

Corporate Governance Statement

- a) The Management Board of LPP S.A. declares that in 2011, the Company and its authorities complied with the principles of Best Practice for WSE Listed Companies as described in Parts II, III and IV, whereas the requirement of Part IV section 10, stipulating the need to allow shareholders to participate in the general meeting using means of electronic communication, was not met.

Information on the principles of Corporate Governance is available on the Company's website at www.lpp.com.pl (www.inwestor.lpp.com.pl)

The Company does not apply Corporate Governance principles beyond the requirements of national law.

The Company and its authorities also followed the principles of Best Practice for WSE Listed Companies described in part I, except for:

as regards section I.1. The general meeting was not broadcast over the Internet or registered, and it was not published on the website,
as regards section I.5. The applicable principles of remuneration do not comply with all the requirements described in the recommendations of the European Commission of 14 December 2004 and Recommendations of 30 April 2009,
as regards section I.9. There are no formal principles for membership in the company's authorities in relation to gender nor any schemes to promote balanced participation of women and men in performing the functions of management and supervision in LPP S.A.

Currently, all members of the Company's authorities are men.

- b) **Description of the main features of the Company's internal control systems and risk management in relation to the process of preparing financial statements and consolidated financial statements.**

LPP S.A. has adapted to its needs and characteristics a well-functioning internal control system, which provides:

- completeness of invoiced revenues,
- appropriate cost control,
- efficient use of resources and assets,
- accuracy and reliability of financial information included in financial statements and periodic reports,
- adequate protection of sensitive information and prevention of uncontrolled outflow of information from the company,
- effective and prompt identification of irregularities,
- identification of significant risks and appropriate response to them.

Elements of the internal control system within LPP S.A. include:

- **control activities taken at all levels and in all cells of the Company, based on procedures (permits, authorizations, verifications, reconciliation, review of operational activities, distribution of duties) ensuring compliance with guidelines of the Company's management board and, at the same time, enabling to identify and take the necessary actions to minimize errors and risks for the Company,**
- Workflow Guide - proper records circulation and documentation control system (to ensure compliance of the account records with accounting evidence),
- **suitably qualified staff carrying out inspections,**

- **division of duties excluding a possibility that one employee performs an action associated with execution and documentation of a business transaction from beginning to end,**
- **inventory manual, specifying the rules for the use, storage and inventory of assets,**
- **principles for balance sheet amortisation of intangible and tangible fixed assets,**
- **information system - the Company's accounting books are kept with the help of computerized Integrated Enterprise Management System AWEK at the Company's headquarters, which provides credibility, reliability and accuracy of the processed information. Access to AWEK information resources is limited to authorized personnel, only for performance of their duties,**
- **accounting policy, taking into account the principles of the International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and related interpretations published in the form of executive regulations of the European Commission,**
- **electronic system for document processing (invoices, elements of employee documentation, commissions to purchase equipment, payment orders, etc.)**

Audit of financial statements, carried out by an independent statutory auditor, is an essential element of internal audit in the process of preparing the Company's financial statements, both individual and consolidated. The statutory auditor is appointed by the Supervisory Board of LPP Company. The tasks of the independent auditor include reviewing semi-annual and annual statements, controlling accuracy of their preparation and compliance with accounting rules.

Two departments are responsible for the preparation of financial statements: accounting and finance, headed by the Chief Accountant and Chief Financial Officer. Before submitting financial statements to the independent statutory auditor, Chief Financial Officer verifies them for completeness and correctness of all economic events.

In LPP S.A. there are carried out semi-annual reviews of the strategy and implementation of business plans. This is due to cycles occurring in the clothing trade. After closing the first half of the year, senior and middle management, with the participation of the finance department, review the Company's financial results. Operating results of the Company, individual business units or even individual stores are analysed each month.

