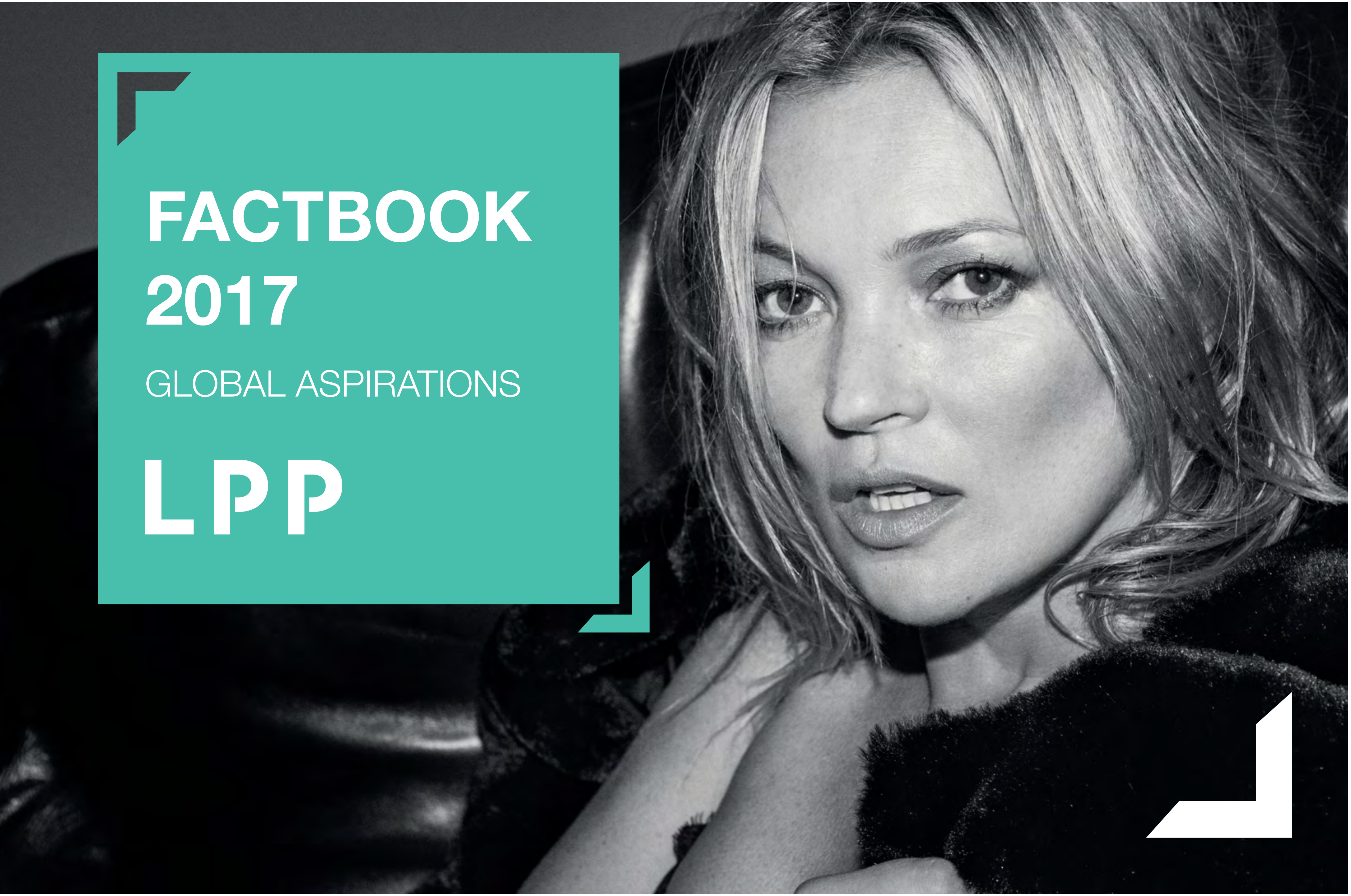
FACTBOOK 2017

GLOBAL ASPIRATIONS

LPP



We are an international retail company based in Gdańsk with almost 25 years of experience in designing and selling clothes and accessories.

We own five fashion brands:

RESERVED CROPP house MOHITO sinsay

c.1,750 stores	20 countries on 3 continents
c. 25,000 employees	EUR 1.7 billion revenues annually

170 million pieces of clothing and accessories sold annually

RESERVED, SS18

LPP

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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 MISSION

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

OUR VISION

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

SINSAY, SS18

F

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.

A

AMBITION–DRIVEN

AMBITION DRIVES US IN ACTION.

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

S

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.

T

TEAM–ORIENTED

AS A TEAM WE ARE THE GREATEST STRENGTH.

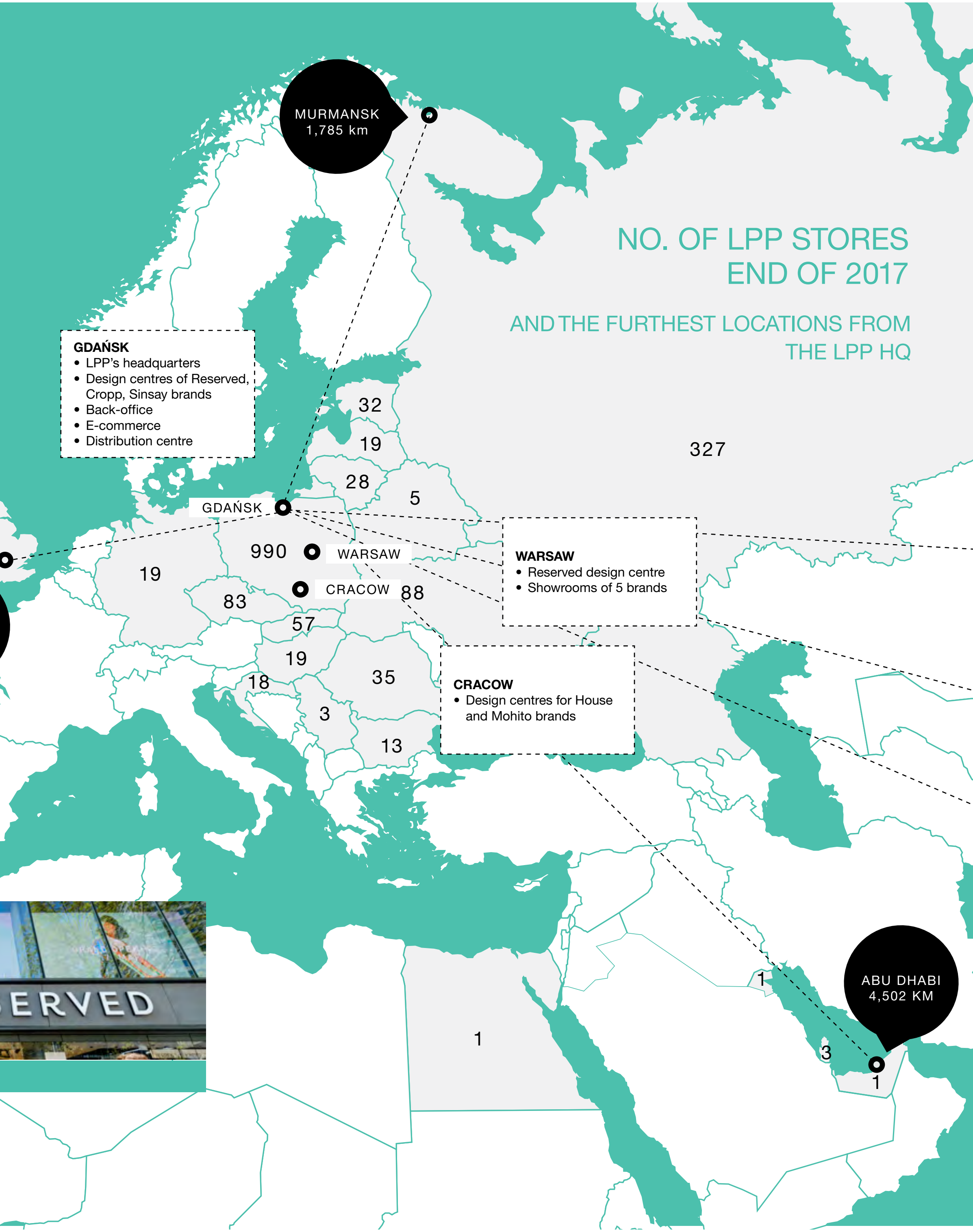
The opinion of each team member is just as important. We treat everyone as we would like to be treated ourselves. Fairness, respect, justice and tolerance are our guideposts of action.

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 2017 LPP had 1,743 stores in 20 countries and on 3 continents.



Reserved, London, UK

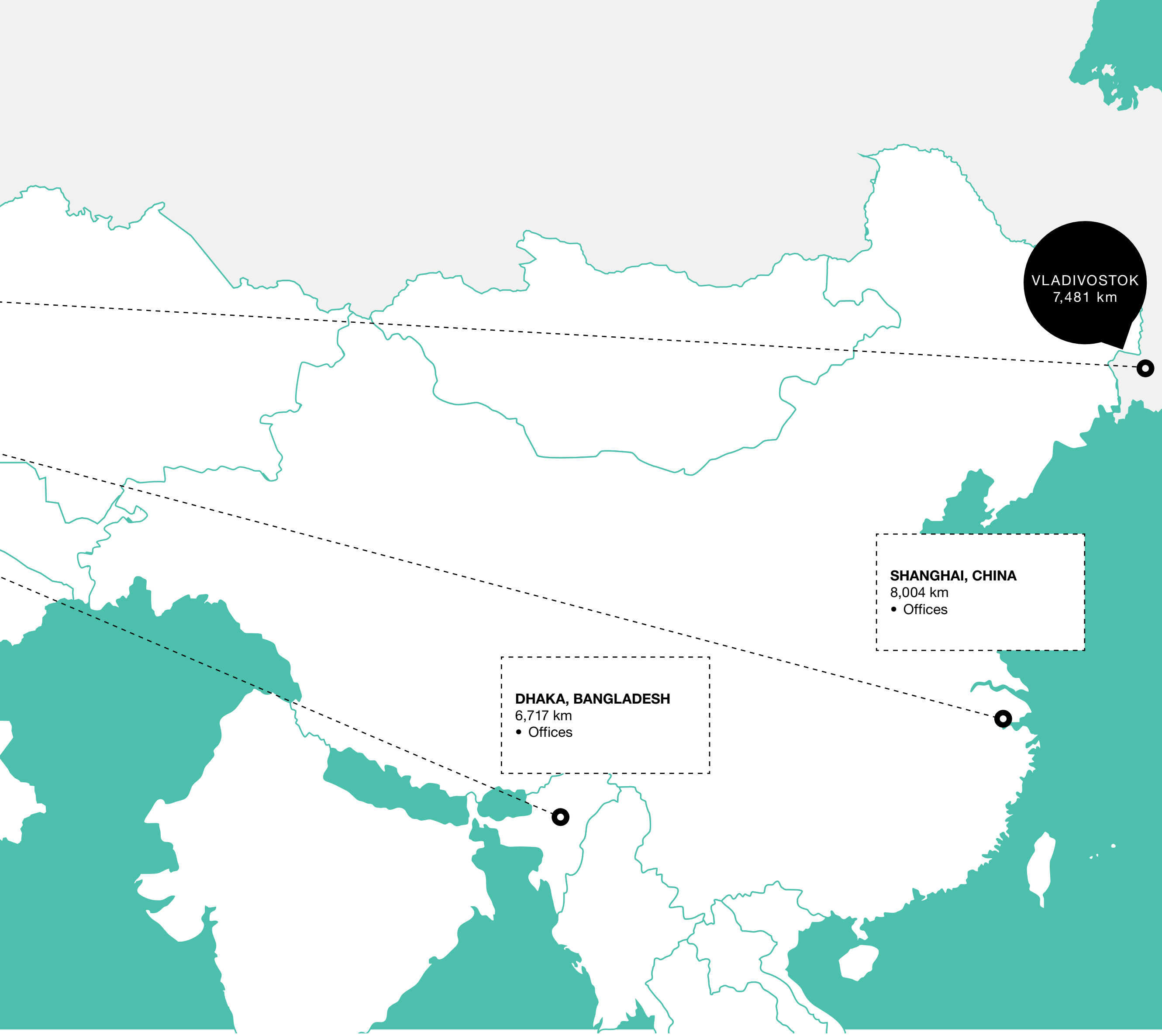
Reserved, Berlin, Germany

Cropp, Prague, Czech Republic

House, Budapest, Hungary

Mohito, Moscow, Russia

Sinsay, Warsaw, Poland



POLAND	
Reserved	232
Cropp	211
House	205
Mohito	160
Sinsay	152
Outlets	30

CZECH REP.	
Reserved	25
Cropp	23
House	16
Mohito	13
Sinsay	6
Outlets	0

SLOVAKIA	
Reserved	18
Cropp	17
House	14
Mohito	4
Sinsay	3
Outlets	1

HUNGARY	
Reserved	11
Cropp	2
House	1
Mohito	4
Sinsay	1
Outlets	0

LITHUANIA	
Reserved	7
Cropp	7
House	5
Mohito	5
Sinsay	4
Outlets	0

LATVIA	
Reserved	8
Cropp	3
House	2
Mohito	5
Sinsay	1
Outlets	0

ESTONIA	
Reserved	8
Cropp	7
House	5
Mohito	7
Sinsay	5
Outlets	0

BULGARIA	
Reserved	5
Cropp	2
House	2
Mohito	4
Sinsay	0
Outlets	0

ROMANIA	
Reserved	12
Cropp	5
House	4
Mohito	7
Sinsay	7
Outlets	0

CROATIA	
Reserved	3
Cropp	3
House	3
Mohito	4
Sinsay	5
Outlets	0

SERBIA	
Reserved	2
Cropp	0
House	0
Mohito	0
Sinsay	1
Outlets	0

RUSSIA	
Reserved	88
Cropp	77
House	57
Mohito	68
Sinsay	35
Outlets	2

UKRAINE	
Reserved	22
Cropp	23
House	18
Mohito	12
Sinsay	12
Outlets	1

BELARUS	
Reserved	1
Cropp	1
House	1
Mohito	1
Sinsay	1
Outlets	0

GERMANY	
Reserved	19

KUWAIT	
Reserved	1

UK	
Reserved	1

QATAR	
Reserved	3

EGYPT	
Reserved	1

UAE	
Reserved	1

HISTORY

MISTRAL

1991

Creation of
Mistral company
by

Marek Piechocki
CEO

- 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
CHAIRMAN of SUPERVISORY BOARD

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

Sale of goods
imported from Asia

1991-1993

1994

First
designed
clothes

Mistral
transformed
into LPP

lpp® S.A.

