. Actions mitigating the said risk LPP is aware of the relevance of regulations implemented and the need to adjust its operations respectively e.g. making its own list of chemical substances compliant with the EU requirements. The dynamics of changes in ESG have strengthened the team engaged in works in this area, and has intensified the work itself. Therefore, the Company meets customers' requirements in the area of sustainable development and investors' requirements as well.
	NEED TO MEASURE CONSUMPTION OF NATURAL RESOURCES A possible consequence of both regulations implemented to mitigate climate changes and reporting requirements is the need to measure consumption of natural resources (e.g. water, power consumption). Actions mitigating the said risk LPP has installed advanced technological systems for managing power consumption in its offices and part of brand stores. Energy consumption in offices is monitored and, in subsequent years, it is planned to measure both energy and water consumption in all brand stores of the Group.

STATEMENT OF CORPORATE GOVERNANCE

APPLIED CORPORATE GOVERNANCE PRINCIPLES

The Management Board of LPP declares that, from 1 July 2021, the Company has applied corporate governance principles incorporated in the “2021 Best Practice for GPW Listed Companies” (with exceptions) according to current EBI report no 1/2021 report published by LPP on 27 July 2021.

Corporate governance principles attached as Enclosure to Resolution No 13/1834/2021 of the Board of the Warsaw Stock Exchange, dated 29 March 2021, titled “2021 Best Practice for GPW Listed Companies” (DPSN 2021), published in a website dedicated to good practice for companies listed on the stock exchange Giełda Papierów Wartościowych w Warszawie SA, operated by Giełda Papierów Wartościowych w Warszawie SA, at website address: https://www.gpw.pl/dobre-praktyki2021

Information on corporate governance principles applied by LPP as provided for in 2021 Best Practice for WSE Listed Companies

The Management Board of LPP SA declares that the Company and its governing bodies applied in 2021/22 the principles provided for in the 2021 Best Practice for GPW Listed Companies, except for the following six principles: 2.1, 2.2, 2.11.6, 4.1, 4.3, 6.4:

2.1. The company should have a diversity policy for the Management and Supervisory boards, adopted by the Supervisory Board or the General Meeting, respectively. The diversity policy shall define the goals and criteria for diversity in areas such as gender, field of education, specialist knowledge, age and professional experience, and shall specify a timeframe and method for monitoring the achievement of the said goals. As regards gender diversity, a condition for ensuring the diversity of the company's governing bodies is that the minority share in a given body is no less than 30%.

This principle is not applied.

The Company’s comment: The Company is in the process of developing a diversity policy for the Management and Supervisory Boards which will meet the requirements of the GPLC 2021. The Company will aim at ensuring gender diversity in its governing bodies in future terms of office. At the same time, the Company currently ensures gender diversity in its subsidiaries (out of 20 foreign subsidiaries, 13 of them are headed by women).

2.2. Persons making decisions on the election of members of the company's Management or Supervisory board should secure comprehensiveness of these bodies by choosing persons ensuring diversity, making it possible inter alia to achieve the target ratio of the minimum proportion of minorities set at no less than 30%, in accordance with the goals set out in the adopted diversity policy referred to in principle 2.1.

This principle is not applied.

The Company’s comment: The key criteria for choosing members of the Management and Supervisory Boards in the Company are the candidate’s education, knowledge and experience as well as competence in the required fields to perform the function. At the same time, the Company is in the process of developing a diversity policy for the Management and Supervisory Boards, fulfilling the requirements of the GPLC 2021.

2.11. Apart from activities resulting from the provisions of law, once a year, the Supervisory Board shall prepare and present its annual report to the Ordinary Meeting of Shareholders. The above-mentioned report shall incorporate, to the minimum extent, the following contents:

2.11.6. information on the advancement of execution of the diversity policy applying to the Management and Supervisory Boards, including attainment of the goals referred to in principle 2.1.

This principle is not applied.

The Company's comment: Currently, the Company has no diversity policy applying to the Management and Supervisory Boards.

4.1. The company should enable its shareholders to take part in a General Meeting using electronic communication means (electronic general) if justified in terms of shareholders' expectations communicated to the company, as long as it is able to provide technical infrastructure required to hold such Meeting.

This principle is not applied.

The Company's comment: The above-mentioned principle is not applied by the Company as its implementation would involve technical risks. The giving to shareholders of an option to communicate in the course of the general meeting without being present at the meeting, using electronic communication means, involves both technical and legal hazards for the proper and efficient conduct of the general meeting. In particular, the above brings about a real risk of technical interference preventing continuous bilateral communication with shareholders present in venues other that the meeting room. Therefore, the Company is unable to guarantee the reliability of technical infrastructure. At the same time, in the Company's opinion, the currently applicable rules for participation in general meetings facilitate the proper and effective exercise of rights attached to shares and sufficiently secure the interests of all shareholders.

4.3. The Company will provide public broadcasting of the General Meeting in real time.

This principle is not applied.

The Company's comment: As stems from the current practice of the Company's bodies, there is no need to record and publish the records of the General Meeting. In the Company's opinion, the information it publishes, as provided by law, on the announcement of the convening and the agenda of the General Meeting enables all shareholders to gain full knowledge of issues to be discussed at the Meeting.

6.4. The Supervisory Board shall perform its tasks on a continuous basis, and, therefore, the remuneration of Board members may not be dependent on the number of meetings held. Remuneration of members of committees, in particular the audit committee, should take into account additional workload related to the work in those committees.

This principle is not applied.

The Company's comment: The remuneration of members of the Supervisory Board is related to the scope of tasks and responsibilities arising from their function, while remaining at the same time adequate to the Company's size. The lump-sum remuneration, which is a component of the remuneration, is due and payable for participation in the meeting of the Supervisory Board or the Audit Committee of the Supervisory Board, respectively, allowing to take into account the workload of a member of the Supervisory Board when determining the amount of remuneration. The remuneration principles applied have been in force in the Company for many years and, as experience shows, they fulfil their role. Thus, in the Company's opinion, there is no need to change the remuneration principles at present. However, should the circumstances change, the Company does not exclude future application of the said principle.

Simultaneously, the Management Board of LPP SA declares that the Company does not apply corporate governance practices beyond requirements set forth in domestic law.

DESCRIPTION OF INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS

IN RELATION TO THE PROCESS OF PREPARING FINANCIAL STATEMENTS, INCLUDING CONSOLIDATED FINANCIAL STATEMENTS

The Group has implemented a well-functioning internal audit system, adapted to its needs and characteristics, which provides for the following:
- complete revenue invoicing,
- appropriate cost control,
- efficient use of resources and assets,
- accuracy and reliability of financial information included in financial statements and interim reports,
- adequate protection of sensitive information and prevention of uncontrolled outflow of information from the Company,
- effective and prompt identification of irregularities,
- identification of, and appropriate response to, major risks

Elements of our Company's internal audit system include:
- control activities taken at all levels and in all units of the Company, based on procedures (permits, authorizations, revisions, reconciliation, reviews of operational activities, distribution of duties) ensuring compliance with guidelines of the Company's Management Board and, at the same time, enabling to take actions necessary to identify and minimise errors and hazards for the Company,
- Workflow Guide - proper records and documentation circulation control system (to ensure compliance of account records with accounting evidence),
- duly qualified auditing staff,
- division of duties excluding the possibility that one employee performs activities associated with execution and documentation of a business transaction from the beginning to the end,
- inventory manual, specifying the rules for the use, storage and stock-taking of assets,
- principles for balance sheet depreciation of intangible and tangible fixed assets,
- IT system - the Company's accounting books have been kept using SAP systems ensuring credibility, reliability and accuracy of information processed. Access to SAP information resources is limited to authorised personnel, for performance of their duties only.
- accounting policy recognising the principles of the International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and related interpretations published in the form of implementing regulations of the European Commission,
- electronic system for document processing (invoices, parts of employee documentation, commissioning of equipment purchases, payment orders, etc.).

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

The statutory auditor is appointed by LPP's Supervisory Board. The tasks of the independent auditor include reviewing semi-annual financial statements and auditing annual financial statements as well as controlling their accuracy and compliance with accounting principles.

Three departments are responsible for preparing the financial statements i.e. CSC (the Common Services Centre), the Reporting Department and the Investor Relations Department headed, respectively, by the Chief Accountant, the Controlling Director and the Investor Relations Manager.

Before submitting financial statements to the independent statutory auditor, the Chief Financial Officer, responsible for the financial reporting process on behalf of the Management Board, verifies them in terms of completeness and correctness of all economic events.

In LPP SA, the strategy and business plan performance are reviewed semi-annually. This is due to cycles occurring in the clothing trade. After closing the first half of the year, senior and middle management staff, with the participation of the finance department, review the Company's financial results. The operating results of the Company, individual trade departments or even individual stores are analysed each month.

The internal audit of, and closely related risk management in, financial reporting processes are matters of daily interest for the Management Board of our Company. LPP SA analyses business risk factors related to the Company's operations. An important role in this respect is also played by management staff responsible for controlling the activities of their departments, including identification and assessment of risks associated with the process of preparing financial statements in an accurate, reliable and lawful manner.

In LPP, there is also a new In-House Audit and Risk Management Department, created in 2021. It continues to perform the duties of the former In-House Audit Department. However, starting from 2021, the Management Board of LPP has vested the said Department with additional duties involving regular identification and mitigation of risks in the Group. The risks in question have been described in detail in the Company's internal document titled "Risk Management System" and will be periodically revised and approved by the Management Board of LPP SA. The new role of the above-mentioned Department, involving risk management, has stemmed from new challenges raised by stakeholders, with special emphasis put on ESG issues and climate risks.

The works of the In-House Audit and Risk Management Department are planned annually, giving recognition to the mitigation of risks occurring in LPP SA and their relevance. Audit works are approved by a Board Member and are delivered to the Supervisory Board which controls the In-House Audit and Risk Management Department and accepts the auditor's periodical reports on auditing tasks performed.

The In-House Audit and Risk Management Department operates in line with the procedure titled "In-House Audit System". It encompasses descriptions of all major financial and operating processes, specifying simultaneously relevant auditing processes. In audit plans for another period, their relevance and impact on the organization are always taken into account.

The In-House Audit and Risk Management Department carries out audits of departments located in the Company's head office and in foreign companies. On a case-by-case basis, an audit is completed with a relevant report submitted to the relevant Board Member responsible for a given area. The Department in question monitors also the implementation of post-audit recommendations.

In 2021/22, the In-House Audit and Risk Management Department carried out 17 audits (in 11 foreign companies and 6 LPP departments) completed with reports specifying relevant recommendations.

OUR SHARES AND SHAREHOLDERS

OUR OWNER

LPP SA shareholding structure as at 31 January 2022

Shareholder	Number of shares held	Proportion of the share capital	Number of votes at the GM	Proportion of the total number of votes at the GM	Nominal value of shares
Semper Simul Foundation*	578,889	31.3%	1,978,889	60.8%	1,157,778
Sky Foundation**	227,898	12.3%	227,898	7.0%	455,796
Other shareholders	1,045,636	56.4%	1,045,636	32.2%	2,091,272
Total	**1,852,423**	**100.0%**	**3,252,423**	**100.0%**	**3,704,846**

** The Semper Simul Foundation is associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR).*
***The Sky Foundation is associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act).*

In the financial year, there were changes in key shareholdings in LPP, resulting from the acquisition of shares by the Semper Simul Foundation (CR 25/2021, CR 26/2021, CR 27/2021, CR 28/2021) and the transfer of shares in LPP by the Sky Foundation.

As regards the Semper Simul Foundation, the changes resulted from the following:
- direct acquisition of 13,679 ordinary bearer shares in LPP SA,
- indirect acquisition of 28,611 ordinary bearer shares in LPP SA.

As regards the Sky Foundation, the changes resulted from the following:
- transfer of 33,440 ordinary bearer shares in LPP SA.

Shareholdings of key management and supervisory officers as at 31 January 2022

Shareholder	Number of shares held	Number of votes at the GM	Nominal value of shares
Marek Piechocki, President of the Management Board	907	907	1,814
Przemysław Lutkiewicz, Vice-President of the Management Board	200	200	400
Jacek Kujawa, Vice-President of the Management Board	618	618	1,236
Sławomir Łoboda, Vice-President of the Management Board	507	507	1,014
Marcin Piechocki, Vice-President of the Management Board	77	77	154

Apart from the above, key management and supervisory officers hold no shares in LPP or its affiliates.

INFORMATION ON AGREEMENTS WHICH MAY GIVE GROUNDS FOR FUTURE CHANGES IN PROPORTIONS OF SHAREHOLDINGS HELD BY CURRENT SHAREHOLDERS

The Company has no knowledge on any agreements which could give grounds for any future changes in proportions of shareholdings held by current shareholders.

TREASURY SHARES

Currently, the Company has no treasury shares.

SHARE QUOTATIONS

Shares in LPP SA have been quoted on the main market of the Warsaw Stock Exchange (WSE) since 2001.

On the debut date, the price of the Company's shares was PLN 48.00. The lowest value of the Company's shares in the history of listings was recorded by LPP SA on 18 May 2001: PLN 47.00, and the highest value was recorded on 12 January 2022: PLN 18,770.00

In the financial year 2021/22, prices of LPP SA shares were between PLN 7,680.00 and PLN 18,770.00 (at closing prices).

The share quotation during the last session (at closing prices) in the financial year, i.e. on 31 January 2022, was PLN 15,890.00. At the end of 2021/22, the Group's net profit per share was PLN 518.76, and a year before a loss per share amounted to PLN -103.44.

As at 31 January 2022, shares in LPP SA were constituents of the following stock exchange indices:

DOMESTIC:

WIG – an index comprising shares listed on the main market. It shows the total relative value of companies quoted on the Warsaw Stock Exchange (WSE) compared to their value since the beginning of quotation (on 16 April 1991, the index equalled 1,000 points). It is a price index. As at 31 January 2022 the share of LPP SA in WIG was 4.7%.

WIG20 – an index calculated on the basis of the value of the portfolio of 20 largest and most liquid companies from the main market of the WSE. LPP SA has been a constituent of the said index since 2014. As at 31 January 2022, LPP's share in WIG20 amounted to 6.9%.

WIG-Poland – a national index comprising only shares in Polish companies listed on the main market of the WSE, which meet basic criteria for being index constituents. As at 31 January 2022, the share of LPP SA in WIG-Poland was 4.9%.

WIG20TR – a total return index taking into account dividends paid by 20 largest and most liquid companies listed on the WSE and rights issues. As at 31 January 2022, the share of LPP SA in WIG-20TR was 6.9%.

WIG30 – index comprising 30 largest and most liquid companies listed on the main market of the WSE. As at 31 January 2022, the share of LPP SA in WIG30 was 6.5%.

WIG30TR - a total return index taking into account dividends paid by 30 largest and most liquid companies listed on the WSE and rights issues. As at 31 January 2022, the share of LPP SA in WIG30TR was 6.5%.

WIG-Clothes – a sector index including WIG constituents which simultaneously belong to the "clothes and cosmetics" sector. As at 31 January 2022, the share of LPP SA in WIG-Clothes was 80.4%.

WIG ESG – index published from 3 September 2019 based on the value of the portfolio of shares in companies recognised as socially responsible i.e. those observing the principles of socially responsible business, specifically in terms of environmental, social, economic issues and corporate governance. As at 31 January 2022, the share of LPP SA in WIG ESG was 6.1%.

Additionally, the Company has joined the segment of family companies quoted on the WSE, launched in 2021.

FOREIGN:

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

CECE index of the Vienna Stock Exchange, covering companies from Poland, the Czech Republic and Hungary. LPP SA has been a constituent of the said index since mid-September 2017.

FTSE Russell Index of the London Stock Exchange, covering developed countries. LPP SA has been a constituent of the said index (in the category of medium companies) from 24 September 2018, i.e. from the time when Poland was transferred from the index of developing countries to the index of developed countries.

SHARE-RELATED LIMITATIONS AND SHAREHOLDERS WITH SPECIAL CONTROL RIGHTS

The sale or pledging of registered shares requires the Company's consent. Permits for selling or pledging registered shares are granted by the Supervisory Board in writing, otherwise being null and void, within 14 days from the date of a relevant application. If the Company refuses to give such permit, it should designate another buyer and define the date and place of payment of the price within 30 days. If, within the above-mentioned time-frame, the Company does not indicate another buyer, shares may be sold without any limitations.

At the same time, registered shares carry voting rights of 5 votes per share at the General Meeting of Shareholders. Registered shares are held by a single entity i.e. the Semper Simul Foundation (associated with Mr Marek Piechocki, Article (3)(1)(26)(d) MAR)

The said entity holds 350,000 registered shares giving right to 1,750,000 votes at the General Meeting.

Apart from the above, there are no other securities giving any special control rights.

ISSUANCE OF SECURITIES – ALLOCATION OF PROCEEDS FROM THE ISSUANCE OF SECURITIES IN THE REPORTING PERIOD

In the financial year, the Company issued no securities.

LPP'S GOVERNING BODIES

OUR MANAGEMENT BOARD AS AT 31 JANUARY 2022

Board composition and scope of its members' responsibilities for specific areas of LPP's operations

MAREK PIECHOCKI – President of the Management Board of LPP (co-founder of LPP)	– Supervision over the works of the Management Board – HR – Reserved, Cropp, House, Mohito – brand and product development as well as omnichannel sales – Purchases and sustainable development – Control and development of sales operations
PRZEMYSŁAW LUTKIEWICZ - Vice-President of the Management Board of LPP	– Reporting and taxes – Operational controlling – Financial controlling – Common Services Centre – Management of foreign companies – Internal Control and Risk Managemen – Investor relations and sustainable reporting – Business Trip Organisation Office – Indirect Procurement
JACEK KUJAWA – Vice-President of the Management Board of LPP	– IT – Logistics – Administration – Investments – Data Science – Customer Service Centre – Cyber Security
SŁAWOMIR ŁOBODA – Vice-President of the Management Board of LPP	– Lease and expansion – Legal services – Market analyses
MARCIN PIECHOCKI – Vice-President of the Management Board of LPP	– Sinsay, Mohito – brand and product development, omnichannel sales – Internal communication and CSR – External communication

In the financial year 2021/22, there was a change in the composition of the Management Board of LPP. On 29 June 2021, the Ordinary General Meeting of LPP Shareholders adopted Resolution no 19 on the appointment of a member of the Management Board of LPP and appointed Mr Marcin Piechocki to the Management Board of LLP as its Vice-President.

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

LPP's Management Board consists of two to six members, including the President, and from one to five Vice-Presidents. Members of the Management Board are appointed for a term of five years and dismissed by the General Meeting of LPP Shareholders which also determines the number of Board members.

The scope of competence of, and rules of procedure for, the Management Board of LPP SA are set forth in the following documents:
- LPP SA Articles of Association available on the Company's website: https://www.lppsa.com/wp-content/uploads/2018/02/Statut-LPP-SA-22.12.2021.pdf
- Rules of Operation of the Management Board available on the Company's website: https://www.lppsa.com/wp-content/uploads/2016/02/Regulations-of-The-Management-Board-of-LPP-SA.pdf
- Commercial Companies Code.

The Management Board is responsible for any and all matters not falling within the scope of competence of other governing bodies of LPP SA.

The Management Board is not entitled to make any decisions on the issuance or buy-out of shares.

COMPENSATION AGREEMENTS WITH KEY MANAGEMENT OFFICERS

No agreements were concluded with key management officers, which would provide for a compensation in case of their resignation or dismissal from their position otherwise than on solid grounds or if they are recalled or dismissed as a result of the issuer's merger by acquisition.

REMUNERATION OF KEY MANAGEMENT OFFICERS

Values of all remunerations of key management officers are given in consolidated financial statements (notes 29.2 and 29.3) and in separate financial statements (notes 31.3 and 31.4).

OUR SUPERVISORY BOARD AS AT 31 JANUARY 2022

Composition:

MIŁOSZ WIŚNIEWSKI	– Independent* Chairman of the Supervisory Board of LPP
WOJCIECH OLEJNICZAK	– Vice-Chairman of the Supervisory Board of LPP
PIOTR PIECHOCKI	– Member of the Supervisory Board of LPP
MAGDALENA SEKUŁA	– Independent * Member of the Supervisory Board of LPP
GRZEGORZ MARIA SŁUPSKI	– Independent * Member of the Supervisory Board of LPP

**independence criteria set forth in the Act on Statutory Auditors, Audit Companies.*

In 2021/22, there was a change in the composition of the Supervisory Board. On 29 June 2021, the Ordinary General Meeting adopted Resolution no 18 on the appointment of a member of the Supervisory Board and appointed Mr Grzegorz Maria Słupski as Board Member. Simultaneously, on the same day, the resignation of Mr Antoni Tymiński from his position in the Supervisory Board of LPP became effective.

The scope of competence of, and the rules of procedure for, the Supervisory Board of LPP SA are set forth in the following documents:
- LPP SA Articles of Association available on the Company's website: https://www.lppsa.com/wp-content/uploads/2018/02/Statut-LPP-SA-22.12.2021.pdf
- By-Laws of the Supervisory Board, available on the Company's website: https://www.lppsa.com/wp-content/uploads/2016/02/Regulamin-RN-LPP-SA.pdf
- Commercial Companies Code.

In 2021/22, the Supervisory Board of LPP held 6 meetings and 2 write-in votes.

REMUNERATION OF KEY SUPERVISORY OFFICERS

Values of all remunerations of key supervisory officers are given in consolidated and separate financial statements (respectively, notes 29.2 and 31.3).

LPP'S SUPERVISORY BOARD COMMITTEES

Since 2017, within the Supervisory Board, there has been the Audit Committee composed of person listed below, meeting independence and other criteria set forth in Article 129 of the Act of 11 May 2017 on Statutory Auditors, Audit Companies and Public Supervision (Journal of Laws of 2017, item 1089):
- **Grzegorz Maria Słupski**, Chairman of the Audit Committee, meeting statutory independence criteria,
- **Magdalena Sekuła**, Member of the Audit Committee, meeting statutory independence criteria,
- **Piotr Piechocki**, Member of the Audit Committee,
- **Miłosz Wiśniewski**, Member of the Audit Committee, meeting statutory independence criteria.

Mr Grzegorz Maria Słupski, Chairman of the Audit Committee, has the knowledge and skills in the area of accounting and the auditing of financial statements; he simultaneously holds a doctorate in economics, is a university lecturer and has experience in performing supervisory duties in companies. Also Mr Miłosz Wiśniewski, member of the Audit Committee, has the knowledge and skills in this area, gained while he was Finance Director at Cereal Partners Worldwide and Boryszew SA.

Mr Piotr Piechocki has the branch-specific knowledge and expertise gained while he managed the e-commerce department of LPP SA.

In 2021/22, 6 meetings of the Audit Committee were held.

