LPP

LPP SA
Presentation
The Company's current situation

GDAŃSK, 18-03-2024

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Agenda

1. Disposal of Russian operations
2. Accounting treatment of the transaction
3. Estimated 4Q23 and 2023 results
4. 2024 outlook
5. Q&A

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We do not trade in Russia

LPP has no operating or trading activities in Russia.

LPP divested the Russian business in June 2022.

LPP does not own the Russian company, has no control over it and does not manage the structures.

The Russian company in its own name and on its own account, sells goods in Russia, including, inter alia, goods purchased under the transition agreement.

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Pre-war situation

- 2019 - **expansion of the new Sinsay brand concept**
  (larger stores, offer enriched with children's and men's collection, as well as home accessories).

- **Sinsay's new concept tailored to smaller cities**
  (wide offer and low price)

- 2020 – **COVID and company's struggle for survival**

- 2021 – **return to expansion**
  (mainly development of Sinsay brand)

- **The company's sizeable development plans for eastern markets: Ukraine and Russia**
  (limited competition, modern trade, omnichannel).

- 2022 – **outbreak of war and change in the company's strategy**

Outbreak of war and Russia's attack on Ukraine

December 2021

Increased efforts on the part of Western countries to prevent the war.

February 2022

RUSSIA'S ATTACK

February 2022

- LPP focuses on the employees of the Ukrainian company,
- we ensure their safety,
- we also offer assistance to families who want to leave Ukraine,
- we pay salaries to employees regardless of the war.

February-May 2022

- LPP hosts almost 300 people from Ukraine in Gdańsk, Cracow and Warsaw,
- we provide the employees with hotels, food and means for living,
- we assist in finding ultimate housing or, through our foreign companies, in relocation to other countries,
- the majority of LPP stores in Ukraine are closed.

LPP DONATES A TOTAL OF OVER PLN 28 MILLION TO HELP UKRAINE
(cash and in-kind assistance, including clothing)

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Difficult decision to sell the Russian company

February 2022

outbreak of war

March 2022

- closing of offline stores,
- closing of online stores,
- store review (decision to close 90 stores with expiring contracts)

April 2022

search for a buyer of the Russian business

May/June 2022

sale of the Russian business

LPP makes the most difficult decision

- to exit the Russian market after 20 years of established presence

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Urgent search for a way out of Russia

LPP'S GOAL:

- to recover some of the capital invested in the Russian market
- to provide security and stability to employees who built the business with us,

OPTION 1:
Bearing the costs of closed stores until the end of the war and having to write off goods (PLN 50 million per month until the end of the war + PLN 1 billion inventory write-off)

OPTION 2:
Closing the business and bankrupting the company. Loss of jobs overnight by trusted employees. The need to write off PLN 0.6 billion for stores and PLN 1 billion for inventory. Fines for breaking lease agreement of PLN 0.4+ billion.

OPTION 3:
Sale of the company or part of the business. Possibility to recover part of the invested amount Preservation of jobs.

Urgent search for an investor

Solution selection process conducted under time pressure with few potential buyers

OFFER 1 → swap of LPP stores in Russia for stores of a Russian company outside Russia

OFFER 2 → purchase solely of LPP inventory in Russia

OFFER 3 → acquisition of selected lease agreements for premises in shopping malls

OFFER 4 → **acquisition of the whole business, with payments split in tranches and establishment of a transition period** during which the buyer successively assumes complete autonomy over individual areas of the company's operations

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Sale of the Russian business

LPP selected the offer from the Chinese consortium and Anna Pilugyna (ex-CEO of Russian Re Trading company).

Despite the low equity, the offer seemed the most optimal at the time for the following reasons:

- allowed us to leave the Russian market quickly,
- gave a chance to recover most of the amount invested in this market (PLN 2 billion),
- provided employment stability for employees.