1995

1997

Opening of
offices
in Shanghai

1998

Launch
of Reserved
– first retail
store opened

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

2001

2002

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

2003

Further
international
expansion
(Lithuania,
Ukraine,
Slovakia)

Launch
of Cropp
brand

2004

Creation of Esotiq brand

2005

2008

Acquisition of Artman, owner of House and Mohito brands

Launch of the modern distribution centre in Pruszcz Gdański

2008

2008

Further international expansion (Romania, Bulgaria)

Divesture of Esotiq brand

2010/11

2010

Payment of first dividend

WIG20

2014

Entry into MSCI and WIG20 indices

Launch of Sinsay brand, joining the ACCORD alliance

2013

New countries: Germany, Croatia

2014

2015

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

Launch of Tallinder brand; new country in ME: United Arab Emirates

2016

2017 MILESTONES

Closing down the Tallinder brand

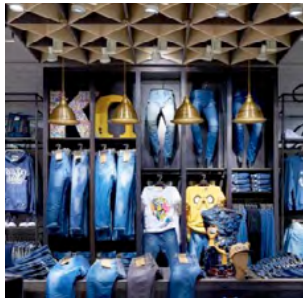
02.2017

04.2017

Signing agreement with SGS company on audits in Asian factories

Opening first Reserved, Cropp and House franchise stores in Minsk, Belarus

04.2017



05.2017

Opening of Reserved Berlin flagship

08.2017

Opening of first store in Serbia

09.2017

Opening of Reserved London flagship

10.2017

Launch of e-commerce in Russia

11.2017

Launch of e-commerce centre near Strykow (central Poland)

12.2017

New Reserved flagship in Warsaw, Poland

12.2017

LPP among family companies – LPP joins Family Business Network Poland

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

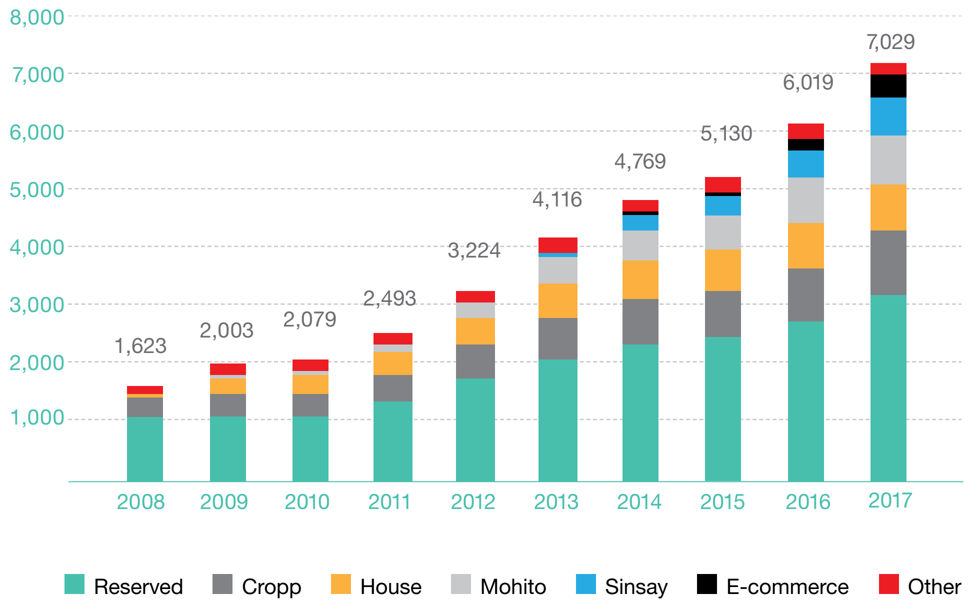
	RESERVED	CROPP	house	MOHITO	sinsay
KEY BRAND FEATURES	Anchor brand with a broad customer base.	Casual streetwear brand influenced by hip-hop and popculture.	Urban fashion brand with comfortable and casual clothes.	Fashion brand emphasizing feminity and elegance.	Clothes for every day inspirations and original party outfits.
TARGET CUSTOMERS	Women, men, children	Teenagers (boys and girls)	Teenagers (boys and girls)	Young women	Teenagers (girls only)
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	CEE, SEE, Baltic, CIS	CEE, SEE, Baltic, CIS	CEE, Baltic, CIS, SEE
# STORES FLOORSPACE	468 562.3 ths m^2	381 127.2 ths m^2	333 110.6 ths m^2	294 103.8 ths m^2	233 84.6 ths m^2
AVERAGE STORE SIZE	1,202 m^2	334 m^2	332 m^2	353 m^2	363 m^2

Note: The sum of brands' floorspace does not equal the group due to presence of outlets at the end of 2017.

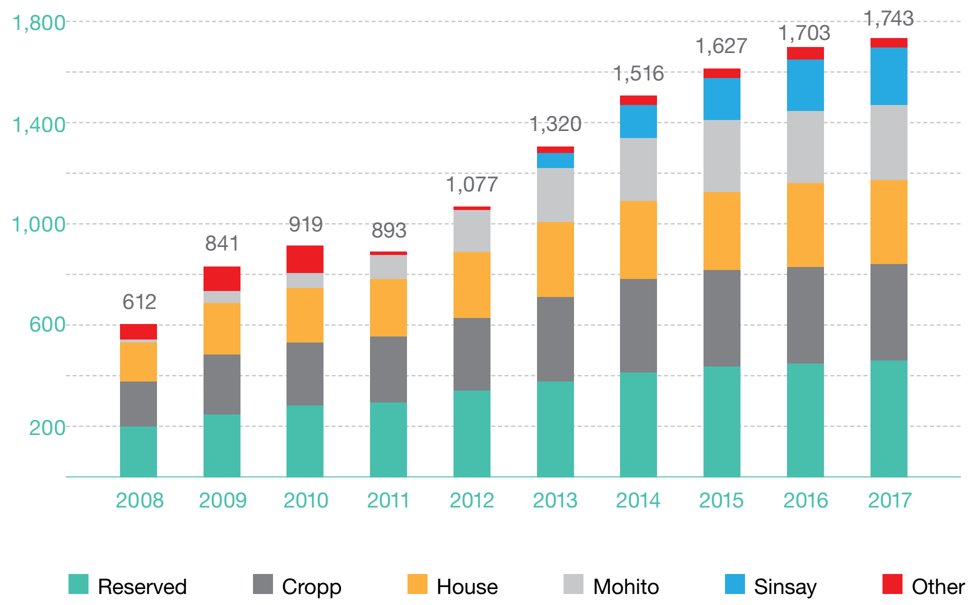
REVENUES BY BRANDS

PLN m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues	**1,623**	**2,003**	**2,079**	**2,493**	**3,224**	**4,116**	**4,769**	**5,130**	**6,019**	**7,029**
Reserved	1,087	1,114	1,099	1,368	1,714	2,074	2,311	2,434	2,693	3,160
Cropp	335	364	382	447	580	687	771	790	915	1,064
House	58	276	294	378	437	546	634	673	767	805
Mohito	5	40	62	104	259	456	523	586	737	829
Sinsay	-	-	-	-	-	74	225	329	461	610
E-commerce	-	-	4	4	6	27	65	79	173	361
Other	120	175	162	192	227	252	241	239	261	200
Tallinder	-	-	-	-	-	-	-	-	12	1
Esotiq	19	34	76	-	-	-	-	-	-	-

REVENUES BY BRANDS (PLN m)



STORES BY BRANDS



RESERVED

3.1. RESERVED BRAND

Reserved is our anchor brand, offering clothes for a broad range of customers: men, women and children. The intention is to answer all the needs of the customer, starting from everyday clothes, through smart casual clothes for work and ending with party outfits. New pieces of clothing appear in Reserved stores every week.

The brand is mainstream-priced with the average price tag reaching PLN 52 in 2017. We continue to expand average store space to accommodate room for growing number of lines within collections. We take inspirations both from the catwalks and alternative bold ideas of fashion influencers. As a result, Reserved collections combine the beauty of classical designs with fresh original fashion proposals for the season. In 2015 we launched a sports line with clothes for running and training as well as a city line for trend setters. In 2016 we conducted steps to refresh the Reserved brand. These were successful in 2017 and 2018, showing a strong reception of our new ideas across all markets present.

The brand was established in 1998. Even though the development started in Poland, foreign expansion followed. At the end of 2017, the brand was present in 20 countries.

Reserved brand also co-operates with well-known designers and top models. Over the past years star collections for Reserved brand have been prepared both by top Polish designers like Gosia Baczynska and Paprocki & Brzozowski and international celebrities like Georgia May Jagger. The latter was the face of Reserved in AW14/15 and SS15 collections. We also do not forget about men and additionally focus on youngers, with Brooklyn Beckham advertising our SS15 collection. Top-model Kate Moss was the face of Reserved AW17/18 collection SS18 collection was supported not only by co-operation with Cindy Crawford as well as with fashion influencers, eg. Maffashion.

key brand feature	Anchor brand with a broad customer base
target customer	Women, men, children
year of launch	1998
# markets	20
# stores	468
average store	1,202 m^2
target store	2,500 m^2
max stores	4,000 m^2

STORE CONCEPT

Wide, open, transparent and lighted 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 by creating warm ambience.

Comfortable, large and spacious fitting rooms supported by internal navigation system. Relax zone equipped with phone charging system, improves customer experiences. Smooth division of women, men, kids departments makes interior of the store more regular and ordered.

Furniture made of straight, delicate and thin profiles, flexible and more mobile. Natural materials like wooden tables and shelfs make interior more cozy and modern.

BRAND ESSENCE

Brand person:
trendy, fashionable, metropolitan, chic, dynamic and creative.

SUB-LINES

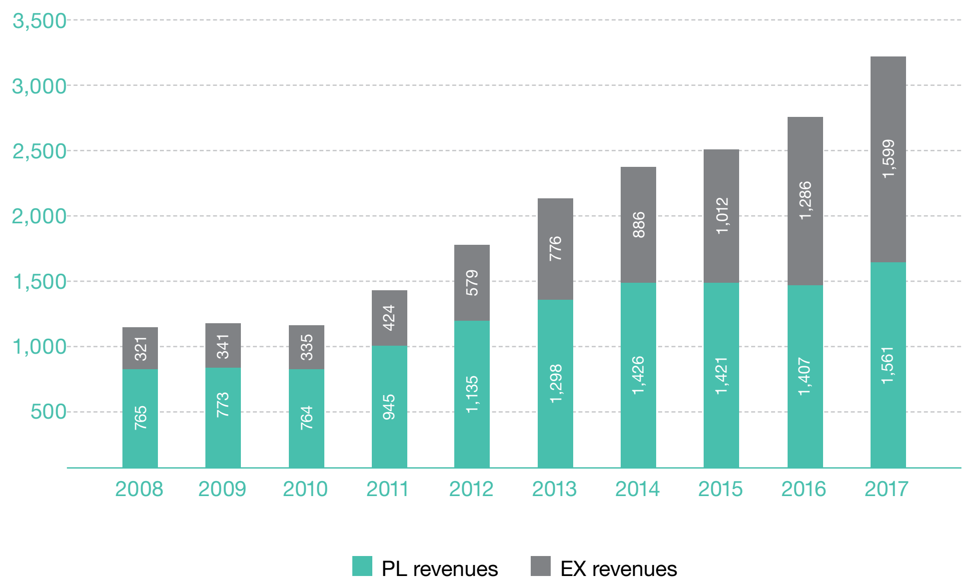
Selected lines that can be found within Reserved collections:

- Young Fashion Lab (YFL), combination of what is worn on the streets and in the clubs mixed with international trends, collection inspired by music and art.
- Modern Line, combination of classic and elegant styles with seasonal trend touches, offering independent women a variety of options to create a smart and feminine look.
- Fashion Line, classic always designed with up-to-date twist and the hottest items for a season, all day look, seven days a week.

RESERVED – BASIC FIGURES

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2016
Revenues (PLN m)	**1,087**	**1,114**	**1,099**	**1,368**	**1,714**	**2,074**	**2,311**	**2,434**	**2,693**	**3,160**
No. of stores	210	260	288	304	344	386	425	449	461	468
Store size (m²)	685	677	687	697	733	835	917	1,027	1,104	1,202
Floorspace (eop, ths m²)	144	176	198	212	252	322	390	461	509	562
Sales/m² monthly	720	596	496	566	628	617	547	483	475	514
% of floorspace in PL	56%	60%	63%	65%	62%	59%	54%	50%	49%	47%
No. of countries	9	10	10	10	10	11	13	17	18	20

RESERVED – REVENUES (PLN m)



RESERVED – STORES

3.2. CROPP BRAND

Cropp is the first brand for teenagers developed in-house by LPP. The launch took place in 2004. It is a casual streetwear brand which fits well into the urban space and lifestyle. The brand is targeted at young urban rebels, boys and girls, who live by their own rules and like clothes that express their personality.

The brand is also mainstream priced, with 2017 average price tag at PLN 52. Cropp brand is strongly oriented on street style fashion.

With an average store brand size of 334 m^2, Cropp stores are three and a half times smaller than these of the Reserved. The brand is developed internationally via company-owned stores mostly. Cropp is currently present in 13 countries.

Cropp collections are influenced by pop and hip-hop cultures and inspired by graffiti, street art, urban sports and music. Clothes are prepared in co-operation with illustrators and graffiti artists from all over the world. The brand sponsors cultural events, especially connected with street art.

key brand feature	Casual streetwear brand influenced by hip-hop and popculture
target customer	Teenagers (boys and girls)
year of launch	2004
# markets	13
# stores	381
average store	334 m^2
target store	450 m^2
max stores	1,000 m^2

CROPP

STORE CONCEPT

The shopping space is designed in the form of squat, garage and industrial halls.

Cropp stores also encompass special entertainment zones with oldshool arcade cabinets.

Shop window displays are equipped with modern multimedia.

BRAND ESSENCE

Mad Style Crew:
fearless and independent people.

Brand person:
provocative, funny, inspiring, daring, positive but controversial.

