LPP

GK LPP SA

CONSOLIDATED ANNUAL REPORT FOR 2022/23

This report covers the financial year of the LPP SA Group,
lasting from 1 February 2022 to 31 January 2023
(further referred as 2022/2023 financial year”).

This document is not an official version. The report in inline XBRL format can be found at the following link:
https://www.lpp.com/relacje-inwestorskie/raporty/raporty-okresowe

RESERVED CROPP HOUSE MOHITO sinsay

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01

PRESIDENT'S LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

The current decade gives no respite from difficult challenges. After pandemic years 2020 and 2021, we faced another challenge that had brough the war in Ukraine. Although the war is fought outside the borders of the European Union, its consequences are currently being dealt with throughout the world. The destabilisation of the capital market, growing energy prices and unabated inflation have set out specifically hard conditions for the business environment and customers' greater price sensitivity. On one hand, we commenced the new financial year with a package of new experiences and challenging decisions and we are determined to ensure the Company's stability and safety. On the other hand, we are closing the financial year with a sense of well-accomplished duty towards shareholders and our business partners, having reached the highest sales in the Group's history, yielding almost PLN 16 bln and a net profit exceeding PLN 1 bln.

In 2022, LPP's stability was shaken, for a moment, by the war in Ukraine, subsequent international economic sanctions imposed on Russia as well as consequent suspension of our operating activities and deliveries of goods to both markets. At that time, the Eastern Europe and, particularly, the Russian and Ukrainian markets played a major role generating, on the average, one fourth of the Group's revenue. Furthermore, they were countries for which we had had the biggest investment plans for the time being. Due to those factors, we became determined to act immediately in two parallel areas. On one hand, we forthwith launched an aid programme for Ukraine, addressed specifically to all our employees who had, all of a sudden, faced immediate life threats. To that end, we formed a special operating team to ensure safe passage to Poland for those of our Ukrainian employees and their families who had decided to do so. We organised temporary accommodation for them and we guaranteed that they would receive financial, psychological and legal aid. Simultaneously, together with Polish community partners and organisations, we carried out an extensive project involving in-kind and financial aid for refugees fleeing to our country. For that purpose, in total, we appropriated the amount of PLN 20 mln.

On the other hand, we started developing a new business strategy which, in view of a prolonging war, would allow us to ensure that the Group would quickly regain stability and maintain development dynamics at an uncompromised level.

Thus, we decided to sell our business in Russia and successively restore retail operations in our stores in Ukraine to an extent permitted by the lasting war and security reasons. Today, in the territory of Ukraine, the majority of our sales network is in operation. There are brand stores which have been irrevocably destroyed, yet almost 80% of them are open for business. In consideration of continuing war conditions, we changed procedures for deliveries and online sales in the territory of Ukraine. Looking back, we see very good results of our actions. Despite the war, the performance of the Ukrainian market is promising, with a level of sales in such specific circumstances exceeding our expectations.

Simultaneously, we made a decision to make a complete change in our development strategy. We focused, first of all, on strengthening the position of our brands on current markets and expanding our business not only in Eastern, but also in Southern and Western Europe. Consequently, we launched online sales of all our brands in Greece, Serbia, Italy and Spain. At the same time, we carried out an ambitious plan for opening new stores, concentrating our attention on our youngest brand Sinsay. Despite troublesome geopolitical conditions, growing inflation and expected weakened demand, we decided to leave our capital expenditures at a high level of over PLN 1 bln, with their major part being appropriated for developing our sales network. We started our search for new retail locations in, among others, Great Britain, Italy and Greece, thus implementing the stipulation to develop the Group's business in Southern and Western Europe.

For several months now, the on-site offer of Sinsay has been enjoyed by customers in Heraklion, Greece, Macron, Italy, and Milan. We will be opening new stores in, inter alia, Thessaloniki and Athens. In 2023, we plan to open 3 new Reserved stores in London and launch the retail sales of the said brand at prestigious Vittorio Emanuele in Milan. At the end of 2022/23, our retail network consisted of as many as 1,962 brand stores with total space of almost 1.7 mln m2. We have not been yet able to bridge the gap caused by the sale of our business in Russia, comprising as many as 553 stores, but we expect that we will attain that goal already in H1 2023/24.

The entire last year was marked by growing costs mainly due to the high inflation. The vision of a forecasted slowdown in consumer demand in Europe as a result of rising commodity prices was no help either. Additionally, we faced yet another challenge i.e. a high inventory level.

The turbulences we experienced in 2021 in connection with the instability of supply chains, experienced worldwide, and delays in maritime transport brought about our decision to abandon just-in-time deliveries. We consciously resolved to maintain higher inventory levels with a view to minimising the risk of potential stock shortages in the event of delayed deliveries. Furthermore, the outbreak of the war in Ukraine took place when our Russian company was growing dynamically. We had many plans, contracted projects, confirmed orders planned ahead, which we were required to collect and manage despite the sale of our business in Russia. Part of that stock was transferred to future seasons, part of it was sold at clearance prices. Due to the above and as a result of the growing share of Sinsay in the value-for-money segment in our portfolio, with a simultaneous adverse USD exchange rate, we closed the year 2022/23 with a gross margin lower y/y, reaching 51.1%. Nonetheless, that has not stopped us from generating a solid operating margin (EBIT) of 9.2% and a net profit higher by 14.7% y/y.

None of that would be possible without significant cost discipline we exercised throughout the year, including also a sound review of investment plans. The perspective of losing one fourth of the market motivated us to make a very diligent analysis of the potential of individual development projects and limit our actions to, first of all, those bringing the best perspectives for the future. That is why we focused on developing the retail network. The opening of almost 300 stores within a year only is the achievement I'm particularly proud of.

Not for a moment have we forgotten how important online sales are. The growing share of mobile devices in online shopping, observed for several years, motivated us in 2021 to start working on our first mobile Reserved app. A year later, we launched the Sinsay app. Almost throughout the year, both applications ranked high among most-downloaded mobile sales apps, generating over 40% of online sales in Poland.

We also continue to improve both of them and add new functionalities to make them more available internationally, being aware that, nowadays, almost 90% of visits on our brand websites are made by mobile users.

However, the core is our product and its efficient customer delivery service. A shift in the direction of our development towards Mediterranean markets, differing in fashion tastes from Eastern Europe, resulted in an idea to establish a new Sinsay design office in the heart of Southern Europe, i.e. Barcelona. Following that path, our teams were joined by Spanish designers whose talents would be seen already in the brand's spring/summer collections.

Simultaneously, we started working on expanding the offer of Reserved, our flagship brand. The success of Sinsay's offer dedicated to interior design and the pandemic-activated market trend of increasing popularity of products from the homeware and interior design segment made us start thinking of introducing the Home line to the Reserved online offer.

Despite the expected slow-down in consumer demand, the whole last year was not perceptible for any of our brands as they had performed well in both sales channels. Following the difficult years 2020 and 2021, which changed customers' product choices to homewear products, in 2022, we observed a growing trend of customers' increasing interest in more formal apparel owing to recommencement of office work and business meetings. The above translated mainly to the demand volume for the Reserved and Mohito collections. Several months later, we experienced customers' high appreciation of the Reserved and Sinsay collections for children. The diversified range of clothing and accessories dedicated to the youngest group of our recipients, including well-matched licence models, generated a strong back-to-school effect on all markets. The end of the year brought similarly good results. The satisfactory Black Week and appreciation of the Christmas and New Year's Eve collections were reflected in two-digit growths in the Group's sales both online and offline. The above reinforced our conviction that we were required to continue the earlier adopted policy for developing our brands. Therefore, in 2023, we will enlarge retail space mainly for Sinsay, House and Cropp, with special emphasis put on smaller towns, and we will strengthen the online offers of Reserved and Mohito as customers of those brands shop primarily in that channel.

In 2022, we took care of the further development and optimisation of logistic processes. Changes effected in retail trade within the last several years have shown that efficient and comprehensive logistics facilities are the right response to the dynamically changing market environment. For years now, we have been executing ambitious investment projects covering technology and systems for managing replenishment and logistics. However, the parallel development of the retail network in the omnichannel model and digital transformation in retail resulted in the inevitable decision to speed up the extension of warehousing facilities and strengthen competences involving logistics services. To that end, we formed LPP Logistics, a company separated from LPP's previous logistics department, which manages our replenishment and distribution network. Currently, the said company is in charge of handling annually volumes reaching even tens of thousands of TEUs, i.e. 20-foot-long containers, and distributing approx. 400 mln trading commodities, including a quarter in e-commerce dispatches only.

Changes were also required in the organisation of distribution processes. The modification of our development strategy and the increased pressure on strengthening our brands' position in Southern Europe required an adequate optimisation of processes in our warehouses and the extension of our distribution network. Within 12 months only, our distribution network doubled its warehousing capacities. Within that short period of time, we launched our Distribution Centre in Brześć Kujawski and two warehouses for handling online sales, i.e. one in Northern Poland, in Pruszcz Gdański, and the second in Southern Poland, in the Podkarpacie region, near Rzeszów. Therefore, we got over 200 thousand m2 of additional warehouse space which totalled 251 thousand m2 a year ago. Yet, we don't stop here. In just a few months I will be pleased to announce the launch of our next facility, i.e. LPP's first distribution centre abroad, in Romania. Its strategic location in the heart of the Balkans, one of the most promising regions in Europe for our brands, will make it possible to provide services to brand stores in the territory of Romania as well as Bulgaria, Hungary, Croatia, North Macedonia, Serbia and Greece. The contemporary solutions applied in the said distribution centre will have a substantial impact on cost optimisation and delivery time which is of major importance for more and more demanding customers.

With our customers in mind and with due consideration of environmental issues, in 2022, we undertook further actions towards circular fashion. We expanded the reach of our second-hand clothing collection scheme to include all stores of our 5 brands throughout Poland. Well-kept clothing items are provided to the homeless. Other clothes will be designated for processing, becoming a raw material for yarn manufacturing in the future. This is our way to contribute to limiting the volume of textile waste. With that in mind, in 2022, we started cooperating with a Polish start-up to develop an innovative technology for the full recycling of used polyester fabrics. As a result of their processing, we want to obtain a raw material for manufacturing new fabrics. This is our next step towards circular fashion, the effects of which will be known at the end of 2023. Simultaneously, we joined Science Based Targets, a worldwide initiative supporting the private sector in actions aimed at fighting global warming. This is one of the steps on our path towards developing a decarbonisation strategy.

Looking back at the last 12 months, one can hardly believe that, despite numerous obstacles, disadvantageous macro- and micro-economic factors and, first of all, the giving up of the Russian market, being the second largest (after Poland) market in our portfolio, we generated such good sales. The revenue of PLN 16 bln on continuing operations is a result exceeding the one yielded a year ago by as much as approx. 40%. Our cost discipline and courage to fundamentally change the Group's development concept have paid off. Next year will be no different. We have further ambitious plans to expand our sales network, which we want to increase by 20%, achieving a double-digit revenue dynamics in omnichannel sales. We are committed to increasing, on a constant basis, our profitability. Therefore, we will continue our disciplined approach to our cost policy to achieve, next year, a higher y/y gross sales margin and operating margins. Nonetheless, we want to continue our investment policy. The year 2022 proved that a rational approach to development projects and continuation of those most important despite instable geopolitical conditions would bring results. That is why, next year, we want to appropriate a similar amount of PLN 1 bln for that purpose, .

I have no doubt that the year 2023 will still be a time of hardship for business, during which prudence, economic intuition and also courage will win. The last difficult years have shown that we passed that examination with flying colours. I believe that the experience we have gained will give us the opportunity of guiding LPP with the same safety through other intricacies of this unsteady decade.

Marek Piechocki,
President of the Management Board of LPP SA

02

REPORT OF THE MANAGEMENT BOARD ON THE OPERATIONS OF THE LPP SA GROUP WITH A CORPORATE GOVERNANCE STATEMENT FOR 2022/23

(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 2022/23 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

ABOUT US

WHO WE ARE

LPP is a Polish family-run company engaged in the design, manufacturing and distribution of clothing. We have an over 30-year experience in the clothing sector. Our sales network covers entire Poland, European countries 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. Additionally, Reserved and Sinsay have expanded their offer with home and interior design products. 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, Barcelona, Shanghai and Dhaka.

Our staff consists, in total, of approx. 30 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

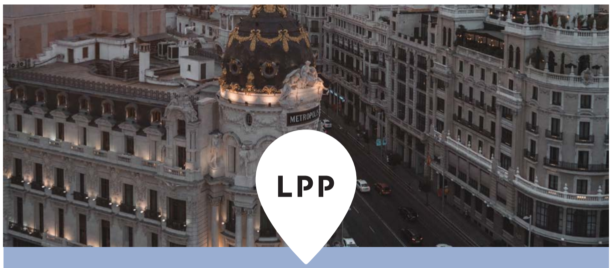
In Gdańsk, there is the LPP head office where designs of Reserved, Cropp and Sinsay collections are made. In Gdańsk, the Management Board of LPP takes key decisions for the Company's operations and development. Furthermore, the Company's all key departments are located in the head office.

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 and in special projects.



BARCELONA

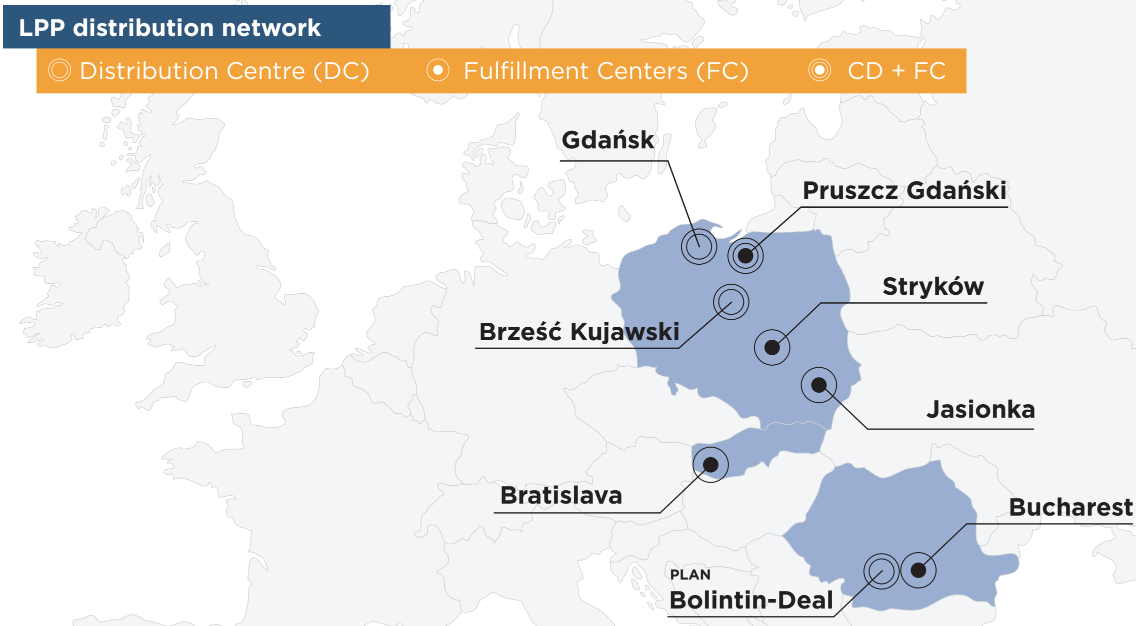
In 2022, in Barcelona, we opened our design office for Sinsay with its goal being to recognise customer tastes on the Mediterranean markets, support the product office in Gdańsk in designing female online collections and soliciting talents of key importance for the fashion industry (designers, merchants). The office team consists of Spanish designers headed by a Polish female manager with expertise of the Spanish market.

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 work 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 our 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 26 foreign companies. The Group's foreign subsidiaries are, to a major extent, engaged in the distribution of products of all our brands outside Poland.

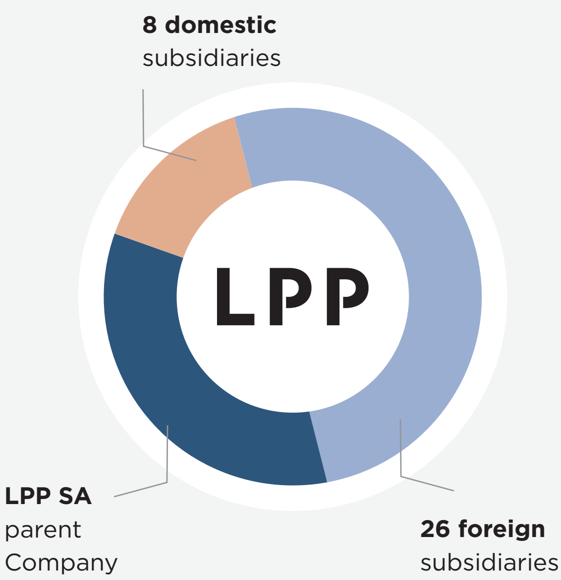
Our Polish companies are engaged in the following business areas: the handling of brand stores in Poland (LPP Retail Sp. z o.o), sales of promotional clothing (Printable Sp. z o.o.), logistics services (LPP Logistics Sp. z o.o.), construction works involving logistics centres (Veviera Investments Sp. 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 situated (DP&SL Sp. z o.o., IL&DL Sp. z o.o.).

In the reporting period, there were the following changes in the Group's structure:
- sale of Re Trading OOO, the Russian company, to an external contracting party,
- closure of one of our two Slovenian companies i.e. Reserved Fashion BIS Modne Znamke DOO,
- liquidation of IPMS Management Services FZE with its registered office in the UAE,
- establishment of four new foreign companies: LPP Italy SRL, an Italian subsidiary in Milan, LPP Albania LTD, an Albanian subsidiary with its registered office in Tirana, LPP Clothing Retail Spain S.L., a Spanish subsidiary with its registered office in Madrid, and LPP Greece Single Member Private Company, a Greek subsidiary with its registered office in Athens. The new companies have been created as a result of the expansion of the Group's operations in the said countries.

Furthermore, changes in the Group's structure, effected in the financial year, involved also the sale of 50% of shares in Veviera Investments Sp. z o.o. to an external entity.

The consolidated financial statements of the Group, covering the period between 1 February 2022 and 31 January 2023, 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. At the same time, due to the sale of Re Trading OOO, the Russian subsidiary, the Group's results have been shown as continuing operations, with the Russian company being presented as discontinued operations. Additionally, the comparative period has been restated by eliminating discontinued operations.

Structure of the LPP SA Group



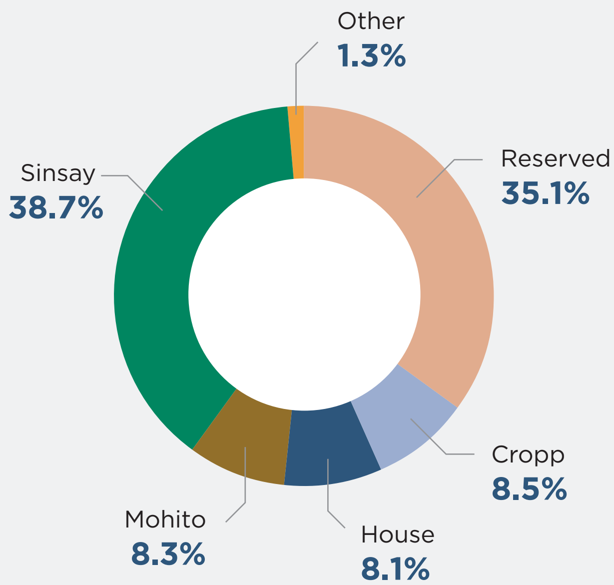
Our Group companies:

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	50.0%
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.	LLC Re Development	Moscow, Russia	100.0%
16.	LPP Ukraina AT	Peremyshliany, Ukraine	100.0%
17.	OOO LPP BLR	Minsk, Belarus	100.0%
18.	LPP Kazakhstan LLP	Almaty, Kazakhstan	100.0%
19.	LPP Bulgaria EOOD	Sofia, Bulgaria	100.0%
20.	LPP Fashion Bulgaria EOOD	Sofia, Bulgaria	100.0%
21.	LPP Romania Fashion SRL	Bucharest, Romania	100.0%
22.	LPP Croatia DOO	Zagreb, Croatia	100.0%
23.	LPP Reserved DOO Beograd	Belgrade, Serbia	100.0%
24.	Reserved Fashion, Modne Znamke DOO	Ljubljana, Slovenia	100.0%
25.	LPP BH DOO	Banja Luka, Bosnia and Herzegovina	100.0%
26.	LPP Macedonia DOOEL	Skopje, Macedonia	100.0%
27.	LPP Albania LTD	Tirana, Albania	100.0%
28.	LPP Greece Single Member Private Company	Athens, Greece	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.	LPP Italy SRL	Milan, Italy	100.0%
33.	LPP Clothing Retail Spain, S.L.	Madrid, Spain	100.0%
34.	P&L Marketing&Advertising Agency SAL	Beirut, Lebanon	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

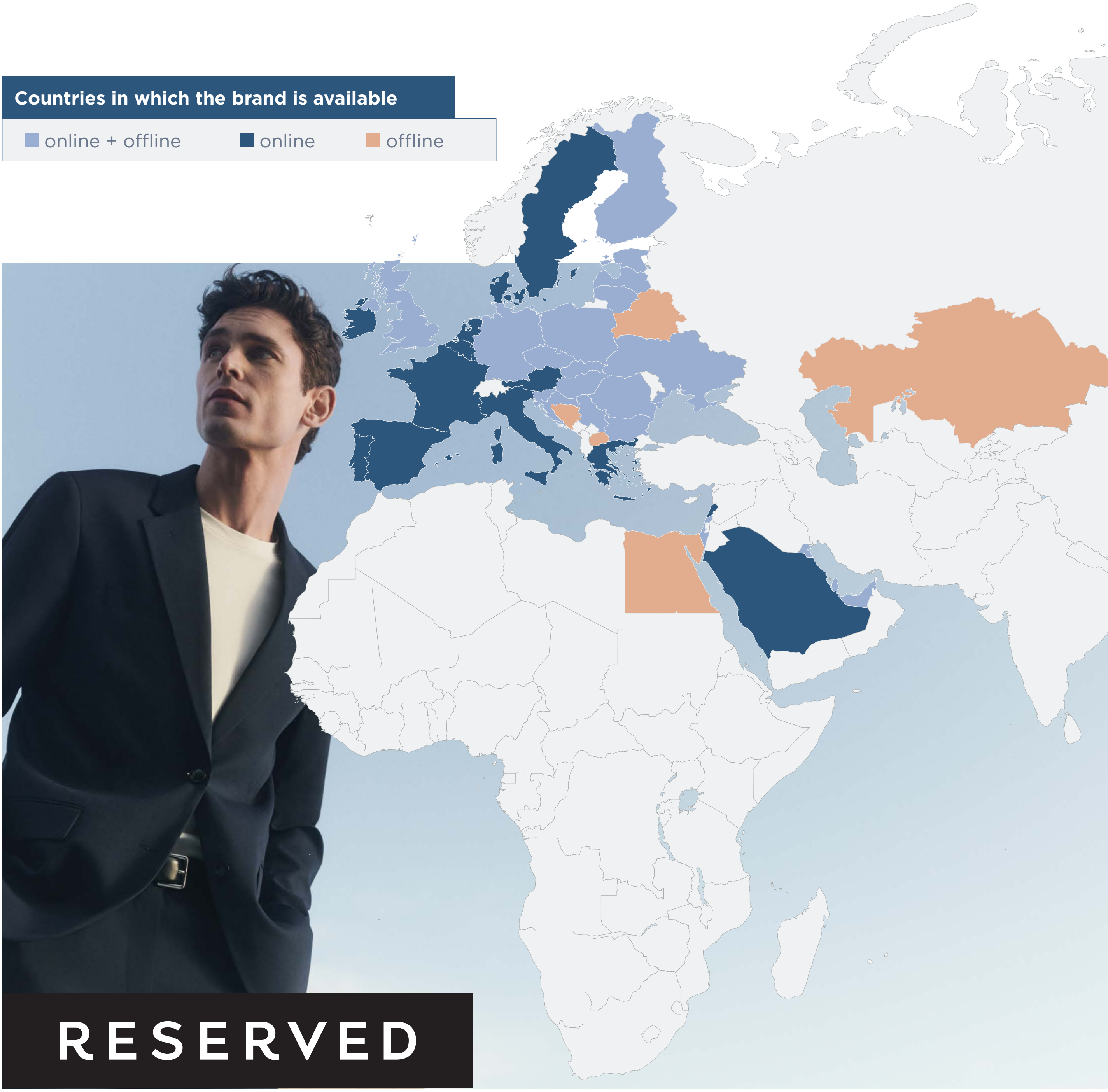


RESERVED

Reserved is our response to the needs of customers looking for metropolitan chic with a timeless feel. Collections of the largest Polish fashion brand are an interpretation of the world's leading trends, created with an eye to the rapidly evolving customer needs. Original limited lines invite to conduct more daring fashion explorations and experiments that allow you to express yourself even better. As leader in Central and Eastern Europe, Reserved remains the brand of first choice for those looking for functional and fashionable outfits, ideal not only for everyday wear but also for occasions that require a special setting.

Basic data on the brand for 2022/23:

Date of establishment:	1998
Website:	www.reserved.com
Location of the design centre:	Gdańsk, Warsaw
Revenue for 2022/2023 and change in % y/y:	PLN 5,598 mln, increase by 22.4% y/y
Number of brand stores (as at 31.01.2023):	352
Number of markets in which the brand is available in on-site stores:	25
Number of markets in which the brand is available in online stores:	34



CROPP

Cropp offers streetwear for all those who are not afraid of being themselves. Being inspired by the world of music, art and sports, the brand creates expressive clothing, shoes and accessories for women and men. Cropp is like its customers – bold, uncompromising and authentic in 100%. This is a community of passionate people wanting to express themselves through clothing. The brand draws from its almost 20-year history, creatively combining street style, modern inspirations and local identity.

Basic data on the brand for 2022/23:

Date of establishment:	2004
Website:	www.cropp.com
Location of the design centre:	Gdańsk
Revenue for 2022/2023 and change in % y/y:	PLN 1,357 mln, increase by 23.0% y/y
Number of brand stores (as at 31.01.2023):	325
Number of markets in which the brand is available in on-site stores:	18
Number of markets in which the brand is available in online stores:	17

Countries in which the brand is available

online + offline | online | offline

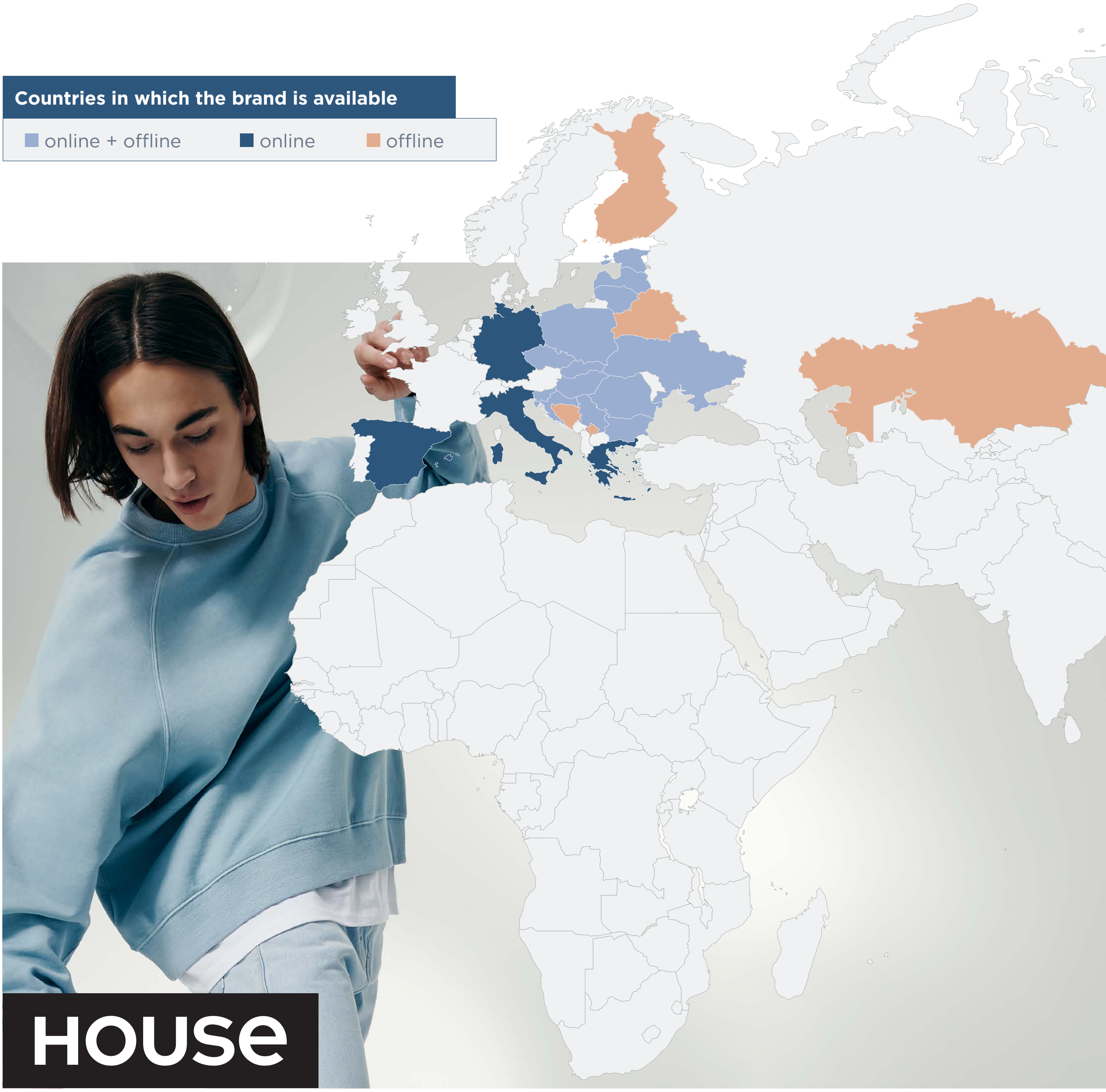
HOUSE

House is a brand for young people who want to show, through their outfits, who they are and how they feel. The brand offers collections combining the latest trends with a casual style. It also inspires to be brave, play with one's look and create one's own image. House listens to its customers and observes their lifestyles. By doing so, the brand creates offers for her and for him that allows for what is most important, i.e. self-expression.