The transaction consisted of three elements:

1. Price for the stores (USD 135.5 million = PLN 601 million spread over 4 years until 2026).
2. Price for inventory = PLN 1.2 billion – to be repaid in tranches.
3. Transition period, during which the new investor gradually takes over additional operations (design and purchase of goods, logistics)

LPP recorded a PLN 600 million loss on the sale of the Russian company

(PLN 300 million loss and PLN 300 million sale price write-off)

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2022-2024 transition period

- **Obligations for the buyer:**
- Rebranding of stores
- Need to start selling the Spring/Summer collection quickly
- Payment for goods from current turnover
- Need to generate cash to pay off tranches for stores
- Gradual takeover of management, design, purchasing, logistics and IT operations

- **Obligations for the seller:**
- Transfer of business operations
- Providing information on factories

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Russian company generates revenues independently

Tasks taken over by the Russian company as part of the transition period:

1. Management of budgets and financial performance of the business
2. Relations with local banks and sourcing of financing
3. Complete inventory management for all warehouses and stores in Russia
4. Pricing, discounts and sell-offs management
5. Store revenue management coupled with profitability measurement
6. Personnel and all store costs management
7. Creation of purchasing department and independent purchases of collections in factories
8. Proprietary collections created by own design office
9. Migration of IT systems to support sales

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Partial repayment of receivables

1. Sale of Russian stores – selling price USD 135.5m

Repayment schedule	PLN m	USD m	%
30.12.2023	61.0	13.0	10% paid in Dec.2023
30.12.2024	120.0	27.1	20%
30.12.2025	210.0	47.3	35%
30.12.2026	210.0	47.3	35%
TOTAL	**601.0**	**135.5**	**100%**

PLN 540m to be repaid

2. Sale of goods (inventory) – PLN 1,280m

In PLN m	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Receivables	-	**1,280**	1,031	859	801	759	674	634
Payments			248	172	58	42	85	41

PLN 646m recovered

As of January 2024

Sale structure

	2021	2022	2023	2024 F	2025 F
Total	**100%**	**100%**	**100%**		
Poland	39.3%	43.1%	42.4%		
Romania	6.3%	8.4%	8.3%		
Ukraine	7.1%	4.4%	6.8%		
Czech Republic	5.2%	6.7%	5.9%		
Germany	3.6%	4.2%	3.3%		
Russia	19.2%	0.0%	0.0%		
Trade agents	-	7.5%	6.8%	3.0%	0.0%
Other	19.3%	25.8%	26.5%		

Trade agents - FGT and AFIE companies; % of Russia in 2021 before restatement

- LPP delivers goods to FGT and AFIE during transition period, according to the contract
- Significant decrease in sales to trade agents in next years
- Planned cease of sale to agents in 4Q2024
- **LPP doesn't make a profit on sale to FGT and AFIE**

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Significant increase in LPP's revenues

Revenue (PLN m)	2021	2022	YoY	2023	YoY
LPP Capital Group Sale	**11,338**	**15,926**	**40%**	**17,406**	**9%**
Sale (excl. agents)	11,338	14,731	30%	16,218	10%
Poland	5,513	6,860	24%	7,385	8%
Romania	889	1,330	50%	1,449	9%
Czechia	731	1,067	46%	1,025	-4%
Germany	499	672	35%	570	-15%
Kazakhstan	97	112	15%	103	-8%
Other countries (excl. agents)	3,609	4,690	30%	5,687	21%

Trade agents – investors' companies named FGT and AFIE

- **Significant growth of LPP's revenues due to Sinsay expansion**

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LPP will not return to Russia

WE DO CONFIRM THAT:

1. The Russian business was sold in 2022 to an unrelated investor.
2. Entities: (1) Far East Services, (2) General Consulting Services, (3) FGT (FGT trade agent), and (4) Asia Fashion Import Export (AFIE trade agent), are not controlled by LPP SA in any way.
3. The sale transaction of the company was a real and definitive one.
4. There are no options for LPP to repurchase the business (no call option)
5. LPP lost control over the Russian business.
6. Payment of receivables for the goods and stores has been split into tranches.
7. Neither LPP nor individuals of the Company's Management Board have planned or plan to return to business operations on the Russian market.
8. LPP SA has not in any way financed the transactions of share purchase, the purchase of goods through loans secured by a pledge on LPP SA shares.
9. The Russian company POS store system is bar codes based and the entity made and independent coding decision to modify the bar codes according to their specific needs.

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Bank loans secured on LPP shares

First bank loan granted in 2020 to Semper Simul Foundation was used to finance purchase of LPP shares. The loan was restructured in 2023.

Second loan secured with shares granted in 2021 to Semper Simul Foundation, used to finance investments in hotels and retail parks.

Neither the Semper Simul Foundation, nor Foundation's subsidiaries, nor beneficiaries has ever financed or supported purchase of the Russian company.

