LPP

FACTBOOK 2020/21

RESERVED CROPP house MOHITO sinsay

A global brand, a Polish company

We are an international retail company based in Gdańsk with almost 30 years of experience in designing and selling clothes and accessories.

WE OWN FIVE FASHION BRANDS.

RESERVED CROPP house MOHITO sinsay

38
countries
offline + online

PLN **7.8 billion**
revenues

1,856
stores

c.22,000
employees

e-commerce
28%
of revenues

Table of contents

1. Group overview

Vision, mission and values inspire us in our everyday work and influence the way we function. Mission determines the role and the purpose of LPP's existence, while vision defines our ambitions and sets the direction in which we are heading.

Values describe the manner in which LPP employees behave, regardless of their position. Values are like a DNA code. They not only influence the way we function as an organization but also determine our approach to customers, employees, business partners and all our stakeholders.

OUR VISION

Passion drives us forward, making our company the top fashion retailer in the world.

OUR MISSION

We help our customers to express their emotions and realize their dreams through the way they look and feel.

LPP

FIRE-FUELLED

WE ARE FUELLED BY INTERNAL FIRE.

We are full of energy. We are passionate about our business, our brands and our customers. We are proud to be part of LPP.

AMBITION-DRIVEN

AMBITION DRIVES US IN ACTION.

We seek new challenges every day and strive for excellence. We dare for more. We expect the unexpected.

SOCIALLY-RESPONSIBLE

WE ARE RESPONSIBLE FOR WHAT WE DO.

We care for our closer and further surroundings. We support our employees and partners. We listen to their needs to act in harmony with nature.

TEAM-ORIENTED

AS A TEAM WE ARE THE GREATEST STRENGTH.

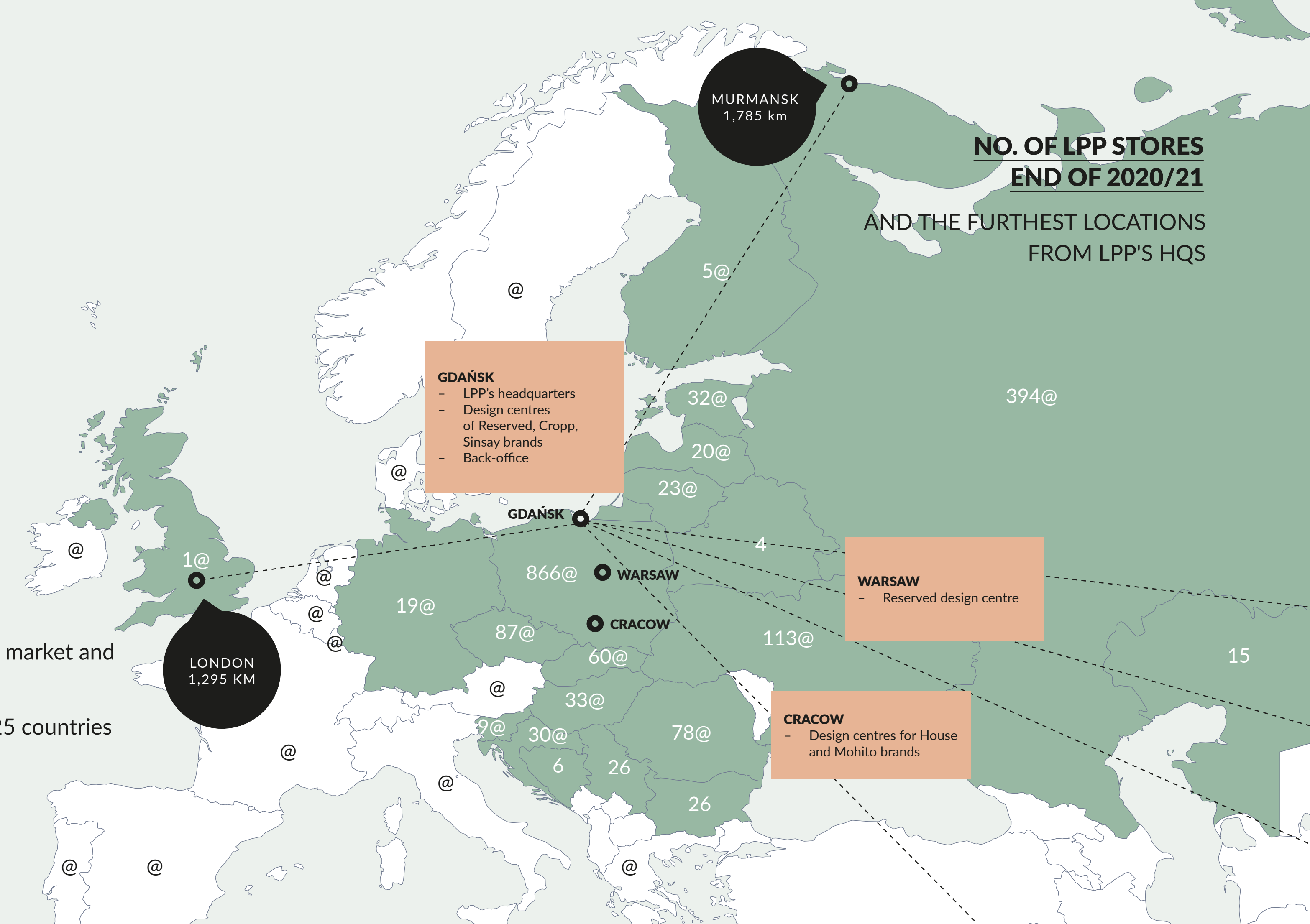
The opinion of each team member is just as important. We treat everyone as we would like to be treated ourselves. Fairness, respect, justice and tolerance are our guideposts of action.

LPP on the world stage

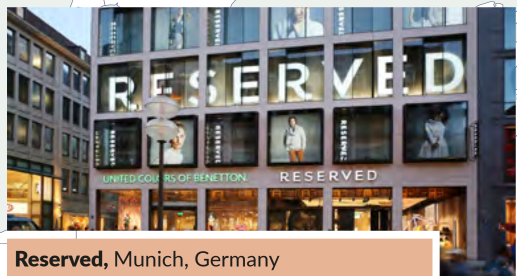
A GLOBAL CLOTHING RETAILER

LPP is successfully developing on the core Polish market and consistently expanding on foreign markets.

At the end of 2020/21 LPP had 1,856 stores in 25 countries and on 3 continents.



Reserved, Moscow, Russia



Reserved, Munich, Germany

POLAND	866
Reserved	189
Cropp	169
House	182
Mohito	133
Sinsay	193

BELARUS	4
Reserved	1
Cropp	0
House	0
Mohito	1
Sinsay	2

CROATIA	30
Reserved	6
Cropp	5
House	4
Mohito	5
Sinsay	10

CZECH REPUBLIC	87
Reserved	22
Cropp	21
House	16
Mohito	14
Sinsay	14

ESTONIA	32
Reserved	6
Cropp	7
House	6
Mohito	6
Sinsay	7

LITHUANIA	23
Reserved	6
Cropp	5
House	3
Mohito	5
Sinsay	4

HUNGARY	33
Reserved	15
Cropp	3
House	2
Mohito	5
Sinsay	8

BULGARIA	26
Reserved	8
Cropp	4
House	4
Mohito	6
Sinsay	4

KAZAKHSTAN	15
Reserved	3
Cropp	2
House	2
Mohito	2
Sinsay	6

LATVIA	20
Reserved	5
Cropp	4
House	4
Mohito	3
Sinsay	4

FINLAND	5
Reserved	1
Cropp	1
House	1
Mohito	1
Sinsay	1

B&H	6
Reserved	1
Cropp	1
House	1
Mohito	1
Sinsay	2

SLOVAKIA	60
Reserved	16
Cropp	13
House	9
Mohito	8
Sinsay	14

SLOVENIA	9
Reserved	3
Cropp	2
House	1
Mohito	2
Sinsay	1

ROMANIA	78
Reserved	16
Cropp	13
House	14
Mohito	9
Sinsay	26

SERBIA	26
Reserved	6
Cropp	3
House	3
Mohito	4
Sinsay	10

ISRAEL	3
Reserved	3

KUWAIT	1
Reserved	1

GERMANY	19
Reserved	19

UAE	2
Reserved	2

UKRAINE	113
Reserved	26
Cropp	27
House	21
Mohito	11
Sinsay	26
Outlets	2

RUSSIA	394
Reserved	81
Cropp	89
House	59
Mohito	62
Sinsay	102
Outlets	1

QATAR	2
Reserved	2

UK	1
Reserved	1

EGYPT	1
Reserved	1


Cropp, Prague, Czech Republic


House, Budapest, Hungary


Mohito, Moscow, Russia


Sinsay, Warsaw, Poland

2. History

1991

Creation of Mistral company by:

Marek Piechocki
CEO & CO-FOUNDER

- Present in the retail business since 1989
- CEO of LPP since 2000
- The Best-Performing CEO according to Harvard Business Review (2013)

and

Jerzy Lubianiec
CO-FOUNDER

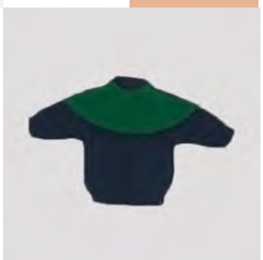
- 1991–1997 ran Mistral company as a sole trader (LPP's predecessor)
- 1995–2000 CEO of LPP
- President of the Supervisory Board between 2000-2020

1993

Sale of goods imported from Asia

1994

First designed clothes



1995

Mistral transformed into LPP

1997

Opening of offices in Shanghai

1998

Launch of Reserved – first retail store opened

2001

IPO on the Warsaw Stock Exchange (debut at PLN 48.4 share price)

2002

▸▸▸ Start of international expansion (Russia, Czech Republic, Estonia, Hungary, Latvia)

2003

Further international expansion (Lithuania, Ukraine, Slovakia)

2004

Launch of Cropp brand

2005

Creation of Esotiq brand

2008

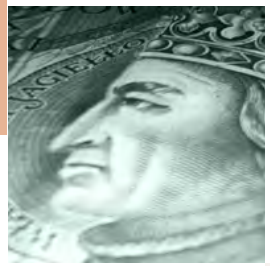
Acquisition of Artman, owner of House and Mohito brands

Launch of the modern Distribution Centre in Pruszcz Gdański

Further international expansion (Romania, Bulgaria)

2010

Payment of first dividend



2010/11

Divesture of Esotiq brand

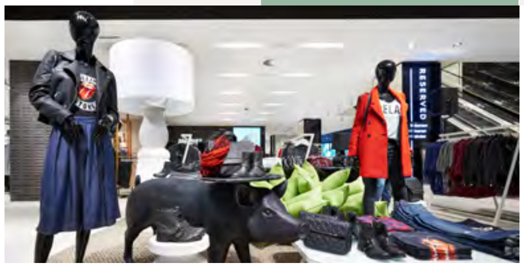
2013

Launch of Sinsay brand

Joining the ACCORD alliance

LPP

New countries: Germany, Croatia



2014

Entry into MSCI and WIG20 indices

2015

Middle East entry (Egypt, Qatar, Kuwait, Saudi Arabia)

2016

Launch of Tallinder brand (closed down in 2017); new country in ME: United Arab Emirates

2017

Opening of Reserved London flagship. Campaign with Kate Moss. Entry to Belraus and Serbia

Signing agreement with SGS company on audits in Asian factories

LPP among family companies – LPP joins Family Business Network Poland

2018

Reserved global campaign with Cindy Crawford

LPP entered Slovenia, Israel and Kazakhstan

Reserved global campaign 'I Can Boogie' with actress Joanna Kulig

LPP a family company after changes in shareholder structure

Start of online sales in Ukraine.

Launch of pan-European e-store

Joining the New Plastics Economy Global Commitment as the first Polish company

New LPP Sustainable Development Strategy for 2020-2025

2019/20

Launch of online stores of all brands in Croatia

Launch of traditional stores off all 5 brands in Bosnia & Herzegovina

Entry to Finland with stores of all five brands in Helsinki

Opening of Fulfillment Centre in Romania, supporting e-commerce in the SEE region

Launch of international Reserved campaign starring the top model Kendall Jenner

Key events in 2020/21

February

PRUSZCZ GDAŃSKI
Finalising expansion of Pruszcz Gdański distribution centre. Total floorspace:
100,000 M²

April

NEW OFFICES IN CRACOW
Finishing construction of new offices in Cracow, where design centres for House and Mohito are located.
9,000 M²

August

COMPLETION OF RESTRUCTURING IN GERMANY
Completion of reorganization proceedings and restoration of normal operations after negotiating new terms and conditions with the landlords.

November

STORE IN DUBAI
Opening of Reserved store in Dubai, in the world's largest shopping center, Dubai Mall.
1,430 M²

LPP A FAMILY COMPANY
Acquisition of a controlling interest in LPP by Semper Simul Foundation. Securing the family character of the company and guarantee of strategy implementation.

3. Brands

Our brands are our value and we put a lot of effort not only in creating but also in developing them. Each of our five brands stands out from the others, offering not only different types of clothes, but different stores and shopping experience.

WE CONCENTRATE ON MAINSTREAM PRICES

	RESERVED	CROPP	house	MOHITO	sinsay
KEY BRAND FEATURES	Anchor brand with a broad customer base.	Streetwear brand influenced by contemporary culture and music.	An optimistic fashion brand.	Comfort and elegance for business and informal meetings.	Clothes for every day inspirations and original party outfits.
TARGET CUSTOMERS	Women, men, children	Teenagers (boys and girls)	Teenagers (boys and girls)	Young women	Women, men, teenagers, children
YEAR Of LAUNCH	1998	2004	2001 (at LPP since 4Q08)	2008 (at LPP since 4Q08)	2013
COUNTRIES/ REGIONS PRESENT	CEE, SEE, Baltic, CIS, WE, ME	CEE, SEE, Baltic, CIS, WE (Finland)	CEE, SEE, Baltic, CIS, WE (Finland)	CEE, SEE, Baltic, CIS, WE (Finland)	CEE, SEE, Baltic, CIS, WE (Finland)
# STORES/ FLOORSPACE	440 674.7 ths m^2	369 166.1 ths m^2	332 146.8 ths m^2	278 115.2 ths m^2	434 329.8 ths m^2
AVERAGE STORE SIZE	1,533 m^2	450 m^2	442 m^2	414 m^2	760 m^2

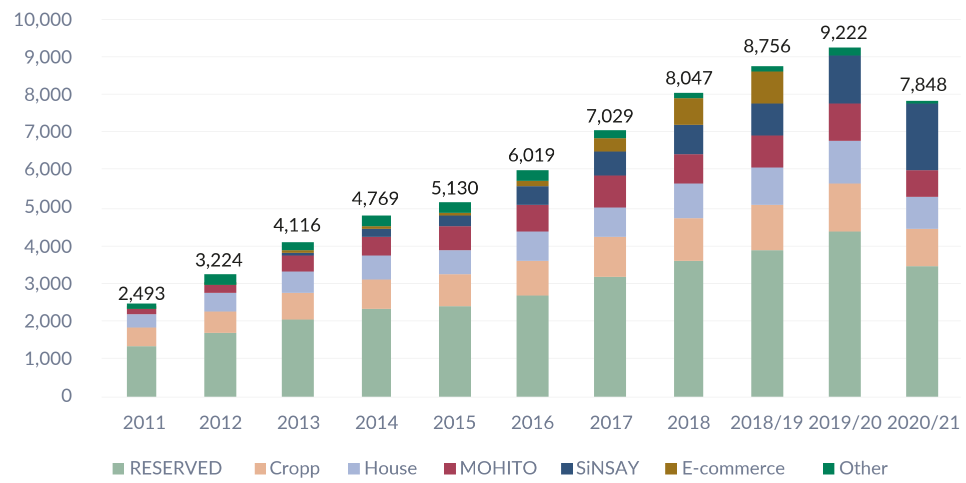
Note: sum of brands' store numbers and floorspace does not equal group's numbers due to outlets at the end of 2020/21

REVENUES BY BRANDS

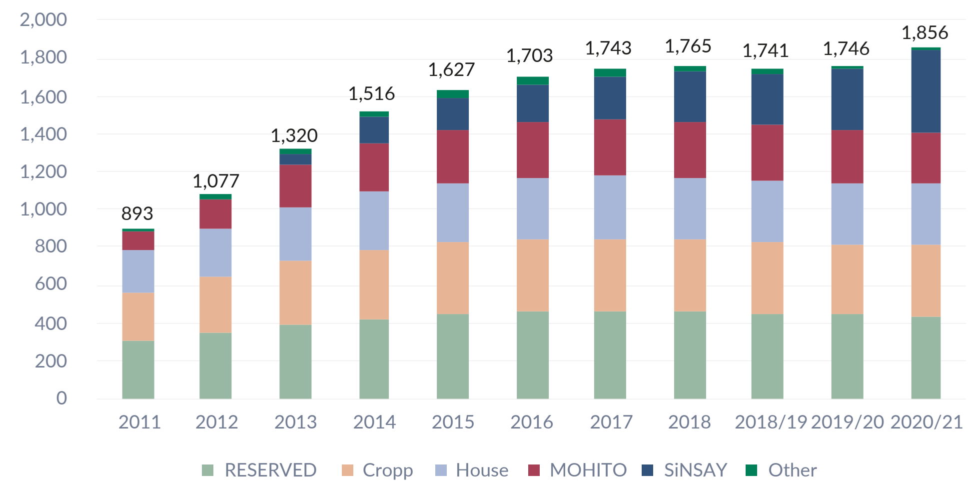
PLN m	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20 (13M)	2019/20	2020/21
Revenues	**2,493**	**3,224**	**4,116**	**4,769**	**5,130**	**6,019**	**7,029**	**8,047**	**8,756**	**9,899**	**9,222**	**7,848**
Reserved	1,368	1,714	2,074	2,311	2,434	2,693	3,160	3,578	3,881	4,047	4,370	3,467
Cropp	447	580	687	771	790	915	1,064	1,120	1,206	1,300	1,289	972
House	378	437	546	634	673	767	805	920	993	1,117	1,135	875
Mohito	104	259	456	523	586	737	829	782	846	897	987	708
Sinsay	-	-	74	225	329	461	610	789	851	1,208	1,282	1,738
E-commerce	4	6	27	65	79	173	361	712	802	1,174	-	-
Other	192	227	252	241	239	261	200	146	178	156	159	88
Tallinder	-	-	-	-	-	12	1	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-	-
Floorspace (ths m^2)	**343,537**	**434,050**	**588,562**	**722,510**	**843,473**	**920,724**	**1,000,611**	**1,091,320**	**1 075 639**	**1 230 860**	**1 230 860**	**1 435 402**

2019/20 (13M) represents 13-month long audited data, 2019/20 represents 12-month long data created for comparison purposes. Since 2019/20 there was a change in data presentation. E-commerce revenues are now allocated among brands.

REVENUES BY BRANDS (PLN M)



STORES BY BRANDS



RESERVED

# online markets	# offline markets	# stores	revenues	year of launch	floorspace
30	25	440	PLN 3.5 bn	1998	675 ths m²

LPP

3.1. Reserved brand

Founded in 1998 in Poland, Reserved is the flagship brand of LPP. Reserved is a brand that follows the latest trends in its collections, combining classic designs with original and latest fashion proposals.

It draws inspiration from the multiculturalism of the great metropolises of Europe and America, but also from the everyday urban realities of Tokyo or Seoul. Reserved designers draw inspiration from various sources: fashion shows, macro world trends, items found on lifestyle portals, colour, fabric and quality inspirations and even details of clothing.

The brand's offer includes lines for women, men and children. Clients can also find here unisex clothing and a broad offer for pregnant women. Reserved brand encompasses various collections reflecting the latest trends, minimalistic and premium collections with excellent quality. In response to trends related to the socioeconomic situation arising from COVID-19, Reserved puts more emphasis on functionality and usability of the product and its timeless look. Reserved brand is mainstream priced with average price tag at PLN 52 in 2020/21.

When creating its collections, the brand puts a lot of effort into testing of new solutions in the field of sustainable fashion and consequently increases the share of environmentally friendly garments in its collections - the Eco Aware line. Eco Aware is a line of products designed to optimise material consumption and waste reduction, including the search for sustainable raw materials. In line with LPP's sustainable development strategy, the brand increases the share of eco-friendly garments from the Eco Aware line in its collections. In 2020/21, these already amounted to 32%.

While the brand remains close to its Central Eastern European heritage, Reserved continues to grow on an international scale - launching a number of international campaigns with big names, like Georgia May Jagger, Brooklyn Beckham, Sasha Pivovarova, Cara Delevigne, Magdalena Frąckowiak, Anja Rubik, Kendall Jenner, to name a few. Since 2016 we have refreshed the Reserved brand for the grand opening of a new store at Oxford Street in London, with top model Kate Moss as the face of that launch and our AW17/18 collection.

Since then, we have continued to work with a number of international celebrities, models and influencers, including: Irina Shayk, Adwoa Aboah and Zuzanna Bijoch. For SS18, we collaborated with the one and only, Cindy Crawford. Every year, we launch special collections on the market. We have partnered with British Vogue and have launched the special party collection curated by British Vogue in December 2018. The campaign for AW18 starred Polish actress Joanna Kulig and French it girl Jeanne Damas re-interpreting the popular song from 70 ties 'I can Boogie'. For SS19, we focused on ReDesign capsule (interpreting the latest fashion trends) collection and Małgosia Bela was the face of this campaign. Autumn/Winter 2019 collection was advertisied by top model Kendall Jenner, and generated a record high number of views. In 2019/20 our collections were also inspired by musical creativity of e.g. David Bowie, Queen, Ariana Grande, Justin Bieber and iconic cartoons and movies.

The brand has the largest international reach among LPP's brands. At the end of 2020/21 it was present in 25 countries offline with 440 stores and 30 countries online.

ANCHOR BRAND WITH A BROAD CUSTOMER BASE

www.reserved.com

STORE CONCEPT

- Open concept, brightly-lit, inviting storefront allows for deep view insight of store interior. Freestanding panels create smooth and light background for product exposition. Modern LED lamps and LED screens illuminate the collection in a better way, creating a warm ambience.
- Comfortable, large and spacious fitting rooms supported by internal navigation systems. Relax zones equipped with mobile charging stations.
- Clear division of women, men and kids departments makes interior of the store more regular and ordered.
- Furniture is modern, delicate and streamlined. Natural materials like wooden tables and shelfs make interior more cozy and modern.

BRAND ESSENCE

Polished (core/ 80%, fashion trends, feminine & masculine, refined, commercial)

vs

Unpolished (niche/ 20%, collaborations, be different, creative, young, designers / debutants)

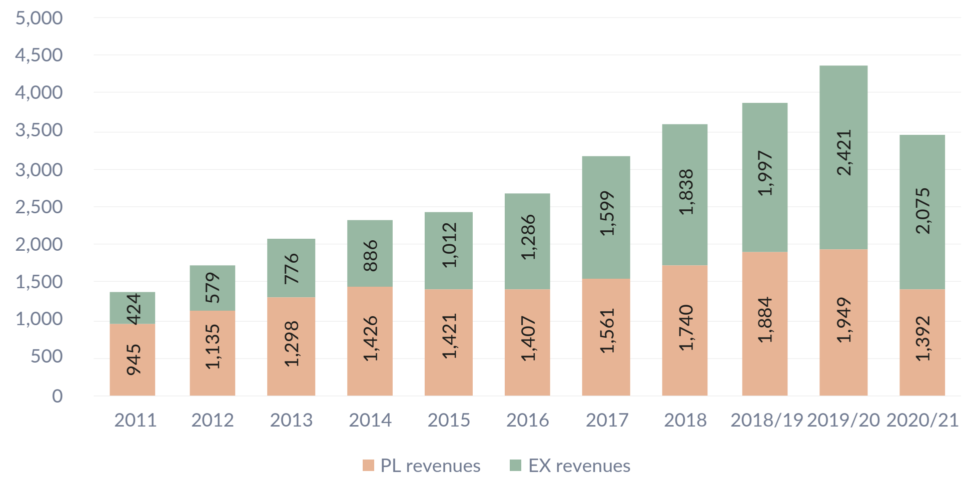
BRAND PERSONALITY

trendy, fashionable, urban, chic, dynamic and creative

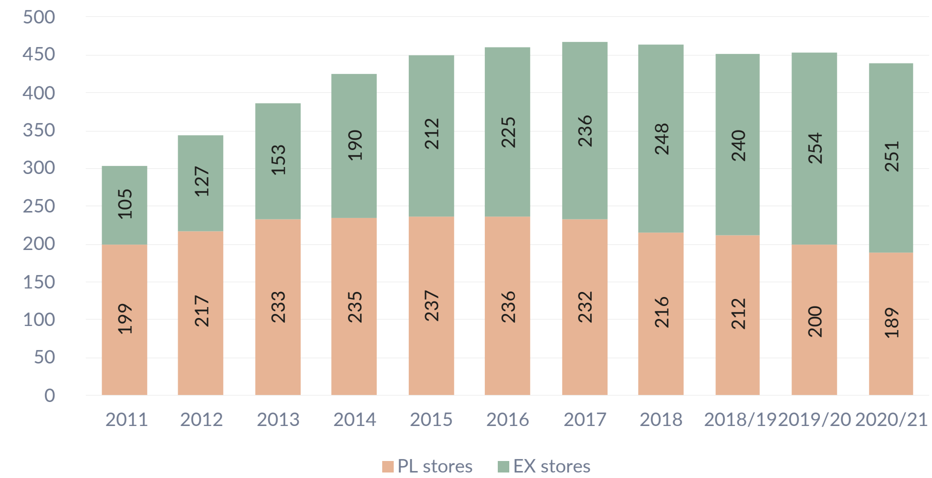
RESERVED – BASIC FIGURES

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Revenues (PLN m)	**1,368**	**1,714**	**2,074**	**2,311**	**2,434**	**2,693**	**3,160**	**3,578**	**3,881**	**4,370**	**3,467**
No. of stores	304	344	386	425	449	461	468	464	452	454	440
Store size (m^2)	697	733	835	917	1,027	1,104	1,202	1,329	1,338	1,464	1,533
Floorspace (eop, ths m^2)	212	252	322	390	461	509	562	617	605	665	675
Sales/m^2 monthly	566	628	617	547	483	475	514	527	525	500	441
% of floorspace in PL	65%	62%	59%	54%	50%	49%	47%	44%	44%	41%	40%
No. of countries offline	11	11	11	13	17	18	20	23	23	25	25
No. of countries online	1	1	1	2	5	6	11	16	16	30	30

RESERVED – REVENUES (PLN M)



RESERVED – STORES



CROPP

# online markets	# offline markets	# stores	revenues	year of launch	floorspace
13	17	369	PLN 1.0 bn	2004	166 ths m^2

3.2. Cropp brand

Cropp is the first brand for young-hearted people developed in-house by LPP. The launch took place in 2004. Cropp fits into the streetwear fashion, making it easier for customers to create own style thanks to extensive women's and men's collections, supplemented with a wide range of shoes and modern accessories. The brand helps to express emotions and exceed borders. It draws inspiration from contemporary culture and music, creatively mixing them with latest catwalk trends. During the design process, the brand cooperates with visual artists, illustrators and graffiti artists from around the world. Cropp is a mainstream priced brand with an average price tag of PLN 55 in 2020/21. The brand is developed internationally via company-owned stores mostly. At the end of 2020/21 there were 369 Cropp stores in 17 countries all over the world and the brand was present in 13 countries online.

Cropp collections are inspired by modern fashion trends, pop culture, and urban lifestyle. While boy's collection is strongly inspired by global streetwear, girls can find some more feminine outfits, that will allow them to incorporate the latest worldwide trends into their everyday style. Cropp customers are people who follow the latest trends, but do not follow them blindly, focusing on individualism and expressing their unique style. The clothes are not to define oneself – it's the people that define the clothes and add their unique character. For many years, Cropp has been a partner of street art events, sponsoring e.g. the Gdańsk music festival and Baltic Games, an extreme sports event.

CASUAL STREETWEAR BRAND

Cropp also focuses on ecology. In our designs, we make references to environment protection and respect for the surrounding world. Line of Eco Aware products is expanded every year - these clothes are designed in harmony with sustainable development. In stores in Poland plastic shopping bags have been replaced with paper ones and online orders are packed in 100% recycled foil.

www.cropp.com

STORE CONCEPT

- A modern and universal interior, in which the bright aesthetics of the walls, broken with interesting textures and color accents, create background that helps to emphasize the beauty of collections.
- The character of the brand is deeply rooted in the streatwear, which is reflected in our stores by strong accents like characteristic bumps, original graphic markings or contrasting materials.
- Eco-friendly elements are an important part of the concept - we use recyclable and recycled materials and energy-saving LED lighting.

BRAND ESSENCE

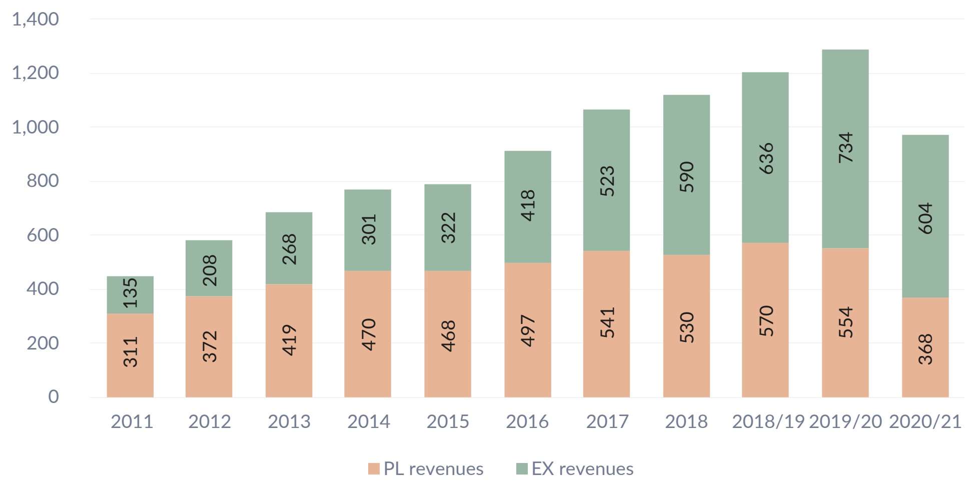
Who are we?

- We are Cropp. Each one of us is different, but we're going in the same direction.
- We make our own choices. Online or offline? Indoor or outdoor? To party or to chill?
- #YouDecide who you are. #YouDecide what to wear and how to wear it.
- Don't let them tell you otherwise.