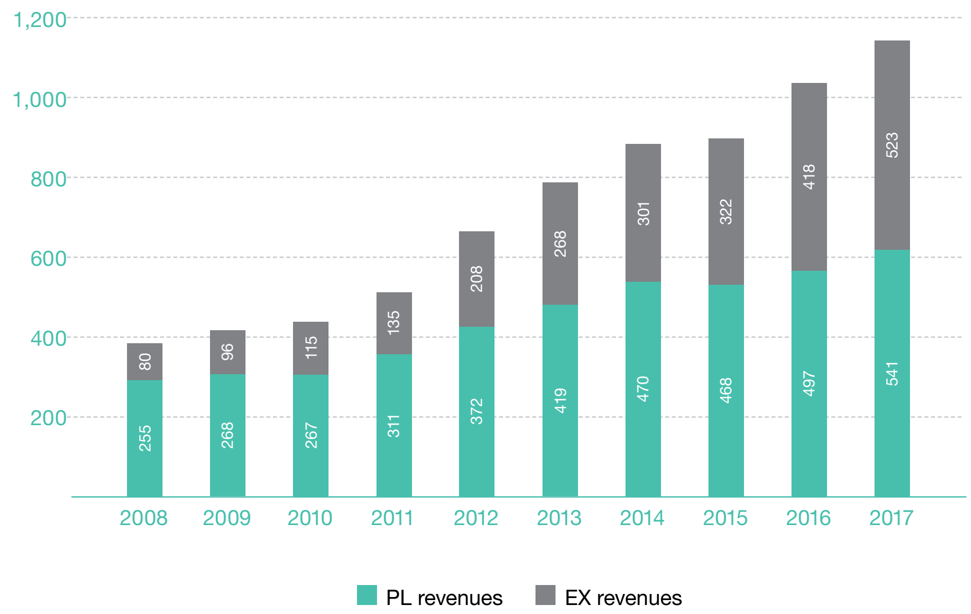
Brand persons skills:
street art, music, street dance, parkour, graffiti, photography, travelling, tattoos.

Brand persons sports:
basketball, watersports, snowboard, BMX, skateboarding, parkour.

CROPP – BASIC FIGURES

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues (PLN m)	**335**	**364**	**382**	**447**	**580**	**687**	**771**	**790**	**915**	**1,064**
No. of stores	171	229	249	261	295	337	366	372	379	381
Stores size (m^2)	223	219	224	228	244	269	288	308	318	334
Floorspace (eop, ths m^2)	38	50	56	59	72	91	105	114	120	127
Sales/m^2 monthly	875	698	607	651	756	725	647	591	653	732
% of floorspace in PL	67%	68%	69%	67%	62%	60%	55%	55%	54%	52%
No. of countries	9	10	10	10	10	10	12	12	12	13

CROPP – REVENUES (PLN m)



CROPP – STORES

3.3. HOUSE BRAND

House is an optimistic fashion brand addressed at both women and men – students and young adults. Even though the brand exists from 2001, it has been acquired along with Artman merger.

House is a mainstream priced brand. 2017 average price tag came in at PLN 49. The brand is a niche one thus its stores are typically of some 330 m^2 of size. The brand is developed internationally. House stores can now be found in 13 countries.

House stores are perfect for everyone who follows the latest trends and wants to look good every day. House brand offers comfortable and casual proposals for each occassion and the latest fashion trends which are spotted by designers in social media, catwalks and streets.

The brand focuses on peculiar and interesting combinations. The designers are experienced in spotting trends and translating them into clothes that meet the customers' expectations.

key brand feature	Urban fashion brand with comfortable and casual clothes
target customer	Teenagers (boys and girls)
year of launch	2001 (at LPP since 4Q08)
# markets	13
# stores	333
average store	332 m^2
target store	450 m^2
max stores	1,000 m^2

house

STORE CONCEPT

The interior of the store is designed as a transformed post-industrial space with warm, homely touches.

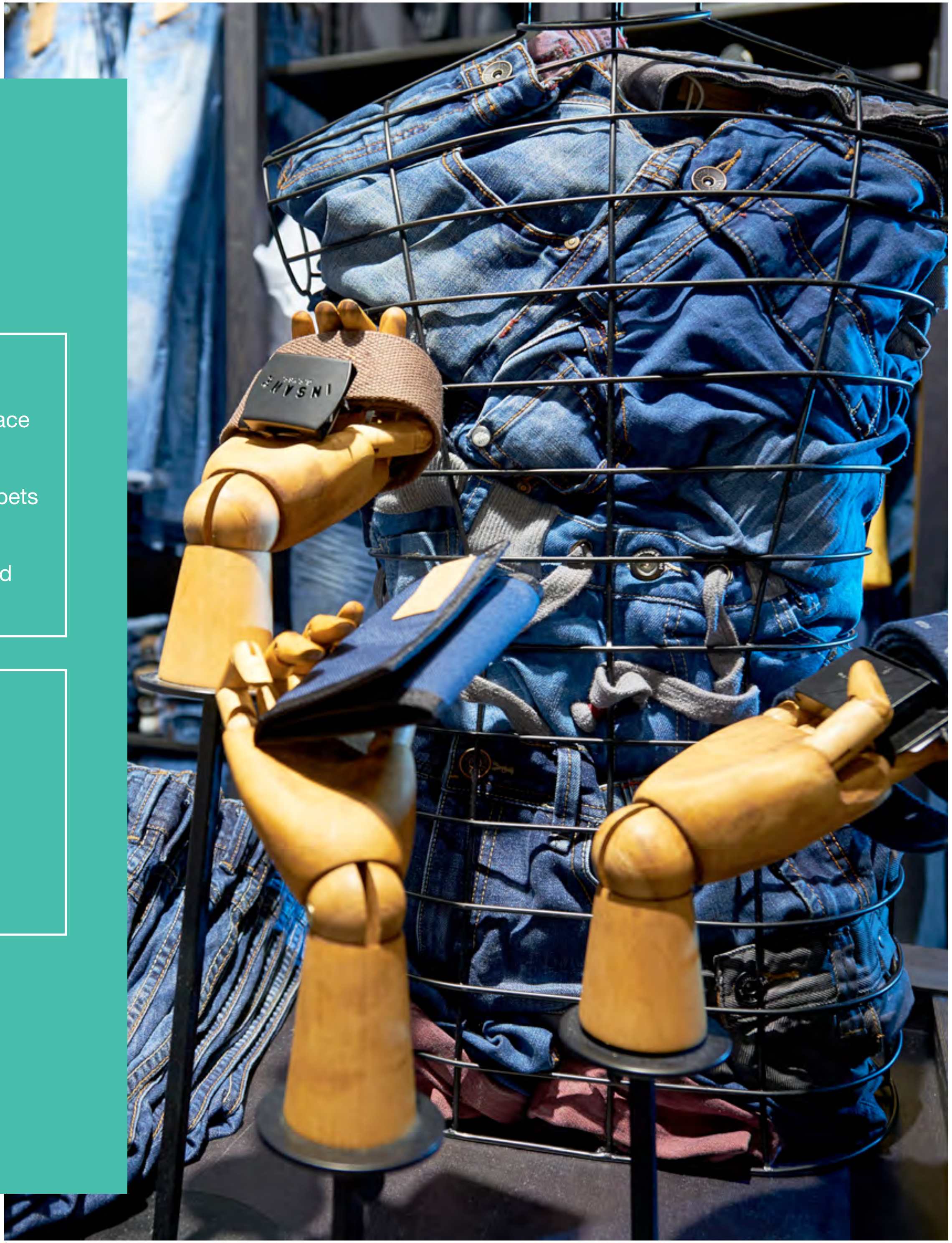
Raw industrial interior is balanced with usage of wooden elements, carpets and decorative elements.

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.

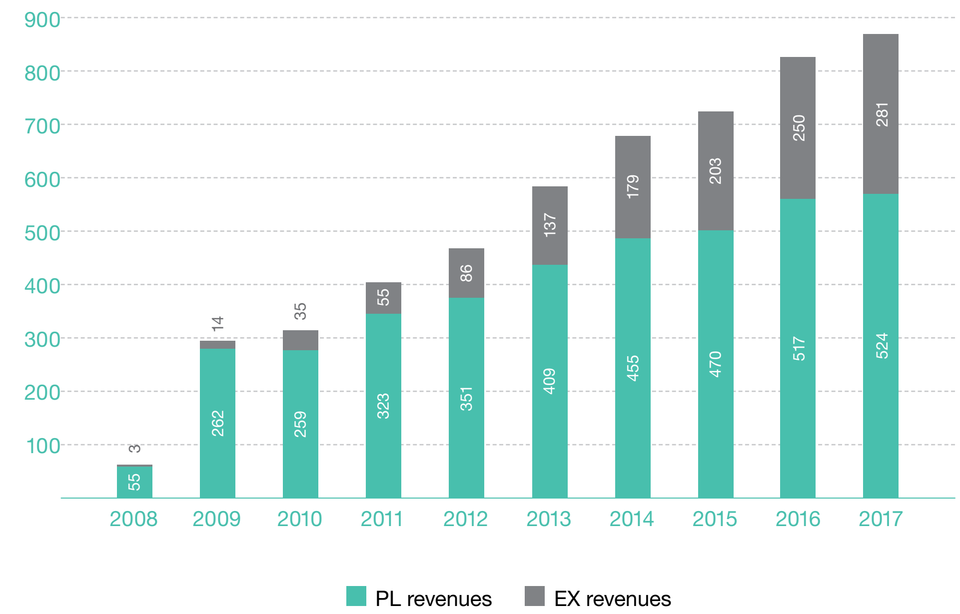
Emotions:
joy, energy, self-confidence, fun, humour.



HOUSE – BASIC FIGURES

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues (PLN m)	**58**	**276**	**294**	**378**	**437**	**546**	**634**	**673**	**767**	**805**
No. of stores	158	201	216	222	259	292	308	319	330	333
Stores size (m^2)	217	217	223	230	247	275	291	313	320	332
Floorspace (eop, ths m^2)	34	44	48	51	64	80	90	100	106	111
Sales/m^2 monthly	990	648	535	633	654	652	612	579	621	639
% of floorspace in PL	74%	79%	82%	80%	73%	69%	64%	62%	61%	59%
No. of countries	4	9	10	10	9	9	10	12	12	13

HOUSE – REVENUES (PLN m)



HOUSE – STORES

3.4. MOHITO BRAND

Mohito is another brand (after House) acquired along the Artman merger. The brand was developed in 2008 and is aimed at women solely. The target customer is young woman starting her career, in need of smart casual but fashionable clothes.

Out of all five mainstream brands, Mohito has the highest price tag, reaching PLN 71 in 2017. It is oriented at women who can pay a bit more than average for extra detail. The stores are approximately 350 m^2 in size and the brand is actively developed abroad. At the end of 2017 Mohito stores were present in 13 countries.

The Mohito brand is a proposal for customers who love fashion and those who value the unusual urban elegance. Mohito designers create collections for women who are self-confident and conscious of their advantages, allowing themselves a little freedom and nonchalance in a stylish version. Mohito emphasizes femininity and offers an energetic look, consistent with global trends. Mohito clothes look good not only in business environment but also in casual situations as well as during extra ordinary meetings and after hours evenings.

Advertising is based on top models with Polish origins. 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.

key brand feature	Fashion brand emphasizing feminity and elegance
target customer	Young women
year of launch	2008 (at LPP since 4Q08)
# markets	13
# stores	294
average store	353 m^2
target store	450 m^2
max stores	900 m^2

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 person:
Mohito is a brand developed for self-confident women who value original, feminine and urban elegance.

Brand idea:
emphasize feminity at work and after hours.
Mohito is sensual, fashionable and modern but not infantile and promiscuous.

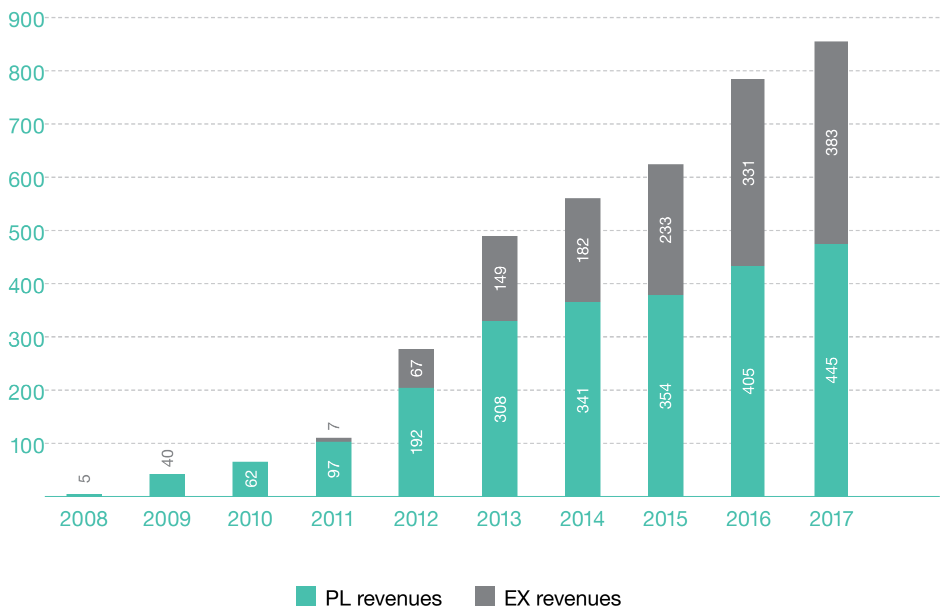
SUB-LINES

- Regular line – elegant clothing,
- After hours – casual clothing,
- Gold Label – highly fashionable clothing.

