

## **THE REPORT OF THE MANAGEMENTBOARD**

of LPP S.A. with its registered office in Gdańsk, justifying the merger between LPP S.A. (the Acquirer) and Artman S.A. with its registered office in Kraków (the Acquiree).

### **1. The denomination of companies participating in the merger**

#### **The Acquirer**

- LPP S.A., (hereinafter referred to as LPP S.A./ the Acquirer) with its registered office in Gdańsk, ul. Łąkowa 39/44, 80-769, entered into the Register of Entrepreneurs kept at the Regional Court for Gdańsk-Północ, 7th Commercial Division of The National Court Register under KRS number 0000000778. The share capital of LPP totals PLN 3,492,134.00 (three million four hundred and ninety-two thousand one hundred and thirty-four PLN), is fully paid up and is divided into 1.746,067 (one million seven hundred forty-six thousand sixty seven) shares with a nominal value of PLN 2 (two PLN) each. LPP shares are divided into series marked by the consecutive letters of the alphabet in the following manner:

- (a) 100 (one hundred) series A ordinary bearer shares,
- (b) 350,000 (three hundred and fifty thousand) series B registered preferred shares with voting rights at the general shareholders' meeting,
- (c) 400,000 (four hundred thousand ) series C ordinary bearer shares,
- (d) 350,000 (three hundred and fifty thousand) series D ordinary bearer shares,
- (e) 56,700 (fifty six thousand seven hundred) series E ordinary bearer shares ,
- (f) 56,700 (fifty six thousand seven hundred) series F ordinary bearer shares ,
- (g) 300,000 (three hundred thousand) series G ordinary bearer shares ,
- (i) 190,000 (two thousand five hundred and sixty-seven) series I ordinary bearer shares,

(j) 40,000 (forty thousand) series J ordinary bearer shares. Series B shares in the amount of 350,000 (three hundred and fifty thousand) are registered preferred shares with voting rights at LPP general shareholders' meeting, each share corresponding to five votes.

#### **The Acquiree**

ARTMAN S.A., (hereinafter referred to as Artman S.A./ the Acquiree) with its registered office in Kraków, ul. Bagarowa 7, 30-733, registered in the Register of Entrepreneurs kept at the Regional Court for Kraków- Śródmieście, 11th Commercial Division of The National Court Register under the number 0000180735.

The share capital of the company totals PLN 1,068,887.00 (one million sixty-eight thousand eight hundred and eighty-seven PLN), is fully paid up and is divided into 4,275,548 (four million two hundred seventy-five thousand five hundred and forty-eight) shares with a nominal value of PLN 0.25 (twenty-five groszy) each. Artman S.A. shares are divided into series marked by the consecutive letters of the alphabet in the following manner:

- (a) 2,000,432 (two million four hundred and thirty-two) series A registered preferred shares with voting rights at the general shareholders' meeting,
  - (b) 1,000,216 (one million two hundred and sixteen ) series B ordinary bearer shares,
  - (c) 1,250,000 (one million two hundred and fifty thousand) series C ordinary bearer shares,
  - (d) 24,900 (twenty-four thousand nine hundred) series D ordinary bearer shares.
- 2,000,432 (two million four hundred and thirty-two) series A shares are registered preferred shares with voting rights at Artman general shareholders' meeting, each share corresponding to two votes.

## **II. Merger Procedure**

The merger of the Companies shall be effected in compliance with the provisions of article 492 (1) point 1 of the Code of Commercial Companies (hereinafter referred to as "the Code"), i.e. by means of transferring all assets of Artman to LPP. As a result of the merger Artman shall be dissolved without liquidation ("**the Merger**"). The merger shall be effected in compliance with Title IV, Section I of the Code on the basis of the following resolutions: the resolution adopted by the General Meeting of LPP Shareholders and the resolution adopted by the General Meeting of Artman Shareholders.

Due to the fact that the Acquirer holds all shares in the share capital of the Acquiree, the merger shall be effected according to the provisions of Article 515 (1) of the Code without any increase whatsoever in the share capital of the Acquirer.

## **III Legal basis of the merger**

The legal basis for the merger is set out in the provisions of Title IV Section I of the Code of

Commercial Companies and especially in Article 492 (1) item 1 and Article 506, Article 515 and Article 516 of the Code.

The General Meeting of LPP S.A. shareholders shall pass a resolution on the merger pursuant to

Article 506 and Article 515 of the Code as well as paragraph 33 section 1 point 7 of the Company's Articles of Association.

The General Meeting of Artman S.A. shareholders shall pass a resolution on the merger pursuant to Article 506 and Article 515 of the Code as well as paragraph 9 section 1 of the Company's Articles of Association.

