

LPP

Corporate Governance Statement for 2016

Application of corporate governance principles

The Management Board of the Issuer declares that, in 2016, the Company applied corporate governance principles attached as Enclosure to the Resolution No 26/1413/2015 of the GPW Supervisory Board, dated 13 October 2015, titled "Best Practice for GPW Listed Companies 2016" (Corporate Governance Principles), published in a website dedicated to good practice for companies listed on the stock exchange Giełda Papierów Wartościowych w Warszawie SA, operated by Giełda Papierów Wartościowych w Warszawie SA at website address:

https://www.gpw.pl/lad_korporacyjny_na_gpw.

The Management Board of LPP SA declares that the Company and its governing bodies applied in 2016 recommendations and detailed principles provided for in the new Collection of Good Practice for GPW Listed Companies 2016, except for:

■ Recommendation IV.R.2 – conducting of a general meeting using electronic communication means (real-life broadcast of the general meeting, real-time bilateral communication, exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

The Company does not apply the said recommendation.

The above-mentioned recommendation is not applied by the Company as its implementation would involve a technical risk. The giving to shareholders of an option to communicate in the course of the general meeting without being present at the meeting, using electronic communication means, involves both technical and legal hazards for the proper and efficient conduct of the general meeting. In particular, the above brings about a real risk of technical interference preventing continuous bilateral communication with shareholders present in venues other than the meeting room. Therefore, the Company may not 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.

Furthermore, the Company has not been informed of any expectations of shareholders in respect of conducting the general meeting using electronic communication means.

■ Recommendation VI.R.1 – the remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

The Company does not apply the said recommendation.

The Company has not implemented any remuneration policy. However, LPP SA does not exclude future application of the said rule.

■ Recommendation VI.R.2 – the remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

The Company does not apply the said recommendation.

The Company has not implemented any remuneration policy. However, LPP SA does not exclude future application of the said rule.

■ Detailed principle I.Z.1.20 – Display on a corporate website of an audio or video recording of a general meeting.

The Company does not apply the said principle.

The Company does not plan to make an audio or video recording of a general meeting and display it on its website. In the Company's opinion, the manner of which general meetings have been documented so far ensures transparency of the Company's operations and safeguards the rights of all shareholders.

In particular, the Company makes available the wording of resolutions adopted, in the form of current reports and website publications.

Additionally, detailed data on voting results and objections, if any, raised against adopted resolutions are made available in the same form. Consequently, investors may obtain the knowledge of the material parts of, and matters discussed at, a general meeting.

However, the Company does not exclude future application of the said rule.

■ Detailed principle IV.Z.2. – companies should ensure publicly available real-time broadcasts of general meetings.

The Company does not apply the said principle.

The Company does not plan to provide real-time broadcasts of general meetings. In the Company's opinion, the manner of which general meetings have been documented so far ensures transparency of the Company's operations and safeguards the rights of all shareholders.

In particular, the Company makes available the wording of resolutions adopted, in the form of current reports and website publications.

Additionally, detailed data on voting results and objections, if any, raised against adopted resolutions are made available in the same form. Consequently, investors may obtain the knowledge of the material parts of, and matters discussed at, a general meeting.

However, the Company does not exclude future application of the said principle.

■ Detailed principle VI.Z.4. – publishing, in the report on the operations, of a report on the remuneration policy.

The Company does not apply the said principle.

The Company will not publish a report on its remuneration policy due to the fact that no such policy has been implemented. However, LPP SA does not exclude future application of the said rule.

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 SA 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 responding to such risk.

Elements of the internal control system within LPP SA include:

- control activities taken at all levels and in all units 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 minimise errors and risks for the Company,
- Workflow Guide - proper records and documentation circulation control system (to ensure compliance of the account records with accounting evidence),
- suitably qualified personnel 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 computerised 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 authorised 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.).

The 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 and 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 the Chief Financial Officer. 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 for completeness and correctness of all economic events.

