

# 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 than the meeting room. Therefore, the Company is unable to guarantee the reliability of technical infrastructure. At the same time, in the Company's opinion, the currently applicable rules for participation in general meetings facilitate the proper and effective exercise of rights attached to shares and sufficiently secure the interests of all shareholders.

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
<b>Total</b>	<b>1,852,423</b>	<b>100.0%</b>	<b>3,252,423</b>	<b>100.0%</b>	<b>3,704,846</b>

\* 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 cate-



gory 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

<b>MAREK PIECHOCKI</b> – President of the Management Board of LPP (co-founder of LPP)	<ul style="list-style-type: none"> <li>– Supervision over the works of the Management Board</li> <li>– HR</li> <li>– Reserved, Cropp, House, Mohito – brand and product development as well as omnichannel sales</li> <li>– Purchases and sustainable development</li> <li>– Control and development of sales operations</li> </ul>
<b>PRZEMYSŁAW LUTKIEWICZ</b> – Vice-President of the Management Board of LPP	<ul style="list-style-type: none"> <li>– Reporting and taxes</li> <li>– Operational controlling</li> <li>– Financial controlling</li> <li>– Common Services Centre</li> <li>– Management of foreign companies</li> <li>– Internal Control and Risk Management</li> <li>– Investor relations and sustainable reporting</li> <li>– Business Trip Organisation Office</li> <li>– Indirect Procurement</li> </ul>
<b>JACEK KUJAWA</b> – Vice-President of the Management Board of LPP	<ul style="list-style-type: none"> <li>– IT</li> <li>– Logistics</li> <li>– Administration</li> <li>– Investments</li> <li>– Data Science</li> <li>– Customer Service Centre</li> <li>– Cyber Security</li> </ul>
<b>SŁAWOMIR ŁOBODA</b> – Vice-President of the Management Board of LPP	<ul style="list-style-type: none"> <li>– Lease and expansion</li> <li>– Legal services</li> <li>– Market analyses</li> </ul>
<b>MARCIN PIECHOCKI</b> – Vice-President of the Management Board of LPP	<ul style="list-style-type: none"> <li>– Sinsay, Mohito – brand and product development, omnichannel sales</li> <li>– Internal communication and CSR</li> <li>– External communication</li> </ul>

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:

<b>MIŁOSZ WIŚNIEWSKI</b>	- Independent* Chairman of the Supervisory Board of LPP
<b>WOJCIECH OLEJNICZAK</b>	- Vice-Chairman of the Supervisory Board of LPP
<b>PIOTR PIECHOCKI</b>	- Member of the Supervisory Board of LPP
<b>MAGDALENA SEKUŁA</b>	- Independent * Member of the Supervisory Board of LPP
<b>GRZEGORZ MARIA SŁUPSKI</b>	- 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. 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 on 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.