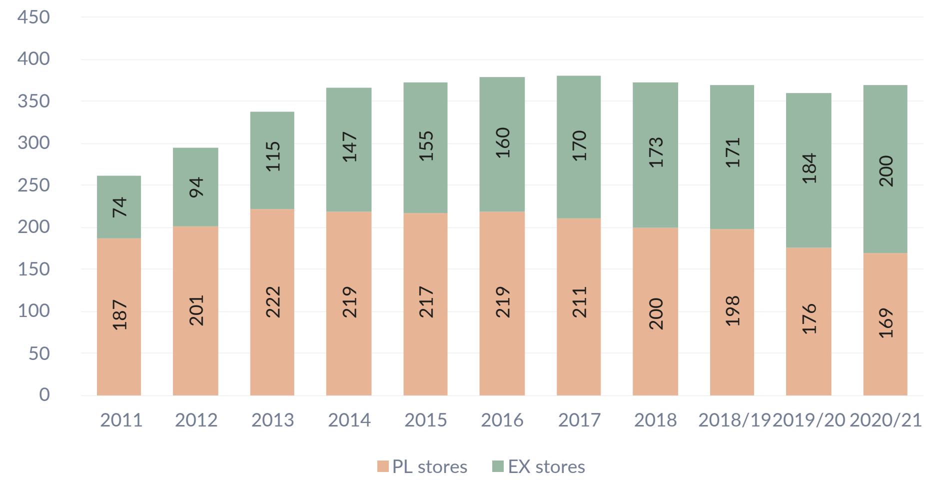
CROPP – BASIC FIGURES

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Revenues (PLN m)	**447**	**580**	**687**	**771**	**790**	**915**	**1,064**	**1,120**	**1,206**	**1,289**	**972**
No. of stores	261	295	337	366	372	379	381	373	369	360	369
Store size (m^2)	228	244	269	288	308	318	334	359	360	411	450
Floorspace (eop, ths m^2)	59	72	91	105	114	120	127	134	133	148	166
Sales/m^2 monthly	651	756	725	647	591	653	732	729	723	717	517
% of floorspace in PL	67%	62%	60%	55%	55%	54%	52%	50%	50%	43%	38%
No. of countries offline	10	11	11	12	12	12	13	15	15	17	17
No. of countries online	1	1	1	1	1	6	9	10	10	12	13

CROPP – REVENUES (PLN M)



CROPP – STORES



# online markets	# offline markets	# stores	revenues	year of launch	floorspace
13	17	332	PLN 0.9 bn	2001 (at LPP since 4Q08)	147 ths m²

3.3. House brand

House combines the latest trends with street style. It focuses on casual style. The brand offers bold combinations and statement accessories. The brand's clients – men and women – young at heart and in spirit who don't take themselves too seriously, appreciate a carefree attitude and enjoy life to the fullest. The brand inspires to play with fashion and consciously shape your own image. The brand focuses on listening to its audience's needs and observing the world around. House uses professional fashion trend analysis tools, draws inspiration from the style of a bustling big-city street, participates at fabric fairs and is constantly present in the online world.

In its collections, House refers to art, pop culture and trends in social media. It also cares about environmentally friendly quality to create a more sustainable future in fashion together with its customers. In 2019/20, in House collections, we started introducing clothes made of certified, environmentally friendly materials. House is a mainstream priced brand. 2020/21 average price tag came in at PLN 51.

The brand is developed internationally. There were 332 House stores at the end of 2020/21 in 17 countries offline and e-stores were present in 13 countries. Even though the brand exists from 2001, it has been acquired by LPP along with Artman merger in 2008.

BRAND THAT COMBINES THE LATEST TRENDS WITH STREET STYLE

www.housebrand.com

STORE CONCEPT

- The interior of the store is designed as a transformed post-industrial space with warm, homely touches.
- Raw industrial interior is balanced with usage of wooden elements, carpets and decorative elements.
- Store decorations have DIY-feeling - hanging doors, wooden boxes, used glass jars.

BRAND ESSENCE

Brand persons:

- trendy, spontaneous, dynamic, authentic young adults with sense of humour.

Emotions:

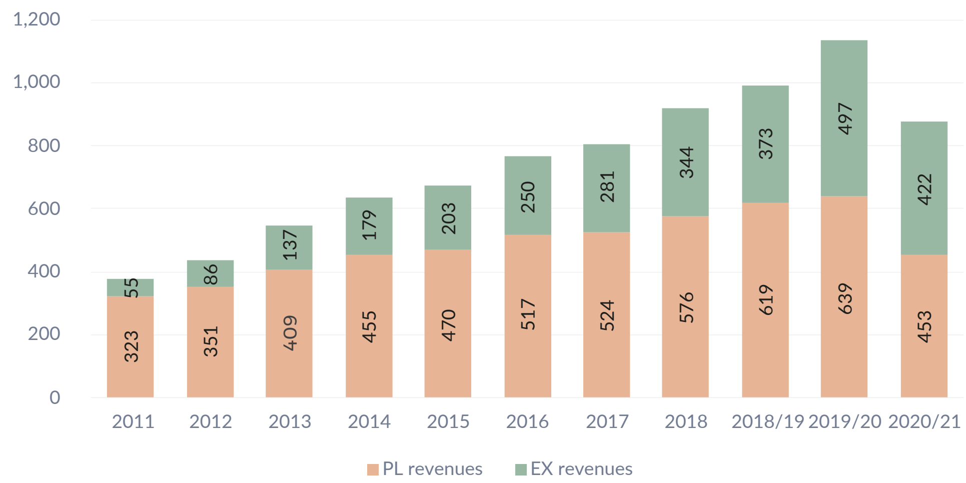
- joy, energy, self-confidence, fun, humour.

LPP

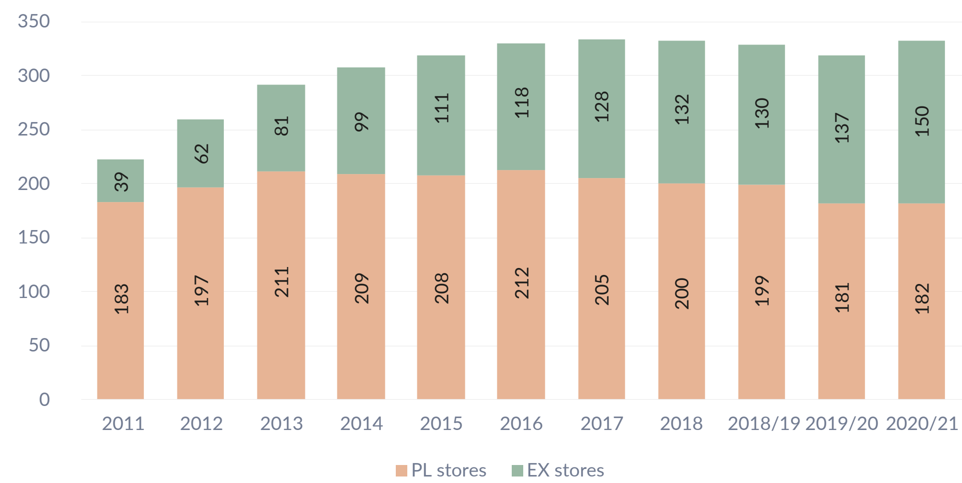
HOUSE – BASIC FIGURES

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Revenues (PLN m)	**378**	**437**	**546**	**634**	**673**	**767**	**805**	**920**	**993**	**1,135**	**875**
No. of stores	222	259	292	308	319	330	333	332	329	318	332
Store size (m^2)	230	247	275	291	313	320	332	350	350	401	442
Floorspace (eop, ths m^2)	51	64	80	90	100	106	111	116	115	127	147
Sales/m^2 monthly	633	654	652	612	579	621	639	689	684	715	535
% of floorspace in PL	80%	73%	69%	64%	62%	61%	59%	58%	58%	51%	49%
No. of countries offline	10	9	9	10	12	12	13	15	15	17	17
No. of countries online	1	1	1	1	1	6	10	10	10	12	13

HOUSE – REVENUES (PLN M)



HOUSE – STORES



MOHITO

# online markets	# offline markets	# stores	revenues	year of launch	floorspace
13	18	278	PLN 0.7 bn	2008 (at LPP since 4Q08)	115 ths m²

3.4. Mohito brand

Mohito is another brand acquired along the Artman merger, just as House brand. The brand was developed in 2008 and is aimed at women solely. Mohito puts femininity first, whatever occasion (whether it is going out to a party or a sign of today's times - home office). The brand carefully follows global trends, keeps balance between fashion inspirations in design and comfort and functionality, especially expected in present times. Mohito draws inspiration from very different sources - from fashion shows through websites and social media up to stylish people around.

Mohito offers clothes at an affordable price, creation of which is based on ethical principles and in which each client can feel natural and beautiful. The average price tag of PLN 64 in 2020/21 is the highest among our brands. At the end of 2020/21 278 Mohito stores were present in 18 countries offline and 13 online.

The brand offers clothes and accessories in a full range energetic colors and patterns that emphasize feminity regardless of place and situation. In AW14/15 Anja Rubik created a star collection for Mohito. AW15/16 collection was advertised by top-model Zuzanna Bijoch, while SS16 by Anna Jagodzińska. AW16/17 collection was advertised by top-model Magdalena Frąckowiak. In 2018, Dominika Grosicka was invited to the charity exclusive collection. In 2019 Paulina Sykut-Jeżyna advertised the Mohito Cares eco collection.

Mohito brand is socially engaged, organising regular charity events having real impact on the needs of today's world. Therefore, as part of Mohito Cares ecological project, each item sold with that label equalled one tree we planted.

FASHION BRAND EMPHASIZING FEMINITY AND ELEGANCE

www.mohito.com

STORE CONCEPT

- The store concept relates to elegance and style.
- The centre of the store is bright surrounded by a darker environment. The store has a separate display area for exclusive collection.
- Strong direct lighting makes the customer feel as part of the catwalk show, before entering the dressing room sectioned.

BRAND ESSENCE

Brand idea:
Mohito is created to lift up the mood of women by empowering them to express their femininity with confidence to look great and feel great.

RED LINE collection is divided into two main themes:
Casual Sexy and Feminine Streetwear

- **Casual Sexy** consists of very feminine and romantic shapes, in soft, nude or pastel tones, clothes here are dedicated to everyday wear.
- **Feminine Streetwear** can be described as very feminine, everyday wear clothes with fresh, vibrant spirit of streetwear. Collections are dedicated to very confident women, who love trends and bold, eye-catching styles.

BLUE LINE collection is divided into two main themes.
Confident Feminity Occasion and Urban Seductive.

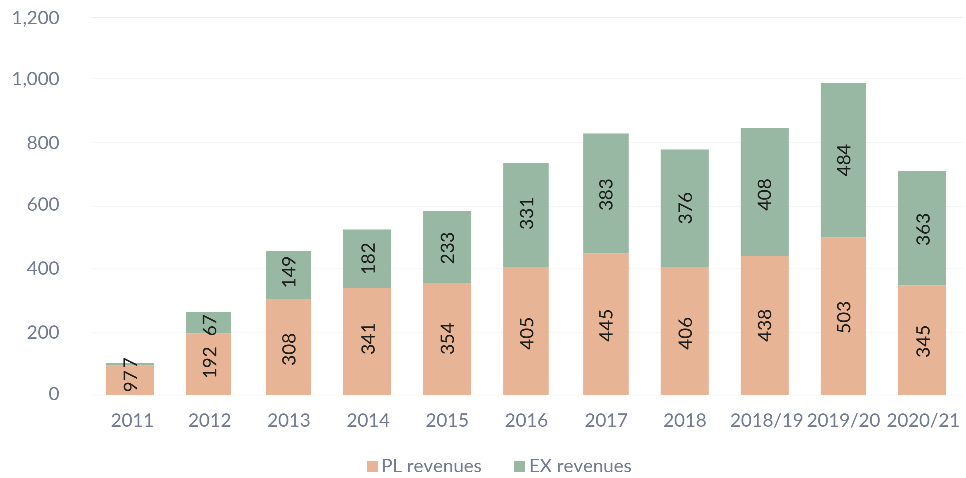
- **Confident Feminity Occasion -** characterized by sharp, sexy, tailored and hyper feminine clothes dedicated for self-confident clients, aiming to look good at the occasions such as wedding or a party.
- **Urban Seductive** collection is soft, fluid, very feminine and sensual. Silhouette is more relaxed, comfortable, clothes are dedicated for everyday wear.

KNITTED line supports as well Red as Blue line collections.
Knitted line offers classic, comfortable and stylish basics and its's own capsule collections reflecting newest trends.

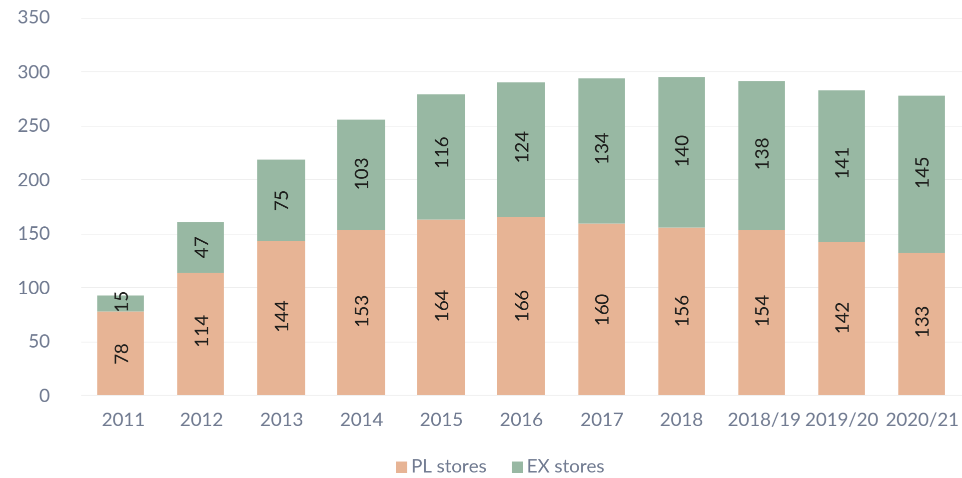
MOHITO – BASIC FIGURES

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Revenues (PLN m)	**104**	**259**	**456**	**523**	**586**	**737**	**829**	**782**	**846**	**987**	**708**
No. of stores	93	161	219	256	280	290	294	296	292	283	278
Store size (m^2)	186	242	301	323	337	342	353	370	370	395	414
Floorspace (eop, ths m^2)	17	39	66	83	94	99	104	109	108	112	115
Sales/m^2 monthly	733	843	759	583	549	636	696	620	619	631	523
% of floorspace in PL	87%	67%	62%	56%	55%	54%	51%	49%	50%	46%	44%
No. of countries offline	7	8	9	12	12	12	13	15	15	17	18
No. of countries online	1	1	1	1	1	6	10	10	10	12	13

MOHITO – REVENUES (PLN M)



MOHITO – STORES



sinsay

# online markets	# offline markets	# stores	revenues	year of launch	floorspace
13	18	434	PLN 1.7 bn	2013	330 ths m^2

3.5. Sinsay brand

Sinsay is the youngest brand in our portfolio. It was launched in 2013. 2019 was the year of changes and setting a new direction in Sinsay operations. At present, the brand responds to the needs of teenagers, but also young women, parents and their children. The brand's fashion offer includes women, teen, men, kids lines, accessories as well as homewear and beauty novelties. Thanks to this, Sinsay can meet the needs of its customers in each age category.

When designing collections, the brand uses various sources of inspiration. During the COVID-19 pandemic, awareness of the surroundings was very important for the brand. The brand is mainstream priced yet has the lowest average price tag (PLN 22 in 2020/21), so that it is affordable for the target group. Brand's clothes and accessories at the best price on the market were to provide customers maximum comfort, good style and freedom. Sinsay clothes can be styled differently depending on the circumstances. The clothes are suited for multitasking, just like our homes where we work, we teach, we play, we have fun, we lead everyday life. The brand takes advantage of pleasant in touch materials, in enveloping shapes and subtle subdued colour palette. The variety of styles makes it possible to create glamorous, layered stylizations. Good appearance helps Sinsay's customers feel good, and this is the guiding principle the brand uses while working on collections.

The unchanged element of the brand's activity is the Teen line created for teenagers and women up to 24 years. Its offering directly responds to social media trends and is appreciated by young girls who want to look smart both at school and at parties. A new broader Sinsay collection offers a wide variety of clothes and accessories for active and independent women. The Lady line is created for fashion lovers appreciating casual look and comfort at affordable prices. Another novelty is a collection for the youngest to be found in brand stores under the Fox & Bunny label. The collection of clothes and accessories is supplemented with the Sinsay Home line offering gadgets and interior decoration items.

Sinsay brand develops both domestically and abroad. At the end of 2020/21 there were 434 stores in 18 countries offline and 13 countries online. The brand concentrates its advertising on social media. Sinsay co-operates with young influencers and models. In the past the brand was advertised by Karolina Pisarek and Aleksandra Kowalska. Sinsay collaborated with young Polish actresses – Olga Kalicka and Wiktoria Gąsiewska.

Sinsay puts increasing emphasis on creating and manufacturing more eco-friendly collections. The eco-friendly collection offers denim trousers and winter jackets made of recycled polyester.

EVERYDAY CLOTHES AND ORIGINAL PARTY OUTFITS

www.sinsay.com

STORE CONCEPT

- “Limitless” is the keyword of the new store concept. The store is open and welcoming at the entrance. The shopping interior does not divert attention from the displayed product range.
- Balanced background for a great amount of colourful goods is created and the freedom of product arrangement is achieved.
- Highlighting changes and unlimited freedom of the client, refer to client’s own space, residential apartment. Linearity, lightness and flexibility as the background.
- Colours are neutral and do not compete with the product collection. Bigger, white surfaces of the walls or floors are brightened with minimalist graphic design.

BRAND ESSENCE

Brand persons:

- Girls who are loud, beautiful, expressive and have their character.
- A good bad girl.

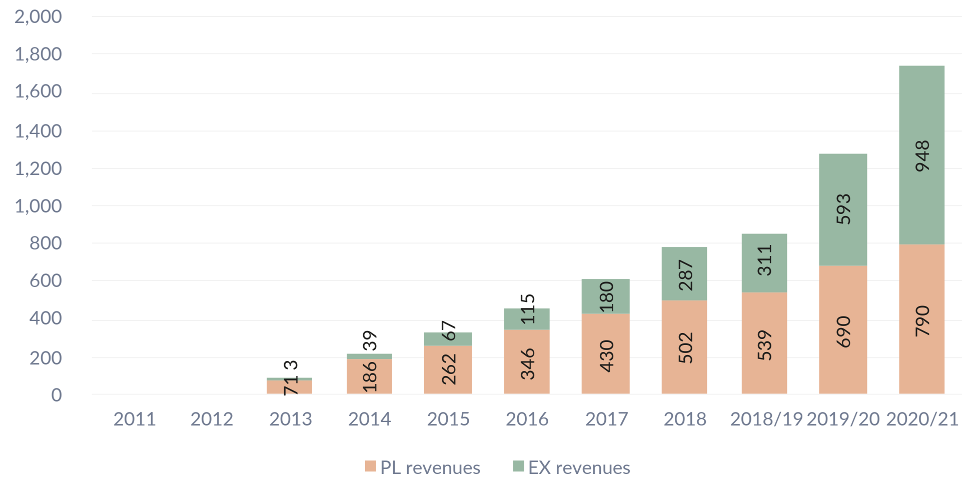
Ideas important to brand persons:

- look, freedom, friendship, holidays, social media, music and fashion.

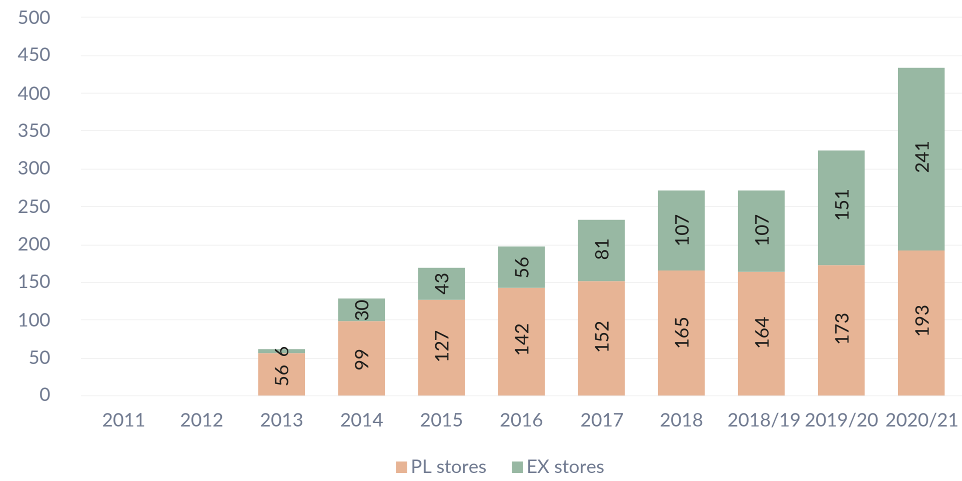
SINSAY – BASIC FIGURES

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Revenues (PLN m)	-	-	**74**	**225**	**329**	**461**	**610**	**789**	**851**	**1,282**	**1,738**
No. of stores	-	-	62	129	170	198	233	272	271	324	434
Store size (m²)	-	-	325	338	351	352	363	379	379	535	760
Floorspace (eop, ths m²)	-	-	20	44	60	70	85	103	103	173	330
Sales/m² monthly	-	-	670	584	531	607	690	719	709	728	615
% of floorspace in PL	-	-	89%	75%	73%	70%	63%	58%	58%	45%	35%
No. of countries offline	-	-	4	10	11	11	13	15	15	17	18
No. of countries online	-	-	1	1	1	6	10	10	10	12	13

SINSAY – REVENUES (PLN M)



SINSAY – STORES



4. E-commerce

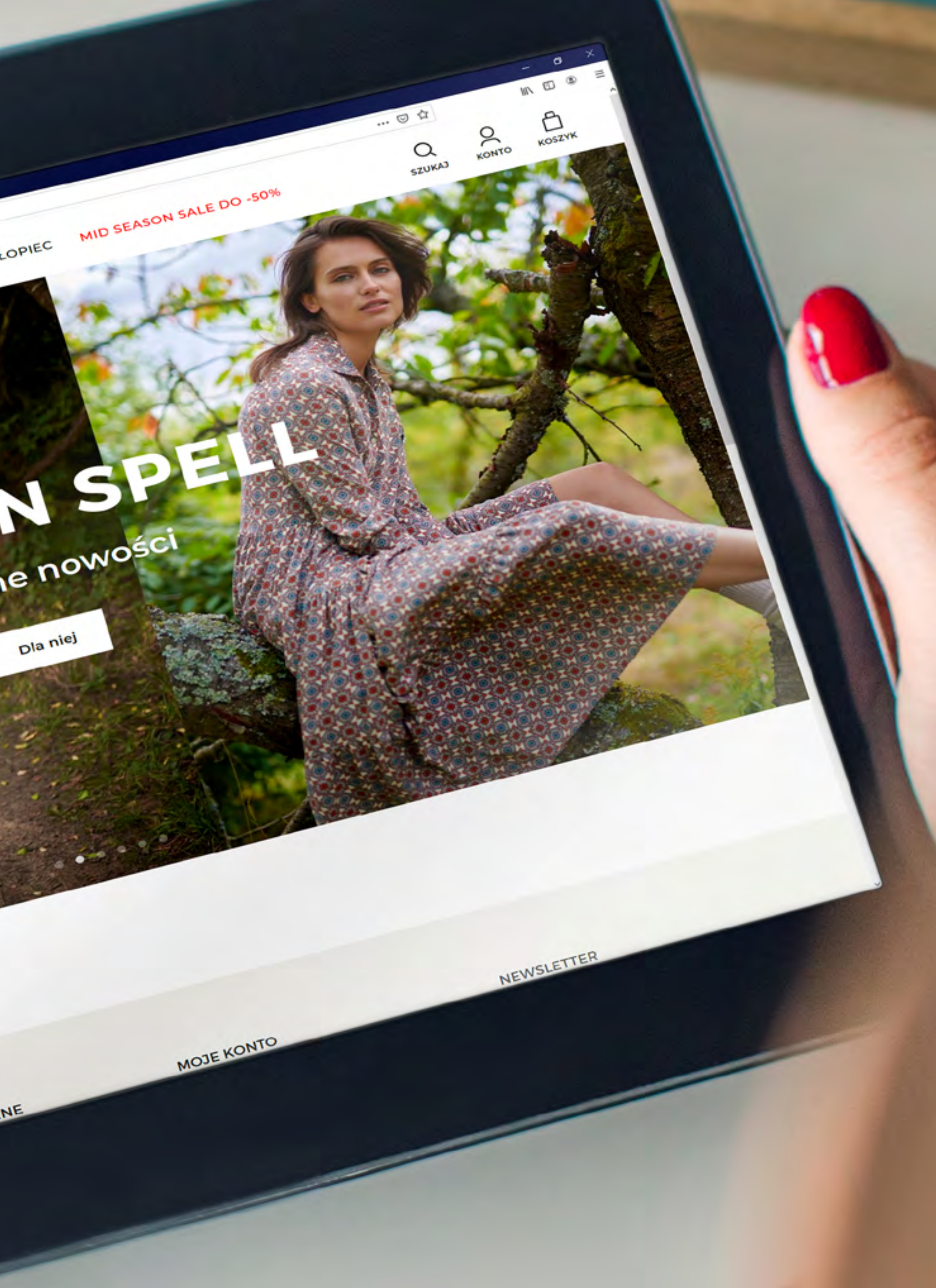
Even though the majority of our business is brick-and-mortar, we accelerate investments in online operations, as this is where our customers are going, especially after COVID-19. In 2020/21 online sales constituted 28% of our group revenues.

Our e-commerce strategy is based on single brand e-stores as opposed to multibrand e-stores. All our five brands have high-quality internet stores and mobile websites. Some half of our e-commerce revenues comes from Poland. However, apart from domestic development, we invest in internet stores abroad.

At the end of 2020/21, we operated own e-commerce stores in 14 countries. We had stores of all our 5 brands in 13 countries (Poland, Czech Republic, Slovakia, Hungary, Romania, Germany, Lithuania, Latvia, Estonia, Russia, Ukraine, Croatia and Slovenia). We operated Reserved online store in the UK. In 2019/20 we launched a pan-European online store for our Reserved brand, increasing the number of online countries to 30.

Reserved is available of Namshi.com - a Middle East platform (decision of our franchise partner) and in Israel via our franchise partner in that country.

55,900 photographed products per year	**35** photographic studios and one accessories photography studio	**130 team** of people responsible for content production



2011
RESERVED, HOUSE, CROPP, MOHITO, SINSAY, Poland

2014
RESERVED, Germany

2015
RESERVED, Slovakia, Czech Republic, Romania

2016
TALLINDER, Poland

RESERVED, Hungary

CROPP, HOUSE, MOHITO, SINSAY, Czech Republic, Hungary, Romania, Slovakia, Germany

2017
RESERVED, UK

RESERVED, CROPP, HOUSE, MOHITO, SINSAY, Lithuania, Latvia, Estonia

RESERVED, HOUSE, MOHITO, SINSAY, Russia

2018
CROPP, Russia

RESERVED, 5 ME countries (Reserved via franchise partner)

2019/20
Launching own online stores in Ukraine and Croatia

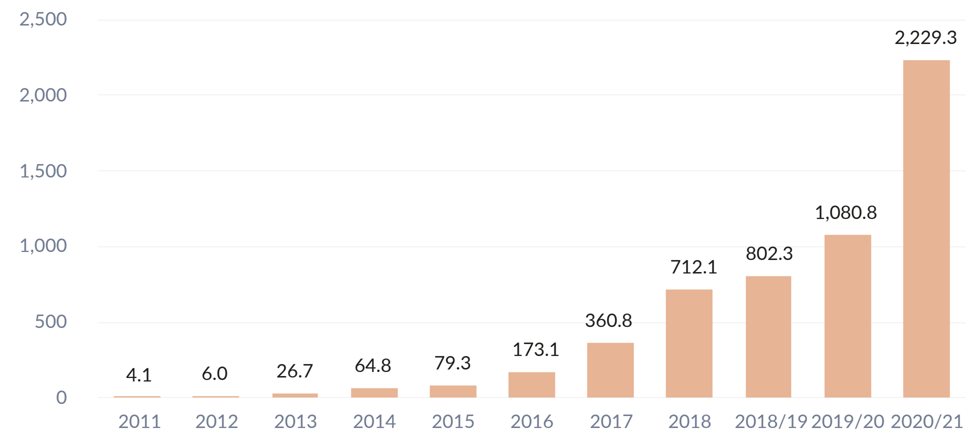
Opening of pan-European e-store

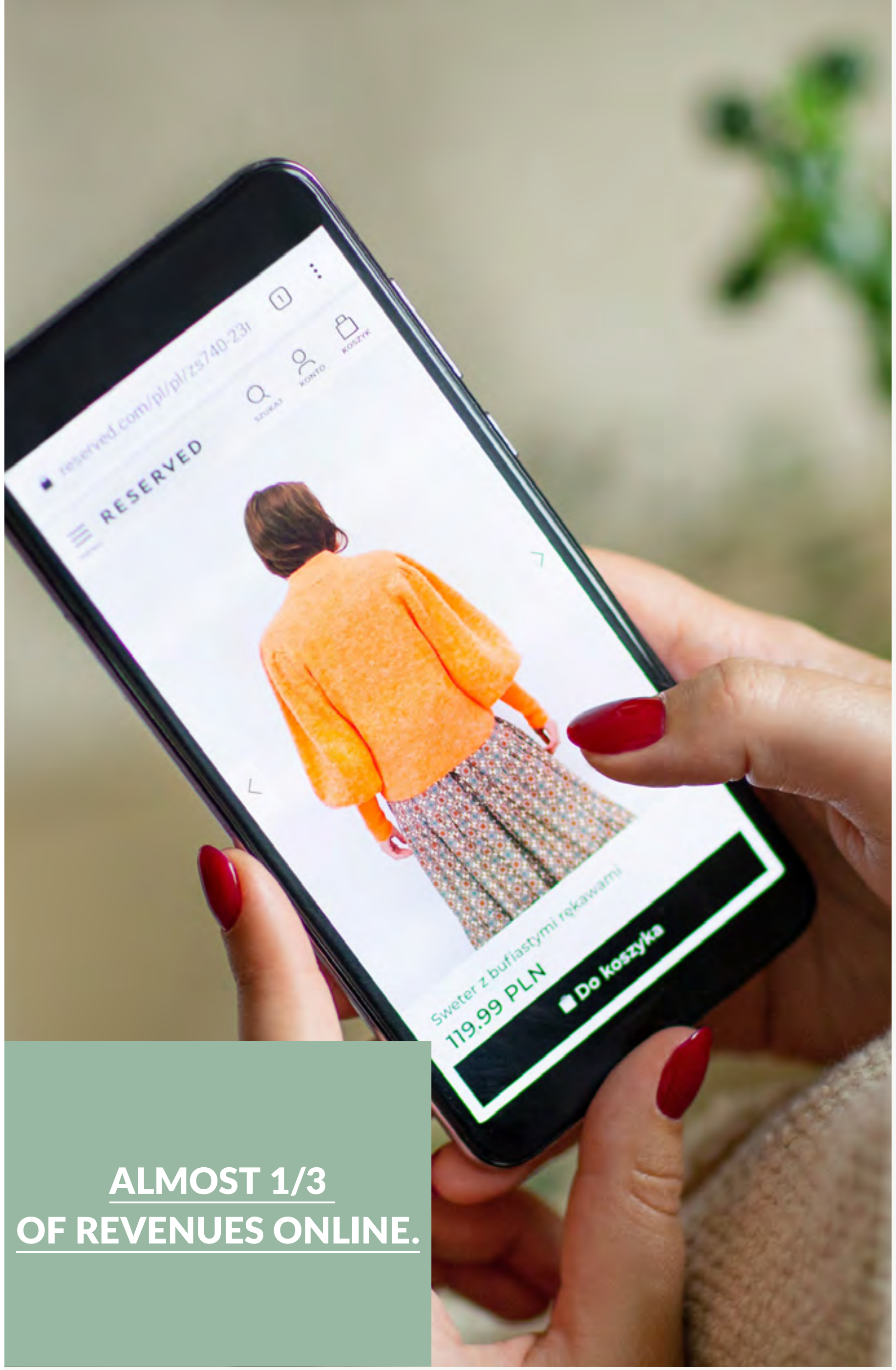
2020/21
E-COMMERCE boom due to COVID-19 pandemics