Basic data on the brand for 2022/23:

Date of establishment:	2001
Website:	www.housebrand.com
Location of the design centre:	Cracow
Revenue for 2022/2023 and change in % y/y:	PLN 1,288 mln, increase by 22.3% y/y
Number of brand stores (as at 31.01.2023):	331
Number of markets in which the brand is available in on-site stores:	18
Number of markets in which the brand is available in online stores:	17

Countries in which the brand is available



MOHITO

MOHITO is a proposal for women who love fashion and appreciate original elegance. The brand carefully follows global trends, maintaining a balance between fashion inspiration, comfort and functionality which is particularly expected now. Brand stores offer classic and modern cuts, including a wide range of colours and patterns.

Basic data on the brand for 2022/23:

Date of establishment:	2008
Website:	www.mohito.com
Location of the design centre:	Cracow
Revenue for 2022/2023 and change in % y/y:	PLN 1,315 mln, increase by 37.3% y/y
Number of brand stores (as at 31.01.2023):	217
Number of markets in which the brand is available in on-site stores:	18
Number of markets in which the brand is available in online stores:	18

Countries in which the brand is available

online + offline | online | offline

SINSAY

Sinsay offers its customers the latest trends at affordable prices. The brand's offer comprises products for the whole family. Diversified collections are the daily source of inspiration not only for teenagers and young women but also for mums, children and men preferring casual urban style. The brand's offer is complemented by interior design products, pet accessories and a line of make-up and beauty products.

Basic data on the brand for 2022/23:

Date of establishment:	2013
Website:	www.sinsay.com
Location of the design centre:	Gdańsk, Barcelona
Revenue for 2022/2023 and change in % y/y:	PLN 6,162 mln, increase by 72.2% y/y
Number of brand stores (as at 31.01.2023):	737
Number of markets in which the brand is available in on-site stores:	20
Number of markets in which the brand is available in online stores:	17

OUR BUSINESS MODEL

Our business model is defined in 4 steps.

STEP 1: DESIGNING

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

1 foreign office (Barcelona)

Over
300 designers,
5 different brands

Our designers take part in fashion fairs 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
1,200 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 for our collections, depending on what they specialise in. 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

459 thousand m² of the total warehousing space

Distribution centres in Poland and abroad (Romania, Slovakia)

Over **44m** 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, the Podkarpacie region and abroad: in 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

1,962 brand stores of the total area of **1,673.4 thousand m²** in **27** countries

Online sales in **34** countries

Approx. **430 mln** of clothing items and accessories sold annually.

In response to changing customer 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 a constantly developing store chain 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 2022/23:

Imports

maritime transport **96,0%**

road transport **4,0%**

Exports — dispatch to brand stores

road transport **99,0%**

maritime transport **1,0%**

Exports — e-commerce dispatch

road transport **100,0%**


COUNTRIES WHERE OUR CLOTHES ARE MANUFACTURED
Poland
Estonia
Romania
Bulgaria
Georgia
Italy
Turkey
Morocco
Tunisia
Egypt
Pakista
India
Madagascar

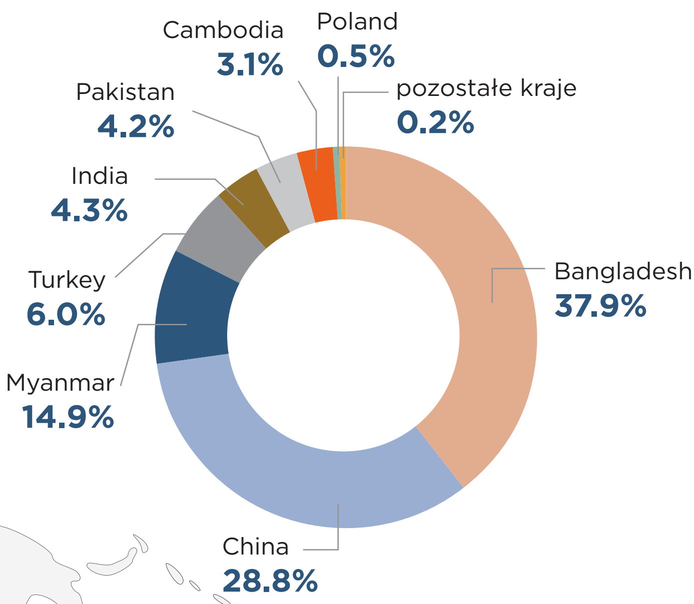
OUR SUPPLIERS

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 2022/23, none of individual suppliers manufactured goods of a value exceeding 5% of total purchases. The majority of orders were executed in Bangladesh 37.9%, China 28.8%, Myanmar 14.9%, Turkey 6.0%, India 4.3%, Pakistan 4.2% and Cambodia 3.1%. In 2022/23, Polish plants manufactured 0.5% of products ordered.

Percentage share of purchases on individual markets in 2022/23



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 mainly subsidiaries (foreign companies) and, to a lesser extent, 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.

The franchise model results from the specificity of some local markets and relies on entrusting selling our products to the more experienced in this area, local partners business. Under this model now we run Reserved stores in the Middle East (with two partners from this region). 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.

OUR MARKET PRESENCE

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

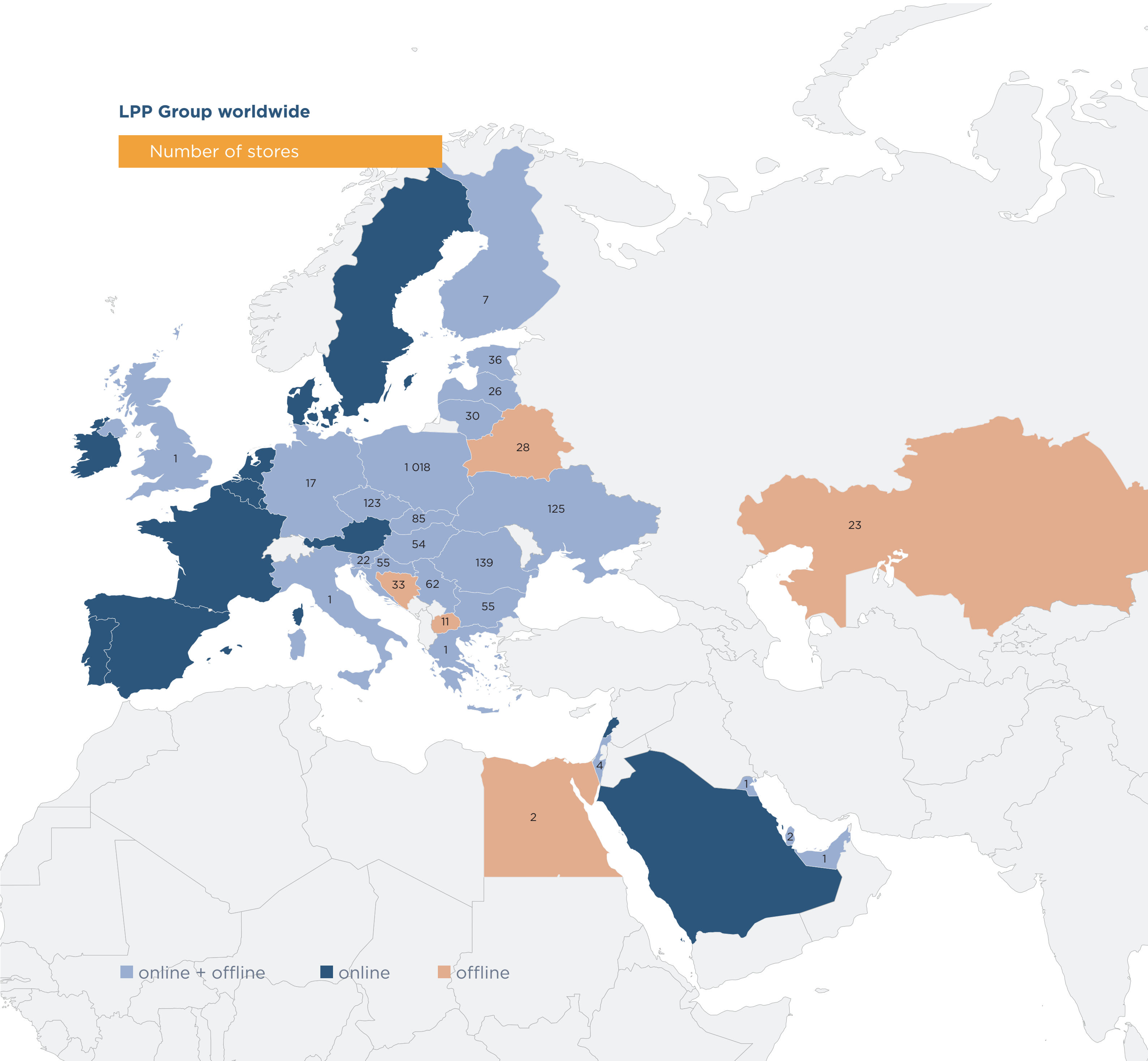
Our chain of traditional stores comprises 1,962 retail stores in 27 countries, of the total area of 1,673.4 thousand m^2.

We are present on 34 markets online.

Number and area of stores by brand as at 31.01.2023

	Reserved	Cropp	House	Mohito	Sinsay
Store number	352	325	331	217	737
Store area in thousands m^2	569.6	153.4	156.4	94.4	699.6

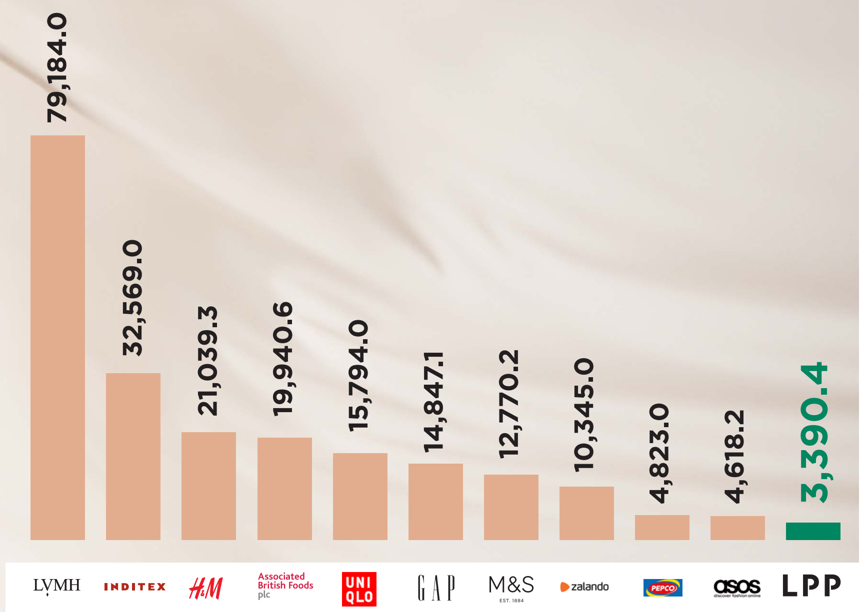
LPP Group worldwide



LPP GROUP VERSUS COMPETITORS

LPP versus domestic competitors
Revenue (in PLN mln)

* estimated data



LPP versus global competitors
Revenue (in EUR mln, for 2022 or comparable period)

KEY EVENTS IN 2022/23

MARCH

LPP ended operating activities required for closing, and resulting in the closure of, all of its brand stores in Russia.

LPP was awarded the title of the Best 2021 Stock Exchange Company in the ranking carried out by editors of Puls Biznesu, assessing companies listed on the Warsaw Stock Exchange, and the title of Company of the Year of the WIG20 Index in the ranking organised by editors of Parkiet for very good performance on the Warsaw Stock Exchange, including one of the highest stock increases and high market capitalisation in 2021.

MARCH / APRIL

Organising aid for persons affected by war in Ukraine by LPP and the LPP Foundation, of a total (financial and in-kindl) value of approx. PLN 20 mln.

APRIL / MAY

The Management Board of LPP decided to sell RE TRADING OOO, the subsidiary registered in Russia, to an external business partner. Simultaneously, after 20 years of its market presence, the Group ended its operations in the territory of the said country.

MAY

We launched the Distribution Centre in Brześć Kujawski, a facility with a storage capacity of up to 40 million pieces of merchandise, enabling simultaneous replenishment of up to 1,000 brand stores.

LPP commenced the first stage of the process of developing the Company's long-term climate strategy, connected with the accessing of SBTi (Science Based Targets), a scientific initiative supporting business in decarbonisation actions.

AUGUST

Launching the operating activities of LPP Logistics, a subsidiary responsible for managing the replenishment and distribution network in the Group's entire chain, established in response to the growing importance of logistics in the supply chain and to the Company's decisions on development on new European markets.

SEPTEMBER

In Pruszcz Gdański, the launching of the Fulfillment Center of a total area of 64 thousand m^2, storing up to 6 mln clothing items and accessories and supporting the distribution of online orders to the Group's customers in Poland, Germany, Ukraine, the Baltic countries, Italy and Spain.

Launching the cooperation with a Polish start-up to develop an innovative technology for producing yarn from textile waste (a scientific method of the full recycling of used polyester fabrics based on the textile-to-textile concept).

OCTOBER

In Barcelona, the opening of a Sinsay design office.

NOVEMBER

The debut of the Sinsay and Reserved apps in Romania and the Reserved app in Germany.

Launching online stores of all brands in Serbia.

Signing contracts for 3 new locations of Reserved brand stores in London, Great Britain, and 2 locations in Milan, Italy.

DECEMBER

Opening of our first Sinsay store in Marcon, Italy.

JANUARY

The launching of the new Fulfillment Center of the total area of 69 thousand m^2 in Jasionka near Rzeszów, a new investment enlarging the Company's logistics capacity, which enables the storage of up to 7 mln products and ensures the handling of 100 thousand orders daily, supporting the distribution of e-commerce dispatches both domestically and abroad.

Signing by LPP Logistics of a contract for the lease of the first Distribution Centre abroad i.e. in Romania (50 km from Bucharest), planning to handle 450 retail stores selling products of the Group's brands in the territory of Romania, Bulgaria, Hungary, Croatia, North Macedonia, Serbia and Greece, being at the same time the Company's second warehousing facility on the Romanian market.

The debut of Sinsay on yet another European market following the launching of its first on-site store in Heraklion, Greece.

LPP joins the Accord Pakistan, an international initiative aimed at enhancing safety and working conditions in plants manufacturing clothes in Pakistan, which is another country, apart from Bangladesh, in which the common initiative of unions representing workers of plants and clothing companies contributes to significant improvement of working conditions and safety at work.

OUR FINANCIAL POSITION AND RESULTS FOR 2022/23

NUMBER OF OUR BRAND STORES AND RETAIL SPACE

At the end of 2022/23, the LPP SA Group had 1,962 stores in 27 countries, having the total area of 1,673.4 thousand sq. m., with 944 stores located abroad (920.8 thousand sq. m.). Compared to 2021/22, the total retail space decreased by 11.4% and the store number diminished by 282 stores due to the ending by the Company of its business operations in Russia.

At the same time, as regards continuing operations, the number of stores increased by 271 y/y and the retail space increased by 19.8% y/y. The largest nominal increase in retail space and the largest growth dynamics were recorded by Sinsay owing to its most dynamic development both domestically and abroad.

Number of stores	31.01.2023	31.01.2022	Change y/y
Continuing operations	1,962	1,691	271
Reserved	352	363	-11
Cropp	325	304	21
House	331	300	31
Mohito	217	221	-4
Sinsay	737	501	236
Outlet	0	2	-2
Discontinued operations	0	553	-553
Total LPP Group	**1,962**	**2,244**	**-282**

Area in thousands m^2	31.01.2023	31.01.2022	Change y/y (%)
Continuing operations	1,673.4	1,397.2	19.8%
Reserved	569.6	583.6	-2.4%
Cropp	153.4	139.5	9.9%
House	156.4	138.2	13.2%
Mohito	94.4	94.3	0.1%
Sinsay	699.6	440.1	59.0%
Outlet	0.0	1.4	-100.0%
Discontinued operations	0.0	491.0	-100.0%
Total LPP Group	**1,673.4**	**1,888.1**	**-11.4%**

SALES OF OUR BRANDS

In 2022/23, the Group's revenue was generated from the sales of five brands in their on-site and online stores. At the same time, they were 40.5% higher than the sales recorded by the Group a year ago on continuing operations (without recognising the revenue from Russia). Revenue increases were recorded by the Group's all brands, with the highest nominal increases recorded by Sinsay. Moreover, this brand recorded the highest growth dynamics in revenue y/y.

Simultaneously, in 2022/23, Sinsay, Reserved and Cropp generated more revenue abroad than domestically which proves that they are recognised international.

Sales of individual brands in both channels, i.e. in on-site and online stores in 2022/23, are given in the table below.

In PLN mln	Sales 2022/23	Sales 2021/22 before restated	Sales 2021/22 after restated
Reserved	4,541	5,386	4,574
Cropp	1,046	1,526	1,103
House	974	1,295	1,053
Mohito	1,076	1,144	957
Sinsay	5,116	4,587	3,579
Other	3,172	92	72
Total	**15,927**	**14,030**	**11,339**

OUR SALES IN LFL STORES

In 2022/23, sales revenue in like-for-like (LFL) stores in local currencies increased by 17.0% y/y.

In the said period, positive two-digit LFLs were recorded by all our brands, with the highest ones recorded by Mohito.

Geographically, all countries recorded positive LFL sales, with the highest ones recorded in Latvia, Great Britain and Germany.

ONLINE SALES

In 2022/2023, the LPP SA Group generated revenue of PLN 4,392 mln from online sales, i.e. 19.3% more than a year ago.

Two-digit growths in online sales result from the development by the Group, in the financial year, of online sales on new markets, marketing activities concentrated mainly on the online channel and the convenience trend still noticeable in the year 2022/23 despite its weakening following a peak in popularity in the pandemic year 2020.

Consequently, in 2022/23, revenue from online sales constituted 27.6% of the Group's sales and 27.2% of domestic revenue compared to 32.5% and 27.8% a year ago, respectively.

Approx. 43% of online sales in 2022/23 were generated by domestic sales.

	2022/23	2021/22 before restated	2021/22 after restated
Sales in PLN mln	4,391.9	3,961.1	3,681.4

SALES REVENUES BROKEN DOWN BY REGION

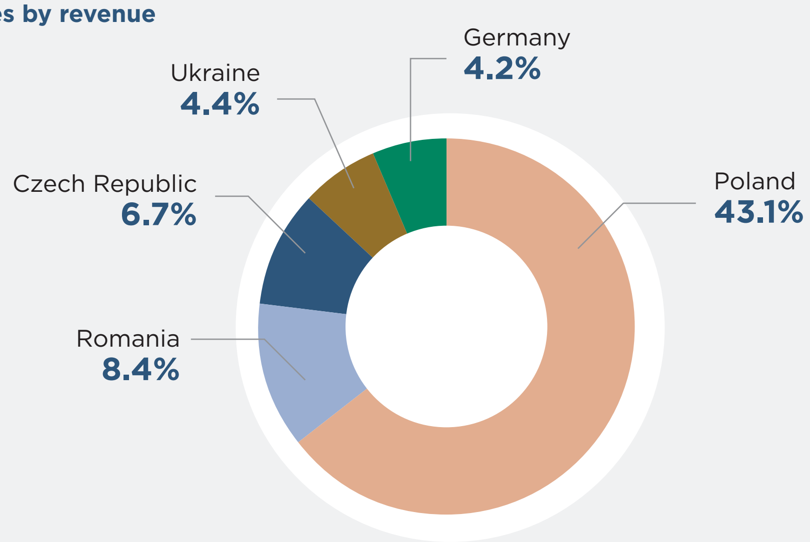
In 2022/23, domestic revenue constituted approx. 43% of the Group's entire revenue. Apart from the domestic market, the highest sales were recorded by the Group in Romania, the Czech Republic, Ukraine and Germany. At the same time, in the financial year, all countries except Ukraine (due to the outbreak of the war in that country) recorded a growth in revenue y/y owing to the development of our omnichanel sales network of all brands, positive LFLs, successful collections and their positive acceptance by customers.

The highest increase in revenue was recorded in Poland and Southern Europe. In the countries of Eastern Europe, due to the outbreak of the war in Ukraine, the Group recorded a decrease in revenue y/y.

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

Region/ country (in PLN mln)	2022/23	2021/22 before restated	2021/22 after restated
Poland	6,860	5,513	5,513
Other countries	9,066	8,517	5,826
Total	**15,927**	**14,030**	**11,339**

TOP 5 countries by revenue



SALES BY M²

In 2022/23 total sales per m2 is calculated as the Group's sales divided by the average total working floorspace/12 increased by 14.6% compared to the preceding year (continuing operations).

	2022/23	2021/22 before restated	2021/22 after restated
Total sales per m²/month in PLN	869	715	758

OPERATING EXPENSES

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

In 2022/23, the Group recorded an increase in operating costs by 32.5% mainly due to increased costs of the sales network, i.e. on-site and online stores. At the same time, in the financial year, the opex-to-revenue ratio was 42.1%.

	2022/23 (IFRS16)	2021/22 (IFRS16) before restated	2021/22 (IFRS16) after restated
Operating costs (in PLN mln)	6,702	5,961	5,058
Operating costs per m^2/month	368	305	341
Operting costs/sales	42.1%	42.5%	44.6%

CAPITAL INVESTMENTS AND EXPENDITURES

Our capital expenditures comprise the following:
- construction and modernisation of out on-site stores (in Poland and abroad),
- development of distribution centres,
- extension and modernisation of head offices as well as
- e-commerce and IT.

In total, in the financial year, we appropriated PLN 1.2 bln for our capital expenditures, with their value being higher on continuing operations by approx. 21% y/y.

Capital expenditures divided by category are given in the table below.

In PLN mln	2022/23	2021/22 before restated	2021/22 after restated
Brand stores	736	912	547
Offices	63	85	85
Infrastructure	268	275	275
IT	89	53	53
Total	**1,157**	**1,325**	**960**

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.

In 2022/23, the level of inventory was lower by 13.2% compared to the preceding year (non-restated, i.e. data for the comparative year incorporated also the inventory and m2 of the Russian stores).

The decrease in inventory y/y is a positive result of actions taken by the Group throughout the year.

At the same time, at the end of 2022/23, the inventory level per m2 was 2.0% lower than a year ago as a result of continue to improve the management of inventory and the acceleration of rotation.

	31.01.2023	31.01.2022	Change y/y (%)
Inventory (PLN mln)	3,353	3,864	-13.2%
Inventory per m^2 in PLN	2,016	2,057	-2.0%

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 3,336 mln as at the end of 2022/23, and (2) inventory of trading commodities of the value of PLN 3,353 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 the increased efficiency of operations.

The LPP SA Group pursues a conservative liabilities management policy 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 – above 20%. At the end of 2022/23, the share of equity capital in liabilities was 30.8%, with equity capital amounting to PLN 3,984 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 2022/23, the balance of bank loans was PLN 1,344 mln and was higher by PLN 665.0 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

Comparative data arising from the profit and loss account were restated, with balance-sheet data remaining non-restated.

In PLN thousands	2022/23	2021/22 restated	Change y/y (%)
Revenue	15,926,504	11,338,788	40.5%
Gross profit on sales	8,130,912	6,490,843	25.3%
Costs of stores and distribution and general costs	6,702,498	5,058,127	32.5%
EBITDA	2,588,862	2,071,524	25.0%
Operating profit (loss)	1,459,671	1,128,097	29.4%
Net profit (loss)	1,093,541	953,522	14.7%
Equity	3,984,377	3,272,097	21.8%
Liabilities and provisions for liabilities	8,936,663	10,863,151	-17.7%
Long-term liabilities, including:	3,722,711	3,983,219	-6.5%
- bank loans	538,126	144,174	273.2%
- bonds	306,924	294,665	4.2%
Short-term liabilities, including:	5,213,952	6,879,932	-24.2%
- bank loans	806,087	535,036	50.7%
- owed to suppliers and other	3,062,220	4,970,841	-38.4%
Non-current assets	7,351,773	7,027,715	4.6%
Current assets, including:	5,569,267	7,107,533	-21.6%
Inventory	3,353,404	3,864,113	-13.2%
Trade receivables	944,095	246,077	283.7%

PROFITABILITY RATIOS

	2022/23	2021/22 restated	Change y/y (p.p.)
Gross profit margin on sales	51.1%	57.2%	-6,2
Operating profit margin	9.2%	9.9%	-0.8
Return on sales (ROS)	7.2%	6.4%	0.8
Return on assets (ROA)	8.5%	5.9%	2.5
Return on equity (ROE)	31.5%	22.9%	8.7

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 on continuing operations divided by revenues from sales of goods and services
Return on Assets – net profit on continuing operations divided by average assets during the financial year
Return on Equity – net profit on continuing operations divided by average equity during the financial year

LIQUIDITY RATIOS

	2022/23	2021/22	Change y/y (%)
Current liquidity ratio	1.1	1.0	3.4%
Quick liquidity ratio	0.4	0.5	-9.9%
Inventory turnover (days)	169	183	-7.7%
Receivables turnover (days)	14	5	172.8%
Trade liabilities turnover (days)	193	244	-21.0%

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

	2022/23	2021/22	Change y/y (p.p)
Fixed assets to equity ratio	54.2%	46.6%	7.6
Total debt ratio	69.2%	76.9%	-7.7
Short-term debt ratio	40.4%	48.7%	-8.3
Long-term debt ratio	28.8%	28.2%	0.6

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 RESULTS YIELDED

In the financial year 2022/23, the Group's financial performance was substantially affected by the extraordinary situation involving the outbreak of the war in Ukrainie and the ending by the Group of its operations in Russia.

Due to the outbreak of the war in February 2022, in Ukraine, the Group's on-site and online stores were closed and their operations have not been reinstated in full as before the war. As at the balance-sheet date, 125 stores were in operation out of 159 stores operating before the war. The online stores were reopened, yet with limitations.

At the same time, following a decision made by the Management Board, in March, the Group ended its sales in Russia having closed all on-site and online stores, and, in May, due to the uncertain situation and the incapacity to foresee the outcome of the war in the East, the Company decided to sell the Russian subsidiary to an investor from Asia. Simultaneously, the Management Board decided to change the Group's development strategy ,i.e. to focus first of all on strengthening the brands' position on current markets and on expanding its operations not in the East but in Southern and Western Europe.