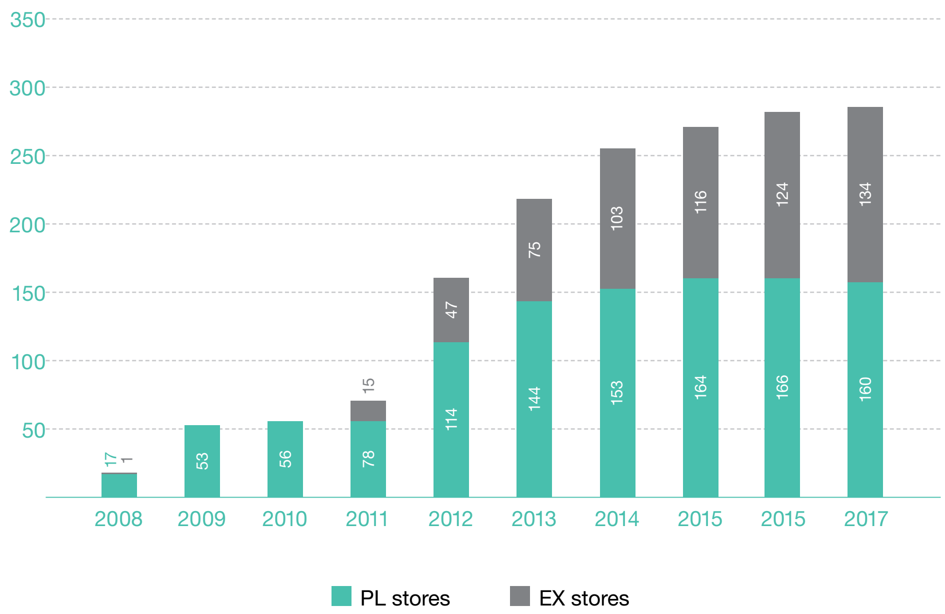
MOHITO – BASIC FIGURES

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues (PLN m)	**5**	**40**	**62**	**104**	**259**	**456**	**523**	**586**	**737**	**829**
No. of stores	18	53	56	93	161	219	256	280	290	294
Stores size (m²)	199	178	180	186	242	301	323	337	342	353
Floorspace (eop. ths m²)	4	9	10	17	39	66	83	94	99	104
Sales/m² monthly	881	552	527	733	843	759	583	549	636	696
% of floorspace in PL	95%	100%	100%	87%	67%	62%	56%	55%	54%	51%
No. of countries	2	1	1	7	8	9	12	12	12	13

MOHITO – REVENUES (PLN m)



MOHITO – STORES



3.5. SiNSAY BRAND

Sinsay is the youngest brand in our portfolio. It was launched in 2013. Similarly to Mohito, the brand is targeted at women only, yet the target group is much younger. Sinsay offers everyday clothes and original party outfits for teenagers (age 16-19), mostly in high schools in large or medium-sized towns.

The brand is mainstream priced yet has the lowest average price tag (PLN 28 in 2017), so that it is affordable for the target group. The brand's advantage lies in low prices, which enable teenagers to purchase the desired T-shirts, jeans and fashionable accessories.

Sinsay is a brand for loud, character-full and expressive girls who boldly follow the latest trends. Thanks to our designs, Sinsay girls can play with fashion emphasizing their extraordinary personalities.

The stores are of c.360 m^2 size, suited for the taste of teenagers. Sinsay girls take their inspirations from the internet and thus 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. A young popular Polish singer Margaret designed a star collection for Sinsay AW15/16.

key brand feature	Every day clothes and original party outfits
target customer	Teenagers (girls only)
year of launch	2013
# markets	13
# stores	233
average store	363 m^2
target store	450 m^2
max stores	900 m^2

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

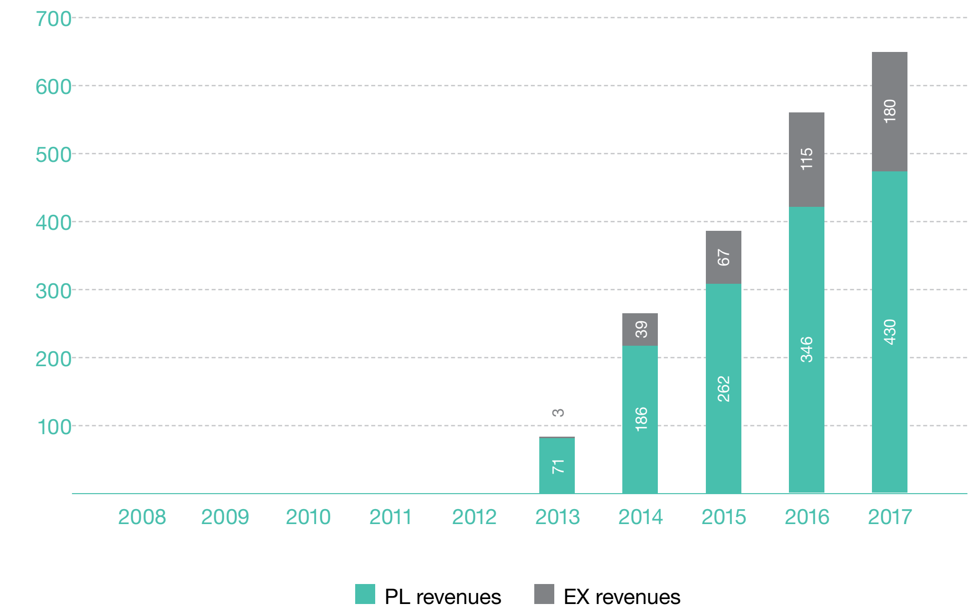
Brand persons:
girls who are loud, beautiful, expressive and have their character.
A good bad girl.

Ideas important to brand persons:
look, freedom, friendship, holidays, social media, music and fashion.

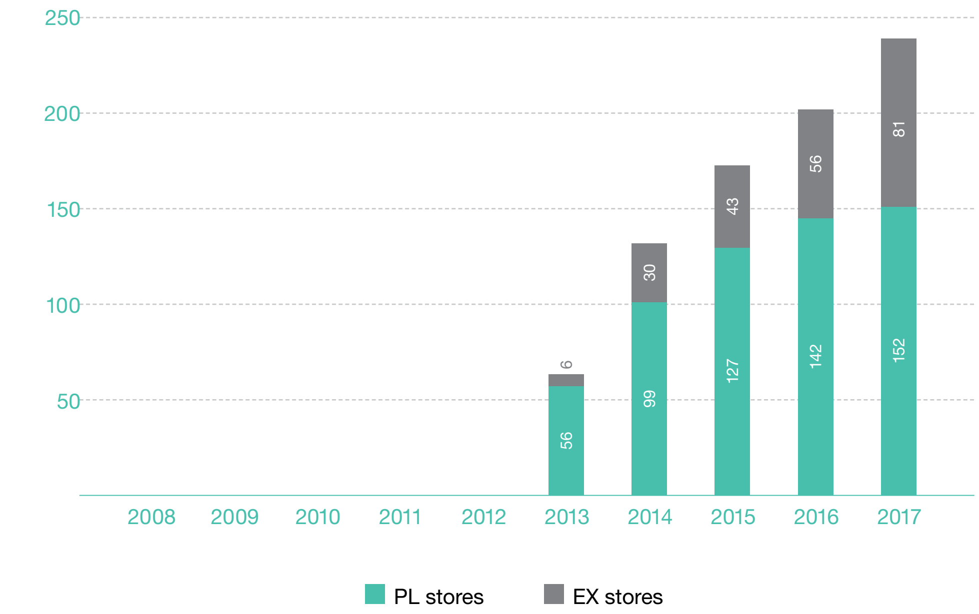
SiNSAY – BASIC FIGURES

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues (PLN m)	-	-	-	-	-	**74**	**225**	**329**	**461**	**610**
No. of stores	-	-	-	-	-	62	129	170	198	233
Stores size (m²)	-	-	-	-	-	325	338	351	352	363
Floorspace (eop, ths m²)	-	-	-	-	-	20	44	60	70	85
Sales/m² monthly	-	-	-	-	-	670	584	531	607	690
% of floorspace in PL	-	-	-	-	-	89%	75%	73%	70%	63%
No. of countries	-	-	-	-	-	4	10	11	11	13

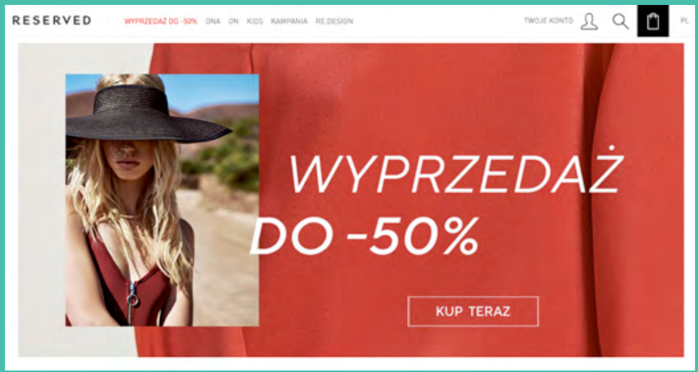
SiNSAY – REVENUES (PLN m)



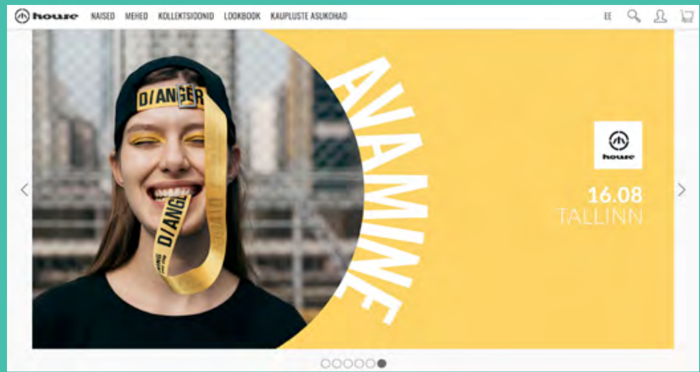
SiNSAY – STORES



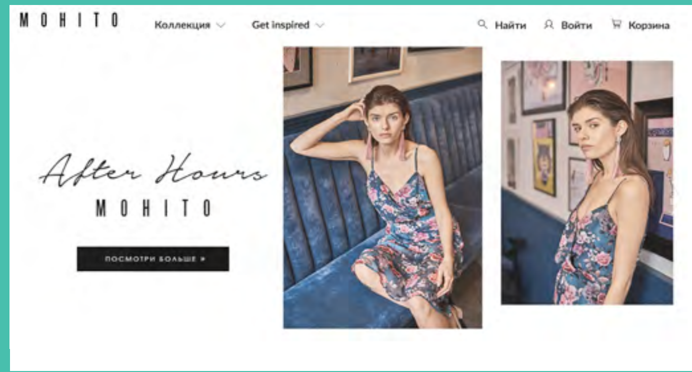
TOP LPP ON-LINE STORES



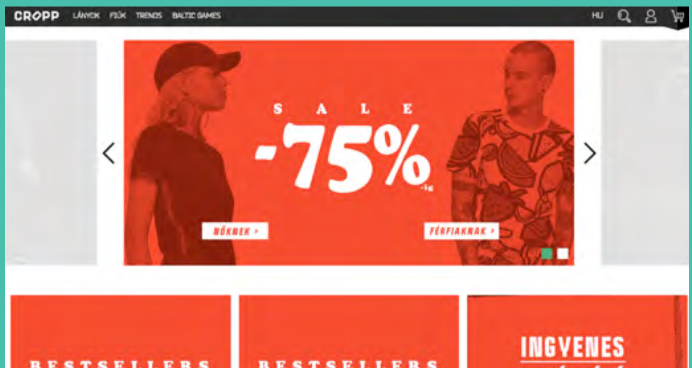
www.reserved.com



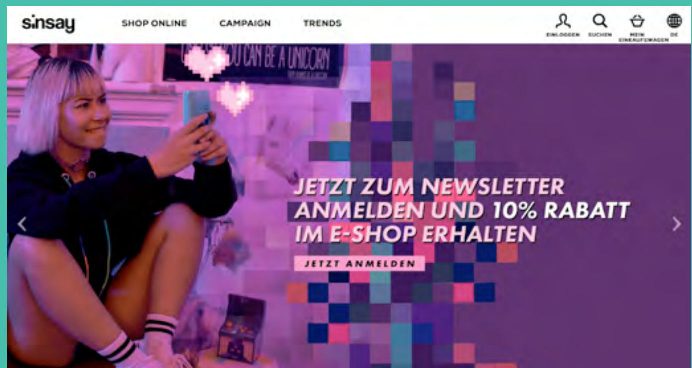
www.housebrand.com



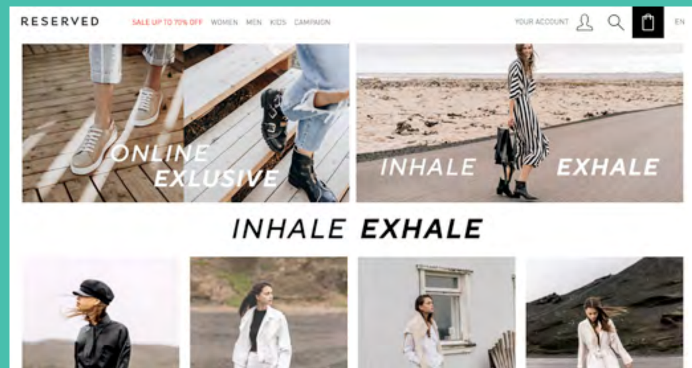
www.mohito.com



www.cropp.com



www.sin-say.com



www.reserved.com

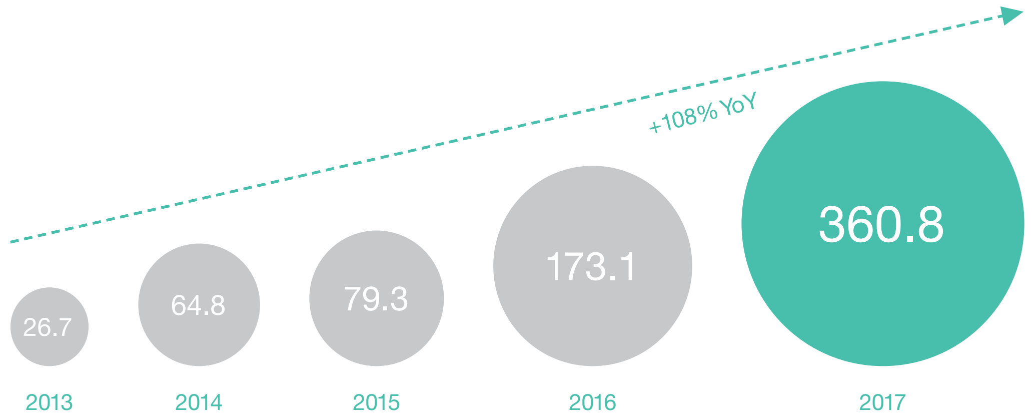
4. E-COMMERCE

Even though the majority of our business is brick-and-mortar, we accelerate investments in on-line operations, as this is where our customers are going. In 2017 on-line sales constituted 5% of our group revenues. We would like this proportion to increase to 20% in 2021 (in 3 years time).