The tasks of the Audit Committee comprise the following:
- monitoring the financial reporting process and provision of recommendations aimed at ensuring diligence of the said process in the Company;
- monitoring the effectiveness of in-house control and audit systems and the risk management system in the Company, including in terms of financial reporting;
- monitoring performance of financial audit activities in the Company, in particular the carrying out of an audit by an audit company, with due consideration of any and all motions and findings of the Audit Supervision Commission, arising from a control procedure carried out in the audit company;
- control and monitoring of the independence of a statutory auditor and an audit company, specifically in cases where the audit company provides non-audit services to the Company;
- informing the Supervisory Board of audit results and explaining how such audit has contributed to reliability of the Company's financial reporting and what was the Committee's role in the audit procedure;
- assessing the independence of a statutory auditor;
- granting consent for using permissible services other than the audit of financial statements, provided by an audit company or a statutory auditor;
- developing a policy for choosing an audit company for audit purposes;
- developing a policy for the provision of permissible non-audit services by an audit company carrying out the audit, entities affiliated with such audit company and a member of the audit company's group;
- determining a procedure for choosing an audit company by the Company;
- providing the Supervisory Board with recommendations in accordance with Article 130(1)(8), 130(2) and 130(3) of the Act;
- verifying work performance of a person (entity) performing the duties of statutory auditor, in particular, by contacting the statutory auditor in the course of auditing the financial statements of the Company and its subsidiaries to discuss the advancement of works and clarify any doubtful issues and reservations of the statutory auditor in terms of the applied accounting policy or in-house control systems;
- discussing with the Company's statutory auditors the features and scope of the annual report and reviews of interim financial statements;
- reviewing the Company's interim and annual (separate and consolidated) financial statements audited, focusing, in particular, on:
  - any and all changes in the accounting standards, principles and practice,
  - main areas audited,
  - key adjustments resulting from the audit,
  - compliance with applicable accounting and financial reporting laws;
- issuing opinions for the Supervisory Board on termination of the agreement with an entity authorised to audit the Company's financial

statements;
- granting consent for appointment and dismissal by the Management Board of a person performing in the Company a key function covering in-house audit duties;
- monitoring the compliance system applicable in the Company,
- if there is no separate in-house audit position in the Company, the Audit Committee evaluates every year whether there is a need for such separate position.

CRITERIA FOR CHOOSING AN AUDIT COMPANY

1. In the course of preparation by the Audit Committee of recommendations and, subsequently, in the course of choosing the Eligible Entity by the Supervisory Board of LPP SA, the following criteria are taken into consideration:
   a) experience gained so far by the Eligible Company as well as qualifications and experience of persons delegated to carry out financial audit activities;
   b) knowledge of the industry in which the Company operates;
   c) price conditions offered by the Eligible Company;
   d) suggested time schedule covering works involving financial audit activities;
   e) comprehensiveness of services declared to be provided by the Eligible Company,
   f) renown of the Eligible Company;
2. In the course of preparation by the Audit Committee of recommendations and, subsequently, in the course of choosing the Eligible Entity by the Supervisory Board of LPP SA, recognition is given also to the assessment made by the Eligible Company and the key statutory auditor of the following issues:
   a) meeting by the Eligible Company of independence requirements referred to in Articles 69–73 of the Statutory Auditors Act;
   b) existence of hazards for the independence of the Eligible Company and the application of safeguards to minimise them;
   c) availability of competent staff of the Eligible Company, time and other resources to carry out the audit as required;
   d) holding by a person appointed to as key statutory auditor of a license to carry out mandatory audits of financial statements, obtained in a EU country in which such audit is required, including verification whether such person has been recorded in relevant registers of statutory auditors, kept in the EU country requiring the audit.
3. 3. Before issuing its recommendation, the Audit Committee evaluates also:
   a) independence of the Eligible Company and persons engaged in financial audit activities in light of Articles 69–73 the Statutory Auditors Act;
   b) statutory limitations relating to the possibility of providing services to the Company, motions, if any, and instructions provided for in the annual audit report issued by the Audit Supervision Commission, as referred to in Article 90(5) of the Statutory Auditors Act, in respect of the Eligible Company, which may affect the choice of an audit company.
4. It is impermissible to accept any pressure or suggestions of any third parties in respect of selection of the Eligible Company; it also impermissible for the Company, its governing bodies or the Audit Committee to accept any instructions in respect of selection of the Eligible Company or to conclude any agreements, or enter into any undertakings, in this respect.
5. The choice is made from among audit companies which have made offers for providing services covering statutory audit activities in line with the Appointment Procedure, with the reservation that:
   a) upon expiry of the maximum periods of the audit assignment, the audit company which audited the Company's financial statements may not audit such financial statements for the next four years,
   b) organisation of the tender procedure does not exclude participation of companies which are recorded on the list of audit companies and earned less than 15% of their total consideration for auditing services from public-interest entities in a given EU country in the preceding calendar year,
   c) the Company may invite any audit companies to make offers for statutory auditing services provided that the above is not in breach of provisions of the Statutory Auditors Act.
6. On a case-by-case basis, the Eligible Company is chosen based on offers received by the Company and delivered in accordance with the Appointment Policy with due consideration of the Appointment Procedure.

APPOINTMENT LIMITATIONS

1. Limitations in respect of selection of the Eligible Company are as follows:
   a) the maximum duration of continuous statutory audit assignments executed by the Eligible Company or an audit company affiliated with the Eligible Company or any

member of a network operating in EU countries, to which such audit companies belong, may not exceed 5 years;
   b) the key statutory auditor may not audit annual consolidated financial statements of the Group or annual financial statements of the Company for more than 5 years;
   c) the key statutory auditor may once again audit annual consolidated financial statements of the Group or annual financial statements of the Company upon expiry of at least 3 years from the last audit.
2. The first agreement on the audit of financial statements is concluded with the Eligible Company for a period of at least two years, with the possibility of its prolongation for next at least 2-year periods.
3. The principle, referred to in section 1 point a) above, applies to the audit of financial statements drawn up for financial years commencing after 31 December 2017.
4. The principle, referred to in section 1 point c) above, applies to waiting periods commencing on or after 17 June 2016.
5. When recommending and choosing the Eligible Company, it is required to take into account also limitations arising from the Policy for the Provision of Permitted Services.

FEE

1. The audit fee paid to the Eligible Company, its statutory auditors and subcontractors acting on their behalf and for them, may not:
   a) be subject to any conditions, including the audit result;
   b) be valued according to, or dependent on, the provision for the Company or its affiliates of additional non-audit services by the Eligible Company or any entity affiliated with the audit company or its group's member.
2. The audit fee reflects labour intensiveness, complexity of work and required qualifications.

The audit fee reflects labour intensiveness, complexity of work and required qualifications.

In addition, the company auditing the Company's financial statements reviewed interim condensed financial statements. In the current period, there was an agreement in force, involving performance of specific procedures regarding debt ratios.

The recommendation for choosing an audit company to carry out audits has met the requirements stemming from relevant laws and, due to the prolongation of the agreement concluded with the audit company auditing financial statements so far, the appointment procedure was not carried out in full.

KEY PRINCIPLES OF THE POLICY FOR THE PROVISION BY THE AUDITING COMPANY OF PERMITTED NON-AUDIT SERVICES

According to the Policy for the provision by an auditing company, its affiliates and a member of its group of permitted non-audit services drawn up by the Audit Committee of the Supervisory Board of LPP SA and applied in the Company, it is required, first of all, to ensure independence of both the audit company and the statutory auditor and to limit the possibility of the conflict of interest in case of assigning the audit company to provide permitted non-audit services by way of defining prohibited and permitted services.

For example, permitted services cover due diligence procedures involving economic and financial standing, assurance services covering pro forma financial information, result forecasts or estimates, published in the audited entity's prospectus, the audit of historical financial information for the prospectus, verification of consolidation packages.

Prohibited services are, in particular, the following: tax services involving preparation of tax returns, payroll taxes, customs dues, book-keeping services, drafting of accounting documentation and financial statements, development and implementation of internal control or risk management procedures involving preparation or control of financial information or development and implementation of technological systems covering financial information, or services involving in-house audit.

Permitted services may be provided only within the scope not related to the Company's tax policy, following assessment by the Audit Committee of hazards and safeguards for the independence of the audit company, the key statutory auditor and other members of the auditing team.

GENERAL MEETING OF LPP'S SHAREHOLDERS OPERATION OF THE GENERAL MEETING, ITS POWERS, DESCRIPTION OF SHAREHOLDERS' RIGHTS AND THE MODE OF THEIR EXERCISE

THE SCOPE OF COMPETENCE OF, AND THE RULES OF PROCEDURE FOR, THE GENERAL MEETING OF LPP'S SHAREHOLDERS ARE SET FORTH IN THE FOLLOWING DOCUMENTS:

- LPP SA Articles of Association available on the Company's website: https://www.lppsa.com/wp-content/uploads/2018/02/Statut-LPP-SA-22.12.2021.pdf
- Rules of Operation of the General Meeting of LPP's Shareholders available on the Company's website: https://www.lppsa.com/wp-content/uploads/2016/03/Regulamin-WZA-LPP-SA.pdf
- Commercial Companies Code.

CONVENING THE GENERAL MEETING OF SHAREHOLDERS

1. The General Meeting of Shareholders may be convened as ordinary or extraordinary meeting.
2. The General Meeting of Shareholders is held in Gdańsk, Warsaw, Sopot or Pruszcz Gdański, at a venue designated by the Management Board.
3. The Ordinary General Meeting is held annually, within six months after the end of a financial year.
4. The Extraordinary General Meeting is convened by the Management Board upon its own initiative, at the request of the Supervisory Board and upon a written request of shareholders representing one twentieth of the share capital.
5. The fact of convening the General Meeting, stating the date (day, hour) and place, is announced by the Management Board on the Company's website and in the manner set forth for providing current information in accordance with the provisions on public offering and the terms and conditions for introducing financial instruments to organised trading, and on public companies.

COMPETENCE OF THE GENERAL MEETING

1. Examining and approving financial statements and reports of the Management Board on the operations of LPP SA for the preceding year.
2. Taking all decisions relating to claims for redressing damage suffered during the establishment of LPP SA or its management or supervision.
3. Adopting a resolution on the distribution of profits or covering losses.
4. Discharging members of the LPP SA governing bodies from the performance of their duties.
5. Adopting a resolution on the issue of bonds, including convertible bonds.
6. Amending the Articles of Association.
7. Adopting resolutions on the merger, transformation, dissolution and liquidation of LPP SA.
8. Adopting resolutions on the sale and lease of the enterprise and establishing beneficial ownership.
9. Examining and deciding on motions submitted by the Supervisory Board.
10. Deciding on other matters falling within the scope of competence of the General Meeting under the Commercial Companies Code and the Company's Articles of Association.

SESSIONS OF THE GENERAL MEETING

1. The General Meeting is opened by the Chairman of the Supervisory Board or a person authorised by him, who then holds the elections for Chairperson of the General Meeting.
2. The person opening the General Meeting takes action aimed at immediate election of Chairperson of the General Meeting, who directs the works of the GM and ensures efficient and proper conduct of the session.
3. The General Meeting adopts resolutions on items put on the agenda only.
4. Draft resolutions proposed for adoption by the General Meeting and other relevant materials are presented to shareholders together with reasons and the opinion of the Supervisory Board.
5. The course of the General Meeting is minuted by a notary public.

VOTING

1. Voting at the General Meeting is open. Secret voting takes place when electing governing bodies and on requests to dismiss the Company's governing bodies or liquidators or to make them accountable, and in personal matters. In addition, secret voting is held upon request of at least one shareholder or his/her/its representative.
2. The General Meeting may appoint a three-person ballot counting committee, whose duties include ensuring the proper conduct of each voting, supervising computer services (if a vote takes place using electronic technology) as well as reviewing and announcing the results.
3. Each share gives right to one vote at the General Meeting. In the case of a series B preference share, one share gives right to five votes

at the General Meeting.

4. The Chairperson announces voting results, which are then recorded in the session minutes.

In the financial year 2021/22, the General Meeting of Shareholders was held on 29 June 2021.

RULES FOR AMENDING OUR ARTICLES OF ASSOCIATION

Any amendment to the Company's Articles of Association requires, first of all, an initiative of a shareholder or the Company's governing bodies. They may apply for convening the General Meeting or supplementing its agenda with voting on the amendment of the Articles of Association. A draft resolution amending the Articles of Association requires a relevant majority of votes at the General Meeting. If any such resolution is adopted, the Company's Management Board is required to file an application with the registry court to record it. An amendment to the Articles of Association is effective upon its registration.

DESCRIPTION OF A DIVERSITY POLICY

APPLIED TO LPP'S ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES IN TERMS OF ASPECTS INCLUDING AGE, GENDER OR EDUCATION AND PROFESSIONAL EXPERIENCE, GOALS OF SUCH DIVERSITY POLICY, THE POLICY EXECUTION PROCESS AND ITS EFFECTS IN A GIVEN REPORTING PERIOD

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

Members of LPP's Management and Supervisory Boards have diverse education i.e. from technical and IT education to finance, economic and legal education. They have diversified experience both in terms of the sector in which our Group operates and types of institutions where they have gained their previous experience.

Our Company is aware of the importance and the need to ensure diversity in terms of gender, education, age and experience and many other diversity factors not only in the governing and supervisory bodies of the Parent-Company but also in the corporate bodies of subsidiaries and among all employees of our Group.

We are an organisation promoting diversity. We evidence the above in our daily operations by prohibiting discrimination of employees and initiating actions aimed at promoting diversity.

To emphasise our commitment in promoting and developing diversity in the Company, in 2019, we signed the Diversity Charter and, therefore, we have officially undertaken to implement a discrimination ban and be active in taking action to promote diversity and in engaging our employees and business partners accordingly.

The Diversity Charter is an international initiative implemented in EU countries. Its signatories emphasize the importance of equal treatment regardless, among others, of gender, age, health condition, nationality and ethnic origin, religion, political beliefs, psychosexual orientation, gender identity, family status and other prerequisites which could result in discriminatory behaviour. Companies undertake to create atmosphere respecting diversity, implement solutions supporting equal treatment, introduce an equal treatment policy as well as anti-mobbing and anti-discriminatory monitoring and pursue a dialogue with employees. Furthermore, companies are required to report annually actions taken in that respect.

In financial year 2021/22, the Company initiated works on the document titled LPP Group's Policy on Diversity Management, Equal Treatment and Building Inclusion Culture. The said policy will constitute an undertaking to observe human rights of all people working for LPP and will be a clear declaration of opposing any form of violation of human rights, including, among others, discrimination based only any prerequisite whatsoever. The document in question will determine the key directions of the organisation's development in the area of diversity management and will apply to all Polish and foreign subsidiaries of LPP, belonging to the LPP Group.

We employ the disabled (325 employees in the entire Group). Since in our on-site stores the number of disabled employees is low due to work specifics, we cooperate extensively with a team of

teleworkers thus developing our activation project for the disabled who support us in HR and safety-at-work processes.

Furthermore, for two years, we have been analysing the remuneration gap in our Company i.e. differences between salaries of men and women. In 2021/2022, it was 4% to women's disadvantage. At the same time, we continue to put emphasis on women's professional careers - 62% of managers and directors in the Company are women.

Diversity is an important value for us. We confirm that through our Company's mission and values, in which building a competitive advantage is based on fostering the development of individual talents of employees and on treating them with due dignity and respect regardless of skin colour, religion, gender, age, nationality, sexual orientation, citizenship, marital status, political beliefs or disability.

SUPPLEMENTARY INFORMATION

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

In the financial year 2021/22, there were no relevant proceedings before any court, arbitration authority or public administration body, involving any obligations or liabilities of LPP or its subsidiary.

INFORMATION ON KEY ACHIEVEMENTS IN R&D

Omnipresent digitalisation has been dynamically changing habits and expectations of today's customers. The revolution in retail trade entails not only changes in the Internet, but also in logistics, warehousing, on-site stores as well as changes in approaching ecology issues. The future of the fashion industry lies in technological advancement, creating best customer experience and directing activities at sustainable fashion.

As, for several years now, the Group has been engaged in Fashion Tech research, i.e. application of new technologies in the entire value chain, from clothing design through logistics to omnichannel sales and customer after-sales service, we have been able to adjust to new reality in our business branch. Having decided to accelerate numerous technological projects, our Group has undergone a technological transformation to become not only a fashion company but also a technology company.

In the last financial year 2021/22, our key achievements in R&D involved the implementation of the electronic tag technology (RFID) in our remaining brands (in 2020/21, in Reserved), logistics technology, "green" solutions in buildings, application of algorithms (AI) and implementation of a Reserved mobile app.

RFID TECHNOLOGY IN CROPP, MOHITO AND HOUSE

For our Group, the new trading reality caused by the Covid-19 pandemic has become an impulse which has substantially accelerated projects supporting omnichannel sales. The implementation of the RFID system i.e. the electronic tag technology in Reserved paid off at the time when traditional stores were closed and online sales increased dynamically, thus supporting the brand's sales efficiency at a critical moment. Considering the key importance of the said technology in the process of the sales channel integration, we have decided to accelerate electronic tag implementation in other brands i.e. Cropp, Mohito and House.

Owing to the RFID technology, we may follow product availability in real time, which permits better control of its flow between, among others, warehouses and brand stores and, in consequence, a quicker and more precise response to customer needs.

The first implementation of RFID in Reserved was the quickest in the world i.e. within 12 months, we implemented RFID in 270 brand stores. In other brands, this technology was implemented within only 7 months in 12 countries i.e. the solution was rolled out over 5 times quicker than in Reserved. An important part of that project was a new solution i.e. RFID soft tags applied to products such as jewellery, perfumes or other accessories, which made it possible to increase the offer availability for online orders in Reserved, Cropp, Mohito and House. The system implementation and additional appearance of soft tags thus provided a 100-percent visibility of inventory in real time.

The potential of the RFID technology fully complies with the needs of dynamic development of our Group's omnichannel sales model.

TECHNOLOGICAL SOLUTIONS IMPROVING LOGISTICS PROCESSES

The implementation by our Group of subsequent solutions aimed at improving efficiency of the warehouse in Slovakia was a result of a dynamic growth of online order volume in Central Europe (the said warehouse provides services to customers of online stores not only in Slovakia but also in Germany, the Czech Republic, Croatia, Hungary and Slovenia).

In the said warehouse, there is a multi-level pocket sorter installed and a conveyer system which together aid the process of online order completion. The whole system is supplemented with a posisorter i.e. a sorting conveyer which automatically allocates completed packages to a proper slide as required by their characteristics, destination country and a messenger service which is to collect them. The new system has significantly accelerated the handling of e-commerce dispatches. Furthermore, it provides support for handling next business day deliveries offered by our Company to customers in Central Europe.

Owing to the implementation of advanced warehouse automatic devices, we could increase its efficiency (as many as 8 thousand items of clothing per hour), facilitate work, support decision-making processes and eliminate errors resulting from the manual sorting of goods. In consequence, we were able to optimise the process of delivering ordered goods to customers, which has significantly enhanced the competitiveness of our offer on markets in Central Europe.

Owing to such advanced automatic devices, the Fulfilment Centre in Slovakia is capable of preparing for customers over 4 thousand packages per hour.

The pocket sorter provides significant benefits also in terms of handling returned products which may be quickly and automatically transferred for reshipping or warehousing purposes. Consequently, it is possible to store even 25 thousand items of clothing, which further optimises the use of warehousing space in that facility.

As part of the Control Tower project i.e. an innovative platform facilitating supply chain management, our Company has implemented the procedure for standardising cardboard boxes. We have eliminated the transport of cardboard boxes not packed in full, which has translated into optimising loading space at the stage of both transportation and warehouse space management. Owing to the box standardising procedure followed, as part of this project, by our suppliers, we were able to retrieve and reuse import cardboard boxes from manufacturers, delivered to our distribution centre, by reusing them for distributing goods to our brand stores. In six months from introducing the said solution, our Group retrieved almost 900 thousand cardboard boxes, thus saving 17 thousand trees. The standardising process has also translated into the more efficient use of space in road transport, which, in turn, contributes to fuel consumption savings and minimises environmental impact.

TECHNOLOGICAL SOLUTIONS IN BUILDINGS

In the financial year 2021/22, numerous technological solutions were also implemented in our construction projects i.e. in the Distribution Centre in Brześć Kujawski (the second in size, our own logistics facility) and the office building in Gdańsk, both commissioned last year.

In the warehouse, there are "green" technological solutions implemented such as 4,000 photovoltaic panels on the building's roof, grey water treatment for the purposes of operating sanitary facilities, a recuperation system in office rooms, enabling recovery of even up to 95 percent of heat, and BMS (Building Management System) for integrating automatic devices, parts of systems for monitoring device performance and power consumption as well as the building's technical installations. On the roof, there are skylights installed and there is a progressive LED lighting system adjusting luminous intensity to weather conditions and time of the day. All these technological solutions will also bring savings in exploitation of natural resources.

Furthermore, in the office building for LPP employees in Gdańsk (constituting part of the LPP Fashion Lab), there are green lighting technologies installed i.e. power-saving LED lamps with intensity sensors, which adjust the quantity of light to external weather conditions and provide the optimum room lighting, saving power consumption at the same time. Owing to the grey water treatment technology, rainwater is used for toilet flushing in the building. Additionally, special rainwater tanks have been installed for greenery watering purposes. Also, the cooling ceiling technology has been installed in 80% of the building's usable space as an alternative for standard air-conditioning. For managing the building's automatic devices, the modern BMS (Building Management System) has been installed to operate, in an integrated mode, power, heating, ventilation and air-conditioning installations.

ALGORITHM RESEARCH – MACHINE CALCULATION

In the digital era, the importance of data science is on the increase. Data science combines specialist knowledge of IT, mathematics and statistics to help comprehend data and, on those grounds, make better business decisions.

Having in mind the intense development of state-of-the-art solutions and with due consideration of data science know-how, in April 2021, the Company separated from its structures a group of experts and specialists responsible for technology issues i.e. Silky Coders, a company currently employing almost 600 top specialists. At present, they develop innovations applied by the Group's employees and digital solutions facilitating shopping for millions of LPP's customers.

One of the solutions based on machine learning algorithms, designed and successfully implemented by Silky Coders, is the stock management system. It forecasts product demand in brand stores and e-commerce warehouses, which permits the correct planning of the number of items to be shipped to each location to most likely meet future demand while not causing overstocking.

Furthermore, as regards R&D, Silky Coders has successfully developed algorithms setting time intervals at which subsequent product lots should reach the central warehouse (before being delivered to brand stores, products are ordered and delivered to LPP's Distribution Centre). Owing to the algorithms developed, the Company has information required for maintaining the warehouse's smooth operation and acceptance of the optimum quantity of goods, satisfying a current demand.

Another achievement of Silky Coders specialists in R&D was the application of results of the research on RFID technology previously implemented by the Company. The research was aimed at determining in which store zones customers prefer to shop, which is helpful for displaying full outfits. Following the research, it is also possible to find misplaced goods. The technology research of this type brings also direct benefits to customers, i.e. transparent, not overstocked stores. In consequence, such research positively affects the frequency of customers' visits in our brand stores.

Additionally, the Silky Coders team has worked on technologies which will not only be applied by the Company to enhance customer experience or will positively affect business performance but which will also minimise its environmental impact. More detailed sales forecasts help to better adjust orders to product demand and avoid excessive manufacturing of clothes, while intelligent algorithms help our designers to propose outfits desired by customers.