Before the outbreak of the war, both the Russian and Ukrainian market were important for the Group in terms of revenue. Thus, the limitation of sales on those markets affected the Group's revenue generated in the financial year 2022/23. Additionally, due to the fact that, in June, the transaction involving the sale of the Russian company became final and, simultaneously, LPP lost control over it, the results generated by that company in the settlement period were recognised as discontinued operations, which also had a bearing on the Group's performance on continuing operations.

In the financial year 2022/23, the Group yielded revenue of PLN 15.9 bln, which were higher by 40.5% on continuing operations y/y.

The Group's higher revenue was generated owing to positive LFLs (LFL +17.0% y/y), numerous new on-site stores opened, specifically Sinsay stores, and online sales. Among brands, the highest revenue was generated by Sinsay owing to the development of its retail space and increasing popularity of clothing from the value-for-money segment to which this brand belongs. As regards online sales, the Group's revenue exceeded PLN 4 bln, having increased as a result of the Group's marketing activities and still visible popularity of that sales channel.

Due to the incapacity to sell goods in Russia and limited sales in Ukraine (i.e. the Group's markets with relatively higher trade margins), having already purchased collections, the Group was required to organise larger Spring/Summer promotion actions for all brands, which affected the gross margin on sales, which, in 2022/23, reached 51.1%, i.e. 6.2 p.p. less than a year ago (on continuing operations). Additionally, the decrease in the gross margin y/y was affected by a larger share of the Sinsay brand diluting the margin, higher freight costs (in H1) and the high 2021/22 basis.

Operating expenses incurred by the Group in 2022/23 were 32.5% higher y/y and were affected by higher costs of store operation and e-commerce. Higher store operation costs resulted from increased lease costs due to a growing share of turnover-dependent rent in the financial year and the following factors: increased payroll costs following an increase in minimum wages and higher costs of power supply and third-party services under the inflation pressure. Furthermore, higher e-commerce costs resulted from increased logistics costs and outlays on digital marketing.

Due to higher y/y operating expenses, the operating margin generated in 2022/23 reached 9.2%, i.e. 0.8 p.p. less than a year ago on continuing operations. In 2022/23, the Group's financial statements was also influenced by reaching a more advantageous result on other operating activities. The said result was generated owing to a surplus of impairment losses on the Ukrainian stores (PLN 115.3 mln) and a more advantageous balance on financing activities y/y, resulting from positive foreign exchange differences totalling PLN 24.9 mln and the reversed discount on receivables from the sale of the Russian stores, amounting to PLN 80.4 mln, despite higher costs of interest on bank loans and bonds y/y (PLN 121.3 mln).

As a result of the above-mentioned factors, extraordinary in nature, in the settlement period, on continuing operations, the LPP Group generated a net profit of PLN 1.1 bln compared to PLN 725.3 mln a year ago.

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

In PLN thousands	2022/23	2021/22	Change y/y (%)
Revenue	13,424,585	11,313,911	18.7%
Gross profit on sales	5,340,142	5,004,909	6.7%
Costs of stores and distribution and general costs	4,334,153	3,260,312	32.9%
EBITDA	834,044	2,198,271	-62.1%
Operating profit (loss)	361,501	1,761,284	-79.5%
Net profit (loss)	534,257	1,431,493	-62.7%
Equity	3,952,669	4,061,869	-2.7%
Liabilities and provisions for liabilities	6,581,839	7,174,830	-8.3%
Long-term liabilities, including:	2,098,025	1,633,128	28.5%
- bank loans	678,217	144,174	370.4%
- bonds	306,924	294,665	4.2%
Short-term liabilities, including:	4,483,814	5,541,702	-19.1%
- bank loans	787,136	228,800	244.0%
- owed to suppliers and other	3,097,985	4,603,458	-32.7%
Non-current assets	5,347,063	5,237,251	2.1%
Current assets, including:	5,187,445	5,999,448	-13.5%
Inventory	2,709,445	2,799,900	-3.2%
Trade receivables	1,507,186	1,228,974	22.6%

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, i.e. the 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 sales (the pandemic, the war in Ukraine).

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 in two countries of importance for the Group, i.e. Ukraine and Russia, caused by the outbreak of the war in Ukraine and sanctions imposed on Russia (which brought about the consequent temporary cessation by the Group of sales in Ukraine and the full closure of operating activities in Russia), the Management Board of LPP continued daily liquidity monitoring and, on a regular basis, carried out stress tests covering several months of further operating activities, considering the exclusion of the Russian market and the inability to sell goods on the Ukrainian market. 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 maintains higher trade liabilities which improves financial liquidity.

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. The Company acknowledged that the maximum level of net debt should not exceed 2.5x EBITDA.

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 2022 events in countries of Eastern Europe, i.e. Russia's invasion in Ukraine, which contributed to the review and change of the Group's investment plans, that is the sale of the Russian company and the ultimate cessation of business operations on the Russian market.

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, any actual increase of interest rates will not substantially affect the Company's financial performance due to low credit exposure in business financing.

CURRENCY RISK

Currently, approx. 43% 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 a risk associated with the settlement of rents under retail space lease agreements in EUR.

MANAGEMENT OF FINANCIAL RESOURCES

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

To pursue its operations, the Group must have both in-kind resources (commodities) and funds i.e. financial resources. In-kind 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 commodities 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, which requires proper management.

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 commodities 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, and, at the same time, entails debt minimisation to maintain the Group's financial safety.

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 being repaid from on-going inflows.

At the end of the financial year, LPP SA had multi-purpose credit lines in 6 banks, in the total amount of PLN 1.84 bln, utilised for specific products as follows: PLN 137.4 mln - bank guarantees, PLN 183.1 mln - letters of credit, and PLN 369.0 mln as overdraft.

The only exception from the centralisation principle is the subsidiary LPP Ukraine, utilising short-term borrowings in the form of revolving loans extended by a local bank in Ukraine. Liabilities owed to creditors are repaid by the said company from on-going inflows. As at the end of the financial year, credit lines converted into PLN were utilised in the amount of approx. PLN 0.1 mln.

Additionally, LPP SA 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 2023, reversed factoring was utilised in the amount of PLN 1.5 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 144.8 mln.

BONDS

In 2019, to diversify sources of funds, 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).

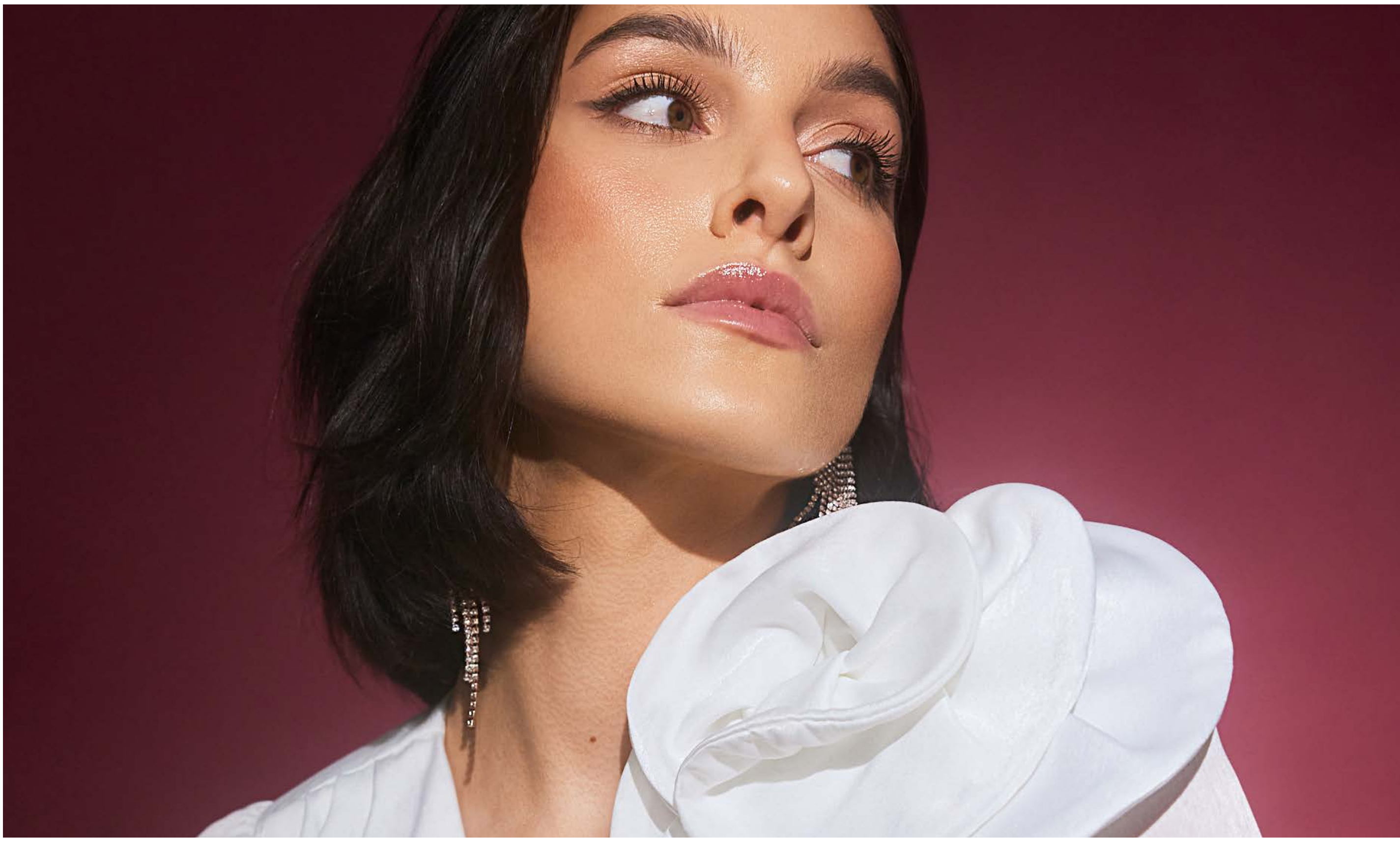
FINANCIAL SURPLUSES

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 involving entities accepting cash deposits.

At the end of 2022/23, the Group had PLN 465 mln in cash and, as regards our indebtedness, we had a net debt of PLN 4.8 bln compared to PLN 3.8 bln a year ago. Additionally, we held PLN 560 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. Loan consumption as at 31 January 2023 is shown in a relevant table in the consolidated financial statements (note 24) and separate financial statements (note 26).

Item	2022/23	2021/22	Change y/y (%)
Short-term debt	806,087	535,036	50.7%
Long-term debt	538,126	144,174	273.2%
Bonds	306,924	294,665	4.2%
Financial lease	3,662,555	4,177,292	-12.3%
Cash	465,046	1,354,891	-65.7%
Net debt	**4,848,646**	**3,796,276**	**27.7%**



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 revenue. 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 and 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 concurrently 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 Value-Fore-Money segment, 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 staying in touch with the brand and 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 in our portfolio, with special emphasis put on Sinsay. Originally, the said brand was dedicated to teenage girls. At present, Sinsay offers fashionable outfits also for young women and men. Its offer encompasses also collections for mums as well as products and accessories for children. Additionally, 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, apart from 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 substantial part of our revenue. Having recognition of its considerate maturity and a dense sales network, we focus on maintaining the current position of brands owned by LPP, refreshing store concepts and expanding their 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. Just like 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 our younger brands. The price segment of our younger brands corresponds to their development, particularly in smaller towns, in retail space like retail parks.
- **Eastern Europe** i.e. Ukraine, Belarus, Kazakhstan. Due to the war in Ukraine, our development in Eastern Europe has been suspended.
- **South Eastern Europe (SEE)** i.e. Romania, Bulgaria, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, North Macedonia and Greece. 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.
- **Western Europe (WE)** i.e. Germany, Great Britain, Finland and Italy. These are countries where we want to strengthen the position of our brands and develop the retail chain.
- **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 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
2022	Italy
2023	Greece

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. The 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 fulfillment centers) in Poland and abroad and on the regular increase of high-tech involvement in logistics and customer service processes.

Store expansion by country

2011	Poland
2014	Germany
2015	the Czech Republic, Slovakia, Romania
2016	Hungary
2017	Latvia, Lithuania, Estonia, Great Britain, Russia
2018	the Middle East countries through a franchise partner: Bahrain, Kuwait, United Arab Emirates, Saudi Arabia, Oman
2019	Croatia, Ukraine, Pan-European online store – EU countries (12 countries)
2020	Slovenia, Israel
2021	Bulgaria, Qatar
2022	Serbia, Lebanon

At the end of 2022/23, our brand offer was available, in total, on 39 markets: offline in 27 countries and online in 34 countries.

2. OUR DIGITAL PROGRESS

As we operate in the fashion business, facing at 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 FINANCIAL GOALS AND INVESTMENT PLANS

In the nearest years, we plant to strengthen our omnichannel sales, with simultaneous focus on improving our profitability in the online channel.

We see opportunities for further development of the on-site store chains in our younger brands, specifically Sinsay, in small towns.

Sales plans for the financial year 2023/24 encompass two-digit increases in revenue owing to an increase in retail space, positive LFLs and stable online sales.

Our goal for 2023/24 is to improve profitability both in terms of our gross margins and EBIT. We expect that the gross margin will reach 51-53%, and the operating margin – over 10%. At the same time, we would like to maintain the operating cost-to-sales ratio at a maximum of 41%.

Our investment plans for the next financial year estimate the amount of PLN 1.1 bln, including approx. PLN 800 mln for the development of the on-site chain which, in 2023/24, we plan to increase by almost 20% y/y (in the following years, an increase of 10-15% y/y). We plan to allocate PLN 170 mln for infrastructure projects and PLN 80 mln for IT.

We have full capacity to finance both commenced and planned investment projects with funds deriving from equity capital and bank loans. Our investment plan for the next year is given in the table below.

In our plans for 2023/24, we recognise the strength of our results for Q1 2023/2024 (by the date of publishing this report), i.e. a 20% increase in space y/y, a 20% increase in offline sales y/y, steady online sales, an expected profit increase, growing profitability and strict cost control.

CAPEX (mln PLN)	2023/24
Stores (in Poland and abroad)	800
Offices	50
Logistics	120
IT & other	80
Total	**1,050**

RISK MANAGEMENT

DESCRIPTION OF MAJOR RISK FACTORS AND THREATS AND THE LEVEL OF THE COMPANY'S EXPOSURE

In the Group, enterprise risk management (ERM), i.e. day-to-day risk identification and mitigation, is the responsibility of the Internal Controlling and Risk Management Department. Risk management in the Company is supervised by the Management Board of LPP, whereas the Supervisory Board of LPP exercises control over the above-mentioned Department.

In the financial year, we drew up the Risk Management Procedure supplementing previously adopted documents and risk management processes. The new procedure incorporates a detailed description of the risk management process, specifies a desirable risk culture, stages of the risk management process and its participants. Furthermore, the procedure in question defines the scope of responsibility and tools to be used.

Along with the Procedure, we prepared the Risk Log, dividing risks into the following main categories:
– strategic;
– operational;
– regulatory and compliance-related;
– financial;
– reputational.

The Risk Log describes selected risks and chances identified by the Company in key areas of the operations of the LPP Group. They were selected based on the level of their severity, which is based on the likelihood of their occurrence and the scale of their impact if materialised. Reference is made to financial criteria (impact on the Group's financial performance) and reputational criteria (impact on the reputation of the Group, its brands and its management officers).

Along with enterprise risk management, the Group manages climate risks. In terms of merits, this process is fully integrated with the course of the enterprise risk management procedure. Both climate risks and those identified as part of the ERM process are analysed in terms of their impact on the execution of the strategy of the LPP Group. As recommended by TCFD, in the financial year, the Group analysed scenarios covering both physical and transformational risks, with due consideration of all risk subcategories.

The table below presents all risks identified by the Company, to which the LPP Group is exposed and which are given consideration in the documentation. 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

STRATEGIC RISKS	Risks affecting long-term valuation of the company and its goodwill and/or relating to the strategic development of the LPP Group (hazards resulting from macroeconomy, financial risks, global value chains and unusual events occurring in the business sector or the company), which may hinder the attainment of the Group's strategic goals, are as follows: – business model risk, – risk of incomplete achievement of strategic goals – risk of strategic projects / new markets – concentration risk – raw material availability and pricing risk – macroeconomic risk – market trend and fashion risk – competition risk – geopolitical risk – pandemic risk – climate change risk
OPERATING RISKS	Risks involving operating processes, resulting in cost increase and the loss of business effectiveness, which, simultaneously, do not affect significantly the valuation of the company's goodwill and image and do not have a bearing of a strategic perspective, are as given below. Risks involving operating processes in the following areas: – sourcing – production (collection) development – logistics (distribution) processes – sales processes – marketing processes – continuity of operation – physical safety as well as health and safety at work – IT processes and systems – cybersecurity – HR processes – administrative processes
REGULATORY AND COMPLIANCE RISKS	Risks involving incompliance with applicable standards, regulations and laws, resulting in court proceedings and disputes, which may be strategic in nature in terms of affecting the company's operation and business model, are as follows: – non-compliance risk – risk of new regulations – risk of court proceedings – risk of fines and sanctions – risk involving personal data protection (RODO) – financial and non-financial reporting risk
FINANCIAL RISKS	Risks resulting from macroeconomy, financial markets, global value chains and unusual events occurring in the business sector or the company, which may hinder the attainment of financial goals set, are as follows: – market (interest rate / exchange rate) risk – loan risk – liquidity risk – tax risk – financing risk – financial reporting risk

REPUTATIONAL RISKS	Risks of reputation loss, recognised as a hazard for the company's renown or position. The risk of reputation loss may occur directly (due to the company's activities) or indirectly (due to actions taken by employees or other parties, e.g. partners, suppliers). These risks include the following: – risk involving human rights as well as health and safety at work in the supply chain – ethical risk (including embezzlement and corruption) – risk of poor customer satisfaction – risk of losing stakeholders' trust – social risks – environmental risk – corporate governance risk
CLIMATE RISKS	– physical – – sudden, short-term – – chronic, long-term – transformational

DESCRIPTION OF KEY RISKS

MACROECONOMIC RISK

Being present on numerous markets, the Group is exposed to changes in the economic, regulatory, social and political environment, which may affect consumer demand, hinder its operations or reduce its profitability. LPP is aware of the increase in household costs affected by the growing inflation, high power supply costs and problems in the supplies of consumer goods, parts and subassemblies for production of commodities.

Continuing long-term economic problems may lead to stagflation, which, in consequence, may increase unemployment in Poland and Europe.

The Group's revenues and margins depend on the economic situation of households. 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 our goods are manufactured may translate into an increase, decrease or, relatively, stabilisation of manufacturing costs. Additionally, the ongoing energy crisis may cause an increase in energy prices in Poland and Europe, which will bring about an increase in store maintenance costs and affect other areas of the LPP Group's operations.

The worldwide financial crisis also poses a threat to the Group. If such crisis occurs, the Polish zloty may weaken, leading to declines in share values.

Action mitigating the risk in question

The Group minimises the said risk as follows.

- **Sale of goods:**
  - presence on numerous European markets – diversification of risk into numerous countries with a diverse macroeconomic situation,
  - sale of goods under several brands addressed to various groups of recipients in order to spread the risk into several age groups,
  - offering a wide range of goods at a wide range of prices - from cheap and easily accessible to more expensive ones.
- **Stock purchases:**
  - outsourcing production to numerous manufacturers in over a dozen of countries,
  - long-term cooperation with selected suppliers, which permits negotiating advantageous product prices.
- **Operating costs:**
  - strict control of the company's operating costs (cost budgeting, the analysis of work processes and their optimisation), outsourcing of processes, in which the company is unable to get to scale or reach an adequate service quality level.
- **Investments in renewable energy sources**
  - In 2021, the Group signed an agreement for the supply of green energy with FIGENE Energia, under which, starting from 1 January 2023, for 10 subsequent years, it will consume green Energy in the majority of its office buildings in Poland (in Gdańsk, Pruszcz Gdański and Cracow) and in the Distribution Centres in Pruszcz Gdański and Brześć Kujawski. Owing to the said agreement, the Group will avoid high costs of conventional energy. Furthermore, the Group has technologically advanced systems for managing energy consumption in its warehouses. Energy consumption in offices is monitored and, already in 2023, we will complete the process of remote metering of energy and water consumption in all the Group's brand stores, thus permitting to find out inefficient consumption points.

FASHION TREND AND SALES RISK

The LPP Group operates on a highly competitive, demanding and changing fashion market characterised by variable customer tastes. In LPP's sales model, a natural element is the cyclical nature of changing seasons, requiring the Group to change collections. Lacking customer demand for collections may require introducing additional bonuses and promotion, which will affect the gross margin, performance and financial stability of the Group.

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. On a daily basis, the VM and Omnichannel Departments monitor changing fashion and shopping trends as well s the pricing policy of our key competitors. For several years now, the digital area has been substantially strengthened, that is promoting the Group's brands in social media and cooperation with influencers and trendsetters. Our clothes are designed by several teams of designers, separate for each brand, 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 they generate. Furthermore, the Company aims at offering a wide range of products (by supplementing the basic offer with accessories, underwear, footwear etc.) to mitigate the risk of unsuccessful collections. An important factor mitigating the said risk is addressing products to different age groups (mainly through separate brands addressed to different customer groups).

RISK OF AN ARMED ACTION

The occurrence of an armed conflict or even a war in the territory of countries where the Group has its sales and distribution networks and in the areas where factories or our suppliers 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.

Actions minimising the risk in question

The alleviated geopolitical risk increases the scale of challenges in business operations. However, in such circumstances, a flexible reaction to market changes and the safeguarding of the supply chains may give a significant competitive advantage. Risks associated with restrictions caused by the occurrence of 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 Group takes action to mitigate the following risks:

- 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);
- 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 Poland);
- 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;
- 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;
- pursuing no business activities on markets with an alleviated threat to military safety;
- selling commodities through two independent distribution challenges, i.e. on-site stores and e-commerce (online sales).

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 as was the case considering the COVID-19 pandemic. 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

The 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 develop online sales which are an 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 and sourcing external financing. 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

RISK OF LIMITED AVAILABILITY OF RAW MATERIALS FOR TEXTILE MANUFACTURING AND THEIR PRICE GROWING DUE TO PROGRESSING CLIMATE CHANGES

The financial exposure of the LPP Group is the highest as regards cotton, being the main natural raw material used in manufacturing our collections. The water stress caused by extreme weather conditions such as droughts or intense rainfall may adversely affect cotton crops, specifically in regions where most of the world's production is concentrated. In the long-term perspective, the above may result in the non-availability of the said raw material and, consequently, a relevant price increase.

Actions mitigating the said risk

The LPP Group monitors, on a constant basis, prices of raw materials of critical importance for collection manufacturing and adjust its sales prices to those of raw materials. Furthermore, the Group regularly expands the scope of sustainable sources of raw materials used, e.g. Cotton made in Africa and Lenzing.

RISK OF DISRUPTION OF PRODUCTION PROCESSES DUE TO EXTREME WEATHER CONDITIONS

Extreme weather events specific to certain regions in which LPP's collections are manufactured, such as floods, cyclones, etc., may disrupt the continuity of manufacturing processes, resulting in a loss of revenue depending on products manufactured, and services provided by, individual plants.

Actions mitigating the said risk

The Group's actions are focused on diversifying production markets by transferring the manufacturing of clothes from countries with a higher risk of progressing climate changes (such as Bangladesh) to those with a lower risk level such as India.

Moreover, LPP takes action aimed at increasing the dissemination of a given product group on different markets.

RISK OF LIMITED AVAILABILITY AND THE INCREASED PRICE OF SUSTAINABLY PRODUCED OR RECYCLED MATERIALS

Along with a growing demand for sustainably produced materials, there might occur disturbances in their availability, resulting in a price increase. To preserve competitive prices, there may be a risk requiring a margin reduction, that is, consequently, a reduction of the final profit on the sales of our collections.

Actions mitigating the said risk

To limit the risk in question, the Group takes action to increase product prices or diminishing the number of clothing models made of sustainable yarn. Furthermore, LPP focuses on increasing investments in actions aimed at developing the market of sustainably produced or recycled raw materials, e.g. cooperation with a start-up engaged in polyester recycling.

RISK OF SOLICITING AND RETAINING TALENTED EMPLOYEES

Considering the governmental policy on increasing the minimum wages and the macroeconomic situation, remunerations in the Group may not be attractive enough, specifically as regards highly qualified employees. LPP is aware of the risk involving a limited possibility of soliciting or losing adequate staff due to insufficient attractiveness of remunerations or benefits offered by, as well as working conditions in, all LPP Group companies. Specifically, this risk involves turnover in key staff, persons engaged in the design and preparation of collections and IT specialists, including also store and distribution centre staff. As regards store staff, there is also a staff availability risk resulting from the forms of employment offered.

Actions mitigating the said risk

The highly qualified staff employed and engaged in business operations guarantees that companies will make proper market offers and an adequate customer approach, thus reaching a market success.

To retain key personnel, the LPP Group has implemented a well-grounded market-based remuneration policy and an incentive scheme developed by the Group. Moreover, the Group invests in its staff by organising training courses, setting carrier paths and giving promotion opportunities inside the Group. In LPP, a substantial factor in attracting talented personnel is also the Group's image and care for internal and external employer branding. A key to retain the best employees is, apart from working conditions, our care for ethical and inclusive work environment as well as our corporate culture and the performance quality assured by our management officers whose constant development is the Company's priority.

CYBERSECURITY RISK

This risk involves hazards for the confidentiality, accessibility and integrity of information processed such as:

- infrastructure security breaches and unauthorised access to IT systems,
- leakage of confidential data (including personal data) as a result of e.g. a hacking attack or their inadvertent disclosure,
- social engineering attacks and infection of infrastructure by malware/ransomware,
- disruption of operational business continuity following a DoS/DDoS attack.

If materialised, the risk in question may result in the violation of personal privacy as well as reputational and financial losses (a decrease in revenue due to a loss of consumers' confidence regarding transaction security and potential charges imposed by the regulatory authority).

Actions mitigating the said risk

Aiming at ensuring an effective and adequate level of information protection, the LPP Group has implemented and, on a continuous basis, has been developing technical and organisational solutions based on leading standards in the area of information security and personal data protection. LPP ensures that these solutions are adequate in terms of scale, the profile of business operations and risks identified. The Group has specialised organisational units responsible for managing and supervising information security, including personal data protection (the CISO position with relevant team, the Data Protection Inspector). The specific departments aim at ensuring the Group's compliance with both domestic and EU regulations, including RODO*, as well as standards arising from international norms such as ISO 27001 or PCI DSS.

The Group has implemented and regularly optimises procedures aimed at information security and personal data protection as well as IT security solutions. The effectiveness of the processes, procedures and solutions implemented is confirmed by organising cyclical security tests and audits in cooperation with, among others, specialised external companies.

LPP holds a PCI DSS compliance certificate confirming the Company's reliability and integrity, ensuring the security, confidentiality and protection of information relating to payment card transactions made by customers.

* Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation)

RISK OF DISRUPTED SUPPLY CHAINS

The Group outsources the production of its goods to independent external producers located most often in Asia. Commodities are transported by sea or railway from Asia to Europe and are then distributed in Europe from its own logistics centres.

The risk in question affects the possibility of the smooth supply of goods from manufacturers through warehouses to stores and, finally, consumers. The pandemic, political disturbances and diminished competitiveness on the transportation market may result in increased congestions and delays in transportation, specifically from the Far East.

Actions mitigating the said risk

LPP reacts to the risk of disturbances in the supply chain by:

- diversifying production countries, including the transfer of part of production from Asia to Europe or North Africa (e.g. increasing the order volume in Turkey instead of China);
- diversifying transportation means: increasing the share of railway transport instead of maritime transport (as an alternative, there is the New Silk Road plan);
- 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;
- investments in the expansion of logistics facilities and technologies, including IT; owing to the above, the last mile is shortened, compensating the prolonged time of inbound deliveries.
- diversification of countries in which LPP has its logistics centres, e.g. the development of a distribution centre in Romania will have a bearing on the rerouting of goods delivered from manufacturing plants.

RISK OF THE NEED TO QUICKLY ADHERE TO SUSTAINABLE DEVELOPMENT REGULATIONS

The risk in question involves a failure to comply with applicable norms and/or domestic and international provisions of law, both statutory and implementing ones, giving rise to court proceedings and disputes stemming from the regular course of operations. Furthermore, it includes increased requirements and enhanced accuracy of non-financial reporting, addressing requirements related to, inter alia, the Taxonomy and the CSRD, as well as the implementation of data capture systems, which may generate growing personnel and consulting costs.