RESERVED, Israel (via a franchise partner)

RESERVED, CROPP, HOUSE, MOHITO, SINSAY, Slovenia

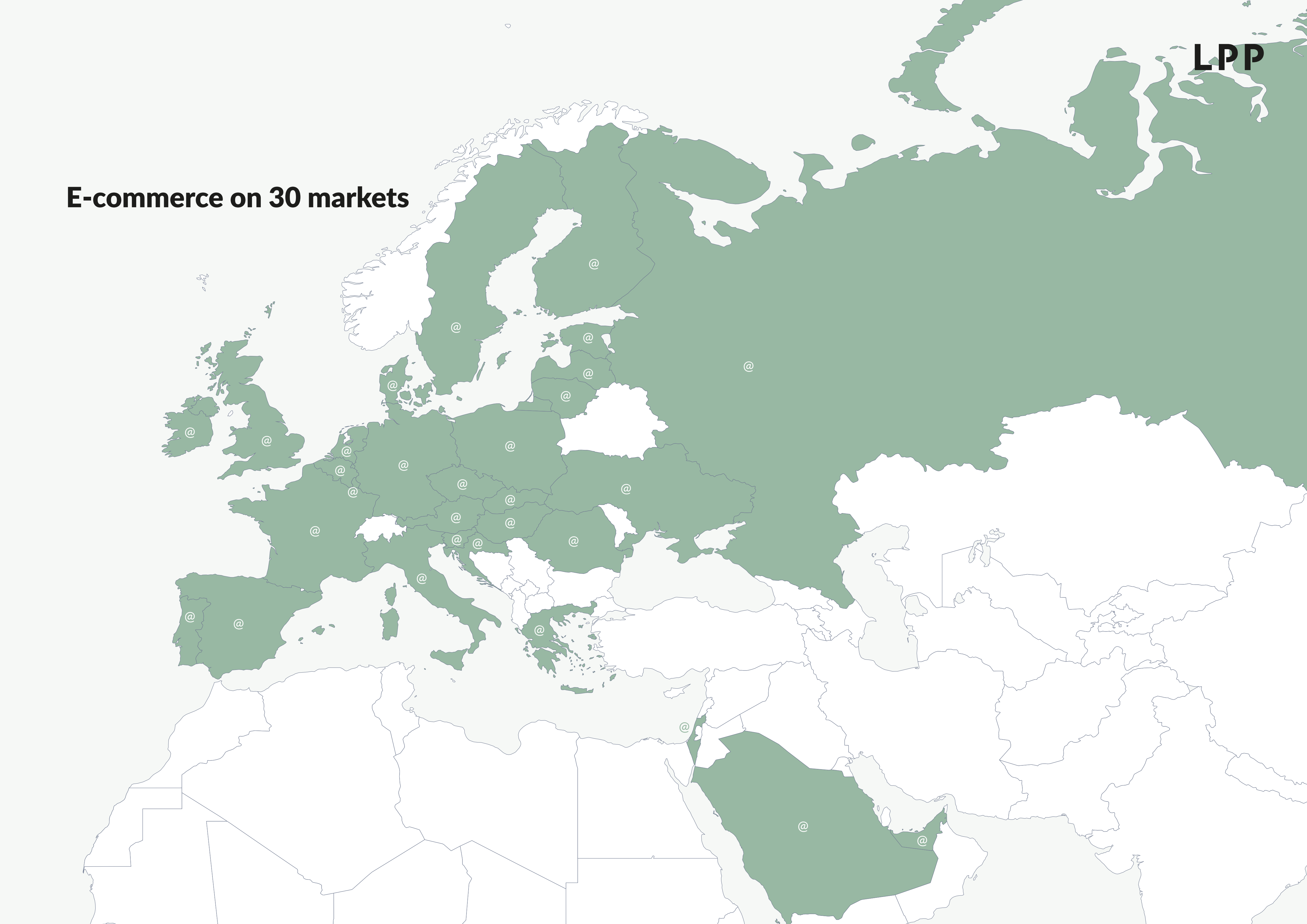
E-COMMERCE REVENUES (PLN M)





ALMOST 1/3 OF REVENUES ONLINE.

E-commerce on 30 markets



5. Regions

Our five brands are present in six regions, differing from one another with the level of affluence, population, climate and culture. Those regions have been chosen either due to their geographical proximity or abundant growth possibility or customer affluence.

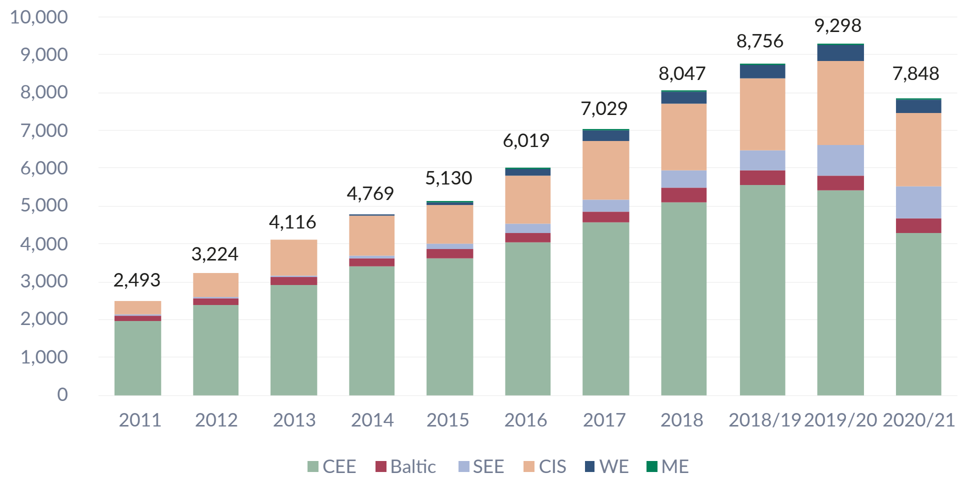
We believe we will be successful on the developing and early stage markets as the price-to-quality ratio offering in our stores meets the customers' expectations.

	MATURITY		DEVELOPING		EARLY STAGE	
DEVELOPMENT STAGE	**CEE**	**BALTIC**	**CIS**	**SEE**	**WE**	**ME**
COUNTRIES PRESENT	Czech Republic, Hungary, Poland, Slovakia	Lithuania, Latvia, Estonia	Russia, Ukraine, Belarus, Kazakhstan	Bulgaria, Romania, Croatia, Serbia, Slovenia, B&H	Germany, UK, Finland	Egypt, Kuwait, Qatar, UAE, Israel
BRANDS	Reserved, Cropp, House, Mohito, Sinsay	Reserved, Cropp, House, Mohito, Sinsay	Reserved, Cropp, House, Mohito, Sinsay	Reserved, Cropp, House, Mohito, Sinsay	Reserved (in all countries), Cropp, House, Mohito, Sinsay (in Finland only)	Reserved
# COUNTRIES PRESENT	4	3	4	6	3	5
# STORES FLOORSPACE	1,046 712.3 ths m^2	75 62.0 ths m^2	526 426.1 ths m^2	175 169.7 ths m^2	25 55.5 ths m^2	9 9.9 ths m^2
TYPE Of STORES	Own (majority), franchise	Own	Own	Own	Own	Franchise

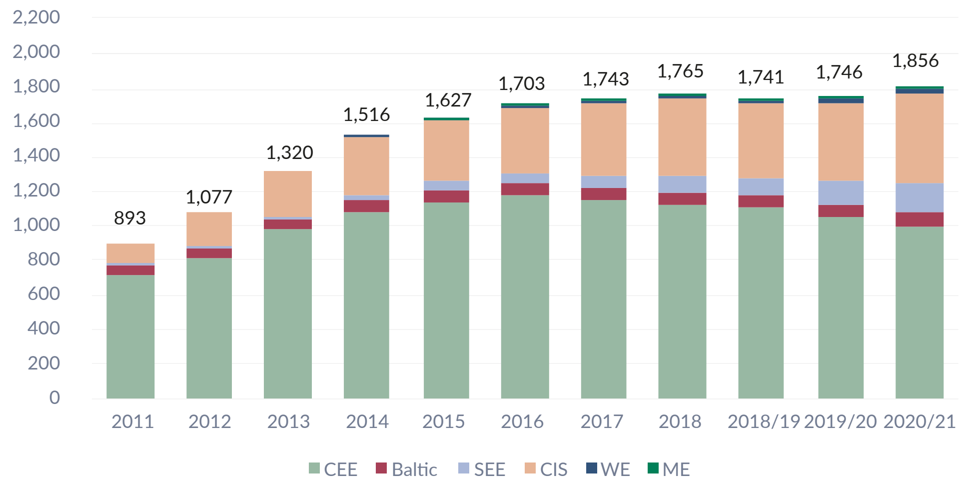
REVENUES BY REGIONS

PLN m	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Revenues	**2,493**	**3,224**	**4,116**	**4,769**	**5,130**	**6,019**	**7,029**	**8,047**	**8,756**	**9,222**	**7,848**
CEE	1,973	2,382	2,927	3,414	3,634	4,039	4,572	5,115	5,562	5,851	4,280
Baltic	120	162	186	200	222	256	295	358	388	437	402
CIS	359	638	952	1,076	1,025	1,269	1,542	1,770	1,924	2,199	1,929
SEE	40	42	52	65	134	230	317	463	513	812	851
WE	-	-	-	15	94	194	279	320	345	433	370
ME	-	-	-	-	23	31	24	22	24	33	17
Floorspace (ths m²)	**343,537**	**434,050**	**588,562**	**722,510**	**843,473**	**920,724**	**1,000,611**	**1,091,320**	**1,075,639**	**1,230,860**	**1,435,402**

REVENUES BY REGIONS (PLN M)



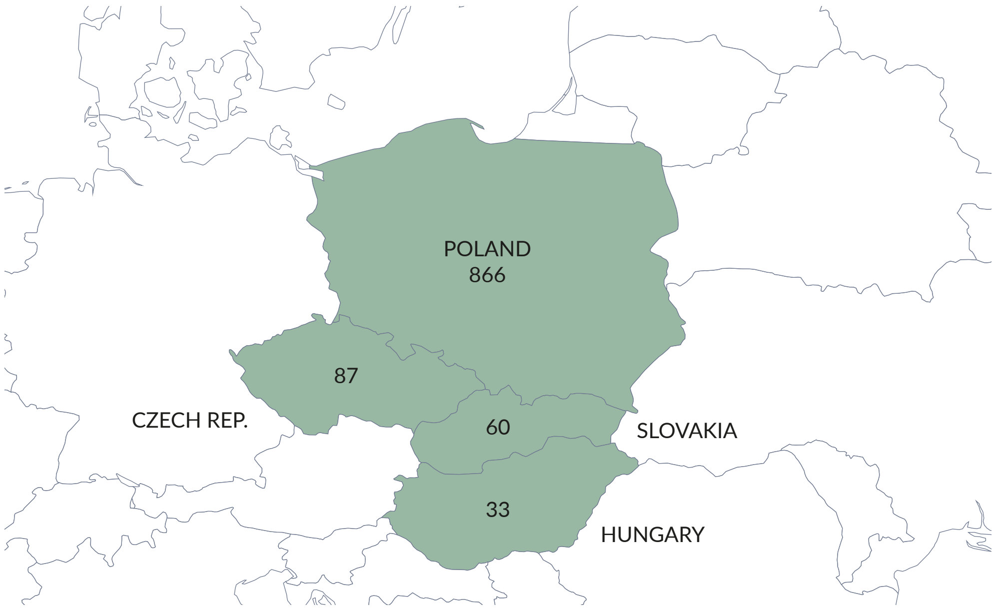
STORES BY REGIONS



5.1. CEE region

The CEE region comprises of Poland, Czech Republic, Slovakia and Hungary. Poland has been our first market and is by far the most important market currently, generating 55% of group revenues. Development in Czech Republic and Hungary was gradual and took place via company-owned stores, while Slovakia had been developed via franchise until April 2014. The CEE region is a mature market for us with the exception of Hungary, where we have the lowest number of stores in the region. We have e-stores of all our brands in each of the countries in the region. We see development possibilities in value-for-money segment, which opens possibility to develop traditional stores in retail parks.

CEE REGION OVERVIEW



CEE REGION – STORES & FLOORSPACE BY COUNTRY

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**709**	**809**	**976**	**1,075**	**1,144**	**1,177**	**1,149**	**1,122**	**1,109**	**1,051**	**1,046**
Poland	659	745	886	943	986	1,017	990	959	949	874	866
Other CEE	50	64	90	132	158	160	159	163	160	177	180
Floorspace (ths m²)	**259**	**309**	**409**	**475**	**545**	**581**	**602**	**635**	**627**	**663**	**712**
Poland	237	279	366	414	465	497	514	529	523	530	567
Other CEE	22	30	43	62	80	84	88	106	104	134	145

LPP

CEE REGION – STORES

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**709**	**809**	**976**	**1,075**	**1,144**	**1,177**	**1,149**	**1,122**	**1,109**	**1,051**	**1,046**
Reserved	223	246	266	286	293	293	286	268	262	256	242
Cropp	198	214	241	256	259	261	253	238	236	214	206
House	198	216	235	233	239	243	236	229	227	210	209
Mohito	78	117	154	167	183	186	181	181	179	169	160
Sinsay	-	-	60	105	136	151	162	183	182	200	229
Tallinder	-	-	-	-	-	9	-	-	-	-	-
Outlets	12	16	20	28	34	34	31	23	23	2	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

CEE REGION – FLOORSPACE

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Floorspace (ths m^2)	**259**	**309**	**409**	**475**	**545**	**581**	**602**	**635**	**627**	**663**	**712**
Reserved	153	177	216	248	281	301	322	340	333	347	342
Cropp	43	48	60	68	75	77	78	79	78	77	78
House	44	51	62	64	71	74	74	76	76	78	83
Mohito	15	27	44	51	59	60	61	64	64	63	62
Sinsay	-	-	19	35	47	52	57	68	68	96	146
Tallinder	-	-	-	-	-	4	-	-	-	-	-
Outlets	4	6	8	10	12	12	11	8	8	1	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.1.1. Poland

Poland is our anchor market and is going to remain one over the next years. Although dependency has fallen from 79% in 2006 to 43% in 2020/21, the market remains the center of our interest and profits.

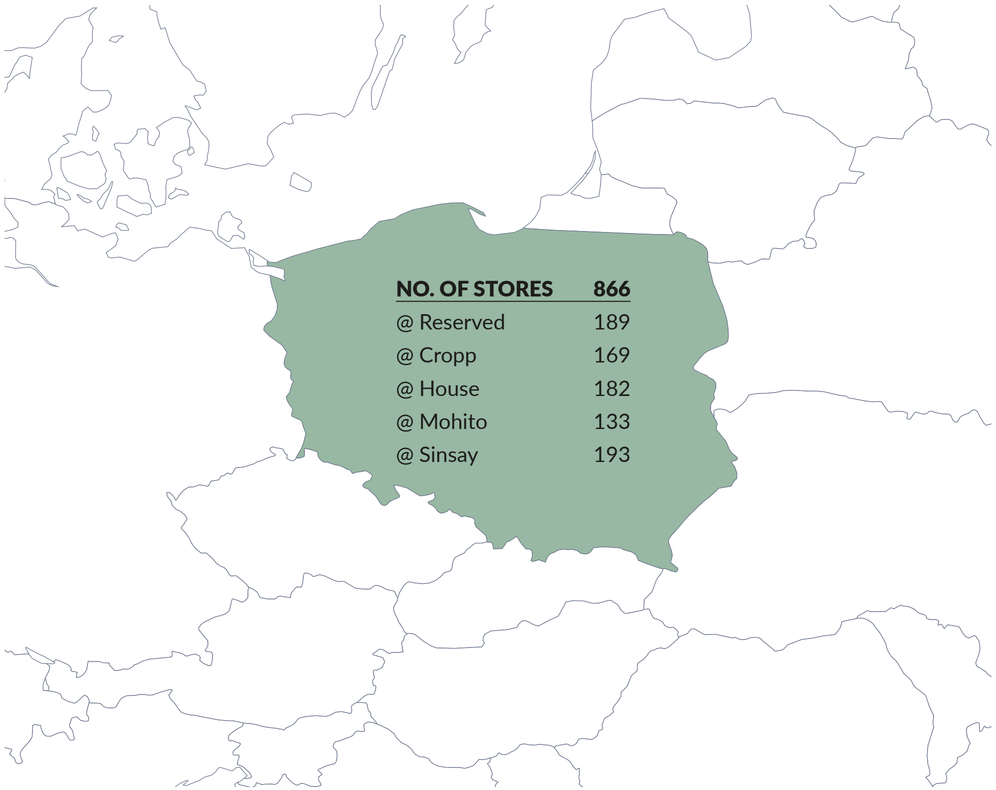
The dominance of the domestic market results from:

- the highest number of stores (866 in 2020/21);
- development of each new brand starting on the core market;
- the highest sales per square meter as a consequence of strong brand recognition.

Development of company owned stores started in 1998 with Reserved stores. Currently, stores of all brands are present in Poland in best shopping malls and high streets. Poland is also the market where sales per sqm are the highest due to strong brand recognition, consequence of first entry and the scale of the network.

Looking at the number of stores, maturity (but not saturation) has been reached with Reserved brand. Further development is going to be oriented on entering new shopping malls and retail parks, which are more immune to pandemics. We still see domestic development potential with House, Cropp and Sinsay brands, which have not yet crossed the 200 store hurdle. Thus, further development of those brands is planned. At the end of 2020/21, the number of stores was lower YoY while the floorspace expanded. That was because since 2019/20 we concentrated on network quality not quantity. We resigned from suboptimal locations where rental agreements were expiring and we focused on stores that can properly display our collections. Now we are focused on full omnichannel implementation.

STORES IN POLAND (END OF 2020/21)



POLAND – STORES

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**659**	**745**	**886**	**943**	**986**	**1,017**	**990**	**959**	**949**	**874**	**866**
Reserved	199	217	233	235	237	236	232	216	212	200	189
Cropp	187	201	222	219	217	219	211	200	198	176	169
House	183	197	211	209	208	212	205	200	199	181	182
Mohito	78	114	144	153	164	166	160	156	154	142	133
Sinsay	-	-	56	99	127	142	152	165	164	173	193
Tallinder	-	-	-	-	-	9	-	-	-	-	-
Outlets	12	16	20	28	33	33	30	22	22	2	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

POLAND – FLOORSPACE

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Floorspace (ths m²)	**237**	**279**	**366**	**414**	**465**	**497**	**514**	**529**	**523**	**530**	**567**
Reserved	138	156	189	209	233	249	267	273	269	270	268
Cropp	40	45	55	58	63	65	66	67	66	63	64
House	41	46	55	57	62	65	65	67	67	66	71
Mohito	15	26	41	46	52	53	53	54	53	51	50
Sinsay	-	-	18	33	44	49	53	60	60	78	114
Tallinder	-	-	-	-	-	4	-	-	-	-	-
Outlets	4	6	8	10	12	12	10	8	8	1	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.1.2. Other CEE

We have a strong position in other CEE region, by which we understand Czech Republic, Slovakia and Hungary. Combined, those three countries have a smaller population and potential than Poland. All five mainstream brands are present in Czech Republic where maturity has been reached. Further growth could take place via selected new locations, network optimization and emphasis on brand awareness. At the end of 2018, all five mainstream brands were also present in Hungary. This is the country with the lowest number of stores and the highest growth potential. Slovak development took place differently. As the market was the smallest out of those three countries, development took place via franchise stores (Reserved and Cropp stores were operated by a Slovak Koba company). Later, along with Artman acquisition, we took over House Slovak stores. Only in April 2014, we acquired the franchisee Koba along with 35 stores (12 ths m² of floorspace) at that time. We still see development potential in Slovakia, even though the number of stores doubled since the acquisition. Similarly to Poland, we are in the process of implementing omnichannel.

OTHER CEE (EXCL. POLAND) REGION OVERVIEW (END OF 2020/21)

OTHER CEE REGION (EXCL. POLAND) – STORES & FLOORSPACE BY COUNTRY

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**50**	**64**	**90**	**132**	**158**	**160**	**159**	**163**	**160**	**177**	**180**
Czech Republic	32	43	66	73	80	80	83	82	79	89	87
Slovakia	10	12	13	48	61	62	57	56	56	57	33
Hungary	8	9	11	11	17	18	19	25	25	31	60
Floorspace (ths m²)	**22**	**30**	**43**	**62**	**80**	**84**	**88**	**106**	**104**	**134**	**145**
Czech Republic	15	21	33	37	43	43	44	48	46	63	65
Slovakia	2	3	4	18	25	28	27	33	33	39	47
Hungary	4	5	7	7	12	14	17	25	25	31	33

OTHER CEE REGION (EXCL. POLAND) – STORES

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**50**	**64**	**90**	**132**	**158**	**160**	**159**	**163**	**160**	**177**	**180**
Reserved	24	29	33	51	56	57	54	52	50	56	53
Cropp	11	13	19	37	42	42	42	38	38	38	37
House	15	19	24	24	31	31	31	29	28	29	27
Mohito	-	3	10	14	19	20	21	25	25	27	27
Sinsay	-	-	4	6	9	9	10	18	18	27	36
Outlets	-	-	-	-	1	1	1	1	1	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

OTHER CEE REGION (EXCL. POLAND) – FLOORSPACE

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Floorspace (ths m^2)	**22**	**30**	**43**	**62**	**80**	**84**	**88**	**106**	**104**	**134**	**145**
Reserved	16	21	27	39	48	53	55	66	64	77	75
Cropp	3	3	6	10	12	12	12	13	13	14	14
House	3	4	6	6	9	9	9	9	9	13	12
Mohito	-	1	3	5	7	7	8	10	10	12	12
Sinsay	-	-	1	2	3	3	4	8	8	18	33
Outlets	-	-	-	-	0	0	0	0	0	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.2. Baltic region

The Baltic region by which we understand Lithuania, Latvia and Estonia is the second one after CEE where we have reached maturity. We are in all countries of the region. We can see medium to long-term potential for entry into new shopping malls and upgrades of stores in high streets, yet the targets are now set at efficiency improvements. We are in the process of modernising our floorspace in the region. All Baltic countries are now in Eurozone, however their macroeconomic situation is also linked to their neighbour Russia. We have e-stores of all our brands in each country of the region and similarly to the CEE we focus on omnichannel implementation.

BALTIC REGION OVERVIEW (END OF 2020/21)

BALTIC REGION – STORES & FLOORSPACE BY COUNTRY

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**59**	**59**	**58**	**70**	**71**	**73**	**79**	**75**	**71**	**71**	**75**
Lithuania	26	25	23	25	26	28	28	23	20	23	23
Latvia	15	14	16	19	19	19	19	19	18	19	20
Estonia	18	20	19	26	26	26	32	33	33	29	32
Floorspace (ths m^2)	**24**	**24**	**27**	**36**	**38**	**40**	**43**	**43**	**41**	**51**	**62**
Lithuania	10	10	11	12	14	15	15	13	11	18	18
Latvia	6	6	7	11	11	11	11	11	10	14	19
Estonia	8	8	9	14	14	14	17	20	20	19	24

BALTIC REGION – STORES

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**59**	**59**	**58**	**70**	**71**	**73**	**79**	**75**	**71**	**71**	**75**
Reserved	24	24	24	24	23	23	23	21	19	18	17
Cropp	17	16	15	16	16	16	17	16	15	15	16
House	10	9	8	11	11	11	12	11	11	12	13
Mohito	8	10	10	14	15	16	17	16	15	14	14
Sinsay	-	-	1	5	6	7	10	11	11	12	15
Outlets	-	-	-	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

BALTIC REGION – FLOORSPACE

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Floorspace (ths m²)	**24**	**24**	**27**	**36**	**38**	**40**	**43**	**43**	**41**	**51**	**62**
Reserved	16	16	18	22	23	23	23	24	22	28	31
Cropp	4	4	4	5	5	5	6	6	6	7	9
House	3	2	2	3	3	3	4	4	4	5	6
Mohito	1	2	3	4	5	5	6	6	5	6	7
Sinsay	-	-	0	2	2	2	4	4	4	5	9
Outlets	-	-	-	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.3. CIS region

The CIS is the Commonwealth of Independent States, i.e. the countries of the former Soviet Union. At the end of 2016, we were only present in Russia and Ukraine. Expansion in Russia was originated in 2002, i.e. only four years after the start of the first Reserved store in Poland. Now the region is the second most important one after CEE, contributing 25% of group revenues. The CIS expansion so far took place in three stages: (1) first was development in the European part of Russia and in Ukraine, (2) the second stage was accelerated expansion especially in Eastern or Asian part of Russia and to a smaller extent in Ukraine, along with appearing possibilities of shopping malls openings in towns with more than 1 million inhabitants; and (3) the slowdown in expansion that we have been experiencing since mid-2014 following the geopolitical issues between Russia and Ukraine. We see long-term potential in this region. As a result, we are now in the fourth stage of our CIS expansion. In April 2017 we opened the first franchise stores of Reserved, Cropp and House in Minsk, Belarus. Mohito and Sinsay stores followed during the year. In 2018 we opened our first own stores in Kazakhstan. In 2018 we also launched e-commerce in Russia. 2019/20 marked the start of e-store of all our brands in Ukraine. At the end of 2020/21 we had 4 own stores in Belarus - we moved away from franchise stores.

CIS REGION OVERVIEW (END OF 2020/21)

CIS REGION – STORES & FLOORSPACE BY COUNTRY

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**106**	**198**	**272**	**336**	**349**	**368**	**420**	**443**	**436**	**446**	**526**
Russia	84	159	219	267	280	296	327	336	333	332	394
Ukraine	22	39	53	69	69	72	88	93	89	104	113
Belarus	-	-	-	-	-	-	5	8	8	0	4
Kazakhstan	-	-	-	-	-	-	-	6	6	10	15
Floorspace (ths m^2)	**51**	**94**	**142**	**180**	**194**	**207**	**247**	**275**	**271**	**322**	**426**
Russia	42	76	117	146	158	170	194	206	204	235	314
Ukraine	9	17	26	34	36	37	49	56	54	74	89
Belarus	-	-	-	-	-	-	4	6	6	0	5
Kazakhstan	-	-	-	-	-	-	-	8	8	12	18

CIS REGION – STORES

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**106**	**198**	**272**	**336**	**349**	**368**	**420**	**443**	**436**	**446**	**526**
Reserved	49	69	89	99	101	103	111	116	112	113	111
Cropp	40	63	78	88	89	92	101	105	104	107	118
House	11	33	47	60	63	67	76	79	78	74	82
Mohito	6	33	53	68	71	74	81	81	80	75	76
Sinsay	-	-	1	17	22	30	48	57	57	72	136
Outlets	-	-	4	4	3	2	3	5	5	5	3
Esotiq	-	-	-	-	-	-	-	-	-	-	-

CIS REGION – FLOORSPACE

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Floorspace (ths m^2)	**51**	**94**	**142**	**180**	**194**	**207**	**247**	**275**	**271**	**322**	**426**
Reserved	36	55	81	97	103	109	128	145	141	161	164
Cropp	11	19	25	30	32	34	39	43	42	50	61
House	3	10	16	21	22	24	29	30	30	32	39
Mohito	1	10	19	25	26	28	31	32	31	31	32
Sinsay	-	-	0	7	9	12	19	23	23	44	126
Outlets	-	-	1	1	2	1	2	4	4	5	3
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.4. SEE region

The second of two developing regions that we are present in is the SEE region which we understand as the Balkan region. We entered Romania in 2008 and Bulgaria in 2009, as CIS region was given priority due to higher growth potential. However, the entry was followed by a prolonged economic crisis. As a result, the financial performance of our stores has been disappointing for many years (some were turned into outlets, some were closed; at the end 2012 there were 11 stores versus 19 at the end of 2011). This changed in 2014, when the economic situation improved and new quality floorspace became available. At the end of 2013 we had 14 stores in Romania and Bulgaria, while 2014 marked the entry to Croatia and the overall store number increased to 31. By the end of 2019/20 this number trippled and reached 145. We entered Serbia in 2017, Slovenia in 2018 and Bosnia & Herzegovina in 2019/20. We plan further development in the region, also including e-commerce. 2019/20 also marked the start of own e-stores of our brands in Croatia, while 2020/21 marked the start of our e-stores in Slovenia.