INFORMATION ON BUSINESS SPONSORSHIP, CHARITY OR SIMILAR POLICIES

The Group builds community relations with full awareness. For 30 years now, we have been actively learning about the needs and expectations of beneficiaries and undertaking corresponding initiatives. Our responsibility has been defined in the Sustainable Development Strategy, with its part on charity activities having been transferred for implementation purposes to the LPP Foundation established in 2017. The Foundation's goal is community- and environment-oriented activities. According to our strategy, we pay special attention to projects supporting persons threated with social exclusion, mainly children and young people, projects involving material aid and those supporting the Company's closest neighbourhood.

COMMUNITY PROJECTS AND OPERATIONS OF THE LPP FOUNDATION IN 2021/22

MODA NA LEPSZY START (A BETTER START IS IN FASHION) – AN IN-HOUSE PROJECT OF THE LPP FOUNDATION.

The project's name has been created in a competition addressed to the Foundation's wards being the project's beneficiaries.

238 PROJECT PARTICIPANTS

– wards of **3 Tricity foundations**: "Rodzinny Gdańsk" Foundation, Gdańsk Foundation of Social Innovation and the "Focuses of Hope" Foundation for Families;

GOAL:

support for children and the youth by providing financial resources for actions in three areas:

HEALTH

– sensory, psychological, psychiatric and logopaedic therapies, dietician, braces, glasses

EDUCATION

– tutoring, vocational training, training courses

TALENT DEVELOPMENT

– sports, drawing, make-up, theatre, dance, floristics, horse riding

PROJECT OUTCOME:

3,000 HOURS OF ACTIVITIES AND THERAPY

including remedial classes, psychological and pedagogical therapies as well as dental, orthodontic, dermatologic, ophthalmologic, endocrinologic or dietary treatment; developing passions and talents: a driver's license course, painting and drawing classes, dance and acting classes, and sports such as fencing, rugby, soccer, judo, karate, horse riding or gym classes.

IN 2021/22, THE LPP FOUNDATION CARRIED OUT PROJECTS IN 3 KEY AREAS:

Counteracting social exclusion and supporting the local community

– - we financed the organisation of the Easter breakfast and the Christmas Eve dinner for the homeless in Gdańsk;
– - we financed summer holidays for over 250 children in foster care in the Pomerania and Małopolska regions;
– - we provided funds for 3 mobile libraries in Gdańsk and Cracow;
– - we provided financial aid for “ALBERTIANA” Stage and Music Art Festival for the Disabled and gifts for its participants;
– - we financed school starter kits for 120 preschool children – wards of the MATIO Foundation for Cystic Fibrosis Patients and Families;
– - we financed a family picnic and organised workshops for residents of the Lower City of Gdańsk as part of the Summer in Lower City with LPP project;
– - we financed gifts and animations during the inauguration of the Christmas Tree Lighting in the Lower City and financed a carol concert in the Lower City;
– - we conducted renovations and financed the provision of additional equipment for 2 children’s homes in Malbork;
– - we financed the renovation of a room and purchase of furniture for the Child and Family Counselling Centre;
– - we financed the renovation of a room for parents at the children's surgery department of the “Copernicus” hospital in Gdańsk;
– - we financed a playground at Polanki Children's Hospital in Gdańsk;
– - we donated funds for the purchase of sports equipment for wards of children's care facilities in Gdańsk and Cracow.

Healthcare

The Foundation supported its permanent partners i.e. hospitals and hospices by providing them with financial aid for purchasing required medical equipment, ancillary equipment for those facilities and their renovations as well as for specialist workshops and consultations.

As part of a project carried out by Reserved, we donated funds for yearly maintenance of an infoline for young people struggling with depression, operated by the Itaka Foundation.

As every year, we also provided funds for helping our employees struggling with long-term diseases and their families.

The beneficiaries were as follows:

- Maciej Płażyński Polanki Children’s Hospital in Gdańsk,
- Specialist Hospital in Kościerzyna,
- Hospice Foundation,
- Pomerania For Children Hospice Foundation,
- Fundacja z Pompą – Help Children with Leukemia,
- 3Maliny Foundation,
- Hospice Home Foundation in Pruszcz Gdański,
- Me Too Foundation for Development Support,
- Polish Association for Counteracting Cystic Fibrosis,
- Anna Dymna’s Mimo Wszystko Foundation,
- Avalon Foundation,
- Zdążyć z pomocą Children’s Foundation,
- Sedeka Foundation,
- Itaka Foundation.

Ecology and environment protection

The Foundation donated funds for veterinary care and the purchase of required equipment to animal care organisations such as:

- Paka dla Zwierzaka Association,
- Animals in Need Foundation,
- Kotangens Foundation.

EMPLOYEE VOLUNTEERING

For many years, LPP employees have been engaged in volunteering projects involving both long-term activities in cooperation with social partners and in one-off projects. In 2021/22, our employees took part in several initiative of importance for local communities:

- **2 Children's Homes in Malbork** – owing to financial aid from the LPP Foundation and engagement of a befriended renovation company, during summer time, within 10 days only, rooms in those children's homes were painted and, next, LPP employees assembled furniture for 14 children's rooms and provided them with cosy accessories. As a result, their residents returned from holidays to fully refreshed and newly furnished rooms in which they live on a daily basis.
- **Summer Fair with LPP** in the Lower City for residents of the Lower City of Gdańsk: during the summer fair, LPP volunteers conducted creative workshops for residents.
- **Cat Shelters**, a periodical initiative aimed at helping homeless cats; during this project, volunteers build and renovate cat shelters in the former shipyard.
- **The second Let's Plant** project aimed at planting a new forest in the territory affected by the tempest of 2017; during this project, our volunteers together with others planted 90 thousand trees.
- **Minigrants.** As part of the Minigrants competition (employee volunteering), LPP employees have the possibility of submitting their own projects benefitting organisations that aid people in need or animals. As part of this project, LPP finances volunteering projects of its employees.

In 2021, the competition was organised twice: at summer time, when 3 projects were carried out for a total amount of PLN 40 thousand, and during the Christmas season, when 11 projects were carried out for a total amount of PLN 55 thousand i.e., in total, PLN 95 thousand received by local communities.

LPP'S SUPPORT FOR SOCIO-ECONOMIC ENTITIES

- **Kuźnia Coffee Shop**
  Kuźnia Coffee Shop is run by the Social Innovation Foundation, which creates, as part of its operations, first work places for young people from small childcare facilities.
  Community coffee, i.e. the mobile "Kuźnia" coffee shop, visited 5 LPP offices in Gdańsk and Pruszcz Gdański in September and December 2021. The Company supported the socio-economic entity by enabling it to sell products to LPP's employees who willingly joined the project and bought, in total, 1,180 coffees/teas and 1,511 cakes. The costs in question were paid in part by LPP.
- **Anna Dymna's Mimo Wszystko Foundation**
  In LPP's office in Cracow, a charity fair was organised at which LPP employees could buy hand-made products prepared by the wards of Anna Dymna's "Mimo Wszystko" Foundation. Funds collected were donated to the "Dolina

Słońca" centre in Radwanowice near Cracow. Furthermore, employees took part in "**Tyle razem przeszliśmy**" project i.e. 18 km for the Foundation's 18th birthday. In September, the kilometres walked and reported by LPP employees (over 6.3 thousand kilometres) were converted into PLN and Anna Dymna's Foundation received as much as PLN 50 thousand for organising therapeutic and rehabilitation workshops classes for the Foundation's wards.

- **LPP cooperates with a positive impact start-up (Wosh Wosh)**
  LPP joined both the spring and autumn footwear collecting projects organised by Wosh Wosh (named "Make the Spring Come" and "Let's collect footwear for the homeless", respectively), inviting its employees to bring to LPP their no longer used footwear in good condition. Footwear was collected in LPP offices in Tricity, Cracow and Warsaw.
  By doing so, we let footwear to be reused thus showing care for our planet and solidarity with those in need.
  Footwear collected was sent to Wosh Wosh and, subsequently, following disinfection, were delivered, among others, to the Saint Brother Albert Society near Gdańsk, the Bread of Life Community in Warsaw and Cracow and the Prometheus Care and Resocialisation Association in Gdańsk. In total, during two collection activities, over 800 pairs of shoes were collected.

LPP TEAM FOR KIDS

In LPP, there is a sports team called LPP Team with running, triathlon and cycling sections. The Company sponsors section members, enabling them to take part in sports competitions or donating appropriate sportswear. Each year, the Company's employees take part in a sports charity event as part of which the LPP Foundation converts kilometres run or cycled during the year into PLN. For every kilometre run or cycled, the Company donates a specific amount distributed later among the LPP Foundation's wards from the Pomerania and Małopolska regions.

As part of the LPP team for kids project, the Company's employees ran over 8,000 km in three months (from July to September 2021) and cycled over 66,000 km. Thanks to their enormous motivation and really big hearts, LPP employees ran and cycled a total of PLN 49,200. The collected amount was received by the Intervention Care and Education Centre for girls from the Willowe housing estate in Cracow and to the Focuses of Hope Foundation for Families in Gdańsk, which would designate the said amount for purchasing sports equipment for their wards.

DEVELOPMENT INITIATION FORUM

The Development Initiation Forum is the largest cross-sectoral conference in Pomerania, organised by the UP FOUNDATION (the Development Initiation Foundation). For 5 years now, we have been a Strategic Partner of the Grant Competition of the Development Initiation Fund, and, from 2021, also a partner of the conference. The Fund was established upon initiative of the intersectoral partnership for strengthening sustainable development in the Pomeranian Voivodeship. In the competition's outcome, the best Pomeranian intersectoral initiatives that contribute to making an actual socio-economic change in the community are chosen, which then receive a grant to enable their implementation.

In the financial year 2021/22, apart from the standard financial support, the LPP Foundation implemented also other ancillary projects.

BRZEŚĆ KUJAWSKI

As part of local activities in Brześć Kujawski, where our new Distribution Centre has been built, we have been cooperating with the local municipality and, from 2019, we have been carrying out activities for the benefit of local communities. One of those projects is the "School Starter kit for First-Graders". Children starting primary school receive from LPP school supplies and gifts. In the financial year, 124 pupils were given support in question. Furthermore, pupils from all primary schools participate in the "English with LPP" educational project.

Goal	LPP	LPP Foundation
Value of donations made in the reporting year	145,364	1,617,517
Funds for healthcare	-	798,533
Funds for eco-friendly projects	-	32,881
Funds allocated for supporting the local community and projects counteracting social exclusion	-	786,103
Number of supported organisations	13	43
Number of volunteers engaged in the projects in the reporting year	-	374
Number of clothing items donated for charity purposes	-	123,000
Number of entities provided with clothing	-	120
Payments made for political purposes . Confirmation whether LPP does not, as a rule, support any political activity	-	-

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

In 2021/22, we concluded the following agreements:

- agreement on the provision of insurance guarantees for payment of a customs debt;
- insurance agreement – a global insurance policy covering all assets of the Group, including real property, goods, machinery and devices;
- lease agreements and annexes amending the terms and conditions of current agreements with owners of commercial space in Poland and abroad;
- agreements with banks, including annexes to existing agreements, with:
  - Pekao SA (supplier financing agreement, annexes to the multi-purpose credit line agreement),
  - BNP Paribas Bank Polska SA (annex to the multi-purpose credit line agreement),
  - BNP Paribas HK (framework supplier financing agreement),
  - Citi Bank Handlowy SA (annex to an overdraft agreement, an annex to the letter of credit line agreement),
  - HSBC France SA (annex to the letter of credit line agreement),
  - Santander SA (annexes to the factoring agreement, a factoring agreement with a BGK guarantee),
  - PKO Bank Polska SA (multi-purpose credit line agreement, annexes to investment loan agreements).
- agreements on the lease of warehouse space with:
  - Panattoni Europe,
  - PNK Group (extension of the Fulfillment Center and the Distribution Centre in Russia).

Spółce znane są też umowy zawarte pomiędzy akcjonariuszami LPP tj. Fundacją Semper Simul, Fundacją Sky i Sky SPV, polegające na transferze i wymianie akcji uprzywilejowanych na zwykłe na okaziciela pomiędzy tymi podmiotami.

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

Information on bank loans taken out as at 31 January 2022 and their maturity dates is given in the financial statements of the LPP SA Group (note 23) and the financial statements of LPP SA (note 25).

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

Information on guarantees granted and received in the financial year, including those granted to the issuer's associates, is given in the financial statements of the LPP SA Group (note 28) and the financial statements of LPP SA (note 30).

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

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

Detailed information on transactions with associates is given in the financial statements of the LPP SA Group (note 29.1) and the financial statements of LPP SA (notes 31.1 and 3.2)

INFORMATION ON THE EMPLOYEE SHARE CONTROL SYSTEM

The Company has implemented no employee share control system

INFORMATION ON THE AUDIT COMPANY AUDITING OUR FINANCIAL STATEMENTS

This information is given in the financial statements of the LPP SA Group (note 36) and the financial statements of LPP SA (note 32)

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

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

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

We published no forecasts of financial results.

3 CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

We hereby approve the consolidated financial statements of the LPP SA Group for the period of 12 months ended 31 January 2022, comprising the comprehensive income statement, with comprehensive income totalling PLN 1,014,111 thousand, the statement of financial position, with assets and liabilities totalling PLN 14,135,248 thousand, the cash flow statement, showing an increase in net cash by PLN 40,726 thousand, the statement of changes in equity, showing an increase in equity by PLN 203,721 thousand, and notes with a description of material accounting principles and other explanations.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the
Management Board

Przemysław Lutkiewicz
Vice-President of
the Management Board

Jacek Kujawa
Vice-President of
the Management Board

Sławomir Łoboda
Vice-President of
the Management Board

Marcin Piechocki
Vice-President of
the Management Board

Gdańsk, 19 April 2022

SELECTED FINANCIAL DATA

for the period of 12 months ended 31 January 2022

	PLN		EUR	
Selected consolidated financial data (in PLN thousand)	**2021**	**2020**	**2021**	**2020**
	01.02.2021 – 31.01.2022	01.02.2020 – 31.01.2021	01.02.2021 – 31.01.2022	01.02.2020 – 31.01.2021
Revenues	14,029,674	7,848,079	3,064,787	1,746,346
Operating profit (loss)	1,478,971	153,024	323,082	34,051
Pre-tax profit (loss)	1,232,010	-116,514	269,133	-25,927
Net profit (loss)	953,522	-190,130	208,297	-42,308
Weighted average number of shares	1,838,066	1,838,066	1,838,066	1,838,066
Profit (loss) per share	519	-103	113	-23
Net cash flows from operating activities	3,003,748	1,074,533	656,170	239,104
Net cash flows from investing activities	-1,328,332	-1,007,058	-290,175	-224,089
Net cash flows from financing activities	-1,634,690	-139,543	-357,099	-31,051
Total net cash flows	40,726	-72,068	8,897	-16,036

	PLN		EUR	
Selected consolidated financial data	**2022**	**2021**	**2022**	**2021**
	As at 31.01.2022	As at 31.01.2021	As at 31.01.2022	As at 31.01.2021
Total assets	14,135,248	10,353,768	3,074,083	2,281,319
Long-term liabilities	3,983,219	3,114,193	866,256	686,172
Short-term liabilities	6,879,932	4,171,199	1,496,223	919,070
Equity	3,272,097	3,068,376	711,604	676,077
Share capital	3,705	3,705	806	816
Weighted average number of ordinary shares	1,838,066	1,838,066	1,838,066	1,838,066
Book value per share	1,780.18	1,669.35	387.15	367.82
Declared or paid dividend per share	450.00	0.00	97.86	0.00

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

for 12 months ended 31 January 2022

Comprehensive income statement (in PLN thousand)	Notes	For 12 months ended 31.01.2022	For 12 months ended 31.01.2021
Revenue	9.1	14,029,674	7,848,079
Cost of goods sold	9.2	5,922,431	3,764,140
Gross profit (loss) on sales		**8,107,243**	**4,083,939**
Costs of stores and distribution	9.5	5,216,108	3,368,322
General costs	9.5	744,824	479,250
Other operating income	9.3	80,005	126,924
Other operating costs	9.3	747,345	210,267
Operating profit (loss)		**1,478,971**	**153,024**
Financial income	9.4	26,345	71,508
Financial costs	9.4	273,306	341,046
Pre-tax profit (loss)		**1,232,010**	**-116,514**
Income tax	10	278,488	73,616
Net profit (loss) on continuing operations		**953,522**	**-190,130**
Net profit (loss) for the financial year		953,522	-190,130
Other comprehensive income			
Items transferred to profit or loss			
Currency translation on foreign operations		60,589	-102,435
Total comprehensive income		**1,014,111**	**-292,565**
Weighted average number of shares		1,838,066	1,838,066
Diluted number of shares		1,839,884	1,838,066
Net profit (loss) per share	11	518.76	-103.44
Diluted net profit (loss) per share	11	518.25	-103.44

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 January 2022

Sprawozdanie z sytuacji finansowej (w tys. PLN)	Noty	As at	As at 31.01.2020
Non-current assets		**7,027,715**	**5,620,568**
1. Property, plant and equipment	13	2,760,486	2,439,778
2. Right-of-use assets	14	3,412,312	2,589,063
3. Intangible assets	15	144,431	136,453
4. Goodwill	16	183,203	183,203
5. Trademark	15	77,508	77,508
6. Deferred tax assets	10.3	425,405	178,864
7. Prepayments	27	5,756	2,187
8. Other financial assets	17.1	18,614	13,512
Current assets		**7,107,533**	**4,733,200**
1. Inventory	19	3,864,113	2,074,447
2. Trade receivables	20	246,077	158,055
3. Income tax receivables		33,929	102,726
4. Other non-financial assets	17.2	196,016	63,722
5. Prepayments	27	49,243	32,249
6. Other financial assets	17.1	60,570	71,131
7. Deposits and investment funds	18	1,302,694	953,016
8. Cash and cash equivalents	21	1,354,891	1,277,854
TOTAL assets		**14,135,248**	**10,353,768**
Equity		**3,272,097**	**3,068,376**
1. Share capital	22.1	3,705	3,705
2. Share premium	22.2	364,315	364,315
3. Other reserves	22.3	2,345,104	3,155,123
4. Currency translation on foreign operations		-204,649	-265,238
5. Retained earnings		763,637	-189,514
6. Non-controlling interest capital		-15	-15
Long-term liabilities		**3,983,219**	**3,114,193**
1. Bank loans and borrowings	23	144,174	190,596
2. Lease liabilities	14	3,428,223	2,523,669
3. Other financial liabilities (bonds)	26	294,665	294,104
2. Employee liabilities	24.1	1,409	1,818
3. Deferred tax liabilities	10.3	627	22
4. Accruals	27	114,121	103,984
Short-term liabilities		**6,879,932**	**4,171,199**
1. Trade and other liabilities	26	4,970,841	2,775,815
2. Contract liabilities	9.1	20,547	18,566
3. Customer refund liabilities	9.1	76,308	42,711
4. Bank loans and borrowings	23	535,036	521,097
5. Lease liabilities	14	749,069	654,010
6. Employee liabilities	24.2	149,672	33,676
7. Income tax liabilities		311,178	67,664
8. Provisions	25	10,669	1,384
9. Accruals	27	56,612	56,276
TOTAL equity and liabilities		**14,135,248**	**10,353,768**


LPP | RESERVED
FIT INTO fashion

CONSOLIDATED CASH FLOW STATEMENT

for 12 months ended 31 January 2022

Cash flow statement (in PLN thousands)	Notes	For 12 months ended 31.01.2022	For 12 months ended 31.01.2021
A. Cash flow statement from operating activities – indirect method			
I. Pre-tax profit (loss)		**1,232,010**	**-116,514**
II. Total adjustments		**1,771,738**	**1,191,047**
1. Amortisation and depreciation		1,147,651	1,073,045
2. Foreign exchange gains (losses)		-75,389	21,113
3. Interest and dividends		173,045	153,332
4. Profit (loss) on investing activities		650,317	204,722
5. Income tax paid		-320,109	-326,724
6. Change in provisions and employee benefits	24, 25	87,485	-52,866
7. Change in inventories	19	-1,998,364	-218,250
8. Change in receivables and other assets	17, 20	-660,833	-579,288
9. Change in liabilities, excluding bank loans and borrowings	26	2,804,225	910,711
10. Change in prepayments and accruals	27	-59,490	-9,673
11. Other adjustments		23,200	14,925
III. Net cash flows from operating activities		**3,003,748**	**1,074,533**
B. Cash flows from investing activities			
I. Inflows		**286,559**	**373,880**
1. Disposal of intangible assets and property, plant and equipment		170,007	156,748
2. Repayment of loans granted		190	99
3. Interest and other inflows from financial assets		219	1,309
4. Other investing inflows (investment funds)	18	116,143	215,724
II. Outflows		**1,614,891**	**1,380,938**
1. Purchase of intangible assets and property, plant and equipment		1,324,668	824,777
2. Loans granted		300	137
3. Other investing outflows (investment funds)	18	289,923	556,024
III. Net cash flows from investing activities		**-1,328,332**	**-1,007,058**
C. Cash flows from financing activities			
I. Inflows		**7,471**	**1,325,321**
1. Issuance of shares		0	112,347
2. Bank loans and borrowings		7,471	1,212,974
3. Other financial inflows		0	0
II. Outflows		**1,642,161**	**1,464,864**
1. Paid dividends and other payments to owners		833,590	0
2. Repayment of bank loans and borrowings		56,047	768,492
3. Financial lease liabilities paid		583,209	538,564

Cash flow statement (in PLN thousands)	Notes	For 12 months ended 31.01.2022	For 12 months ended 31.01.2021
4. Paid interest		169,315	157,685
5. Other financial outflows		0	123
III. Net cash flows from financing activities		**-1,634,690**	**-139,543**
D. Total net cash flows		**40,726**	**-72,068**
E. Balance sheet change in cash, including:		**77,037**	**-83,620**
- change in cash due to foreign currency translation		**36,311**	**-11,552**
F. Opening balance of cash		**1,276,243**	**1,348,311**
G. Closing balance of cash		**1,316,969**	**1,276,243**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for 12 months ended 31 January 2022

Statement of changes in equity (in PLN thousands)	Share capital	Treasury shares	Share premium
Balance as at 1 February 2021	**3,705**	**0**	**364,315**
Remuneration paid in shares	0	0	0
Dividend paid	0	0	0
Division of profit for 2020	0	0	0
Transactions with owners	**0**	**0**	**0**
Net profit for 12 months ended 31.01.2022	0	0	0
Foreign exchange differences	0	0	0
Total comprehensive income	**0**	**0**	**0**
Balance as at 31 January 2022	**3,705**	**0**	**364,315**

Balance as at 1 February 2020	**3,705**	**-41,115**	**284,877**
Remuneration paid in shares	0	0	0
Settlement of the incentive programme	0	2,071	6,137
Sale of treasury shares	0	39,044	73,301
Division of profit for 2019	0	0	0
Transactions with owners	**0**	**41,115**	**79,438**
Net loss for 12 months ended 31.01.2021	0	0	0
Foreign exchange differences	0	0	0
Total comprehensive income	**0**	**0**	**0**
Balance as at 31 January 2021	**3,705**	**0**	**364,315**

Other reserves	Currency translation on foreign operations	Retained earnings	Equity attributable to the parent company	Non-controlling interests	TOTAL equity
3,155,123	**-265,238**	**-189,514**	**3,068,391**	**-15**	**3,068,376**
23,200	0	0	23,200	0	23,200
-833,590	0	0	-833,590	0	-833,590
371	0	-371	0	0	0
-810,019	**0**	**-371**	**-810,390**	**0**	**-810,390**
0	0	953,522	953,522	0	953,522
0	60,589	0	60,589	0	60,589
0	**60,589**	**953,522**	**1,014,111**	**0**	**1,014,111**
2,345,104	**-204,649**	**763,637**	**3,272,112**	**-15**	**3,272,097**

2,733,227	**-162,803**	**429,624**	**3,247,515**	**-15**	**3,247,500**
1,094	0	0	1,094	0	1,094
-8,206	0	0	2	0	2
0	0	0	112,345	0	112,345
429,008	0	-429,008	0	0	0
421,896	**0**	**-429,008**	**113,441**	**0**	**113,441**
0	0	-190,130	-190,130	0	-190,130
0	-102,435	0	-102,435	0	-102,435
0	**-102,435**	**-190,130**	**-292,565**	**0**	**-292,565**
3,155,123	**-265,238**	**-189,514**	**3,068,391**	**-15**	**3,068,376**

ACCOUNTING PRINCIPLES (POLICIES) AND ADDITIONAL EXPLANATORY NOTES

1. OVERVIEW

The LPP SA Group (“Group”) is composed of LPP SA (“Parent Company”, “Company”) and its subsidiaries. The Group’s consolidated financial statements cover the year ended 31 January 2022 and incorporate comparative data for the year ended 31 January 2021.