Due to the growing importance of climate protection issues and, first of all, the increasing global warming, production and distribution countries may introduce regulations aimed at mitigating climate changes (governing production processes, transportation or sales). The above may require a change in the business model of the LPP Group.

Actions mitigating the said risk

The Group is aware of the importance of regulations implemented and the need to comply with them in its operations. The dynamics of changes occurring in ESG has strengthened the team engaged in the works in this area and intensified the works in question.

To safeguard against the risk of non-compliance with the provisions of law due to the lacking awareness of legislative amendments, the Group provides its subsidiaries with regulatory intelligence services through the head office and support centres in regions where the Group pursues its business activity. On a regular basis, LPP monitors the advancement of legislative works covering new regulations, cooperates with external advisory companies and adjusts its procedures and operating activities to any new requirements.

RISK OF VIOLATION OF HUMAN RIGHTS AND/OR WORK ETHICS IN THE SUPPLY CHAIN

The risk in question involves a failure to adhere to international standards or those of the Group in terms of respect for human rights and fundamental freedoms, damaging the Group's image and renown.

The key risk factors are as follows:

- forced labour;
- safe and hygienic working conditions (including the right of rest);
- health (the right of health);
- equal treatment and a discrimination ban;
- right of family life (work-life balance);
- child labour;
- social security;
- fair wages.

Actions mitigating the said risk

The protection of human rights and basic freedoms of employees of the LPP Group and all employees in the Group's supply chains is an elementary obligation supported by the key management officers.

In 2022, the Company drew up the LPP Human Rights Policy in cooperation with key Polish experts in this area. The Policy in question is recognised as obligation and guide for actions taken by LPP SA and its Group companies in terms of human rights protection understood in line with the UN Recommendations on business and human rights. Furthermore, it reflects the importance given by the LPP Group to the protection of human rights in its operations both for ethical and business reasons. This Policy applies in all companies of the LPP Group in Poland and abroad. LPP mitigates the risks of violation of human rights by, among others, getting employees familiar, at the recruitment stage, with the principles incorporated in documents such as the Code of Conduct, the LPP Rules, the Employees Manual, the LPP Rules for Store Employees, instructions in the area of health and safety at work as well as HR. In May 2022, the Group drew up the LPP Group Policy on managing diversity, equal treatment and building a culture of inclusion, called the "Diversity, Equity and Inclusion Policy", which constitutes an obligation to observe human rights held by all persons working for LPP and a clear-cut declaration of objection against any occurrence of breach of human rights, including, inter alia, discrimination on any grounds whatsoever. The Policy specifies the most important directions in the organisation's development in the area of diversity management, covering all Polish and foreign subsidiaries of LPP SA, belonging to the LPP Group. Moreover, in 2019, the Group joined the UN Global Compact initiative.

RISK OF NEGATIVE IMAGE AND COMMUNITY PRESSURE DUE TO INSUFFICIENT, ADVERSE OR MISPERCEIVED COMMUNICATIONS REGARDING ENVIRONMENTALLY-FRIENDLY ACTIVITIES

Consumers are an important element of the value chain in the fashion industry. Considering the above, any imprecise marketing communications suggesting consumer's liability for environmental impact, e.g. as regards the product return policy (having an adverse environmental impact due to increased CO2 emissions), may cause a negative PR, consumer outflow, a reduction in sales or, in extreme cases, a direct attacks on LPP.

Actions mitigating the said risk

As part of actions aimed at mitigating this risk, the LPP Group organises regular educational programmes for consumers, such as the "Take Care of Your Clothes" programme.

Additionally, the Group focuses on coherent communication in terms of sustainable development with regard to all LPP brands and actively participates in branch-specific conferences on sustainable development in the fashion industry.

STATEMENT OF CORPORATE GOVERNANCE

APPLIED CORPORATE GOVERNANCE PRINCIPLES

The Management Board of LPP declares that, from 1 July 2021, the Company has been applying corporate governance principles incorporated in the "2021 Best Practice for GPW Listed Companies" (with exceptions) according to current EBI report no 1/2021 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), have been published on 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 General Meeting for approval. The above-mentioned report shall incorporate, to the minimum extent, the following:

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

Elements of our Company’s internal control 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 control 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.

Four LPP departments are responsible for preparing the financial statements i.e. CSC (the Common Services Centre), the Reporting Department, the Controlling Department and the Investor Relations Department headed, respectively, by the CSC female director, the female Chief Accountant, the Controlling Director and the female 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 correct recognition 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 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 control 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 the In-House Controlling and Risk Management Department. It simultaneously performs the duties of the Audit Department and is responsible for 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 Procedure Enclosed with the Risk Log" and are periodically revised and approved by the Management Board of LPP SA.

The works of the In-House Controlling 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 Controlling and Risk Management Department and accepts the auditor's periodical reports on auditing tasks performed.

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

The In-House Controlling 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. On a case-by-case basis, an audit is completed with an audit report delivered to a competent member of the Management Board, responsible for the area in question. The said Department monitors also the implementation of post-audit recommendations.

In 2022/23, the In-House Controlling and Risk Management Department carried out 18 audits (14 foreign companies, 1 domestic company and 3 LPP departments) completed with reports specifying relevant recommendations.

OUR SHARES AND SHAREHOLDERS

OUR OWNER

LPP SA shareholding structure as at 31 January 2023

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	31.2%	1,978,889	60.8%	1,157,778
Sky Foundation**	227,898	12.3%	227,898	7.0%	455,796
Other shareholders	1,047,454	56.5%	1,047,454	32.2%	2,094,908
Total	**1,854,241**	**100.0%**	**3,254,241**	**100.0%**	**3,708,482**

* 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, a co-founder of LPP.

In the financial year, there was a change in key shareholdings in LPP, held indirectly by the Semper Simul Foundation, consisting in the transfer of 25,495 shares in LPP by a subsidiary, i.e. Semper Simul SARL, and the direct acquisition of the same number of shares by the Semper Simul Foundation (CR 23/2022, CR 24/2022, revised CR 24/2022).

Additionally, there was a change in the share capital itself and the number of shares following the increase of the share capital from PLN 3,704,846 by PLN 3,636 to PLN 3,708,482 and the issue of 1,818 ordinary bearer shares of the M series of the nominal value of PLN 2 per share as part of the authorised capital (CR 26/2022).

Shareholdings of key management and supervisory officers as at 31 January 2023

Shareholder	Number of shares held	Number of votes at the GM	Nominal value of shares
Marek Piechocki, President of the Management Board	1,429	1,429	2,858
Przemysław Lutkiewicz, Vice-President of the Management Board	350	350	700
Jacek Kujawa, Vice-President of the Management Board	972	972	1,944
Sławomir Łoboda, Vice-President of the Management Board	331	331	662
Marcin Piechocki, Vice-President of the Management Board	570	570	1,140

In the financial year, there were changes in LPP shareholdings held by management officers, consisting in the acquisition of shares in LPP by two Board members: Mr Jacek Kujawa - 30 shares (CR 10/2022) and Mr Marcin Piechocki - 169 shares (CR 11/2022), and the transfer of shares in LPP by two Board members: Mr Przemysław Lutkiewicz - 174 shares (CR 02/2023) and Mr Sławomir Łoboda - 500 shares (CR 02/2023).

Additionally, there was a change in shareholdings held by management officers following the acquisition of shares in LPP under the 2021 incentive programme (CR 30/2022).

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 2021: PLN 18,770.00.

In the financial year 2022/23, prices of LPP SA shares were between PLN 7,360.00 and PLN 16,000.00 (at closing prices).

The share quotation during the last session (at closing prices) in the financial year, i.e. on 31 January 2023, was PLN 10,120.00

At the end of 2022/23, the Group's net profit attributable to shareholders of the parent company per share was PLN 590.79, and a year before it was PLN 518.76.

As at 31 January 2023, 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 2023, the share of LPP SA in WIG was 3.4%.

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 2023, LPP's share in WIG20 amounted to 4.8%.

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 2023, the share of LPP SA in WIG-Poland was 3.5%.

WIG20TR – a total return index taking into account dividends paid by 20 largest and most liquid companies listed on the WSE and share issues with pre-emptive rights. As at 31 January 2023, the share of LPP SA in WIG20TR was 4.8%.

WIG30 – index comprising 30 largest and most liquid companies listed on the main market of the WSE. As at 31 January 2023, the share of LPP SA in WIG30 was 4.6%.

WIG30TR - a total return index taking into account dividends paid by 30 largest and most liquid companies listed on the WSE and share issues with pre-emptive rights. As at 31 January 2023, the share of LPP SA in WIG30TR was 4.6%.

WIG140 – a return index comprising 140 companies being constituents of WIG20, mWIG40 and sWIG80 indices, taking into account revenue on dividends and pre-emptive rights. As at 31 January 2023, the share of LPP in this index was 3.5%.

WIG-Clothes – a sector index including WIG constituents which simultaneously belong to the "clothes and cosmetics" sector. As at 31 January 2023, the share of LPP SA in WIG-Clothes was 79.3%.

WIG ESG – index published from 3 September 2019 based on the value of the portfolio of shares in companies recognised as socially responsible i.e. those observing the principles of socially responsible business, specifically in terms of environmental, social, economic issues and corporate governance. As at 31 January 2023, the share of LPP SA in WIG ESG was 4.6%.

Additionally, the Company was qualified as member of the index of family-run companies listed 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 CONTROLLING 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, within 30 days, designate another buyer and define the date and place of payment of the price. If, within the above-mentioned timeframe, 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 (directly and indirectly) 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 2023

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 – brand and product development as well as omnichannel sales – Purchases and ESG – Control and development of sales operations – LPP Printable (Promostars)
PRZEMYSŁAW LUTKIEWICZ Vice-President of the Management Board of LPP	– Reporting and Accounting – Operational controlling – Financial controlling – Common Services Centre – Management of foreign companies – In-House controlling and risk management – Investor relations – Business Trip Organisation Office – Central purchasing – Treasury
JACEK KUJAWA Vice-President of the Management Board of LPP	– Silky Coders (IT) – LPP Logistics – Administration – Investments – Customer Service Centre
SŁAWOMIR ŁOBODA Vice-President of the Management Board of LPP	– Lease and expansion (Reserved, Cropp, House, Mohito) – Legal services – Market analyses
MARCIN PIECHOCKI Vice-President of the Management Board of LPP	– Sinsay, Mohito – brand and product development, omnichannel sales – Social policy, diversity and inclusion – Internal communication, CSR and employer branding – External communication – Lease and expansion (Sinsay)

In the financial year, there were no changes in the composition of the Company's Management Board. Simultaneously, in 2022/23, the Board held 39 meetings with attendance of 96%.

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.lpp.com/wp-content/uploads/2022/10/Statut_jednolity_2022.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 30.2 and 30.3) and in separate financial statements (notes 32.3 and 32.4).

OUR SUPERVISORY BOARD AS AT 31 JANUARY 2023

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 and Public Supervision of 11 May 2017 and the requirements specified in the Best Practice for GPW Listed Companies.

In 2022/23, there were no changes in the composition of the Supervisory Board. At the same time, in 20212/23, the Supervisory Board of LPP held 5 meetings attended by all Board members.

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.lpp.com/wp-content/uploads/2022/10/Statut_jednolity_2022.pdf
- By-Laws of the Supervisory Board, available on the Company's website: https://www.lpp.com/wp-content/uploads/2018/02/Regulamin-Rady-Nadzorczej-06.12.2022.pdf
- Commercial Companies Code.

REMUNERATION OF KEY SUPERVISORY OFFICERS

Values of all remunerations of key supervisory officers are given in consolidated and separate financial statements (respectively, notes 30.2 and 32.3).

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 on Statutory Auditors, Audit Companies and Public Supervision of 11 May 2017 (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 2022/23, 5 meetings of the Audit Committee were held, with all members attending.

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 staying in touch with the statutory auditor in the course of auditing the financial statements of the Company and its subsidiaries to discuss work progress 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 fi-

nancial 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.

KEY PRINCIPLES OF THE POLICY FOR CHOOSING AN AUDIT COMPANY TO CARRY OUT AN AUDIT

Criteria for choosing an audit company

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

Appointment limitations

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

Fee

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

In addition, the company auditing the Company's financial statements reviewed interim condensed financial statements. In the current period, there was an additional 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 full appointment procedure was not carried out.

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.lpp.com/wp-content/uploads/2022/10/Statut_jednolity_2022.pdf
- Rules of Operation of the General Meeting of LPP's Shareholders available on the Company's website: www.lppsa.com/wp-content/uploads/2016/03/Regulamin-WZA-LPP-SA.pdf
- Commercial Companies Code.

Convening the General Meeting of Shareholders

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

Competence of the General Meeting

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

Sessions of the General Meeting

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

Voting

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

In the financial year 2022/23, the General Meeting of Shareholders was held on 20 May 2022, and the Extraordinary General Meeting was held on 23 September 2022.

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

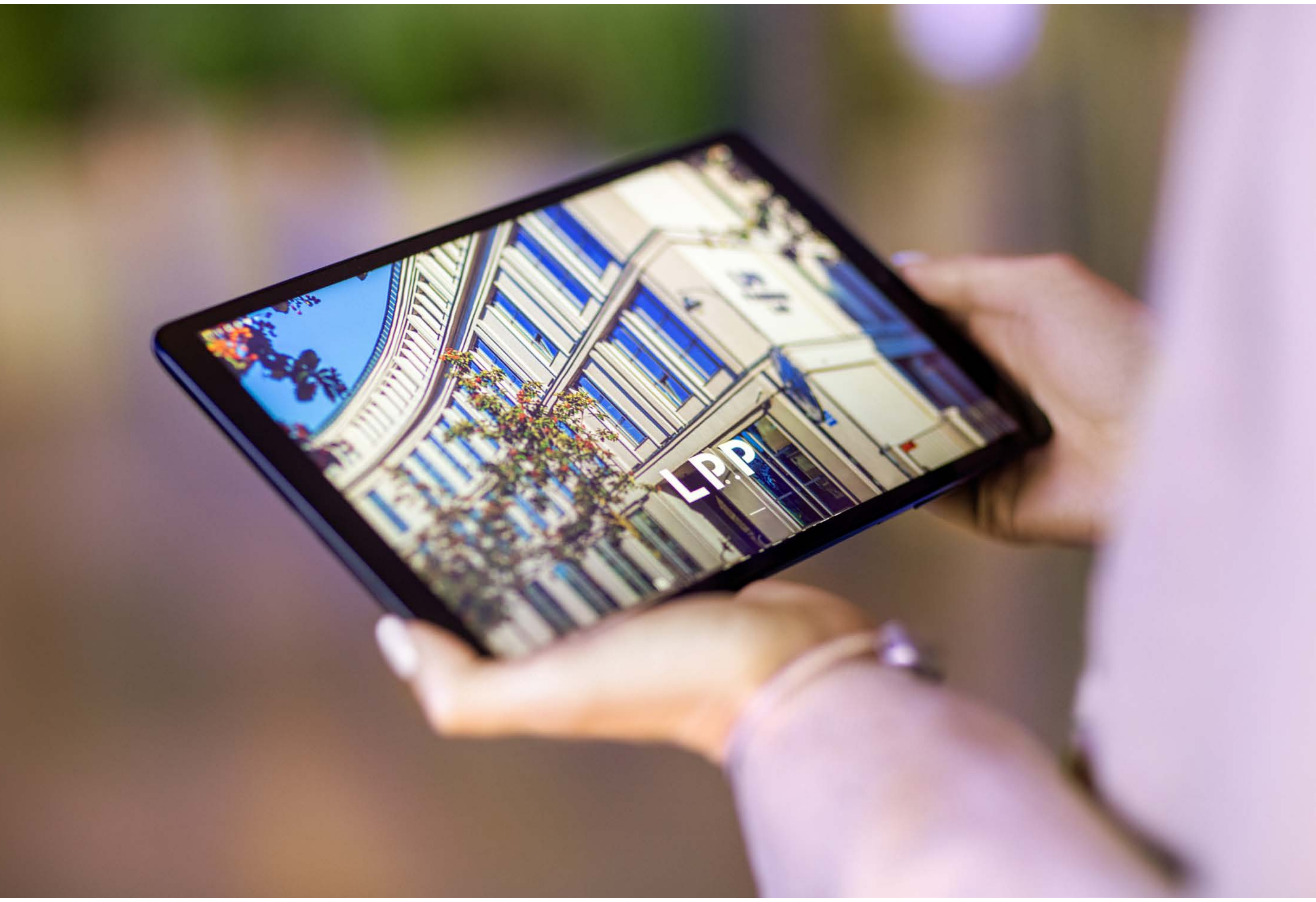
Our Company is aware of the importance and need of ensuring diversity in terms of gender, education, age and experience as well as many other diversity factors throughout the Group, i.e. both in management and supervisory bodies of the Parent Company and in the governing bodies of its subsidiaries and also with respect to all employees of the Group.

In the last financial year, we developed and adopted a diversity policy for employees (more to be read in that respect in the 2022/23 non-financial report). As regards a diversity policy for Management and Supervisory Boards, such document is being prepared by the Company to be implemented and it will be aimed at ensuring diversity in the Company's governing bodies in terms of gender in future terms of office.

At the same time, at present, 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.

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 2022/23, there were no relevant proceedings before any court, arbitration authority or public administration body, involving any obligations or liabilities of LPP or its subsidiary.

However, LPP is a party to a clarification procedure initiated by the Office for the Protection of Competition and Consumers in order to determine whether, in connection with the pursued marketing activity involving ecology issues, the Company committed a breach giving grounds for the initiation of a procedure involving practices infringing consumers' collective interests. The enquiry made by the Office for the Protection of Competition and Consumers is a part of coordinated actions taken by European anti-trust authorities, addressed to companies operating in the clothing sector in respect of standards for ECO labelling of clothes. Upon formal request of the Head of the Office for the Protection of Competition and Consumers, LPP SA provided extensive clarifications and evidence. At the present stage, no charges have been brought against the Company in terms of application of practices infringing any collective interest of consumers. Should the said authority recognise that there are prerequisites for attributing any such practices to the Company, the maximum fine permitted under statutory law amounts to no more than 10% of turnover yielded in the year preceding the year in which such fine was imposed.

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 implemented 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 2022/23, as described below, our key achievements in R&D involved logistics and omnichannel technology, implementation of the Sinsay mobile app, research on the application of algorithms (AI) and a R&D project involving textile recycling.

TECHNOLOGICAL SOLUTIONS FACILITATING LOGISTICS PROCESSES

In the financial year, we implemented numerous technological solutions in our logistics projects.

Distribution Centre in Brześć Kujawski

In the new logistics centre of an area of 75 thousand m^2, opened in February 2022 and distributing as many as 8 million clothing and accessory items per week, we applied automation solutions, including two sorters with a unique drop-out design, capable of handling up to 1,000 brand stores at the same time. In this state-of-the-art solution in the sorter technology, we used engineering experience of a Dutch producer of such devices, supported with tests lasting several weeks, which made it possible to develop a sorter compatible with LPP's needs. The newly patented pneumatics solution will ensure very high efficiency of the sorting process on a constant basis, increasing simultaneously the efficiency of the warehouse space use. The warehouse has also been equipped with an automated labelling process and machines for forming and closing cardboard boxes, which increase production efficiency and guarantee intuitive and safe handling. Owing to the implemented warehouse automation solutions, the Centre will ensure a high store handling standard for the Group.

Furthermore, in the building, ecological solutions have been applied, such as photovoltaic panels, heat recuperators, water recovery systems and motion sensors to control electrical installations. The facility, powered by renewable energy, has been designed with line with sustainable building standards and has been BREEAM-certified.

Fulfillment Center in Pruszcz Gdański

The new facility, covering a total of 64,000 m^2, is designed for simultaneous handling of shipments and returns, owing to an unusual two-part structure consisting of a returns hall with a directly connected shipping hall. The warehouse has been equipped with an automatic conveyor line connected to a cross-belt dispatch sorter that enables the fast and accurate grouping and transport of finished parcels. Efficient handling is also supported by highly efficient flow connectors, separators and an advanced vision system for scanning shipping labels. The entire system is managed by a WMS fully integrated with a module that uses artificial intelligence algorithms to shorten picking paths. Owing to modern warehouse automation solutions, the launched Fulfillment Center has the capacity of storing as many as 6 million product items and handle daily up to 100,000 orders and the same number of returns. The warehouse automation, together with the implemented modern technologies based on artificial intelligence, brings many advantages: faster order processing, increased operational capacity, better space use and a significant reduction of the risk of errors, which ultimately translates into efficient order handling for customers.

When implementing the project, particular attention was paid to solutions in the area of the so-called sustainable construction. Among other things, the building was designed and equipped with the BMS technology enabling the reduction of maintenance costs and alleviation of adverse environmental impact. The system automatically controls electricity, lighting, ventilation and heating, and reduces water consumption. The project has been BREEAM-certified at the Excellent level.

Fulfillment Center in the Podkarpacie region

The innovative solution applied by the Group in the newly launched FC in the Podkarpacie region was advanced technology supporting parcel dispatches to customers. The warehouse has been equipped with a cross-belt dispatch sorter enabling transportation and sorting of parcels to individual regions, countries or courier companies at a speed of more than 5,000 parcels per hour. The high-quality vision systems used will, in turn, allow for very high accuracy of parcel sorting operations, moving on the line at a speed of as much as 1.6 m/s. The new investment will make it possible for the Company to handle online orders even more efficiently, which will also shorten delivery times, as well as increase the efficiency of daily cooperation with messenger companies, which is particularly important during peak periods (e.g. Black Friday) or seasonal clearance sales. Ultimately, the high-tech use will translate into convenient shopping and customer satisfaction.

TECHNOLOGICAL SOLUTIONS ENHANCING SALES PROCESSES – THE SINSAY APP

In the last financial year, one of the most important R&D achievements was the Sinsay mobile app with 2.5 million downloads within nearly 6 months from launching, ranked high in ”shopping” and ”free apps” categories in AppStore and Google Play.

In response to customer needs, i.e. the growing popularity of shopping with mobile devices, the Company decided to start working on a mobile app for our youngest brand. In 2022/23, we developed an innovative app with the Sinsay ID functionality which may be added by a user as widget on a mobile phone. This solution makes it possible to quickly return products without a receipt if the purchase has previously been registered in the app and to collect an order in an on-site store more quickly. Following the ID scan, the store employee sees the goods ready for collection and, during the return, the system links products with the customer's individual code. With the app, users have several payment systems available, including PayPro, Blik One Click, an appraisal form, colour variants on product lists and a novelty tab with the latest offers already in stores or about to be on sale, facilitating shopping plans and making it possible to create a list of favourite products. Apart from the said technological solutions and functionalities, in the app, users will also find the location of stores in their neighbourhood, a product scanning function and information on their availability online or in another brand store.

TECHNOLOGICAL SOLUTIONS ENHANCING THE OMNICHANNEL

In the financial year, the Company undertook actions relating to the idea of ”common stock”, i.e. making the full on-site offer available for customers online. This solution guarantees that our customers will have access to a full or nearly full offer handled in Fufillment Centers (dedicated to online sales) and in on-site stores.

In 2022/23, the Group completed the implementation of the common stock in the entire Reserved chain, in locations equipped with the RFID technology. The joined stock of the e-commerce warehouse and domestic Reserved stores has been made available for all markets of Western Europe, the Baltic countries and for the online store in Ukraine. A similar solution has been applied in Romania, where the stock of the e-commerce warehouse in Bucharest and all Romanian stores is offered through our Romanian online store. A novelty is the joining of the stock of two e-commerce warehouses (in Poland and Slovakia) with a view to expanding the product offer in the online store for Czech and Slovakian customers.

Additionally, in brand stores equipped with RFID (all stores except Sinsay), owing to technological solutions, we further developed tools and the monitoring for store replenishment, thus guaranteeing our customers a very low percentage of indexes that are desirable, should be supplemented, but for some reason are not, or have not been, available in the brand store.

Furthermore, as part of RFID, we developed tools facilitating quick identification of stores threatened with losses (”prediction of inventory results”).

Owing to numerous technological solutions enhancing sales and well-developed reporting, we are able to respond to our customers’ needs more quickly.

Algorithm research projects – 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. Therefore, in the LPP Group, there is the Data Science Department forming part of Silky Coders, a subsidiary providing solutions for the Group's employees and its customers.

In previous years, one of the R&D solutions designed and successfully implemented by Silky Coders was a stock management system forecasting product demand in brand stores and e-commerce warehouses, thus enabling effective merchandise management to meet customers' needs. Last year, the algorithm was developed to meet the needs of appropriate store replenishment during clearance sales.

We continue works on an innovative algorithm for price management throughout a product shelf life, enabling dynamic price modification based on a set of relevant rules and features. The development of an algorithm based on rules and machine learning and a process for price management in the online and offline channels during regular and clearance sales periods will significantly shorten the process of preparing prices for new products and improve KPIs.

We have also prepared predicted values of e-commerce products that will be sold from on-site stores, enabling sales plans to be defined more precisely and man-hours to be distributed at the optimum level. The innovative RFID product location system developed will enable the streamlining of store operations, which, combined with sales data, will permit the mapping of store zones according to their sales potential.

Works were also carried out on developing an algorithm to recommend splitting an order into consecutive batches, focusing on products that are being sold in a brand store on a continuous basis. This algorithm will make it possible to order products to make them available in brand stores, permitting simultaneously to optimise the works of the LPP Distribution Centre without causing warehouse overstocking.

Furthermore, the Data Science Department continued works on developing algorithms recommending specific products to customers and further carried out research covering the characteristics of conduct of customers using simultaneously the on-site and online sale channels. The research involved also the impact of online marketing campaigns on consumer behaviour in on-site stores. One of the new directions of developing machine learning algorithms was also the testing of possibilities of determining the probability of shopping by a customer or a loss of consumer loyalty.

In the financial year, we worked also on developing the Dynamic Yield tool providing personal customer experience in online stores, i.e. owing to the recognition of different users and observation of their shopping inclinations – recommending products which given customers may like. At the same time, this tool makes it possible to carry out comparative tests of different hypotheses, enabling constant offer enhancement to meet customer need. Additionally, a connection through an administrative panel will enable quick and close cooperation of the marketing and IT departments and analysts.

Owing to the results of the research on the Dynamic Yield tool, the Group may offer its customers a product model in an available size, similar to the one they wanted to buy but which was already sold out, suggest a matching additional item of clothing to the one just viewed (knowing that the two items were often bought together), show products recommended on clearance sale only to some users and show others products at their full price only (comparing which strategies are more profitable), encourage adding another product to the shopping basket by showing a progress bar indicating the amount customers need to exceed to get free delivery (recommending at the same time products to help them complete their basket up to the amount in question).

R&D RECYCLING PROJECT

For years now, the clothing industry has been coping with the lacking access to technology enabling to use in full textile waste to manufacture new fabrics (at present, due to the lack of relevant technology, less than 1% of textiles is recycled). As part of R&D projects, in 2022/23, LPP started cooperation with a Polish start-up to carry out research works aimed at developing a technology enabling to recycle in full used polyester fabrics and obtain yarn to manufacture new fabrics. The processing of polyester fabrics according to the textile-to-textile concept is hindered due to the fact that fabrics used for manufacturing clothes contain other fibre additions, dyes and other substances. The start-up in question explores the possibility of using a proprietary concept to selectively depolymerise polyester fabric made from dyed fibres and obtain a raw material to be used to produce polyester of a non-deteriorated quality. As part of the joint pilot project, the start-up will support LPP in the the search for an effective method of processing mixed materials, facilitating their reuse as full-quality materials for clothing production. To that end, the Company appropriated PLN 1 mln to be spent on the research process by the end of this year.

INFORMATION ON SPONSORSHIP, CHARITY OR SIMILAR POLICIES

Since the beginning of our operations, we have taken a highly responsible approach to building lasting community relations. For almost 30 years now, we have been actively focusing on the needs and expectations of our partners and stakeholders, undertaking corresponding initiatives being the responsibility of the LPP Foundation established in 2017. The Foundation's goal is to take action for the benefit of persons and communities threatened with social exclusion as well as healthcare and environment protection. We pay special attention to projects supporting marginalised persons, mainly children and young people, projects involving material aid and those supporting our partners in the Company's closest neighbourhood.