SEE REGION OVERVIEW (END OF 2020/21)

SEE REGION – STORES & FLOORSPACE BY COUNTRY

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**19**	**11**	**14**	**31**	**47**	**63**	**69**	**98**	**98**	**145**	**175**
Bulgaria	7	6	9	15	15	12	13	18	18	25	26
Romania	12	5	5	11	22	34	35	41	41	59	78
Croatia	-	-	-	5	10	17	18	24	24	29	30
Serbia	-	-	-	-	-	-	3	14	14	21	26
Slovenia	-	-	-	-	-	-	-	1	1	6	9
B&H	-	-	-	-	-	-	-	-	-	5	6
Floorspace (ths m^2)	**10**	**7**	**10**	**23**	**34**	**48**	**53**	**81**	**81**	**131**	**170**
Bulgaria	4	4	7	11	11	11	11	15	15	23	25
Romania	6	3	3	7	15	26	26	30	30	49	72
Croatia	-	-	-	4	7	12	12	19	19	23	24
Serbia	-	-	-	-	-	-	4	15	15	22	31
Slovenia	-	-	-	-	-	-	-	2	2	8	11
B&H	-	-	-	-	-	-	-	-	-	5	7

SEE REGION – STORES

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**19**	**11**	**14**	**31**	**47**	**63**	**69**	**98**	**98**	**145**	**175**
Reserved	8	5	7	12	16	20	22	32	32	38	40
Cropp	6	2	3	6	8	10	10	14	14	23	28
House	3	1	2	4	6	9	9	13	13	21	27
Mohito	1	1	2	7	11	14	15	18	18	24	27
Sinsay	-	-	-	2	6	10	13	21	21	39	53
Outlets	1	2	-	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

SEE REGION – FLOORSPACE

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Floorspace (ths m²)	**10**	**7**	**10**	**23**	**34**	**48**	**53**	**81**	**81**	**131**	**170**
Reserved	7	4	8	15	22	31	34	53	53	68	75
Cropp	2	1	1	2	3	4	4	6	6	13	17
House	1	0	1	2	3	4	4	6	6	12	17
Mohito	0	0	1	3	4	6	6	8	8	12	14
Sinsay	-	-	-	1	2	4	5	8	8	27	46
Outlets	0	1	-	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.5. WE region

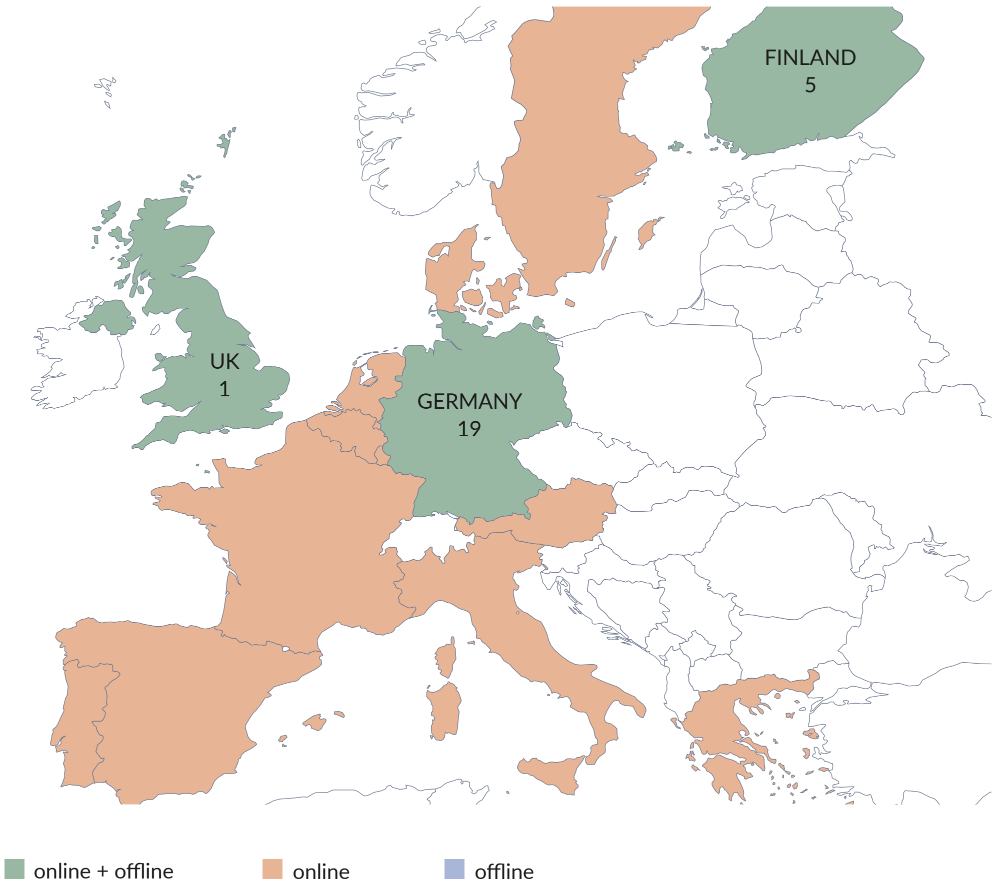
The Western Europe although geographically close to Poland, was not our priority in the past. Firstly, because we saw more opportunities in the East and we thought that 'war on two fronts' was too difficult. Secondly, we thought that the competitive landscape in the West was unlikely to change dramatically, while in the East we were starting from the same point as our international competition.

Along with geopolitical issues in the CIS and withholding the expansion there, we thought the right time had come to set the foothold on the Western European markets. The most appealing elements of WE markets are high customer affluence, sizeable population and high quality floorspace (both in terms of high streets and shopping malls). On top, it is now our goal to increase the brand recognition of our anchor Reserved brand.

Germany was the first country that we entered. German entry was unique for us, due to several reasons: (1) the country was first entered via internet store (in July 2014) and only later (September 2014) the first brick-and-mortar store followed; (2) the stores are sizeable (twice the size of an average Reserved store) allowing for the display of the full range of our collections; (3) we started by opening flagships on high streets instead of shopping mall floorspace only and (4) the start was marked by co-operation with international star, Georgia May Jagger. We believe this approach is going to be successful in the medium- to long-term. We had 19 stores operating in Germany at the end of 2020/21, restructured after COVID-19.

Step-by-step, we pursue further WE expansion. Our first Reserved store in the UK was opened in September 2017. It is situated in London city centre – Oxford Street. The UK launch was combined with the start of our e-store. In 2019/20 we entered Finland with all our brands (in Germany and in the UK only Reserved stores are present). We also launched a pan-European e-store.

WESTERN EUROPE REGION OVERVIEW (END OF 2020/21)



WE REGION – STORES & FLOORSPACE BY COUNTRY

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2019/20
No. of stores	**-**	**-**	**-**	**4**	**12**	**16**	**20**	**20**	**20**	**25**	**25**
Germany	-	-	-	4	12	16	19	19	19	19	19
UK	-	-	-	-	-	-	1	1	1	1	1
Finaland	-	-	-	-	-	-	-	-	-	5	5
Floorspace (ths m²)	**-**	**-**	**-**	**8**	**27**	**38**	**48**	**49**	**49**	**56**	**56**
Germany	-	-	-	8	27	38	45	46	46	46	46
UK	-	-	-	-	-	-	3	3	3	3	3
Finaland	-	-	-	-	-	-	-	-	-	7	7

WE REGION – STORES & FLOORSPACE

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**-**	**-**	**-**	**4**	**12**	**16**	**20**	**20**	**20**	**25**	**25**
Reserved	-	-	-	4	12	16	20	20	20	21	21
Cropp	-	-	-	-	-	-	-	-	-	1	1
House	-	-	-	-	-	-	-	-	-	1	1
Mohito	-	-	-	-	-	-	-	-	-	1	1
Sinsay	-	-	-	-	-	-	-	-	-	1	1
Floorspace (ths m²)	**-**	**-**	**-**	**8**	**27**	**38**	**48**	**49**	**49**	**56**	**56**
Reserved	-	-	-	8	27	38	48	49	49	52	52
Cropp	-	-	-	-	-	-	-	-	-	1	1
House	-	-	-	-	-	-	-	-	-	1	1
Mohito	-	-	-	-	-	-	-	-	-	1	1
Sinsay	-	-	-	-	-	-	-	-	-	1	1

5.6. ME region

The Middle East is the region we have entered most recently. The expansion was initiated in 1Q15. The development takes place via franchise stores with the openings run mostly by our franchise partner Azadea.

Franchise operations mean that we sell to our franchise partner as to a wholesaler, i.e. without the retail margin. As a result, we obtain a wholesale not a retail margin on these revenues. However, the benefit is that we do not bear capex for store openings. Our offering for the Middle East encompasses almost all the items that are available in other countries, however the mix and proportions are different, taking climate and cultural differences into account. The offer is targeted not only at the Middle East citizens but also at tourists.

The Middle East region is a diverse one. We started our expansion in Egypt, in Cairo. The second market was Qatar and then Kuwait, which have much lower populations than Egypt, yet much higher affluence. Saudi Arabia was the fourth country entered in 2015, while at the beginning of 2016 we launched our first store in United Arab Emirates. However, in 2017 our partner decided to close down the store in Saudi Arabia. Currently, only Reserved brand is being developed. In 2018 first franchise stores were opened in Israel. The cooperation was expanded with 3 franchise stores now operating in Israel. We have a different franchisee in Israel than in other ME countries. In 2018 our franchise partner took the decision to enter Namshi.com e-commerce platform, which opened us to new Middle East markets. Now, we also have Reserved brand online in Israel via our franchise partner.

MIDDLE EAST REGION OVERVIEW (END OF 2020/21)

ME REGION – STORES & FLOORSPACE BY COUNTRY

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**-**	**-**	**-**	**-**	**4**	**6**	**6**	**7**	**7**	**8**	**9**
Egypt	-	-	-	-	1	1	1	1	1	1	1
Kuwait	-	-	-	-	1	1	1	1	1	1	1
Qatar	-	-	-	-	1	2	3	2	2	2	2
Saudi Arabia	-	-	-	-	1	1	-	-	-	-	-
United Arab Emirates	-	-	-	-	-	1	1	1	1	1	2
Israel	-	-	-	-	-	-	-	2	2	3	3
Floorspace (ths m^2)	**-**	**-**	**-**	**-**	**5**	**8**	**7**	**7**	**7**	**8**	**10**
Egypt	-	-	-	-	2	2	2	2	2	2	2
Kuwait	-	-	-	-	1	1	1	1	1	1	1
Qatar	-	-	-	-	1	2	2	2	2	2	2
Saudi Arabia	-	-	-	-	2	2	-	-	-	-	0
United Arab Emirates	-	-	-	-	-	1	1	1	1	1	2
Israel	-	-	-	-	-	-	-	2	2	3	3

ME REGION – STORES BY BRAND

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of stores	**-**	**-**	**-**	**-**	**4**	**6**	**6**	**7**	**7**	**8**	**9**
Reserved	-	-	-	-	4	6	6	7	7	8	9
Floorspace (ths m^2)	**-**	**-**	**-**	**-**	**5**	**8**	**7**	**7**	**7**	**8**	**10**
Reserved	-	-	-	-	5	8	7	7	7	8	10

6. Value chain

We create value for our customers by offering them interesting designs matching their tastes at attractive prices and in high quality stores. The value chain is managed by a calendar which points when works on collection should start and when the goods should hit the stores.

DESIGN

5
varied brands

300 +
designers

PRODUCTION

9%
of production in neighbouring countries

1,100+
suppliers

LOGISTICS

253 ths m^2
total warehouse space

STORES

3
continents

38
markets online + offline

1,856
stores

CUSTOMERS

233m
items of clothing sold annually

23m
online orders handled by e-commerce

6.1. Design

Our added value lies in designing the clothes that we sell. We have an over 300-strong team of designers while the total number of people creating collections exceeds 1,000. They originate mostly from various art schools in Poland, among other from Gdańsk, Warsaw, Poznań, Cracow or Łódź. We increasingly often employ foreign designers to bring in new fresh ideas, eg. the head of Reserved women collection is Sho Kondo. We run three designing centres, one in Gdańsk (in our headquarters, responsible for Reserved, Cropp, Sinsay), one in Cracow (responsible for House and Mohito) and third centre in Warsaw (a back-up design centre for Reserved). We search for the most talented people, co-operate with design schools and run employer branding projects, in order to find most creative and suited individuals.

THE DESIGNING PROCESS IS QUITE A COMPLEX ONE AND STARTS SEVERAL MONTHS BEFORE THE CLOTHES HIT THE STORES. OUR DESIGNERS LOOK FOR INSPIRATIONS IN ALL POSSIBLE PLACES.

FASHION FAIRS

by participating in numerous fashion fairs and closely watching the catwalks, mostly abroad but also domestically.

MARKET RESEARCH

conducted on selected groups in order to improve customer understanding, monitoring fashion-devoted internet portals, blogs and highstreets.

STREET FASHION

we take inspiration also from the streets of the most fashionable cities, as this is where trends are often born. Our designers not only visit London, Paris and Milan but Tokio and Seul as well.

FASHION CATALOGUES AND LOOKBOOKS

studying publications aiming to predict the main trends in upcoming seasons.

SALES ANALYSIS

the top-quality IT systems enable to capture trends and show what types of garments customers of all five brands prefer (fabric, texture, colour and style).

SOCIAL MEDIA

another place where trends are born and popularised are social media which we follow to know which trends are being accepted by stars and by the general public.

Design centres in 3 largest cities in Poland

GDAŃSK

- LPP's largest design centre.
- The centre is responsible for Reserved, Cropp and Sinsay brands.

WARSAW

- Design centre responsible for Reserved.

CRACOW

- Design centre for House and Mohito brands.
- Co-operation with designing schools.

Individual ideas of designers are summed up and collection books are prepared by combined forces of designers, purchase department, product managers and heads of departments. As a result, a detailed documentation of each planned model is created, which not only takes the design but also available fabrics into account.

Once a piece of clothing has been designed, a sample garment has to be created. Once all the samples have been obtained, a so called Mile Stone Meeting (MSM) is organised with all interested parties and the samples are judged. This encompasses checking whether they fit the design, whether the cut is a proper one and assessing the quality of fabrics and the usefulness of the design in real life. The samples are prepared in various sizes and these are also verified. After the MSM, comments are sent to suppliers.

We prepare two main collections for all our brands: Spring/Summer (SS) and Autumn/Winter (AW) and each season consists of two phases. Phases are then split into intakes, whose number depends on the brand. The collections are structured so as to incorporate: a base (a set of universal clothing), core (a mix of latest trends with types of garment that customers want to wear) and directional (must-haves, most fashionable items). It is the degree of these trends that differs depending on the brand.

Preparation of project models and sending documentation to suppliers	Placing orders for models (price, dates, quality, quantity)	Coordination of the production process	Shipping, display and sale of models	Introduction of sell-offs and withdrawal of unsold products
STAGE 1: Analysis of previous seasons and determination of demand	**STAGE 5:** Evaluation of designs prepared by suppliers	**STAGE 9:** Production monitoring	**STAGE 10:** Allocation, organization of delivery and transportation	**STAGE 14:** Competition price survey
STAGE 2: Inspirational meeting	**STAGE 6:** MSM (meeting to decide on orders)		**STAGE 11:** Visual merchandising	**STAGE 15:** Price adjustments in seasonal sell-offs
STAGE 3: Preparation of projects	**STAGE 7:** Sending comments to suppliers		**STAGE 12:** Sale and customer service	**STAGE 16:** Changing seasons and withdrawal of the end of line products
STAGE 4: Projects sent to suppliers	**STAGE 8:** Placing orders and negotiating terms of a contract		**STAGE 13:** Replenishment	

6.2. Design

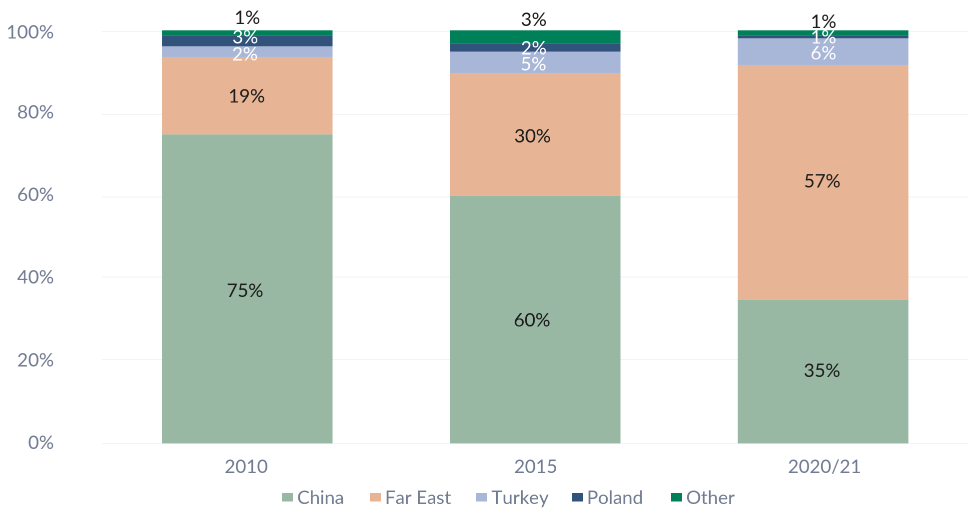
We run a lean business model and thus do not own factories. Production is sourced mostly from the Far East. China constitutes 35% of our supplies while the remaining Far East countries 57%. These are Bangladesh, Cambodia, Myanmar, Pakistan, India. 6% of our production is sourced from Turkey. We will continue to look for favourable new sourcing countries.

Sourcing in the Far East is supervised by our offices in Shanghai (China, opened in 1997) and in Dhaka (Bangladesh, opened in 2015). Shanghai office is run by natives mostly and employs over 100 people. The office is responsible for quality checks, finding new suppliers, supporting production and negotiating contracts. Our office in Dhaka currently deals with quality checks among Bangladesh suppliers, conducts audits of workers safety and working conditions of the factories, in which LPP's clothes are produced.

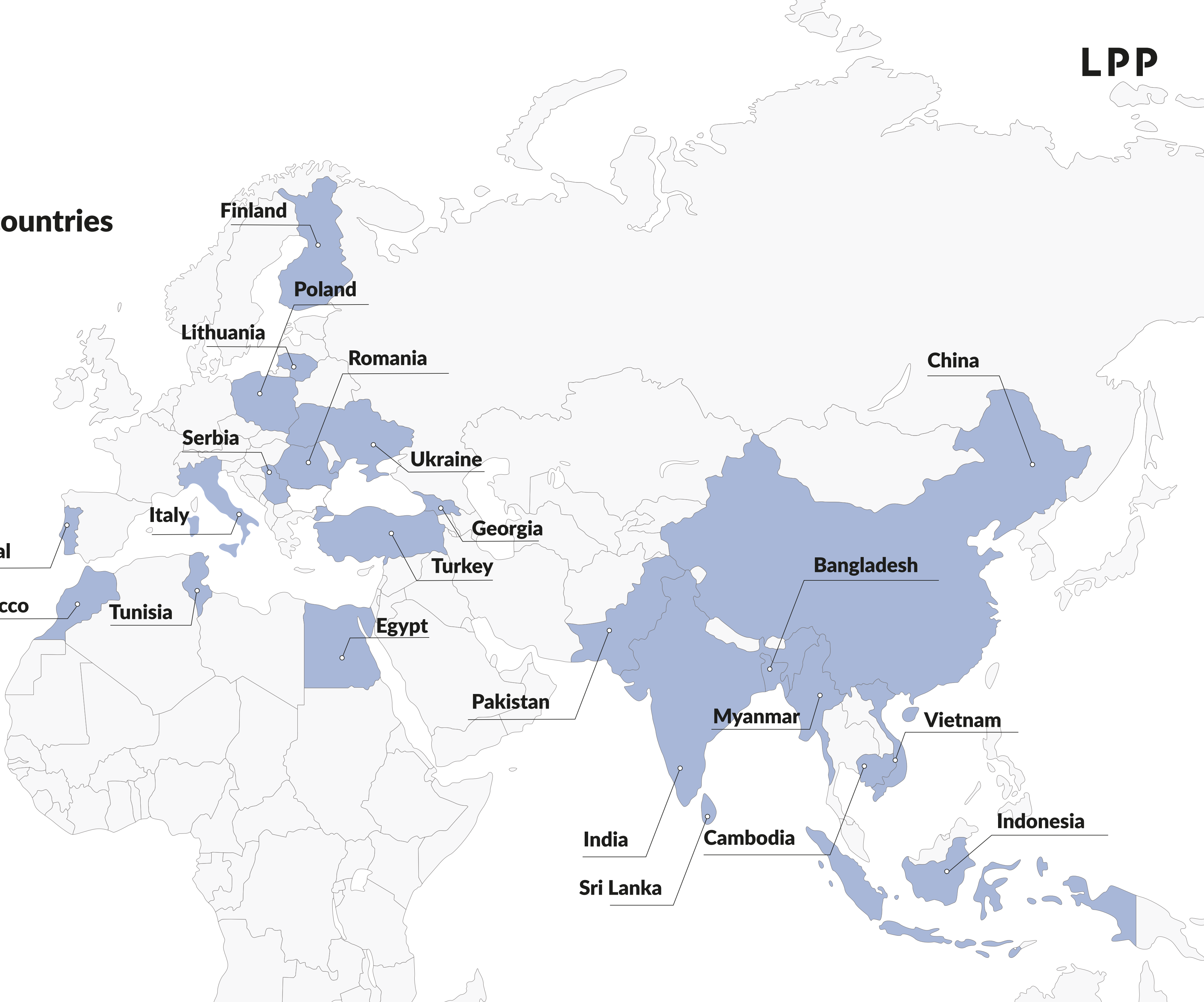
The production process is dependent on the outcome of the designing process. Once designs have been approved, an Ordering Application is created in LPP's IT system. It indicates the amount of pieces to be produced for each model, in which stores the clothing is to be sold as well as the required delivery dates. These are sent to the purchasing department which is responsible: 1) for negotiating the best prices for these parameters and 2) for confirmation of delivery dates. After this, orders are sent to suppliers which need to confirm their receipt and terms via a sales confirmation document. Only then, can the production process begin.

Before producing the garments, the supplier needs to obtain the fabrics, from which the clothes are to be produced. At this stage final product documentation is confirmed. Once the production has been completed, the supplier files for a quality control. Production lead time is much shorter if European countries are the sourcing partners. In such situations the cycle takes even as little as 30 days. It usually refers to must-have collections. Information about responsible production processes can be found in ESG chapter later in this document.

CHANGES IN PRODUCTION SPLIT



Sourcing countries



6.3. Logistics

Once the goods are produced, they need to be delivered to our distribution centres and later to stores and e-commerce customers. The suppliers ship them in containers (majority of goods; journey takes between 30 to 40 days) or use road or air transport.

The goods are sent directly to one of our distribution centres. The first one (larger and more important) is located in Pruszcz Gdański (near Gdańsk, Poland, where headquarters are located) while the second one is near Moscow (Russia). On average the goods spent some two weeks in a distribution centre where they are repacked and sent to stores. Depending on the suppliers, the goods are either sent packed by type (e.g. trousers in all sizes) or as pre-packs (specific number of items in specific sizes and colours) or cross-docs (allowing for fast delivery to stores). Once the goods are in the distribution centre, they are repacked for each of the stores possessed.

Since 2H17 we started changing our logistics process to make it more aligned to growing e-commerce part of our business. We outsourced selected operations to Arvato with a FC (Fulfillment Centre) in Stryków in central Poland. We also have a FC in Gdańsk. Along with growing online sales abroad, we have decided to open more FCs - we now have one in Moscow, Romania and Slovakia. Each is responsible for deliveries for the region.

FULFILLMENT CENTRES

- **Stryków, Poland** //46 ths m² e-commerce, rented
- **Gdańsk, Poland** //30 ths m² e-commerce, rented
- **Bucharest, Romania** //22 ths m² e-commerce, rented
- **Bratislava, Slovakia** //32 ths m² e-commerce, rented
- **Moscow, Russia** //17 ths m² e-commerce, rented → **Moscow, Russia** //30 ths m² e-commerce, launched in September 2021
- **Bucharest, Romania** //21.5 ths m² e-commerce, planned

DISTRIBUTION CENTRES

- **Pruszcz Gdański, Poland** //100 ths m² traditional stores, owned
- **Brześć Kujawski, Poland** //75 ths m² traditional stores, owned, planned
- **Moscow, Russia** //15 ths m² traditional stores, rented

Deliveries to stores take place every day, yet a store obtains new goods on average every 2 to 3 days. We do not own transportation vehicles. The logistics process is outsourced to couriers. The Moscow centre supplies Russian stores, while to all other countries goods are delivered from Pruszcz Gdański. The two possessed distribution centres responsible for the traditional stores differ from one another. The Pruszcz Gdański centre is owned and is located on a plot of land owned by LPP. The location in Gdańsk proximity is highly convenient for the marine transportation used. The centre's size was expanded in 2015 and in 2020. When built in 2007, the centre had 30.5 ths m², its expansion added 35.5 ths m², while after its second expansion its floorspace amounts to 100 ths m². The Moscow centre, on the contrary, is rented only and it has a floorspace of 15 ths m². 60% of goods that are delivered to Russia are sourced from this centre. Stores in Kazakhstan are also sourced from this centre. A new distribution centre under construction in the centre of Poland in Brześć Kujawski. It is to be smaller than Pruszcz Gdański with some 75 ths m² of space and will be equipped with the latest technology.

PRUSZCZ GDAŃSKI DISTRIBUTION CENTRE

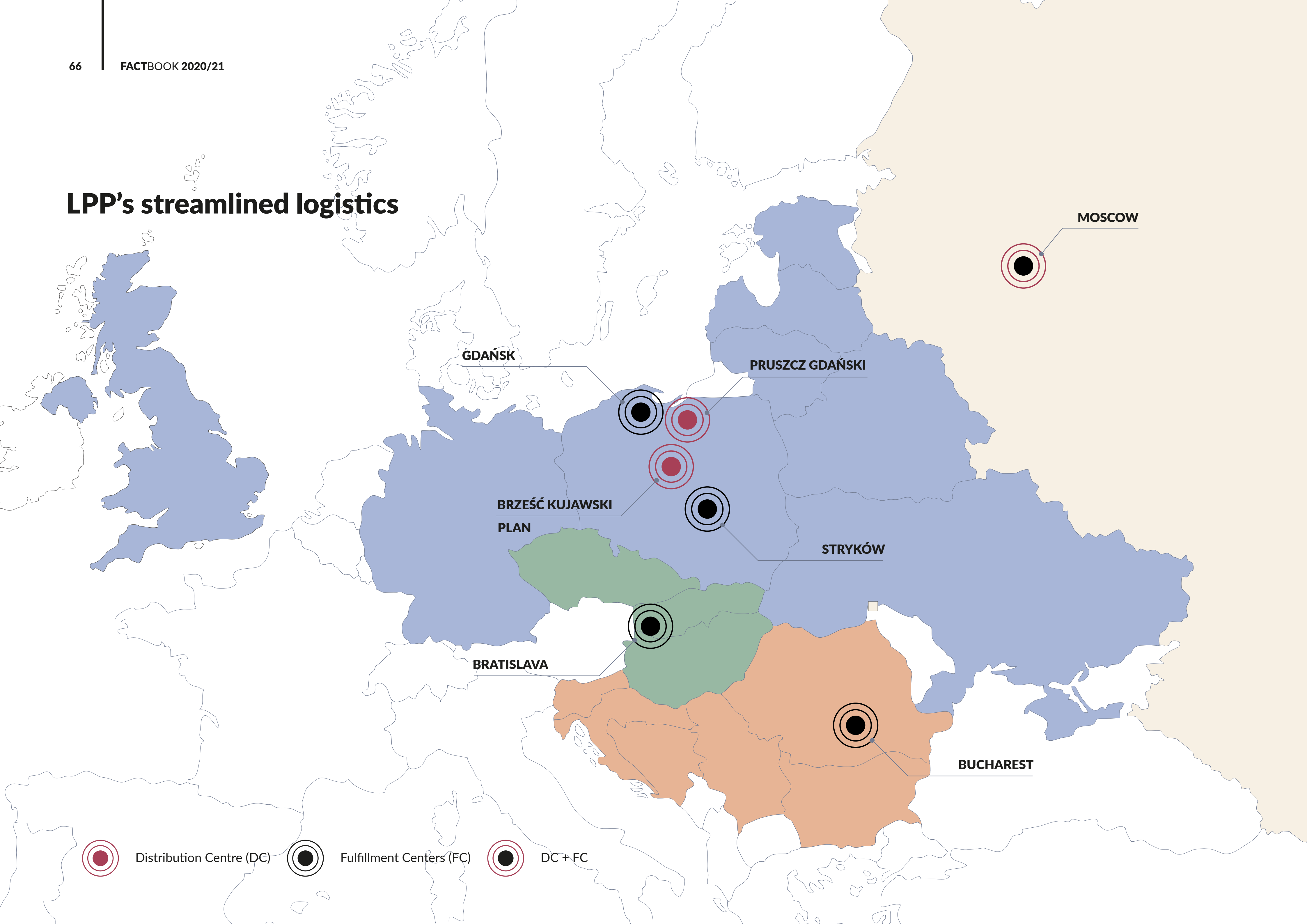
LOGISTICS

10m pieces sent weekly (up to 2.2m per day)	**212 ths** cardboard boxes sent weekly
320 containers accepted per week	**1,000** workers in distribution centre

MINILOAD

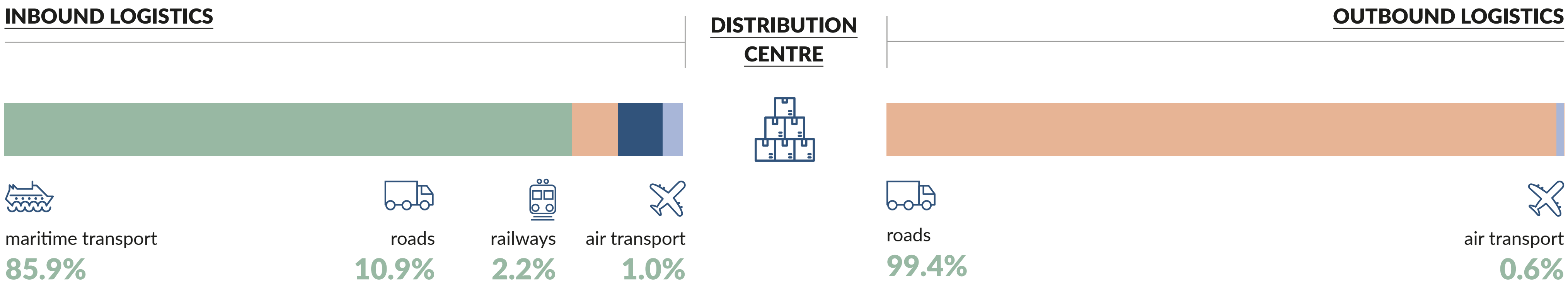
1,177 ths storage positions for boxes	**18m** high warehouse
57 alleys 120 and 83 m long	**7,500** operations per hour

LPP's streamlined logistics



Share of different modes of transportation in 2020/21

(by the number of items shipped)



6.4. Selling

//INTERNET

We invest in modern logistics, increasing the pace of obtaining purchases and in IT, increasing online purchases comfort.

//STORES

We invest in modern stores, inviting customers to enter them.

//OMNICHANNEL

We believe that the future belongs to omnichannel and stores support online sales.