LPP S.A. obtained the permission to proceed with concentration consisting in the acquisition of control over Artman S.A. following the decision issued by the President of the Office for Competition and Consumer Protection,

Kraków Branch, dated June 9th 2008, document no. RKR-10/2008.

Pursuant to the provisions of Article 14 point 5 of the Competition and Consumer Protection Act of December 15th, (a consolidated text: Polish Journal of Laws no. 50, item 331 as amended) the requirement to inform about the intention to merge the companies does not apply in the case of companies which belong to the same capital group.

Pursuant to Article 4 point 14 and in relation to Article 4 point 4 of the Competition and Consumer Protection Act, after the acquisition of the controlling interest in the share capital of Artman S.A. by LPP S.A. both companies comply with the definition of a capital group and therefore the requirement to notify the President of the Office for Competition and Consumer Protection of the intention to merge both companies does not apply.

#### **IV. The Purpose of the Merger**

The purpose of the Merger is to:

- a) Create one of the largest companies in this part of Europe offering clothing and accessories through the chain of specialist clothing stores.
- b) Ensure international expansion by simultaneous inauguration of stores offering goods of six different brands in different shopping malls.
- c) Enhance competitiveness.

#### **V. The benefits of merger, including the economic ones**

The Management Board of LPP S.A. predicts that the Merger shall result at least in the benefits listed below:

- a) The expansion of the product range offered for sale by LPP S.A.
- b) The reduction of promotion and advertising costs,
- c) The reduction of store rental costs,
- d) The reduction of costs related to the purchase of goods from suppliers,
- e) The reduction of service costs commissioned by LPP S.A: in relation to its business activity, especially transportation, logistic and IT services.
- f) The increase of negotiating power in talks with suppliers and customers,
- g) Effective use of logistic processes, including the modern distribution centre located in Pruszcz Gdański,
- h) Effective use of specialist computer software employed by LPP,
- i) The increase of sales effectiveness of goods from the following brands: Reserved, Cropp, Esotiq, House and Mohito by means of exchange of best practices and know-how used by LPP S.A. and Artman S.A.,
- j) Significant reduction of business activity costs through optimisation and elimination of certain processes,
- k) The reduction of costs related to the construction and fitting of specialist clothing stores,
- l) The increase of effectiveness in the operation of the whole capital group, especially through the reduction of operating costs of foreign companies.

#### **VI. The increase in the share capital of the Acquirer (LPP S.A:)**

Due to the fact that the Acquirer holds all shares in the share capital of the Acquiree, the merger shall be effected according to the provisions of Article 515 (1) of the Code without any increase whatsoever in the share capital of the Acquirer.

Due to the fact that (i) the merger shall not lead to any increase in the share capital of the Acquirer in compliance with the provisions of the Article 515 (1) of the Code and (ii)

the merger shall not result in any other new circumstances which have to be reflected in the Articles of Association of the Acquirer, the Articles of Association of LPP shall not be amended following

the merger. As a consequence the requirements of Article 499 (2) point 2 of the Code to attach the draft amendments to the Articles of Association of the Acquirer to the plan of the merger do not apply.

Due to the fact that all shares in the share capital of the Acquiree are held by the Acquirer as a sole shareholder, the merger shall be effected:

- (a) without the transfer of shares of the Acquiree to the shareholder of the Acquirer,
- (b) without the need to specify the exchange ratio between the shares of the Acquiree and the shares of the Acquirer,
- (c) without the need to define the principles of share transfer in the plan of the merger,
- (d) without the need to specify the date on which the shareholder of the Acquiree to whom the shares of the Acquirer have been transferred shall be entitled to the share in the profit of the Acquirer.
- (e) without any valuation of the shares of the Acquirer and of the Acquiree.

## **VII. Recommendations of the Board of LPP S.A.**

In the opinion of the Management Board of LPP S.A. the merger will bring benefits to LPP S.A: in all aspects of its activity, and especially economic, operational and cost-related benefits.

In relation to the above the Management Board of LPP S.A: recommends that LPP S.A. shareholders adopt a resolution on the merger between LPP S.A: and Artman S.A. which shall be effected in line with conditions defined in this document and in the Plan of Merger approved by the resolution of the Management Board of LPP S.A. (the Resolution of the Management Board of LPP S.A. dated February 26th, 2009).

Marek Piechocki – President of the Management Board (signature illegible)

Alicja Milińska – Vice-President of the Management Board (signature illegible)

/-/ Stanisław Dreliszak- Vice-President of the Management Board  
(signature illegible)

Dariusz Pachla – Vice-President of the Management Board (signature  
illegible)