Internal control and closely related risk management in relation to financial reporting processes are the subject of current interest of the Company's managing authorities. LPP S.A. performs analysis of business risk factors related to the company operations. An important role in this respect is also played by the managerial staff responsible for monitoring activities of their departments, including identification and assessment of risks associated with the process of preparation of financial statements in an accurate, reliable manner and in compliance with the law.

- c) Information on shareholders of the Company holding, directly or indirectly, significant blocks of shares, indicating the number of shares held by these entities, their percentage share in the share capital, the resulting number of votes and their percentage share in the total number of votes at the general meeting.**

Shareholder	Number of shares held	Number of votes at the Annual General Meeting of Shareholders	Share in the number of votes at the Annual General Meeting of Shareholders	Share capital held
Marek Piechocki	175 000	875 000	27.54%	9.84%
Jerzy Lubianiec	175 000	875 000	27.54%	9.84%
Monistor Limited (Cyprus)	200 728	200 728	6.32%	11.29%
Grangeford Limited, based in Cyprus	350 000	350 000	11.01%	19.69%
Other shareholders	877 006	877 006	27.60%	49.33%
TOTAL	1 777 734	3 177 734	100.00%	100.00%

d) Information on holders of securities that give special control rights and on any restrictions on voting rights, such as restrictions on voting rights of holders of a specified proportion or number of votes and restrictions on transferring ownership rights.

Shareholders holding shares conferring the right to more than 15% at the General Meeting exercise their voting right up to 15% of votes, regardless of the number of votes arising from the shares held. Two shareholders, who have managed the company for many years, Mr. Jerzy Lubianiec and Mr. Marek Piechocki, hold each 175,000 preference shares of B series, whereas one share entitles to 5 votes at the AGM. In addition, shares of the said shareholders are not covered by the statutory limitation described above restricting voting rights only up to 15% of votes at the AGM regardless of the number of shares held. These statutory provisions give the dominant position to the two shareholders indicated above.

Restrictions on transferring the ownership of securities concern registered shares and series I shares.

Sale or mortgage of shares depends on the approval of the Company. Shares sale or mortgage permits are granted by the Supervisory Board in writing, under pain of nullity, within 14 days from the date of application. If the Company refuses to give the permit, it should designate another buyer and define the date and place of payment within 30 days. If the Company, within the specified time, does not indicate another buyer, the shares may be sold without restriction.

I series shares that were issued to implement the Company's incentive programme for managerial staff of the Company and they may not be disposed of within two years after taking them up. This restriction is intended to bond the key personnel with the Company by providing those persons with remuneration associated with the Company's results.

e) Description of rules governing the appointment and dismissal of managers and their rights, in particular the right to decide whether to issue or repurchase shares.

The Management Board consists of two to five members, including the President, and from one to four Vice-Presidents. The number of members is determined by the Supervisory Board. Members of the Management Board are appointed and dismissed by the Supervisory Board for a term of five years.

Competencies and working rules of the Management Board of LPP S.A. are set forth in the following documents:

- Articles of Association of LPP S.A. (available on the Company's website)
- By-Laws of the Management Board (available on the Company's website)
- Commercial Companies Code

The Management Board is responsible for all and any affairs not reserved for other authorities of LPP S.A.

The Management Board is not entitled to make decision on the issue or repurchase of shares.

f) Description of rules for amending the issuer's articles of association.

Any amendment to the Articles of Association requires a resolution of the General Meeting.

g) Mode of action of the General Meeting, its powers, the description of shareholders' rights and the way of their execution

Convention of the General Meeting of Shareholders

- 1) The General Meeting of Shareholders may be convened in an ordinary or extraordinary mode.
- 2) The General Meeting of Shareholders is held in Gdańsk, Warsaw or Sopot, at the place designated by the Management Board.
- 3) Annual General Meeting is held within six months after the end of a financial year.
- 4) Extraordinary General Meeting is convened by the Management Board on its own initiative, at the request of the Supervisory Board and at the written request of shareholders representing one tenth of the equity capital.
- 5) The fact of convening the General Meeting, stating the date (day, hour) and place, is announced by the Management Board on the Company's website, in the manner provided for conveying current information and in accordance with the provisions on public offering, as well as terms and conditions of introducing financial instruments to an organised trading system and on public limited companies.