We focus on flagships

RESERVED IN MOSCOW, RUSSIA

RESERVED IN MUNICH, GERMANY

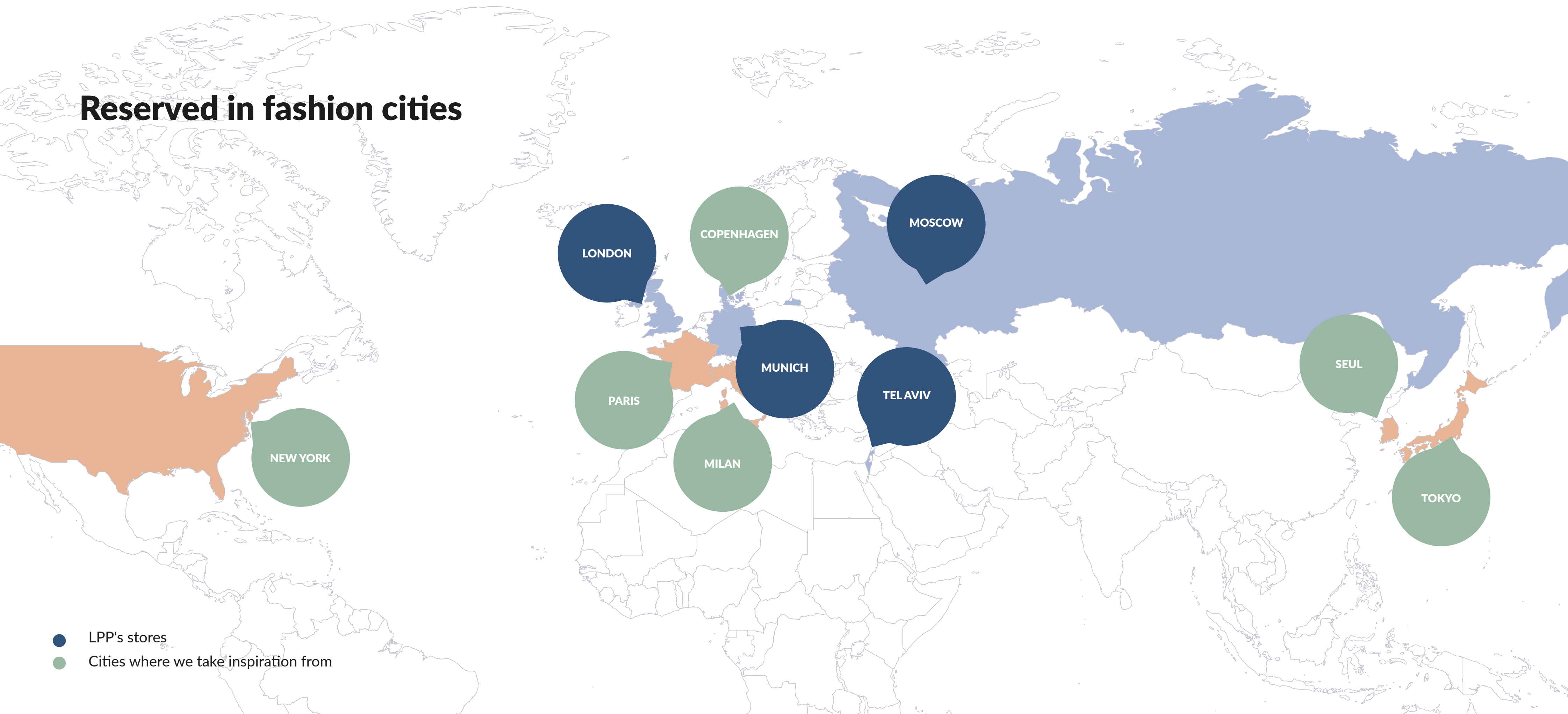
RESERVED IN BELGRADE, SERBIA

RESERVED IN HELSINKI, FINLAND

RESERVED IN LONDON, UK

RESERVED IN WARSAW, POLAND

Reserved in fashion cities



- LPP's stores
- Cities where we take inspiration from

Tel Aviv, Israel

Munich, Germany

London, UK

Moscow, Russia


← PRZYMIERZALNIE
119
79

6.5. Advertising

We aim to attract as many customers as possible, as traffic and brand recognition are the key to our success and growth in value. Growing conversion rates and average ticket sales are what we strive for at all our brands in traditional stores but also in e-commerce.

Due to diversity of our brands, people in all ages are our customers and target customers. As a result, we use various types of advertising to communicate with our customers:

INTERNET AND SOCIAL MEDIA

we want to be present on the most important fashion blogs. All our brands have dedicated profiles on Facebook, YouTube and Instagram.

STAR COLLECTIONS

designed by international or local celebrities. In 2019/20 Reserved collections were advertised by Kendall Jenner (top model and global influencer).

SPONSPORSHIP

brands take part in projects that could increase their recognition (eg. fashion fairs, artistic projects, Cropp Baltic Games).

FASHION INFLUENCERS

we promote our clothes by co-operating with fashion influencers who show our collections on their social media.

We also monitor what the customers purchase in both the traditional and online stores. a detailed sales analysis conducted by types of clothes, cities, countries, sizes and colours is a useful tool in determining the shapes of future collections.

LPP's selected fashion campaigns

SS08

Star collection with Paprocki & Brzozowski

AW08/09

Star collection with Gosia Baczyńska

AW10/11

Anna Jagodzińska

Karmen Pedaru

SS11/ AW11/12

Magdalena Frąckowiak

Sasha Pivovarowa

SS12 / AW12/13

Anna Vialicyna

Julia Stegner

SS13 / AW13/14

Cara Delevingne

Freja Beha Erichsen

SS14

Frida Gustavsson

AW14/15

Georgia May Jagger

Anja Rubik

SS15

Georgia May Jagger star collection

Elizabeth Jagger

Jerry Hall

Brooklyn Beckham

AW15/16

Georgia May Jagger

Zuzanna Bijoch

SS16 / AW16/17

Anna Jagodzińska

Magdalena Frąckowiak

AW17/18

Kate Moss

Irina Shayk

SS18/ AW18/19

Cindy Crawford

Joanna Kulig

AW19/20

Kendall Jenner

7. Business model

Below we present an in-depth description of our business model and details on how our financial results are generated. Please note that two important changes took place in the way we present our financials. The first one encompassed a change in our fiscal year which moved away from calendar year. 2019/20 was the only 13-month-long year in our history. We thus present unaudited 2018/19 and 2019/20 (12-month-long) numbers for comparison purposes. The second change encompassed introduction of IFRS16 from 1 January 2019, which replaced IAS17. As a result, some of our operating leases were reclasified into finance leases.

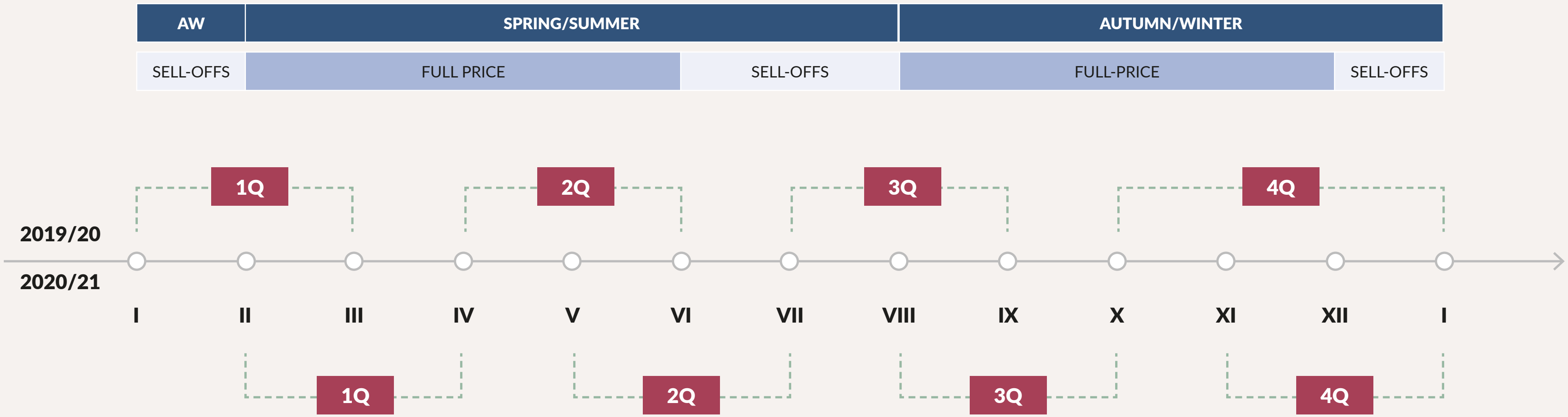
Fiscal year 2019/20 was the only 13-month-long year.

2020/21 fiscal year was 12-month-long.

It encompassed the period from the beginning of January 2019 till the end of January 2020.

We present 12-month-long data for 2018/19 and 2019/20 for comparison purposes.

Change in the fiscal year from 2019



The aim behind the fiscal year change was to align the fiscal year with fashion seasons (collection assessment, lower seasonality).

The fiscal year in 2019 was 13-month-long and 4Q19 was 4-month-long. These were marked as 2019/20 and 4Q19/20.

The first 12-month financial year after the fiscal year change started February 1, 2020.

7.1. Revenues

The revenues we generate are made up of two parts: the retail and the wholesale one. The retail portion is generated in our stores and e-stores. The wholesale part is made up of sales to franchisees and sale of promotional clothing. The retail part of our revenues continues to grow strongly not only due to tradional stores but also e-commerce development. Below we present the retail line split into: store revenues and e-commerce.

7.1.1. Store revenues

Store revenues encompass revenues of our five brands: Reserved, Cropp, House, Mohito and Sinsay. The scale of store revenues depends on: (1) the scale of the retail network and (2) average sales per m² recorded.

NETWORK SIZE. The network size is a derivate of number of stores and their average floorspace. For forecasting purposes the scale of the network is better to be looked at from the perspective of square meters of floorspace than number of stores, as the square meters decide on the level of selected costs of stores. The network size is generated by multiplying the number of stores by average store size. We look at our floorspace through the perspective of brands possessed, as these differ in terms of store size. Even though the networks of Reserved, Cropp and House have a similar number of stores, the floorspace of Reserved dominates in terms of square meters. Over the past years, the average store size has been expanding, accommodating for growing number of items within collections. We believe such a situation is going to continue, as we need larger stores to accomodate for more elaborate collections and to support omnichannel implementation (larger stores have more room to accomodate goods which can be shipped directly from them to e-commerce customers).

GROUP REVENUES

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20 (13M)	2020/21
Revenues (PLN m)	2,493	3,224	4,116	4,769	5,130	6,019	7,029	8,047	8,756	9,899	7,848
YoY growth	20%	29%	28%	16%	8%	17%	17%	14%	-	13%	-21%
Revenues/m² monthly (PLN)	610	675	664	589	536	575	628	662	657	671	500
YoY growth	7%	11%	-2%	-11%	-9%	7%	9%	5%	-	2%	-25%
Store revenues	2,364	3,054	3,921	4,560	4,937	5,703	6,571	7,235	7,776	8,569	7,760
YoY growth	22%	29%	28%	16%	8%	16%	15%	10%	-	10%	-9%
E-commerce	4	6	27	65	79	173	361	712	802	1,174	2,229
YoY growth	16%	46%	343%	143%	22%	118%	108%	97%	-	46%	90%
Wholesale revenues	125	164	169	145	114	143	97	100	178	156	88
YoY growth	-15%	31%	3%	-14%	-22%	26%	-32%	2%	-	-12%	-43%

The development targets of brands are set at the country level. Such an approach allows to judge further expansion potential. Naturally, the lower the number of stores and the higher the affluence of customers, the more abundant the growth perspectives are within selected towns, cities and countries. We do not set ourselves saturation targets, however see more expansion opportunities on the new markets entered. We concentrate on store quality not quantity.

SALES PER SQM. Sales per square meter are best calculated on average floorspace and looked at on an average monthly basis. This indicator shows the average performance of all LPP's stores opened in the reporting period, both the mature and the new ones. Typically, it takes a new store up to 36 months to mature and start generating target turnover levels of a mature store. Due to stronger brand awareness maturity is easier to reach domestically than abroad. In times of fast floorspace expansion, the sales per sqm ratio may be falling. Then, the performance of the network is judged by LFLs (like-for-like, same store sales).

LFLs are the key indicator of our traditional store business' success. We measure these at stores that have been the same as a year before (i.e. have not changed their floorspace, have not undergone upgrades) and have been in operation for the past 12 months (without a break longer than 7 days). Calculations are conducted in local currencies, i.e. without taking into account changes in currencies in countries in which LPP's stores are run. LFLs are dependent on many factors, both internal and external ones. Internal factors include: the quality of collections and the degree to which these suit the customers' tastes, the pricing policy and price to quality ratio but also the proximity of other stores in the neighbourhood (cannibalization) and the amount of customers switching to internet purchases. External factors include traffic to shopping centres and stores, average ticket sales, number of pieces purchased by customers.

We actively work on LFLs levels. The actions that we undertake include: (1) increasing the number of types of items within collections, (2) working to have the must-haves in the stores, (3) constantly upgrading the quality of floorspace (new store concepts), (4) investing in technology, and (5) conducting well-thought promotions.

7.1.2. E-commerce

The fastest growing part of our operations is the e-commerce business. This is related to: (1) the number of brands in e-commerce, (2) the number of countries where we offer internet purchases, (3) the quality of our e-stores and as well as mobile applications and (4) time of delivery. We are in the process of introducing omnichannel which should support both our store and online operations. This has been streghened by the pandemics.

7.1.3. Wholesale

Our revenues not only comprise of retail but also from wholesale. The two most important sources of wholesale revenues are: (1) franchise revenues – sales to our Middle East franchisee, sales of Russian and Ukrainian subsidiaries to wholesale operators; from 2017 this number also encompasses sales to Belarus (only until end of 2019/20, we replaced franchised stores with own ones) and from 2018 Israel and (2) Promostars – offer for business customers with promotional clothes (includes T-shirts, sweaters, trousers, jackets, hats etc). The latter has been separated to a different entity, as its operations substantially differed from other our businesses.

GROUP LFLS

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
LFLs	15.7%	11.3%	5.6%	-2.5%	0.6%	6.4%	10.1%	7.2%	7.8%	3.6%	-38,0%

7.2. Gross profit margin

Gross profit is the amount of money that remains in the company after taking into account the costs of goods sold. These include production costs, customs duties and shipping the goods to our distribution centres. Also, since 2017 the line includes inventory write-offs.

The largest cost is the cost of suppliers. We do not own factories and thus look for the most attractive sources of clothes and accessories among third parties. Such an approach gives us flexibility to react to changing macroeconomic conditions and lowers cash outlflows (no construction capex needed). China has been our most important supplier since the company's inception. However, we have not produced in the same place over the years. Our office in Shanghai, supervising the production, is constantly on the lookout for new suppliers or better offers, taking the growing production quantities into account. Although China is our most important sourcing partner, we also produce in other Far East countries. The key reason is growing prices in China and its orientation on more sophisticated and value added production (e.g. we do not source simple T-shirts from China). Other countries that we produce in are: Bangladesh, Cambodia, Myanmar, Pakistan, India. Overall, the Far East constituted c. 90% of our supplies. The rest is almost entirely split between Turkey and Poland.

2020/21 CUSTOMS DUTIES BY COUNTRIES

Bangladesh	0%	Myanmar	0%
Cambodia	0%	Pakistan	0%
China	12%	Thailand	12%
India	9.6%	Vietnam	9.6%
Indonesia	9.6%	Turkey	0%

The production countries are important as some of them bear exports duties on textiles, aimed at protecting the EU markets. The customs duty reaches 12% from China and almost 10% from Vietnam, India and Indonesia. There are none relating to Bangladesh. Details can be found in the table below. Once manufactured, goods are transported to our distribution centres. Please note that customs duties are also important while selling goods abroad, e.g. to Russia and Ukraine.

The geographical divergence exposes us not only to customs duties but also to FX risks. The purchases from the Far East are denominated in US$ mostly, while our revenues are linked to zloty and euro in majority. We do not hedge the purchases and try to include any changes in PLN/US$ in prices for the end customers. Appreciation of zloty to US$ is thus favourable for us and we can split the benefit with our customers. However, depreciation of zloty versus US$ increases our costs of purchase and we try to at least partially transfer this additional cost onto the end customer. Due to the lead time from the Far East, the PLN/US$ exchange rate lagged by two quarters is a good proxy of our gross profit margin trends. That is because prices of goods sourced in the Far East are set up while ordering them based on our FX rates forecasts. Price tags are printed in the Far East. Thus, changing price tags requires manual re-labelling of all the goods affected. That is conducted only in rare cases of strong currency movements in our distribution centre.

Although historically, the costs of freight have not been a sizeable component of the gross profit margin, their importance is on the rise. We have started experiencing sizeable growth in freight costs as well as their availability since 2Q21/22. These could negatively affect our margins since 2H21/22.

The gross profit margin is affected not only by the US$/ PLN relationship, but also by competitive pressure (the decisions of competitors), the affluence of customers and their propensity to consume as well as by the collections (whether or not they meet the needs of the customers).

The gross profit margin varies between quarters. We used to have high margins in the second and the fourth quarter when we sell our collections in full prices. That has now changed with the shifted fiscal year. In 2H16 we introduced a new inventory management policy. As a result, we tend to minimise the number and scale of sell-offs after the arrival of new collections, but tend to maximise the amount of goods sold during the sell-off months. Post-season inventory is sold to third parties and does not return to our stores. In December 2016 we sold off obsolete inventory to improve our cash flows and lower inventory levels. Without this transaction, 2016 gross profit margin would come in at 50.8%. In 2017 our gross profit margin increased to 53.0% along with successful Reserved brand restructuring, while in 2018 it reached the level of 54.7%. In 2019/20 gross profit margin came in at 52.0%, down 0.9 pp. YoY. Decrease in gross margin despite good acceptance of the SS19 and AW19 collections, was due to negative impact of weather in May and December 2019, high US$ as well as a higher Sinsay share in revenues (gross margin lower than at other brands).

Also, it should be noted that since 2017 annual numbers we have changed the way we recognise inventory write-offs in our financial statements. Historically, these were booked in other operating line. However, since 2017 annual numbers we have shifted these into the gross profit margin, alining our reporting with the international retail giants.

For analytical purposes, apart from percentage margin, the gross profit should also be looked at in nominal per square meter level. This ratio is superior to sales per square meter as it takes also the pricing and discount policy into account.

GROSS PROFIT MARGIN

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20 (13M)	2020/21
Gross profit (PLN m)	1,424	1,827	2,409	2,793	2,743	2,934	3,727	4,401	4,628	5,146	4,084
YoY growth	25.6%	28.3%	31.9%	15.9%	-1.8%	7.0%	27.0%	18.1%	-	11.2%	-17.3%
Gross profit/ m^2 monthly (PLN)	367	403	405	356	293	280	333	358	347	349	260
YoY growth	18%	10%	0%	-12%	-18%	-4%	19%	8%	-	0%	-26%
Gross profit margin	57.1%	56.7%	58.5%	58.6%	53.5%	48.7%	53.0%	54.7%	52.9%	52.0%	52.0%
USD/PLN average rate	3.23	3.26	3.16	3.15	3.77	3.94	3.78	3.61	3.62	3.84	3.89

IFRS16 application from 2019

IFRS16 Leases had a sizeable impact on our financial statements since 2019. The standard replaced IAS17 and indicated that all leases should be treated as finance leases versus the so far division of leases into operating and finance ones. As a result, a new right-of-use asset was created on the balance sheet which is amortised during the course of the lease (equivalent to the weighted average length of rental agreement). Also, a corresponding liability was created, which is recognised under amortised cost.

BALANCE SHEET	INCOME STATEMENT	CASH FLOW STATEMENT
– Higher assets due to recognistion of right-of-use asset. – Higher financing liabilities. – Only basic rental agreements within the scope of IFRS16 (no additional charges, no floating rates).	– Some half of rental expenses was recognised under IFRS16. – Higher depreciation, equal to the amount of rentals excluded from EBIT. – Higher financial costs. FX differences on foreign-denominated lease liabilities.	– Operating cash flow: growth due to higher depreciation charge. – Financing cash flow: higher costs, lease payments.
+ ASSETS / +LIABILITIES	++ EBITDA /+EBIT	+ OPERATING CASH FLOWS

IFRS16 impact summary on 2020/21 numbers

EBITDA 2020/21	PLN 617.2m of additional amortisation of right of use asset.
EBIT 2020/21	55% rentals under IFRS16 (PLN 389.2m). PLN 29.6m write-offs for stores closed valued under IFRS16.
NET INCOME 2020/21	Financial costs related to the asset (-130.6 mln PLN) and FX losses (-102.5 mln PLN). PLN 58.7m impact of deferred taxes. PLN 66.5m gain on abolition and reductions of rentals.

7.3. SG&A costs

Apart from COGS our costs also comprise of SG&A costs (selling and general administration costs). However, we believe that our business model is easier to understand if we split the operating costs into costs of stores and costs of headquarters. For managerial purposes we look at costs at the per sqm basis and suggest a similar approach while analysing and forecasting our results. We are constantly working on improving the SG&A/m² ratio on a monthly basis. These have reached PLN 300 in 2012 while PLN 247 in 2020/21, despite inflation and growing salaries. Costs of stores dominate over costs of headquarters. Costs of stores took up 70% in 2020/21 SG&A costs, leaving 30% for HQ.

One of the characteristics of our business is a high operating leverage. 31% of our SG&A costs are variable while as much as 69% are fixed (IAS17), i.e. this portion of operating costs does not change along with changes in revenues. The high operating leverage is favourable for us in moments of positive LFLs and growing sales, as the positive effect on EBIT is more than proportional. However, in times of slowdown and falling LFLs the operating leverage is working against us, requiring cost reductions to maintain EBIT levels.

COSTS OF STORES (under IAS17) comprise of two elements: costs of own stores and costs of franchise stores. Costs of franchise stores are constituted by the proportion of turnover that is paid by us to franchisees to cover for their costs. Costs of own stores are best looked at per sqm per month basis. The costs of own stores can be divided into three parts: rental costs, HR costs and other costs of own stores.

RENTAL COSTS (43% in 2020/21 costs of own stores) are typically denominated in EUR (70%), however other currencies also appear: 8% US$ (mostly in CIS), overall 22%: RUB, PLN and CZK. The rental formulas tend to be complex and include a fixed and a floating element. The contracts we sign tend to have a fixed floor value which is paid until a certain level of store revenue is reached. Once the stipulated threshold is crossed, a certain percentage of turnover is paid to the landlord. As a result, we share to a larger extent with our landlord in times of economic prosperity, yet we have to cope with fixed cost in times of slowdown. We continuously work on more favourable rental levels, both domestically and abroad. This became especially important to us during the COVID-19 pandemics.

SG&A COSTS

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21
SG&A costs (PLN m)	1,070	1,361	1,759	2,148	2,192	2,609	3,100	3,532	3,822	4,213	3,848
YoY growth	15%	27%	29%	22%	2%	19%	19%	14%	-	10.2%	-2.3%
SG&A/m² monthly (PLN)	276	300	296	274	234	237	280	291	287	289	247
YoY growth	8%	9%	-1%	-8%	-14%	1%	11%	4%	-	1%	-15%
% of sales	43%	42%	43%	45%	43%	43%	44%	44%	44%	43%	42%
Costs of stores (PLN m)	833	1,075	1,423	1,731	1,780	2,080	2,377	2,555	2,751	2,959	2,355
YoY growth	12%	29%	32%	22%	2%	17%	14%	7%	-	8%	25%
Costs of headquarters (PLN m)	237	286	336	417	411	528	723	977	1,071	1,254	1,492
YoY growth	27%	21%	17%	24%	2%	28%	37%	35%	-	17%	-14%

HR COSTS (25% in 2020/21 costs of own stores) are costs of employees working in our stores, both domestically and abroad. We try to optimize the number of employees per store. Although this differs from brand to brand (large Reserved stores versus medium size of other brands) on average there are 10 people per store. Their remuneration consists of a fixed and a variable portion, with the fixed portion being usually the minimum wage while the variable portion depending on the revenues of the store. We often recruit students to our stores for whom this is the first job.

OTHER COSTS OF STORES (32% in 2020/21) include many items like costs of media and electricity, security of the stores, payment card commission, depreciation (the largest part - half of the whole amount). Capex for the stores is depreciated over a 7-year period.

COSTS OF HEADQUARTERS are all other costs not related directly to costs of stores. These include the costs of the management, accounting department, marketing, designing clothes and supervision over their production as well as e-commerce and logistics, i.e. the cost of shipping the goods from the distribution centres to stores.

Please note that our approach to HR has changed over the years. While showing the number of group employees, we take into account: 1) employees of the Gdańsk headquarters, Pruszcz Gdański Distribution Centre and Cracow and Warsaw offices, 2) employees of our foreign subsidiaries (foreign offices including Shanghai and foreign stores personnel) and 3) the personnel of Polish stores. Until the end of 2016, the personnel of Polish stores was not treated as our employees in financial statements, as these people were not directly employed by us. Within LPP's operating cost structure, costs of employees could be found under HR costs line, while costs of personnel in Polish stores constituted part of third party services. This changed in 2017 - from this year, store personnel are our employees and their cost is treated as personnel cost. 2018 has been an exceptional year in terms of number of employees, as this has fallen in nominal terms. There are two key reasons: (1) transfer of part of responsibilities of employees to third party companies in search of efficiency, and (2) partial ban on trade on Sundays in Poland which allowed us to alter the working schedules. It remained relatively stable YoY in 2019/20, as we optimised our store network. In 2020/21 we have seen fall in costs due to cost reductions conducted due to pandemics.

Group's HR costs also include the costs of stock option programs for the management. These are based on shares and aim to align the goals of shareholders (growth in value) with the goals of the management. There have been several of these since LPP's inception.

EMPLOYEES DATA

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
No. of group employees	9,277	12,014	15,854	19,970	21,563	25,106	25,635	25,174	24,588	24,447	21,977
Employees in Poland	6,762	8,198	10,515	12,767	13,894	16,239	14,736	14,294	13,827	14,061	11,578
office & warehouse	1,380	1,370	1,651	2,039	2,200	2,708	3,320	3,347	3,414	3,776	3,486
stores	5,382	6,828	8,864	10,728	11,694	13,531	11,416	10,947	10,413	10,285	8,092
Employees abroad	2,515	3,816	5,339	7,203	7,669	8,867	10,899	10,880	10,761	10,386	10,399
office	266	331	383	455	454	486	539	501	550	625	714
stores	2,249	3,485	4,956	6,748	7,215	8,381	10,360	10,379	10,211	9,761	9,685

7.4. EBIT

EBIT is generated by the difference between gross profit per sqm and SG&A costs per sqm. Thus, maximization of this amount is our key focus. We do it by: 1) aiming to maximize gross profit per sqm and 2) minimizing costs per sqm.

However, the operating profit also needs to be adjusted for the other operating line, which has been and is going to remain a negative contributor. The key reason behind the negative result are the inventory losses (thefts and damages of goods in the stores). Until 2017 annual numbers, the other operating line included write-offs for unsold inventory, yet these have been moved to the gross profit line.

EBIT

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21
EBIT (PLN m)	343	454	616	609	503	226	578	757	688	806	153
YoY growth	72%	32%	35%	-1%	-17%	-55%	155%	31%	-	17%	-83%
EBIT margin	14%	14%	15%	13%	10%	4%	8%	9%	8%	8%	2%

7.5. Net financials line

There are two key elements influencing the net financials line, interest paid on debt, interest obtained on cash held and foreign exchange differences. Since 2019 the line also includes IFRS16 lease interest payments.

7.5.1. Interest payments

The interest payments are a consequence of the level of debt and net interest payments depend on the scale of net debt. Over the past years we have used different sources of funding, including bank loans as well as convertible bonds. Currently, bank loans are used yet to a lower extent, while at the end of 2019/20 we issued PLN 300m worth corporate bonds. The level of short-term debt, used to finance ongoing operations, is lower than the long-term indebtedness which largely consists of loans taken to finance distribution centre and headquarters expansion. Financial costs line also includes provisions and fees for the banks as well as finance lease charges from January, 1 2019 along with IFRS16 application.

7.5.2. FX differences

We calculate FX differences at each balance sheet date, i.e. their level changes every quarter. There are two areas of FX differences in our net financial line: (1) FX differences resulting from balance sheet items (mostly liabilities which constitute payments for goods ordered) and (2) receivables from subsidiaries to be paid to the parent company (a way of financing foreign subsidiaries). Historically, we did not hedge, yet we changed our approach from 2H17.

Over the past years we have taken steps to reduce this exposure. Firstly, in 2Q14 we converted the Russian rubble denominated receivables into the equity of our subsidiary. The aim was to lower the scale of volatility the depreciation of Russian rubble would have on the group's earnings in the following years. The aim has been achieved. However, we point out that historically when we faced negative equity at selected foreign subsidiaries (e.g. Hungary, Romania, Czech Republic) receivables from them had been converted into equity.

Secondly, we decided to lower the scale of receivables along with our foreign subsidiaries growing in scale and strength. Thirdly, since 2H17 we introduced hedging of invoices from our suppliers. This lowered the variability of the net financials line. We hedge the invoice value the moment it is sent to us by our supplier. We use delivery forwards. As the transactions do not constitute hedge accounting, the impact is visible in the net financials line only.

The situation changed in 2019/20 along with introduction of IFRS16. As the majority of our rental agreements and thus liabilities are in foreign currencies, we have a sizeable FX exposure due to translation risk. This sizeable liability is recalculated to PLN at each balance sheet date resulting in a large scale of FX gains or losses.

NET FINANCIALS

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21
Net financials (PLN m)	-12	-30	-92	-149	-88	-32	-15	-33	-31	-140	-270
Financial income	14	2	2	3	2	1	5	8	9	11	72
Financial costs	26	32	94	152	90	34	20	41	41	151	341

7.6 Taxes

Taxes in the income statement consist of current and deferred taxation. Current taxation is the amount of income taxes payable for the period. It consists of sum of taxes paid by all the subsidiaries of LPP group. It is important to note that the tax bases are not cumulated and tax is paid in each of the countries present. Thus, a loss in one country does not offset income earned in another country.

Deferred taxation is an accounting adjustment aimed to match the tax effect of transactions to the relevant accounting period. Thus, deferred taxes line estimates future tax consequences of transactions and events recognised in the financial statements of current and previous periods. We have both permanent and temporary differences between the accounting and tax treatment. Permanent differences result from some types of the costs not being allowed by tax office (e.g. entertainment, penalties and fines) and temporary ones (different methods of depreciation of assets for the purpose of financial statements and tax accounting). Deferred taxion relates to the latter.

However, it should be noted that there are differences between the tax in financial statements and tax paid (visible in cash flow) is the simplified method of taxes paid, chosen by us in 2005. The normal tax advances method requires calculation of advances based on monthly earnings. The simplified method allows to pay monthly advances based on T-2 audited earnings and an equal monthly instalment is paid each month. The difference is then corrected in March next year and paid to the tax office.

2020/21 TAX RATES BY COUNTRIES

Poland	19%	Hungary	9%	Latvia	0%	Serbia	15%	Romania	16%	UK	16%	Finland	20%
Czech Rep.	19%	Croatia	18%	Estonia	0%	Ukraine	18%	Cyprus	2,5%	Slovenia	15%	B&H	10%
Slovakia	21%	Lithuania	15%	Russia	20%	Bulgaria	10%	Germany	32%	Kazakhstan	20%	Belarus	18%

TAXES

PLN m	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21
Taxes	62	70	91	-22	63	19	123	219	214	244	74
Current taxation	64	72	97	95	56	27	135	231	235	212	121
Deferred taxation	-3	-2	-6	-117	7	-7	-12	-12	-21	32	-47
Effective tax rate	19%	17%	17%	-5%	15%	10%	22%	30%	33%	37%	-63%

7.7. Net profit

The level of net profit is a derivative of all the actions described above. On top, historically we recorded a small level of minorities which had to be taken out from the group net income. This resulted from the parent company not having a 100% stake in some small subsidiaries. Between 2012 and 2014 the level of minorities shown was related to our subsidiary in United Arab Emirates. There were no minorities in 2015 and 2016. A small amount appeared in 2017 yet not in 2018.

NET INCOME

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21
Net income (PLN m)	269	352	431	480	351	175	441	505	442	421	-190
YoY growth	96%	31%	22%	11%	-27%	-50%	152%	15%	-	-5%	N/M
Net margin	11%	11%	10%	10%	7%	3%	6%	6%	5%	4%	-2%

7.8. Cash cycle

The net working capital and the cash conversion cycle are important cash flow elements that show the performance and characteristics of our business model.

Net working capital is defined as trade receivables plus inventories minus trade liabilities. Once these are translated into days, the formula defines a cash conversion cycle. Please note that in calculations we use a 365 day year and average values of inventory, receivables and liabilities. Due to a long lead time of production in the Far East, the net working capital used to take away from our operating cash flows. This was because we sold the inventory slower than we paid our liabilities. This has now been changed as for the last three years we have been using supply chain financing.