Semi-annual reviews of the strategy and implementation of business plans are carried out in LPP SA. 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 SA performs an analysis of business risk factors related to the company operations. An important role in this respect is also played by the managerial personnel 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.

Shares and shareholders

Shareholding structure

The structure of shareholdings in LPP SA as at 31 December 2016.

Shareholder	Number of shares held	Share in the share capital	Number of votes at the GM	Share in the number of votes at the GM	Nominal value of shares
Marek Piechocki	175 497	9.5%	875 493	27.2%	350 994
Jerzy Lubianiec	174 999	9.5%	874 995	27.2%	349 998
Forum TFI SA*	200 730	10.9%	200 738	6.2%	401 460
Treasury shares	18 978	1.0%	0**	0.0%	37 956
Other shareholders	1 269 087	69.0%	1 269 087	39.4%	2 538 174
Total	1 839 291	100.0%	3 220 313	100.0%	3 678 582

*Forum TFI SA manages the funds of Forum 64 Closed-End Investment Fund (entity affiliated with Mr Jerzy Lubianiec, shareholder of LPP SA) and Forum 65 Closed-End Investment Fund (entity affiliated with Mr Marek Piechocki, shareholder of LPP SA).

The Funds managed by Forum TFI SA hold directly 195 050 shares in LPP SA and indirectly 5 680 shares in LPP SA.

** LPP SA may not exercise voting rights at the GM, attached to 18 978 shares, as these are treasury shares of LPP SA.

Shares held by key management and supervisory officers

As at 31 December 2016, key management and supervisory officers held the following shareholdings in the Company:

Shareholder	Number of shares held	Number of votes at the GM
Marek Piechocki – President of the Management Board	175 497	875 493
Jacek Kujawa – Vice-President of the Management Board	153	153
Przemysław Lutkiewicz - Vice-President of the Management Board	10	10
Sławomir Łoboda - Vice-President of the Management Board	102	102
Jerzy Lubianiec – Chairman of the Supervisory Board	174 999	874 995
Dariusz Pachla – Member of the Supervisory Board	500	500

Additionally, the Issuer's key management officers hold rights to subscribe to 13 132 shares of the L series due to the possibility of converting subscription warrants of the A series to shares in LPP SA. Key management and supervisory officers hold no shares in any associates.

Information on agreements which may give grounds in the future for changes in proportions of shareholdings of current shareholders

In the reporting period, an incentive plan implemented in 2011 for key management officers of the Parent Company for the years 2011-2014 was applied.

As part of the said plan, the Company issued 21 300 subscription warrants which were subscribed to by eligible persons, of which 8 168 warrants were converted into shares of the L series (CR 02/2016, RB 50/2016).

If all remaining subscription warrants, which were subscribed to, were converted into shares, then the total number of shares would be 1 852 423, and the number of votes at the General Meeting of Shareholders of LPP SA would amount to 3 233 445.

The Company has not implemented any employee share control system.

Subject to the above-mentioned information, the Company has no knowledge on any agreements which could give grounds in the future for any changes in proportions of shareholdings of current shareholders and bondholders.

Treasury shares

In 2016, the LPP SA Capital Group purchased no treasury shares.

Share quotations

The 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 4 September 2014: PLN 10 100.00.