On 25 May 2018, the Ordinary General Meeting of Shareholders of LPP SA adopted a resolution on the change of the Company’s financial year to make it last, ultimately, from 1 February to 31 January of a subsequent calendar year.

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

The said change stemmed from the natural calendar of the clothing sector, in which new collections are sold from February and the clearance period ends in January.

Therefore, reporting periods cover the period of 12 months, from 1 February to 31 January of a subsequent calendar year.

The comparative period covers both the financial year lasting 12 calendar months, audited by a statutory auditor, i.e. from 1 January 2020 to 31 January 2021 for the comprehensive income statement and the cash flow statement.

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

In the reporting period, there was no change of the name of the reporting company.

The head office of LPP SA is located at: Łąkowa 39/44, Gdańsk, Poland.

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

The Group’s basic scope of business is retail sale and wholesale of clothing.

2. COMPOSITION

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

No	Company name	Registered office	Shareholding
1.	LPP Retail Sp. zo.o.	Gdańsk, Poland	100.0%
2.	DP&SL Sp. z o.o.	Gdańsk, Poland	100.0%
3.	IL&DL Sp. z o.o.	Gdańsk, Poland	100.0%
4.	LPP Printable Sp. z o.o.	Gdańsk, Poland	100.0%
5.	LPP Logistics Sp. Z o.o.	Gdańsk, Poland	100.0%
6.	Dock IT Sp. z o.o.	Gdańsk, Poland	100.0%
7.	Silky Coders Sp. z o.o.	Gdańsk, Poland	100.0%
8.	Veviera Investments Sp. z o.o.	Gdańsk, Poland	100.0%
9.	LPP Czech Republik SRO	Prague, the Czech Republic	100.0%
10.	LPP Slovakia SRO	Banska Bystrica, Slovakia	100.0%
11.	LPP Hungary KFT	Budapest, Hungary	100.0%
12.	LPP Lithuania UAB	Vilnius, Lithuania	100.0%
13.	LPP Latvia LTD	Riga, Latvia	100.0%
14.	LPP Estonia OU	Tallin, Estonia	100.0%
15.	RE TRADING OOO	Moscow, Russia	100.0%
16.	LLC Re Development	Moscow, Russia	100.0%
17.	LPP Ukraina AT	Peremyshliany, Ukraine	100.0%
18.	OOO LPP BLR	Minsk, Belarus	100.0%
19.	LPP Kazakhstan LLP	Almaty, Kazakhstan	100.0%
20.	LPP Bulgaria EOOD	Sofia, Bulgaria	100.0%
21.	LPP Fashion Bulgaria EOOD	Sofia, Bulgaria	100.0%
22.	LPP Romania Fashion SRL	Bukarest, Romania	100.0%
23.	LPP Croatia DOO	Zagreb, Croatia	100.0%
24.	LPP Reserved DOO Beograd	Belgrad, Serbia	100.0%
25.	Reserved Fashion, Modne Znamke DOO	Ljubljana, Slovenia	100.0%
26.	Reserved Fashion BIS, Modne Znamke DOO	Ljubljana, Slovenia	100.0%
27.	LPP BH DOO	Banja Luka, Bosnia and Hercegovina	100.0%
28.	LPP Macedonia DOOEL	Skopje, Macedonia	100.0%
29.	LPP Deutschland GmbH	Hamburg, Germany	100.0%
30.	LPP Reserved UK LTD	Altrincham, Great Britain	100.0%
31.	LPP Finland LTD	Helsinki, Finland	100.0%
32.	IPMS Management Services FZE	Ras Al Khaimah, UAE	100.0%
33.	P&L Marketing&Advertising Agency SAL	Beirut, Lebanon	97.3%

As at 31 January 2022 and as at 31 January 2021, the share in the total number of votes held by the Group in subsidiaries was equal to the Group's shareholdings in those entities, with no changes compared with the preceding year.

In the reporting period, the Group was joined by the following new subsidiaries:
- Silky Coders Sp. z o.o.
- Dock IT Sp. z o.o.
- Veviera investments Sp. z o.o.
- Reserved Fashion BIS, Modne Znamke DOO

On 1 July 2021, there was a trans-border merger of LPP SA and its subsidiary Gothals Ltd. with its registered office in Nicosia, in which LPP SA held 100% of shares.

3. COMPOSITION OF THE MANAGEMENT BOARD OF THE PARENT COMPANY

Composition of the Management Board of LPP SA as at 31.01.2022:
- **President of the Management Board** Marek Piechocki,
- **Vice-President of the Management Board** Przemysław Lutkiewicz

- **Vice-President of the Management Board** Jacek Kujawa
- **Vice-President of the Management Board** Sławomir Łoboda,
- **Vice-President of the Management Board** Marcin Piechocki

In the reporting period, there was a change in the composition of the Management Board of the Parent Company. On 29 June 2021, the Ordinary General Meeting resolved to appoint Mr Marcin Piechocki as Member of the Management Board of LPP SA. By the date of approving this report, there were no other changes in the composition of the Management Board.

4. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Management Board of LPP SA for publishing on 19 April 2022.

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

5.1. PROFESSIONAL JUDGEMENT

Sporządzenie skonsolidowanego sprawozdania finansowego Grupy wymaga od Zarządu jednostki dominującej dokonania osądów, szacunków oraz założeń, które mają wpływ na prezentowane przychody, koszty, aktywa i zobowiązania i powiązane z nimi noty oraz ujawnienia dotyczące zobowiązań warunkowych. Niepewność co do tych założeń i szacunków może spowodować istotne korekty wartości bilansowych aktywów i zobowiązań w przyszłości.

W procesie stosowania zasad rachunkowości Zarząd dokonał następujących osądów, które mają największy wpływ na przedstawione wartości bilansowe aktywów i zobowiązań.

Lease – Group as the lessee

Judgments on lease where the Group is a lessee, in the following areas: recognition whether a given agreement incorporates a lease, agreements for an unlimited period of time, exercise of the option to prolong or shorten the lease term, are given in note 14.

LPP and its subsidiaries concluded lease agreements for retail space to operate brand stores.

Recognition of revenue

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

Asset impairment

The Group makes judgements regarding occurrence of prerequisites for impairment. If any such prerequisites are identified, the Group assesses future cash flows generated by a cash-generating unit and determines a discount rate for calculating the current value of such flows.

Reversed factoring

The Group is a party to a reversed factoring agreement. Key judgments in this respect are provided for in note 26.

5.2. UNCERTAINTY OVER ESTIMATES AND ASSUMPTIONS

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

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

Estimates made by the Parent Company's Management Board, affecting the values disclosed in the financial statements, cover the following:

- **depreciation rates**
  The value of depreciation rates is determined based on the estimated economic useful life of property, plant and equipment and intangible assets. For the right-of-use right, values of depreciation rates were determined depending on agreement duration. Each year, based on current estimates, the Group verifies the economic useful life applied.

- **lessee's marginal interest rate**
  Estimates made when determining the lessee's marginal interest rate are given in note 14.

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

At present, the Parent Company adopted the following product return ratios for specific sales channels:
– in on-site stores – 1.5%
– in online stores – 13%

Subsidiaries adopted their own product return ratios.

– **Impairment losses on inventory**
The Group analyses the value of inventory twice a year, after the first half and at the end of a financial year. The above stems from exchanging spring/summer and autumn/winter collections. The Group assesses the current position and evaluates the level at which the value of inventory is subject to an impairment loss.

The Group recognises impairment losses on goods sold out and goods older than the last season in accordance with the following principle:
– goods to be sold in brand stores - subject to write-offs in the amount determined based on a current analysis,
– goods to be sold to external recipients - subject to write-offs in the amount of 80% of the value of goods.

– **Impairment losses on assets**
Twice a year, after the first half and at the end of a financial year, the Group assesses whether there is objective evidence for permanent impairment of an asset or a group of assets. The Group treats individual retail sales units as separate cash generating units and, at their level, estimates such impairment, if any. Furthermore, as estimated by the Group, the initial phase of the store's operations lasts 6 months, during which newly opened stores may generate losses. After that period, the Group analyses the profitability of individual retail sales units. For selected brand stores, the Group carried out the analysis of estimated cash flows generated by a given store as a single cash generating unit. In the event of identifying stores without any promising perspectives for improving results within a given time-frame, the Group makes a decision on a permanent impairment loss on assets assigned to such unprofitable store.

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

– **valuation of provisions for retirement and pension benefits**
The Group makes a provision for future liabilities arising from retirement and pension benefits, applying actuarial methods. Assumptions made in this respect are presented in note 24. A change in financial indices serving as the basis for the estimate, i.e. an increase in the discount rate by 0.5 p.p. and a decrease in the remuneration index by 0.5 p.p., would result in the decrease of the provision by PLN 71 thousand.

– **future tax results taken into account when determining deferred income tax assets**
The Group recognises a deferred income tax asset based on the assumption that, in the future, tax income will be generated and, thus, utilised.

A future deterioration in tax results yielded could make this assumption illegitimate.

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

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

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

As regards the previous reporting period, methods for determining estimated values are applied on a continuous basis.

- **impact of climate change hazards**
  The Group analysed its operations in terms of its climate impact. The Management Board of LPP SA is aware that part of its business operations may, to some extent, have environmental impact and that its presence on numerous markets involves exposure to climate risks. Following the analysis carried out, the Management Board ascertained no major impact of climate risks on these financial statements. A detailed description of the said analysis and actions taken in respect of climate risks are provided for in the Report of the Management Board on the operations of the LPP SA Group, in chapter Risk Management.

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

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

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

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

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

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

6. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

Pursuant to the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2021, item 217), from 1 January 2005, LPP SA has presented its consolidated financial statements based on International Financial Reporting Standards (IFRS), approved by the EU (IFRS EU).

These consolidated financial statements have been drawn up in accordance with the historical cost accounting model, except for financial instruments measured at fair value.

These consolidated financial statements have been drawn up presuming that the Group companies remain a going concern in the foreseeable future despite occurrence of several circumstances affecting the above.

Despite a difficult economic situation brought, among others, by lock-downs in numerous countries during the financial year, which directly affected the operations of the Group and the fashion industry, the financial standing of the Group remains stable. Numerous activities undertaken in 2020 and 2021 due to the Covid-19 pandemic, involving cost and expense reductions and, specifically, completion of rent negotiations with retail space owners and an increase in retail space, have brought positive results. The Group maintains safe financial liquidity and reimplemented its development plans i.e. new stores are opened. Furthermore, it relaunched its investment project involving the construction of a new warehouse.

When preparing a financial budget for Ukraine for 2022, the Group gave consideration to the risk of military invasion on the Ukrainian border (in the opinion of the Management Board of LPP SA, when over 100 thousand soldiers are involved, one may not expect ordinary military training and it is rather a sign of an upcoming military conflict – a continuation of the 2014 operation when Russia seized Crimea).

Having regard of the above, the Group prepared a black scenario for the development of the situation in Ukraine i.e. a war with Russia. For the Group, it entails the inability or significant impediment to stock delivery and store operation Ukraine. Assuming a 75% decrease in sales due to the hostilities compared to the original plan, this will result in extensive losses for the Ukrainian business in 2022. Therefore, the Management Board of LPP SA is of the opinion that it would be viable to make write-offs on the assets of the Ukrainian company at the end of January 2022.

Based on the analyses carried out, the Group's current liquidity and prepared cash flow forecasts, the LPP Management Board has concluded that, as at the date of approving these financial statements, there is no significant uncertainty for the Group remaining as a going concern in the foreseeable future i.e. in the next 12 months at the minimum. Thus, the enclosed financial statements have been drawn up based on the above-mentioned presumption and comprise no adjustments of different methods for measurement and classification of assets and liabilities, which could have been deemed required should the Group not remain a going concern in the foreseeable future.

These financial statements are presented in PLN, and, unless given otherwise, all values are given in PLN thousand.

6.1. DECLARATION OF COMPLIANCE WITH IFRS

These consolidated financial statements have been drawn up in line with the International Financial Reporting Standards (IFRS) approved by the European Union, covering standards and interpretations approved by the International Accounting Standards Board. As at the date of approval of these financial statements for publishing, considering the pending process of implementation of IFRS in the EU, IFRS applicable to these financial statements do not differ from IFRS EU.

In these financial statements, no standard or interpretation has been applied voluntarily or early.

6.2. NEW STANDARDS AND INTERPRETATIONS PUBLISHED YET NOT IN FORCE

New standards and interpretations published yet not in force:

Standard/interpretation	Effective date
IFRS 14 *Regulatory Deferral Accounts*	– annual periods beginning on or after 1 January 2016 – published on 30 January 2014 – as decided by the European Commission, the approval process for the standard in its initial form will not commence before the standard is published in its final wording; not approved by the EU by the date of approval of these financial statements

Standard/interpretation	Effective date
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment to IFRS 10 and IAS 28)	– no date for entry into force – voluntary application – published on 11 September 2014 – the EU approval procedure suspended
IFRS 17 *Insurance Contracts*	– annual periods beginning on or after 1 January 2021 – published on 18 May 2017
Amendments to IAS 1 and Practice Statement 2: *Disclosure of Information on Accounting Principles (Policy)*	– annual periods beginning on or after 1 January 2023 – published on 12 February 2021 – not approved by the EU by the date of approval of these financial statements
Amendments to IAS 8 *Definition of Accounting Estimates*	– annual periods beginning on or after 1 January 2023 – published on 12 February 2021 – not approved by the EU by the date of approval of these financial statements
Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	– annual periods beginning on or after 1 January 2023 – published on 7 May 2021 – not approved by the EU by the date of approval of these financial statements
Amendments to IFRS 17 *Insurance Contracts: First Application of IFRS 17 and IFRS 9 – Comparative Information*	– annual periods beginning on or after 1 April 2023 – published on 9 December 2021 – not approved by the EU by the date of approval of these financial statements

– **Implementation of other standards and interpretations**
By the date of approving these financial statement for publishing, the Parent Company's Management Board had not completed works involving the assessment of the impact of introducing other standards and interpretations on the accounting principles (policy) applied by the Group in relation to the Group's operations or financial results.

7. KEY ACCOUNTING PRINCIPLES

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

These principles were applied in all presented years on a continuous basis, except for new standards and interpretations, referred to in point 8, applied for the first time.

7.1. CONVERSION OF ITEMS DENOMINATED IN FOREIGN CURRENCIES

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

The functional currency of foreign subsidiaries is their local currency.

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

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

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

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

	31.01.2022	31.01.2021
EUR	4.5982	4.5385
CZK	0.1881	0.1743
BGN	2.3510	2.3205
100HUF	1.2840	1.2660
RUB	0.0531	0.0491
UAH	0.1446	0.1332
HRK	0.6108	0.5997
RON	0.9295	0.9308
RSD	0.0390	0.0387
100KZT	0.9341	0.8767
BAM	2.3416	2.3133
GBP	5.5320	5.1190
100MK	7.4497	-
BYN	1.5557	1.4478

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

	For 12 months ended 31.01.2022	For 12 months ended do 31.01.2021
EUR	4.5714	4.4581
CZK	0.1800	0.1683
BGN	2.3404	2.2733
100HUF	1.2760	1.2600
RUB	0.0528	0.0520
UAH	0.1434	0.1400
HRK	0.6082	0.5920
RON	0.9274	0.9215
RSD	0.0389	0.0379
100KZT	0.9100	0.9100
BAM	2.3319	2.2709
GBP	5.2808	4.9872
100MK	7.4770	-
BYN	1.5492	1.4541

7.2. CONSOLIDATION PRINCIPLES

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

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

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

8. CHANGES IN APPLIED ACCOUNTING PRINCIPLES

Accounting principles applied for preparing these consolidated financial statement are coherent with those applied when drawing up the Group's financial statements for the year ended 31 January 2021, except for those given below.

Amended standards and interpretations applied for the first time in 2021 do not substantially affect the Group's financial statements.

Standard/interpretation	Short description
Amendments to IFRS, IFRS 7, IFRS 4, IAS 39 and IFRS 16 I*nterest Rate Benchmark Reform – phase 2*	The proposed amendments contain temporary derogations addressing the effects of replacing the interbank interest rate ("IBOR") with an alternative near risk-free rate ("RFR") and the impact on financial reporting. The amendments include the following practical solutions: – a practical solution requiring that contractual or cash flow changes that are a direct consequence of the reform are treated as changes in the floating interest rate, which is equivalent to a change in the market interest rate, – it is permitted to adjust hedge accounting documentation is terms of designation and documentation of hedging relationships without terminating them if these changes were directly required by the IBOR reform, – granting a temporary exemption from the requirement to meet the separate identification criterion if the RFR instrument has been designated as a risk component hedge.
Amendments to IFRS 4	The amendments move the end date of the temporary exemption from IFRS 9 from 1 January 2021 to 1 January 2023 to align it with the effective date of IFRS 17. The amendments provide optional solutions to reduce the impact of the different effective dates of IFRS 9 and IFRS 17.
Amendments to IFRS 16 *Covid-19 Related Rent Concessions after 30 June 2021*	The amendment extends the practical solution for lessees, regarding lease contracts with rent concessions granted as a direct result of the Covid 19 pandemic and payments originally due on or before 30 June 2021 to leases with payments originally due on or before 30 June 2022.

9. REVENUE AND COSTS

9.1. REVENUE

ACCOUNTING POLICY

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

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

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

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

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

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

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

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

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

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

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

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

Revenue broken down by category

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

In PLN thousands	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Type of sale		
Sale of goods, including	14,029,096	7,847,482
E-commerce	*3,961,069*	*2,229,287*
Sale of services	579	597
Total	**14,029,674**	**7,848,079**
Brand		
Reserved	5,386,349	3,466,725
Cropp	1,526,471	972,332
House	1,294,888	875,262
Mohito	1,143,854	707,678
Sinsay	4,586,558	1,737,812
Other	91,554	88,270
Total	**14,029,674**	**7,848,079**

Assets and liabilities under contracts with customers

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

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

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

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

In PLN thousands	As at 31.01.2022	As at 31.01.2021
Trade receivables	246,077	158,055
Refund asset	48,104	20,152
Refund liabilities	76,308	42,711
Contract liabilities	20,547	18,566

9.2. COST OF GOODS SOLD

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

Cost of goods sold (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Cost of goods and services sold	5,684,645	3,768,133
Revaluation write-off on inventories	237,786	-3,993
Total cost of goods sold	**5,922,431**	**3,764,140**

9.3. OTHER OPERATING INCOME AND COSTS

POLITYKA RACHUNKOWOŚCI

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

A subsidies are recognised when there are reasonable certainty that they will be received and all ancillary conditions are satisfied.

If there are indications of impairment, the Group tests property, plant and equipment for impairment. Impairment losses are recognised when the tests indicate a recoverable amount lower than the carrying value.

Other operating income (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Profit on sales of non-financial non-current assets	402	228
Subsidies	45,642	83,344
Other operating income, including:	33,961	43,352
– profit on cancellation of contracts valued according to IFRS 16	10,419	29,745
– compensations	3,470	1,179
Other operating income	**80,005**	**126,924**

The “subsidies” item in operating income results, in particular, from additional financing for remuneration and social insurance premium costs, resulting from the Covid-19 governmental aid in different countries. Key amounts were obtained in the following countries:
- Russia – PLN 16,649 thousand from cancellation of the loan taken out to subsidise payroll costs in the period June 2020 - February 2021. The condition for cancellation was to maintain a minimum number of employees during this period, i.e. 90% versus employment as at 1 June 2020.
- Germany – PLN 8,795 thousand for payment of fixed costs in the period November 2020 – June 2021. The support was given to retail companies affected by mandatory closure of operations following relevant decisions of local authorities. The condition for such support was an at least 30% decrease in sales in the period November 2020 – June 2021 versus the same months of 2019.
- the Czech Republic – PLN 6,057 thousand as financing to cover 80% of payroll costs payable to employees quarantined or isolated due to Covid -19 and costs of tests if required by operation of law.

Other operating income (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Loss on sales of non-financial non-current assets	0	0
Revaluation of assets, including:	520,135	97,667
– revaluation write-offs on non-current assets net	519,904	70,648
– revaluation write-offs on receivables net	231	623
– revaluation write-offs on goodwill	0	26,396
Other operating costs, including:	227,210	112,600
– losses on current and non-current assets	213,310	86,381
– fines	2,449	9,511
Other operating costs, in total	**747,345**	**210,267**

In the reporting period, the Group showed the value of revaluation write-offs, including impairment losses on property, plant and equipment for unprofitable stores, in the amount of PLN 519,904 thousand. A detailed description of the above is given in note 13.

Due to the closure of stores in Ukraine, caused by the military aggression in the reporting period, the Group wrote off all inventory in Ukrainian stores, in the amount of PLN 116,900 thousand.

9.4. FINANCIAL INCOME AND COSTS

ACCOUNTING POLICY

Financial income and costs comprise, specifically, interests, revaluation of loans, foreign exchange differences, dividends and subsidies.

Interest income and interest expense are recognised regularly when accrued, applying the effective interest method, over the net carrying value of the financial asset.

Dividends are recognised at the time of determining shareholders’ rights to be paid the same.

If there are prerequisites for impairment, the Group carries out an impairment test for the investment’s value. Write-offs are made when, as shown by the tests, a recoverable value is lower than the balance sheet value.

Foreign exchange differences are shown in net values.