Trade receivables include receivables from our clients. As a vast majority of our clients are retail customers, the related receivables turnover is very short, ranging up to 2 days maximum if credit card not cash is used as a payment mode. However, the trade receivables line also includes receivables related to the wholesale business. These are responsible for the receivables days ratio ranging below 10 days. As we do not use pre-payments while ordering goods from the Far East, these do not affect the trade receivables line.

Inventory consists of three elements: (1) goods in transit – from factories to the final port (FOB, i.e. Free on Board, method used), (2) goods in the warehouse, (3) goods in stores. The nominal level of inventory has been growing and may continue to do so. This results from ongoing network expansion – each new store increases the demand for working capital as more goods need to be ordered. Thus, it is more practical to look at inventory from a per square meter perspective. For analysis we use end-of-period group floorspace with exception of the ME and Belarus franchise stores (Belarus until the end of 2019/20). This ratio has been relatively stable in the past though appreciating US$ versus zloty puts a pressure on working capital and increases the value of inventory held and inventory ratios. Over the past years inventory days have oscillated around 150 days. That is however now also changing as fast growing internet operations are blurring the per sqm picture.

The level of liabilities depends on Far East purchases. Some 11% of settlements with suppliers is conducted in the form of a letter of credit. We also use other payment modes like bank transfers, yet we have resigned from documentary collection. Goods are ordered 3-4 months in advance of their shipment and the latter takes up to 30-40 days to Poland. Our liabilities cycle grew from below 100 days to over some 190 days.

Please also note that the cash cycle ratio underwent changes between 2016-18. At the end of 2016 we disposed off obsolete inventory which improved the inventory days. We have also started implementing the supplier financing programme which expanded in 2017 and we continue to use this financial instrument. We have expanded our trade liabilities period by using supply chain financing and offering our suppliers the possibility to discount their invoices at the banking platform with the use of LPP's discount rate. We have reached our aim to finance inventory with trade liabilities.

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CASH CYCLE

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21
Net working capital (PLN m)	331	309	421	538	713	448	350	155	-27	-36	-605
Receivables	114	130	163	177	115	165	200	122	104	144	158
Inventory	595	656	805	979	1,320	1,164	1,473	1,590	1,210	1,921	2,074
Liabilities	378	478	548	619	721	881	1,323	1,557	1,341	2,101	2,837

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Cash cycle (days)	72	66	60	70	84	61	33	16	11	-1	-39
Receivables (days)	15	14	13	13	10	9	9	7	7	5	7
Inventory (days)	174	163	156	165	176	147	145	153	129	146	194
Liabilities (days)	118	112	110	108	102	95	122	144	125	152	239

Note: In calculations we use a 365 day year and average values of inventory, trade receivables and liabilities.

7.9. Capex

SPLIT OF CAPEX

Apart from net working capital, capex is our most important cash outflow. Capital expenditure incurred can be divided into three areas:

CAPEX ON STORES: Outlays include costs of setting up new stores in shopping malls and high streets as well as costs of refurbishing and upgrades. The majority of outlays is conducted for new stores. Maintenance capex (understood as rebuilts and extentions) constitutes c. 10% of all store capex spending. Our capex spending is reduced by fit-outs from shopping mall developers. Our target capex is now close to PLN 2,500/m^2 and may go up due to inflation in materials and services. It should also be noted that capex per sqm meter is calculated not on net additions (difference in end-of-period values) but on gross floorspace additions (not made public). In 2019/20 we incurred higher than historical level of store capex. This was not only related to larger network but also a sizeable portion of our store rental agreements expiring. We have decided to thoroughly renew these stores that are to remain.

CAPEX ON LOGISTICS: Historically, this capex line was oriented on the Pruszcz Gdański Distribution Centre. There were two waves of the outlays. The first when the new Distribution Centre was built. The second one, when the distribution centre was expanded (finished in 2Q15). Construction cost PLN 120m, while expansion PLN 177m. The DC was also expanded in 2019/20. The current distribution centre together with rented warehouses should be sufficient until 2022. We have decided to locate the next distribution centre in Brześć Kujawski. The centre is already being built.

OTHER CAPEX: The latter includes, among others, spending for refurbishing of headquarters and IT. E-commerce outlays are an increasingly important contributor to this line.

FIT-OUTS

Fits-outs are a form of compensation for investment in stores given to us by shopping mall operators and developers. In general these constitute a reduction of capex and should be looked at combined with the capex levels shown as outflow in the investing cash flow.

The treatment of fit-outs has changed over the years. Since 2019 recognition of fit-outs in the financial statements depends on whether rental expenses related to them are recognised under IFRS16 or not. If the rental agreement is recognised along with IFRS16, then the fit-out value lowers the right-of-use asset, which is then amortised in the lower value. If the rental agreement is not under IFRS16, then the whole value of fit-out lowers rental expenses in SG&A costs proportionally to the length of the agreement.

Still, a portion of fit-outs is booked as a cash inflow in the investing cash flow and comes back to us in cash. Historically the treatment of fit-outs was different. Until the end of 2014 this gain constituted part of other operating income. From 2015 the accounting treatment changed, and the gain was depreciated over the useful life of the store (7 years) and treated as a reduction in rentals. Another change took place in 2018 with the whole value of fit-out reducing the level of rentals, proportionally to the lenght of the agreement.

HEADQUARTERS

Our headquarters have not changed since the company's inception. These are located in Gdańsk at Łąkowa street. On top, we rent some additional floorspace in Gdańsk to accommodate all personnel. In Poland, we also have offices in Pruszcz Gdański, Cracow and Warsaw.

Our Gdańsk headquarters have been expanded and revitalised. The project was initiated mid-2013 while finalised in September 2015. The refurbished space includes a restaurant for employees as well as showers and changing rooms for those commuting by bicycles.

Further expansion was needed and contrary to the old buildings, new ones are built from scratch on a nearby plot of land.

CAPEX

	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21
Capex (PLN m)	129	288	542	551	491	272	442	799	932	1,004	825
Stores	109	272	455	386	392	230	376	489	620	729	622
Logistics	8	4	56	100	31	5	5	181	180	133	71
Other	12	13	30	65	67	37	61	129	132	142	132
YoY growth	28%	123%	88%	2%	-11%	-45%	62%	81%	-	8%	-13%
% of sales	5%	9%	13%	12%	10%	5%	6%	10%	11%	10%	9%

Infrastructure spending plan for 2020/21 - 2021/22

PLN m	2021/22	2022/23	2021/22-2022/23
Stores	**950**	**850**	**1,800**
Stores domestically and abroad	950	850	1,800
Offices	**50**	**50**	**100**
New office in Gdańsk Łąkowa - Building 2	50	0	50
New office in Gdańsk Łąkowa - Building 3	0	50	50
Logistics	**150**	**40**	**190**
New DC in Brześć Kujawski	150	40	190
IT & Other	**60**	**60**	**120**
TOTAL	**1,210**	**1,000**	**2,210**

7.10. Net debt versus dividend

We use debt in financing our growth in order to: 1) speed-up our development, 2) increase ROE and 3) lower WACC (weighted average cost of capital). Short-term debt is used to finance net working capital charges and store openings. Long-term debt is related to longer tenure projects, mostly financing of distribution centre expansion and refurbishing of the headquarters and financing new store openings. Historically, debt was also used to acquire our competitor Artman. Currently, we use bank debt yet to a lower extent and do not have any corporate bonds outstanding. Our banking exposure is split into several large banks in Poland. Debt is taken at the parent company level (centralisation). Exemption is made for two CIS subsidiaries. Due to cash generation of the business in 2017 we have moved from net debt to net cash and we have doubled the net cash position in 2019/20 versus 2017 levels.

We believe the net cash levels should continue. Usage of debt and fast floorspace growth have not stopped us from dividend payments. The first dividend was paid from 2009 earnings in 2010. Dividend per share has grown at a 2010-14 CAGR of 17%, picking up from PLN 50 to PLN 93.6. The external turbulences in 2014-16 have led us to the decision to cut the dividend payment in 2015 (DPS of PLN 32 from 2014 earnings) and in 2016 (DPS of PLN 33 from 2015 earnings). Since then dividends have been on the rise, reaching PLN 60 per share and PLN 110.1m from 2018 earnings, paid out in June 2019. No dividend was paid from 2019/20 earnings due to negative impact of COVID-19. PLN 834m dividend from retained earnings was approved by AGM in June 2021. The first of equal tranches was paid in July 2021. The second was paid in October 2021.

NET DEBT

IAS17	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Net debt (PLN m)	173	27	209	399	621	144	-316	-753	-841	-789	-272
Cash and equivalents	117	159	149	184	224	366	515	1,045	1,070	1,361	1,278
Long-term debt	86	125	184	204	284	195	142	89	84	463	485
Short-term debt	204	61	174	378	561	315	56	203	145	109	521
Net debt/EBITDA (x)	0.4	0.0	0.3	0.5	0.9	0.3	-0.4	-0.7	-0.7	-0.6	-0.4
Dividends (PLN m)	135	140	154	170	58	60	66	73	73	110	-
YoY growth	56%	4%	10%	10%	-66%	3%	9%	12%	-	50%	N/M

Note: Dividends are shown under the year paid.

7.11. Goodwill

The goodwill and trademark values recognized on our balance sheet relate to acquisitions of Artman SA (majority) and Slovak franchisee (Koba AS). As purchase of Artman SA in 2008 encompassed taking private a WSE-listed competitor, a controlling premium had to be offered to minority investors to de-list the target. Given the sizeable scale of cost synergies generated from acquisition of two additional brands (House and Mohito), the value allocated to goodwill and trademark has not changed over the years, even though an impairment test had been conducted annually. We do not see risk of write-offs in the foreseeable future. Should we cancel goodwill out, our tangible equity still remains sizably in the black.

GOODWILL

PLN m	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Intangible assets	12	18	20	29	37	44	64	90	93	126	136
Goodwill	184	184	184	210	210	210	210	210	210	210	183
Trademark	78	78	78	78	78	78	78	78	78	78	78
Equity	909	1,211	1,496	1,638	1,890	2,135	2,443	2,861	2,816	3,247	3,068
Tangible equity	637	932	1,215	1,323	1,565	1,804	2,092	2,484	2,436	2,834	2,671
Assets	1,614	1,932	2,492	2,934	3,565	3,678	4,207	5,381	7,906	9,606	10,354

Note: Tangible equity is calculated as total consolidated equity minus all intangibles.

8. Financials

CONSOLIDATED INCOME STATEMENT

PLN m	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21
Revenues	2,493	3,224	4,116	4,769	5,130	6,019	7,029	8,047	8,756	9,899	7,848
COGS	1,069	1,397	1,707	1,977	2,388	3,085	3,302	3,645	4,128	4,754	3,764
Gross profit	**1,424**	**1,827**	**2,409**	**2,793**	**2,743**	**2,934**	**3,727**	**4,401**	**4,628**	**5,146**	**4,084**
SG&A costs	1,070	1,361	1,759	2,148	2,192	2,609	3,100	3,532	3,822	4,213	3,848
Other operating line	-10	-12	-34	-35	-48	-99	-42	-113	-118	-127	-83
EBIT	**343**	**454**	**616**	**609**	**503**	**226**	**578**	**757**	**688**	**806**	**153**
Net financials	-12	-30	-92	-149	-88	-32	-15	-33	-31	-140	-270
Taxes	62	70	91	-22	63	19	123	219	214	244	74
Minorities & discontinued operations	0	2	2	2	0	0	0	0	0	0	0
Net income	**269**	**352**	**431**	**480**	**351**	**175**	**441**	**505**	**442**	**421**	**-190**
Depreciation	95	109	148	194	224	267	293	349	427	1,094	1,018
EBITDA	**439**	**563**	**764**	**803**	**726**	**494**	**872**	**1,106**	**1,115**	**1,899**	**1,171**

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CONSOLIDATED INCOME STATEMENT, YOY DYNAMICS

PLN m	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21
Revenues	20%	29%	28%	16%	8%	17%	17%	14%	-	13%	-21%
COGS	13%	31%	22%	16%	21%	29%	7%	10%	-	15%	-21%
Gross profit	**26%**	**28%**	**32%**	**16%**	**-2%**	**7%**	**27%**	**18%**	-	**11%**	**-21%**
SG&A costs	15%	27%	29%	22%	2%	19%	19%	14%	-	10%	-2%
Costs of sales	16%	27%	31%	21%	4%	20%	14%	11%	-	8%	-34%
EBIT	**72%**	**32%**	**35%**	**-1%**	**-17%**	**-55%**	**155%**	**31%**	-	**17%**	**-83%**
Net financials	-34%	151%	203%	63%	-41%	-63%	-54%	123%	-	347%	92%
Taxes	43%	13%	30%	-124%	-387%	-69%	537%	78%	-	14%	-70%
Minorities & discontinued operations	-	268%	22%	22%	-100%	-	-	-	-	-	-
Net income	**96%**	**31%**	**22%**	**11%**	**-27%**	**-50%**	**152%**	**15%**	-	**-5%**	**N/M**
Depreciation	-1%	14%	36%	31%	15%	20%	10%	19%	-	156%	-7%
EBITDA	**49%**	**28%**	**36%**	**5%**	**-10%**	**-32%**	**77%**	**27%**	-	**70%**	**-38%**

CONSOLIDATED BALANCE SHEET

PLN m	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20	IFRS16 2020/21
Non-current assets	**745**	**910**	**1,232**	**1,516**	**1,797**	**1,839**	**1,920**	**2,418**	**5,280**	**5,871**	**5,621**
Tangible fixed assets	448	599	897	1,039	1,259	1,291	1,348	1,818	1,821	2,312	2,440
Right-of-use assets	0	0	0	0	0	0	0	0	2,894	3,000	2,589
Intangible assets	12	18	20	29	37	44	64	90	93	126	136
Goodwill	184	184	184	210	210	210	210	210	210	210	183
Trademark	78	78	78	78	78	78	78	78	78	78	78
Other investments	1	1	10	2	2	0	0	0	0	0	0
Receivables and loans	5	9	13	6	6	6	5	8	8	8	14
Deferred tax assets	19	23	30	144	139	144	159	164	173	135	179
Pre-payments	0	0	0	9	67	67	57	51	4	2	2
Current assets	**869**	**1,022**	**1,260**	**1,417**	**1,768**	**1,839**	**2,287**	**2,963**	**2,627**	**3,735**	**4,733**
Inventory	595	656	805	979	1,320	1,164	1,473	1,590	1,210	1,921	2,074
Trade receivables	114	130	163	177	115	165	200	122	104	144	158
Receivables from income tax	2	5	17	11	47	75	6	0	1	8	103
Other receivables	31	60	97	46	35	0	0	0	0	0	0
Loans	0	0	12	0	0	2	2	135	170	211	1,024
Other financial assets	0	0	0	0	0	29	48	38	45	53	64
Pre-payments	10	11	16	20	27	38	44	33	26	37	32
Cash and cash equivalents	117	159	149	184	224	366	515	1,045	1,070	1,361	1,278
Total assets	**1,614**	**1,932**	**2,492**	**2,934**	**3,565**	**3,678**	**4,207**	**5,381**	**7,906**	**9,606**	**10,354**

CONSOLIDATED BALANCE SHEET

PLN m	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2020/21	2020/21
Equity	**909**	**1,211**	**1,496**	**1,638**	**1,890**	**2,135**	**2,443**	**2,861**	**2,816**	**3,247**	**3,068**
Share capital	4	4	4	4	4	4	4	4	4	4	4
Treasury shares	-49	-49	-49	-43	-43	-43	-43	-43	-43	-41	0
Additional paid-in capital	150	235	235	235	235	251	278	279	279	285	364
Other capital	562	657	860	1,092	1,324	1,608	1,823	2,252	2,252	2,733	3,155
Foreign exchange differences from subsidiaries	-5	-3	-4	-184	-229	-115	-208	-232	-214	-163	-265
Retained earnings	244	365	447	532	599	430	590	601	539	430	-190
Profit (loss) from previous years	-25	13	16	52	248	255	149	96	96	9	0
Net profit (loss) for the current period	269	352	431	480	351	175	441	505	442	421	-190
Minority interest	3	3	3	3	0	0	0	0	0	0	0
Long-term liabilities	**89**	**131**	**192**	**211**	**344**	**267**	**233**	**346**	**2,634**	**3,159**	**3,114**
Bank loans	86	125	184	204	284	195	142	89	84	171	191
Other financial liabilities	0	0	0	0	0	0	0	0	0	292	294
Finance lease (IFRS16)	0	0	0	0	0	0	0	0	2,439	2,568	2,524
Provisions for employee benefits	1	1	3	2	2	3	1	1	1	1	2
Provision for deferred income tax	2	4	5	5	7	4	7	1	0	0	0
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0	0
Accruals	0	0	0	0	51	66	83	256	109	127	104
Short-term liabilities	**615**	**590**	**803**	**1,085**	**1,331**	**1,276**	**1,530**	**2,174**	**2,456**	**3,199**	**4,171**
Trade and other liabilities	378	478	548	619	721	881	1,323	1,557	1,341	2,101	2,837
Income tax liabilities	12	19	38	38	3	7	53	234	236	174	68
Bank loans	118	61	174	378	561	315	56	203	145	109	521
Other financial liabilities	86	0	0	0	0	0	0	0	0	0	0
Finance lease (IFRS16)	0	0	0	0	0	0	0	0	566	680	654
Provisions	15	20	25	20	18	38	54	107	132	90	35
Special funds	0	0	0	0	0	0	0	0	36	45	56
Accruals	7	12	19	29	28	34	44	72	0	0	0
Total liabilities	**1,614**	**1,932**	**2,492**	**2,934**	**3,565**	**3,678**	**4,207**	**5,381**	**7,906**	**9,606**	**10,354**

CONSOLIDATED CASH FLOW STATEMENT

PLN m	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21
Pre-tax profit (loss)	**331**	**424**	**524**	**460**	**414**	**194**	**564**	**724**	**657**	**665**	**-117**
Total adjustments	-77	57	-15	33	-160	524	330	488	943	1,183	1,191
Amortisation and depreciation	95	109	148	194	224	267	293	349	427	1,094	1,073
Income tax paid	-53	-56	-92	-91	-128	-59	-92	-42	-45	-296	-327
Net working capital	-145	-22	-96	-127	-223	256	101	125	469	269	113
- Change in inventories	-159	-72	-178	-259	-382	212	-354	-133	330	-315	-218
- Change in receivables	-17	-103	-82	52	7	-36	-39	4	52	-66	-579
- Change in liabilities	31	153	165	80	152	80	494	254	87	650	911
Change in provisions	13	5	8	0	-1	16	15	61	78	-22	-53
Other adjustments	12	21	17	58	-31	44	12	-4	14	139	-920
Net operating cash flow	**254**	**481**	**509**	**493**	**254**	**718**	**893**	**1,212**	**1,600**	**1,848**	**1,075**
Investing inflows	95	31	49	88	75	91	58	635	639	480	374
Capex	-129	-288	-542	-551	-491	-272	-442	-799	-932	-1,004	-825
Other investing outflows	-5	-3	-25	-13	0	0	0	-540	-640	-338	-556
Investing cash flow	**-40**	**-261**	**-518**	**-476**	**-416**	**-181**	**-384**	**-704**	**-933**	**-861**	**-1,007**
Financing inflows	6	4	220	283	365	16	26	369	390	949	1,325
Interest bearing debt	3	4	220	283	365	16	26	369	390	949	1,213
Other	3	0	0	0	0	0	0	0	0	0	112
Financing outflows	-200	-182	-220	-265	-164	-410	-386	-348	-497	-1,632	1,465
Treasury shares	0	0	0	0	0	0	0	0	0	0	0
Dividends	-135	-140	-154	-170	-58	-60	-66	-73	-73	-110	0
Interest bearing debt	-46	-23	-52	-79	-87	-329	-309	-261	-349	-664	768
Interest and finance lease	-19	-20	-14	-17	-19	-22	-17	-14	-75	-858	696
Financing cash flow	**-194**	**-178**	**-1**	**17**	**201**	**-394**	**-360**	**21**	**-106**	**-682**	**-140**

CONSOLIDATED RATIOS

PLN m	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21
Gross profit margin	57.1%	56.7%	58.5%	58.6%	53.5%	48.7%	53.0%	54.7%	52.9%	52.0%	52.0%
EBITDA margin	17.6%	17.5%	18.6%	16.8%	14.2%	8.2%	12.4%	13.7%	12.7%	19.2%	14.9%
EBIT margin	13.8%	14.1%	15.0%	12.8%	9.8%	3.8%	8.2%	9.4%	7.9%	8.1%	1.9%
Net income margin	10.8%	10.9%	10.5%	10.1%	6.8%	2.9%	6.3%	6.3%	5.1%	4.3%	-2.4%
ROE	29.6%	29.1%	28.8%	29.3%	30.6%	19.9%	8.7%	19.3%	16.8%	13.9%	16.0%
Cash cycle (days)	72	66	60	70	84	61	33	16	11	-4	-34
receivables	15	14	13	13	10	9	9	7	7	5	7
inventory	174	163	156	165	176	147	145	153	129	130	194
liabilities	118	112	110	108	102	95	122	144	125	139	235
Net debt/ EBITDA	0.4	0.0	0.3	0.5	0.9	0.3	-0.4	-0.7	-0.7	-0.6	-0.4
Net debt/ equity	0.2	0.0	0.1	0.2	0.3	0.1	-0.1	-0.3	-0,3	-0.2	-0.1

9. Strategy

We strive for continuous growth of LPP and its transformation into a global company with brands recognisable worldwide. We are incessantly improving our offer and adapting it to the ever-changing customer expectations. Our collections are more and more accessible thanks to the extension of our traditional stores network (increasing commercial floorspace YoY), as well as online stores. We are driving our development towards the omnichannel concept to ensure that our customers have full access to the products, regardless of the sales channel. At the same time, we are constantly responding to the challenges posed by the world around us in both technological and environmental context.

With this LPP development plan in mind for the years to come, we founded our strategy on three pillars: the omnichannel model, digitalisation and sustainable development.

EXPANSION BY BRANDS

1998 Reserved
↓
2004 Cropp
↓
2005 Esotiq (divested 2010/11)
↓
2008 House, Mohito (acquisition)
↓
2013 Sinsay
↓
2016 Tallinder (closed down in 2017)

9.1. Omnichannel organisation

LPP is an omnichannel organisation where offline and online sales are fully integrated. We are committed to providing our customers with the best possible shopping experience, regardless of whether they choose to purchase our collections in traditional stores or online. That is why we develop both channels simultaneously while ensuring a coherent presentation of our offer.

Our priorities are as follows:

- further development of our five clothing brands (Reserved, Cropp, House, Mohito, and Sinsay) in the mid-price range or Affordable Fashion Retail segment, dedicated to different target groups;
- increased accessibility of our brands' offer by way of simultaneous development of the traditional retail network and the online offer so that our customers interact with the brand wherever, whenever and however they wish thanks to integrated channels.

9.1.1. Expansion by brands

It is our strategy to continue to develop our existing five brands. The intention is to capture new customers, achieve economies of scale during the design and sourcing process and increase the leverage while negotiating the level of rentals and fit-outs as well as the quality of floorspace with the shopping mall operators. On top, it allows us to develop niches within a selected price range and helps us target customers with different affluence. Furthermore, our brand portfolio diversifies the fashion risk, especially the risk borne by the largest Reserved brand.

Our past performance shows that we have been able to execute our strategy effectively. Even though we only started with Reserved brand in 1998, we have successfully developed Cropp, Esotiq (divested, management buyout) and Sinsay. Two brands have been acquired along with the Artman merger (House and Mohito).

Our brands have different customers, starting with children (part of Reserved, RE Kids, and Fox&Bunny at Sinsay) through teenagers (Cropp, House, Sinsay) and ending with more mature customers (Mohito, Reserved and expanded Sinsay offer).

All these brands are in the mainstream part of the retail market. We wanted to diversify away from the mainstream pricing to benefit from growing customer affluence within the majority of regions we are present in. In February 2016 we launched our first up-market brand, Tallinder, which offered classical designs made of high quality materials. However, due to unsatisfactory sales results in September 2016 we decided to close down Tallinder stores as of the end of February 2017. For the time being, we do not have plans for yet another brand launch.

9.1.2. Expansion by countries

Growth by number of brands would not be complete if it had not been for development by countries. The key intention is to diversify the performance of the group from the anchor Polish market and gain exposure to higher-growth-potential or more affluent countries. It is our long-term target to have all the brands in all countries present. The strategy is gradually put into practice. A new market is typically tested with the broad Reserved brand, while in later stages the remaining brands are added. Such a situation currently takes place in selected Western European countries and in the Middle East.

We are currently present in six geographical areas on three continents. Each of the markets is at a different stage of development and has different growth prospects. The Central and Eastern Europe (CEE) consisting of Poland, Czech Republic, Slovakia and Hungary is a mature market for us, due to early entry. A similar situation takes place in the Baltic region, encompassing Lithuania, Latvia and Estonia. Growth on both these markets could come from selected new openings and work on efficiency of existing operations via omnichannel implementation.

We see higher growth potential in CIS (Commonwealth of Independent States) and SEE (South Eastern Europe). Due to geopolitical issues development in Russia and Ukraine has been put on hold in 2015. Selective openings took place in 2016, yet from 2017 we accelerated floorspace development, which continued until the end of 2020/21. We see long-term growth potential in Russia, due to large number of towns with population above 1 million. In 2017-18 we enlarged the number of CIS countries present and launched franchise operations in Belarus (stores currently changed into own ones) and own in Kazakhstan. We are present in six countries of South Eastern Europe (Bulgaria, Romania, Croatia, Serbia, Slovenia and B&H) leaving the potential to expand in these and enter new countries. We opened our first store in Serbia in August 2017. We entered Slovenia in 2018 and Bosnia & Herzegovina in 2019.

The highest growth potential lies in two markets at early stage of development – Western Europe (WE) and the Middle East (ME). In Western Europe so far we are only present in Germany, the UK and Finland. We are looking at other WE countries, yet we await BEP in Germany before taking decision on further moves in that country. On top, due to COVID-19 impact in 2020/21 our German operations are under restructuring. In 2019/20 we entered the third WE market which is Finland. We are also on the look-out for a venue for flagships. In September 2017 we opened our first flagship in London, at Oxford Street. At the end of 2020/21 we were present in five Middle East countries with our franchise stores, as we entered Israel in 2018.

EXPANSION BY COUNTRIES

1998 Poland
↓
2002 Russia, Latvia, Estonia, Czech Republic, Hungary
↓
2003 Ukraine, Slovakia, Lithuania
↓
2008 Romania, Bulgaria
↓
2014 Croatia, Germany
↓
2015 Egypt, Qatar, Kuwait, Saudi Arabia
↓
2016 United Arab Emirates
↓
2017 UK, Belarus, Serbia
↓
2018 Kazakhstan, Slovenia, Israel
↓
2019 B&H, Finland
↓
2021 Northern Macedonia


↓ MEN ↓ KIDS
↓ ODBIORY ONLINE

9.1.3. E-commerce

We see that e-commerce and the overall experience in the form of omnichannel are the future. This is why we continue to invest in logistics and technology that allows us to double e-commerce revenues. We plan to gradually have e-stores of all our 5 brands in all the countries that we have our brick-and-mortar operations. Although Poland is more important to e-commerce revenues than it is to traditional stores, this should gradually changing. Our approach to e-commerce is a comprehensive one. We have own e-stores of five our brands in 13 countries and Reserved e-store is operational in the UK. On top, via decision of our franchise partner, Reserved clothes and accessories are available on ME e-commerce platform Namshi.com. Additionally, Reserved brand offering is also available on our pan-European e-store. As a result, Reserved brand was present in 25 countries offline and 30 countries online at the end of 2020/21. We are also moving towards more and more towards omnichannel.

EXPANSION BY COUNTRIES

2011	Poland
2014	Germany
2015	Czech Republic, Slovakia, Romania
2016	Hungary
2017	Lithuania, Latvia, Estonia, the UK, Russia
2018	Bahrain, Kuwait, UAE, Saudi Arabia, Oman (ME region through franchise partner)
2019	Ukraine, Croatia, pan-European e-store
2020	Slovenia, Israel
2021	Bulgaria

9.2. Digitalisation of the organisation

OWN STORE VISION APPLICATION

RFID USAGE IN STORES

BIG DATA

Sizeable amounts of data on customer preferences on types and colours of clothes.

→

DATA IS PROCESSED BY ALGORITHMS

We use machine learning which means that algorithms learn and improve themselves on their own.

SUPPORT FOR DESIGNERS

Support for the purchasing department and individual store allocation. As a result, higher revenues and margin.

RFID to support business

We operate in the area of fashion, but at the same time, in response to the revolution observed in the clothing industry, we are a tech-oriented company. We create original IT solutions tailored to our needs. We implement state-of-the-art technologies, the so called Fashion Tech, throughout the value chain, starting with the product, through logistics and sales. We have our own analytical facilities, which allows us to understand megatrends and customer expectations. This, in turn, enables us to respond flexibly and quickly to changes in shopping preferences and to design collections in tune with the current needs of our customers. Without the digitalisation of our organisation, the implementation of LPP's business strategy would not be possible.

As part of our Fashion Tech activities, we focus our efforts on using modern technology to:

- continuously improve our collections in line with our customers' expectations,
- expand our range of sales and after-sales services in line with global retail trends,
- increase the flexibility of our distribution network,
- fully integrate traditional and online channels in the spirit of the omnichannel strategy.

3%
revenue increase

>99%
product availability

60%
faster receipt of goods

13 pp.
goods availability improvement for customers

70%
faster registration of cash register operations

>99%
stock accuracy

RFID to support omnichannel

2019 → – RFID implementation in Reserved brand.

2020 → – Achieving first benefits in Reserved.
– Online deliveries from stores.

2022+ → – Achieving full integrity in the supply chain and some 3% sales increase.

9.3. Sustainable development

In the times of growing awareness as to the importance of responsible business, elements of our concern for our surroundings – the environment and people alike – are reflected in our strategy. We base the company's development on sustainable rules for all processes within the company.

Our sustainable development strategy is tantamount to responsible fashion, which means thinking about our collections not only from the perspective of clothing design, its production, distribution and use, but also giving our clothes the so-called second life after the end of the process of its use by customers.

Such a comprehensive approach is our response to current climate challenges. Every year, we want to effectively reduce the negative environmental impact of LPP but also to educate our customers and business partners how we can make joint efforts to effectively take care of the planet for our own sake, but also for the future generations.

You can find details of our sustainable development strategy in the ESG section of this Report.

10. Outlook

Our development is to be oriented on omnichannel: i.e. merging of offline with online operations. Both have been impacted by the COVID-19 pandemics which started in 2020. In terms of traditional network, we plan to have 1,820.4 ths m² of floorspace at the end of 2021/22, i.e. 27% higher YoY. In terms of online, we will continue to focus on own e-stores, which are increasingly important in 'the new normal'. We do not plan development of new brands. As we are present in several geographies, each having different growth opportunities, we present outlook by key regions.