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Change of Auditor

1. Grant Thornton (GT) was LPP’s auditor from 2004 to 2016.
2. EY was LPP’s auditor from 2017 to 2021.
3. The change of auditor resulted from regulations on mandatory rotation of audit firms.
4. Tender offer was conducted in March and April 2022 (3 offers were obtained).
5. Grant Thornton’s offer was the most favourable.
6. The change of auditor from EY to Grant Thornton took place on 5.07.2022.
7. The Supervisory Board selected Grant Thornton as LPP Group’s Auditor for 3 years: 2022-2024.
8. Due to the scale of LPP’s operations and the range of advisory services purchased by LPP from audit firms, change of auditor is not easy (short list of audit firms).
9. Our financial records are reliably kept.

EY issued a qualified opinion on LPP’s 2021 statements - due to recognition of write-offs on the Ukrainian and Russian company in 2021. According to the auditor, the write-off should have been recognised in 2022.

The qualified opinion was issued before the sale of the Russian company.

Grant Thornton upheld this reservation in its audit opinion on the Group’s 2022 statement.

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Kazakhstan is not a transit market for LPP

1. LPP did not ship goods to Russia through Kazakhstan.

2. LPP's sales to its Kazakhstan subsidiary amounted to USD 15 million in 2022.

3. LPP currently has 23 stores in Kazakhstan.

4. The company's sales in Kazakhstan account for 0.6% of Group's revenues.

Correct Polish version of the annual report

POLISH VERSION

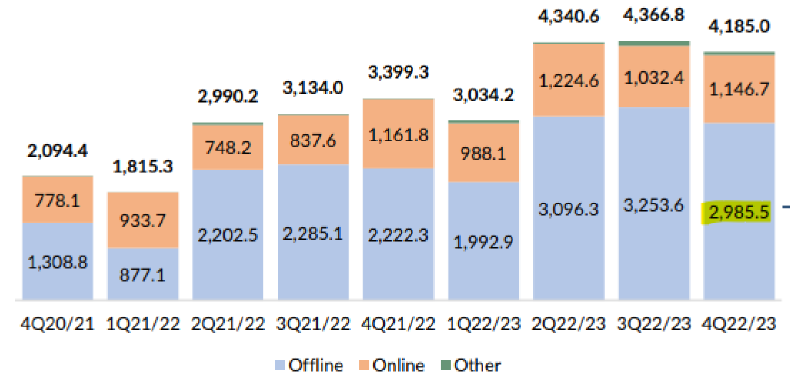
w mln PLN	Sprzedaż 2022/23	Sprzedaż 2021/22 przed przekształceniem	Sprzedaż 2021/22 po przekształceniu
Reserved	5 598	5 386	4 574
Cropp	1 357	1 526	1 103
House	1 288	1 295	1 053
Mohito	1 315	1 144	957
Sinsay	6 162	4 587	3 579
Pozostałe	207	92	72
Razem	**15 927**	**14 030**	**11 339**

Two versions of the report are published simultaneously to ensure equal access to information. The Polish version of the report is sent for translation into English in advance and includes draft figures in the tables.

In this case, in the table with the English version, offline sales from 4Q22 were not broken down by brands. This was done at a later stage, but the error remained in the English version. It does not relate to the Russian business.

GROUP REVENUES

(PLN m, data from 1Q21/22 for continued operations)



ENGLISH VERSION

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**

The difference in revenue in the “Other” line amounting to 2,965m (3,172-207 = 2965). This amount represents all offline stores sales from 4Q22/23.

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Estimated 4Q23 financial results

- Double-digit YoY revenue growth due to new Sinsay store openings, growing LFL in traditional stores and online growth.
- Higher YoY gross profit on sales margin mainly due to: lower collection purchasing costs, favourable USD/PLN exchange rate, lower freight costs.
- Higher YoY SG&A costs due to low base in 4Q22 and growth in floorspace.
- Net profit up 163% YoY.

4Q23 – estimated data, unaudited

PLN m, IFRS16	4Q22 (before restatement)	4Q22 (as restated)	4Q23	YoY
Revenues	**4,185.0**	**4,185.0**	**4,840.9**	**15.7%**
Gross margin on sales	*50.0%*	*49.6%*	*52.5%*	*2.9pp.*
SG&A costs	1,664.8	1,664.8	1,837.0	10.3%
Other operating activity	8.4	25.5	-59.6	N/M
Operating profit	**435.5**	**435.5**	**643.2**	**47.7%**
EBIT margin	*10.4%*	*10.4%*	*13.3%*	*2.9pp.*
Net financial activity	-203.9	-203.9	-25.5	N/M
Net profit (continued operations)	**183.9**	**183.9**	**484.4**	**163.5%**
EBITDA	755.3	755.3	1,013.0	34.1%

YoY growth shown on a restated basis.