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.

The majority of our e-commerce revenues comes from Poland. However, apart from domestic development, we invest in internet stores abroad. At the end of 2017, we operated e-commerce stores in 11 countries. We had stores of all our 5 brands in 9 countries (Poland, Czech Republic, Slovakia, Hungary, Romania, Germany, Lithuania, Latvia and Estonia). We operated Reserved on-line store in the UK, while e-stores of 4 brands were operational in Russia (Cropp was launched in 1Q18).

E-COMMERCE REVENUES (PLN m)



A STRONG BACK-OFFICE

250-person team
content production, sales, IT, operations and customer service

11 professional
photographic centres

over 40,000 products
photographed annually

E-COMMERCE ON 11 MARKETS IN 2017

	ESERVED	CROPP	house	MOHITO	sinsay
POLAND	✓	✓	✓	✓	✓
CZECH REPUBLIC	✓	✓	✓	✓	✓
SLOVAKIA	✓	✓	✓	✓	✓
HUNGARY	✓	✓	✓	✓	✓
LITHUANIA	✓	✓	✓	✓	✓
LATVIA	✓	✓	✓	✓	✓
ESTONIA	✓	✓	✓	✓	✓
ROMANIA	✓	✓	✓	✓	✓
GERMANY	✓	✓	✓	✓	✓
RUSSIA*	✓		✓	✓	✓
UK	✓				

*Cropp e-store was launched in 1Q18.

ACCELERATION OF LPP'S E-COMMERCE DEVELOPMENT

- **07.2014** – RESERVED – GERMANY – on-line store
- **05.2015** – RESERVED – CZECH REPUBLIC – on-line store
- **10.2015** – RESERVED – SLOVAKIA – on-line store
- **11.2015** – RESERVED – ROMANIA – on-line store
- **02.2016** – TALLINDER – POLAND – on-line store
- **03.2016** – RESERVED – HUNGARY – on-line store
- **12.2016** – CROPP, HOUSE, MOHITO, SiNSAY – CZECH REPUBLIC, HUNGARY, ROMANIA, SLOVAKIA, GERMANY – on-line stores
- **04.2017** – RESERVED, CROPP, HOUSE, MOHITO, SiNSAY – LITHUANIA, LATVIA, ESTONIA – on-line stores
- **09.2017** – RESERVED – UK – on-line store
- **10.2017** – RESERVED, HOUSE, MOHITO, SiNSAY – RUSSIA – on-line stores


@ Estonia
@ Russia
@ Latvia
@ Lithuania
@ UK
@ Poland
@ Germany
@ Czech Rep.
@ Slovakia
@ Hungary
@ Romania
E-commerce 2016 - 6 countries
E-commerce 2017 - 11 countries


RESERVED
#RECYCLEDBOX
RESERVED
#RECYCLEDBOX

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.

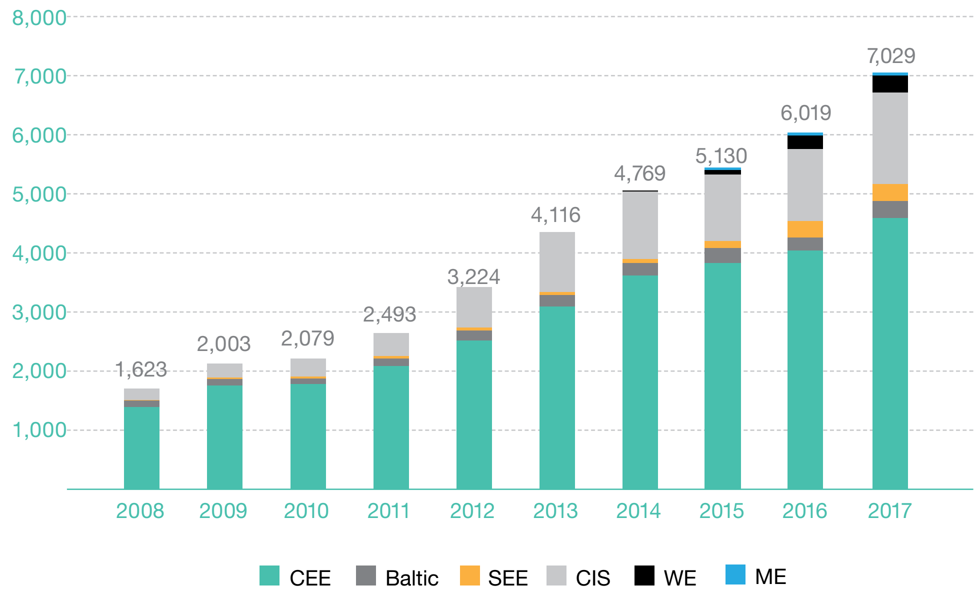
We believe we will be successful on the developing and early stage markets as the price-to-quality ratio offering in our stores meets the customers' expectations.

	MATURITY		DEVELOPING		EARLY STAGE	
DEVELOPMENT STAGE	**CEE**	**BALTIC**	**CIS**	**SEE**	**WE**	**ME**
COUNTRIES PRESENT	Poland, Czech Republic, Hungary, Slovakia	Lithuania, Latvia, Estonia	Russia, Ukraine, Belarus	Bulgaria, Romania, Croatia, Serbia	Germany, UK	Egypt, Qatar, Kuwait, United Arab Emirates
BRANDS	Reserved, Cropp, House, Mohito, Sinsay	Reserved, Cropp, House, Mohito, Sinsay	Reserved, Cropp, House, Mohito, Sinsay	Reserved, Cropp, House, Mohito, Sinsay	Reserved	Reserved
# COUNTRIES PRESENT	4	3	3	4	2	4
# STORES FLOORSPACE	1,149 602.1 ths m^2	79 43.0 ths m^2	420 247.3 ths m^2	69 53.1 ths m^2	20 48.5 ths m^2	6 6.6 ths m^2
TYPE OF STORES	Own (majority), franchise	Own	Own (majority), franchise	Own	Own	Franchise

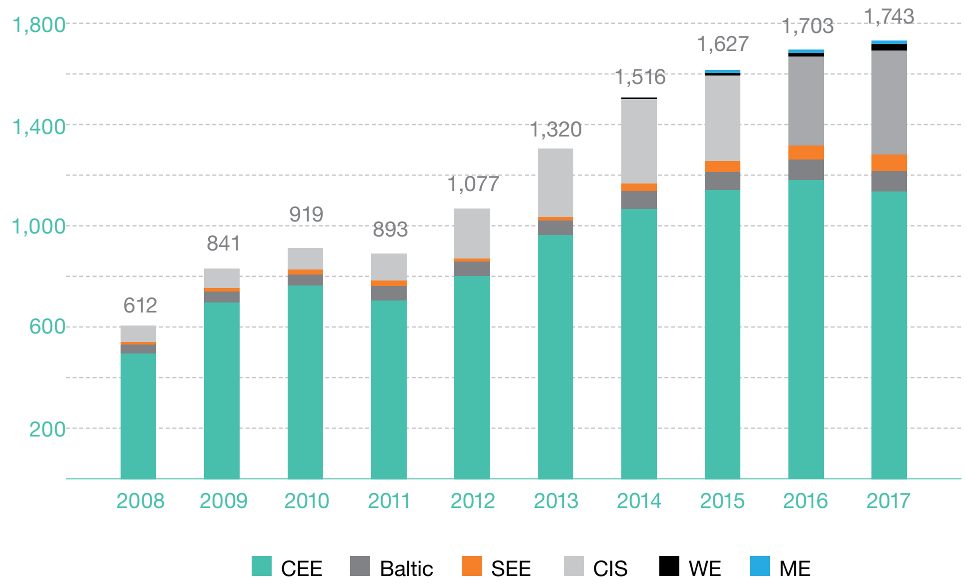
REVENUES BY REGIONS

PLN m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues	**1,623**	**2,003**	**2,079**	**2,493**	**3,224**	**4,116**	**4,769**	**5,130**	**6,019**	**7,029**
CEE	1,329	1,660	1,679	1,973	2,382	2,927	3,414	3,634	4,039	4,572
Baltic	102	101	91	120	162	186	200	222	256	295
CIS	182	216	279	359	638	952	1,076	1,025	1,269	1,542
SEE	11	26	31	40	42	52	65	134	230	317
WE	-	-	-	-	-	-	15	94	194	279
ME	-	-	-	-	-	-	-	23	31	24

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 c.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.

CEE REGION OVERVIEW

CEE REGION – STORES & FLOORSPACE BY COUNTRY

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**504**	**708**	**770**	**709**	**809**	**976**	**1,075**	**1,144**	**1,177**	**1,149**
Poland	445	650	715	659	745	886	943	986	1,017	990
Other CEE	59	58	55	50	64	90	132	158	160	159
Floorspace (ths m²)	**170**	**221**	**246**	**259**	**309**	**409**	**475**	**545**	**581**	**602**
Poland	144	196	222	237	279	366	414	465	497	514
Other CEE	26	26	24	22	30	43	62	80	84	88

CEE REGION – STORES

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**504**	**708**	**770**	**709**	**809**	**976**	**1,075**	**1,144**	**1,177**	**1,149**
Reserved	147	190	213	223	246	266	286	293	293	286
Cropp	132	180	195	198	214	241	256	259	261	253
House	155	190	197	198	216	235	233	239	243	236
Mohito	18	53	56	78	117	154	167	183	186	181
Sinsay	-	-	-	-	-	60	105	136	151	162
Tallinder	-	-	-	-	-	-	-	-	9	0
Outlets	-	7	9	12	16	20	28	34	34	31
Esotiq	52	88	100	-	-	-	-	-	-	-

CEE REGION – FLOORSPACE

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Floorspace (ths m^2)	**170**	**221**	**246**	**259**	**309**	**409**	**475**	**545**	**581**	**602**
Reserved	101	126	142	153	177	216	248	281	301	322
Cropp	28	37	41	43	48	60	68	75	77	78
House	34	41	43	44	51	62	64	71	74	74
Mohito	4	9	10	15	27	44	51	59	60	61
Sinsay	-	-	-	-	-	19	35	47	52	57
Tallinder	-	-	-	-	-	-	-	-	4	0
Outlets	-	2	3	4	6	8	10	12	12	11
Esotiq	4	6	7	-	-	-	-	-	-	-

5.2. 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 55% in 2017, the market remains the center of our interest and profits.

The dominance of the domestic market results from:

- the highest number of stores (990 in 2017);
- 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, Cropp and House brands. Further development is going to be oriented on entering new shopping malls and best high street locations. We still see domestic development potential with Mohito and Sinsay brands, which have not yet crossed the 200 store hurdle. Thus, further development of those brands is planned. At the end of 2017, the number of stores was lower YoY while the floorspace expanded. That was because in 2017 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.

STORES IN POLAND
(END OF 2017)

LPP

POLAND – STORES

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**445**	**650**	**715**	**659**	**745**	**886**	**943**	**986**	**1,017**	**990**
Reserved	117	159	186	199	217	233	235	237	236	232
Cropp	121	169	183	187	201	222	219	217	219	211
House	138	174	181	183	197	211	209	208	212	205
Mohito	17	53	56	78	114	144	153	164	166	160
Sinsay	-	-	-	-	-	56	99	127	142	152
Tallinder	-	-	-	-	-	-	-	-	9	0
Outlets	-	7	9	12	16	20	28	33	33	30
Esotiq	52	88	100	-	-	-	-	-	-	-

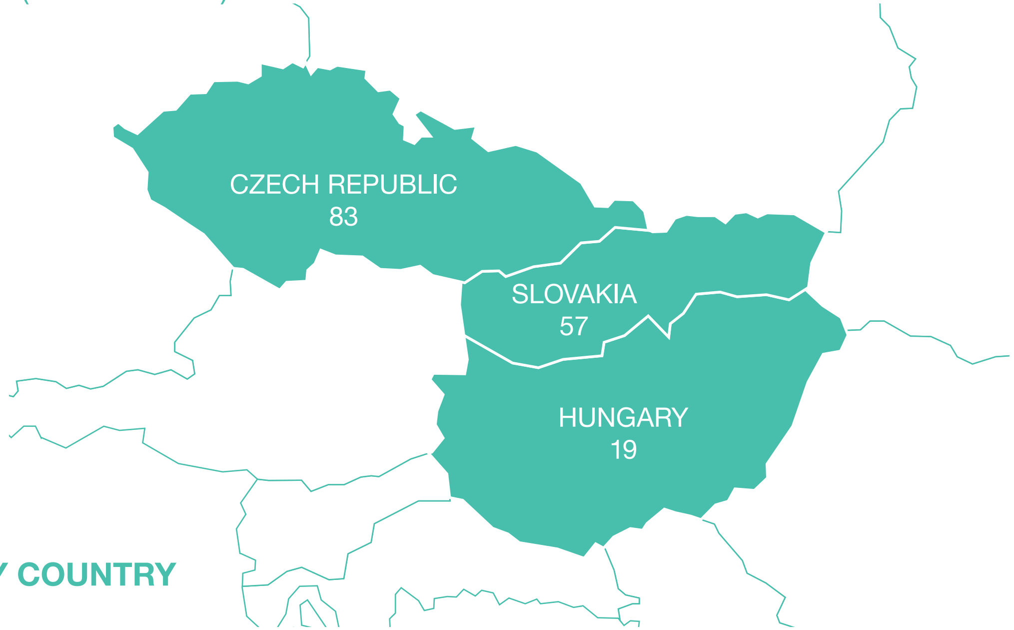
POLAND – FLOORSPACE

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Floorspace (ths m^2)	**144**	**196**	**222**	**237**	**279**	**366**	**414**	**465**	**497**	**514**
Reserved	81	106	124	138	156	189	209	233	249	267
Cropp	25	34	38	40	45	55	58	63	65	66
House	30	37	39	41	46	55	57	62	65	65
Mohito	3	9	10	15	26	41	46	52	53	53
Sinsay	0	0	0	0	0	18	33	44	49	53
Tallinder	-	-	-	-	-	-	-	-	4	0
Outlets	-	2	3	4	6	8	10	12	12	10
Esotiq	4	6	7	-	-	-	-	-	-	-

5.3. 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 2017, 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 m^2 of floorspace). We still see development potential in Slovakia, even though the number of stores doubled since the acquisition.