CENTRAL EASTERN EUROPE

The region is a mature one with development being now focused on omnichannel rather than floorspace itself. Since 2017 in Poland we focus on network quality not quantity and that will continue. In terms of brands, the younger ones like Cropp, House and especially Sinsay have higher development opportunities than Reserved and Mohito brand. Similar situation takes place in other countries from the Central Eastern Europe region like Czech Republic, Slovakia and Hungary. Online stores of all brands are present in each country of the region. We streamline the logistics process in those countries to assure timely deliveries of our goods to our online customers. We will also continue to focus on full omnichannel implementation.

BALTIC

Similarly to the CEE region, we think that the Baltic Sea countries like Lithuania, Latvia and Estonia are relatively mature ones. There, we plan to focus on sales efficiency rather than on new openings. Online stores of all five brands were opened in three regional countries in April 2017 and this is where we see further growth. We are also implementing omnichannel solutions in this region.

COMMONWEALTH OF INDEPENDENT STATES

We still see development potential in the CIS markets, especially in Russia and Ukraine, due to population of both countries and the amount of high quality shopping mall floorspace available. These are the countries in which we plan dynamic floorspace development on top of growth of our online stores. We changed franchise stores in Belarus into own ones, which should allow for further expansion. We still see some floorspace development opportunities in Kazakhstan. We have switched from franchise to own stores in Belarus where further development is also planned.

SOUTH EASTERN EUROPE

We are optimistic about growth opportunities in the South Eastern Europe region. At the end of 2020/21 we were present in six countries: Bulgaria, Romania, Croatia, Serbia, Slovenia and B&H, leaving upside in terms of number of countries in the long-term. We see significant improvement in our Romanian operations. Successful management change, new store openings and improved macroeconomic situation, have all led to a new start in this high-growth potential market, which we plan to continue in the medium-term. Additionally, we have made logistics improvements in Romania, by starting a fulfilment centre. Entry to Northern Macedonia materialised in 2021/22. We see also development opportunities in e-commerce, as our own e-stores are operational only in Romania, Croatia and Slovenia, leaving upside potential.

WESTERN EUROPE

Western Europe is a region where we are still a fledgling. In terms of offline operations, we are present in three countries: Germany, the UK and Finland. That will continue in 2020/21. Germany was the first Western Europe market that we entered – this took place in 2H14. Even though in 2019/20 Germany was the sixth largest market by revenues, it 2020/21 we filled for restructuring of our operations due to a negative impact of COVID-19. It has been successfully accomplished in 2020/21. Yet, we still see long-term development opportunities. Currently, all five brands are present online in Germany, but only Reserved brand has traditional stores on the ground. Situation looks similar in the UK, where in September 2017 we opened our first flagship Reserved store in London (Oxford Street). It is supported by Reserved online operations. Our UK operations have also suffered due to pandemics. We have applied a different approach in 2019/20, when traditional stores of all five brands were opened in a shopping mall in Helsinki (Finland). The reception was very strong. Also, 2H19/20 marked the start of our pan-European online store, present in majority of EU countries. This stores gives us an opportunity to learn the tastes of customers in different European countries and judge which country we can enter with traditional stores.

MIDDLE EAST

We plan to continue our expansion on the Middle East market via franchise stores. In the medium-term, more countries in the region could be entered however, the growth is dependent on the macroeconomic and political situation as well as the number of tourists in the region. We see highest potential in Israel, which we entered in 2018 and developed in 2019 (now we have 3 franchise stores). Similarly to Germany and the UK, so far only Reserved stores have been opened, leaving upside potential for other brands. Our franchise partner took the decision to take the Reserved brand on an external e-commerce platform. From July 2018 Reserved products are available online in Saudi Arabia, UAE, Bahrain and Kuwait. Our Israeli franchise partner also took the brand online.

Floorspace development targets

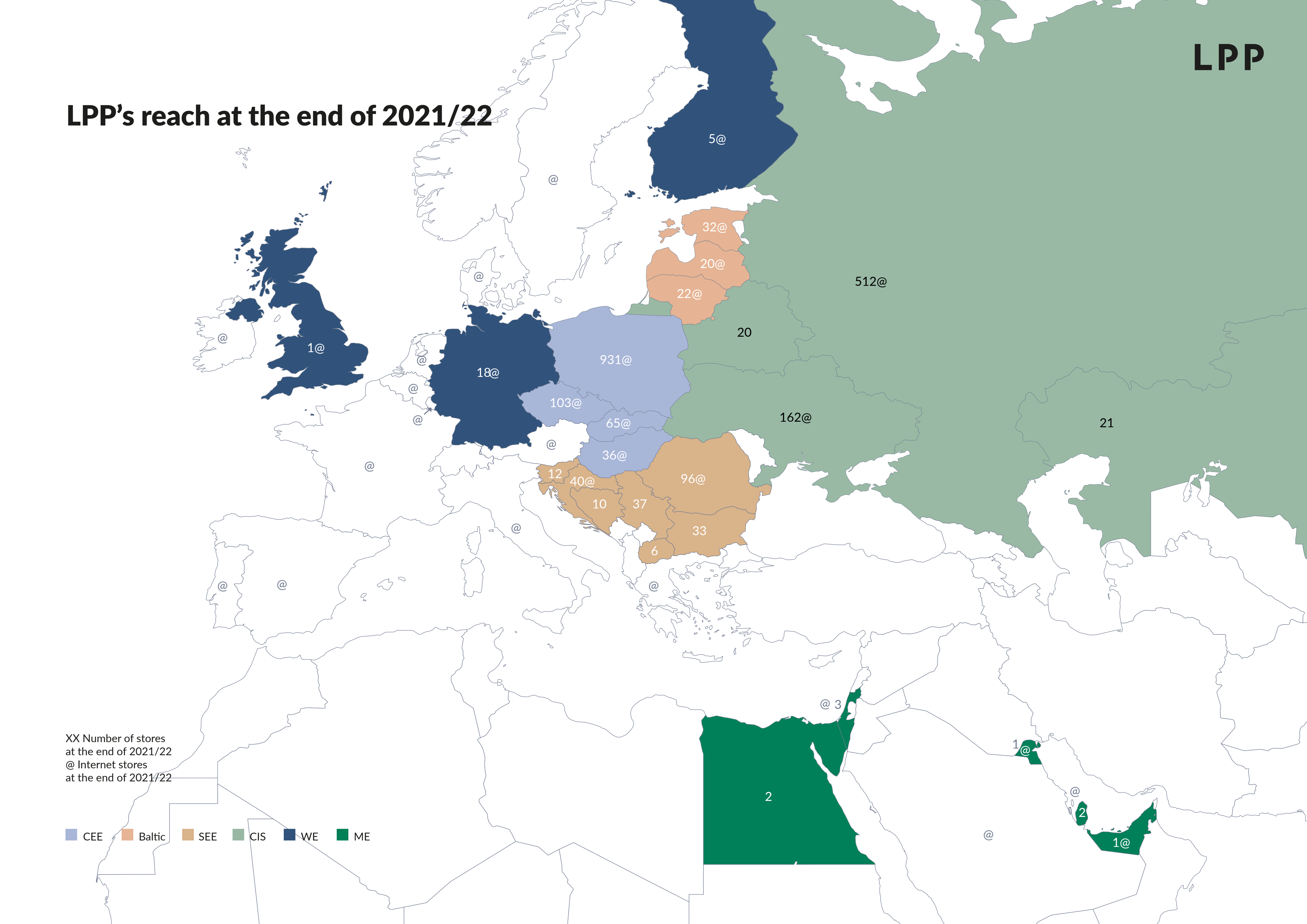
BY BRANDS

	I.2021	I.2022 target	YoY
Reserved	674.7	712.1	6%
Cropp	166.1	192.8	16%
House	146.8	175.3	19%
Mohito	115.2	123.1	7%
Sinsay	329.8	615.7	87%
Outlets	2.8	1.4	-49%

BY REGION

	I.2021	I.2022 target	YoY
Poland	566.9	645.1	14%
CIS	426.1	638.0	50%
Europe	432.6	527.3	22%
ME	9.9	10.0	2%
TOTAL	**1,435.4**	**1,820.4**	**27%**

LPP's reach at the end of 2021/22



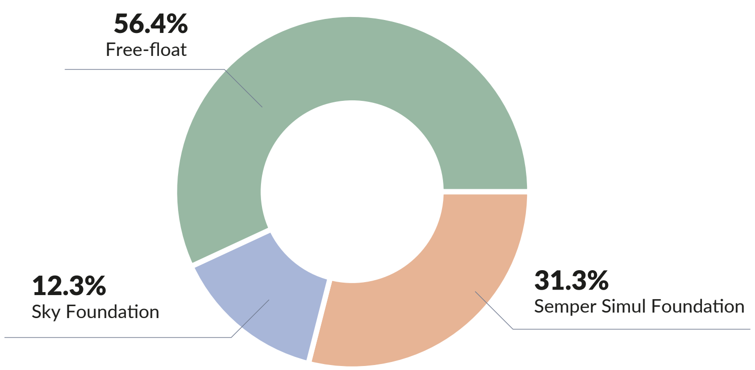
11. Presence on Warsaw Stock Exchange

LPP has been listed on the WSE since 2001. Within those years, due to our consistent and well-executed growth strategy, we have advanced from a mid-cap company to a WIG20 blue-chip, attracting not only Polish but also international investors.

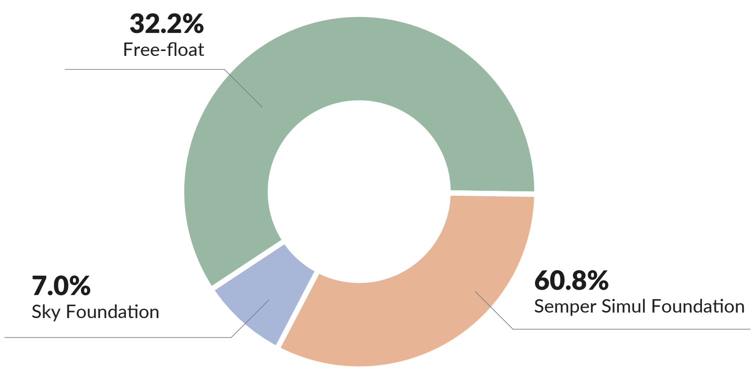
11.1. Shareholder structure

LPP's shareholder structure underwent sizeable changes in the past years. The founders Marek Piechocki and Jerzy Lubianiec have transferred their shares to foundations in order to: protect the company against fragmentation of capital in the future, ensure the family status of the company and maintain the current culture and longevity of the company. The CEO, Marek Piechocki, transferred shares to the Semper Simul Foundation, which currently holds 31.3% of equity and 60.8% of votes. Co-founder, Jerzy Lubianiec, transferred his shares to the Sky Foundation, which currently holds 12.3% of capital and 7.0% of votes. Transfer of shares does not mean an automatic succession - both founders remain in their positions. Both ordinary and privileged shares (1 to 5 in votes) are deposited in the foundations. LPP has a sizeable 56% free-float. The company no longer holder treasury shares. These were sold to the market in December 2020.

SHAREHOLDERS BY EQUITY – OCTOBER 2021



SHAREHOLDERS BY VOTES – OCTOBER 2021



LPP's stock performance shows the success story of the company since its debut on the Warsaw Stock Exchange (WSE).

In 2001 a successful IPO of G series shares took place. New investors subscribed for 300,000 shares, each for PLN 48 issue price. In 2003 the company issued new H series shares. The investors subscribed for 190,000 shares at issuing price of PLN 265. The funds gathered from both issuances were used to develop the network of Reserved stores and investments in IT systems. The highest LPP share price on WSE was PLN 15,680 in September 2021.

TICKERS		PERFORMANCE AS OF 31.01.2021	
WSE	LPP	1Y	-7%
BLOOMBERG	LPP PW	3Y	-22%
REUTERS	LPPP.WA	5Y	+42%

LPP'S SHARE PRICE: FROM IPO UNTIL 31.01.2021

LPP'S SHARE PRICE SUMMARY

PLN	2011	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21
Share price eop	2,016	4,550	9,000	7,235	5,555	5,674	8,910	7,850	8,370	8,465	7,690
Min cob	1,803	1,960	4,406	7,235	5,230	3,820	5,090	7,535	7,535	6,945	4,450
Max cob	2,371	4,800	9,477	10,100	8,099	6,210	9,063	10,170	10,170	9,125	8,680
EPS basic	154.08	198.77	239.18	264.98	193.87	96.19	241.36	275.53	241.34	229.55	-103.44
DPS	76.9	77.4	85.1	93.6	32.0	33.0	35.7	40.0	40.0	60.0	0.0
Dividend yield	3.8%	1.7%	0.9%	1.3%	0.6%	0.6%	0.4%	0.5%	0.5%	0.7%	0.0%
Payout ratio	98%	52%	44%	39%	12%	17%	37%	22%	-	22%	0%
Weighted average number of shares	1,746,800	1,780,848	1,809,725	1,809,725	1,812,145	1,816,932	1,826,537	1,833,483	1,833,489	1,834,192	1,838,066

Note: Prices from infostrefa.com. Cob stands for close of business. Dividends shown under the year in which they were paid.

11.2. Index presence

LPP's successful business model has been reflected in increased interest of foreign institutional shareholders in the stock. Along with rising earnings and growing share price, the liquidity of the shares has also augmented. Domestically, LPP is a member of WIG20, WIG30, WIG, WIG ESG, WIG ODZIEŻ and WIG Poland indices. WIG20 is the most important index on the WSE. LPP has entered the index in March 2014 and currently is the sole clothing retailer in it. At the end of 2020/21 LPP had a 4.1% weight in WIG20 index. WIG30 is the index of the most liquid companies on the WSE, introduced in September 2013. LPP has been its member since inception and held a 3.8% weight in this index at the end of 2020/21. LPP is also a member of the broadest index of the WSE - the WIG Index. At the end of 2020/21 LPP had a 2.6% weight in the index. Apart from domestic indices, LPP is also a member of important foreign indices. Firstly, since August 2014 LPP has been a member of MSCI Poland index, the key benchmark index for foreign financial institutions investing in Poland. LPP's shares are also present in three FTSE indices: All-World Index, Emerging Index and Global-Style Index (FTSE indices are tracked e.g. by ETFs) and CECE Index.

POLISH INDICES

WIG20

- The most important index of the WSE
- Member since March 2014
- 4.1% LPP's weight
- The sole clothing retailer in the index

WIG30

- WIG30 index of the 30 most liquid companies on the WSE, launched September 2013
- Member since index inception
- 3.8% LPP's weight

WIG

- The broadest index of the WSE
- 2.6% LPP's weight
- The largest clothing retailer in the index

WIG ESG

- The index comprises of WIG20 and mWIG40 companies, published since September 2019
- Weight in the index is among others based on ESG standing
- 4.7% weight

WIG POLAND

- The index comprises companies in WIG index with Polish origins only
- 2.9% weight

WIG ODZIEŻ

- The index comprises companies in WIG index and classified into the Apparel segment
- 67.9% weight

INTERNATIONAL INDICES

MSCI POLAND

- Key index for international institutions investing in Poland
- Encompasses 20+ companies from WSE
- LPP member since August 2014

FTSE RUSSEL INDEX

- Poland is a developed market for FTSE from 24 September 2018. LPP is part of FTSE Developed Index (Medium Classification)
- LPP member of All-World Index

CECE

- Created by the Vienna Stock Exchange, the index comprises of companies from Poland, Czech Republic and Hungary
- LPP re-entered the index mid-September 2017

ON TOP LPP'S SHARES BELONG ALSO TO WIG20TR AND WIG30TR (INDICES OF TOTAL RETURN). SINCE AUGUST 2021 LPP ALSO BELONGS TO A SEGMENT OF FAMILY COMPANIES.

11.3. Awards

We have always strived to run an open dialogue with our shareholders and stakeholders. We are pleased that our company has been several times awarded by its shareholders and financial media.

SELECTED AWARDS RELATED TO INVESTOR RELATIONS:

- Top Investor Relations awarded by Parkiet newswire (2017, 2018, 2019, 2020).
- Top Listed Company of the Year by Puls Biznesu (2017, 2018).
- The Company of the Year title in the ranking Puls Biznesu (Polish financial newswire) in 2017 and 2018.

SELECTED AWARDS RELATED TO BUSINESS:

- Silver CSR Leaf (2021).
- Laureate of the 14th edition of the Competition of Social Reports (2020).
- Winner of the Digital Excellence Contest (2020).
- Award of the President of Poland in the category of National Success (2019).
- Digital Excellence Awards for Store Vision (2018).
- Polish company - International Champion: distinction in the Exporter category: Polish private company - a large enterprise (2017).
- Index of Success awarded by Deloitte and Rzeczpospolita newswire in 2016 for the last 10-year performance.
- Number 31 in the Most Innovative Growth Companies' ranking 2015 awarded by US Forbes Magazine granted to 100 companies worldwide.
- The most dynamically growing company in the Pomeranian region by Forbes in 2014.
- The Brand of the Year in the Trade category granted by Ministry of Economy and Rzeczpospolita daily in 2014.
- The CEE Retail Award, The Fashion Retailer of the Year 2011.

Most effective CEO (2013)

Index of Success awarded by Deloitte and Rzeczpospolita newswire in 2016 for the last 10-year performance

Top Investor Relations by Parkiet (2017, 2018, 2019, 2020)

Top Listed Company of the Year by Puls Biznesu (2017, 2018)

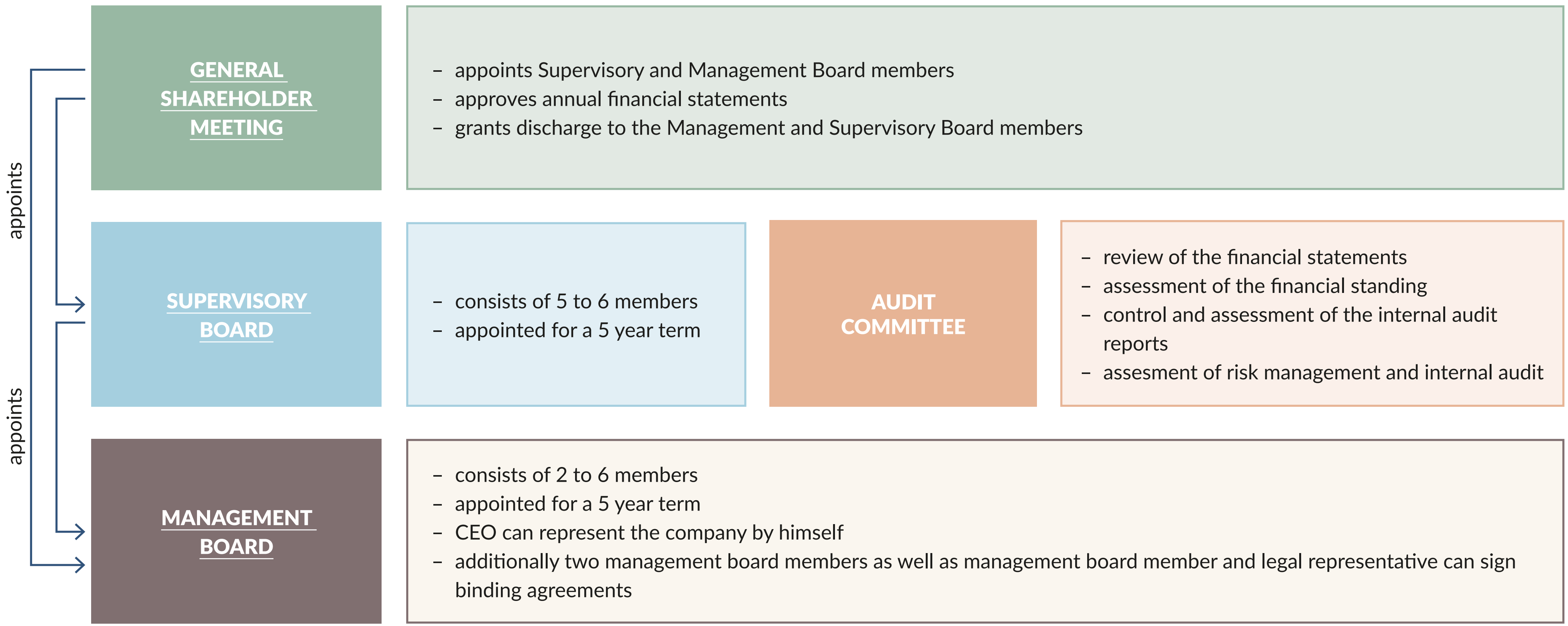
Polish President's Award, National Success Category (2019)

Winner of the Digital Excellence Contest (2020)

Laureate of the 14th edition of the Competition of Social Reports (2020)

Silver CSR Leaf (2021)

12. ESG: environmental, social, governance



12.1. Corporate governance

Corporate governance and transparency are of key importance for us. There are three levels on which corporate governance is exercised, the general shareholders' meeting, the Supervisory Board and the Management Board.

The General Shareholders' meeting takes place at least once a year. It appoints the Supervisory and Management Board of the company, approves the consolidated and non-consolidated financial statements as well as grants discharge to the actions of Management and Supervisory Board Members.

According to our bylaws, the Supervisory Board consists of between 5 to 6 members. It is appointed for a 5-year term. The board supervises the actions of the Management Board. Within the Supervisory Board there is an audit committee. The Audit Committee performs several functions: reviews the financial statements, assesses the financial standing of the company and the group, supervises the internal audit department and evaluates the development strategy of LPP.

The bylaws also define the role and responsibilities of the Management Board. The latter can consist of between 2 to 6 members. The Management Board Members are appointed concurrently for a joint 5-year term. The CEO can represent the company by himself. Contracts binding for the company can also be signed by two Management Board Members and one Management Board Member and one legal representative.

LPP'S SUPERVISORY BOARD

	Function	Independent	Audit Committee Member
Miłosz Wiśniewski	Chair of the Supervisory Board	✓	✓
Wojciech Olejniczak	Deputy Chair of the Supervisory Board	-	-
Piotr Piechocki	Member of the Supervisory Board	-	✓
Magdalena Sekuła	Member of the Supervisory Board	✓	✓
Grzegorz Maria Słupski	Member of the Supervisory Board	✓	-

SUPERVISORY BOARD AS AT THE DATE OF PUBLICATION.

12.2. Management Board

MAREK PIECHOCKI

CEO & Founder

Marek Piechocki (60), creator and co-founder of LPP, focused on developing his own business right from the start of his professional career, has been involved with the retail industry since 1989. He is a graduate of the Civil Engineering Faculty at the Gdańsk University of Technology. In 1991 together with Jerzy Lubianiec he founded a Mistral company, activities of which were transferred into LPP in 1995. He has been the CEO of LPP since 2000. As Chief Executive Officer, Marek Piechocki is responsible for all aspects of the company's operations, from fashion brands' management, through product development, and sales operations in the omnichannel model. He supervises the Company's strategic actions in terms of sustainable development and manages teams responsible for outsourcing production of the collections worldwide. In 2013 he was awarded the title of The Best-Performing CEO by Harvard Business Review in 2013.

JACEK KUJAWA

Management Board Member

Jacek Kujawa (47) has been employed at LPP since 2004. Initially, he held the position of IT Director, responsible for implementation of Business Intelligence and Point of Sale systems. He was also in charge of IT systems' integration during the LPP and Artman merger. His duties encompassed, among others, coordination of the Pruszcz Gdański Distribution Centre expansion on the basis of world's best standards of logistic solutions. Since 2009, as Member of the Management Board, he has been responsible for logistics and IT issues. Moreover, he manages LPP investment projects in Poland and abroad, both in terms of expanding the chain of stores and warehouse space. He also supervises the administrative area of LPP and the structures responsible for data analysis (Data Science). His key tasks include implementation of LPP's strategic projects such as the implementation of RFID technology and expansion of distribution network in Europe. Before joining LPP, between 1999 and 2004, Jacek Kujawa has been employed at Wirtualna Polska. He graduated from the IT faculty at the Gdańsk University of Technology.

PRZEMYSŁAW LUTKIEWICZ

CFO

Przemysław Lutkiewicz (50) started his career at LPP in 2008. Within the finance department, he created the Controlling Department from scratch by supervising the work of the analysts, auditors, and security units within sales networks. He implemented IT tools providing LPP with management information necessary to manage all subsidiaries. He also actively participated in maintaining relations with foreign institutional investors. As Member of the Management Board, since the beginning of 2015 he has been responsible for the area of finance, controlling, internal audit, investor relations, as well as supervision over foreign companies belonging to the LPP Group. Przemysław Lutkiewicz is not only a graduate of Gdynia Maritime University and Gdańsk University but also accomplished Postgraduate Studies at Gdańsk University of Technology. He started his career in 1994 at Powszechny Bank Kredytowy SA. Between 1995 and 2008, he worked for PolCard SA / First Data Polska SA, where he advanced from the post of a Financial Planning and Reporting Unit Manager to a Financial Planning and a Finance and Controlling Director. In 2006-2007, he was a member of the Management Board and Chief Financial Officer of First Data Polska SA. Between 2007-2008, he was involved in establishing First Data's Shared Services Centre in Gdańsk, serving as Finance and Controlling Director.

SŁAWOMIR ŁOBODA

Management Board Member

Sławomir Łoboda (56) has been co-operating with LPP since 1997. Initially, as a Managing Partner at an external legal company, he provided legal counselling for LPP. Since 2005, in addition to managing LPP legal services, he has been responsible for acquiring new retail space and store development. As Member of the Management Board, since October 2015, he has been responsible for LPP's development, i.e. acquisition of new retail space, market analyses, as well as for the legal department. During his co-operation with LPP, he has completed a number of significant projects, including creation of a franchise network, taking the company public, merger with Artman SA, disposal of the Esotiq brand and development of LPP's store network. Sławomir Łoboda is a graduate of the Law Faculty at the University of Gdańsk. In 1995, he passed the bar examination for legal advisors. He is also the President of the Council for the Hospice Foundation, a non-profit organisation which takes care of the chronically ill. For his social commitment, he was honoured with the Brown Cross of Merit awarded by President Bronisław Komorowski.

MARCIN PIECHOCKI

Management Board Member

Marcin Piechocki (32) cooperated with LPP since 2017. Initially, he held the position of an assistant buyer and then a buyer in Reserved brand. From 2017 to 2018, he was responsible for the process of purchasing goods, price negotiations with suppliers, timeliness of deliveries and analysis of sales results of the LPP Group's flagship brand. Since 2018, he has managed the process of opening and running the largest Reserved brand stores in the region. In the same year, he was entrusted with the project of supervising and co-creating the concept of Sinsay. He was responsible for Sinsay product, collection sales and brand expansion in new locations. He currently holds the position of Managing Director of Sinsay and Mohito and is responsible for the company's internal communications and LPP's external relations. He is graduate of the Faculty of Electronics and Information Technology at the Warsaw University of Technology. He started his career path in 2013 at Citibank International, where he was in charge of the IT team until 2017.

MAREK PLECHOCKI
President of the Management Board

- supervision of work of the management board
- HR
- Reserved - brand and product development, omnichannel management
- Cropp - brand and product development, omnichannel management
- House - brand and product development, omnichannel management
- sustainability & purchase
- sales operations, support & controlling

PRZEMYSŁAW LUTKIEWICZ
Management Board Member

- tax & reporting
- operational controlling
- financial controlling, share services centre
- international business
- internal audit
- investor relations
- travel office

JACEK KUJAWA
Management Board Member

- IT
- logistics
- administration
- construction
- business inteligence
- contact center
- cyber security

SŁAWOMIR ŁOBODA
Management Board Member

- lease and expansion
- legal
- retail market analysis & research

MARCIN PIECHOCKI
Management Board Member

- Mohito - brand and product development, omnichannel management
- Sinsay - brand and product development, omnichannel management
- external communication
- internal communication

12.3. Supervisory Board

MIŁOSZ WIŚNIEWSKI

Independent Chair of Supervisory Board

Miłosz Wiśniewski (57) is a graduate of the Mikołaj Kopernik University in Toruń and Executive M.B.A. École Nationale des Ponts et Chaussées in Paris. He gained his experience in finance and management in Cereal Partners Worldwide, working there from September 1992 to May 2012 at the position of, among others, Regional Financial Controller for Western and South Europe, CPW Finance Director in Poland, Regional Director for Greece and the Balkans and Development Director for Central Europe. From May 2012 to January 2015, he acted as Finance Director of Boryszew SA. In March 2016, he became President of the Management Board of Robod SA.

WOJCIECH OLEJNICZAK

Member

Wojciech Olejniczak (65) has been a Supervisory Board Member since 1999. Concurrently, he has held the post of CEO at BBK SA, a company where both Marek Piechocki and Jerzy Lubianiec are shareholders (equal stakes). The company in no aspect competes with LPP. Before joining the supervisory board, Wojciech Olejniczak participated in LPP's operations. Between 1991 and 1996, he was a partner at Mistral company and a Management Board Member of LPP between 1996-1997.

60% OF THE SUPERVISORY BOARD MEMBERS ARE INDEPENDENT.

PIOTR PIECHOCKI

Member

Piotr Piechocki (34) a graduate of the Warsaw School of Economics and IE Business School in Madrid. In the years 2010-2011, he carried out his traineeship in, among others, Procter & Gamble and The Boston Consulting Group. In the years 2012-2017, he co-created and managed the e-commerce department in LPP SA. Piotr Piechocki was responsible for the entire sales in this channel and for launching of online stores on new markets (Germany, Czech Republic, Slovakia, Romania, Hungary). At present, he acts as President of the Management Board of Family Investment sp. z o.o. with its registered office in Sopot and Family Investment 2 sp. z o.o. with its registered office in Sopot, both of which are operating on the real estate and hotel accommodation market. This activity is not competitive to LPP SA. Piotr Piechocki has family ties with Marek Piechocki, shareholder and CEO of LPP SA.

MAGDALENA SEKUŁA

Independent Member

Magdalena Sekuła (46) is a graduate of the Gdańsk University, the Institute of European Sciences in Gdańsk, Université des Sciences Sociales in Toulouse and Université d'Orléans. She started her professional career in the Sopot City Hall at the position of Inspector in the City Strategy and Development Department, in the years 2004-2005. She also acted as Vice-President of the Management Board of Plan 40 Sp. z o.o. oraz Vincole Sp. z o.o., in which she was responsible for contacts with foreign contracting parties and executing new projects in co-operation with French partners. In the years 2007-2010, she was responsible for carrying out promotion and information activities related to the construction of a multi-purpose sports and entertainment arena between Gdańsk and Sopot. Since March 2010, she has continuously held the position of CEO of the company Hala Gdańsk-Sopot.

GRZEGORZ MARIA SŁUPSKI

Independent Member

Grzegorz Maria Słupski (62) is an entrepreneur and a manager, who has successfully created and led multiple firms mainly in the sectors of printing, commerce and new technologies in Poland. He is a academic teacher at University of Gdańsk – lecturer of several subjects including economics of enterprise, services, trade and advertising. He has over 20 years of experience at a housing cooperative, including multiple years as a leader of Management Board and as a Chairman of the Supervisory board. Between 2008 – 20017 He hold the position of Vice-Chairman of the Supervisory Board of GIK ltd. in Gdańsk also 2017-2020 as Chairman of the Supervisory Board of GARG ltd. Ivest GDA. Since 2000 co-founder, shareholder and a member of Supevisory Board of Argo Card ltd. in Gdańsk and since 1995 Chairman of Management Board Argo SA in Gdańsk.