Financial income (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Interest, including:	3,255	4,902
– on deposits	1,291	4,323
– on loans and receivables	1,964	579
Measurement of participation units in funds	-2,628	46
Dividend	6	12
Other financial income	25,712	66,548
– adjustments of a lease liability	25,712	66,548
Total financial income	**26,345**	**71,508**

In the reporting period, the Group renegotiated lease agreements for retail space. The Group's approach to disclosure of impact of the annexes signed on the financial statements is given in note 14.

Financial costs (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Interest costs – bank loans	25,973	19,475
Interest costs – bonds	4,491	6,438
Interest costs – state budget and other	5,298	245
Interest costs – lease liabilities	139,858	130,581
Other, including:	97,686	184,307
– balance of foreign exchange differences	93,687	178,328
Total financial costs	**273,306**	**341,046**

Due to a substantial increase of the EUR exchange rate versus other currencies, in the reporting period, the Group recorded significant negative foreign exchange differences. The most important item affecting the above is trade settlements due to which the Group showed negative foreign exchange differences of PLN 89,807 thousand.

9.5. COSTS BY TYPE

Costs by type (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Depreciation	1,147,651	1,073,045
Rents and leaseholds	511,113	383,811
Store and warehouse operation services	868,312	545,739
Transport	688,014	360,322
Taxes and fees	100,200	47,353
Payroll	1,350,851	854,604
Other costs by type	1,294,791	582,698
Including: advertising	645,634	239,927
Total costs by type	**5,960,932**	**3,847,572**

The reconciliation of costs is given in the table below.

Costs by type (in PLN thousands	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Costs by type, including:	5,960,932	3,847,572
Items recognised in costs of stores and distribution	5,216,108	3,368,322
Items recognised in general costs	744,824	479,250

9.6. COSTS OF DEPRECIATION, EMPLOYEE BENEFITS AND INVENTORY

Items recognised in costs of goods sold (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Measurement of inventory at purchase price	5,714,392	3,781,185
Revaluation write-off on inventory	237,786	-3,993
Estimated product returns	-29,747	-13,052
Total	**5,922,431**	**3,764,140**

Items recognised in costs of stores and distribution (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Depreciation of non-current assets	469,620	407,598
Depreciation of intangible assets	1,832	2,645
Depreciation of the right of use	610,662	607,393
Costs of inventory consumption for advertising purposes	47,993	24,749
Costs of employee benefits, including	952,294	611,129
– payroll	810,054	501,782
– social security costs	142,240	109,347
Total	**2,082,401**	**1,653,514**

Items recognised in general costs (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Depreciation of non-current assets	24,074	19,592
Depreciation of intangible assets	28,800	25,963
Depreciation of the right of use	12,663	9,854
Costs of employee benefits, including	375,871	134,128
– payroll	319,729	90,664
– social security costs	56,142	43,464
Total	**441,408**	**189,537**

Items recognised in other operating costs (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Inventory deficits prevailing over inventory surpluses	66,867	69,711
Inventory disposal	133,386	864
Donations	4,389	716
Total	**204,642**	**71,291**

10. INCOME TAX

ACCOUNTING POLICY

Obligatory burdens on the financial result comprise current and deferred tax not recognised in other comprehensive income or directly in equity. The current tax burden is calculated based on the tax result in a given financial year. Estimate changes referring to previous years are recognised as an adjustment of the burden for the current year. Tax burdens are calculated based on tax rates applicable in a given financial year.

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

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

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

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

If, in the Group's opinion, it is not probable that the tax authority will accept the company's approach to a given tax issue or a set of tax issues, then the company reflects the effects of uncertainty in tax accounting in the period in which it determined the above. The Group recognises income tax liability applying one of the two methods depending on which of them better reflects the manner in which such uncertainty may be materialised:
- the company determines the most probable scenario – this is a single amount from among possible results or
- the company recognises an expected value – this is a sum of probability-weighted amounts from among possible results

Key components of income tax for 12 months ended 31 January 2022 and comparative periods are given in the table below.

Income tax (in PLN thousand)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Current income tax	518,480	120,680
Deferred income tax	-239,992	-47,064
Total income tax	**278,488**	**73,616**

10.1. EFFECTIVE INTEREST RATE

The reconciliation of income tax on the financial result before tax at a statutory tax rate, with income tax presented in the financial result for the period from 1 February 2021 to 31 January 2022 and a comparative period, is given in the table below.

Income tax (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Profit/loss before taxation	1,232,010	-116,514
Income tax at statutory rate applicable in Poland 19%	**234,082**	**-22,138**
Effect of tax rate differences between countries	3,766	-31,035
Adjustments of current tax from previous years	25	-3,810
Taxation of foreign controlled companies	28,282	48,853
Fixed costs other than revenue earning costs	30,541	80,560
Fixed revenue other than taxable basis	-18,476	1,186
Other	268	0
Income tax (burden) recognised in profit or loss	**278,488**	**73,616**

The value of income tax was increased with required tax charged on foreign companies in amount of PLN 28,282 thousand (2020: PLN 48,853 thousand).

Income tax is calculated based on the following tax rates.

Poland	Estonia	Russia	Serbia	Lithuania	Latvia	Ukraine	Hungary	Croatia	Finland	Macedonia
19%	0%	20%	15%	15%	0%	18%	9%	18%	20%	10%

Czech Rep.	Bulgaria	Great Britain	Romania	Slovakia	Slovenia	Kazakhstan	Bosnia and Hercegovina	Belarus	Germany
19%	10%	16%	16%	21%	15%	20%	10%	18%	32%

10.2. DEFERRED INCOME TAX – FINANCIAL RESULT

Deferred income tax recognised in the financial result for the period from 1 February 2021 to 31 January 2022 and a comparative period resulted from the following items.

Deferred income tax (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Difference between balance sheet and tax depreciation of non-current assets	86,958	3,469
Difference between the right of use and the lease liability	27,814	43,434
Revaluation of inventory	68,896	-619
Revaluation of trade receivables	137	-1,652
Margin on goods unsold outside the Group	47,650	34
Fee on outlays sold	-2,295	2,801
Tax loss	4,347	3,350
Unpaid remuneration and surcharges	8,462	-6,532
Provision for product returns	1,709	1,655
Estimated return/estimated rent grants	1,697	-2,735
Other temporary differences	1,166	-2,747
Exchange differences from currency translation	-6,549	6,606
Total	**239,992**	**47,064**

10.3. DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred income tax assets (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Difference between balance sheet and tax depreciation of non-current assets	90,134	3,176
Difference between the right of use and the lease liability	105,455	77,641
Revaluation of inventories	90,164	21,268
Revaluation of trade receivables	3,205	3,068
Margin on goods unsold outside the Group	66,719	19,069
Fee on outlays sold	11,245	13,540
Tax loss	43,111	38,764
Unpaid remuneration and surcharges	14,408	5,946
Provision for product returns	4,356	2,647
Estimated return/estimated rent grants	-5,179	-6,876

Deferred income tax assets (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Other temporary differences	1,787	621
Total	**425,405**	**178,864**

Deferred income tax liabilities (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Difference between balance sheet and tax depreciation of non-current assets	627	22
Other temporary differences	0	0
Total	**627**	**22**

As at 31 January 2022, the Group showed deferred tax assets due to tax losses in its subsidiaries, in the amount of PLN 43,111 thousand (2020: PLN 38,764 thousand). The key values were calculated in LPP Deutschland GmbH, totalling PLN 34,437 thousand (2020: PLN 22,497 thousand) and in LPP Ukraina AT, totalling PLN 3,702 thousand (2020: PLN 6,112 thousand). According to tax laws applicable in both countries, there is no limited period for settling a tax loss.

11. EARNINGS PER SHARE

The earnings per share (EPS) ratio is calculated by dividing net profit attributable to shareholders of the Parent Company by the weighted average number of ordinary shares, existing in a given period.

ACCOUNTING POLICY

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

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

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

Zysk na akcję (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Number of shares in the formula's denominator		
Weighted average number of shares	1,838,066	1,838,066
Dilutive effect of convertible warrants	1,818	0
Diluted weighted average number of shares	1,839,884	1,838,066
Earnings per share		
Net profit (loss) for the current period, attributable to shareholders of the parent company	953,522	-190,130
Profit (loss) per share	518.76	-103.44

Zysk na akcję (in PLN thousands)	For 12 months ended 31 January 2022	For 12 months ended 31 January 2021
Diluted profit (loss) per share	518.25	-103.44

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

12. DIVIDENDS PAID AND OFFERED FOR PAYMENT

ACCOUNTING POLICY

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

On 29 June 2021, the Ordinary General Meeting of Shareholders of LPP SA adopted Resolution no 17 on allocation of part of the profit created from previous years for payment of a dividend amounting to PLN 833,590,350. The dividend date was set for 6 July 2021, while the payment itself was determined to be made in two instalments: 20 July 2021 and 6 October 2021. The dividend per share amounted to PLN 450.00.

In the comparative period, on 18 September 2020, the Ordinary General Meeting of Shareholders adopted Resolution no 17 on non-payment of a dividend for the financial year ended 31 January 2020 and on transferring it in full to supplementary capital. The said decision was made with a view to increasing financial security during economic hardship caused by the COVID-19 pandemic.

On 19 April 2022, the Management Board of LPP SA adopted a resolution recommending part of the profit generated in the reporting period ended January 31, 2022 for the payment of a dividend in the amount of PLN 648,348,050

13. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

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

As at the balance sheet date, property, plant and equipment are measured at cost less accumulated depreciation and impairment write-offs.

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

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

Asset group	Depreciation rates
Buildings, premises, civil engineering works, including:	2,5-50 %
– Outlays in third-party premises	14,28 %
Plant and machinery	2,5-50 %
Means of transportation	10-25 %
Other property, plant and equipment, including:	10-40 %
– Furniture	20 %

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

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

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

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

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

Changes in fixed assets (by type) in the period from 1 February 2021 to 31 January 2022

Changes in property, plant and equipment (by type) from 01.02.2021 to 31.01.2022 (in PLN thousands)	Land	Buildings, facilities, civil engineering works	Plant and machinery
Opening balance gross value of property, plant and equipment	87,782	2,479,440	605,826
Foreign exchange differences	0	58,912	8,174
Acquisitions	47,906	79,708	201,849
Transfer from property, plant and equipment under construction	0	818,473	33,584
Sale	0	73	3,579
Disposal	0	53,622	15,969
Other decreases	0	494	353
Other increases	0	3,614	92
Transfer from property, plant and equipment under construction	0	0	0
Closing balance gross value of property, plant and equipment	**135,688**	**3,385,958**	**829,624**
Opening balance accumulated depreciation (amortisation)	0	1,058,403	315,058
Foreign exchange differences	0	26,636	5,110
Depreciation for the period	0	265,214	82,223
Sale	0	9	2,714
Disposal	0	38,929	15,425
Other decreases	0	0	90
Other increases	0	14	0
Closing balance accumulated depreciation (amortisation)	**0**	**1,311,329**	**384,162**
Opening balance impairment write-offs	0	108,348	1,297
Foreign exchange differences	0	4,662	243
Increase	0	332,376	25,250
Utilisation	0	1,221	206
Reversal	0	4,658	811
Closing balance impairment write-offs	**0**	**439,507**	**25,773**
Total net value of property, plant and equipment as at 1 February 2021	87,782	1,312,689	289,471
Total net value of property, plant and equipment as at 31 January 2022	135,688	1,635,122	419,689

Impairment write-off – items in the comprehensive income statement	Amount
Increase – other operating costs, revaluation of non-financial assets	519,904
Decrease - other operating costs, revaluation of non-financial assets	0

Transportation means	Other property, plant and equipment	Property, plant and equipment under construction	Advances for property, plant and equipment	Property, plant and equipment in total
14,036	922,321	194,554	177,067	4,481,026
321	28,496	2,783	2,191	100,877
4,533	69,982	989,699	105,298	1,498,975
0	216,690	0	0	1,068,747
508	293	386	0	4,839
349	20,391	162	0	90,493
58	1,159	5,181	192,281	199,526
0	0	416	0	4,122
0	0	1,068,747	0	1,068,747
17,975	**1,215,646**	**112,976**	**92,275**	**5,790,142**
8,533	546,976	0	0	1,928,970
199	14,730	0	0	46,675
2,218	144,039	0	0	493,694
470	252	0	0	3,445
349	17,207	0	0	71,910
6	56	0	0	152
0	0	0	0	14
10,125	**688,230**	**0**	**0**	**2,393,846**
0	2,633	0	0	112,278
0	1,242	14	0	6,161
0	168,059	1,642	0	527,327
0	1,114	0	0	2,541
0	1,946	0	0	7,415
0	**168,874**	**1,656**	**0**	**635,810**
5,503	372,712	194,554	177,067	2,439,778
7,850	358,542	111,320	92,275	2,760,486

Changes in property, plant and equipment (by type) in the period from 1 February 2020 to 31 January 2021

Changes in property, plant and equipment (by type) from 01.02.2020 to 31.01.2021 (in PLN thousands)	Land	Buildings, facilities, civil engineering works	Plant and machinery
Opening balance gross value of property, plant and equipment	87,178	2,145,467	561,764
Foreign exchange differences	0	-58,375	-9,302
Acquisitions	604	20,539	24,864
Transfer from property, plant and equipment under construction	0	447,846	44,239
Sale	0	152	1,455
Disposal	0	77,037	17,783
Other decreases	0	320	534
Other increases	0	0	0
Transfer from property, plant and equipment under construction	**87,782**	**2,479,440**	**605,826**
Closing balance gross value of property, plant and equipment	0	905,516	271,851
Opening balance accumulated depreciation (amortisation)	0	-24,673	-5,049
Foreign exchange differences	0	237,634	68,619
Depreciation for the period	0	49	1,333
Sale	0	60,996	17,367
Disposal	0	23	1,817
Other decreases	0	994	154
Closing balance accumulated depreciation (amortisation)	**0**	**1,058,403**	**315,058**
Opening balance impairment write-offs	0	43,817	1,594
Foreign exchange differences	0	1,341	-133
Increase	0	75,543	798
Utilisation	0	5,162	1
Reversal	0	7,191	961
Closing balance impairment write-offs	**0**	**108,348**	**1,297**
Total net value of property, plant and equipment as at 1 February 2020	87,178	1,196,134	288,319
Total net value of property, plant and equipment as at 31 January 2021	87,782	1,312,689	289,471

Impairment write-off – items in the comprehensive income statement	Amount
Increase – other operating costs, revaluation of non-financial assets	70,648
Decrease - other operating costs, revaluation of non-financial assets	0

Transportation means	Other property, plant and equipment	Property, plant and equipment under construction	Advances for property, plant and equipment	Property, plant and equipment in total
14,457	833,149	247,417	133,128	4,022,560
-518	-41,746	-3,437	-4,620	-117,998
852	23,772	551,326	87,629	709,586
0	143,571	0	0	635,656
470	298	0	0	2,375
285	30,228	5,088	0	130,421
0	5,899	3,017	39,070	48,840
0	0	635,656	0	635,656
14,036	**922,321**	**194,554**	**177,067**	**4,481,026**
7,538	476,830	0	0	1,661,735
-353	-21,393	0	0	-51,468
2,025	118,912	0	0	427,190
466	284	0	0	2,132
215	28,141	0	0	106,719
0	2	0	0	1,842
4	1,054	0	0	2,206
8,533	**546,976**	**0**	**0**	**1,928,970**
0	3,028	0	0	48,439
0	-251	0	0	957
0	2,701	0	0	79,042
0	1,523	0	0	6,686
0	1,322	0	0	9,474
0	**2,633**	**0**	**0**	**112,278**
6,919	353,291	247,417	133,128	2,312,386
5,503	372,712	194,554	177,067	2,439,778

In the period ended 31 January 2021, the Group made impairment write-offs on property, plant and equipment, relating to unprofitable stores, for PLN 527,327 thousand (2020: PLN 79,042 thousand). Information on assumptions made in respect of such write-offs is given in note 5.2. The above-mentioned high increase resulted primarily from write-offs on brand stores in Ukraine due to the military attack in that country in which, following a decision made by the Management Board of LPP SA, all stores were closed and all investments were ceased. The value of revaluation write-offs on stores in Ukraine was PLN156 mln. Additionally, the Management Board of LPP SA decided to make a revaluation write-off on part of brand stores in Russia due to restrictions implemented in that country. The value of such revaluation write-offs was PLN 335 mln.

In the same period, revaluation write-off were partially utilised in the amount of PLN 2,541 thousand (2020: PLN 6,686 thousand) due to store closure, and such write-offs were partially reversed in the amount of PLN 7,415 thousand (2020: PLN 9,474 thousand) in connection with occurring prerequisites for reversal.

The creation of revaluation write-offs, decreased with their reversal, was shown in the comprehensive income statement, in item "other operating costs", in the amount of PLN 519,904 thousand (2020: PLN 70,648 thousand).

As at 31 January 2022, the Group had contractual obligations to acquire tangible fixed assets of PLN 99,093 thousand (2020: PLN 187,634 thousand).

The above-mentioned amount comprised the following liabilities:
- liabilities related to the development of LPP brand stores – PLN 64,126 thousand,
- liabilities under contracts on the extension of logistics centres – PLN 26,318 thousand,
- liabilities under contracts on the development of office buildings – PLN 8,649 thousand.

As at the balance sheet date, there were limitations in the disposal of real property in Pruszcz Gdański and Gdańsk due to investment loans. A detailed description is provided in note 23.

14. LEASING

ACCOUNTING POLICY

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

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

Right-of-use assets

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

Lease liabilities

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

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

Short-term and low-value lease

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

LPP SA and its subsidiaries are parties to lease agreements for brand stores, offices, warehouses, transportation means and for the exercising the right of perpetual usufruct of land.

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

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

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

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

Changes in the right of use from 01.02.2021 to 31.01.2022 (in PLN thousands)	Store lease	Other leases	Right of use, total
Opening balance gross value of the right of use	3,389,609	213,966	3,603,575
Foreign exchange differences	104,020	382	104,402
Increases (new leases)	1,176,900	65,191	1,242,091
Amendments to lease agreements	205,365	-11,090	194,275
Revaluation of lease liabilities*	-187,617	-1,428	-189,045
Closing balance gross value of the right of use	**4,688,277**	**267,021**	**4,955,298**
Opening balance accumulated depreciation (amortisation)	959,697	54,815	1,014,512
Foreign exchange differences	30,272	152	30,424
Depreciation for the period	585,379	37,946	623,325
Amendments to lease agreements	-71,884	-5,046	-76,930
Revaluation*	-47,253	-1,092	-48,345
Closing balance accumulated depreciation (amortisation)	**1,456,211**	**86,775**	**1,542,986**
Total net value of fixed assets as at 1 February 2021	2,429,912	159,151	2,589,063
Total net value of fixed assets as at 31 January 2022	3,232,066	180,246	3,412,312

Changes in the right of use from 01.02.2020 to 31.01.2021 (in PLN thousands)	Store lease	Other leases	Right of use, total
Opening balance gross value of the right of use	3,497,897	155,665	3,653,562
Increases (new leases)	424,461	1,757	426,218
Amendments to lease agreements	-198,973	59,628	-139,345
Revaluation of lease liabilities*	-277,562	-3,469	-281,031
Closing balance gross value of the right of use	**3,389,609**	**213,966**	**3,603,575**
Opening balance accumulated depreciation (amortisation)	629,240	24,085	653,325
Foreign exchange differences	-13,503	143	-13,360
Depreciation for the period	584,234	33,013	617,247
Amendments to lease agreements	0	0	0
Revaluation*	-240,274	-2,426	-242,700
Closing balance accumulated depreciation (amortisation)	**959,697**	**54,815**	**1,014,512**
Total net value of fixed assets as at 1 February 2020	2,868,657	131,580	3,000,237
Total net value of fixed assets as at 31 January 2021	2,429,912	159,151	2,589,063

**Revaluation relates to contracts physically liquidated due to the winding-up of a contract or liquidation due to the transition to turnover rentals.*

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

Lease liabilities (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Opening balance	3,177,679	3,248,137
Increases (new agreements)	1,302,343	515,927
Amendments to lease agreements	335,003	-164,283
Revaluation *	-147,803	-61,175
Foreign exchange differences	93,279	47,056
Interest	139,858	130,581
Payments	-723,067	-538,564
Closing balance	**4,177,292**	**3,177,679**
Short-term	749,069	654,010
Long-term	3,428,223	2,523,669
Total	**4,177,292**	**3,177,679**

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

In the reporting period, the Group presented the following values in the financial statements:
- costs of depreciation of the right of use: PLN 623,325 thousand (2020: PLN 617,247 thousand);
- interest costs: PLN 139,858 thousand (2020: PLN 130,581 thousand);
- costs of rent under unmeasured agreements in line with IFRS 16: PLN 511,113 thousand (2020: PLN 383,811 thousand).

Due do business restrictions, closure of shopping centres and governmental resolutions adopted to counteract Covid -19, the Group renegotiated agreements on the lease of retail space. In consequence, a major part of agreements subject to IFRS 16 were amended and newly measured in annexes, in line with new terms and conditions.

The Group applied an exemption stemming from amendments to IFRS 16, published on 30 May 2020: “Leases: Covid-19-Related Rent Concessions”, based on which contractual amendments made by way of annexes, meeting the criteria set forth in the above-mentioned amendments to IFRS 16 and, in particular, regulating solely issues of instalments due and payable by the date of signing a relevant annex, were recognised in financial income in the amount of PLN 26 mln (note 9.4). However, other amendments to lease agreements, stemming from signed annexes involving amended rent payments beyond the period specified in amendments to IFRS 16 and changing payments as well as other contractual terms, were recognised as modification of a lease agreement, adjusting the lease liability and the right-of-use asset.

All amendments arising from renegotiated agreements were given above, in item “amendments to lease agreements”.

As at 31 January 2022 and 31 January 2021, the Group shows the distribution of lease liabilities based on their maturity dates in non-discounted values, as follows.

Lease liabilities (in PLN thousand)	As at 31.01.2022	As at 31.01.2021
Up to 1 month	63,371	56,408
From 1 to 3 months	126,742	112,816
From 3 months to 1 year	570,342	507,676
Above 1 year	3,480,332	2,611,997
Total	**4,240,787**	**3,288,897**

15. INTANGIBLE ASSETS

ACCOUNTING POLICY

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

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

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

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

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

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

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

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

The key intangible asset is the House trademark recognised in the statement of financial position under a separate item of fixed assets i.e. "trademark". Its balance sheet value as at 31 January 2022 was PLN 77 508 thousand (2020: PLN 77 508 thousand).

The useful life of the said asset is unspecified.

In the current reporting period, the Group carried out an annual impairment test involving this asset (as part of testing cash-generating units to which also goodwill is allocated). According to test results, no impairment write-off was required for the asset in question.

Test details are given in note 16.