IN 2022/23, THE LPP FUNDACJA EXECUTED PROJECTS IN 3 KEY AREAS:

Counteracting social exclusion and actions for the benefit of a local community

The LPP Foundation provided additional financing for summer holidays enjoyed by children in foster care in the Pomerania and Małopolska regions, organised additional equipment for foster care centres and facilities providing accommodation to the homeless and modernised city gardens and parks. Furthermore, the Foundation donated funds for charity concerts, family fairs and events dedicated to people with disabilities and the homeless.

Healthcare

The LPP Foundation supported its regular partners, i.e. hospitals and hospices, providing funds for purchasing required medical equipment, renovations, facility refitting, specialised workshops and consultations as well as annual maintenance of a helpline for young people struggling with depression, operated by the ITAKA Foundation. Moreover, the Foundation donated funds for aiding our employees and their closest relatives fighting with chronic diseases.

Ecology and environment protection

The Foundation donated funds for veterinary care and the purchase of required equipment to animal care organisations and adopted virtually an animal, providing funds for the said animal's one-year sustenance.

COMMUNITY EVENTS AND PROJECTS CARRIED OUT IN 2022/23

MODA NA LEPSZY START ("Better Start is in Fashion")

This project is aimed at supporting children and the youth by providing funds for actions taken in the following three areas: health, education, talent development. There were 238 project participants, i.e. beneficiaries of three Tricity foundations: the

"Rodzinny Gdańsk" Foundation, the Gdańsk Foundation of Social Innovation and the "Focuses of Hope" Foundation for Families.

LPP UKRAINE

Since the beginning of the war in Ukraine, LPP has been supporting people affected by its consequences. To that end, we appropriated PLN 20 mln as financial and in-kind aid. Our priority was to ensure safety for our Ukrainian employees and their families. Moreover, the Company provided financial and in-kind aid for actions taken by community organisations: Regional Branches of the Polish Red Cross, the Gdańsk Foundation and the Polish Centre for International Aid, aimed at safeguarding immediate needs of refugees arriving in Poland and those remaining in Ukraine, including accommodation, psychological and legal assistance, coordination of internal volunteer activities as well as transport and accommodation in the EU countries. Also, the Company joined a power bank collection project #Power4Ukraine ZPPHiU and the WoshWosh project "Open Hearts–Open Wardrobes", consisting in the collection, disinfection and dispatch of clothing to war victims. LPP supported approx. 300 female and male employees from Ukraine and their relatives, who decided to come to Poland. We appropriated approx. PLN 3 mln to support employees in social issues, providing accommodation, pre-paid cards and shopping vouchers for clothing. As part of the aid amounting to PLN 20 mln, the Company donated to 50 organisations nearly 300 thousand clothing items delivered to approx. 50 thousand beneficiaries.

SZAFA PEŁNA DOBRA ("Wardrobe Full of Good")

In 2022, LPP started cooperation with the Ubrania do Oddania organisation. As part of the Szafa Pełna Dobra project, throughout September, in all LPP brand stores, we collected new and second-hand clothes and accessories. They could be brought to any of nearly one thousand stores of Reserved, Mohito, Cropp, House or Sinsay. We collected almost 8 tonnes of clothes and funds generated were provided to the UNAWEZA Foundation established by Martyna Wojciechowska.

LPP TEAM FOR KIDS

In LPP, there is a sports team called LPP Team with running, triathlon and cycling sections. Their members (employees) take part in a sports charity event LPP Team for Kids as part of which the LPP Foundation converts kilometres jogged 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 this charity sports event, within three months (July-September 2022), LPP employees jogged or cycled to reach the total of PLN 57,600. The amount collected was provided to St. Louise Children Care Centres in Cracow and the "Sopocki Dom" Association in Sopot, which appropriated those funds for purchasing sports equipment and sports events for their wards.

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" and the "English with LPP" educational project.

Value of donations (LPP Foundation)	**PLN 3,099,840**
Total aid value	**PLN 26,390,950**
Including:	
Cash donations	**PLN 7,760,501**
In-kind donations	**PLN 18,630,449**

Method adopted:

Data comprise amounts appropriated for social projects by the LPP Group companies in Poland and abroad and by the LPP Foundation.

SCALE OF OPERATIONS OF THE LPP FOUNDATION

Value of donations made in the reporting year	PLN 3,099,840
Including:	
Healthcare funds	PLN 696,500
Funds for eco-friendly projects	PLN 45,000
Funds to support the local community and projects counteracting social exclusion	PLN 1,358,340

Funds for #LPPUkrainie	PLN 1,000,000
#LPPUkrainie (full cash and in-kind aid)	PLN 21,685,824
Number of organisations supported by the LPP Foundation	58
Number of volunteers engaged in the projects in the reporting year	975
Number of hours spent by volunteers	8,212
Number of clothing items donated for charity purposes	180,014
Number of entities provided with clothing	127
Payments made for political purposes (as a rule, LPP supports no political activity) (PLN)	0

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

In 2022/23, 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 (annexes to the supplier financing agreement, annexes to the multi-purpose credit line agreement),
  - BNP Paribas Bank Polska SA (annex to the multi-purpose credit line agreement),
  - Citi Bank Handlowy SA (annex to an overdraft agreement),
  - HSBC Continental Europe SA, Polish Branch (the overdraft agreement – signed and terminated),
  - Santander SA (annexes to the factoring agreement, an annex to the factoring agreement with a BGK guarantee),
  - PKO Bank Polska SA (annex to the multi-purpose credit line agreement),
  - ING SA (credit facility agreement).
- agreements on the lease of warehouse space with:
  - WDP Development RO s.r.l (Distribution Center in Romania),
  - Veviera Investments Sp. z o.o. (Fulfillment Center in the Podkarpacie region),
  - Pruszcz Logistics Sp.zo.o (Fulfillment Center, Będzieszyn near Gdańsk).

At the same time, the Company has no knowledge of any agreements concluded between LPP shareholders.

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

Information on bank loans taken out as at 31 January 2022 and their maturity dates is given in the financial statements of the LPP SA Group (note 24) and the financial statements of LPP SA (note 26).

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 29) and the financial statements of LPP SA (note 31).

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 30.1) and the financial statements of LPP SA (notes 32.1 and 32.2)

INFORMATION ON THE CONTROL OF EMPLOYEE SHARE SCHEMES

The Company has implemented no employee share schemes.

INFORMATION ON THE AUDIT COMPANY AUDITING OUR FINANCIAL STATEMENTS

This information is given in the financial statements of the LPP SA Group (note 37) and the financial statements of LPP SA (note 33).

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 18.1) and the financial statements of LPP SA (note 20.1).

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

We published no forecasts of financial results.

03

CONSOLIDATED FINANCIAL STATEMENTS INTRODUCTION

INTRODUCTION

We hereby approve the consolidated financial statements of the LPP SA Group for the period of 12 months ended 31 January 2023, comprising the comprehensive income statement, with comprehensive income totalling PLN 1,355,737 thousand, the statement of financial position, with assets and liabilities totalling PLN 12,921,040 thousand, the cash flow statement, showing a decrease in net cash by PLN 926,513 thousand, the statement of changes in equity, showing an increase in equity by PLN 712,280 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

GDANSK, APRIL 25, 2023

SELECTED FINANCIAL DATA OF THE LPP SA GROUP

for the period of 12 months ended 31 January 2023

	PLN		EUR	
	2022/23	2021/22	2022/23	2021/22
Selected consolidated financial data(w tys. PLN)	01.02.2022 – 31.01.2023	01.02.2021 – 31.01.2022	01.02.2022 – 31.01.2023	01.02.2021 – 31.01.2022
Revenue	15,926,504	11,338,788	3,390,421	2,476,962
Operating profit (loss)	1,459,671	1,128,097	310,734	246,433
Pre-tax profit (loss)	1,362,758	937,773	290,103	204,857
Net profit (loss) attributable to shareholders of the parent company	1,095,163	953,522	233,137	208,297
Weighted average number of shares	1,853,738	1,838,066	1,853,738	1,838,066
Profit (loss) per share	590,79	518,76	125,77	113,32
Net cash flows from operating activities	622,364	2,214,466	132,488	483,751
Net cash flows from investing activities	-897,059	-971,438	-190,965	-212,211
Net cash flows from financing activities	-609,297	-1,373,889	-129,707	-300,126
Total net cash flows	-883,992	-130,861	-188,184	-28,587

	PLN		EUR	
Selected consolidated financial data	As at 31.01.2023	As at 31.01.2022	As at 31.01.2023	As at 31.01.2022
Total assets	12,921,040	14,135,248	2,743,961	3,074,083
Long-term liabilities	3,722,711	3,983,219	790,569	866,256
Short-term liabilities	5,213,952	6,879,932	1,107,255	1,496,223
Equity	3,984,377	3,272,097	846,138	711,604
Share capital	3,708	3,705	787	806
Weighted average number of shares	1,853,738	1,838,066	1,853,738	1,838,066
Book value per share	2,149,37	1,780,18	456,45	387,15
Declared or paid dividend per share	350,00	450,00	74,33	97,86

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

for 12 months ended 31 January 2023

Comprehensive income statement (in PLN thousands)	Notes	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 restated
Continuing operations			
Revenue	9.1	15,926,504	11,338,788
Cost of goods sold	9.2	7,795,592	4,847,945
Gross profit (loss) on sales		**8,130,912**	**6,490,843**
Costs of stores and distribution	9.5	5,840,123	4,431,174
General costs	9.5	862,375	626,953
Other operating income	9.3	172,725	59,332
Other operating expenses	9.3	141,468	363,951
Operating profit (loss)		**1,459,671**	**1,128,097**
Financial income	9.4	126,936	25,673
Financial expenses	9.4	223,849	215,997
Pre-tax profit (loss)		**1,362,758**	**937,773**
Income tax	10	218,536	212,425
Net profit (loss) on continuing operations		**1,144,222**	**725,348**
Net profit (loss) on discontinued operations	13	**-50,681**	**228,174**
Total net profit (loss)		**1,093,541**	**953,522**
Net profit attributable to:			
Shareholders of the parent company		1,095,163	953,522
Non-controlling interests		-1,622	0
Other comprehensive income			
Items transferred to profit or loss			
Currency translation on foreign operations		262,196	60,589
Total comprehensive income		1,355,737	1,014,111
Total comprehensive income attributable to:			
Shareholders of the parent company		1,357,359	1,014,111
Non-controlling interests		-1,622	0
Weighted average number of shares		1,853,738	1,838,066
Diluted number of shares		1,855,052	1,839,884
Net profit attributable to shareholders of the parent company per share	11	590,79	518,76
Diluted net profit (loss) attributable to shareholders of the parent company per share	11	590,37	518,25
Net profit (loss) on continuing operations per share	11	617,25	394,63
Diluted net profit (loss) on continuing operations per share	11	616,81	394,24

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 January 2023

Statement of financial position (in PLN thousands)	Notes	As at 31.01.2023	As at 31.01.2022
ASSETS			
Non-current assets		**7,351,773**	**7,027,715**
1. Property, plant and equipment	14	3,335,956	2,760,486
2. Right-of-use assets	15	2,888,435	3,412,312
3. Intangible assets	16	185,583	144,431
4. Goodwill	17	183,203	183,203
5. Trademark	16	77,508	77,508
6. Long-term receivables	13	314,574	0
7. Deferred tax assets	10.3	350,684	425,405
8. Prepayments	28	8,228	5,756
9. Other financial assets	18.1	7,602	18,614
Current assets		**5,569,267**	**7,107,533**
1. Inventory	20	3,353,404	3,864,113
2. Trade receivables	21	944,095	246,077
3. Income tax receivables		8,471	33,929
4. Short-term receivables	13	50,431	0
5. Other non-financial assets	18.2	53,154	196,016
6. Prepayments	28	78,943	49,243
7. Other financial assets	18.1	58,964	60,570
8. Deposits and investment funds	19	556,759	1,302,694
9. Cash and cash equivalents	22	465,046	1,354,891
TOTAL assets		**12,921,040**	**14,135,248**

Statement of financial position (in PLN thousands)	Notes	As at 31.01.2023	As at 31.01.2022
EQUITY AND LIABILITIES			
Equity		**3,984,377**	**3,272,097**
1. Share capital	23.1	3,708	3,705
2. Share premium	23.2	364,315	364,315
3. Other reserves	23.3	2,720,432	2,345,104
4. Currency translation on foreign operations		57,596	-204,649
5. Retained earnings		839,963	763,637
6. Non-controlling interest capital		-1,637	-15
Long-term liabilities		**3,722,711**	**3,983,219**
1. Bank loans and borrowings	24	538,126	144,174
2. Lease liabilities	15	2,760,084	3,428,223
3. Other financial liabilities (bonds)	27	306,924	294,665
2. Employee liabilities	25.1	1,683	1,409
3. Deferred tax liabilities	10.3	1,554	627
4. Accruals	28	114,340	114,121
Short-term liabilities		**5,213,952**	**6,879,932**
1. Trade and other liabilities	27	3,062,220	4,970,841

Statement of financial position (in PLN thousands)	Notes	As at 31.01.2023	As at 31.01.2022
2. Contract liabilities	9.1	26,009	20,547
3. Customer refund liabilities	9.1	75,931	76,308
4. Bank loans and borrowings	24	806,087	535,036
5. Lease liabilities	15	902,471	749,069
6. Employee liabilities	25.2	147,921	149,672
7. Income tax liabilities		155,476	311,178
8. Provisions	26	4,891	10,669
9. Accruals	28	32,946	56,612
TOTAL equity and liabilities		**12,921,040**	**14,135,248**

CONSOLIDATED CASH FLOW STATEMENT

for 12 months ended 31 January 2023

Cash flow statement (in PLN thousands)	Notes	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 restated
A. Cash flow statement from operating activities – indirect method			
I. Pre-tax profit (loss)		**1,362,758**	**937,773**
II. Total adjustments		**-740,394**	**1,276,693**
1. Amortisation and depreciation		1,129,191	943,427
2. Foreign exchange gains (losses)		-7,852	-75,389
3. Interest and dividends		198,155	108,445
4. Profit (loss) on investing activities		-183,963	212,191
5. Income tax paid		-402,363	-219,537
6. Change in provisions and employee benefits	25, 26	-21,468	79,952
7. Change in inventories	20	698,142	-1,403,520
8. Change in receivables and other assets	18, 21	386,773	-426,207
9. Change in short-term liabilities, excluding bank loans and borrowings	27	-3,377,683	2,083,080
10. Change in prepayments and accruals	28	27,937	-48,949
11. Other adjustments		812,737	23,200
III. Net cash flows from operating activities		**622,364**	**2,214,466**
B. Cash flows from investing activities			
I. Inflows		**278,759**	**278,501**
1. Disposal of intangible assets and property, plant and equipment		116,378	161,949
2. Repayment of loans granted		144	190
3. Interest and other inflows from financial assets		21	219
4. Other investing inflows (investment funds)	19	162,216	116,143
II. Outflows		**1,175,818**	**1,249,939**
1. Purchase of intangible assets and property, plant and equipment		1,156,938	959,716
2. Loans granted		3,524	300
3. Other investing outflows (investment funds)	19	15,356	289,923
III. Net cash flows from investing activities		**-897,059**	**-971,438**
C. Cash flows from financing activities			
I. Inflows		**1,242,643**	**318,468**
1. Issuance of shares		4	0
2. Bank loans and borrowings		1,242,639	318,468
II. Outflows		**1,851,940**	**1,692,357**
1. Dividends and other payments to owners		648,348	833,590
2. Repayment of bank loans and borrowings		295,702	237,763
3. Financial lease liabilities paid		731,662	516,289
4. Interest		176,228	104,715
III. Net cash flows from financing activities		**-609,297**	**-1,373,889**
D. Net cash flows on continuing operations		**-883,992**	**-130,861**
E. Net cash flows on discontinued operations		**-42,521**	**171,587**
F. Total net cash flows		**-926,513**	**40,726**

Cash flow statement (in PLN thousands)	Notes	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 restated
Opening balance of cash in line with the balance sheet		1,354,891	1,277,854
Closing balance of cash in line with the balance sheet		465,046	1,354,891
G. Balance sheet change in cash, including:		**-889,845**	**77,037**
- change in cash due to foreign currency translation		36,668	36,311
H. Opening balance of cash		**1,316,969**	**1,276,243**
I. Closing balance of cash		**390,456**	**1,316,969**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for 12 months ended 31 January 2023

Statement of changes in equity (in PLN thousands)	Share capital	Share premium	Other reserves
As at 1 February 2022	**3,705**	**364,315**	**2,345,104**
Remuneration paid in shares	3	0	4,888
Dividend paid	0	0	0
Division of profit for 2021	0	0	370,440
Transactions with owners	**3**	**0**	**375,328**
Net profit for 12 months ended 31.01.2023	0	0	0
Foreign exchange differences	0	0	0
Total comprehensive income	**0**	**0**	**0**
Balance as at 31 January 2023	**3,708**	**364,315**	**2,720,432**

Statement of changes in equity (in PLN thousands)	Share capital	Share premium	Other reserves
As at 1 February 2021	**3,705**	**364,315**	**3,155,123**
Remuneration paid in shares	0	0	23,200
Dividend paid	0	0	-833,590
Division of profit for 2020	0	0	371
Transactions with owners	**0**	**0**	**-810,019**
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**	**364,315**	**2,345,104**

Currency translation on foreign operations	Retained earnings	Equity attributable to the parent company	Non-controlling interests	TOTAL equity
-204,649	**763,637**	**3,272,112**	**-15**	**3,272,097**
0	0	4,891	0	4,891
0	-648,348	-648,348	0	-648,348
49	-370,489	0	0	0
49	**-1,018,837**	**-643,457**	**0**	**-643,457**
0	1,095,163	1,095,163	-1,622	1,093,541
262,196	0	262,196	0	262,196
262,196	**1,095,163**	**1,357,359**	**-1,622**	**1,355,737**
57,596	**839,963**	**3,986,014**	**-1,637**	**3,984,377**

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

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 2023 and incorporate comparative data for the year ended 31 January 2022.

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. 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 2021 to 31 January 2022. Due to the sale in 2022 of one of the subsidiaries, data in the comprehensive income statement and the cash flow statement has been restated. The sale of the company is described in note 13 Discontinued operations.

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

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 and wholesale of clothing.

2. GROUP'S COMPOSITION

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	50,0%
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.	LLC Re Development	Moscow, Russia	100,0%
16.	LPP Ukraina AT	Peremyshliany, Ukraine	100,0%
17.	OOO LPP BLR	Minsk, Belarus	100,0%
18.	LPP Kazakhstan LLP	Almaty, Kazakhstan	100,0%
19.	LPP Bulgaria EOOD	Sofia, Bulgaria	100,0%
20.	LPP Fashion Bulgaria EOOD	Sofia, Bulgaria	100,0%
21.	LPP Romania Fashion SRL	Bukarest, Romania	100,0%
22.	LPP Croatia DOO	Zagreb, Croatia	100,0%
23.	LPP Reserved DOO Beograd	Belgrad, Serbia	100,0%
24.	Reserved Fashion, Modne Znamke DOO	Ljubljana, Slovenia	100,0%
25.	LPP BH DOO	Banja Luka, Bosnia and Hercegovina	100,0%
26.	LPP Macedonia DOOEL	Skopje, Macedonia	100,0%
27.	LPP Albania LTD	Tirana, Albania	100,0%
28.	LPP Greece Single Member Private Company	Athens, Greece	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.	LPP Italy SRL	Milan, Italy	100,0%
33.	LPP Clothing Retail Spain, S.L.	Madrid, Spain	100,0%
34.	P&L Marketing&Advertising Agency SAL	Beirut, Lebanon	97,3%

As at 31 January 2023, the share in the total number of votes held by the Group in subsidiaries was equal to the Group's shareholdings in those entities. In the reporting period, in one of the subsidiaries, i.e. Veviera Investment Sp. z o.o., the shareholding changed from 100% to 50%.

In the reporting period, there were the following changes in the LPP SA Group:
- LPP SA established a new subsidiary in Greece: LPP Greece Single Member Private Company;
- LPP SA established a new subsidiary in Spain: LPP Clothing Retail Spain SL;
- LPP SA established a new subsidiary in Italy: LPP Italy SRL;
- LPP SA established a new subsidiary in Albania: LPP Albania LTD;
- LPP SA wound up the subsidiary in Slovenia: Reserved Fashion BIS Modne Znamke DOO;
- LPP SA wound up the subsidiary in the United Arab Emirates: IPMS ZEA;
- LPP SA sold the subsidiary in Russia: Re Trading OOO.

3. COMPOSITION OF THE MANAGEMENT BOARD OF THE PARENT COMPANY

Composition of the Management Board of LPP SA as at 31.01.2023:
- 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

In the reporting period, there were no changes in the composition of the Company's Management Board.

4. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Management Board of LPP SA for publishing on 25 April 2023.

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

5.1. PROFESSIONAL JUDGEMENT

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

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

- **Lease – the Group as lessee**
  Judgments on lease where the Group is a lessee, in the following areas: recognition whether a given agreement incorporates a lease, agreements for an unlimited period of time, exercise of the option to prolong or shorten the lease term, are given in note 15.

  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.

- **Trade finance**
  The Group is a party to a trade finance agreement. Key judgments in this respect are provided for in note 27.

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 15.

- **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 companies in the Group adopted product return ratios for specific sales channels in the following ranges:
  - in on-site stores 1,5-3%
  - in online stores - 14-32%

- **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 impairment losses in the amount determined based on a current analysis,
  - goods to be sold to external recipients - subject to impairment losses 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 the first full 12 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 impairment loss, the Group determines an estimated recoverable value of an asset and makes an impairment loss 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.

  Brand stores located in Ukraine were analysed differently. During the initial stage of the war, at the end of the previous reporting period, due to incapacity to forecast an existing situation, the Group decided to make an impairment loss on all stores operating in that country. As the military operations continued, observing how the situation in Ukraine unfolds, the Management Board of LPP SA decided to gradually open brand stores and recommence sales. However, the cessation of sales lasting many months caused a decrease in profitability and the absence of cash flows in specific stores in the analysed period. Therefore, the Management Board of LPP decided to make additional assumptions concerning unprofitable Ukrainian stores to recognise permanent impairment losses. No impairment losses were recognised for stores which, in the reporting period, recorded a decrease in profitability, yet, after several months of recommenced sales, they were on an upward trend, starting to make a profit in recent months.

- **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 25. 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 increase of the provision by PLN 3 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 profit will be generated and, thus, utilised.

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

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

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

- **Assumptions made for reviewing 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 16 and 17.

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

- **Impact of climate change hazards**
  The Group analysed its operations in terms of their climate impact. The Management Board of LPP SA is aware that part of its business operations may, to a certain 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 are 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 external difficulties lately faced by the Group. Already in 2020, the outbreak of the Covid-19 pandemic increased business risk – the closure of almost all European stores of the LPP Group for 3 months in March 2020 and periodical lock-downs reoccurring in different countries in different periods, lasting until Q1 2021. The above-mentioned events had the biggest impact on business by increasing the role of online stores, different stock management and disturbances in financial liquidity. Looking back at the year 2022, one may see that the LPP Group coped well with pandemic challenges, adjusted its business model to new requirements and gained outstanding financial results in 2021, entering the year 2022 with ambitious plans. However, the outbreak of the war in Ukraine in February 2022 substantially affected business plans and targets, having significantly influenced a deterioration of financial performance, a change in the Group's structure and a modification of its business strategy. Eastern markets, i.e. Russia and Ukraine, were of a key importance for the Group's further development (as they generated approx. 25% of entire sales) and were closed overnight. Commodities purchased in advance and designated for Eastern markets could not be delivered there. The Group was required to take numerous actions to stabilise its business at times of war:

- the Group's strategy was redirected geographically, i.e. from developing its business on the markets of Eastern Europe, the Group shifted its development to Southern and Western Europe, with two new markets being launched, that is Italy and Greece,
- it was required to change the allocation of stock purchased originally for Eastern markets to other countries, however, throughout the year, the level of stock was too high, which changed the structure of working capital,
- the Russian company was sold to an Asian investor,
- it was required to stabilise the business in Ukraine: first, all stores were closed, maintaining business units and employment, and, subsequently, in August 2022, deliveries of new collections and sales were resumed, with due consideration of the safety of staff and associates,
- financial liquidity was secured by taking out additional bank loans and accelerating the inflow of trade receivables from subsidiaries.

As assessed by the Management Board of LPP SA, the actions taken have had a desired effect, i.e. the Group is financially safe, maintains proper cash liquidity, has low indebtedness, increases sales and improves its profitability.

Based on business analyses carried out: 1) the Group's current liquidity, 2) cash flow forecasts, 3) budgets for subsequent periods 4) the capacity of further expansion on current and new markets, 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.

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

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
New IFRS 17 *Insurance contracts* This standard regulates recognition, measurement, presentation and disclosures of insurance and reassurance contracts. It supersedes previous IFRS MSSF 4. The new standard will not affect the Group's financial statements as the contracts concluded do not fall under the definition of insurance contracts.	annual periods beginning on or after 1 January 2023
Amendments to IAS 1 *Presentation of Financial Statements* The IAS Board specified the rules for classification of liabilities as current or non-current liabilities primarily in two aspects: – it was specified that classification depends on the rights held by an entity as at the balance-sheet date, – intentions of the management staff in respect of acceleration of, or delay in, payment of a liability are not accounted for. Considering the fact that the Group has already been applying principles coherent with the amended standard, these amendments will not affect its financial statements.	annual periods beginning on or after 1 January 2023
Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* In the standard in question, the Board introduced the definition of accounting estimate, i.e. accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". As envisaged by the Group, this amendment will not affect its financial statements.	annual periods beginning on or after 1 January 2023

Standard/interpretation	Effective date
Amendments to IAS 12 *Income Taxes* The Board has implemented a principle stipulating that if, as a result of a transaction, there arise, at the same time, equal amounts of positive and negative temporary differences, then assets and a provision for deferred income tax should be recognised even if such transaction does not result from a merger and has no effect on the accounting and a tax result. The above entails the requirement to recognise assets and the provision of deferred income tax e.g. when equal amounts of temporary differences arise in the event of lease (a separate temporary difference from a liability and the right of use) or in the event of recultivation liabilities. There has been no change concerning the principle stipulating that deferred income tax assets and liabilities compensate if current income tax assets and liabilities are compensated. The Group estimates that this amendment will not affect its financial statements.	annual periods beginning on or after 1 January 2023
Amendments to IFRS 17 *Insurance Contracts* The Board Rada set forth transitory provisions concerning comparative data for entities implementing simultaneously IFRS 17 and IFRS 9 to reduce accounting inadequacies, if any, arising from differences between these standards. This amendment is effective for annual periods beginning on or after 1 January 2023. The Group estimates that this amendment will not affect its financial statements as it concludes no insurance contracts.	annual periods beginning on or after 1 April 2023
Amendments to IFRS 16 *Leases* This amendment specifies requirements to measure the lease liability in a sale and leaseback transaction. It is to prevent the incorrect recognition of a transaction yield in the part corresponding to the right of use if lease payments are variable and not subject to a ratio or rate. The Group estimates that this amendment will not affect its financial statements as it enters into no such transactions.	annual periods beginning on or after 1 April 2024

– **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.

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.

	As at 31.01.2023	As at 31.01.2022
EUR	4.7089	4.5982
CZK	0.1975	0.1881
BGN	2.4076	2.3510
100HUF	1.2106	1.2840
RUB	0.0631	0.0531
UAH	0.1258	0.1446
HRK	n/a	0.6108
RON	0.9564	0.9295
RSD	0.0401	0.0390
100KZT	0.9377	0.9341
BAM	2.4013	2.3416
GBP	5.3595	5.5320
100MK	7.6402	7.4497
BYN	1.6312	1.5557
100ALL	4.0451	n/a

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

	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022
EUR	4.7021	4.5714
CZK	0.1918	0.1800
BGN	2.4051	2.3404
HUF100	1.1900	1.2760
RUB	0.0689	0.0528
UAH	0.1305	0.1434
HRK	n/a	0.6082
RON	0.9540	0.9274
RSD	0.0400	0.0389
KZT100	0.9700	0.9100
BAM	2.3993	2.3319
GBP	5.4879	5.2808
MK100	7.6280	7.4770
BYN	1.6937	1.5492
ALL100	3.9800	n/a

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 2022, except for those given below.

Amended standards and interpretations applied for the first time in 2022 do not substantially affect the Group's financial statements.