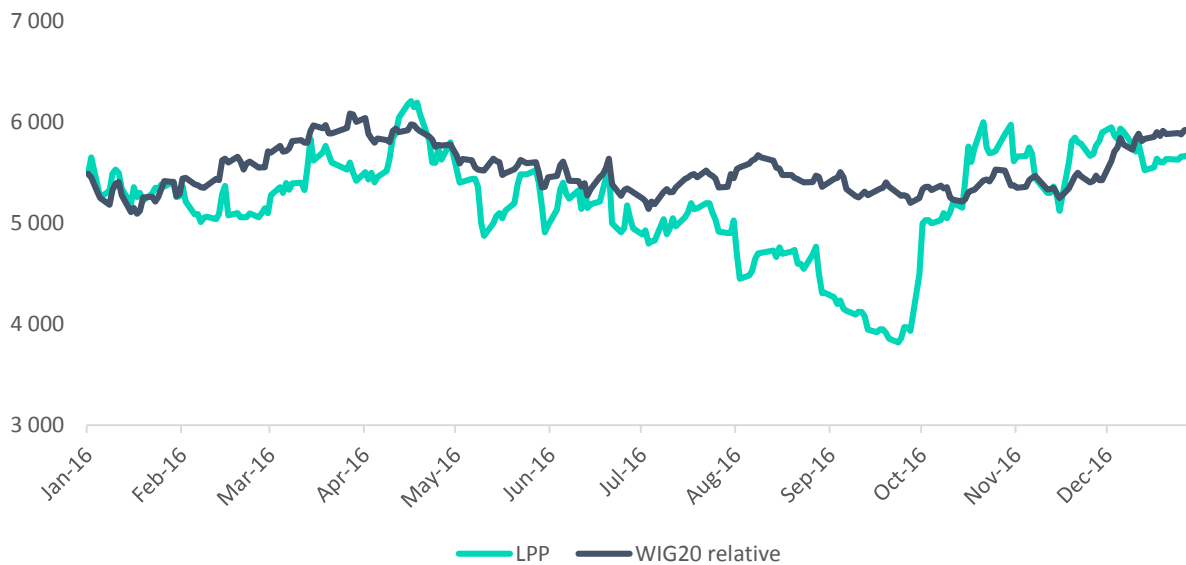
In 2016, the prices of LPP SA shares were between PLN 3 820.00 and 6 162.44 (at closing prices). The share quotation during the last session (at closing prices) in 2015 was PLN 5 512.51, and a year later the price amounted to PLN 5 673.60.

Net earnings per ordinary share were PLN 96.19 at the end of 2016, and a year before - PLN 193.87.

As at 31 December 2016, shares in LPP SA were constituents of the following stock exchange indices:

1. 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. The share of LPP SA in WIG-Poland was 2.6%.
2. 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, with its share amounting to 4.1%.
3. WIG30 – index comprising 30 largest and most liquid companies listed on the main market of the WSE. The share of LPP SA in WIG30 is 3.8%
4. WIG-Clothes – a sub-sector index including WIG constituents which simultaneously belong to the “clothes and cosmetics” sector. As at 31 December 2016, the said index was not published yet. At present, the share of LPP in WIG-Clothes is 54.5%,
5. MSCI Poland Index – an index including over 20 key companies listed at the WSE. LPP SA has been a constituent of the said index since 2014.

The price of LPP SA shares as compared to WIG20 in 2016



The price of LPP SA shares in 2016



Share-related limitations and shareholders with special control rights

The shareholders with shareholdings 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 directly 174 999 shares of the B series and indirectly 1 share of the B series, preferred in terms of voting rights, with a single share giving right to 5 votes at the General Meeting of Shareholders. In addition, shares of the said shareholders are not covered by the statutory limitation described above, limiting voting rights only up to 15% of votes at the General Meeting of Shareholders regardless of the number of shares held. The above-mentioned provisions of the Articles of Association give the dominant position to the two shareholders indicated above.

Subject to the information given above, there are no other securities giving any special control rights.

Limitations on transferring the ownership title to securities apply to registered shares.

The sale or pledging of registered shares requires approval of the Company. Permits for selling or pledging shares are granted by the Supervisory Board in writing, otherwise being null and void, 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 of the price within 30 days. If, within the above-mentioned time-frame, the Company does not indicate another buyer, shares may be sold without any limitations.

Governing bodies

Management Board of LPP SA

Composition

Composition of the Management Board as at 31 December 2016:

- 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

At the same time, in 2016, there were changes in the composition of the Management Board, consisting in the resignation by Mr Piotr Dyka from his position as Member of the Management Board of LPP SA (CR 12/2016) and the resignation by Mr Hubert Komorowski from his position as Member of the Management Board of LPP (CR 45/2016).