As at 31 January 2022, other key intangible assets were as follows:
- Software supporting sales in retail stores in subsidiaries. As at 31 January 2022, the balance sheet value of the said asset amounted to PLN 10,976 thousand (2020: PLN 14,454 thousand);
- Goods quantity management system. As at 31 January 2022, the balance sheet value of the said asset was PLN 21,949 thousand (2020: PLN 10,362 thousand)
- System supporting identification and stock-taking of goods in stores and warehouses. As at 31 January 2022, the balance sheet value of the said asset was PLN 8,107 thousand (2020: PLN 8,717 thousand);
- Software for tracking shipped goods. As at 31 January 2022, the balance sheet value of the said asset was PLN 9,032 thousand (2020: 3,357 thousand);
- System for invoicing e-commerce sales. As at 31 January 2022, the balance sheet value of the said asset was PLN 912 thousand (2020: PLN 1,250 thousand);
- Software for managing the designing process. As at 31 January 2022, the balance sheet value of the said asset was PLN 1,500 thousand (2020: PLN 2,220 thousand).
- SAP. As at 31 January 2022, the balance sheet value of the said asset was PLN 6,276 thousand (2020: PLN 9,322 thousand);
- Product allocation software. As at 31 January 2022, the balance sheet value of the said asset was PLN 7,995 thousand (2020: PLN 11,056 thousand).
- Stock purchase management and monitoring system. As at 31 January 2022, the balance sheet value of the said asset was PLN 11,446 thousand.
- Product order management application. As at 31 January 2022, the balance sheet value of the said asset was PLN 12,041 thousand.

Changes in intangible assets from 1 February 2021 to 31 January 2022 are specified in tables below.

Changes in intangible assets From 01.02.2021 to 31.01.2022 (in PLN thousands)	Costs of completed store concept works	Software	Intangible assets under construction	Advances	Total
Opening balance gross value of intangible assets	9,095	200,178	39,668	0	248,941
Foreign exchange differences	0	205	0		205
Acquisitions	0	267	42,088		42,355
Transfer from intangible assets under construction	0	32,418	0		32,418
Disposal	4,756	3,048	113		7,917
Transfer from intangible assets under construction	0	0	32,418		32,418
Other increases	0	0	1,728		1,728
Other decreases	0	2,382	3,012		5,394
Closing balance gross value of intangible assets	**4,339**	**227,638**	**47,941**	**0**	**279,918**
Opening balance accumulated depreciation (amortisation)	8,336	104,152	0	0	112,488
Foreign exchange differences	0	90	0		90
Depreciation for the period	490	30,142	0		30,632
Decrease	4,755	2,968	0		7,723
Closing balance accumulated depreciation (amortisation)	**4,071**	**131,416**	**0**	**0**	**135,487**
Opening balance impairment write-offs	0	0	0	0	0
Decreases	0	0	0	0	0
Closing balance impairment write-offs	**0**	**0**	**0**	**0**	**0**
Total net value of intangible assets as at 1 February 2021	759	96,026	39,668	0	136,453
Total net value of intangible assets as at 31 January 2022	268	96,222	47,941	0	144,431

Changes in intangible assets from 1 January 2020 to 31 January 2021

Changes in intangible assets from 01.02.2020 to 31.01.2021 (in PLN thousand)	Costs of completed store concept works	Computer software and licences	Intangible assets under construction	Advances	Total
Opening balance gross value of intangible assets	11,341	197,123	21,985		230,449
Foreign exchange differences	0	-89	0		-89
Acquisitions	0	72	41,114		41,186
Transfer from intangible assets under construction	0	21,084	0		21,084
Disposal	2,246	18,025	2,260		22,531
Transfer from intangible assets under construction	0	0	21,084		21,084
Other increases	0	13	0		13
Other decreases	0	0	87		87
Closing balance gross value of intangible assets	**9,095**	**200,178**	**39,668**	**0**	**248,941**
Opening balance accumulated depreciation (amortisation)	9,950	94,265	0	0	104,215
Foreign exchange differences	0	-65	0		-65
Depreciation for the period	632	27,976	0		28,608
Decrease	2,246	18,024	0		20,270
Closing balance accumulated depreciation (amortisation)	**8,336**	**104,152**	**0**		**112,488**
Opening balance impairment write-offs	0	0	0		0
Decreases	0	0	0		0
Closing balance impairment write-offs	**0**	**0**	**0**		**0**
Total net value of intangible assets as at 1 January 2020	1,391	102,858	21,985		126,234
Total net value of intangible assets as at 1 January 2021	759	96,026	39,668		136,453

In the reporting period ended 31 January 2022 and the comparative period, there were no revaluation write-offs on intangible assets

16. GOODWILL

ACCOUNTING POLICY

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

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

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

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

As at 31 January 2022, the value of goodwill did not change and amounted to PLN 183,203 thousand (2020: PLN 183,203 thousand).

As at 31 January 2022, goodwill amounted to PLN 183,203 thousand, following the merger of LPP SA with Artman in July 2009.

Changes in goodwill are presented in the table below.

Gross value (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Opening balance	209,598	209,598
Increases	0	0
Decreases	0	0
Closing balance	**209,598**	**209,598**

Revaluation write-offs (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Opening balance	26,395	0
Increases	0	26,395
Closing balance	**26,395**	**26,395**

Net valueo (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Opening balance	183,203	209,598
Closing balance	**183,203**	**183,203**

According to IAS 36 and the accounting policy, as at 31 January 2022, an impairment test was carried out for the goodwill of Artman, of the balance sheet value of PLN 183,203 thousand.

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

Detailed assumptions for estimates are as follows.

Goodwill of Artman and the House brand– estimated applying the DCF method for cash flows generated by House stores.

The valuation was based on the following assumptions:
- period covering estimated cash flows - 5 years (2022-2026), without recognising a residual value,
- annual forecasts of revenues and costs in 2021 (based on actual performance), which, in subsequent years, will increase at a pace similar to that in 2021,
- annual sales in 2022-2026 in stores tested – a consistent increase year by year at a pace similar to that in 2021;
- operating costs of stores tested – a consistent increase year by year at a pace similar to that in 2021;
- in the forecast period, a discount rate is variable and calculated based on the weighted average capital cost (WACC). In 2021, the WACC rate was 11.03% (2020: 11.03%) and will remain unchanged by 2026.

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

No rational change of assumptions adopted will bring about a need to make a revaluation write-off on goodwill and trademark.

17. OTHER ASSETS

17.1. OTHER FINANCIAL ASSETS

ACCOUNTING POLICY

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

The accounting policy on financial assets is specified in note 32.

Other financial assets (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Non-current assets:		
Other receivables	18,494	13,446
Loans granted	120	66
Other long-term financial assets	**18,614**	**13,512**
Current assets		
Other receivables	**0**	**1,137**
Receivables from payment card operators	36,875	32,909
Loans granted	155	85
Forward contract valuation	23,540	0
Foreign currency sold	0	37,000
Other short-term financial assets	60,570	71,131
Other financial assets in total	**79,184**	**84,643**
Pozostałe aktywa finansowe razem	**79 184**	**84 643**

In the current reporting period, the Company signed forward contracts with banks. As at 31 January 2022, the Company measured contracts non-performed as at the said date, with results shown in item forward contract valuation, in the amount of PLN 23,540 thousand. In the comparable year, the said value was (PLN 12,863 thousand) and was shown in liabilities.

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

As at 31 January 2022, the Group granted loans in PLN, of the value of PLN 275 thousand (2020: PLN 115 thousand).

Interest on loans in PLN is approx. 4%, with maturity dates falling between 2022 and 2026.

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

Changes in the balance sheet value (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Opening balance	151	115
Loans granted in the period	300	137
Interest charged	9	4
Loans repaid with interest	-185	-105
Revaluation write-off	0	0
Closing balance	**275**	**151**

Revaluation write-off (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Opening balance	29	29
Write-offs recognised in the period	0	0
Write-offs reversed in the period	0	0
Closing balance	**29**	**29**

17.2. OTHER NON-FINANCIAL ASSETS

ACCOUNTING POLICY

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

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

Other non-financial assets (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Current assets:		
State budget receivables	186,928	61,428
Other receivables	9,088	2,294
Other short-term non-financial assets	**196,016**	**63,722**
Other non-financial assets in total	**196,016**	**63,722**

As at 31 January 2022, the value of other receivables was adjusted with a revaluation write-off amounting to PLN 151 thousand (2020: PLN 161 thousand).

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

Revaluation write-off (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Opening balance	161	192
Write-offs made in the period	0	3
Write-offs utilised in the period	0	5
Write-offs reversed in the period	10	29
Closing balance	**151**	**161**

18. DEPOSITS AND INVESTMENT FUNDS

Deposits and investment funds (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Participation units in investment funds	649,999	440,919
Security deposits	200,000	100,000
Deposit set aside	452,695	412,097
Deposits and investment funds	**1,302,694**	**953,016**

In the reporting period, the Group acquired participation units in money market funds. As at 31 January 2022, the value of participation units was PLN 649,999 thousand (2020: PLN 440,919 thousand), comprising the value of acquired units as at the purchase date, in the amount of PLN 647,404 thousand, and their measured value, in the amount of PLN 2,595 thousand. In the cash flow statement, in investing activities, the Group reports the acquisition in the amount of PLN 116,143 (2020: PLN 215,724 thousand) and decommitment of funds amounting to PLN 289,923 thousand (2020: PLN 556,024 thousand). The measured value of PLN 2,595 thousand is recognised in operating activities, in "interest and dividends". The value of profit gained from decommitted participation units was PLN 199 thousand (2020: PLN 1,309 thousand) and was shown "other inflows from financial assets", in the investing activities. The measurement of the above-mentioned instruments is at level 1 of the fair value hierarchy in respect of participation units in investment funds listed on the regulated market and at level 2 of the fair value hierarchy in respect of participation units in unquoted investment funds.

With reference to factoring agreements signed, described in detail in note 26, the Company paid a security deposit of PLN 200 mln to secure the factor's claims, acquired participation units in money market funds, totalling PLN 672 mln and set aside a deposit of PLN 453 mln.

19. INVENTORY

ACCOUNTING POLICY

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

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

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

Trade commodities sold from Reserved, Cropp, House, Mohito and Sinsay collections are measured at average weighted prices.

Trade commodities in bonded warehouses are measured at cost comprising a purchase price and the costs of transportation outside and inside Poland to the first unloading point in Poland.

The value of goods delivered from bonded warehouses (moved to local warehouses or sold directly abroad) is measured based on the detailed identification of goods for individual lots delivered to bonded warehouses.

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

The Group has two regular sales periods: (1) March-June for SS collections, (2) September-December for AW collections. After such periods, there are clearance sales.

Inventories with trading and useful value impaired are written off according to the following rule:
- goods for outlet stores – a revaluation write-off of 10% on their value,
- goods to be sold in brand stores - revaluation write-offs in a percentage compliant with current analyses,
- goods to be sold to external recipients – revaluation write-offs in the amount of 80% of their value

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

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

The key item in the Group's inventories is trade commodities. A detailed structure of inventories is given in the table below.

Inventory – balance-sheet value (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Materials	31,726	22,958
Goods	3,784,283	2,031,337
Product return assets	48,104	20,152
Total	**3,864,113**	**2,074,447**

In the reporting period, due to estimated measurement of clearance goods, the Group, according to the revaluation write-off policy, recognised relevant impairment losses on inventories in the statement of financial position.

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

Revaluation write-off (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Opening balance	128,528	142,689
Write-offs made in the period	237,786	0
Write-offs reversed in the period	0	-3,993
Foreign exchange differences	5,991	-10,168
Closing balance	**372,305**	**128,528**

20. TRADE RECEIVABLES

ACCOUNTING POLICY

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

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

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

Trade receivables (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Trade receivables net	246,077	158,055
Revaluation write-offs on trade receivables	23,900	38,173
Trade receivables gross	**269,977**	**196,228**

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

Revaluation write-off (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Opening balance	38,173	38,117
Write-offs made in the period	9,884	26,576
Write-offs utilised in the period	14,914	165
Write-offs reversed in the period	9,643	25,927
Foreign exchange differences	400	-428
Closing balance	**23,900**	**38,173**

21. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents comprise cash in hand and at bank, demand deposits and short-term highly liquid investments (up to 3 months).

The balance of cash and cash equivalents, shown in the cash flow statement, is adjusted with foreign exchange differences from the balance sheet measurement of cash in a foreign currency.

The fair value of cash and cash equivalents as at 31 January 2022 was PLN 1,354,891 thousand (2020: PLN 1,277,854 thousand).

Cash (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Cash in hand and at bank	1,354,891	1,263,886
Other cash	0	13,968
Total	**1,354,891**	**1,277,854**

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

Cash (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Cash and cash equivalents in the statement of financial position	1,354,891	1,277,854
Adjustments:		
Foreign exchange differences from balance sheet measurement of cash in foreign currency	-37,922	-1,611
Cash and cash equivalents recognised in CF	**1,316,969**	**1,276,243**

22. SHARE AND OTHER CAPITALS

ACCOUNTING POLICY

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

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

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

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

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

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

22.1. STATED CAPITAL

As at 31 January 2022, the stated capital of LPP SA amounted to PLN 3,705 thousand, with no change compared to 31 January 2021. It was divided into 1,852,423 shares of a nominal value of PLN 2 per share.

The table below shows the total number of shares divided into separate issues.

Series/issue	Type of share	Type of privilege	Type of limitation on rights attached to shares	As at 31 January 2022	As at 31 January 2021
A	bearer	ordinary	none	100	100
B	registered	preference	none	350,000	350,000
C	bearer	ordinary	none	400,000	400,000
D	bearer	ordinary	none	350,000	350,000
E	bearer	ordinary	none	56,700	56,700
F	bearer	ordinary	none	56,700	56,700
G	bearer	ordinary	none	300,000	300,000
H	bearer	ordinary	none	190,000	190,000
I	bearer	ordinary	none	6,777	6,777
J	bearer	ordinary	none	40,000	40,000
K	bearer	ordinary	none	80,846	80,846
L	bearer	ordinary	none	21,300	21,300
Total number of shares				**1,852,423**	**1,852,423**

All issued shares are paid for in full.

Registered shares held by the Semper Simul Foundation, in the total number of 350,000, are preferred in terms of voting rights at the General Meeting of Shareholders. Each registered share gives right to 5 votes.

LPP SA shareholding structure as at 31 January 2022

Shareholder	Number of shares held	% in the share capital	Number of votes at the GM	% in the total number of votes at the GM	Nominal value of shares
Semper Simul Foundation*	578,889	31.3%	1,978,889	60.8%	1,157,778
Sky Foundation**	227,898	12.3%	227,898	7.0%	455,796
Other shareholders	1,045,636	56.4%	1,045,636	32.2%	2,091,272
Total	**1,852,423**	**100.0%**	**3,252,423**	**100.0%**	**3,704,846**

**The Semper Simul Foundation is closely associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR).*
***The Sky Foundation is closely associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act).*

LPP SA shareholding structure as at 31 January 2021

Shareholder	Number of shares held	% in the share capital	Number of votes at the GM	% in the total number of votes at the GM	Nominal value of shares
Semper Simul Foundation*	536,599	29.0%	1,936,599	59.5%	1,073,198
Sky Foundation**	261,338	14.1%	261,338	8.0%	522,676
Other shareholders	1,054,486	56.9%	1,054,486	32.5%	2,108,972
Total	**1,852,423**	**100.0%**	**3,252,423**	**100.0%**	**3,704,846**

**The Semper Simul Foundation is closely associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR).*
***The Sky Foundation is closely associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act).*

All issued shares have been paid for in full.

Registered shares held by the Semper Simul and Sky Foundations, in the total number of 350 000, are preferred in terms of voting rights at the General Meeting of Shareholders. Each registered share gives right to 5 votes.

22.2. SHARE PREMIUM
This item is a separated amount of the supplementary capital, resulting from the surplus on the sale of shares above their nominal value, with the carrying value of PLN 364,315 thousand (2020: PLN 364,315 thousand).

22.3. OTHER TYPES OF CAPITAL
Values of specific types of capital are given in the table below.

Type of capital (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Supplementary capital	216,985	1,026,967
Capital from settling the merger transaction	-1,410	-1,410
Reserve capital	2,129,529	2,129,566
Total	**2,345,104**	**3,155,123**

The supplementary capital presented under equity as at 31 January 2022 was created mainly from net profit brought forward from previous years and following measurement of remunerations paid in shares.

In the reporting period, the value of supplementary capital decreased in the amount of PLN 833,590 thousand due to dividend payment. A detailed description is given in note 12.

In the preceding year, under the Resolution of the Ordinary Meeting of Shareholders held on 18 September 2020, the reserve capital was created in the amount of PLN 2,100,000 thousand, deriving from previous years' profits recognised in the supplementary capital of LPP SA.

The structure of the supplementary capital is given below.

Type of supplementary capital (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Created under statutory law based on the write-off on financial result	1,349	1,349
Created according to the Articles of Association based on the write-off on financial result	158,716	991,898
Created from the amount of remunerations paid in shares	56,920	33,720
Total	**216,985**	**1,026,967**

23. BANK LOANS AND BORROWINGS

ACCOUNTING POLICY

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

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

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

As at 31 January 2022, the debt arising from bank loans was as follows.

Bank	Loan utilisation as at 31 January 2022		Bank loan cost	Maturity date
	in PLN thousands	Currency in thousands		
PKO BP SA	200,672	-	wibor 1 m + bank's margin	04.11.2022
Pekao SA	76,677	-	wibor 1 m + bank's margin	30.09.2025
Pekao SA	50,486	-	wibor 1 m + bank's margin	31.08.2027
Pekao SA	44,853	-	wibor 1 m + bank's margin	31.12.2027
BGŻ BNP Paribas Bank Polska SA	354	-	wibor 1 m + bank's margin	28.02.2027

Bank	Loan utilisation as at 31 January 2022		Bank loan cost	Maturity date
	in PLN thousands	Currency in thousands		
Alfa-Bank	106,200	2,000,000 RUB	mosprime 1m, 2m or 3 m + bank's margin	13.09.2022
Citibank Russia	53,100	1,000,000 RUB	mosprime 1m, 2m or 3 m + bank's margin	10.03.2022
Sberbank	86,517	1 629 320 RUB	libor 1m + bank's margin	12.05.2022
BNP Paribas Bank Russia	53,100	1 000 000 RUB	mosprime 1m, 2m or 3 m + bank's margin	17.05.2022
Ukrsibbank	7,251	50 148 UAH	libor 1m + bank's margin	15.02.2022
Total	**679,210**			

Bank loans amounting to PLN 679,210 thousand included:
- long-term loans in the amount of PLN 144,174 thousand,
- short-term loans in the amount of PLN 535,036 thousand (including PLN 27,842 thousand as part of long-term investment loans to be repaid within 12 months after the balance sheet date).

Long-term loans outstanding as at 31 January 2022 were as follows:
- PLN 57,927 thousand - investment loan allocated for financing the operations of LPP SA,
- PLN 86,247 thousand - investment loan designated for the modernisation of the head office of LPP SA.

As at31 January 2021, the debt arising from bank loans was as follows.

Bank	Wykorzystanie kredytów na 31.01.2021		Loan cost	Maturity date
	in PLN thousands	Currency in thousands		
PKO BP SA	42,284	-	wibor 1m+bank's margin	31.12.2022
PKO BP SA	250,690	-	wibor 1m+bank's margin	22.12.2021
Pekao SA	44,719	-	wibor 1m+bank's margin	31.12.2027
Pekao SA	95,097	-	wibor 1m+bank's margin	30.09.2025
Pekao SA	60,078	-	wibor 1m+bank's margin	31.08.2027
HSBC Continental Europe SA	118,903	31,741 USD	wibor 1m+bank's margin	25.06.2021
BGŻ BNP Paribas Bank Polska SA	77	-	wibor 1m+bank's margin	31.01.2022
Citibank Russia	94,499	1,924,517 RUB	libor 1m + bank's margin	13.04.2021
BNP Paribas Ukraine	5,346	40,134 UAH	libor 1m + bank's margin	23.02.2021
Total	**711,693**			

Bank loans amounting to PLN 711,693 thousand included:

- long-term loans in the amount of PLN 190,596 thousand,
- short-term loans in the amount of PLN 521,097 thousand (including PLN 51,582 thousand as part of long-term investment loans to be repaid within 12 months after the balance sheet date).

Detailed information on bank loans as at 31 January 2022 is given below.

Bank	Type of loan /credit line	Loan amount and currency		Security
		in PLN thousands	currency	
PKO BP SA	Multi-purpose credit line	600,000	PLN	blank promissory note with a promissory note declaration
Pekao SA	Multi-purpose and multi-currency credit line	300,000	PLN	blank promissory note, statement on submission to enforcement, power of attorney for bank accounts
Pekao SA	Investment loan	105,000	PLN	blank promissory note with a promissory note declaration, statement on submission to enforcement, power of attorney for bank accounts in Pekao SA
Pekao SA	Investment loan	105,000	PLN	ordinary mortgage, assignment of receivables under insurance policy, blank promissory note with a promissory note declaration, statement on submission to enforcement, power of attorney for bank accounts Pekao SA
Pekao SA	Investment loan	63,644	PLN	Contractual mortgage
BNP Paribas Bank Polska SA	Multi-purpose and multi-currency credit line	365,858	PLN	blank promissory note with a promissory note declaration, statement on submission to enforcement,
HSBC Continental Europe SA	Revolving credit facility	30,000	PLN	power of attorney held by the bank for liability payment purposes, submission to enforcement under Article 777 of the Code of Civil Procedure
Citibank Bank Handlowy SA	Multi-purpose and multi-currency credit line	100,000	PLN	blank promissory note with a promissory note declaration and statement on submission to enforcement
Citibank Russia	Credit line	1,000,000	RUB	guarantee of LPP SA
Alfa-Bank	Credit line	2,000,000	RUB	none
Sberbank	Credit line	2,000,000	RUB	none
BNP Paribas Bank Russia	Credit line	1,000,000	RUB	guarantee of LPP SA
BNP Paribas Ukraine	Credit line	400,000	UAH	guarantee of LPP SA

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

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

As at 31 January 2022, the value of bonds was PLN 298,727 thousand. In the statement on financial position, this value was shown as “other financial liabilities”, in long-term liabilities, in the amount of PLN 29,665 thousand, and in “other financial liabilities” being part of “trade and other liabilities”, in the amount of interest charged, totalling PLN 4,062 thousand. These values are given in note 26.

24. EMPLOYEE BENEFITS

ACCOUNTING POLICY

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

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

Remeasurement of liabilities arising from employee benefits provided for in specified benefit schemes, covering actuarial profit and loss, is recognised in other comprehensive income, without later reclassification to profit or loss.