Competencies of the General Meeting

- 1) Examining and approving financial statements and reports of the Management Board on the activity of LPP S.A. for the previous year.
- 2) Taking all decisions relating to claims for damages suffered during the establishment of LPP S.A. or its management or supervision.
- 3) Adopting a resolution on the distribution of profits or covering losses.
- 4) Granting to the members of LPP S.A. acknowledgement of the fulfilment of duties.
- 5) Adopting a resolution on the issue of bonds, including convertible bonds.
- 6) Amending the Articles of Association.
- 7) Adopting resolutions concerning a merger, conversion of LPP S.A., its dissolution and liquidation.
- 8) Adopting resolutions concerning the sale and lease of the company and establishing beneficial ownership.
- 9) Examining and deciding on proposals submitted by the Supervisory Board.
- 10) Deciding on other matters reserved to the competence of the General Meeting in the Commercial Companies Code and the provisions of the Company's Articles of Association.

Sessions of General Meeting of Shareholders

- 1) General Meeting is opened by the Chairman of the Supervisory Board or a person authorised by him, who then holds the elections of the President of the General Meeting.

- 2) The person opening the General Meeting provides for an immediate election of the President of the General Meeting who directs the works of the GM and ensures efficient and proper conduct of the session.
- 3) The General Meeting adopts resolutions only on matters included in the agenda.
- 4) Draft resolutions proposed for adoption by the General Meeting and other relevant issues are presented to the shareholders together with the rationale and the opinion of the Supervisory Board.
- 5) The course of the General Meeting is recorded by a notary.

Voting

- 1) Voting at the General Meeting is open. Secret voting takes place at the election of authorities and at requests to dismiss the Company's governing authorities or liquidators or to make them accountable, as well as in case of personal matters. In addition, secret voting is held at the request of any shareholder or their representative.
- 2) The General Meeting may choose a three-person returning committee, whose duties include ensuring the proper conduct of each voting, supervising computer service (in the case of voting with the use of electronic technology), as well as reviewing and announcing the results.
- 3) Each share entitles to one vote at the General Meeting. In the case of a series B preference share, one share entitles to five votes at GM.
- 4) The President announces the voting results, which are then brought into the minutes of the session.

h) Membership and changes that occurred during the financial year, as well as description of the actions of managing, supervisory or administrative bodies and their committees.

Management Board of LPP S.A.

Composition of the Management Board as at 31 December 2011:

- Marek Piechocki - President of the Management Board
- Dariusz Pachla - Vice President of the Management Board
- Piotr Dyka- Vice President of the Management Board
- Hubert Komorowski - Vice President of the Management Board
- Jacek Kujawa - Vice President of the Management Board

In the last financial year there were no changes in the composition of the Management Board. Competencies and working rules of the Management Board of LPP S.A. are set forth in the following documents:

- Articles of Association of LPP S.A. (available on the Company's website)
- By-Laws of the Management Board (available on the Company's website)
- Commercial Companies Code

The Supervisory Board

Composition of the Supervisory Board as at 31 December 2011 was as follows:

- Jerzy Lubianiec - Chairman of the Supervisory Board
- Krzysztof Olszewski - member of the Supervisory Board
- Wojciech Olejniczak - member of the Supervisory Board
- Maciej Matusiak - member of the Supervisory Board
- Krzysztof Fałerek - member of the Supervisory Board

In the last financial year there were no changes in the composition of the Supervisory Board.

Competence and working rules of the Supervisory Board of LPP S.A. are set forth in the following documents:

- Articles of Association of LPP S.A.(available on the Company's website)
- By-Laws of the Supervisory Board (available on the Company's website)
- Commercial Companies Code