JERZY LUBIANIEC

Jerzy Lubianiec (61) is the co-founder of LPP (the second co-founder is Marek Piechocki, the current CEO of LPP) and a graduate of Gdańsk University of Technology. Between 1991 and 1997 he has been running Mistral company. Jerzy Lubianiec has been the CEO of LPP (Mistral's successor) between 1995 and 2000. Later on he became the President of the Supervisory Board of LPP, supporting the development of the Group. He was also a Supervisory Board Member of Quercus Towarzystwo Funduszy Inwestycyjnych SA, where he indrectly held a stake. The activity of the above-mentioned company was not competitive to that carried out by LPP SA. Jerzy Lubianiec served as Chair of the Supervisory Board of LPP between 2000-2020.

FORMER CHAIR OF SUPERVISORY BOARD

LPP

12.4. Towards sustainable fashion

2013
- Joining the ACCORD alliance

2014
- Establishing of factory audit division
- Resignation from angora

2015
- Setting up offices in Dhaka (Bangladesh)
- Update of Code of Conduct for suppliers
- Introduction of organic cotton

2016
- Resignation from natural furs

2017
- Stronger supervision over factories in Asia
- Start of cooperation with SGS

2018
- Second ACCORD agreement
- launch of the Eco Aware collection

2019
- New CSR strategy For People For Our Planet
- Joining the New Plastics Economy Global Commitment

2020
- Joining ZDHC (Zero Discharge of Hazardous Chemicals)
- Joining the Polish Plastic Pact

2021
- start of cooperation with Canopy

DESIGN AND MATERIAL SELECTION

- Our designers and merchandisers take part in special workshops to learn about the use of eco-friendly materials in design and conservation of natural resources.
- We use materials such as organic cotton, close-loop cellulose fibres, organic linen or recycled polyester recovered from PET bottles collected from sea waters. More environmentally friendly materials are defined in the LPP Eco Aware standard.
- The offices where our designers work in Poland are organised in line with the ECOffice principles, which are an expression of our green approach in the workplace.

TRANSPORT AND DISTRIBUTION NETWORK

- We increase our reliance on maritime transport since it produces the least emissions.
- Our new warehouses are located in properties with environmental certificates.

PRODUCTION

- We develop partnerships with factories that reduce their water and energy consumption (e.g. in the process of dying, finishing or washing the products).
- Eco Aware amounted to 19% of LPP's collections.
- We are in the process of implementing Eco Aware Production program in relation to water management and energy sourcing. We conducted consultaions with 40 Asian producers.

SALES

- We want our stores to be located in eco-certified properties which score high on energy efficiency, water conservation, waste management or reducing pollution.
- We increase our use of renewable energy.
- We opt for recycled packaging in our physical stores and online sales.
- We get our customers involved by collecting used clothes in our stores and donating them to those in need. In giving the clothes a new life, we help protect the environment.

Production

We work hard not only to make sure that the employees of our subcontractors are treated fairly but also to make sure that our products are safe and meet the quality standards.

LPP QUALITY STANDARDS

At LPP, we pay the utmost attention to the quality and safety of our products, setting precise standards for all our suppliers, regardless of their factory's location. The standards have all been collected in The LPP Quality Guidebook which defines such utility properties as colorfastness, propensity to shrink or the thickness of the wool fibre. It also includes a list of banned chemicals and permitted concentrations according to the EU-wide REACH regulation.

The guidebook stipulates that the suppliers must use humidity detectors and – in the case of children's products – metal detectors. Basing on the AQL standard we have defined expected quality levels for all our brands.

We carried out an in-depth analysis of the product complaints we received and changed our quality standards accordingly. The updated LPP Quality Guidebook of November 2019 requires, among other things, that the suppliers run basic quality tests of the materials they use, and keep their records. It also details an anti-mould procedure and product humidity limits.

Just as in the previous years, we held training sessions on our quality standards for those of our employees who deal with procurement and work directly with the suppliers. Importantly, we had inspections carried out in our suppliers' factories and monitored their manufacturing process.

COLLABORATION WITH SUPPLIERS IN BANGLADESH

In December 2019 we launched a pilot Quality Assurance System as part of which workers of twelve selected Bangladeshi factories underwent our product training. Each manufacturer appointed a person in charge of checking the compliance of our orders with our quality standards. We carried our audits in all the factories to check if they implemented our guidelines. In the next phase of the project we will repeat the audit to detect any potential shortcomings and help their representatives implement the system. We know of no health issues linked to our garments in 2020/21.

EVEN STRICTER APPROACH TO CHEMICALS

For us, being a sustainable fashion business means that we continually strive to eliminate all hazardous chemicals in the supply chain.

According to the Sustainable Development Strategy For People, For the Planet, in 2020 became the first Polish company to join Zero Discharge of Hazardous Chemicals (ZDHC), a coalition working to minimise the use of chemicals in the textile, leather and shoe industry, and will achieve complete compliance with the ZDHC standards in 2025.

Eco Aware collections

ECO AWARE LABEL:

- products with a more environmentally friendly composition,
- confirms that a given model contains an appropriate proportion of certified eco-friendly materials,
- composition of the model can be found at the back of the label.

ECO AWARE PRODUCTION LABEL:

- clothes that have been produced in a more environmentally friendly process,
- confirms that the model was produced in a factory qualified by our audit department to the group of factories properly implementing production rules and methods aimed at reducing environmental impact,
- icon symbolizing the factory at the back of the label.

MATERIALS COMPATIBLE WITH ECO AWARE STANDARD:

- organic cotton, fabrics based on wood cellulose, such as TENCEL ™ (LYOCELL), LENZING™ ECOVERO™ and TENCEL ™ (MODAL), recycled fibers, organic fibers.

2025 TARGET: 50% OF RESERVED COLLECTIONS AS ECO AWARE

19% Eco Aware
in all brands

32% Eco Aware
in Reserved brand

We control our supply chain

CODE OF CONDUCT FOR SUPPLIERS (UPDATED DECEMBER 2020)

Code of Conduct is the base for all our actions. It encompasses our requirements against our subcontractors. It includes international guidelines relating to safety of working conditions, decent pay and remuneration policy.

Fulfillment of Code of Conduct requirements is verified by our own and external auditors.

LPP'S REQUIREMENTS AGAINST FOREIGN SUPPLIERS:

- safety in factories is a priority,
- obligation to provide a decent pay,
- max 48 hours of work per week and paid overtime,
- ban to hire children < 15 years old.

THE EFFECTS OF ACCORD AGREEMENT:

97% of factories had their electrical installations modernised or changed,

91% of factories ended up with additional anti-fire alarms and installations,

88% of factories had their constructions strengthened. In many cases the production was transferred to other venues.

Employees

DIVERSE AND FAMILIAL: LPP'S ORGANISATIONAL CULTURE

We make sure that the company's culture as well as its management and communication styles are in tune with the multigenerational and multinational environment that LPP is and the large number of young people who work for the company. The atmosphere at LPP is familial. The values we go by every day are openness and respect, which includes appreciating diversity and taking responsibility for LPP's future. These are the foundations of our unique organisational culture.

There is no prescribed dress code at LPP. Our managers make sure that their team meetings are as informal as possible without impeding on their effectiveness. Good atmosphere translates into the engagement and innovativeness of employees in the fashion industry. That is one of the reasons why every employee may freely approach the members of the Management Board: they all work side by side in open offices. Employees are the most valuable source of information about LPP and that is why we encourage them to freely express their opinions. To make our workplace management even more effective and to react to any issue that might arise faster, in 2018 we introduced an ethical code titled The LPP Principles and a whistleblowing system.

In our organisation there are no labour unions and collective agreements. To underscore the value of diversity in our company, in 2019 we set up a Diversity Team formed by different representatives of our HR and communications departments. To confirm our commitment to promoting and developing diversity in our organisation, we became a signatory to a Diversity Charter. This way we formally undertook to ban discrimination and actively promote diversity. We are also obligated to include our employees and business partners in these efforts.

61%
of all managers and directors at LPP's HQs are women

85%
employees are women

21,997
employees

81%
of all vacant managerial positions filled by internal candidates

EMPLOYEE BENEFITS OFFERED BY LPP SA

- private healthcare packages for employees and their families — LPP covers 50% of the cost,
- shopping discounts — 25% off the regular price,
- life insurance on preferential terms,
- Multisport card on preferential terms,
- restaurant for employees at the Gdańsk, Pruszcz Gdański and Cracow offices,
- baby clothes set for newborns,
- 10-year and 25-year work anniversary party and memorable gift,
- vouchers and gifts for Christmas.

We measure our carbon footprint

Just like every other organisation, LPP has an impact on the climate. In the process of our operations, greenhouse gases are emitted to the atmosphere by vehicles as a result of fuel combustion, electricity is used to power our offices, stores and distribution centres, and – most importantly – to produce materials and garments, ship them and while they are used, that is throughout their lifecycle. To measure our impact on the climate, we have been evaluating our carbon footprint, that is our greenhouse gas (GHG) emissions. Our carbon footprint was calculated in accordance with the GHG Protocol Corporate Accounting and Reporting Standard. We chose 2019 as the base year – the reference point for the subsequent years. Our key corporate environmental impact comes from Scope 3 of GHG emissions.

Our Sustainable Development Strategy sets the ultimate target of reducing our Scope 1 and 2 GHG emissions by 15% as compared to the 2019 levels by 2025.

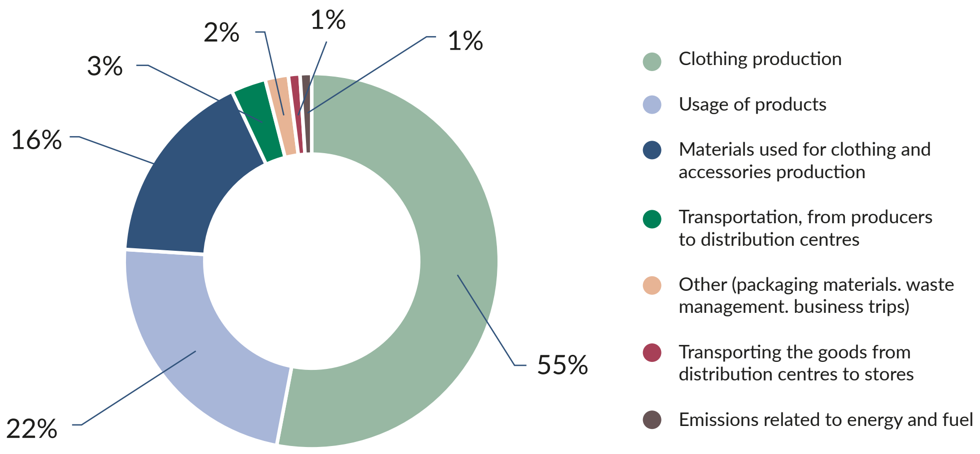
We plan to achieve sustainable development targets, inter alia, by:

- increased use of recycled and organic materials e.g. organic cotton,
- educating and changing our suppliers towards Eco Aware Production standard,
- improved energy efficiency at our stores,
- purchasing low-carbon footprint power,
- servers and online shops running on 100% green energy,
- new building construction complaint with BREEAM/LEAD requirements.

LPP GROUP GHG EMISSIONS IN TONNES OF CO_2E, 2020/21

TOTAL LPP GROUP GHG EMISSIONS PER ITEM SOLD IN KILOS OF CO_2E

SCOPE 3 GHG EMISSIONS OF LPP GROUP BY SOURCES



LPP

Sustainable development strategy

	2020	2021	2023	2025
ECO AWARE – PRODUCT AND PRODUCTION	– Implementing Eco Aware Production programme in the areas of water management and energy sourcing	– 25% of clothes produced by LPP are Eco Aware collections – 30% of factories in Southern Asia covered by Eco Aware Production programme	– 100% of denim production factories covered by Eco Aware Production programme – Used garments collection system in 100% of stores – PLN 1m on investment in new technologies allowing for textile waste utilisation	– 50% of Reserved garments in Eco Aware collection – CO_2 reduction by 15%
CHEMICAL SAFETY IN PRODUCTION	– ZDHC membership	– 100% of products containing wool or down will have RDS/RWS certificate		– Full compliance with ZDHC standards
PACKAGING AWARE – PLASTIC UNDER CONTROL	– 100% of online orders packaging of MO and RE without single use plastic – 100% of film for HO, CR and SI online orders shipment recycled – Limiting single-use film for commercial samples packaging by 50%	– 100% of price tags film-free	– 100% of cardboard boxes with FSC certificate or recycled – 100% of store packaging recycled	– 100% of plastic in packaging suitable for re-use, recyclable or biodegradable
SUSTAINABLE DEVELOPMENT IN HQ BUILDINGS AND SALES NETWORK	– Implementing Eco Aware STORES programme	– 100% of green energy powering our servers and online stores	– All new buildings with environmental certification (BREEAM/LEED)	– 100% of stores covered by Eco Aware STORES programme

The UN Sustainable Development Goals for 2015–2030

As LPP, we contribute to the achievement of selected goals of the 2030 Agenda for Sustainable Development adopted by the UN General Assembly in 2015. We identify areas of our impact and take actions that are consistent with our business activity and our approach to social involvement.

		OUTCOMES IN 2020/21:
4 QUALITY EDUCATION	– Our employees are offered numerous development programs and training opportunities. – Working in collaboration with colleges and universities, we support the education of young designers and make it possible for them to gain work experience. – We help to improve the quality of education provided to children and young people in the areas where we invest.	– Nearly **71,000** hours of training provided to the LPP Group employees – Constant collaboration with **8** colleges
8 DECENT WORK AND ECONOMIC GROWTH	– LPP is one of the largest taxpayers in Poland and the largest private taxpayer on the Polish coast of the Baltic. We support the development of local businesses. – Nearly 22,000 people is on our payroll in Poland and abroad. – We implement good practices in the supply chain, promoting human rights, employee rights and improved safety in our Asian suppliers' factories.	– **197** audits focusing on occupational health and safety, working conditions and human right in our suppliers' manufacturing plants
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	– LPP is a fully omnichannel organization that successfully integrates the physical and e-commerce channel. – Since 2016 we have invested PLN 180m into fashion tech, including the introduction of RFID hard tags. – We are developing an advanced and diverse logistic capacity that includes a network of Distribution Centres and Fulfillment Centres in strategic locations in Poland and abroad.	– **98.9%** online orders delivered on time – **233m** online orders filled – **259m** items of clothing distributed annually
10 REDUCED INEQUALITIES	– Diversity is a priority in our company. – Over a half of all managerial positions in our company are filled by women. – We employ people with disabilities and offer them professional development opportunities. – We support employee volunteering. – Our suppliers are required to protect human rights, employee rights and safety standards. – Through the LPP Foundation, we support people facing social exclusion.	– Over **60%** of women in managerial and executive positions at the LPP central headquarters and over **93%** in LPP Retail, hold managerial and director positions – **235** employees with disabilities at LPP Group – The LPP Foundation donated more than **PLN 353,000** to support local communities and projects preventing social exclusion – **5%** gender pay gap (compared to the 19.9% national average in Poland, according to state statistics)

		OUTCOMES IN 2020/21:
11 SUSTAINABLE CITIES AND COMMUNITIES	– We work for the development of Gdańsk, Cracow, and the city districts where our offices are located. – We respond to the needs of the communities where we operate. – LPP is an active participant in the life of Brześć Kujawski, focusing on supporting the education of the youngest residents of the commune.	– **PLN 6.9m** in assistance provided as part of the #LPPhelps campaign – **43** organizations supported financially by the LPP Foundation – **115** LPP employees sewing face masks and **59** employees involved in other volunteering projects
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	– The share of more ecologically-sound fabrics in our collections grows constantly. – We implement the Eco Aware Production programme in the field of water management and energy supply. We carry out quality checks along the supply chain. – Having joined the Zero Discharge of Hazardous Chemicals (ZDHC), we became involved in the adopting of a list of hazardous substances that are banned in clothing manufacturing. – In Poland we collect used garments and give a second life to them by donating them to people in need.	– **19%** – the share of Eco Aware products in all LPP collections – **17,977** all quality checks (including remote ones) carried out by LPP in factories and the distribution centre – **5.3 tonnes** of clothes collected and donated since 2018
13 CLIMATE ACTION	– We work to achieve the ambitious goals of our sustainable development strategy “For People For the Planet”, which include increasing the share of more environmentally-friendly collections (Eco Aware), limiting our use of plastics or reducing our carbon footprint. – We completely ended the use of non-recycled poly mailers in e-commerce packages.	– Reduction of total GHG emissions per item sold for the LPP Group by **2.2%** – Reserved and Mohito online orders **100%** free from single-use plastics – **300 tonnes** of plastic saved
17 PARTNERSHIPS FOR THE GOALS	– LPP is a member of the United Nations Global Compact, the world’s largest initiative that brings together companies working towards sustainable development. – We joined the Zero Discharge of Hazardous Chemicals (ZDHC) aimed to eliminate hazardous chemical substances from the clothing industry value chain. – We signed the Polish Plastics Pact that work towards closing the loop for plastics.	– **23** factories in Pakistan and **42** in Bangladesh where our collections are manufactured are now part of the ZDHC.

Climate change at the board level

CEO & Founder of the company is responsible for sustainability issues	We have a sustainability department in place and trained personnel in key departments	Chief Sustainability Officer (CSO) in LPP's structure named Head of Sustainability, who is also Purchasing Director, reporting directly to CEO.	Sustainable Manager in LPP's structure named Sustainability Expert is reporting directly to CFO on climate matters.	At least annual assessment of climate risks and opportunities

SUSTAINABILITY STRATEGY IS LINKED WITH THE BUSINESS STRATEGY

WE REPORT USING INTERNATIONAL STANDARDS AND FRAMEWORKS

GRI, GREENHOUSE GAS PROTOCOL, CDP, SUSTAINABLE DEVELOPMENT GOALS, NFRD, UN GLOBAL COMPACT

WE ARE RATED IN ESG INDICES

WIG ESG, MSCI

TRANSITION RISKS

- **LEGAL RISKS:** We anticipate implementation of many new legal requirements, primarily related to the European Green Deal. Therefore, we are constantly monitoring the introduction of new regulations to ensure our compliance (risk of noncompliance).
- **TECHNOLOGY RISKS:** New technologies and the availability of existing solutions are of interest to us in terms of their use by our suppliers. One of the risks we identify is reputational risk and therefore we need to reduce GHG emissions. The greatest potential for reducing emissions is with our suppliers. The second area related to technology is textile recycling. We are looking for solutions in this area because customers are interested in products made of recycled materials which have lower carbon footprint.
- **MARKET RISKS:** One of the growing market requirements is the production of clothes from organic and recycled materials, which reduces their carbon footprint. Therefore, one of the elements of our strategy is the Eco Aware Production program, in which we are committed to increasing the use of organic, recycled materials and production in factories that use energy and water more efficiently and meet the requirements of the Zero Discharge of Hazardous Chemicals initiative. All of these actions will cause reduction of GHG emissions.
- **REPUTATIONAL RISK:** One of the risks is reputational risk, especially in the eyes of our clients and investors. We have a 2020-25 sustainability strategy which we are committed to follow.

PHYSICAL RISKS

- **ACUTE RISKS:** Most of our products are manufactured in Asia and from there they are transported mainly by sea to Europe. Extreme weather phenomena resulting from climate change may cause more frequent and stronger storms, and thus make it difficult to transport goods, make it difficult to predict delivery times or increase the costs of transport.
- **CHRONIC RISKS:** Our activity uses raw materials obtained as a result of cultivation. During the growth of plants, they require appropriate temperatures and access to water. Climate change can raise the average global temperature, which can cause unfavourable growing conditions and lead to drought. This may result in difficulties with access to raw materials and an increase in their prices. Some of our producers are located in Dhaka, Bangladesh. The city is located in hypsometrical depression. As a result of climate change, sea levels may rise and, consequently, flooding of Dhaka, and thus the cessation of production in this area.

WE FACTOR IN BOTH TRANSITION AND PHYSICAL RISKS INTO OUR DECISION MAKING.

13. Risk management

13.1. Internal risk factors

BUSINESS MODEL RISK

Risk: We focus our activity on designing and distribution of clothing as well as building our brands. We have no own manufacturing capacities and do not plan to develop our own manufacturing plants, and we outsource manufacturing activities to professional entities in different parts of the world. Outsourcing enables effective production placement and gives access to modern and constantly changing technologies. We choose suppliers not only based on the price offered but also based on the scope of their offer, advancement of machinery and ethical treatment of workers. Our investments are directed at creating our own distribution network and at e-commerce, logistics, development and technology as well as at attracting loyal consumers.

Actions: We are not dependent on any of over 1,100 cooperating suppliers (none of them has exceeded the threshold of 5% of annual purchases). Additionally, on a regular basis, we evaluate our suppliers, who are supervised by our office in Shanghai, China (established in 1997), and in Dhaka, Bangladesh (established in 2015).

RISK OF UNCUSSEFUL COLLECTION

Risk: The clothing market is characterised by a wide variety of customer expectations and is closely correlated with changes in fashion trends. A key factor in a clothing company's success is the sense of changes in fashion trends and the adjustment of its product range to current consumer needs.

Actions: We pay significant attention to fashion, constantly increasing our product team which is currently comprised of 300 designers. In total, over 1,100 persons work in the product development department. Each brand has a separate design team following fashion trends in the brand's target group. Designers and persons engaged in the process of collection creation not only participate in exhibitions and fairs worldwide but also follow trends in the Internet (including social media) and street fashion in the most popular fashion capitals i.e. Paris, New York, Seoul, Tokyo. Inspirations found and world trends are used in the process of collection creation and, therefore, the risk of unsuccessful collections is reduced.

RIKS OF LOOSING KEY EMPLOYEES

Risk: We employ nearly 22,000 employees indispensable to carry out our basic operations in an effective and profitable way. In particular, we face the risk of losing key management officers, persons involved in the designing and preparation of collections and high rotation of employees in retail stores. There is also a risk that we will not be able to attract new talents.

Actions: We take numerous actions aimed at reducing this risk. Key management officers take part in a share-based incentive programme. We put emphasis on friendly working conditions – employees are given numerous training opportunities to ensure constant development of their skills and offered a well-defined career model. We offer work in a contemporary and friendly environment, with market salaries ensured. We have invested in technologies and development of an integrated logistics system, automation and AI.

RISK OF MISSED STORE LOCATION

Risk: Our development strategy provides for the rapid expansion of our sales network. The opening of new stores involves the risk that specific locations may prove to be missed. This may result in a failure to meet a projected revenue level, which, in consequence, may adversely affect our Group's financial performance.

Actions: We reduce the risk of missed locations in several ways. Owing to good market surveillance and a detailed analysis of each potential new location, we minimise the risk of choosing an unfortunate location. By diversifying the type of location depending on the brand, we are able to gain better results in a given store e.g. Sinsay stores are more popular in smaller towns and retail parks than in large shopping malls. Currently, lease agreements are concluded for shorter periods thus minimising the location risk over time. Simultaneously, we constantly optimise the development of our sales network both on the domestic market and globally. On one hand, brand stores with unsatisfactory sales performance are closed upon expiry of the lease agreement. On the other hand, we enlarge stores in good locations to offer customers full collections in retail space, using additional warehousing space the importance of which has grown due to implementation of RFID and dispatching online orders from stores.

RISK OF INEFFECTIVE LOGISTICS

Risk: The dynamic development of retail space and online sales requires investments in logistics improvements. The task of the logistics team is to quickly gather a relevant number of clothing dispatches to stores and, directly, to customers making online orders, with simultaneous minimisation of the quantity of goods in distribution centres. Along with the planned increase of our sales, there is an increased risk involving the handling of logistics needs.

Actions: As this issue is of vital importance, the Management Board of LPP gives it a high priority and consistently introduces new solutions as required. Along with the increasing demand, the Group regularly expands its logistics facilities both domestically and abroad. Currently, we have modern distribution centres in Poland (Pruszcz Gdański, Gdańsk, Stryków and a project launched in Brześć Kujawski) and abroad (Russia, Slovakia, Romania). We cooperate with specialised external providers in the area of logistics e.g. operators specialising in e-commerce logistics and manufacturers of hi-tech and IT solutions for the logistics sector. Reacting to the changing market situation, we constantly implement IT improvements in logistics, including projects based on AI algorithms. The Group implements in-house programmes facilitating the processes of order completion and product return management and solutions integrating systems of courier companies we cooperate with. Furthermore, it introduces innovative solutions facilitating stock management (RFID) and develops Next Business Day service being a priority for e-commerce. All the above-mentioned activities performed by our Group enhance our logistics capacities thus minimising the risk of ineffective logistics and, ultimately, increasing our market competitiveness.

RISK OF SALES MIGRATION FROM TRADITIONAL STORES TO INTERNET

Risk: The increase in the popularity of online shopping, accelerated last year by the COVID-19 pandemic, has resulted in a global trend reflecting sales migration from traditional to online stores. This tendency puts pressure on sales in traditional stores, the majority of which generate fixed costs, and, consequently, may affect the Group's profitability.

Actions: For the Group, a solution minimising the risk of sales migration from traditional stores to the Internet was to adjust to the current trend of increasing popularity of Internet shopping. We did that by integrating these two channels and, consequently, by becoming an omnichannel organisation. Such integration involved sales channels and respective internal units engaged. By restructuring the organisation (liquidating the e-commerce department and creating omnichannel departments instead), we enhanced coherence in product, logistics and sales areas regardless of the sales channel preferred by customers. Today, as a Group, we take a holistic approach to on-site and online stores. We have contemporary online stores of all our brands, which are actually integrated with modern on-site stores. Our product presentation and communication is consistent and independent of a channel. Owing to common logistics and IT systems as well as integration of stock from both channels, we are able to manage the stock flexibly. Therefore, our products are accessible for customers regardless which channel is used.

13.2. External risk factors

MACROECONOMIC RISK

Risk: The economic situation in countries where we sell our products and the situation in countries where factories manufacturing goods for us are located are crucial for our standing. Our revenues and margins depend on the economic situation of households and consumption inclinations. 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 the manufacturing of goods is located may translate into an increase, decrease or, relatively, stabilisation of manufacturing costs.

Actions: Each of our five brands is addressed to a wide group of consumers at affordable prices. We focus on offering products with an advantageous price-quality ratio. Although this will not safeguard us against adverse effects of a potential economic slowdown, yet it may minimise such negative impact. The risk is also being reduced by developing our operations in different countries on different continents (at the end of 2020/21, our brand stores were located in 25 countries on 3 continents), with further development to be achieved in subsequent years.

FOREIGN EXCHANGE RISK

Risk: An adverse change in currency exchange poses substantial risk for our Group. In 2020/21, over 50% of revenue were denominated in foreign currencies (mainly EUR and local currencies), the costs of goods purchases – in approx. 90% in USD, and operating costs – in 57% in foreign currencies (mainly EUR). The highest FX exposure of our Group concerns USD and EUR. The USD exposure is related to the location of goods production and purchases (mainly Asian countries), while the EUR exposure is related to rent payments for stores. Due to the fact that Russia yields approx. 18% of our sales, our Group faces also substantial RUB exposure. LPP reports financial results in PLN. Consequently, the strong position of PLN against USD and EUR has a positive impact on our Group's margins, while its weak position against key currencies reduces our profitability.

Actions: Due to the relevance of the foreign exchange risk, in June 2017, we decided to start hedging 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 operating profit).

RISK OF CHANGES IN CUSTOMS AND TAX REGULATIONS

Risk: Customs and tax regulations have a significant impact on our activity. Therefore, changes in this area may significantly affect our operations. We are exposed to changes in customs laws due to the scale of imports, specifically from Asian countries. The introduction of potential import quotas and heavy customs duties could result in the reduction of our margins. The introduction of possible legal changes in each of the countries where we are present may result in the requirement to incur additional costs or reduce revenue, thus adversely affecting our profitability. One such risk that materialised is the implementation of retail tax in Poland. Another example of law amendments is gradual introduction, from March 2018, of a Sunday trading ban in Poland. Stores can now be open only on selected Sundays, just a few times per year.

Actions: Our HQs and the majority of our brand stores are located in the EU. As assessed by us, the European Union pursues a stable customs policy. Moreover, any changes in the customs policy would affect all entities operating in the retail sector in the EU. A more important risk is the one involving legislative changes, which relates to both domestic and EU laws. If any such risk occurs, we will focus its activities on minimising their impact on our financials performance, as in the case of legislative changes concerning the Sunday closure of stores in Poland. Following the analysis of sales from the time of implementation of trading limitations in Poland, we recorded a decrease in sales in domestic stores, with sales in stores being transferred to other weekdays, and an increase in online sales. This is the reason why, among others, we improve the operation of our e-stores and logistics on a day-to-day basis.

RISK OF INTENSIFIED COMPETITION

Risk: With barriers to the clothing market entry being low, the number of competitors increases, thus enhancing competitiveness. Each year, new players appear on, and leave, the markets where we operate. On each market, we compete with both local competitors and international players.

Actions: Our success on each market depends on the quality of collections and their acceptance by customers. Therefore, we focus our activities on the offering of products best reflecting current trends and meeting customers' expectations at affordable prices. As we noted, competitive pressure is highest with reference to Reserved, the flagship brand, the success of which is our priority, while such pressure is lower, for example, with reference to Cropp or House brands.

RISK OF UNFAVOURABLE WEATHER CONDITIONS

Risk: In the business conducted, during one season, there may occur positive or negative effects of weather conditions, which may affect an increase/decrease in sales, and, consequently, an increase/decrease of our margins.

Actions: We monitor on a regular basis the level of sales and margins in specific countries, adjusting a time frame and scale of clearance offers. At the same time, following changes implemented in logistics and store replenishment, we are more flexible and we are able to react quicker to adverse weather changes in a given season.

Glossary

Poland	Retail sales in Poland and other sales of LPP SA.
CEE	Region including: Czech Republic, Slovakia, Hungary and Poland (if not stated otherwise).
Baltic	Region including: Lithuania, Latvia, Estonia.
CIS	Region including: Russia, Ukraine and Belarus (from 2017) and Kazakhstan (from 2018).
SEE	Region including: Bulgaria, Romania, Croatia, Serbia (from 2017), Slovenia (from 2018) and Bosnia & Herzegovina (from 2019).
WE	Region including Germany, the UK (from 2017) and Finland (from 2019).
ME	Region including: Egypt, Qatar, Kuwait, UAE and Isreal (from 2018). Until mid-2017 the region included also Saudi Arabia.
Europe	Region including: CEE, Baltic, SEE and WE.
EBITDA	EBIT + depreciation from cash flow statement.
Average monthly revenues/m^2	Revenues of segment or brand / average working total floorspace / 12.
Average monthly costs of own stores/m^2	Costs of own stores / average working floorspace of own stores (ie. excluding all franchise stores which represent c. 3.0% of the working floorspace) / 12.
Average monthly SG&A PLN/m^2	SG&A costs/ average working total floorspace excluding stores located in ME and Belarus (until 2020/21) / 12.
Inventory/ m^2	End of period group inventory/ total floorspace without franchise stores in ME and Belarus (until 2020/21).
Inventory days	Average inventory/ group COGS * 365 days.
Receivables days	Average receivables/ group revenues * 365 days.
Liabilities days	Average short-term liabilities/ group COGS * 365 days.
Cash conversion cycle	Inventory days + receivables days – liabilities days.

LPP

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