Standard/interpretation	Short description
Amendments to IFRS 9, examples for IFRS 16, IAS 41 as part of Annual Improvements 2018-2020	IFRS 1: additional exemption concerning the determination of cumulative foreign exchange differences on consolidation; MSSF 9: (1) in the 10% test carried out to acknowledge whether a modification should result in derecognition of a liability, one should take into account only fees exchanged between a debtor and a creditor; (2) it has been specified that fees incurred in case of liability derecognition are recognised in profit or loss and if a liability is not derecognised, they should be accounted for in the value of the liability; MSSF 16: from example no 13, the notion of incentive from the lessor in the form of reimbursement of leasehold improvements made by the lessee has been removed due to the potential for confusion; IAS 41: the ban to recognise tax flows in the measurement of biological assets has been deleted.
Amendments to IAS 16 *Property, Plant and Equipment*	The amendment specifies that production as part of asset testing before the asset is available for use should be recognised as (1) inventory under IAS 2 and (2) revenue when it is sold (without affecting the value of an asset). Asset testing is an element of its cost while the production cost is recognised in profit or loss at the time of recognition of revenue on the sale of inventory, generated when testing.
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	The amendment specifies that the cost of fulfilling an onerous contract includes incremental costs (e.g. labour costs) and the allocated part of other costs that relate directly to fulfilling contacts, e.g. depreciation.
Amendment to IFRS 3 *Business Combinations*	The amendment specifies references to definitions of liabilities, incorporated in the conceptual framework, and definitions of contingent liabilities under IAS 37.
Amendment to IFRS 16 *Leases*	In 2020, the IAS Board published simplifications for lessees receiving reliefs in connection with the COVID-19 pandemic. One of the conditions would stipulate that reliefs should concern only dues payable by the end of June 2021. Following the amendment, the deadline was postponed by 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 an 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.

Revenue on customer contracts from 01.02.2022 to 31.01.2023	Poland	Romania	Czech Republic	Germany	Other	Total
Type of sale						
Online	1,868,705	488,209	309,934	340,010	1,384,997	4,391,855
Offline	4,991,675	842,199	756,895	331,763	4,612,117	11,534,649
Total	**6,860,380**	**1,330,408**	**1,066,829**	**671,773**	**5,997,114**	**15,926,504**
Brand						
Reserved	2,364,082	299,412	383,774	579,909	1,970,988	5,598,165
Cropp	617,273	82,643	94,524	3,679	559,199	1,357,318
House	719,735	66,853	78,018	5,013	418,329	1,287,948
Mohito	697,101	70,496	117,017	23,270	406,637	1,314,521
Sinsay	2,255,593	811,004	393,496	59,902	2,641,961	6,161,956
Other	206,596	0	0	0	0	206,596
Total	**6,860,380**	**1,330,408**	**1,066,829**	**671,773**	**5,997,114**	**15,926,504**

Revenue on customer contracts from 01.02.2021 to 31.01.2022	Poland	Romania	Czech Republic	Germany	Other	Total
Type of sale						
online	1,531,232	369,854	260,443	291,970	1,507,570	3,961,069
offline	3,981,792	519,446	470,270	206,711	2,199,500	7,377,719
Total	**5,513,024**	**889,300**	**730,713**	**498,681**	**3,707,070**	**11,338,788**
Brand						
Reserved	2,077,401	260,673	288,359	452,333	1,495,368	4,574,134
Cropp	584,887	64,059	83,690	5,181	365,608	1,103,425
House	646,815	56,242	62,922	3,326	283,738	1,053,043
Mohito	550,911	59,097	68,462	9,500	269,245	957,215
Sinsay	1,581,311	449,229	227,280	28,341	1,293,111	3,579,272
Other	71,699	0	0	0	0	71,699
Total	**5,513,024**	**889,300**	**730,713**	**498,681**	**3,707,070**	**11,338,788**

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 customer contracts.

In PLN thousands	As at 31.01.2023	As at 31.01.2022
Trade receivables	944,095	246,077
Refund asset	46,635	48,104
Refund liabilities	75,931	76,308
Contract liabilities	26,009	20,547

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 31.01.2023	For 12 months ended 31.01.2022 (restated)
Cost of goods and services sold	7,822,745	4,698,715
Revaluation write-off on inventories	-27,153	149,230
Total cost of goods sold	**7,795,592**	**4,847,945**

9.3. OTHER OPERATING INCOME AND EXPENSES

ACCOUNTING POLICY

Other operating income and expenses 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 subsidy is recognised when there is reasonable certainty that it 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 31.01.2023	For 12 months ended 31.01.2022 (restated)
Profit on sales of non-financial non-current assets	689	402
Subsidies	7,020	28,993
Revaluation of assets, including:	115,313	0
- revaluation write-offs on net con-current assets	115,313	0
Other operating income, including:	49,703	29,937
- profit on cancellation of contracts valued under IFRS 16	23,879	7,847
- compensations	3,357	3,274
Other operating income in total	**172,725**	**59,332**

In operating income, in the reporting period, the Group recognised a surplus of reversals of revaluation write-offs on non-current assets over their creation for an amount of PLN 115.3 mln. Such significant value resulted mainly from the reversal of write-offs made last year on Ukrainian stores. A detailed description is given in note 14.

Furthermore, the Group recognised the item "subsidies" in the amount of PLN 7.0 mln (2021: PLN 29.0 mln). This item incorporates mainly compensations for company operations, consisting primarily of subsidies granted to the companies in:

- Bulgaria – PLN 4.3 mln PLN – a compensation for power supply by the end of 2023, involving recipients other than households, connected to the low and medium voltage grid;
- Latvia – PLN 1.2 mln PLN – a compensation for turnover reduction in the period July–September 2021, conditional upon a sales reduction by at least 20% from July to September 2021 compared to the same period of the preceding year.

In the preceding year, subsidies were obtained mainly in:

- Germany – PLN 8,8 mln for payment of fixed costs from November 2020 to 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 a 30% decrease in sales from November 2020 to June 2021 versus the same months of 2019;
- the Czech Republic – PLN 6,1 mln 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 expenses (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 (restated)
Loss on sales of non-financial non-current assets	0	0
Revaluation of assets, including:	27,261	194,043
- revaluation write-offs on non-current assets net	0	194,180
- revaluation write-offs on receivables net	27,261	-137
Other operating expenses, including:	114,207	169,908
-losses on current and non-current assets	75,801	158,849
- donations	18,263	4,389
- fines	309	2,449
Other operating expenses in total	**141,468**	**363,951**

In the reporting period, the item ”donations” increased significantly mainly due to aid for people from Ukraine.

In the comparative period, following the closure of brand stores in Ukraine due to the war, the Group wrote off all inventory in Ukrainian stores, in the amount of PLN 116.9 mln, as recognised in item ”losses on current and non-current assets”.

9.4. FINANCIAL INCOME AND EXPENSES

ACCOUNTING POLICY

Financial income and expenses comprise, specifically, interest, revaluation of loans, foreign exchange differences and dividends.

Interest income and interest expense are recognised regularly when accrued, applying the effective interest method, over the net carrying value of a given 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 31.01.2023	For 12 months ended 31.01.2022 (restated)
Interest, including:	7,909	3,198
- on deposits	3,679	1,234
- on loans and receivables	4,230	1,964
Measurement of participation units in funds	12,898	-2,628
Dividend	10	6
Other financial income, including:	106,119	25,097
- discount	80,366	0
- balance of foreign exchange differences	24,928	0
- adjustments of a lease liability	805	25,097
Total financial income	**126,936**	**25,673**

In the reporting period, the Group presented the item ”discount” in the amount of PLN 80.4 mln in connection with the revaluation of receivables due to the sale of shares in Re Trading OOO.

In the reporting period, in financial income, the Group presented a surplus of positive foreign exchange differences in the amount of PLN 24.9 mln (2021: a surplus of negative foreign exchange differences over positive ones, totalling PLN 99 mln). The above situation was related to the outbreak of the war in Ukraine in February 2022, causing an initial sharp decrease in the RUB exchange rate against all currencies, including 45% against PLN to reach RUB/PLN 0.055 in January 2022 and RUB/PLN 0.030 in March 2022. In the subsequent months, the RUB exchange rate began to strengthen to reach even RUB/PLN 0.08 in July 2022 and fell to RUB/PLN 0.06 at the end of 2022. In that period, the Group had significant receivables owed by its Russian company, denominated in RUB. In May 2022, that amount reached over RUB 15 bln. At that time, negotiations were held to sell the Russian company to an Asian investor. The transaction involving the sale of the company was effected in May 2022 and was confirmed by a decision of a Russian court at the end of June 2022. At the same time, on 30 June 2022, the Management Board of LPP negotiated the conversion of receivables from RUB to USD, effected with the RUB/USD exchange rate of 51.1580. As a result of the above, all settlement positions in RUB were closed. Simultaneously, in consequence, in the reporting period, the Group presented significant positive foreign exchange differences which substantially affected the consolidated income statement, resulting ultimately in a surplus of positive foreign exchange differences over negative ones as shown in the financial statements.

Financial expenses (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 (restated)
Interest expenses – bank loans	83,347	10,763
Interest expenses – bonds	37,992	4,491
Interest expenses – state budget and other	17,592	5,298
Interest expenses – lease liabilities	76,988	92,273
Other, including:	7,930	103,172
- balance of foreign exchange differences	0	98,997
Total financial expenses	**223,849**	**215,997**

9.5. EXPENSES BY TYPE

Expenses by type (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 (restated)
Depreciation	1,129,191	943,427
Rents and leaseholds	477,918	368,206
Store and warehouse operation services	652,780	796,973
Transport	777,834	598,137
Taxes and fees	146,729	91,865
Payroll	1,366,690	960,462
Other expenses by type	2,151,356	1,299,057
Including: advertising	779,928	630,659
Total expenses by type	**6,702,498**	**5,058,127**

The reconciliation of expenses is given in the table below.

Expenses by type (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 (restated)
Expenses by type, including:	6,702,498	5,058,127
Items recognised in costs of stores and distribution	5,840,123	4,431,174
Items recognised in general costs	862,375	626,953

9.6. COSTS OF DEPRECIATION, EMPLOYEE BENEFITS AND INVENTORY

Items recognised in costs of goods sold (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 (restated)
Measurement of inventory at purchase price	7,852,492	4,726,679
Revaluation write-off on inventory	-27,153	149,230
Estimated product returns	-29,747	-27,964
Total	**7,795,592**	**4,847,945**

Items recognised in costs of stores and distribution (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 (restated)
Depreciation of non-current assets	423,858	370,417
Depreciation of intangible assets	3,236	1,832
Depreciation of the right of use	618,327	507,916
Costs of inventory consumption for advertising purposes	3,741	1,355
Costs of employee benefits, including	1,182,093	776,511
- payroll	1,028,645	672,904
- social security costs	153,448	103,607
Total	**2,231,255**	**1,658,031**

Items recognised in general costs (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 (restated)
Depreciation of non-current assets	34,844	21,888
Depreciation of intangible assets	33,929	28,710
Depreciation of the right of use	14,997	12,664
Costs of employee benefits, including	401,841	334,638
- payroll	338,045	287,558
- social security costs	63,796	47,080
Total	**485,611**	**397,900**

Items recognised in other operating expenses (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 (restated)
Inventory deficits prevailing over inventory surpluses	59,906	34,917
Inventory disposal	7,408	119,087
Donations	18,263	4,389
Total	**85,577**	**158,393**

10. INCOME TAX

ACCOUNTING POLICY

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

The current tax 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 the Group acknowledges that 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 2023 and the comparative period are given in the table below.

Income tax (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 (restated)
Current income tax	248,075	446,961
Deferred income tax	-29,539	-234,536
Total income tax	**218,536**	**212,425**

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 2022 to 31 January 2023 and the comparative period, is given in the table below.

Income tax (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 (restated)
Profit/loss before taxation	1,362,758	937,773
Income tax at statutory rate applicable in Poland 19%	**258,924**	**178,177**
Effect of tax rate differences between countries	-34,396	1,818
Adjustments of current income tax from previous years	13,225	25
Taxation of foreign controlled companies	0	28,282
Fixed costs other than revenue earning costs	14,272	22,599
Fixed revenue other than taxable basis	-33,489	-18,476
Income tax (burden) recognised in profit or loss	**218,536**	**212,425**

In the reporting period The Group showed the value of the adjustments made of current tax from previous years in the amount of PLN 13,2 mln. These adjustments mainly were the consequence of the audit carried out by the National Revenue Administration.

LPP SA started cooperation with the National Revenue Administration (Krajowa Administracja Skarbowa) under the programme of the Ministry of Finance, called "Horizontal Agreement...". Currently, the company has undergone un audit by the NRA in terms of its tax procedures and meeting standards required to join the said programme. The prospective conclusion of the programme participation agreement will allow the Company to increase business and tax transparency, cooperate more efficiently with the NRA and reduce the tax risk in business activities by agreeing, in advance, business changes and business operations with tax authorities. As part of the audit, the NRA identified areas for the Company to improve its accounting processes and procedures, including the need to adjust tax settlements for previous years, which resulted in the payment of additional taxes of PLN 11.6 mln.

Income tax is calculated based on the following tax rates.

Estonia	Latvia	Hungary	Bulgaria	Macedonia	Bosnia and Hercegovina	Serbia	Lithuania	Slovenia	Great Britain	Romania
0%	0%	9%	10%	10%	10%	15%	15%	15%	16%	16%

Ukraine	Croatia	Belarus	Poland	Czech Rep.	Russia	Finland	Kazakhstan	Slovakia	Germany
18%	18%	18%	19%	19%	20%	20%	20%	21%	32%

10.2. DEFERRED INCOME TAX – FINANCIAL RESULT

Deferred income tax recognised in the financial result for the period from 1 February 2022 to 31 January 2023 and the comparative period resulted from the following items.

Deferred income tax (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 (restated)
Difference between balance sheet and tax depreciation of non-current assets	-71,521	81,502
Difference between the right of use and the lease liability	61,596	27,814
Revaluation of inventory	-27,701	68,896
Revaluation of trade receivables	-4,089	137
Margin on goods unsold outside the Group	-27,884	47,650
Fee on outlays sold	-4,280	-2,295
Tax loss	55,767	4,347
Unpaid remuneration and surcharges	-2,008	8,462
Provision for product returns	1,545	1,709
Tax relief	34,664	0
Estimated return/estimated rent grants	26,127	1,697
Other temporary differences	-6,128	1,166
Exchange differences from currency translation	-6,549	-6,549
Total	**29,539**	**234,536**

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 31.01.2023	As at 31.01.2022
Difference between balance sheet and tax depreciation of non-current assets	-45,691	90,134
Difference between the right of use and the lease liability	145,164	105,455
Revaluation of inventories	31,720	90,164
Revaluation of trade receivables	-884	3,205
Margin on goods unsold outside the Group	38,835	66,719
Fee on outlays sold	6,965	11,245
Tax loss	98,878	43,111
Unpaid remuneration and surcharges	9,510	14,408
Provision for product returns	5,191	4,356
Tax relief	34,664	0
Estimated return/estimated rent grants	30,673	-5,179
Other temporary differences	-4,341	1,787
Total	**350,684**	**425,405**

Deferred income tax liabilities (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Difference between balance sheet and tax depreciation of non-current assets	1,554	627
Other temporary differences	0	0
Total	**1,554**	**627**

As at 31 January 2023, the Group showed deferred tax assets due to tax losses in its subsidiaries, totalling PLN 98.9 mln (2021: PLN 43.1 mln). The key values were calculated in LPP SA, totalling PLN 59.2 mln, LPP Deutschland GmbH, totalling PLN 24.2 mln (2021: PLN 34.4 mln) and in LPP Ukraina AT, totalling PLN 12.3 mln (2021: PLN 3.7 mln). According to tax laws applicable in the above-mentioned countries, there is no limited period for settling a tax loss.

Additionally, the Group disclosed deferred income tax assets arising from tax relief for conducting economic activity by LPP Logistics Sp. z o.o. within an economic zone.

11. EARNINGS PER SHARE

ACCOUNTING POLICY

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

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

(in PLN thousand)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022 (restated)
Number of shares in the formula's denominator		
Weighted average number of shares	1,853,738	1,838,066
Dilutive effect of convertible warrants	1,314	1,818
Diluted weighted average number of shares	1,855,052	1,839,884
Earnings per share		
Net profit (loss) attributable to shareholders of the parent company	1,095,163	953,522
Profit (loss) on continuing operations	1,144,222	725,348
Net profit (loss) attributable to shareholders of the parent company per share	590,79	518,76
Diluted net profit (loss) attributable to shareholders of the parent company per share	590,37	518,25
Profit (loss) on continuing operations per share	617,25	394,63
Diluted profit (loss) on continuing operations per share	616,81	394,24

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

12. DIVIDENDS PAID AND OFFERED FOR PAYMENT

ACCOUNTING POLICY

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

On 20 May 2022, the Ordinary General Meeting of Shareholders of LPP SA adopted Resolution no 18 on allocation of part of the profit created from previous years for payment of a dividend amounting to PLN 648,348,050. The dividend date was set for 30 May 2022, while the payment itself was determined to be made in two instalments: on 6 June 2022 and 30 August 2022. The dividend per share amounted to PLN 350.00.

In the comparative period, on 29 June 2021, the Ordinary General Meeting of Shareholders 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: on 20 July 2021 and 6 October 2021. The dividend per share amounted to PLN 450.00.

13. DISCONTINUED OPERATIONS

On 24 February 2022, the troops of the Russian Federation attacked Ukraine and started a war. LPP SA suspended the operating activities of its subsidiary LPP Ukraina to ensure safety of employees in the territories of military operations (CR no 06/2022 of 28 February 2022). At the same time, LPP SA started to monitor closely the situation on the Russian market and changes in international relations, arising from the launching by Russia of the war and resulting in the implementation of sanctions and restrictions in trade relations between the EU and Russia. Consequently, on 4 March 2022, LPP SA decided to suspend its operating activities in Russia (CR no 12/2022 of 4 March 2022). Initially, we suspended the operations of the online store in Russia and, in subsequent days, we closed progressively our on-site stores. On 28 April 2022, LPP SA made a final decision to cease its business activities in Russia and sell its Russian subsidiaries, i.e. Re Trading OOO and LLC Re Development (CR no 17/2022 of 28 April 2022).

On 19 May 2022, LPP SA decided to sell Re Trading OOO to an Asian investor (CR no 19/2022 of 19 May 2022) and liquidate LLC Re Development. On 23 May 2022, a contract was signed with an investor, encompassing the sale of 100% of shares in Re Trading OOO, as confirmed and legitimised on 30 June 2022 by a decision of a Russian court, having jurisdiction over the company's registered office. Under the contract signed, the investor has no right to use trademarks of LPP brands in the territory of Russia. Due to the fact that the operations of Re Trading OOO were recognised by the LPP SA Group as an important separate geographical region and that the sale transaction was legitimised by operation of law, as of 30 June 2022, LPP SA lost control over Re Trading OOO and the results generated in the financial year were recognised by the Company as discontinued operations. When assessing the exercise of control, under IFRS MSSF 10, having sold the entire shareholding in Re Trading OOO, LPP SA approved the cancellation and sale of the investment in the form of its subsidiary. The sale contract provides for an option (resting solely with the buyer) to resell the company to LPP SA by the end of 2026 if, in the investor's opinion, conditions for conducting economic activity in Russia fail to give Re Trading the opportunity of continuing that activity yielding profit. The sale contract incorporates provisions prohibiting LPP SA from influencing the appointment or approval of key management officers of Re Trading or the procedure for appointing members of its management body. The key management staff of Re Trading may not be joined by any previous employees of LPP SA or any persons related to LPP SA. Under the sale contract, the parties set forth a transitory period in which LPP SA undertook to support the investor in stock purchase procedures as well as in logistics and IT processes. As assessed by LPP SA, such support does not meet the conditions for exercising power in line with the control requirements under IFRS 10.

As at the date of sale of Re Trading OOO, the book value of shares held by LPP SA amounted to PLN 912.9 mln. Revenue on sales of the subsidiary amounted to USD 135.5 mln (an equivalent of PLN 600.8 mln according to the exchange rate as at the transaction date). The Company discounted the sale transaction applying the CAPM model. The discount rate was 22.59%. Having discounted the sale transaction, the value of revenue was PLN 296.2 mln. At the individual level, LPP SA recorded a loss on the transfer of discontinued operations, in the amount of PLN 616.7 mln, as presented in the separate report of LPP SA, in the separate item of the statement of comprehensive income, i.e. "profit/loss on the sale of subsidiaries".

As at the balance-sheet date, i.e. 31 January 2023, the discounted value of receivables from the sale of the company amounted to PLN 365.0 mln (measured as at the balance-sheet date) and was shown in the statement of financial position, in item "long-term receivables", in the amount of PLN 314.6 mln, and in item "short-term receivables", in the amount of PLN 50.4 mln. Under the said contract, the deadline for payment for the sale of the company has been postponed in time, in agreed proportions, by 2026 at the maximum.

The detailed values reflecting measurement of the transaction involving the sale of Re Trading OOO are given in the table below.

	Values (in PLN thousands)
Revenue under the contract according to the exchange rate as at the transaction date	600,799
Discount for country risk	-304,535
Discounted revenue	**296,264**
Foreign exchange differences	-11,625
Discount adjusting the value of receivables	80,366
Discounted receivables	**365,005**

The value of the company's net assets as at the time of sale was PLN 642.8 mln. A loss arising from the lost control over the company totalled PLN 335.2 mln in the Group's consolidated results and was shown in the statement of comprehensive income, in item "discontinued operations".

The calculation of the loss arising from the lost control is given in the table below.

Calculation of the loss arising from the lost control	Values (in PLN thousands)
Revenue under the contract according to the exchange rate as at the transaction date	600,799
Discount for country risk	-304,535
Discounted revenue	**296,264**
Value of shares sold	-912,993
Deferred tax between the discounted value and the contract value	57,862
Foreign exchange differences on translation	86,506
Margin realised	137,152
Loss on the lost control	**-335,209**

In item "discontinued operations", the Company showed both the loss generated on the sale of Re Trading, totalling PLN 335.2 mln, and the results of Re Trading, yielded in the period from June 2022, totalling PLN 284.5 mln (comprising, among others, a profit on sales, amounting to PLN 459.4 mln, and a reversal of the write-off on unprofitable stores, amounting to PLN 402.8 mln).

Revenue on, costs and results of discontinued operations are given in the table below.

Statement of comprehensive income (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022
Income on operating activities	943,213	2,711,559
Other operating income (revaluation write-off on stores)	402,840	0
Operating expenses	994,738	2,360,685
Net financial expenses	31,823	56,637
Gross profit (loss) on sales	**319,492**	**294,237**
Income tax	34,964	66,063
Net profit (loss)	**284,528**	**228,174**
Profit (loss) on discontinued operations	-335,209	0
Net profit (loss) on discontinued operations	**-50,681**	**228,174**

Cash flows on discontinued operations

Cash flow statement (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022
Cash flows on operating activities	125,241	789,282
Cash flows on investing activities	-105,549	-356,894
Cash flows in financing activities	-62,213	-260,801
Change in net cash relating to discontinued operations	**-42,521**	**171,587**

14. 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 conditions 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. Property, plant and equipment are depreciated over their pre-determined expected useful life. This period is revised annually.

Depreciation rates applied for specific groups of property, plant and equipment are as follows.

Asset group	Depreciation rate
Buildings, premises, civil engineering works, including:	2.5-50 %
Outlays in third-party premises	14.28 %
Plant and machinery	2.5-50 %
Means of transportation	10-25 %
Other 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 items of property, plant and equipment, 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 expenses.

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 property, plant and equipment (by type) in the period from 1 February 2022 to 31 January 2023

Changes in property, plant and equipment (by type) from 01.02.2022 to 31.01.2023 (in PLN thousands)	Land	Buildings, facilities, civil engineering works	Plant and machinery
Opening balance gross value of property, plant and equipment	135,688	3,385,958	829,624
Change in the Group's structure	0	-549,624	-84,883
Foreign exchange differences	0	5,679	198
Acquisitions	24,994	59,864	138,054
Transfer from property, plant and equipment under construction	0	609,574	57,326
Sale	0	1,948	2,849
Disposal	0	76,257	9,188
Other decreases	0	50,807	1,074
Other increases	37,583	1,702	1,108
Closing balance gross value of property, plant and equipment	**198,265**	**3,384,141**	**928,316**
Opening balance accumulated depreciation (amortisation)	0	1,311,329	384,162
Change in the Group's structure	0	-231,590	-51,679
Foreign exchange differences	0	-4,080	-2,071
Depreciation for the period	0	245,841	85,635
Depreciation for the period – discontinued operations	0	31,990	7,265
Sale	0	1,838	2,674
Winding up	0	61,453	8,912
Other decreases	0	4,145	1,077
Other increases	0	3,162	4,153
Closing balance cumulated depreciation (redemption)	**0**	**1,289,216**	**414,802**
Opening balance impairment losses	0	439,507	25,773
Change in the Group's structure	0	-199,739	-17,558
Foreign exchange differences	0	-9,254	-843
Increase	0	2,694	0
Utilisation	0	10,343	149
Reversal	0	94,029	4,657
Closing balance impairment losses	**0**	**128,836**	**2,566**
Total net value of property, plant and equipment as at 1 February 2022	135,688	1,635,122	419,689
Total net value of property, plant and equipment as at 31 January 2023	**198,265**	**1,966,089**	**510,948**

Impairment loss– items in the comprehensive income statement	**Amount**
Increase – other operating expenses, revaluation of non-financial assets	0
Decrease - other operating income, revaluation of non-financial assets	115,313

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
17,975	1,215,646	112,976	92,275	5,790,142
-1,982	-331,170	-32,527	-35,304	-1,035,490
-187	-2,634	48	-203	2,901
11,457	93,505	918,963	23,926	1,270,763
0	141,738	-808,638	0	0
1,197	58	409	0	6,461
96	27,759	199	0	113,499
36	1,376	5,360	71,537	130,190
0	6,531	10,521	0	57,445
25,934	**1,094,423**	**195,375**	**9,157**	**5,835,611**
10,125	688,230	0	0	2,393,846
-1,618	-175,885	0	0	-460,772
-121	-7,292	0	0	-13,564
3,353	123,873	0	0	458,702
152	28,933	0	0	68,340
1,007	42	0	0	5,561
39	26,562	0	0	96,966
36	2,840	0	0	8,098
0	216	0	0	7,531
10,809	**628,631**	**0**	**0**	**2,343,458**
0	168,874	1,656	0	635,810
0	-120,097	0	0	-337,394
0	-5,360	-463	0	-15,920
0	0	8,374	0	11,068
0	493	0	0	10,985
0	26,201	1,495	0	126,382
0	**16,723**	**8,072**	**0**	**156,197**
7,850	358,542	111,320	92,275	2,760,486
15,125	**449,069**	**187,303**	**9,157**	**3,335,956**

Changes in property, plant and equipment (by type) from 1 February 2021 to 31 January 2022

Changes in property, plant and equipment (by type) from 1 February 2021 to 31 January 2022	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
Winding up	0	53,622	15,969
Other decreases	0	494	353
Other increases	0	3,614	92
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	213,749	72,224
Depreciation for the period – discontinued operations	0	51,465	9,999
Sale	0	9	2,714
Winding up	0	38,929	15,425
Other decreases	0	0	90
Other increases	0	14	0
Closing balance cumulated depreciation (redemption)	**0**	**1,311,329**	**384,162**
Opening balance impairment losses	0	108,348	1,297
Foreign exchange differences	0	4,662	243
Increase	0	137,766	7,794
Utilisation	0	1,213	206
Reversal	0	1,059	319
Discontinued operations	0	191,003	16,964
Closing balance impairment losses	**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 loss– items in the comprehensive income statement	**Amount**
Increase – other operating expenses, revaluation of non-financial assets	194,180
Decrease - other operating income, 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	-1,068,747	0	0
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
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
1,915	104,418	0	0	392,306
303	39,621	0	0	101,388
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	48,663	1,642	0	195,865
0	1,114	0	0	2,533
0	307	0	0	1,685
0	117,757	0	0	325,724
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**

In the period ended 31 January 2023, the Group made impairment losses on property, plant and equipment, relating to unprofitable stores, for PLN 11.1 mln (2021: PLN 195.9 mln). The value of impairment losses in the preceding year resulted primarily from losses 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 impairment losses on stores in Ukraine was PLN 156 mln. Additionally, the Management Board of LPP SA decided to make an impairment loss on part of brand stores in Russia due to restrictions implemented for that country. The value of such impairment loss was PLN 325.7 mln and is recognised in item "discontinued operations".