OTHER CEE (EXCL. POLAND) REGION OVERVIEW
(END OF 2017)



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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**59**	**58**	**55**	**50**	**64**	**90**	**132**	**158**	**160**	**159**
Czech Republic	38	38	36	32	43	66	73	80	80	83
Slovakia	12	11	11	10	12	13	48	61	62	57
Hungary	9	9	8	8	9	11	11	17	18	19
Floorspace (ths m^2)	**26**	**26**	**24**	**22**	**30**	**43**	**62**	**80**	**84**	**88**
Czech Republic	19	19	17	15	21	33	37	43	43	44
Slovakia	2	2	2	2	3	4	18	25	28	27
Hungary	5	5	4	4	5	7	7	12	14	17

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OTHER CEE REGION (EXCL. POLAND) – STORES

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**59**	**58**	**55**	**50**	**64**	**90**	**132**	**158**	**160**	**159**
Reserved	30	31	27	24	29	33	51	56	57	54
Cropp	11	11	12	11	13	19	37	42	42	42
House	17	16	16	15	19	24	24	31	31	31
Mohito	1	-	-	-	3	10	14	19	20	21
Sinsay	-	-	-	-	-	4	6	9	9	10
Outlets	-	-	-	-	-	-	-	1	1	1
Esotiq	-	-	-	-	-	-	-	-	-	-

OTHER CEE REGION (EXCL. POLAND) – FLOORSPACE

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Floorspace (ths m²)	**26**	**26**	**24**	**22**	**30**	**43**	**62**	**80**	**84**	**88**
Reserved	19	20	17	16	21	27	39	48	53	55
Cropp	3	3	3	3	3	6	10	12	12	12
House	3	3	3	3	4	6	6	9	9	9
Mohito	0	-	-	-	1	3	5	7	7	8
Sinsay	-	-	-	-	-	1	2	3	3	4
Outlets	-	-	-	-	-	-	-	0	0	0
Esotiq	-	-	-	-	-	-	-	-	-	-

5.4. 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. All Baltic countries are now in Eurozone, however their macroeconomic situation is also linked to its neighbour Russia. We have e-stores of all our brands in each country of the region.

BALTIC REGION OVERVIEW
(END OF 2017)

BALTIC REGION – STORES & FLOORSPACE BY COUNTRY

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**36**	**43**	**44**	**59**	**59**	**58**	**70**	**71**	**73**	**79**
Lithuania	16	19	19	26	25	23	25	26	28	28
Latvia	8	10	10	15	14	16	19	19	19	19
Estonia	12	14	15	18	20	19	26	26	26	32
Floorspace (ths m²)	**18**	**21**	**22**	**24**	**24**	**27**	**36**	**38**	**40**	**43**
Lithuania	8	10	10	10	10	11	12	14	15	15
Latvia	4	5	5	6	6	7	11	11	11	11
Estonia	5	7	7	8	8	9	14	14	14	17

BALTIC REGION – STORES

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**36**	**43**	**44**	**59**	**59**	**58**	**70**	**71**	**73**	**79**
Reserved	22	23	23	24	24	24	24	23	23	23
Cropp	11	13	13	17	16	15	16	16	16	17
House	3	7	8	10	9	8	11	11	11	12
Mohito	-	-	-	8	10	10	14	15	16	17
Sinsay	-	-	-	-	-	1	5	6	7	10
Outlets	-	-	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-

BALTIC REGION – FLOORSPACE

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Floorspace (ths m²)	**18**	**21**	**22**	**24**	**24**	**27**	**36**	**38**	**40**	**43**
Reserved	15	16	16	16	16	18	22	23	23	23
Cropp	3	3	3	4	4	4	5	5	5	6
House	1	2	2	3	2	2	3	3	3	4
Mohito	-	-	-	1	2	3	4	5	5	6
Sinsay	-	-	-	-	-	0	2	2	2	4
Outlets	-	-	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-

5.5. 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 c.20% 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 plan to open our first own stores in Kazakhstan. In 2017 we also launched e-commerce in Russia, while we target Ukraine for 2018.

CIS REGION OVERVIEW
(END OF 2017)

CIS REGION – STORES & FLOORSPACE BY COUNTRY

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**64**	**77**	**85**	**106**	**198**	**272**	**336**	**349**	**368**	**420**
Russia	55	63	65	84	159	219	267	280	296	327
Ukraine	9	14	20	22	39	53	69	69	72	88
Belarus	-	-	-	-	-	-	-	-	-	5
Floorspace (ths m^2)	**32**	**38**	**43**	**51**	**94**	**142**	**180**	**194**	**207**	**247**
Russia	28	32	34	42	76	117	146	158	170	194
Ukraine	4	6	9	9	17	26	34	36	37	49
Belarus	-	-	-	-	-	-	-	-	-	4

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CIS REGION – STORES

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**64**	**77**	**85**	**106**	**198**	**272**	**336**	**349**	**368**	**420**
Reserved	36	40	43	49	69	89	99	101	103	111
Cropp	25	31	34	40	63	78	88	89	92	101
House	-	3	7	11	33	47	60	63	67	76
Mohito	-	-	-	6	33	53	68	71	74	81
Sinsay	-	-	-	-	-	1	17	22	30	48
Outlets	-	-	-	-	-	4	4	3	2	3
Esotiq	3	3	1	-	-	-	-	-	-	-

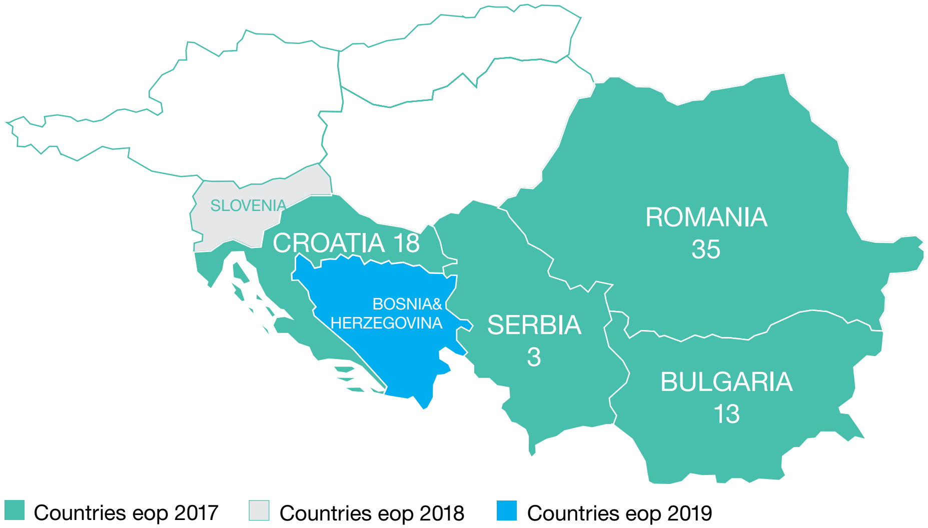
CIS REGION – FLOORSPACE

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Floorspace (ths m²)	**32**	**38**	**43**	**51**	**94**	**142**	**180**	**194**	**207**	**247**
Reserved	25	28	32	36	55	81	97	103	109	128
Cropp	6	8	9	11	19	25	30	32	34	39
House	-	1	2	3	10	16	21	22	24	29
Mohito	-	-	-	1	10	19	25	26	28	31
Sinsay	-	-	-	-	-	0	7	9	12	19
Outlets	-	-	-	-	-	1	1	2	1	2
Esotiq	0	0	0	-	-	-	-	-	-	-

5.6. 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 2017 this number doubled and reached 69. We entered Serbia in 2017 and we plan entry to Slovenia in 2018 and to Bosnia & Herzegovina in 2019. We plan further development in the region, also including e-commerce.

SEE REGION OVERVIEW (END OF 2017)



SEE REGION – STORES & FLOORSPACE BY COUNTRY

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**8**	**13**	**20**	**19**	**11**	**14**	**31**	**47**	**63**	**69**
Bulgaria	0	2	8	7	6	9	15	15	12	13
Romania	8	11	12	12	5	5	11	22	34	35
Croatia	-	-	-	-	-	-	5	10	17	18
Serbia	-	-	-	-	-	-	-	-	-	3
Floorspace (ths m²)	**5**	**7**	**11**	**10**	**7**	**10**	**23**	**34**	**48**	**53**
Bulgaria	0	1	5	4	4	7	11	11	11	11
Romania	5	6	6	6	3	3	7	15	26	26
Croatia	-	-	-	-	-	-	4	7	12	12
Serbia	-	-	-	-	-	-	-	-	-	4

SEE REGION – STORES

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**8**	**13**	**20**	**19**	**11**	**14**	**31**	**47**	**63**	**69**
Reserved	5	7	9	8	5	7	12	16	20	22
Cropp	3	5	7	6	2	3	6	8	10	10
House	-	1	4	3	1	2	4	6	9	9
Mohito	-	-	-	1	1	2	7	11	14	15
Sinsay	-	-	-	-	-	-	2	6	10	13
Outlets	-	-	-	1	2	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-

SEE REGION – FLOORSPACE

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Floorspace (ths m²)	**5**	**7**	**11**	**10**	**7**	**10**	**23**	**34**	**48**	**53**
Reserved	4	6	8	7	4	8	15	22	31	34
Cropp	1	1	2	2	1	1	2	3	4	4
House	-	0	1	1	0	1	2	3	4	4
Mohito	-	-	-	0	0	1	3	4	6	6
Sinsay	-	-	-	-	-	-	1	2	4	5
Outlets	-	-	-	0	1	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-

5.7. 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 2017. By the end of 2018, we plan to have 20 stores in Germany, with further development being dependent on their financial performance.

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. Although no new countries are planned for 2018, in 2019 we aim to open the first store in Finland.

WESTERN EUROPE REGION OVERVIEW
(END OF 2017)

WE REGION – STORES & FLOORSPACE BY COUNTRY

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**12**	**16**	**20**
Germany	-	-	-	-	-	-	4	12	16	19
UK	-	-	-	-	-	-	-	-	-	1
Floorspace (ths m²)	**-**	**-**	**-**	**-**	**-**	**-**	**8**	**27**	**38**	**48**
Germany	-	-	-	-	-	-	8	27	38	45
UK	-	-	-	-	-	-	-	-	-	3

WE REGION – STORES & FLOORSPACE

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**12**	**16**	**20**
Reserved	-	-	-	-	-	-	4	12	16	20
Floorspace (ths m²)	**-**	**-**	**-**	**-**	**-**	**-**	**8**	**27**	**38**	**48**
Reserved	-	-	-	-	-	-	8	27	38	48

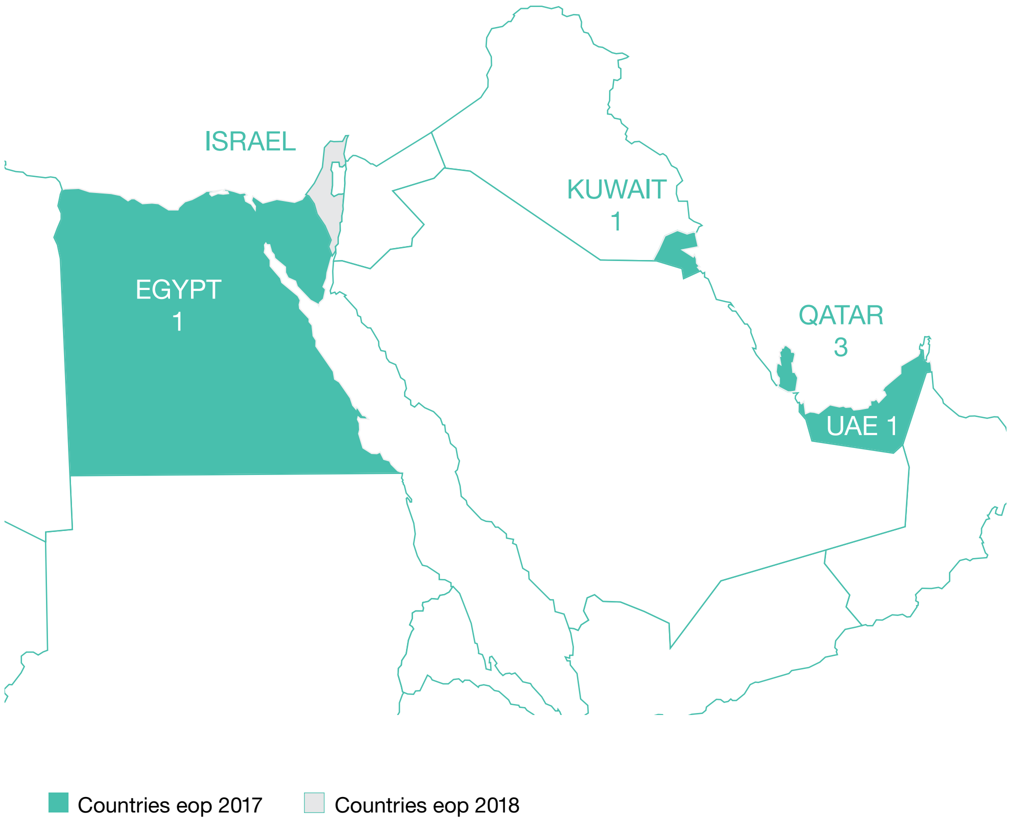
5.8. ME REGION

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 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. 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. Further countries in the region are on our expansion list and we would like to have more than one store in each of these countries. In 2018 first franchise stores are to be opened in Israel. However, in 2017 our partner decided to close down the store in Saudi Arabia. Currently, only Reserved brand is being developed.