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

24.1. RETIREMENT AND PENSION BENEFITS

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

Retirement and pension benefits (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Opening balance	1,818	1,463
Adjustment	0	0
Current employment costs	-372	377
Benefits paid	-37	-22
Closing balance	**1,409**	**1,818**

Analysis of sensitivity to changes in actuarial assumptions

Change in the adopted discount rate by 0.5 p.p. (in PLN thousands)	Increase	decrease
Balance as at 31 January 2022		
Retirement benefit	1291	1163
Pension benefit	127	118
Balance as at 31 January 2021		
Retirement benefit	1493	1761
Pension benefit	130	145

Change in the labour turnover rate by 0.5 p.p. (in PLN thousands)	Increase	decrease
Balance as at 31 January 2022		
Retirement benefit	1182	1269
Pension benefit	119	126
Balance as at 31 January 2022		
Retirement benefit	1549	1697
Pension benefit	132	143

Change in the remuneration increase rate by 0.5 p.p. (in PLN thousands)	Increase	decrease
Balance as at 31 January 2022		
Retirement benefit	1164	1291
Pension benefit	119	127
Balance as at 31 January 2021		
Retirement benefit	1759	1493
Pension benefit	145	130

24.2. OTHER EMPLOYEE BENEFITS

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

Employee benefits (in PLN thousands)	Unpaid remunerations	Unused holiday leave
Balance as at 1 February 2021	0	33,676
- provision made	138,941	16,280
- provision utilised	35,317	0
- provision reversed	3,908	0
Balance as at 31 January 2022	**99,716**	**49,956**
Balance as at 1 January 2020	49,520	30,963
- provision made	0	2,713
- provision utilised	28,886	0
- provision reversed	20,634	0
Balance as at 31 January 2021	**0**	**33,676**

25. PROVISIONS

ACCOUNTING POLICY

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

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

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

Provisions (in PLN thousands)	Provision for early contract termination	Other provisions
Balance as at 1 February 2021	0	1,384
– provision made	0	10,669
– provision utilised	0	0
– provision reversed	0	1,384
Balance as at 31 January 2022	**0**	**10,669**
Balance as at 1 February 2020	0	9,097
– provision made	0	1,384
– provision utilised	0	0
– provision reversed	0	9,097
Balance as at 31 January 2021	**0**	**1,384**

26. TRADE AND OTHER LIABILITIES

ACCOUNTING POLICY

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

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

Long-term liabilities (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Other financial liabilities (bonds)	294,665	294,104
Financial liabilities	**294,665**	**294,104**
Total long-term liabilities	**294,665**	**294,104**

Short-term liabilities (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Trade liabilities	1,501,608	1,065,727
Reversed factoring liabilities	3,310,120	1,574,316
Other financial liabilities	4,062	17,045
Financial liabilities	**4,815,790**	**2,657,088**
Liabilities payable due to tax and other benefits	151,902	75,403
Other non-financial liabilities	3,149	43,324
Non-financial liabilities	**155,051**	**118,727**
Total short-term liabilities	**4,970,841**	**2,775,815**

The increase in trade liabilities as compared with the preceding year stems, first of all, from business decisions to preserve the Group's financial liquidity. As part of effective financial operations, the Parent Company signed trade finance agreements. Under the said agreements, after presentation of an invoice for purchases made, the bank (factor) pays liabilities owed to the supplier in line with the agreed payment deadline. If the supplier decides on automatic payment, the bank (factor) pays liabilities owed to suppliers within 7 business days. If the supplier does not decide on automatic payment, the bank (factor) pays liabilities owed to suppliers within 7 days from the date of notification by the supplier of the intent to have a given liability bought out. The Group repays the liability owed to the bank (factor) in the initial period specified on invoices, i.e. within a timeframe of 90 to 180 days. The Group pays no costs of early payment of liabilities to suppliers by the factor. As assessed by the Group, the type of such liabilities remains unchanged and their terms and conditions do not differ substantially from the Group's other trade liabilities not subject to reversed factoring. Therefore, they remain classified as trade liabilities.

As at 31 January 2022, the Group delivered to bank-factors domestic and foreign invoices of the value of PLN 993,881 thousand and USD 562,918 thousand (2020: PLN 723,900 thousand and USD 227,020 thousand, respectively).

The Group has reversed factoring limits, totalling PLN 890 mln and USD 50 mln - set forth by 31.06.2022, PLN 250 mln – set forth by 17.08.2022, and USD 647,5 mln - set forth for an unlimited period of time, renewable on 30.06.2022 as decided by the loan committee (2020: PLN 760 mln – set forth by 31.05.2021 and USD 270 mln – set forth for an unlimited period of time).

The Group's limit to be used as at 31 January 2022 was PLN 1,140 mln and USD 697.5 mln. Due to the increase of factoring limits in 2021, they were secured with a security deposit of PLN 200 mln, deposited on the factor's ban account, including participation units in a money market fund, totalling PLN 627 mln, and a deposit made in the amount of PLN 453 mln, as described in note 20.

The Company's quick development in 2021 (with a turnover increase from almost PLN 8 bln to PLN 14 bln in 2021) and the consequent increase of the demand for a larger quantity of stock resulted in a significant growth of trade orders, which was quicker than the increase in the value of factoring limits. To fulfil the growing business needs, the Group decided to increase the limits by depositing own cash to secure the factoring process. In 2022, the Group will aim at releasing a substantial part of deposits securing factoring payments and at replacing them with limits of new financing banks which will join current factoring platforms.

27. PREPAYMENTS AND ACCRUALS

ACCOUNTING POLICY

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

In accruals, in the liabilities column of the statement of financial position, the Group presents payments received from lessors for resold outlays for store fit-out. The above involves lease agreements in respect of which neither right-of-use asset was recognised nor lease liability were recognised due to the type of payment or short-term duration.

Fit-out resale results from the conclusion of a lease agreement, being a form of reimbursement of costs incurred to adjust the brand store for sales purposes.

Prepayments – assets (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Long-term		
Retail space sourcing costs	0	0
Rent	2,862	652
Software supervision	435	31
Fixed assets maintenance	0	17
Other long-term prepayments	2,459	1,487
Total long-term prepayments	**5,756**	**2,187**
Short-term		
Rent	16,679	8,657
Insurance	7,840	6,315
Real property tax	6,822	4,684
Software supervision	1,807	1,325
License fees, subscription fees, Internet domains	9,239	6,910
Power consumption costs	58	1,609
Other short-term prepayments	6,798	2,749
Total short-term prepayments	**49,243**	**32,249**

Accruals – liabilities (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Long-term		
Consideration for outlays resold	111,344	96,337
Surcharges on lease agreements	2,148	2,734
Deferred rent	251	2,345
Other sale	378	2,568
Total long-term accruals	**114,121**	**103,984**
Short-term		
Sales based on gift cards and vouchers	0	0
Consideration for outlays resold	47,827	52,544
Surcharges on lease agreements	899	1,162
Deferred rent	1,177	400
Other sale	6,709	2,170
Total short-term accruals	**56,612**	**56,276**

28. CONTINGENT ASSETS AND LIABILITIES

In 2021, the LPP SA Group companies utilised bank guarantees to secure payment of rent for the leased premises designated for brand stores, offices and a warehouse.

As at 31 January 2022, the total value of bank guarantees issued upon request and at the responsibility of LPP SA amounted to PLN 352,892 thousand, of which:

- guarantees issued to secure agreements concluded by LPP SA amounted to PLN 89,918 thousand,
- guarantees issued to secure agreements concluded by consolidated associates amounted to PLN 254,089 thousand,
- guarantees issued to secure warehouse and office space lease agreements concluded by LPP SA amounted to PLN 8,885 thousand.

In 2021, the Parent Company received also guarantees as a collateral for payments from a contracting party. The value of guarantees received was PLN 13,167 thousand.

In the opinion of the Management Board, there is a minor probability that funds showed in contingent/out-of-balance sheet liabilities will have any impact whatsoever. The majority of these liabilities are related to guarantees securing payment of rent by the LPP SA Group companies.

28.1. LITIGATION

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

28.2. TAX SETTLEMENTS

On 1 July 2020, the Tax Ordinance was amended to incorporate provisions setting forth a possibility of concluding an cooperation agreement between taxpayers and the Head of NFA.

As planned, the cooperation agreement is to ensure the taxpayer's compliance with tax laws in transparent circumstances, involving mutual trust between the tax authority and the taxpayer. The entrepreneur being a party to the cooperation agreement will have the opportunity to discuss with the Head of the National Fiscal Administration important issues related to the tax settlements.

Such arrangements may concern, among others: interpretation of tax laws, rules for determining transfer prices, the amount of advance income tax and non-applicability of the general anti-avoidance rule. The cooperation agreement may provide the taxpayer with benefits such as reduction (by half) of the fees for an APA and for a security opinion, as well as reduction (or, in some cases, even the lack) of interest on tax arrears. The cooperation agreement may also protect an entrepreneur against additional tax liability and the tax audit. Moreover, the custom and fiscal audit of a taxpayer being a party to the cooperation agreement will be carried out by the Head of the National Fiscal Administration only.

The possibility of concluding the said agreement has been limited. It may only be concluded by the Head of the NFA upon application of the largest entities. For the first two years, this will be a pilot programme.

On 26 August 2020, LPP SA filed an application with the NFA, declaring its willingness to join the programme. Consequently, the NFA created a taxpayer profile for LPP. Following an initial analysis and assessment of LPP SA by the NFA, on 9 December 2020, the Company received a decision of the Head of the NFA to commence a fiscal audit. Its completion is planned for 30.06.2022.

29. INFORMATION ON ASSOCIATES

29.1. TRANSACTIONS WITH ASSOCIATES

In the reporting period ended 31 January 2022, LPP SA entered into transactions with BBK SA and Falcon Investment Management Sp. z o.o., controlled by key management officers. These transactions involved, to a large extent, lease of retail space.

Podmioty powiązane (w tys. PLN)	Liabilities as at 31.01.2022	Receivables as at 31.01.2022	Revenue 01.02.2021 - 31.01.2022	Purchases 01.02.2021 - 31.01.2022
BBK SA	0	0	0	0
Falcon Investment Management Sp. z o.o.	0	0	9	0
Total	**0**	**0**	**9**	**0**

Podmioty powiązane (w tys. PLN)	Liabilities as at 31.01.2021	Receivables as at 31.01.2021	Revenue 01.02.2020 - 31.01.2021	Purchases 01.01.2020 - 31.01.2021
BBK SA	0	0	188	0
Total	**0**	**0**	**188**	**0**

29.2. REMUNERATIONS OF KEY MANAGEMENT OFFICERS OF THE PARENT COMPANY

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

The value of short-term benefits of members of the Management Board of the Parent Company, received between 1 February 2021 and 31 January 2022, amounted to PLN 5,381 thousand (2020: PLN 3,563 thousand).

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

First name and surname (in PLN thousands)	Position	As at 31.01.2022	As at 31.01.2021
Marek Piechocki	President of the Management Board	1,681	1,262
Przemysław Lutkiewicz	Vice-President of the Management Board	1,021	767
Jacek Kujawa	Vice-President of the Management Board	1,021	767
Sławomir Łoboda	Vice-President of the Management Board	1,021	767
Marcin Piechocki	Vice-President of the Management Board	637	0

The value of short-term benefits of members of the Supervisory Board of the Parent Company, received between 1 February 2021 and 31 January 2022, amounted to PLN 172 thousand (2020: PLN 83 thousand).

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

First name and surname (in PLN thousands)	Position	As at 31.01.2022	As at 31.01.2021
Jerzy Lubianiec	Chairman of the Supervisory Board	0	30
Wojciech Olejniczak	Member of the Supervisory Board	34	12
Piotr Piechocki	Member of the Supervisory Board	31	10
Magdalena Sekuła	Member of the Supervisory Board	31	11
Antoni Tymiński	Member of the Supervisory Board	25	10
Miłosz Wiśniewski	Chairman of the Supervisory Board	38	10
Grzegorz Słupski	Member of the Supervisory Board	13	0

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

ACCOUNTING POLICY

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

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

The value of share-based employee benefits payable, awarded to members of the Parent Company's Management Board in the current period, was PLN 23,200 thousand (2020: PLN 1,094 thousand). Those benefits remained unpaid.

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

First name and surname (in PLN thousands)	Position	As at 31.01.2022	As at 31.01.2021
Marek Piechocki	President of the Management Board	6,664	389
Przemysław Lutkiewicz	Vice-President of the Management Board	4,134	235
Jacek Kujawa	Vice-President of the Management Board	4,134	235
Sławomir Łoboda	Vice-President of the Management Board	4,134	235
Marcin Piechocki	Vice-President of the Management Board	4,134	0

30. FINANCIAL RISK MANAGEMENT

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

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

In the Group's operations, main financial instruments are bank loans (note 23) and bonds issued (note 26). Their main objective is to provide financing for the operations of the entire Group. Moreover, the Group holds other financial instruments established in the course of its business operations. Those mainly include cash and deposits (note 21), collaterals, deposits and investment funds (note 18), trade receivables (note 20), trade liabilities and reversed factoring liabilities (note 26) and lease liabilities (note 14).

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

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

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

30.1. CREDIT RISK

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

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

Items (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Loans	275	151
Trade receivables	246,077	158,055
Other receivables	18,494	14,583
Receivables from payment card operators	36,875	32,909
Participation units	649,999	440,919
Security deposits and deposits set aside	652,695	512,097
Measurement of forward contracts	23,540	0
Foreign currency sold	0	37,000
Cash and cash equivalents	1,354,891	1,277,854
Total	**2,982,846**	**2,473,568**

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

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

The value of guarantees and sureties granted is given in note 28.

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

Credit risk concentration related to trade receivables as at 31 January 2022 is given in the table below.

Recipient	Proportion of total receivables
Other recipients with dues not exceeding 5% of total receivables	100.00%
Total gross trade receivables	**100.0%**

The classification of gross trade receivables by the number of days past due as at 31 January 2022 and a comparative period is given in the table below.

Gross trade receivables (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Not overdue	254,790	153,361
Overdue up to one year	14,192	37,353
Overdue for over one year	995	5,514
Total	**269,977**	**196,228**

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

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

30.2. LIQUIDITY RISK

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

Compared to the previous year, credit exposure of the Group increased significantly due to new short-term working capital credit facilities taken out to secure the Group's day-to-day operations.

As at 31 January 2022, the Group held unconsumed borrowings of PLN 1,041,591 thousand (20120: PLN 975,230 thousand), in respect of which all terms and conditions had been met.

As at 31 January 2022, the Company had investment loans and credit lines. A detailed description of the financial position of the Group in terms of loans extended is given in note 23, and in terms of bonds issued – in note 26.

The Group uses also reversed factoring. A detailed description of this type of financing is given in note 26. The payment deadline of reversed factoring liabilities corresponds to payment deadlines of other trade settlements.

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

Bank loans (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Up to one month	103,589	45,076
From one to three months	165,495	79,279
From three months to one year	277,990	399,174
Above one year	147,418	191,148
In total	**694,492**	**714,677**

Bonds (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Up to one month	0	0
From one to three months	0	0
From three months to one year	4,062	4,182
Above one year	301,295	293,484
In total	**305,357**	**297,666**

Lease liabilities (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Up to one month	63,371	56,408
From one to three months	126,742	112,816
From three months to one year	570,342	507,676
Above one year	3,480,332	2,611,997
In total	**4,240,787**	**3,288,897**

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

The classification of gross trade liabilities by the number of days past due as at 31 January 2022 and a comparative period is given in the table below.

Gross trade liabilities (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Not overdue	4,782,388	2,577,206
Overdue up to one year	28,903	62,837
Overdue for over one year	437	0
In total	**4,811,728**	**2,640,043**

The increase in trade liabilities not being overdue at the end of the year stems from the increased volume of product orders for the SS season in connection with the expansion of business operations and plans for expanding retail space by foreign companies.

30.3. CURRENCY RISK

The Group is exposed to currency risk arising from transactions concluded. Such risk occurs when the Parent Company sells or purchases goods in currencies other than its functional currency. In the Group, the basic settlement currency in most transactions involving purchases of trade commodities is USD. Approx. 90% of transactions concluded by LPP SA are denominated in foreign currencies other than the reporting currency, while 43.3% of sales in the Parent Company is denominated in its reporting currency.

Apart from the currency risk involving the settlement currency used for purchasing trade commodities, there is also a risk associated with the fact of settling retail space rents in EUR.

As at 31 January 2022, the Group's financial assets and liabilities denominated in two main foreign currencies, converted into PLN applying a closing exchange rate as at the balance sheet date, which are of importance for the financial statements, are given in the table below.

As at 31 January 2022 (in PLN thousands)	Values denominated in		Converted value
	USD	EUR	
Cash and deposits	667,558	83,087	750,645
Loans granted	0	0	65,885
Trade receivables	22,675	3,255	25,930
Investments funds	598,587	0	598,587
Trade liabilities	3,189,270	206,951	3,396,221
Lease liabilities	0	1,430,001	1,430,001

Since the main cost for the Parent Company is purchases of trade commodities, made mainly in USD, LPP SA started using for this currency hedging derivative instruments (forward contracts) and USD deposits to hedge the risk involved in exchange rate fluctuations. By taking such action, LPP SA is capable of adjusting, to a major extent, foreign exchange losses adversely affecting the Group's result. As at 31 January 2022, a positive mark-to-market of forward contracts amounted to PLN 23,540 thousand (2020: PLN 12,863 thousand – a negative mark-to-market value) and was shown as other financial assets (note 17.1).

Negative mark-to-market of forward contracts (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Velocity	0	12,863
Total	**0**	**12,863**

Positive mark-to-market of forward contracts (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Bank Pekao SA	13,675	0
Velocity	9,865	0
Total	**23,540**	**0**

The sensitivity of gross profit (loss) to rational and probable USD and EUR exchange rate fluctuations, with assumed steadiness of other factors, is shown in the table below.

Pozycje bilansowe	Wzrost/spadek kursu waluty	Wpływ na wynik
31 January 2022 – USD	+ 5%	-95,022
	- 5%	95,022
31 January 2021 – USD	+ 5%	-39,781
	- 5%	39,781
31 January 2022 – EUR	+ 5%	-211,452
	- 5%	77,530
31 January 2021 – EUR	+ 5%	-107,562
	- 5%	107,562

When analysing the impact of the change in USD exchange rates in 2021, it is required to take into account forward instruments utilised by the Parent Company and USD deposits.

30.4. INTEREST RATE RISK

The interest rate risk is related to the continuous utilisation by LPP SA of debt financing based on a variable value of Wibor rates and, to a minor extent, to loans granted and bonds issued. Bank loans with a variable interest rate involve a cash flow risk. The Management Board of the Parent Company holds the view that a prospective change in interest rates will have no major impact on the results earned by the Group.

The tables below present the analysis of the impact of interest rate changes on the comprehensive income statement. This analysis covers financial items of the Group's statement of financial position as at the balance sheet date.

Interest rate risk	+/- 75 bp IR		
Balance sheet items (in PLN thousands)	Value	Effect on profit/ loss	Effect on profit/ loss
Financial assets			
Loans	275	2	-2
Cash	1,354,891	10,162	-10,162
Participation units	649,999	4,875	-4,875
Security deposits and deposits set aside	652,695	4,895	-4,895
Effect on financial assets before taxation		*19,934*	*-19,934*
Tax (19%)		-3,787	3,787
Effect on financial assets after taxation		*16,146*	*-16,146*
Financial liabilities			
Bank loans and borrowing	679,210	-5,094	5,094
Bonds	298,727	-2,240	2,240
Effect on financial liabilities before taxation		*-7,335*	*7,335*
Tax (19%)		1,394	-1,394
Effect on financial liabilities after taxation		*-5,941*	*5,941*
Total		**10,205**	**-10,205**

As at 31 January 2022, the Group's net profit would have been higher by PLN 10,205 thousand if interest rates in PLN, EUR and USD had been higher by 75 basis points, assuming that all the remaining parameters remained unchanged. This result is due to a substantially higher balance of cash compared with bank loans and borrowings taken out.

31. FAIR VALUES OF ASSETS AND LIABILITIES

Fair value is defined as an amount for which, at arm's length basis, a given asset could be exchanged, and a liability discharged, between well-informed unrelated interested parties. As regards financial instruments for which there is an active market, their fair value is determined based on parameters deriving from the active market (sales and purchase prices). As regards financial instruments for which there is no active market, their fair value is determined on the basis of measurement techniques, where model input data is variables deriving from active markets (exchange rates, interest rates).

In the Group's opinion, the carrying value of financial assets and liabilities is close to their fair value due to a short maturity term.

32. FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Each contract establishing a financial asset for one party and, at the same time, a financial liability or capital instrument for the other party is a financial instrument.

A financial asset or liability is recognised in the statement of financial position if the Company becomes a party to that instrument. Standardised purchase and sale transactions involving financial assets and liabilities are recognised as at the transaction date.

A financial asset is derecognised from the statement of financial position when the rights to economic benefits and risks arising from the contract have been exercised or executed, have expired or the Group has waived them.

The Group derecognises a financial liability from the statement of financial position upon its expiry, that is when the obligation specified in the contract has been discharged, cancelled or expired.

Classification and measurement
According to IFRS 9, except for some trade receivables, a financial asset is initially measured at fair value which, in the case of financial assets not measured at fair value through profit or loss, is increased with transaction costs which may be directly allocated to the purchase of such assets.

After initial recognition, an asset is measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. An entity classifies an asset based on its business model applied for financial asset management and the features of cash flows resulting from an agreement for the financial asset ("SPPI criterion").

As at the purchase date, the Group measures financial assets and liabilities at fair value, i.e. most often, at fair value of a payment made (for assets) or a payment received (for liabilities).

As at the balance sheet date, the Group's financial assets and liabilities are measured, according to IFRS 9, following the principles given below.

Classification of financial assets
- Measured at amortised cost,
- Measured at fair value through profit or loss,
- Measured at fair value through other comprehensive income.

Except for some trade receivables, a financial asset is initially measured at fair value which, in the case of financial assets not measured at fair value through profit or loss, is increased with transaction costs which may be directly allocated to the purchase of such assets.

For the purposes of measurement after initial recognition, financial assets are classified in one of the following four categories:
- Debt instruments measured at amortised cost,
- Debt instruments measured at fair value through other comprehensive income,
- Capital instruments measured at fair value through other comprehensive income,
- Financial assets measured at fair value through profit or loss.

The Group classifies the following as financial assets measured at amortised cost:

- Trade and other receivables,
- Loans granted,
- Cash and cash equivalents.

A financial asset is measured at amortised cost if the following two conditions are met:
- A financial asset is maintained in line with the business model aimed at maintaining financial assets to gain contractual cash flows, and
- Contractual terms relating to a financial asset generate, within specific time-frames, cash flows which are mainly repayment of a principal amount and interest on an outstanding principal amount.

Financial assets not meeting criteria to be measured at amortised cost or at fair value through comprehensive income are measured at fair value through profit or loss.

The Group classifies the following as capital assets measured at fair value through profit or loss:
- Participation units in money market funds
- Forward contracts.

Impairment of financial instruments
As regards trade receivables, the Group applies a simplified approach and measures a write-off on expected credit losses in an amount equal to expected credit losses in entire lifetime using a provision matrix. The Group uses its historical data on credit losses, adjusted in relevant cases with the impact of future-related information.

As regards other financial assets, the Group measures a write-off on expected credit losses in an amount equal to 12-month expected credit losses. If the credit risk associated with a given financial instrument substantially increased from initial recognition, then the Group measures a write-off on expected credit losses related to such financial instrument in an amount equal to expected credit losses in entire lifetime.

Financial derivatives
Financial derivatives utilised by the Company to hedge the foreign exchange risk are, first of all, forward contracts. These financial derivatives are measured at fair value. Derivatives are recognised as assets when their value is positive and as liabilities when their value is negative.