The scope of competence of, and working rules 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)
- Management Board By-Laws (available on the Company's website)
- Commercial Companies Code

Rules for appointing and dismissing key management officers and the scope of competence of the Management Board

The Management Board consists of two to six members, including the President, and from one to five Vice-Presidents. The number of members is determined by the Supervisory Board.

Members of the Management Board are appointed for a term of five years and dismissed by the Supervisory Board.

The scope of competence of, and working rules 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)
- Management Board By-Laws (available on the Company's website)
- 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 decisions on the issue or buy-out of shares.

Agreements with key management officers, providing for a compensation

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 and supervision officers are given in point 15.22.1 of the Notes.

Supervisory Board of LPP SA

Composition

The composition of the Supervisory Board as at 31 December 2016 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
- Dariusz Pachla - member of the Supervisory Board

During the financial year, there were no changes in the composition of the Supervisory Board.

The scope of competence of, and working rules 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)
- By-Laws of the Supervisory Board (available on the Company's website)
- Commercial Companies Code

Supervisory Board Committees

In the financial year 2016, and by the date of publishing this report, no special-task committees were appointed within the Supervisory Board. Due to the fact that the Supervisory Board is composed of five persons, the tasks of the Audit Committee, specified in the Statutory Auditors Act [...], are carried out by the entire Supervisory Board collectively.

The statutory tasks in that respect, comprise, in particular, the following:

- 1) monitoring of the financial reporting process;
- 2) monitoring of the effectiveness of internal audit systems, internal audit and risk management;
- 3) monitoring of performance of financial auditing activities;
- 4) monitoring of the independence of a statutory auditor and the entity authorised to audit financial statements, including in cases of the provision of services, referred to in Article 48 paragraph 2 of the Statutory Auditors Act (...), such as the services covering the keeping of accounting books and tax records as well as tax advisory services.

Furthermore, when performing the tasks of the Audit Committee, the Supervisory Board reviews written information from the entity authorised to audit financial statements on material issues relating to financial auditing activities, including, in particular, significant irregularities in the entity's internal audit system versus the financial reporting process, threats relating to the independence of the entity authorized to audit financial statements and activities performed in order to limit any such threats.

If the number of members of the Supervisory Board is increased to exceed 5 members, then an audit committee will be appointed within the Board, as provided for in the Company's Articles of Association.

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

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) The Annual General Meeting is held within six months after the end of a financial year.

- 4) The 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 twentieth 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 for introducing financial instruments to an organised trading system, and on public limited companies.

Scope of competence of the General Meeting

- 1) Examining and approving financial statements and reports of the Management Board on the activity of LPP SA for the previous year.
- 2) Taking all decisions relating to claims for damages suffered during the establishment of LPP SA or its management or supervision.
- 3) Adopting a resolution on the distribution of profits or covering losses.
- 4) Discharging the LPP SA Board members from the fulfilment of their duties.
- 5) Adopting a resolution on the issue of bonds, including convertible bonds.
- 6) Amending the Articles of Association.
- 7) Adopting resolutions on a merger, conversion of LPP SA, its dissolution and liquidation.
- 8) Adopting resolutions on 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 falling within the scope of 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 for Chairperson of the General Meeting.
- 2) The person opening the General Meeting provides for an immediate election for Chairperson of the General Meeting, who directs the works of the GM and ensures efficient and proper conduct of the session.
- 3) The General Meeting adopts resolutions only on items put on the agenda.
- 4) Draft resolutions proposed for adoption by the General Meeting and other relevant issues are presented to the shareholders together with a justification and the opinion of the Supervisory Board.
- 5) The course of the General Meeting is recorded by a notary public.

Voting

- 1) Voting at the General Meeting is open. Secret voting takes place at the election of governing bodies and at requests to dismiss the Company's governing bodies 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 ballot counting 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 preferred share, one share entitles to five votes at the GM.
- 4) The Chairperson announces voting results, which are then recorded in the minutes of the session.

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.

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

Gdańsk, 6 April 2017