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Strong 2023 results

- Single-digit YoY revenue growth due to new Sinsay traditional store openings.
- Increase in gross profit on sales margin in 2H23, which offset falls in 1H23.
- A YoY fall in SG&A costs - the result of maintaining the cost savings policy.
- As a result, doubling of operating profit.
- Increase in net profit influenced by foreign exchange losses.

2023 - estimated data, unaudited

PLN m, IFRS16	2022 (before restatement)	2022 (as restated)	2023	YoY
Revenues	**15,926.5**	**15,926.5**	**17,406.2**	**9.3%**
Gross profit margin on sales	*51.1%*	*50.3%*	*51.5%*	*1.2pp.*
SG&A costs	6,702.5	6,702.5	6,564.8	-2.1%
Other operating activity	31.3	-126.2	-118.2	N/M
Operating profit	**1,459.7**	**1,184.4**	**2,283.5**	**92.8%**
EBIT margin	*9.2%*	*7.4%*	*13.1%*	*5.7pp.*
Net financial activity	-96.9	-96.9	-236.3	N/M
Net profit (continued operations)	**1,144.2**	**869.0**	**1,612.0**	**85.5%**
EBITDA	2,588.9	2,313.6	3,666.0	58.5%

YoY growth shown on a restated basis.

LPP's safe financial standing

- **At the end of January 2024, the company had net cash of PLN 813m, according to IAS 17**
- **Lease agreements under IFRS16 as at 31.01.2024 amounted to PLN 3,908m**

As at 31.01.2024	Amounts in PLN m
Long-term debt	490
Short-term debt	49
Bonds	286
Cash	(1,077)
Deposits	(561)
Net debt (Net cash)	**(813)**

Further development of LPP

Change of strategy - after exit from the Russian market - successfully completed

PRIORITY - development of the company in Central and Southern European markets, including new countries: Greece and Italy

Highest growth potential in the value-for-money segment – super dynamic development of the Sinsay brand in the coming years - both offline and online.

Continuation of dividend payment / we are considering buyback (AGM decision)

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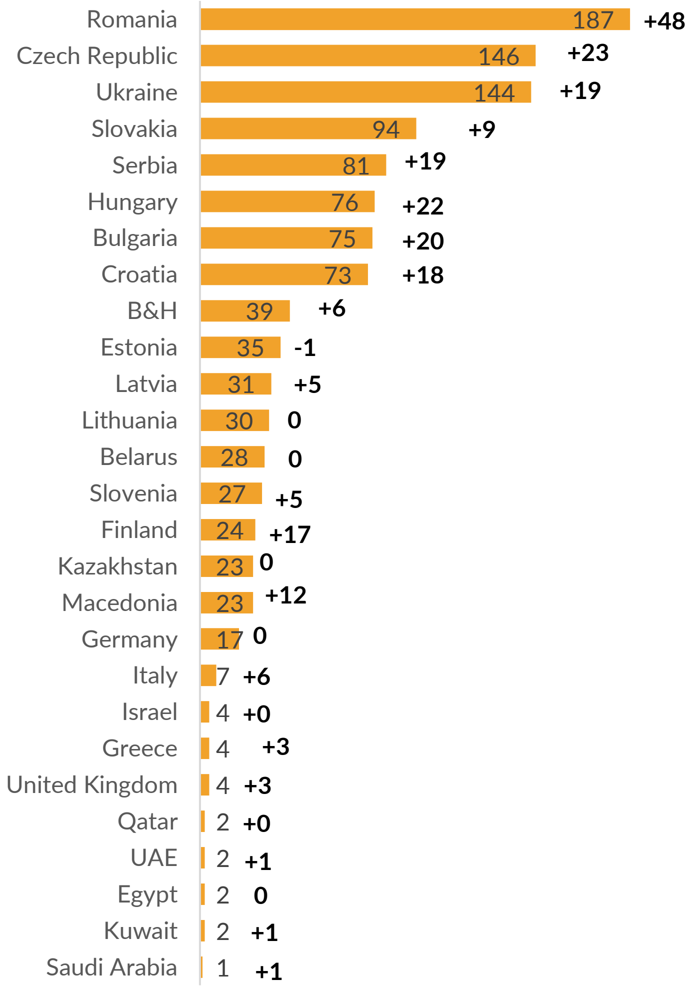
Growth in number of stores 2012-2023