MIDDLE EAST REGION OVERVIEW
(END OF 2017)



ME REGION – STORES & FLOORSPACE BY COUNTRY

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**6**	**6**
Egypt	-	-	-	-	-	-	-	1	1	1
Kuwait	-	-	-	-	-	-	-	1	1	1
Qatar	-	-	-	-	-	-	-	1	2	3
Saudi Arabia	-	-	-	-	-	-	-	1	1	-
United Arab Emirates	-	-	-	-	-	-	-		1	1
Floorspace (ths m²)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**8**	**7**
Egypt	-	-	-	-	-	-	-	2	2	2
Kuwait	-	-	-	-	-	-	-	1	1	1
Qatar	-	-	-	-	-	-	-	1	2	2
Saudi Arabia	-	-	-	-	-	-	-	2	2	-
United Arab Emirates	-	-	-	-	-	-	-	-	1	1

ME REGION – STORES BY BRAND

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of stores	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**6**	**6**
Reserved	-	-	-	-	-	-	-	4	6	6
Floorspace (ths m²)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**8**	**7**
Reserved	-	-	-	-	-	-	-	5	8	7

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 ▸ **PRODUCTION** ▸ **LOGISTICS** ▸ **STORES** ▸ **CUSTOMERS**

DESIGN

250+
designers

700+
total number of people creating collections of 5 brands

PRODUCTION

92%
goods sourced from Asia

1,000+
suppliers

LOGISTICS

capacity to send up to
1.5 m
products daily to stores

the largest and most modern clothing distribution centre in CEE

STORES

1,743
stores

20
countries

3 continents
Europe, Asia, Africa

CUSTOMERS

689 m
customers annually

170 m
pieces of clothing and accessories sold

6.1. DESIGN

Our added value lies in designing the clothes that we sell. We have an approximately 250-strong team of designers while the total number of people creating collections reaches 700. They originate mostly from various art schools in Poland, among other from Gdańsk, Warsaw, Poznan, 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.
- Fashion catalogues and lookbooks – studying publications aiming to predict the main trends in upcoming seasons.
- Market research – conducted on selected groups in order to improve customer understanding, monitoring fashion-devoted internet portals, blogs and highstreets.
- Sales analysis – the top-quality IT systems enables to capture trends and shows what types of garments customers of all five brands prefer (fabric, texture, colour and style).
- 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.
- 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.

CRACOW

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

WARSAW

- A new design centre responsible for Reserved.
- Upgraded Showroom of all brands.

WE HAVE SEPARATE DESIGN TEAMS IN EACH OF THE BRANDS

	RESERVED	CROPP	HOUSE	MOHITO	SINSAY	
Designers	151	36	31	25	24	267
Technologists and constructors of clothing	70	8	8	18	8	112
Graphics	31	9	8	2	9	59
Merchants	154	37	31	18	27	267
	406	90	78	63	68	705

over **75%**
of projects goes into production

40 ths
new projects every year

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

6.2. PRODUCTION

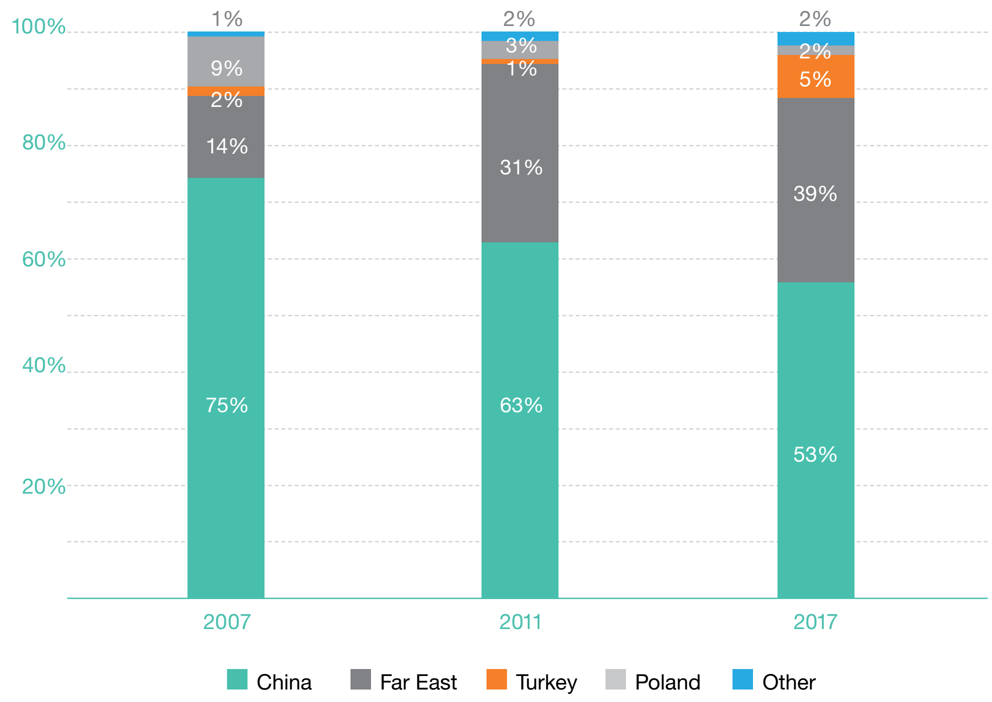
We run a lean business model and thus do not own factories. Production is sourced mostly from the Far East. China constitutes 53% of our supplies while the remaining Far East countries 39%. These are Bangladesh, India, Cambodia or Vietnam. 5% of our production is sourced from Turkey. We believe that the sourcing structure should remain relatively stable in the upcoming seasons, though we plan to increase volumes produced in Poland. 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.

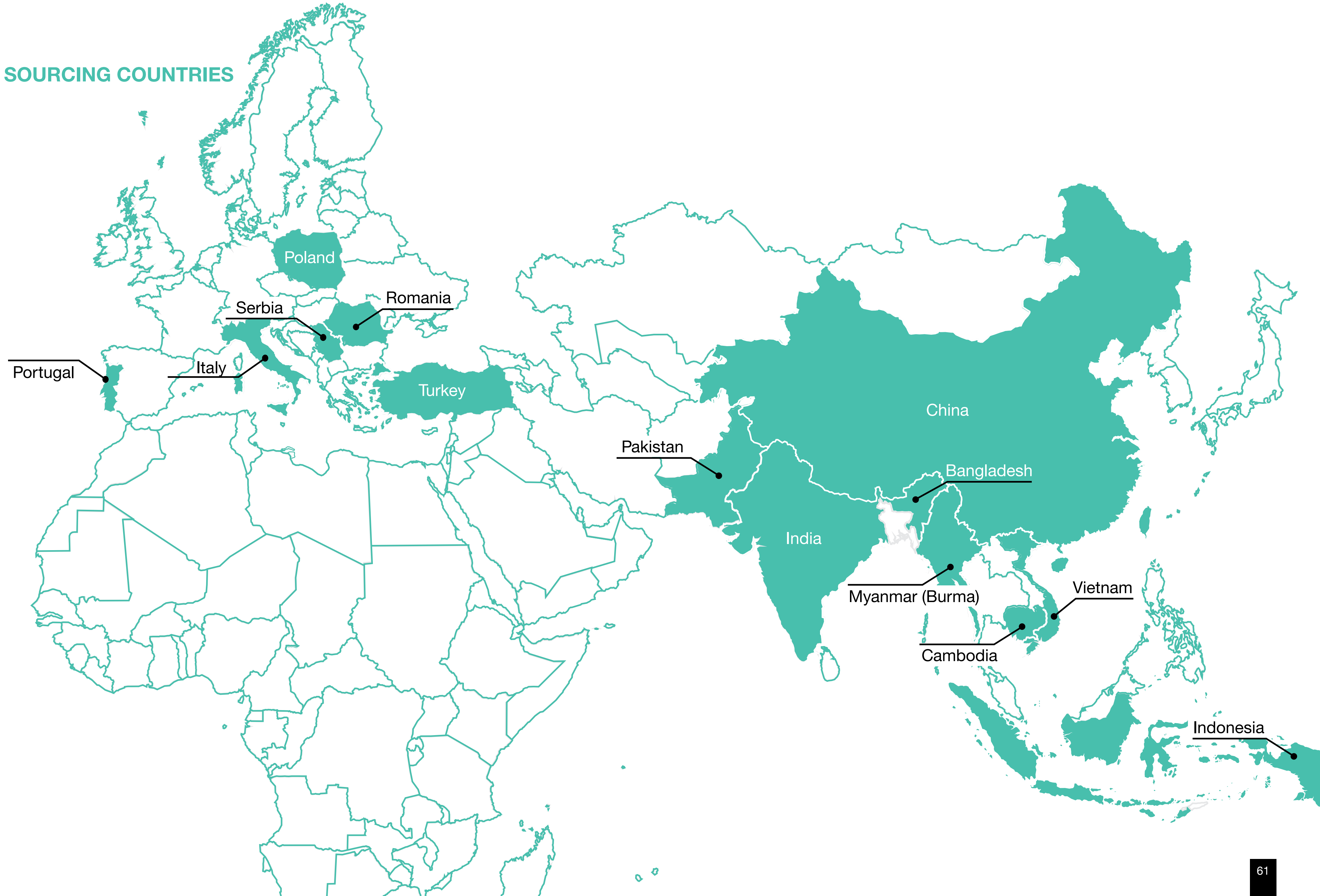
The production process is dependent on the outcome of the designing process. Once designs have been approved, an Ordering Application is created in LPP's IT system. It indicates the amount of pieces to be produced for each model, in which stores the clothing is to be sold as well as the required delivery 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 Corporate Governance and CSR chapter later in this document.

CHANGES IN PRODUCTION SPLIT



SOURCING COUNTRIES



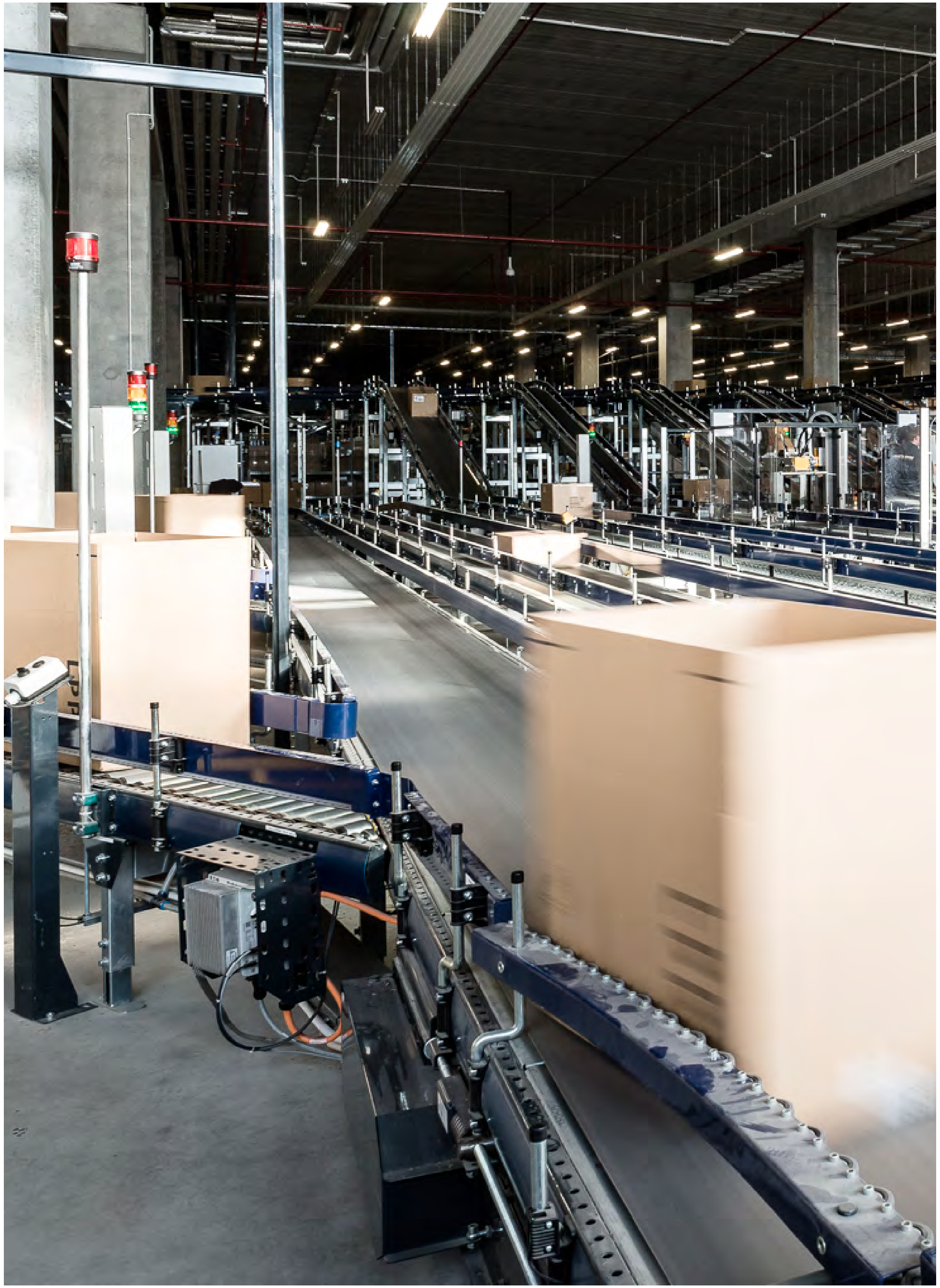
6.3. LOGISTICS

Once the goods are produced, they need to be delivered to our distribution centres and later to stores. 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 two distribution centres used. 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 (eg. 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.

In 2H17 we expanded the number of distribution centres supporting our e-commerce operations. We outsourced e-commerce operations of four our brands to Arvato and we launched a centre dedicated to e-commerce in Russia.

	EXISTING		FUTURE
	POLAND	**RUSSIA**	
STORES	Pruszcz Gdański 66 ths m^2 **owned**	Moscow 9.5 ths m^2 **rented**	We are constructing a 100 ths m^2 distribution centre in the centre of Poland.
E-COMMERCE	Stryków 30 ths m^2 (possibility of extending to 60 ths m^2) **rented**	Moscow 7.0 ths m^2 **rented**	We plan renting a distribution centre in Romania, operational from 1H19.



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. When built in 2007, the centre had 30.5 ths m^2, while its expansion added 35.5 ths m^2. The Moscow centre, on the contrary, is rented only and the number of m^2 rented depends on the season (typically it is 9.5 ths m^2). 60% of goods that are delivered to Russia are sourced from this centre. Due to the growing importance of the e-commerce business, we now have two distribution centres operating the e-commerce solely. One is outsourced to Arvato in Poland. The other one is rented and is located in Russia.