In the same period, revaluation write-off were partially utilised in the amount of PLN 11 mln (2021: PLN 2.5 mln) due to store closure, and such write-offs were partially reversed in the amount of PLN 126.4 mln (2021: PLN 1.7 mln) mainly as a result of the opening of stores in Ukraine and recommencing sales operations there. The value of reversed write-offs after the reopening of Ukrainian stores amounted to PLN 85.1 mln.

Created revaluation write-offs decreased with their reversed amount are shown in the statement of comprehensive income, in item "other operating income", totalling PLN 115.3 mln (2021: operating expenses PLN 194.2 mln).

In the reporting period, LPP SA sold the Russian company as described in detail in note 13 Discontinued operations. Decreases in fixed assets following the sale of Re Trading OOO are presented in the table showing changes in fixed assets, in items "change in the Group's structure".

As at 31 January 2023, the Group had contractual liabilities to acquire tangible fixed assets of PLN 158.3 mln (2021: PLN 99.1 mln).

The above-mentioned amount comprised the following liabilities:
- liabilities related to the development of LPP brand stores LPP – PLN 49.9 mln;
- liabilities under contracts on the extension of logistics centres – PLN 37.2 mln;
- liabilities under contracts on the development of office buildings –PLN 71.2 mln.

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 24.

15. LEASES

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 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 01.02.2022 to 31.01.2023 (in PLN thousands)	Store lease	Other leases	Right of use, total
Opening balance gross value of the right of use	4,688,277	267,021	4,955,298
Foreign exchange differences	6,963	173	7,136
Change in the Group's structure	-1,111,361	0	-1,111,361
Increases (new leases)	659,199	71,621	730,820
Amendments to lease agreements	230,347	13,064	243,411
Revaluation of lease liabilities*	-127,224	-11,778	-139,002
Closing balance gross value of the right of use	**4,346,201**	**340,101**	**4,686,302**
Opening balance accumulated depreciation (amortisation)	1,456,211	86,775	1,542,986
Foreign exchange differences	-14,776	113	-14,663
Change in the Group's structure	-315,727	0	-315,727
Depreciation for the period	585,082	48,242	633,324
Depreciation for the period – discontinued operations	68902	0	68902
Amendments to lease agreements	-41,683	-8,153	-49,835
Revaluation*	-57,621	-9,500	-67,120
Closing balance accumulated depreciation (amortisation)	**1,680,389**	**117,478**	**1,797,866**
Total net value of the right of use as at 1 February 2022	3,232,066	180,246	3,412,312
Total net value of the right of use as at 1 February 2023	**2,665,812**	**222,623**	**2,888,435**

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	482,634	37,946	520,580
Depreciation for the period – discontinued operations	102,745	0	102,745
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 the right of use as at 1 February 2021	2,429,912	159,151	2,589,063
Total net value of the right of use as at 31 January 2022	**3,232,066**	**180,246**	**3,412,312**

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 31.01.2023	As at 31.01.2022
Opening balance	4,177,292	3,177,679
Change in the Group's structure	-956,800	47,585
Increases (new agreements)	877,524	1,302,343
Amendments to lease agreements	310,686	335,003
Revaluation *	-84,191	-147,803
Foreign exchange differences	69,687	93,279
Interest	76,988	92,273
Payments	-808,631	-723,067
Closing balance	**3,662,555**	**4,177,292**
Short-term	902,471	749,069
Long-term	2,760,084	3,428,223
Total	**3,662,555**	**4,177,292**

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

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 ended 31 January 2023, LPP SA sold the Russian company as described in detail in note 13 Discontinued operations. Decreases in the right of use and lease liabilities following the sale of Re Trading OOO are given in tables presenting changes in the right of use and lease liabilities, in items ”change in the Group’s structure”.

In the reporting period, the Group presented the following values in the financial statements for continuing operations:
- costs of depreciation of the right of use: PLN 633.3 (2021: PLN 520.6 mln);
- interest costs: PLN 77.0 mln (2021: PLN 92.3 mln);
- costs of rent under unmeasured agreements in line with IFRS 16: PLN 477.9 mln (2021: PLN 368.2 mln).

As at 31 January 2023 and 31 January 2022, 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 31.01.2023	As at 31.01.2022
Up to 1 month	80,508	63,371
From 1 to 3 months	161,016	126,742
From 3 months to 1 year	724,571	570,342
Above 1 year	2,954,670	3,480,332
Total	**3,920,765**	**4,240,787**

16. 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 2023 was PLN 77.5 mln (2021: PLN 77.5 mln).

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 losses were required for the asset in question. Test details are given in note 17.

As at 31 January 2023, other key intangible assets were as follows:
- Software supporting sales in retail stores in subsidiaries. As at 31 January 2023, the balance sheet value of that asset amounted to PLN 10.9 mln (2021: PLN 11.0 mln);
- System supporting identification and stock-taking of goods in stores and warehouses. As at 31 January 2023, the balance sheet value of the said asset was PLN 7.2 mln (2021: PLN 8.1 mln);
- System for invoicing e-commerce sales. As at 31 January 2023, the balance sheet value of the said asset was PLN 0.1 mln (2021: PLN 0.9 mln);
- Software for managing the designing process. As at 31 January 2023, the balance sheet value of the said asset was PLN 0.9 mln (2021: PLN 1.5 mln);
- SAP. As at 31 January 2022, the balance sheet value of the said asset was PLN 4.1 mln (2021: PLN 6.3 mln);
- Product allocation software. As at 31 January 2023, the balance sheet value of the said asset was PLN 6.5 mln (2021: PLN 8 mln);
- Application for product order management. As at 31 January 2023, the balance sheet value of the said asset was PLN 19.7 mln (2021: PLN 12.0 mln);
- Application for managing merchandise in brands. As at 31 January 2023, the balance sheet value of the said asset was PLN 17.6 mln.

Changes in intangible assets from 1 February 2022 to 31 January 2023 are specified in tables below.

Changes in intangible assets from 01.02.2022 to 31.01.2023 (in PLN thousands)	Costs of completed store concept works	Software	Intangible assets under construction	Advances	Total
Opening balance gross value of intangible assets	4,339	227,638	47,941	0	279,918
Foreign exchange differences	0	-45	0	0	-45
Change in the Group's structure	0	-412	0	0	-412
Acquisitions	0	299	71,774	0	72,073
Transfer from intangible assets under construction	0	62,691	-62,691	0	0
Disposal	1,149	1,799	0	0	2,948
Other increases	0	2,468	13,223	0	15,691
Other decreases	0	5,870	6,923	0	12,793
Closing balance gross value of intangible assets	**3,190**	**284,970**	**63,324**	**0**	**351,484**
Opening balance accumulated depreciation (amortisation)	4,071	131,416	0	0	135,487
Foreign exchange differences	0	-69	0	0	-69

Changes in intangible assets from 01.02.2022 to 31.01.2023 (in PLN thousands)	Costs of completed store concept works	Software	Intangible assets under construction	Advances	Total
Change in the Group's structure	0	-296	0	0	-296
Depreciation for the period	211	36,954	0	0	37,165
Depreciation for the period – discontinued operations	0	77	0	0	77
Decrease	1,092	5,371	0		6,463
Closing balance accumulated depreciation (amortisation)	**3,190**	**162,711**	**0**	**0**	**165,901**
Opening balance impairment losses	0	0	0	0	0
Decreases	0	0	0	0	0
Closing balance impairment losses	**0**	**0**	**0**	**0**	**0**
Total net value of intangible assets as at 1 February 2022	268	96,222	47,941	0	144,431
Total net value of intangible assets as at 31 January 2023	**0**	**122,259**	**63,324**	**0**	**185,583**

Changes in intangible assets from 01.02.2021 to 31.01.2022 (in PLN thousands)	Costs of completed store concept works	Computer software and licences	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	0	205
Acquisitions	0	267	42,088	0	42,355
Transfer from intangible assets under construction	0	32,418	-32,418	0	0
Disposal	4,756	3,048	113	0	7,917
Other increases	0	0	1,728	0	1,728
Other decreases	0	2,382	3,012	0	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	0	90
Depreciation for the period	490	30,052	0	0	30,542
Depreciation for the period – discontinued operations	0	90	0	0	90
Decrease	4,755	2,968	0	0	7,723

Changes in intangible assets from 01.02.2021 to 31.01.2022 (in PLN thousands)	Costs of completed store concept works	Computer software and licences	Intangible assets under construction	Advances	Total
Closing balance accumulated depreciation (amortisation)	**4,071**	**131,416**	**0**	**0**	**135,487**
Opening balance impairment losses	0	0	0	0	0
Decreases	0	0	0	0	0
Closing balance impairment losses	**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**

In the reporting period ended 31 January 2023 and the comparative period, there were no revaluation write-offs on intangible assets.

17. 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 losses made so far and deductions for the disposal of part of shares to which it was previously assigned. Impairment losses 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 2023, the value of goodwill did not change and amounted to PLN 183.2 mln (2021: PLN 183.2 mln). Goodwill was created 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 31.01.2023	As at 31.01.2022
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 31.01.2023	As at 31.01.2022
Opening balance	26,395	26,395
Increases	0	0
Closing balance	**26,395**	**26,395**

Net value (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Opening balance	183 203	183 203
Closing balance	**183 203**	**183 203**

According to IAS 36 and the accounting policy, as at 31 January 2023, an impairment test was carried out for the goodwill of Artman, of the balance sheet value of PLN 183.2 mln and trademark of balance sheet value of PLN 77,5 nln.

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.

The 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 (2023-2027), without recognising a residual value,
- annual sales in 2023-2027 in stores tested – a consistent increase year by year at a pace similar to that in 2022;
- operating costs of stores tested – a consistent increase year by year at a pace similar to that in 2022;
- in the forecast period, a discount rate is variable and calculated based on the sum of Wibor 6 months plus risk bonus. In 2022, the discount rate was 11.993% (2021: 11.03%) and will remain unchanged by 2027.

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.

18. OTHER ASSETS

18.1. OTHER FINANCIAL ASSETS

ACCOUNTING POLICY

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

The accounting policy on financial assets is specified in note 33.

Other financial assets (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Non-current assets		
Other receivables	7,449	18,494
Loans granted	153	120
Other long-term financial assets	**7,602**	**18,614**
Current assets		
Other receivables	5,402	0
Receivables from payment card operators	50,051	36,875
Loans granted	3,511	155
Forward contract valuation	0	23,540
Foreign currency sold	0	0
Other short-term financial assets	**58,964**	**60,570**
Other financial assets in total	**66,566**	**79,184**

In the current reporting period, the Company signed forward contracts with banks. As at 31 January 2023, the Group measured contracts non-performed as at the said date. The negative measurement results are shown as liabilities and are described in note 27 (2021: PLN 23.5 mln as positive measurement).

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 2023, the Group granted loans in PLN, of the value of PLN 3.7 mln (2021: PLN 0.3 mln).

Interest on loans in PLN is approx. 4-6%, with maturity dates falling between 2023 and 2027.

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 31.01.2023	As at 31.01.2022
Opening balance	275	151
Loans granted in the period	3,459	300
Interest charged	70	9
Loans repaid with interest	-140	-185
Revaluation write-off	0	0
Closing balance	**3,664**	**275**

Revaluation write-off (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Opening balance	29	29
Write-offs recognised in the period	0	0
Write-offs reversed in the period	0	0
Closing balance	**29**	**29**

18.2. 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 to do so.

Other non-financial assets (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Current assets:		
State budget receivables	49,028	186,928
Other receivables	4,126	9,088
Other short-term non-financial assets	**53,154**	**196,016**
Other non-financial assets in total	**53,154**	**196,016**

As at 31 January 2023, the value of other receivables was adjusted with a revaluation write-off amounting to PLN 144 thousand (2021: PLN 151 thousand).

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

Revaluation write-off (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Opening balance	151	161
Write-offs made in the period	0	0
Write-offs utilised in the period	0	0
Write-offs reversed in the period	7	10
Closing balance	**144**	**151**

19. DEPOSITS AND INVESTMENT FUNDS

Deposits and investment funds (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Participation units in investment funds	556,759	649,999
Security deposits	0	200,000
Deposit set aside	0	452,695
Deposits and investment funds	**556,759**	**1,302,694**

In the reporting period, the Group acquired participation units in money market funds. As at 31 January 2023, the value of participation units was PLN 556.8 mln (2021: PLN 650.0 mln), comprising the value of acquired units as at the purchase date, in the amount of PLN 543.9 mln, and their measured value, in the amount of PLN 12.9 mln. In the cash flow statement, in investing activities, the Group reports the acquisition in the amount of PLN 15.4 mln (2021: PLN 289.9 mln) and decommitment of funds amounting to PLN 162.2 mln (2021: PLN 116.1 mln). The decommissioning loss of PLN 4,3 mln is recognised in operating activities, in item "profit (loss) on 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.

Purchased participation units in money market funds, amounting to USD 66 mln, yield revenue for the company, which is generated by the increase in the investment's value, and, at the same time, they were allocated to secure factoring contracts specified in detail in note 27.

20. 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 Spring/Summer collections, (2) September-December for Autumn/Winter collections. After such periods, there are clearance sales.

Inventories with trading and useful value impaired are written off according to the following rule:
- goods to be sold in brand stores - revaluation write-offs in a percentage compliant with a current analysis;
- wholesale 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 31.01.2023	As at 31.01.2022
Materials	18,810	31,726
Goods	3,287,959	3,784,283
Product return assets	46,635	48,104
Total	**3,353,404**	**3,864,113**

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 the comparative period are given in the table below.

Revaluation write-off (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Opening balance	372,305	128,528
Write-offs made in the period	0	149,230
Write-offs made – discontinued operations	0	88,556
Write-offs reversed in the period	27,153	0
Write-offs reversed – discontinued operations	139,331	0
Foreign exchange differences	-802	5,991
Closing balance	**205,019**	**372,305**

In the current period, revaluation write-offs on inventory were reversed in the amount of PLN 27.1 mln due to a smaller volume of goods ordered for the current season and a substantial reduction of inventory from previous seasons.

21. 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 31.01.2023	As at 31.01.2022
Trade receivables net	944,095	246,077
Revaluation write-offs on trade receivables	51,190	23,900
Trade receivables gross	**995,285**	**269,977**

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

Revaluation write-off (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Opening balance	23,900	38,173
Write-offs made in the period	86,374	9,516
Write-offs made – discontinued operations	0	368
Write-offs utilised in the period	244	14,914
Write-offs reversed in the period	59,106	9,643
Foreign exchange differences	266	400
Closing balance	**51,190**	**23,900**

22. 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 2023 was PLN 465.0 mln (2021: PLN 1 354.9 mln).

Cash (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Cash in hand and at bank	465,046	1,354,891
Other cash	0	0
Total	**465,046**	**1,354,891**

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 31.01.2023	As at 31.01.2022
Cash and cash equivalents in the statement of financial position	465,046	1,354,891
Adjustments:		
Foreign exchange differences from balance sheet measurement of cash in foreign currency	-74,590	-37,922
Cash and cash equivalents recognised in CF	**390,456**	**1,316,969**

23. SHARE CAPITAL 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.

23.1. STATED CAPITAL

As at 31 January 2023, the stated capital of LPP SA amounted to PLN 3.7 mln and increased by PLN 3.0 thousand compared to 31 January 2022. It was divided into 1,854,241 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 31.01.2023	As at 31.01.2022
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
M	bearer	ordinary	none	1,818	0
Total number of shares				**1,854,241**	**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 2023

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	31.2%	1,978,889	60.8%	1,157,778
Sky Foundation**	227,898	12.3%	227,898	7.0%	455,796
Other shareholders	1,047,454	56.5%	1,047,454	32.2%	2,094,908
Total	**1,854,241**	**100.0%**	**3,254,241**	**100.0%**	**3,708,482**

**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, co-founder of LPP SA.*

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, co-founder of LPP SA.*

23.2. SHARE PREMIUM

This item is a separated amount of the spare capital, resulting from the surplus on the sale of shares above their nominal value, with the carrying value of PLN 364.3 mln (2021: PLN 364.3 mln).

23.3. OTHER TYPES OF CAPITAL

Values of specific types of capital are given in the table below.

Type of capital (in PLN thousand)	As at 31.01.2023	As at 31.01.2022
Spare capital	592,313	216,985
Capital from settling the merger transaction	-1,410	-1,410
Reserve capital	2,129,529	2,129,529
Total	**2,720,432**	**2,345,104**

The spare capital presented under equity as at 31 January 2023 was created mainly from net profit brought forward from previous years and following measurement of remunerations paid in shares.

In 2020, under the Resolution of the Ordinary Meeting of Shareholders held on 18 September 2020, the reserve capital was created in the amount of PLN 2,100.0 mln, deriving from previous years' profits recognised in the spare capital of LPP SA.

The structure of the spare capital is given below.

Type of spare capital (in PLN thousand)	As at 31.01.2023	As at 31.01.2022
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	529,156	158,716
Created from the amount of remunerations paid in shares	61,808	56,920
Total	**592,313**	**216,985**

24. BANK LOANS, BORROWINGS AND DEBT SECURITIES

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 2023, the debt arising from bank loans was as follows.

LOAN UTILISATION AS AT 31 JANUARY 2023

Bank	in PLN thousands	Currency in thousands		Bank loan cost	Maturity date
PKO BP SA	402,951	-		wibor 1 m + bank's margin	04.11.2023
PKO BP SA	193,596	-		wibor 1 m + bank's margin	11.07.2032
PKO BP SA	248,111	-		wibor 1 m + bank's margin	21.12.2025
Pekao SA	27	-		wibor 1m+ bank's margin / euribor 1m+bank's margin / libor 1m + bank's margin	30.06.2023
Pekao SA	58,214	-		wibor 1 m + bank's margin	30.09.2025
Pekao SA	41,451	-		wibor 1 m + bank's margin	31.08.2027
Pekao SA	45,049	-		wibor 1 m + bank's margin	31.12.2027
Pekao SA	867	-		wibor 1 m + bank's margin	30.11.2024
Citibank Bank Handlowy SA	68,757	-		wibor 1 m + bank's margin	09.01.2024
HSBC Continental Europe (Spółka Akcyjna) Oddział w Polsce	92,363	21,243	USD	reference rate + bank's margin	08.02.2023
ING Bank Śląski S.A.	192,729	-		wibor 1 m + bank's margin	31.01.2024
Santander Bank Polska S.A.	98	-		wibor 1 m + bank's margin	28.02.2023
Total	**1,344,213**				

Bank loans amounting to PLN 1,344.2 mln included:
- long-term loans in the amount of PLN 538.1 mln,
- short-term loans in the amount of PLN 806.1 mln (including PLN 48.3 mln PLN 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 2023 were as follows:
- PLN 39.5 mln - investment loan allocated for financing the operations of LPP SA,
- PLN 77.4 mln - investment loan designated for the modernisation of the head office of LPP SA,
- PLN 173.1 mln– investment loan for the construction of the Distribution Center in Brześć Kujawski,
- PLN 248.1 mln – working capital loan for the operations of LPP Logistics Sp. z o.o.

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

LOAN UTILISATION AS AT 31 JANUARY 2022

Bank	in PLN thousands	Currency in thousands		Loan cost	Maturity date
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
BNP Paribas Bank Polska SA	354	-		wibor 1 m + bank's margin	28.02.2027
Alfa-Bank	106,200	2,000,000	RUB	mosprime 1m, 2m or 3m + bank's margin	13.09.2022
Citibank Russia	53,100	1,000,000	RUB	mosprime 1m, 2m or 3m + 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 3m + bank's margin	17.05.2022
Ukrsibbank	7,251	50,148	UAH	libor 1m + bank's margin	15.02.2022
Razem	**679,210**				

Detailed information on bank loans as at 31 January 2023 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
PKO BP SA	Investment loan	199,416	PLN	contractual mortgage, assignment of receivables under insurance policy, blank promissory note with a promissory note declaration, surety of LPP SA, guarantee of payment capital and interest instalments by LPP SA
PKO BP SA	Working capital loan	250,000	PLN	contractual mortgage, assignment of receivables under insurance policy, blank promissory note with a promissory note declaration, surety of LPP SA, guarantee of payment capital and interest instalments by LPP SA
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

Bank	Type of loan / credit line	Loan amount and currency		Security
		in PLN thousands	currency	
Pekao SA	Investment loan	105,000	PLN	blank promissory note with a promissory note declaration and 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 in Pekao SA, real estate mortgage
Pekao SA	Investment loan	63,644	PLN	Contractual mortgage on real property
Pekao SA	Multi-purpose and multi-currency credit line	765,857 including: USD 2,000; EUR 1,000	PLN/ USD/ EUR	blank promissory note with a promissory note declaration, statement on submission to enforcement, KUKE guarantee of PLN 400 mln
Citibank Bank Handlowy SA	Multi-purpose and multi-currency credit line	180,000	PLN	blank promissory note with a promissory note declaration, statement on submission to enforcement,
HSBC Continental Europe (Spółka Akcyjna) Oddział w Polsce	Credit line	45,000	USD	power of attorney for the Bank
ING Bank Śląski S.A.	Overdraft	200,000	PLN	statement on submission to enforcement

25. 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.

25.1. 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 31.01.2023	As at 31.01.2022
Opening balance	1,409	1,818
Adjustment	0	0
Current employment costs	300	-372
Benefits paid	-26	-37
Closing balance	**1,683**	**1,409**

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 2023		
Retirement benefit	1,153	1,290
Pension benefit	145	155
Balance as at 31 January 2022		
Retirement benefit	1,291	1,163
Pension benefit	127	118

Change in the labour turnover rate by 0.5 p.p. (in PLN thousands)	Increase	Decrease
Balance as at 31 January 2023		
Retirement benefit	1,188	1,249
Pension benefit	147	153
Balance as at 31 January 2022		
Retirement benefit	1,182	1,269
Pension benefit	119	126

Change in the remuneration increase rate by 0.5 p.p. (in PLN thousands)	Increase	Decrease
Balance as at 31 January 2023		
Retirement benefit	1,292	1,151
Pension benefit	155	144
Balance as at 31 January 2022		
Retirement benefit	1,164	1,291
Pension benefit	119	127

25.2. 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 2022	**99,716**	**49,956**
Change in the Group's structure	-271	-12,722
- provision made	105,782	6,439
- provision utilised	6,961	0
- provision reversed	94,018	0
Balance as at 31 January 2023	**104,248**	**43,673**
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**

26. 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 2022	**0**	**10,669**
- provision made	0	4,891
- provision utilised	0	0
- provision reversed	0	10,669
Balance as at 31 January 2023	**0**	**4,891**
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**

27. 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 financial liabilities comprise mainly bonds issued and measured at amortised cost and negative forward derivatives measured as at the balance sheet date at fair value.

Other non-financial liabilities comprise, in particular, liabilities owed to the tax office as VAT.

Other non-financial liabilities are recognised in an amount payable.

Long-term liabilities (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Other financial liabilities (bonds)	306,924	294,665
Financial liabilities	306,924	294,665
Total long-term liabilities	**306,924**	**294,665**

Short-term liabilities (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Trade liabilities	1,374,230	1,501,608
Trade finance liabilities	1,479,722	3,310,120
Other financial liabilities (forwards)	46,077	0
Other financial liabilities (bonds)	12,168	4,062
Financial liabilities	**2,912,197**	**4,815,790**
Liabilities payable due to tax and other benefits	145,226	151,902
Other non-financial liabilities	4,797	3,149
Non-financial liabilities	**150,023**	**155,051**
Total short-term liabilities	**3,062,220**	**4,970,841**

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 trade finance. Therefore, they remain classified as trade liabilities. As at 31 January 2023, the Group delivered to bank-factors domestic and foreign invoices of the value of PLN 9.8 mln and USD 338.1 mln (2021: PLN 993.9 mln and USD 562.9 mln). The Group has trade finance limits, totalling PLN 250 mln and USD 161 mln - set forth by 31.06.2023, PLN 60 mln – set forth by 25.12.2023, and USD 528 mln - set forth for an unlimited period of time, renewable on 30.06.2023 – USD 428 mln, and 28.02.2023 – USD 100 mln as decided by the loan committee (2021: PLN 890 mln and USD 50 mln – set forth by 30.06.2022, PLN 250 mln – set forth by 17.08.2022, and USD 647.5 mln – set forth for an unlimited period of time). The Group's limit to be used as at 31 January 2023 was PLN 240 mln and USD 411 mln. Due to the decrease of trade finance limits in 2022, collaterals functioning in the previous period were partially cancelled, i.e. a security deposit of PLN 200 mln, deposited on the factor's bank account, and a deposit made in the amount of PLN 627 mln. Other collaterals in the form of participation units in a money market fund, totalling USD 66 mln, are described in note 21.

In previous years, the Group issued 300,000 unsecured ordinary 5-year bonds of the A series, of the nominal value of PLN 1,000 each.

The bond redemption date was set for 12 December 2024. Interest on bonds is WIBOR 6M plus margin of 1.1%.

As at 31 January 2023, the value of bonds was PLN 319.1 mln. In the statement of financial position, the said value is shown as other financial liabilities, in the long-term part, in the amount of PLN 306.9 mln, and in other financial liabilities being part of trade and other liabilities, in the amount reflecting interest charged, i.e. PLN 12.2 mln.

28. 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 31.01.2023	As at 31.01.2022
Long-term		
Rent	1,377	2,862
Software supervision	822	435
License fees, subscription fees, Internet domains	2,093	1,179
Other long-term prepayments	3,936	1,280
Total long-term prepayments	**8,228**	**5,756**
Short-term		
Rent	20,501	16,679
Insurance	12,603	7,840
Real property tax	8,000	6,822
Software supervision	2,776	1,807
License fees, subscription fees, Internet domains	14,186	9,239
Power consumption costs	0	58
Other short-term prepayments	20,877	6,856
Total short-term prepayments	**78,943**	**49,243**

Accruals – liabilities (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Long-term		
Consideration for outlays resold	67,120	111,344
Surcharges on lease agreements	46,046	2,148
Deferred rent	36	251
Other sale	1,138	378
Total long-term accruals	**114,340**	**114,121**
Short-term		
Sales based on gift cards and vouchers	0	0
Consideration for outlays resold	27,342	47,827
Surcharges on lease agreements	1,794	899
Deferred rent	214	1,177
Other sale	3,596	6,709
Total short-term accruals	**32,946**	**56,612**

29. CONTINGENT ASSETS AND LIABILITIES

ACCOUNTING POLICY

In the statement of financial position, the Group does not recognise conditional assets or liabilities which, in the Group's opinion, are not likely to be fulfilled in the future. The values of guarantees and sureties are treated as conditional assets and liabilities and are given in the note.

In 2022, companies belonging to the LPP SA Group utilised bank guarantees to secure payment of rent for the leased premises designated for brand stores, offices and a warehouse.

As at 31 January 2023, the total value of bank guarantees issued upon request and at the responsibility of LPP SA amounted to PLN 296.4 mln, of which:
- guarantees issued to secure agreements concluded by LPP SA amounted to PLN 88.7 mln,
- guarantees issued to secure agreements concluded by consolidated associates amounted to PLN 187.5 mln,
- guarantees issued to secure warehouse and office space lease agreements concluded by LPP SA amounted to PLN 20.2 mln.

In 2022, the Parent Company received also guarantees as a collateral for payments from a contracting party. The value of guarantees received was PLN 16.1 mln.

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.

29.1. 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.

LPP is a party to a clarification procedure initiated by the Office for the Protection of Competition and Consumers in order to determine whether, in connection with the pursued marketing activity involving ecology issues, the Company committed a breach giving grounds for the initiation of a procedure involving practices infringing consumers' collective interests. The enquiry made by the Office for the Protection of Competition and Consumers is a part of coordinated actions taken by European anti-trust authorities, addressed to companies operating in the clothing sector in respect of standards for ECO labelling of clothes. Upon formal request of the Head of the Office for the Protection of Competition and Consumers, LPP SA provided extensive clarifications and evidence. At the present stage, no charges have been brought against the Company in terms of application of practices infringing any collective interest of consumers. Should the said authority recognise that there are prerequisites for attributing any such practices to the Company, the maximum fine permitted under statutory law amounts to no more than 10% of turnover yielded in the year preceding the year in which such fine was imposed.

29.2. 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 the National Revenue Administration (NRA).

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 Revenue Administration important issues related to tax settlements. Such arrangements may concern, among others: interpretation of tax laws, rules for determining transfer prices, non-applicability of the general anti-avoidance rule or the value of income tax advances. 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 a 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 Revenue Administration only.