- In 2022, the company sold 557 stores in Russia, but in parallel opened 274 new stores in other countries
- In 2023, we opened 315 new stores
- **In 2024, we plan to open about 700 stores**



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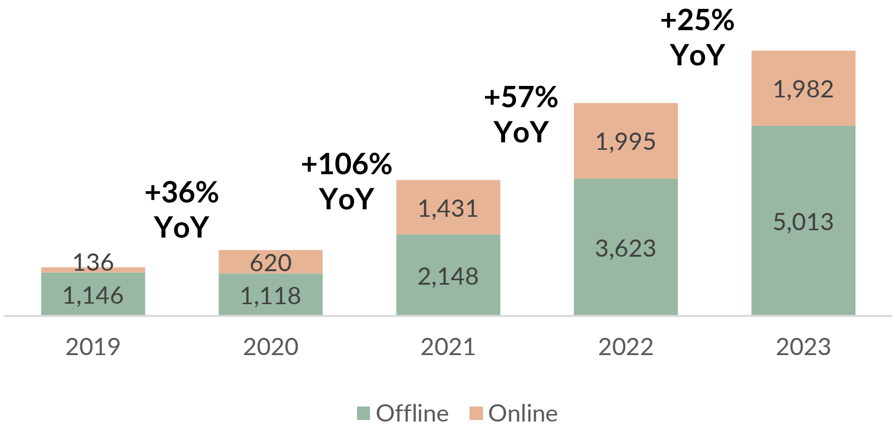
Sinsay's dynamic development

Expansion of the Sinsay brand

- Entering cities with smaller populations opens unlimited growth opportunities for Sinsay in the CEE and SEE regions
- Sinsay’s advantage is its store format, wide offer, attractive price, and omnichannel model
- **We plan to open 620 Sinsay stores in 2024 and over 850 stores in 2025**
- Sinsay’s eCommerce sales growth should amount to over 50% per year for the next 3 years – we compete with Shein and Temu
- Sinsay’s offer is competitive with China’s largest platforms - Shein and Temu

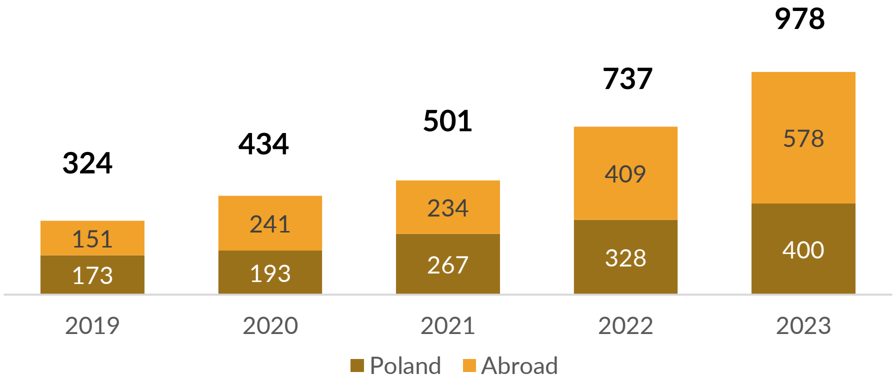
REVENUES - SINSAY

(PLN m)



NO OF STORES - SINSAY

Data at the end of the financial year



We maintain our conservative guidance for 2024 with the goal of significantly growth in revenues

Group revenues at ca
PLN 21bn

Offline revenues – growth due to floorspace development +20% YoY and positive LFLs

Online revenues – double-digit YoY growth

Gross margin on sales

52-53%

Maintaining cost efficiency
(SG&A/ Sales below 40%)

PLN 1.5bn capex including PLN 1.2bn for stores

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Promising start to 2024

Sales figures for the period February 1 - March 15, 2024:

Brand	LFL stores	online growth YoY
Sinsay	+29%	+60%
Reserved, Cropp, House, Mohito	+4%	+6%

Q&A

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Thank You

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