Profit or loss on changes in the fair value of derivatives not meeting the principles of hedging accounting are recognised directly in net profit or loss for the financial year.

The fair value of forward contracts is measured by reference to current forward rates for contracts of similar maturity.

Financial liabilities
Financial liabilities other than hedging derivatives are recognised under the following items of the statement of financial position:
- bank loans and borrowings,
- other financial liabilities,
- trade and other liabilities

Following initial recognition, financial liabilities are measured at amortised cost based on an effective interest rate, except for financial liabilities designated for trading or indicated as measured at fair value through profit or loss (derivatives other than hedging instruments). Short-term trade liabilities are measured in the amount payable due to negligible discounting.

The value of financial assets presented in the consolidated statement of financial position relates to the following categories of financial instruments defined in IFRS 9:
- measured at amortised cost (aAC)
- measured at fair value through profit or loss (fair value)

Non-current assets (in PLN thousands)	As at 31.01.2022	
	aAC	Fair value
Other financial assets	18,614	0

Current assets (in PLN thousands)	As at 31.01.2022	
	aAC	Fair value
Trade receivables	246,077	0
Other financial assets	60,570	0
Participation units in funds	0	649,999
Securities and deposits	652,695	0
Forward contract measurement	0	23,540
Cash and cash equivalents	1,354,891	0

Non-current assets (in PLN thousands)	As at 31.01.2021	
	aAC	Fair value
Other financial assets	13,512	0

Current assets (in PLN thousands)	As at 31.01.2021	
	aAC	Fair value
Trade receivables	158,055	0
Other financial assets	71,131	0
Participation units in funds	0	440,919
Security deposits and deposits set aside	512,097	0
Cash and cash equivalents	1,277,854	0

The value of financial liabilities presented in the statement of financial position refers to the categories of financial instruments specified in IFRS 9 as financial liabilities measured at amortised cost (aAC) and financial liabilities measured at fair value through profit or loss.

Long-term liabilities (in PLN thousands)			As at 31.01.2022
	aAC	Fair value	Beyond IFRS 9
Bank loans and borrowings	144,174	0	0
Lease liabilities	3,428,223	0	0
Other financial liabilities (bonds)	294,665	0	0

Short-term liabilities (in PLN thousands)			As at 31.01.2022
	aAC	Fair value	Beyond IFRS 9
Trade liabilities	4,811,728	0	0
Lease liabilities	747,790	0	0
Bonds	4,062	0	0
Other liabilities	0	0	155,051
Bank loans and borrowings	535,036	0	0

Long-term liabilities (in PLN thousands)			As at 31.01.2021
	aAC	Fair value	Beyond IFRS 9
Bank loans and borrowings	190,596	0	0
Lease liabilities	2,523,669	0	0
Other financial liabilities (bonds)	294,104	0	0

Short-term liabilities (in PLN thousands)			As at 31.01.2021
	aAC	Fair value	Beyond IFRS 9
Trade liabilities	2,640,043	0	0
Lease liabilities	654,010	0	0
Bonds	4,182	0	0
Other liabilities	0	0	118,727
Bank loans and borrowings	521,097	0	0

33. OPERATING SEGMENTS

Financial results and other information on geographical segments for the period from 1 February 2021 to 31 January 2022 and for a comparative period are given in the tables below.

For the year ended 31 January 2022 (in PLN thousands)	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
External sales	10,143,440	3,886,234	0	0	14,029,674
Inter-segment sales	2,705,187	0	-2,705,187	0	0
Other operating income	55,141	24,864	0	0	80,005
Total revenue	**12,903,768**	**3,911,098**	**-2,705,187**	**0**	**14,109,679**
Total operating costs, including	9,743,878	3,294,491	-1,899,830	744,824	11,883,363
Costs of inter-segment sales	1,899,830	0	-1,899,830	0	0
Other operating costs	66,440	680,905	0	0	747,345
Segment result	**3,093,450**	**-64,298**	**-805,357**	**-744,824**	**1,478,971**
Financial income					26,345
Financial costs					273,306
Profit before taxation					**1,232,010**
Income tax					278,488
Net profit attributable to shareholders of the parent company					**953,522**
Net profit attributable to non-controlling interests					**0**

For the year ended 31 January 2022 (in PLN thousands)	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
Segment assets	11,381,609	3,162,387	-834,429	0	13,709,567
Non-allocated assets across the group	0	0	0	425,681	425,681
Consolidated total assets	**11,381,609**	**3,162,387**	**-834,429**	**425,681**	**14,135,248**
Segment liabilities	8,460,966	2,556,778	-834,429		10,183,315
Non-allocated liabilities across the group	0	0	0	679,836	679,836
Consolidated total liabilities	**8,460,966**	**2,556,778**	**-834,429**	**679,836**	**10,863,151**

Other disclosures	EU Member States	Other countries
Segment capital expenditures	801,174	523,494
Segment depreciation	800,601	347,050
Impairment losses	23,041	497,094
Reversal of impairment losses	0	3,607
Other non-cash expenses	43,399	187,418

For the year ended 31 January 2021 (in PLN thousands)	EU Member States	Other co-untries	Consolida-tion adjust-ments	Values not attributed to seg-ments	Total
External sales	5,859,588	1,988,491	0	0	7,848,079
Inter-segment sales	1,177,078	0	-1,177,078	0	0
Other operating income	110,974	15,722	0	228	126,924
Total revenue	**7,147,640**	**2,004,213**	**-1,177,078**	**228**	**7,975,003**
Total operating costs, including	6,268,197	1,812,018	-947,753	479,250	7,611,712
Costs of inter-segment sales	947,753	0	-947,753	0	0
Other operating costs	143,952	66,315	0	0	210,267
Segment result	**735,491**	**125,880**	**-229,325**	**-479,022**	**153,024**
Financial income					71,508
Financial costs					341,046
Profit before taxation					**-116,514**
Income tax					73,616
Net profit attributable to shareholders of the parent company					**-190,130**
Net profit attributable to non-controlling interests					**0**

For the year ended 31 January 2021 (in PLN thousands)	EU Member States	Other co-untries	Consolida-tion adjust-ments	Values not attributed to seg-ments	Total
Segment assets	8,398,963	1,908,492	-133,303	0	10,174,152
Non-allocated assets across the group	0	0	0	179,616	179,616
Consolidated total assets	**8,398,963**	**1,908,492**	**-133,303**	**179,616**	**10,353,768**
Segment liabilities	5,455,185	1,174,029	-55,538	0	6,573,676
Non-allocated liabilities across the group	0	0	0	711,715	711,715
Consolidated total liabilities	**5,455,185**	**1,174,029**	**-55,538**	**711,715**	**7,285,391**

Other disclosures	EU Member States	Other countries
Segment capital expenditures	496,900	315,588
Segment depreciation	815,265	257,780
Impairment losses	82,210	15,457
Reversal of impairment losses	0	0
Other non-cash expenses	61,742	50,858

34. CAPITAL MANAGEMENT

The Group manages capital with the aim of ensuring the Group's remaining a going concern and the expected rate of return for shareholders and other entities interested in the financial position of the Group.

The Group analyses the indices assessing its financial position, presented and described in detail in the Management Board's report on the Group's operations.

35. EMPLOYMENT STRUCTURE

In the year ended 31 January 2022, average employment (own work posts) in the entire Group was 23,060 people (2020: 18,898 people).

36. INFORMATION ON THE FEE OF THE STATUTORY AUDITOR OR THE AUDIT COMPANY

On 5 August 2019, LPP SA signed the agreement on the audit of the annual financial statements of the Company and the LPP SA Group for the years 2019-2022 and on the review of interim financial statements of the Company and the LPP SA Group in the said period. The entity authorised to audit and review the financial statements of the Company and the LPP SA Group was chosen by the Supervisory Board of LPP SA acting under Article 35 of its Articles of Association of LPP SA.

The entity chosen was Ernst & Young Audyt Polska Sp. z o.o. spółka komandytowa with its registered office in Warsaw, entered on the list of Polish Board of Statutory Auditors under no 130.

The fee of the entity authorised to audit the consolidated and separate financial statements, paid or due for the year ended 31 January 2022 and a comparative period, broken down by types of services, is given in the table below.

Fee paid or due (in PLN thousands)	As at 31.01.2022	As at 31.01.2021
Obligatory audit of annual financial statements	240	240
Review of interim financial statements	145	145
Other services	0	0
Total	**385**	**385**

37. EVENTS AFTER THE BALANCE SHEET DATE

On 24 February 2022, Russian armed forces initiated a war having attacked Ukraine from the North, East and South. Preparations for the invasion had been going on since January, when military intelligence informed the public of the number, equipment and location of Russian military formations. At the same time, various kinds of negotiations and international negotiations at the highest level were taking place to prevent an armed conflict. Despite extensive negotiations, the Russian army launched a massive attack on Ukrainian territory. Already in mid-February, the Management Board of LPP SA proposed that employees of the Kiev office should be relocated to an office in Lvov. Several persons did so. On the first day of the war, the Company's Management Board decided to close all LPP stores in Ukraine to protect its employees and let them safeguard their families and relatives. In the territories affected by military operations or in their vicinity, stores remain closed. At the same time, the Company took action to help interested employees of the Ukrainian companies to be relocated to Poland, Slovakia, Romania and Hungary. As part relocation activities, near 250 persons came to Poland. LPP SA provides accommodation and meals to them. On 10 March 2022, upon request of Ukrainian local authorities and the company's employees, part of stores i.e. those located in safe regions in the Western Ukraine, were reopened. However, working hours were shortened and persons at work are only those had agreed to that. Goods sold are products in stock on the day the war started. For safety reasons, new deliveries of goods are not possible. Along with Russia's military actions in the Ukrainian territory, Western countries have responded with numerous sanctions on Russia. Many global companies have joined the boycott of the Russian market, including clothing companies. The Management Board of LPP has also decided, on 4 March 2022, to suspend deliveries of goods to Russia, cease developing new stores and withhold trade operations. On 30 March 2022, the last store on the said market was closed.

As at 31 January 2022, following revaluation write-offs on part of the stores, the Russian company had fixed assets of the value of PLN 250,980 thousand and inventory totalling PLN 924,670 thousand.

On 13 April 2022, the Management Board of LPP SA adopted a resolution on making an in-kind contribution in the form of an organised part of LPP's enterprise. Consequently, part of the Company's assets of a separate logistics department will be transferred to LPP Logistics Sp. z o.o.. The transfer of the logistics department to LPP Logistics Sp. z o.o. results from the development of the chain of traditional stores of the LPP SA Group in Poland and abroad, which requires technically advanced logistics facilities. The current solution, where all logistics operations in the Group are carried out within one entity, has become inefficient. Therefore, in order to achieve the effect of separating the different predominant objects of business, it was decided to transfer this part of LPP SA to a separate company.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the
Management Board

Przemysław Lutkiewicz
Vice-President of
the Management Board

Jacek Kujawa
Vice-President of
the Management Board

Sławomir Łoboda
Vice-President of
the Management Board

Marcin Piechocki
Vice-President of
the Management Board

Gdańsk, 19 April 2022

4
STATEMENTS OF THE MANAGEMENT BOARD

STATEMENT ON RELIABILITY OF THE FINANCIAL STATEMENTS

In line with the requirements set forth in the Regulation by the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities [...] (Regulation), the Management Board of LPP SA declares that, to the best of the Board's knowledge, the annual consolidated financial statements for the financial year 2021/22 and comparative data have been prepared in accordance with accounting principles currently in effect and present a true and fair view of the assets and the financial standing of the LPP SA Group as well as the financial result in the periods presented, and that the report of the Management Board on the operations of the LPP SA Group, together with the statement on corporate governance for 2021/22 (with due consideration of disclosure requirements for the Report on the Operations of the Parent Company for the said period), present a true and fair view of the development, achievements and the standing of the LPP SA Group and LPP SA, including a description of basic risks and threats.

MANAGEMENT BOARD OF LPP SA:

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Vice-President of
the Management Board

Jacek Kujawa
Vice-President of
the Management Board

Sławomir Łoboda
Vice-President of
the Management Board

Marcin Piechocki
Vice-President of
the Management Board

STATEMENT ON THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS

In line with the requirements set forth in the Regulation by the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities [...] (Regulation), the Management Board of LPP SA informs that, based on the statement of the Supervisory Board of LPP SA, the entity authorised to audit financial statements, which has audited the annual consolidated financial statements of the LPP Group and the separate financial statements of LPP SA, has been chosen in accordance with the provisions of law, including those governing the selection of, and the procedure for selecting, an audit company.

The audit company Ernst&Young Audyt Polska Sp. z o.o. sp.k and members of the auditing team met the conditions for preparing an impartial and independent report on the audit of the annual consolidated financial statements in accordance with binding laws as well as professional and ethical standards.

Furthermore, the Management Board of LPP SA informs that, based on the statement made by the Supervisory Board of LPP SA, binding laws governing the rotation of audit companies and a key statutory auditor as well as mandatory waiting periods have been complied with.

LPP SA has implemented a policy for choosing an audit company and a policy for the provision by an audit company or its affiliate or network member of additional non-audit services, including those conditionally permitted to be rendered by an audit company.

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the Management Board

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the Management Board

Sławomir Łoboda
Vice-President of
the Management Board

Marcin Piechocki
Vice-President of
the Management Board

STATEMENT ON NON-FINANCIAL INFORMATION

The Management Board of LPP SA declares that, together with this report being published, it publishes an integrated report for 2021/22, titled "With ESG at the forefront", providing comprehensive information on the Issuer. The integrated report meets the requirements of the Accounting Act and, being a separate document, constitutes a statement on non-financial information.

MANAGEMENT BOARD OF LPP SA:

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the Management Board

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Vice-President of
the Management Board

Sławomir Łoboda
Vice-President of
the Management Board

Marcin Piechocki
Vice-President of
the Management Board

5
STATEMENT OF, AND ASSESSMENT BY, THE SUPERVISORY BOARD

STATEMENT OF THE SUPERVISORY BOARD OF LPP SA ON THE FULFILMENT BY THE AUDIT COMMITTEE OF STATUTORY REQUIREMENTS

Following the duty stemming from § 70(1)(8) and § 71(1)(8) of Regulation of the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities and the terms and conditions for recognition of information required under the laws of an EU non-member state as equivalent (Journal of Laws of 2018, item 757), the Supervisory Board of LPP SA hereby declares:

- compliance with the provisions on the appointment, composition and operation of the Audit Committee of the Supervisory Board of LPP SA, including those governing fulfilment by its members of independence criteria and requirements to have knowledge and skills related to the industry sector in which LPP SA operates as well as provisions on accounting or auditing financial statements,
- that the Audit Committee of the Supervisory Board of LPP SA performed the tasks of an audit committee as provided for in binding provisions of laws, in particular those provided for in Article 130(1) of the Act dated 11 May 2017 on Statutory Auditors, Audit Companies and Public Supervision (Journal of laws of 2017, item 1089, as amended)

SUPERVISORY BOARD OF LPP SA:

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Chairman of the Supervisory Board

Wojciech Olejniczak
Member of the Supervisory Board

Piotr Piechocki
Member of the Supervisory Board

Magdalena Sekuła
Member of the Supervisory Board

Grzegorz Słupski
Member of the Supervisory Board

ASSESSMENT BY THE SUPERVISORY BOARD OF LPP SA

The Supervisory Board, having reviewed:
- the financial statements of LPP SA and the LPP SA Group for the financial year 2021/22,
- LPP SA Management Board's report on the operations of the Company's Group in the financial year 2021/22 (incorporating the report on the Company's operations in the said period),
- resolution of the Management Board on the motion for the division of the Company's net profit for the financial year 2021/22;
- the opinion and the report of the statutory auditor on the audit of the Company's financial statements for the financial year 2021/22;
- the opinion and the report of the statutory auditor on the audit of the financial statements of the Company's Group for the financial year 2021/22;

acknowledges that, in the opinion of the Supervisory Board:
- the Management Board's report on the operations of the Company's Group in the financial year 2021/22, incorporating the Management Board's report on the Company's operations in the said period;
- the financial statements of LPP SA for the financial year 2021/22 and
- the consolidated financial statements of the LPP SA Group for the financial year 2021/22

are complete and accurate and contain data which exhaustively presents the standing of the Company and the LPP SA Group.

Furthermore, the Supervisory Board indicates that the Management Board's report on the operations of the LPP SA Group for 2021/2022 incorporates also the Management Board's report on the operations of the Company (as parent company). The joint presentation of the two reports is permissible under Article 55(2a) of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2019, item 351, as amended) and § 71(8) of the Regulation of the Minister of Finance of 29 March 2018 on current and interim information submitted by issuers of securities and on the terms and conditions for recognition as equivalent of information required under the laws of a non-member state (Journal of Laws of 2018, item 757).

The Supervisory Board recommends that the Annual General Meeting of Shareholders should adopt the resolution approving:

- the Management Board's report on the operations of the Company's Group and the Company's operations in the financial year 2021/22;
- the Company's financial statement for the financial year 2021/22;
- consolidated financial statement of the LPP SA Group for the financial year 2021/22.

The Supervisory Board takes such view based on the analysis of documents referred to above and the results of works of the Board's Audit Committee and the Supervisory Board itself. These activities have led to the conclusion that the above-mentioned documents are complete, accurate and contain data which exhaustively presents the standing of the Company and the LPP SA Group.

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Magdalena Sekuła
Member of the Supervisory Board

Grzegorz Słupski
Member of the Supervisory Board

6 STATEMENT OF THE MANAGEMENT BOARD AND THE OPINION OF THE SUPERVISORY BOARD ON THE RESERVATION MADE BY THE AUDIT COMPANY IN THEIR OPINION ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF THE MANAGEMENT BOARD OF LPP SA, DATED 19 APRIL 2022

ON THE RESERVATION MADE BY THE AUDIT COMPANY IN THEIR OPINION ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of LPP SA hereby makes the following statement on the opinion made by the audit company, involving a reservation on the audit of the consolidated financial statements of LPP SA for the financial year commenced on 1 February 2021 and ended 31 January 2022.

The Management Board of LPP SA points out that it has made the decision on the making by the Group, as part of the consolidated report for the period ended 31 January 2022, of impairment losses on property, plant and equipment, in the amount of PLN 156 million, and on inventory of PLN 117 million, relating to brand stores located in Ukraine due to the political situation in that country and, for the same reason, impairment losses on part of the brand stores located in the territory of Russia, totalling PLN 335 million. In the opinion of the Management Board, escalating political tensions between the Russian Federation and Ukraine and, in consequence, the NATO states have been evident at least from the second half of 2021. Following the Zapad manouvers in the territory of Belarus, Russian troops stayed there along the border with Ukraine. Similarly, at Ukraine's eastern border, Russian troops have been deployed at least since November 2021. One can hardly overlook the growing risk of a violent outbreak of the conflict, no longer only political but also having the form of a full-scale escalation of military actions (which, after all, have been taking place in the Ukrainian territory already since 2014, starting with the seizure of Crimea and parts of the Lugansk and Donetsk regions by Russian troops and separatist forces of the so-called People's Republics, created by them) into kinetic operations (war). Furthermore, the information disclosed several times (which seems to be a form of activity by the intelligence forces of a NATO state) about the planned dates for starting by Russia of hostilities confirmed the high probability of kinetic warfare. In recognition of the above, the Management Board has conducted analyses concerning the possible impairment of assets located in the territory of Ukraine, and subsequently in the territory of Russia, as a result of an increasingly likely war conflict (in recognition of highly probable economic sanctions that may be imposed on this country by NATO states and the social pressure to cease operations in the aggressor country, particularly strong in our country due to our historical experience). In consequence of the above, for precautionary reasons and with a view to maintain a conservative and safeguarding approach to the determination of the financial result, the Management Board decided to recognise impairment losses on property, plant and equipment in the territories of Ukraine and Russia in the reporting period ended 31 January 2022. If the above-mentioned impairment losses had not been made, the gross financial result for the financial year ended 31 January 2022 would have been higher by PLN 609 million. Considering the one-off incidental character of the event, there is no need whatsoever to take any further action in respect of the object of the reservation in question.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the
Management Board

Przemysław Lutkiewicz
Vice-President of
the Management Board

Jacek Kujawa
Vice-President of
the Management Board

Sławomir Łoboda
Vice-President of
the Management Board

Marcin Piechocki
Vice-President of
the Management Board

OPINION OF THE SUPERVISORY BOARD, DATED 19 APRIL 2022

ON THE RESERVATION MADE IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

In consideration of the reservation made in respect of the annual consolidated financial statements of the LPP SA Group for the financial year commenced on 1 February 2021 and ended 31 January 2022 by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa, the audit company, and having regard of the statements on the matter, made by the Management Board and the Audit Committee, the Supervisory Board hereby gives the following opinion.

The decision on the reporting and disclosure of impairment losses on property, plant and equipment, totalling PLN 156 million, and on the inventory of PLN 117 million, concerning brand stores situated in the territory of Ukraine due to the military attack on that country, as well as impairment losses on part of brand stores situated in the territory of Russia, totalling PLN 335 million (as provided for in additional explanatory notes 9.3 and 13 to the consolidated financial statements for the financial year ended 31 January 2022) is found to be justifiable. Furthermore, the decision in question is found to express a conservative and more safeguarding approach taken when determining the Group's financial result. If the above-mentioned impairment losses had not been made, the Group's financial result would have increased by approx. PLN 609 million.

The clarifications made by the Management Board as to the reasons for the decision on the Group's impairment losses on property, plant and equipment in the territories of Ukraine and Russia in the reporting period ended 31 January 2022 (with such impairment losses totalling PLN 156 million and inventory of PLN 117 million in respect of brand stores located in Ukraine and impairment losses on part of brand stores situated in the territory of Russia, totalling PLN 335 million) are convincing and based on publicly known circumstances. The undoubtedly escalating political tensions between the Russian Federation and Ukraine and, consequently, the NATO states, have been evident at least since 2021. Such tensions have been escalating starting from joint exercises of Russian and Belarusian forces on the territory of Belarus and Russian troops remaining and deployed there along the border with Ukraine, as well as information on the deployment (grouping) of Russian forces along the Ukrainian eastern border.

In light of the above-mentioned operations, there is a risk of the outbreak of a full-scale military conflict, (not limited, as previously, to specific parts of the Lugansk and Donetsk regions). The said risk has been confirmed based on the information disclosed by intelligence services of NATO states on subsequent planned dates for starting by Russia of war operations.

Thus, considering the above, one could consider that a safer approach would be taking the risk of losing the value of assets located in the territory of Ukraine as a result of the growing probability of the war conflict, and, subsequently, in the territory of Russia (bearing in mind potential economic sanctions that may be imposed on this country by NATO states and the social pressure to cease operations in the aggressor country, particularly strong in Poland for reasons of historical experience).

Considering the one-off incidental character of the above-mentioned event, there is no need to take any further action in respect of the object of the reservation in question.

The Supervisory Board of LPP SA acknowledges the reservation made by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa, the audit company, to the annual consolidated financial statements of LPP SA for the period from 1 February 2021 to 31 January 2022 r.

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Grzegorz Słupski
Member of the Supervisory Board

PLEASE CONTACT US ON THIS REPORT:

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