The possibility of concluding the said agreement has been limited. It may only be concluded by the Head of the NRA 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 NRA, declaring its willingness to join the programme. Consequently, the NRA created a taxpayer profile for LPP. Following an initial analysis and assessment of LPP SA by the NRA, on 9 December 2020, the Company received a decision of the Head of the NRA to commence a fiscal audit. In January 2023, the said audit was completed and LPP SA is at the final stage of assessing its qualifications for concluding the agreement in question with the NRA.

30. INFORMATION ON ASSOCIATES

30.1. TRANSACTIONS WITH ASSOCIATES

In the reporting period ended 31 January 2023, the Group 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.

Associates (in PLN thousands)	Liabilities as at 31.01.2023	Receivables as at 31.01.2023	Revenue from 01.02.2022 to 31.01.2023	Purchases from 01.02.2022 to 31.01.2023
BBK SA	0	0	0	754
Falcon Investment Management Sp. z o.o.	0	20	175	0
Total	**0**	**20**	**175**	**754**

Associates (in PLN thousands)	Liabilities as at 31.01.2022	Receivables as at 31.01.2022	Revenue from 01.02.2021 to 31.01.2022	Purchases from 01.02.2021 to 31.01.2022
Falcon Investment Management Sp. z o.o.	0	0	9	0
Total	**0**	**0**	**9**	**0**

30.2. 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 2022 and 31 January 2023, amounted to PLN 5.9 mln (2021: PLN 5.4 mln).

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

First name and surname (in PLN thousands)	Position	As at 31.01.2023	As at 31.01.2022
Marek Piechocki	President of the Management Board	1,718	1,681
Przemysław Lutkiewicz	Vice-President of the Management Board	1,051	1,021
Jacek Kujawa	Vice-President of the Management Board	1,051	1,021
Sławomir Łoboda	Vice-President of the Management Board	1,051	1,021
Marcin Piechocki	Vice-President of the Management Board	1,055	637

The value of short-term benefits of members of the Supervisory Board of the Parent Company, received between 1 February 2022 and 31 January 2023, amounted to PLN 133 thousand (2021: 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 31.01.2023	As at 31.01.2022
Miłosz Wiśniewski	Chairman of the Supervisory Board	36	38
Wojciech Olejniczak	Member of the Supervisory Board	25	34
Piotr Piechocki	Member of the Supervisory Board	24	31
Magdalena Sekuła	Member of the Supervisory Board	24	31
Antoni Tymiński	Member of the Supervisory Board	0	25
Grzegorz Słupski	Member of the Supervisory Board	24	13

30.3. 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.

In 2021, LPP SA launched the Incentive Scheme for the Management Board of the Parent Company for three subsequent years 2021, 2022 and 2023. The Incentive Scheme for the said years is independent, i.e. bonus ratios for specific financial years, their levels and the number of shares will be determined by the Supervisory Board for each financial year separately.

In 2022, the Supervisory determined that, for the financial year from 1 February 2022 to 31 January 2023, members of LPP's Management Board may receive, in total, 1,314 ordinary bearer shares if all conditions set forth in the Rules are met:
- they remain in the Management Board by the date of conclusion of the share acquisition agreement;
- the Company generates specific operating profit and EBIT margin thresholds calculated on the basis of consolidated financial results of the Group.

The date for settling the Incentive Scheme, separate for each financial year, should fall within three months from the date of publishing by the Company of the Consolidated Annual Report. The issue price per share equals its nominal value and amounts to PLN 2. The value of employee benefits payable in shares to members of the Management Board was PLN 4.9 mln.

For the financial year from 1 February 2021 to 31 January 2022, members of the Management Board of LPP SA received 1,818 ordinary bearer shares with the issue price of PLN 2, of the fair value of PLN 23.2 mln. The new share issue was registered on 5 September 2022.

The number of shares awarded under the Incentive Scheme is as follows.

First name and surname (in PLN thousands)	Position	As at 31.01.2023	As at 31.01.2022
Marek Piechocki	President of the Management Board	378	522
Przemysław Lutkiewicz	Vice-President of the Management Board	234	324
Jacek Kujawa	Vice-President of the Management Board	234	324
Sławomir Łoboda	Vice-President of the Management Board	234	324
Marcin Piechocki	Vice-President of the Management Board	234	324

31. 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 24) and bonds issued (note 27). 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 22), collaterals, deposits and investment funds (note 19), trade receivables (note 21), lease liabilities (note 15), trade liabilities and trade finance liabilities (note 27).

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.

31.1. CREDIT RISK

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

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

Items (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Loans	3,664	275
Trade receivables	944,095	246,077
Other receivables	377,856	18,494
Receivables from payment card operators	50,051	36,875
Participation units in funds	556,759	649,999
Security deposits and deposits	0	652,695
Measurement of forward contracts	0	23,540
Cash and cash equivalents	465,046	1,354,891
Guarantees and sureties granted	296,452	352,892
Total	**2,693,923**	**3,335,738**

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. Receivables from recipients are interest-free and usually have a market payment term. Owing to the above, in the opinion of the Management Board of the Parent Company, there is no additional credit risk beyond the level determined by the write-off on expected credit losses, relevant for the Group's trade receivables.

The Group monitors itself exposure to credit risk arising from receivables from recipients by way of a periodical analysis of the financial position of contracting parties and determining crediting limits. As assessed by the Management Board of LPP SA, there is no credit risk exposure.

The credit risk associated with financial instruments in the form of cash on bank accounts is limited as parties to the transactions are banks with high credit ratings of international rating agencies. The Group does not have a significant concentration of credit risk. The risk is spread over a large number of banks it uses and customers with whom it cooperates. In the opinion of the Management Board of LPP SA, the credit risk arising from cash and participation units in funds is irrelevant.

The value of guarantees and sureties granted is given in note 29.

The classification of gross trade receivables broken down by the length of overdue period as at 31 January 2023 and in the comparative period is given in the table below.

Gross trade receivables (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Not overdue	651,665	254,790
Overdue up to one year	343,291	14,192
Overdue for over one year	329	995
Total	**995,285**	**269,977**

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

31.2. 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, trade finance 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 2023, the Group held unconsumed borrowings of PLN 1,042.2 mln (2021: PLN 1,041.6 mln), in respect of which all terms and conditions had been met.

As at 31 January 2023, 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 24, and in terms of bonds issued – in note 27.

The Group uses also trade finance. A detailed description of this type of financing is given in note 27. The payment deadline of trade finance 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 31.01.2023	As at 31.01.2022
Up to one month	174,411	103,589
From one to three months	150,812	165,495
From three months to one year	535,274	277,990
Above one year	574,450	147,418
In total	**1,434,947**	**694,492**

**undiscounted values*

Bonds (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Up to one month	0	0
From one to three months	0	0
From three months to one year	12,168	4,062
Above one year	306,924	301,295
In total	**319,092**	**305,357**

Lease liabilities (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Up to one month	80,508	63,371
From one to three months	161,016	126,742
From three months to one year	724,571	570,342
Above one year	2,954,670	3,480,332
In total	**3,920,765**	**4,240,787**

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 2023 and the comparative period is given in the table below.

Gross trade liabilities (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Not overdue	2,763,077	4,782,388
Overdue up to one year	89,151	28,903
Overdue for over one year	1,724	437
In total	**2,853,952**	**4,811,728**

31.3. 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. Over 90% of transactions concluded by LPP SA are denominated in foreign currencies other than the reporting currency, while 46% 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 2023, 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 2023 (in PLN thousand)	Values denominated in		Converted value
	USD	EUR	
Cash	54,315	153,701	208,016
Trade receivables	673,064	152,442	825,506
Investment funds	556,759	0	556,759
Trade liabilities	1,490,039	131,230	1,621,269
Lease liabilities	0	1,374,187	1,374,187

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 2023, a negative mark-to-market of forward contracts amounted to PLN 46.1 mln (2021: PLN 23.5 mln – a positive mark-to-market value) and was shown as other financial liabilities (note 27).

Negative mark-to-market of forward contracts (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Velocity	22,673	0
BNP Paribas	12,170	0
Bank Pekao SA	11,234	0
Total	**46,077**	**0**

Positive mark-to-market of forward contracts (in PLN thousands)	As at 31.01.2023	As at 31.01.2022
Bank Pekao SA	0	13,675
Velocity	0	9,865
Total	**0**	**23,540**

The sensitivity of gross profit (loss) to rational and probable USD and EUR exchange rate fluctuations, with assumed steadiness of other factors, is shown in the table below.

Balance sheet items	Increase/decrease of the foreign exchange rate	Effect on profit/loss
31 January 2023 - USD	+ 5%	-10,295
	- 5%	10,295
31 January 2022 - USD	+ 5%	-95,022
	- 5%	95,022
31 January 2023 - EUR	+ 5%	-59,963
	- 5%	59,963
31 January 2022 - EUR	+ 5%	-77,530
	- 5%	77,530

31.4. 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	3,664	2	-2
Cash	465,046	3,488	-3,488
Participation units	556,759	4,176	-4,176
Security deposits and deposits	0	0	0
Effect on financial assets before taxation		7,666	-7,666
Tax (19%)		-1,456	1,456
Effect on financial assets after taxation		*6,209*	*-6,209*
Financial liabilities			
Bank loans and borrowing	1,344,213	-10,082	10,082
Bonds	319,092	-2,393	2,393
Effect on financial liabilities before taxation		*-12,475*	*12,475*
Tax (19%)		2,370	-2,370
Effect on financial liabilities after taxation		*-10,105*	*10,105*
Total		**-3,895**	**3,895**

As at 31 January 2023, the Group's net profit would have been higher by PLN 3.9 mln 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.

32. 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.

The Group measures financial instruments such as derivatives, i.e. forward contracts, at fair value at each balance-sheet date.

Derivatives are recognised as assets when their value is positive and as liabilities when their value is negative.

The fair value of forward contracts is determined by reference to current forward rates occurring for contracts with similar maturity.

All assets and liabilities measured at fair value or their fair value is disclosed in the financial statements are classified in the fair value hierarchy on the basis of the lowest level of input data significant for measuring fair value taken as a whole.

33. 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.

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 31.01.2023	
	aAC	Fair value
Other financial assets	7,602	0

Current assets (in PLN thousands)	As at 31.01.2023	
	aAC	Fair value
Trade receivables	944,095	0
Other financial assets	58,964	0
Participation units in funds	0	556,759
Cash and cash equivalents	465,046	0

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	37 030	0
Participation units in funds	0	649 999
Security deposits and deposits	652 695	0
Forward contract measurement	0	23 540
Cash and cash equivalents	1 354 891	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 31.01.2023		
	aAC	Fair value	Beyond IFRS 9
Bank loans and borrowings	538,126	0	0
Lease liabilities	2,760,084	0	0
Other financial liabilities (bonds)	306,924	0	0

Short-term liabilities (in PLN thousands)	As at 31.01.2023		
	aAC	Fair value	Beyond IFRS 9
Trade liabilities	2,853,952	0	0
Lease liabilities	902,471	0	0
Bonds	12,168	0	0
Other liabilities	0	0	150,023
Bank loans and borrowings	806,087	0	0

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	749,069	0	0
Bonds	4,062	0	0
Other liabilities	0	0	155,051
Bank loans and borrowings	535,036	0	0

34. OPERATING SEGMENTS

Financial results and other information on geographical segments for the period from 1 February 2022 to 31 January 2023 and for the comparative period are given in the tables below.

For the year ended 31 January 2023 (in PLN thousand)	Poland	Romania	Czech Republic	Germany	Other countries	Total
Revenue	6,860,380	1,330,408	1,066,829	671,773	5,997,114	15,926,504
Profit (loss) on operating activities	**804,841**	**114,788**	**120,829**	**55,468**	**363,745**	**1,459,671**
Profit before taxation						**1,362,758**
Income tax						218,536
Profit (loss) on continuing operations						**1,144,222**
Net profit (loss) on discontinued operations						**-50,681**
Net profit (loss)						**1,093,541**

For the year ended 31 January 2023 (in PLN thousands)	Poland	Romania	Czech Republic	Germany	Other countries	Values not attributed to segments	Total
Consolidated segment assets	8,786,031	504,501	429,519	401,582	2,445,059	354,348	12,921,040
Consolidated segment liabilities	5,096,250	255,545	308,001	409,957	1,521,143	1,345,767	8,936,663

Other disclosures	Poland	Romania	Czech Republic	Germany	Other countries	Total
Segment capital expenditures	587,737	116,609	60,750	1,866	465,824	1,232,786
Segment depreciation	530,336	92,646	89,787	63,552	352,870	1,129,191
Impairment losses on fixed assets	1,083	880	0	443	8,662	11,068
Reversal of impairment losses on fixed assets	19,387	2,287	3,062	0	101,645	126,381
Other non-cash expenses	51,525	6,917	6,050	3,145	47,255	114,892

For the year ended 31 January 2022 (in PLN thousand)	Poland	Romania	Czech Republic	Germany	Other countries	Total
Revenue	5,513,024	889,300	730,713	498,681	3,707,070	11,338,788
Profit (loss) on operating activities	**716,142**	**103,515**	**106,538**	**38,947**	**162,956**	**1,128,097**
Profit before taxation						**937,773**
Income tax						212,425
Net profit (loss) on continuing operations						**725 348**
Net profit (loss) on discontinued operations						**228,174**
Net profit (loss)						**953,522**

For the year ended 31 January 2022 (in PLN thousand)	Poland	Romania	Czech Republic	Germany	Other countries	Values not attributed to segments	Total
Consolidated segment assets	8,305,105	389,205	400,192	565,256	4,049,809	425,681	14,135,248
Consolidated segment liabilities	6,867,392	207,743	275,661	436,070	2,396,449	679,836	10,863,151

Other disclosures	Poland	Romania	Czech Republic	Germany	Other countries	Total
Segment capital expenditures	616,182	65,807	40,758	748	276,603	1,000,098
Segment depreciation	438,917	64,914	70,673	58,510	310,414	943,428
Impairment losses on fixed assets	15,749	4,555	312	871	174,378	195,865
Reversal of impairment losses od fixed assets	0	0	1,378	307	0	1,685
Other non-cash expenses	18,704	7,857	2,778	1,856	196,015	227,210

35. 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.

36. EMPLOYMENT STRUCTURE

In the year ended 31 January 2023, average employment (full-time work posts) in the entire Group was 19,862 full-time jobs (2021: 23,060 full-time jobs).

37. INFORMATION ON THE FEE OF THE STATUTORY AUDITOR OR THE AUDIT COMPANY

On 21 July 2022, LPP SA signed the agreement on the audit of the annual financial statements of the Company and the LPP SA Group for the years 2022-2024 and on the review of H1 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 Grant Thornton Polska Prosta spółka akcyjna with its registered office in Poznań, entered on the list of Polish Board of Statutory Auditors under no 4055.

The fee of the entity authorised to audit the consolidated and separate financial statements, paid or due for the year ended 31 January 2023 and the comparative period, broken down by types of services, is given in the table below.

Fee paid or due (in PLN thousands)	For 12 months ended 31.01.2023	For 12 months ended 31.01.2022
Obligatory audit of annual financial statements	337	240
Review of interim financial statements	201	145
Other services	0	0
Total	**538**	**385**

38. EVENTS AFTER THE BALANCE SHEET DATE

At the time of signing this report, there were no events requiring disclosure.

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

GDANSK, APRIL 25, 2023

04

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 2022/23 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 2022/23 (with due consideration of disclosure requirements for the Report on the Operations of the Parent Company for the said period), present a true and fair view of the development, achievements and the standing of the LPP SA Group and LPP SA, including a description of basic risks and threats.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the
Management Board

Przemysław Lutkiewicz
Vice-President of
the Management Board

Jacek Kujawa
Vice-President of
the Management Board

Sławomir Łoboda
Vice-President of
the Management Board

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 Grant Thornton Polska Prosta spółka akcyjna based in Poznań 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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Vice-President of
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Vice-President of
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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 a sustainability report for 2022/23, titled "Towards a circular economy", 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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Vice-President of the Management Board

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Vice-President of the Management Board

Marcin Piechocki
Vice-President of the Management Board

05

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:

Miłosz Wiśniewski
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 2022/23,
- LPP SA Management Board's report on the operations of the Company's Group in the financial year 2022/23 (incorporating the report on the Company's operations in the said period),
- the opinion and the report of the statutory auditor on the audit of the Company's financial statements for the financial year 2022/23;
- 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 2022/23;

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 2022/23, 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 2022/23 and
- the consolidated financial statements of the LPP SA Group for the financial year 2022/23

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 2022/23 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 2022/23;
- the Company's financial statement for the financial year 2022/23;
- consolidated financial statement of the LPP SA Group for the financial year 2022/23.

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.

SUPERVISORY BOARD OF LPP SA:

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Member of the Supervisory Board

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Member of the Supervisory Board

Magdalena Sekuła
Member of the Supervisory Board

Grzegorz Słupski
Member of the Supervisory Board

06

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

STANDPOINT OF THE MANAGEMENT BOARD OF LPP SA, DATED 25 APRIL 2023

ON THE RESERVATION MADE BY THE AUDIT COMPANY IN THEIR OPINION ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

In connection with information obtained in respect of expression by the audit company Grant Thornton Polska Prosta spółka akcyjna with its registered office in Poznań of the opinion, incorporating a reservation, on the audit of the consolidated financial statements of LPP SA for the financial year from 1 February 2022 to 31 January 2023, the Management Board of LPP takes the following standpoint on the matter in question:

The reservation made is a consequence of making by the Group of impairment losses on property, plant and equipment as well as inventory in the territory of Ukraine and Russia, in the total amount of PLN 608 mln, in the preceding financial year (i.e. the one ended 31 January 2022). However, as assessed by the audit company, the said impairment losses resulting from the armed conflict between Ukraine and Russia should have been recognised in the financial year from 1 February 2022 to 31 January 2023. In consequence of the above, the auditors hold the view that, in the preceding financial year, there was no adjusting event, which would have caused the postponement of the impact on the financial result following a decrease in the value of the Group's assets and equity by the above-mentioned amount of PLN 608 mln from the financial year 2021/2022 to the financial year 2022/2023.

The Management Board of LPP SA has already presented its standpoint on the matter in question with reference to the opinion, incorporating the said reservation, on the audit of the Group's consolidated financial results for the financial year ended 31 January 2022, made by the audit company Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw. The current opinion including the reservation is a derivative of postponing in time the recognition of impairment losses in subsequent reporting periods.

First of all, it should be taken into account that the opinion including the reservation made by the audit company refers solely to the postponement, in subsequent reporting periods, of the effects of aggressive actions taken by Russia against Ukraine. Following the recognition of impairment losses in the financial year 2021/2022, those effects were disclosed in that period, and they did not occur in the current reporting period. Prospective losses were somehow "consumed" in the earlier period.

As a result of extensive information appearing since the end of 2021 on increasingly aggressive actions taken by the Russian Federation against Ukraine, the Management Board of LPP SA decided to revaluate, as at 31 January 2022, the carrying value of Group's property, plant and equipment as well as inventory located in the territory of the two above-mentioned countries. The said decision resulted from the disclosure, starting at least from November 2021, of the fact of preparations carried out by Russia to attack Ukraine. Following the Zapad manoeuvres in the territory of Belarus, Russian troops remained there and were deployed along the border with Ukraine. Similarly, along Ukraine's Eastern border, Russian troops were being deployed starting from at least November 2021. The Russian escalation measures and plans to alter its relations with neighbours were clearly communicated by the Russian Federation, in, among others, the statement published on 10 December 2021 by the Ministry of Foreign Affairs of the Russian Federation on the "'conditions of a future dialogue of the Russian Federation with the USA and other Western countries" and in drafts of the agreements between Russia and NATO as well as Russia and USA on "security guarantees" from the same period. The analysis of those documents raised no doubts as to the targets of the Russian Federation, in which not only Ukraine was to be a territory of limited subjectivity, which, in principle, must have been recognised as a violent outbreak of conflict, no longer political only, but also as a great risk of escalating military actions (which, nonetheless, have already been taking place in the Ukrainian territory since 2014, starting with the seizure of Crimea and parts of the Luhansk and Donetsk regions by Russian troops and the separatist forces of the so-called People's Republics, created by them) to full-scale kinetic actions (a war).

In the Issuer's opinion, these announcements of actions to be taken by the Russian Federation were themselves affecting the market environment and the prospective recoverable value of assets located in the countries of Eastern Europe. The realisation of these intentions by way of full-scale aggression as of 24 February 2022 merely confirmed the permanent impairment of the recoverable value of assets and inventories in the said countries, which already occurred on the preceding balance-sheet date (i.e. as at 31 January 2022). It should be noted that permanent impairment takes place when it is highly probable that an asset controlled by an entity will not generate, in the future, the expected economic benefits in their major part or in whole (the recoverable amount is lower than the value recognised in accounting books). The above gives merit to recognise an impairment loss that brings the asset's value arising from accounting books to its determined fair value.

Analysing the situation in terms of International Accounting Standards, the Company recognised that there are grounds for disclosing a permanent decrease of the recoverable value of inventory and assets as at 31 January 2022. The said operations were confirmed by events after the reporting period. Under IAS 10, "events after the reporting period" are "events, which could be favourable or unfavourable, that occur between the end of the reporting period and the date that the financial statements are authorised for issue". To that extent, a distinction is made for, among others: "a) events after the reporting period that provide further evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period)".

Furthermore, under section 8 of IAS 8, "an entity adjusts amounts recognised in financial statements to give account of adjusting events after the reporting period."

In section 9 of IAS 10, one of examples of adjusting events after the reporting period, requiring the adjustment of amounts recognised in financial statements, is as follows:

"b) the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

(ii) the sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period".

Additionally, under section 12 of IAS 36, an indicator that an asset may be impaired is, among others, the occurrence in the near future after the reporting period of a "significant and unfavourable change for the entity, of a technological, market, economic or legal nature, in the environment in which the entity operates or on the markets to which the asset is dedicated" (section 12(b) of IAS 36).

In the entity's opinion, the full-scale kinetic actions taken by the Russian Federation against Ukraine several weeks after the reporting period, preceded by escalation activities carried out for numerous months were affecting the value of property, plant and equipment as well as inventory in Russia and Ukraine.

In consideration of those regulations, the Management Board recognised that there were grounds for making impairment losses as at the end of the financial year 2021/2022. It should be further noted that the conditions of the later sale of the Russian company confirmed altogether the Company's assessment of the impaired value of the assets and inventory in that country.

For prudential reasons and to maintain a safe and conservative approach to the determination of the financial result, it decided to recognize impairment losses on property, plant and equipment in the territory of Ukraine and Russia in the reporting period ended 31 January 2022. If those impairment losses had not been recognised, the gross financial result for the financial year ended 31 January 2022 would have been higher by PLN 608 million.

Given the one-off and incidental nature of the event in question, there is no need to take any further actions in respect of the subject matter of the reservation made.

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 25 APRIL 2023

ON THE RESERVATION MADE IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

In consideration of the wording of the opinion made by the audit company Grant Thornton Polska Prosta spółka akcyjna with its registered office in Poznań, involving a reservation, on the audit of the annual consolidated financial statements of the LPP SA Group for the financial year from 1 February 2022 to 31 January 2023, and in view of the standpoint of the Management Board and the Audit Committee on the reservation in question, the Supervisory Board gives the following opinion in that respect.

The reservation expressed by the audit company in its opinion stems from disclosure by the Group of impairment losses on property, plant and equipment as well as inventory in Ukraine and Russia, totalling PLN 608 mln, in the preceding financial year ended 31 January 2022. In the opinion of the audit company, impairment losses caused by the impact of the armed conflict between Ukraine and Russia on the economic standing should have been recognised in the audited year from 1 February 2022 to 31 January 2023. Consequently, the audit company hold the view that the aggressive actions taken by Russia against Ukraine were a non-adjusting event in the preceding financial year, affecting the financial result in the audited period 2022/2023. Given the said opinion, it is acknowledged that the effect of the decrease in the value of the Group's assets and equity by PLN 608 mln on the financial result should have been recognised in the year 2022/2023 and not in 2021/2022, as adopted by the Group.

The Supervisory Board upholds the view that the decision on the recognition and disclosure in the consolidated financial statements for the financial year ended 31 January 2022 of the impairment losses on property, plant and equipment as well as inventory located in the territory of Ukraine and Russia, totalling PLN 608 million, was a justifiable action. It represented a conservative and safe approach to determining the Group's financial result. Should those impairment losses not have been made, in that period, the Group's financial result would have been higher by PLN 608 mln and would have decreased in the audited year 2022/2023. It should be emphasised that merely the reporting period in which the effect of those events on the financial result would be disclosed would have changed.

The explanations of the Management Board on the reasons for making the decision on impairment losses to be made by the Group on property, plant and equipment in the territory of Ukraine and Russia in the reporting period ended 31 January 2022 (amounting to PLN 156 million and impairment losses made on inventory, amounting to PLN 117 million, in respect of brand stores located in Ukraine as well as impairment losses on part of brand stores located in the territory of Russia, amounting to PLN 335 million) are convincing and based on commonly known circumstances.

The undoubtedly increasing political tension between the Russian Federation and Ukraine, and, consequently, the NATO states, was visible starting already from 2021. It has been growing since the Zapad manoeuvres , i.e. the joint military exercises of Russian and Belarusian forces in the territory of Belarus, and the presence of Russian troops deployed along the border with Ukraine, as well as information on the deployment (grouping) of Russian forces along the Eastern border of Ukraine. The increasing tension was evidenced by, among others, the publishing by the Russian Federation of documents clearly expressing the intention to alter relations with its neighbours, as exemplified by the statements of the Ministry of Foreign Affairs of the Russian Federation on the ”'conditions of a future dialogue of the Russian Federation with the USA and other Western countries” and drafts of the agreements between Russia and NATO as well as Russia and USA on ”security guarantees” from the end of 2021. Conclusions stemming from those documents were discussed in public by renowned research centres (e.g. the Centre for Eastern Studies and the Polish Institute of International Affairs). As stemmed from the analysis of those documents, there was a high probability of the violent outbreak of a political conflict and a great risk of the escalation in military actions (already taking place in the Ukrainian territory since 2014). The risk in question was confirmed by information disclosed by the intelligence of the NATO countries on further planned dates for starting military actions by Russia.

In the opinion of the Supervisory Board, the acknowledgement of the high probability of impairment of property, plant and equipment as well as inventories in the territory of Ukraine and Russia already as at the end of the financial year 2021/2022 could be considered a safer approach. The balance-sheet measurement of the assets in question is based on their recoverable value, i.e. their realisable market value. The political and economic situation stemming from the very risk of the outbreak of a full-scale war could serve as the basis for acknowledging that the said value was impaired. Consequently, it was required to recognise impairment losses.

The merits for such assessment have been confirmed by events after the reporting period 2021/2022. Specifically, the conditions regarding the sale of the Russian company in 2022 and the limitation of business operations in the territory of Ukraine as a result of warfare have confirmed the Company's assessment of the impaired value of property, plant and equipment as well as inventory in that country. As assessed by the Supervisory Board, under IAS 10 [stipulating that adjusting events include ”events, which could be favourable or unfavourable, that occur between the end of the reporting period and the date that the financial statements are authorised for issue”, including, among others: a) events that provide further evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period)”], the Company had grounds to recognise that an adjusting event occurred in the financial year ended 31 January 2022. Furthermore, according to section 9 of IAS 10, the following, among others, requires adjustments in amounts recognised in financial statements:

”b) the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

(ii) the sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period".

Furthermore, under section 12 of IAS 36, a prerequisite for an asset to be impaired is, among others, the occurrence in the near future after the reporting period of a "significant and unfavourable change for the entity, of a technological, market, economic or legal nature, in the environment in which the entity operates or on the markets to which the asset is dedicated" (section 12(b) of IAS 36). The outbreak of the full-scale war just after the reporting period seems to meet the prerequisites in question altogether.

In light of the above-mentioned circumstances, the Supervisory Board of LPP SA acknowledges the opinion given by the audit company Grant Thornton Polska Prosta spółka akcyjna with its registered office in Poznań, comprising the reservation, on the audit of the annual consolidated financial statements of LPP SA for the period from 1 February 2022 to 31 January 2023. Given the one-off and incidental nature of the event in question, there is no need to take any further action on the subject matter of the reservation made.

SUPERVISORY BOARD OF LPP SA:

Miłosz Wiśniewski
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

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