PRUSZCZ GDAŃSKI DISTRIBUTION CENTRE

LOGISTICAL PARAMETERS	MINILOAD PARAMETERS
8 m pieces sent weekly (up to 1.5m per day)	**370 ths** storage positions for boxes (target 600 ths)
200 ths cardboard boxes sent weekly	**18 m** high storage
120 containers accepted per week	**17** alleys / **120 m** long
1,000 workers in distribution centre	**2,400** operations an hour

NEW DISTRIBUTION CENTRE

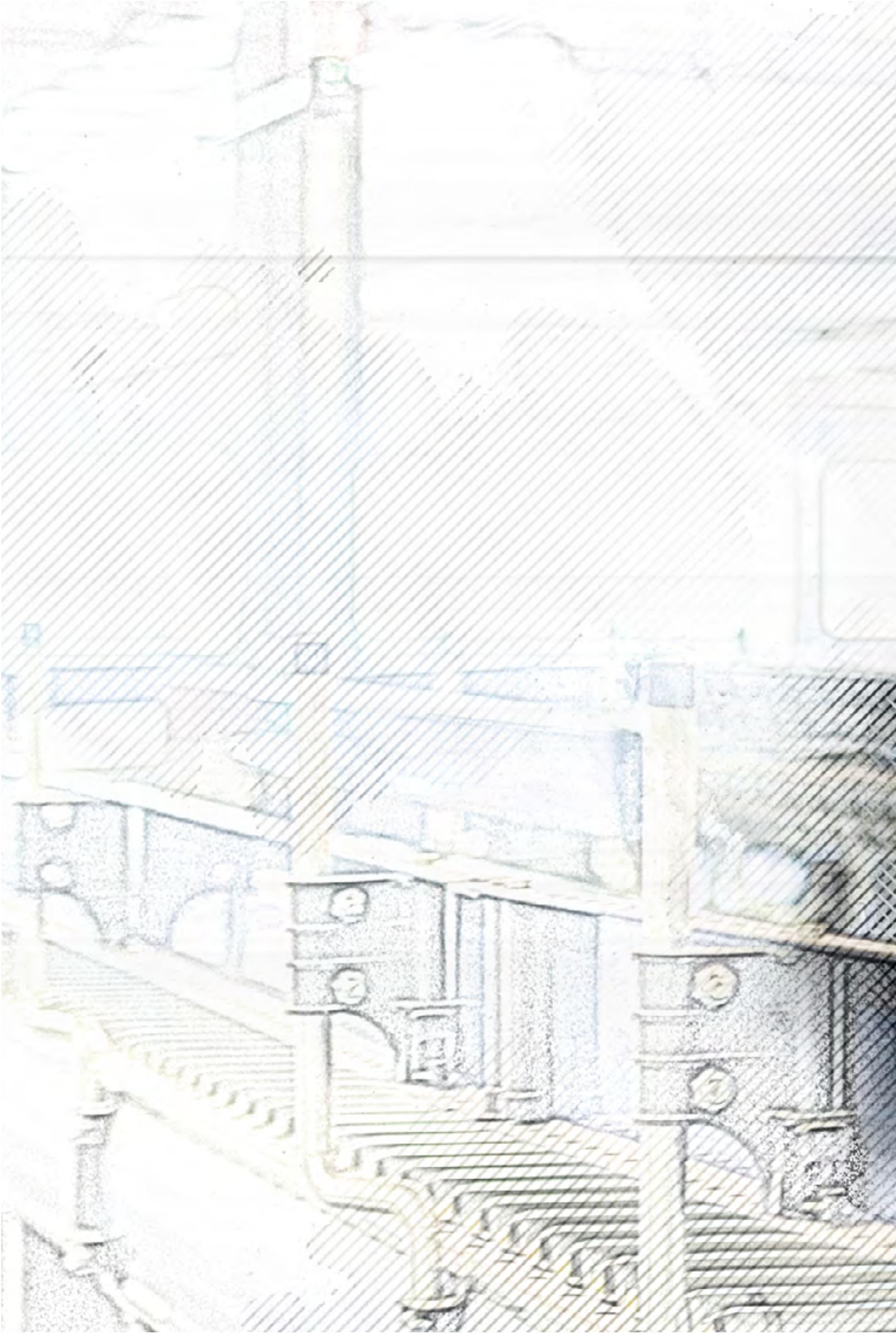
BRZEŚĆ KUJAWSKI (CENTER OF POLAND)

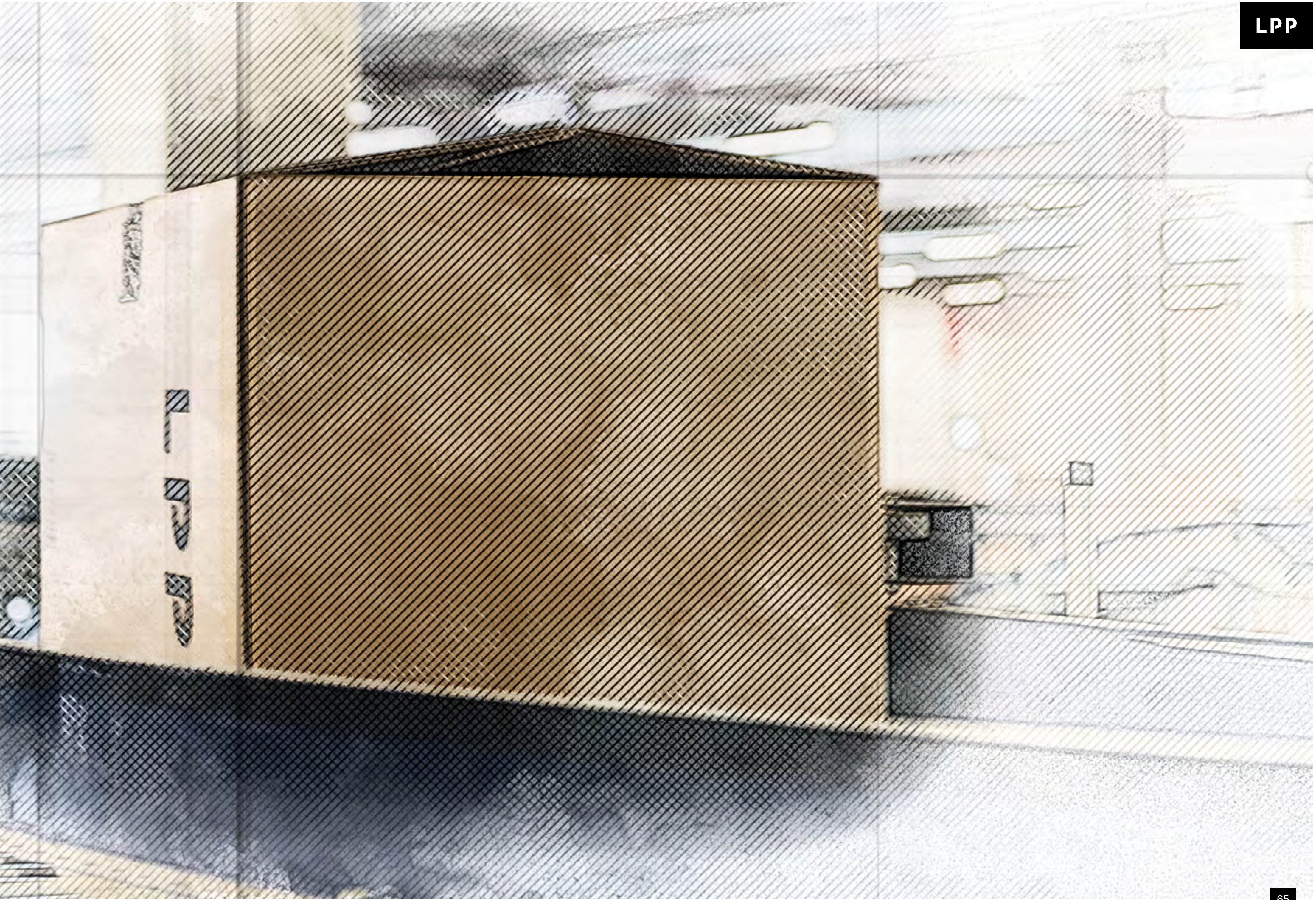
100,000 m²
of warehouse space

15,000 m²
social and office space

25 m
height can have an automatic warehouse

to be operational
in 2021/2022





WE FOCUS ON FLAGSHIPS

3,000 m^2
Reserved in London, UK

2,000 m^2
Reserved in Berlin, Germany

2,500 m^2
Reserved in Moscow, Russia

1,635 m^2
Reserved in Riga, Latvia

2,300 m^2
Reserved in Warsaw, Poland

1,085 m^2
Reserved in Belgrade, Serbia

6.4. SELLING

We aim to make the overall shopping experience of our customers as pleasant, interesting and efficient as possible. We focus on several items:

STORES

We focus on displaying the most fashionable items, we upgrade our stores so that these are friendly for our customers, we want our personnel to be visible and supportive but not overwhelming, we use music and scent in our stores.

E-COMMERCE

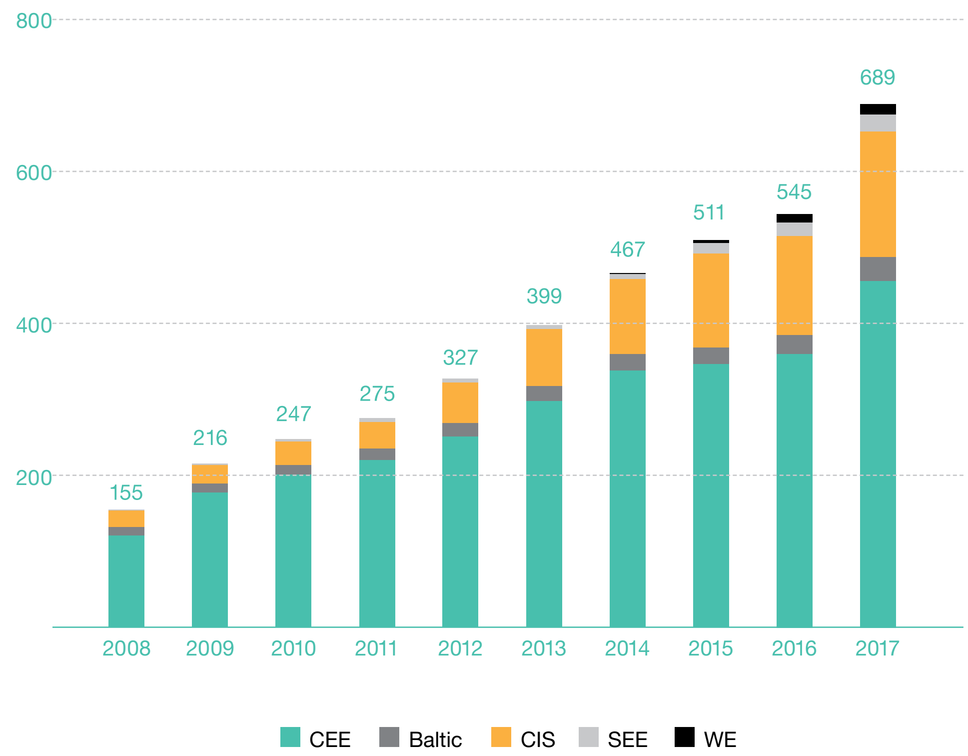
We concentrate on having customer friendly, useful and easy to navigate e-stores and mobile stores of all our brands. Modern logistics supports our e-commerce operations offering quick delivery deadlines.

OMNICHANNEL

We see that the traditional channel (stores) and e-commerce are interlinked to an increasing extent. Out customers visit our stores and order on-line with in store pick-up. While picking-up orders in stores they see more garments they like and purchase these.

On top of brick-and-mortar stores, we also have on-line stores built on modern and scalable IT platform.

TRAFFIC DATA BY REGION
(annual number of visitors in millions)



TRAFFIC – indicates how many customers have visited our stores. Number of customers is measured at each of our stores, both domestically and abroad.

RESERVED SUCCESS IN LONDON

First Reserved flagship store in the UK opened in September 2017.

Prestigious address: 252/258 Oxford Street in London, next to the Zara and H&M stores.

Floorspace 3,000 m^2.

E-store launched together with the flagship.

Marketing: Kate Moss was the face of Reserved in the UK.

Success of the concept - between 4-5 ths people entering the store on week days and 6.5 ths on Saturdays.

Our goal is to obtain PLN 100m of revenues from the store in 2022.

NEW RESERVED STORE CONCEPT

- Wide, open and transparent storefront allows for a deep view into the store.
- Modern LED lamps and LED screens illuminate the collections in a better way and create a warm ambience.
- Enlarged store format. Comfortable, large and spacious fitting rooms.
- Intelligent HVAC (Heating Ventilation Air Conditioning) system for air conditioning and ventilation of showrooms.
- Furniture made of straight profiles, flexible and more mobile.
- Lack of dedicated zones allows for a smooth transition between women, men and children zones.

TOP MODELS IN LPP'S CAMPAIGNS

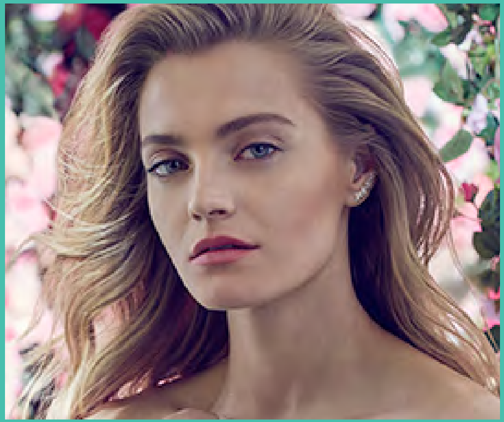
Cara Delevingne

Georgia May Jagger

Kate Moss

Cindy Crawford

Anja Rubik



Anna Jagodzińska

Zuzanna Bijoch

Magdalena Frąckowiak

6.5. ADVERTISING

We aim to attract as many customers as possible, as traffic is 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 and sizes 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. Polish singer Margaret created a star collection for Sinsay AW15/16 while Anja Rubik Mohito AW14/15 star collection, while Georgia May Jagger for Reserved AW 15/16.

Billboards
used occasionally in the past, eg. with top-models advertising Reserved brand (Georgia May Jagger).

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 for both the traditional and on-line 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	Paprocki&Brzozowski (star collections created by Polish designers)
AW08/09	Gosia Baczyńska (star collections created by Polish designer)
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, Elizabeth Jagger, Jerry Hall / Brooklyn Beckham
AW15/16	Georgia May Jagger star collection / Zuzanna Bijoch
SS16 / AW16/17	Anna Jagodzińska / Magdalena Frąckowiak
AW17/18	Kate Moss, Irina Shayk
SS18	Cindy Crawford

7. BUSINESS MODEL

Below we present an in-depth description of our business model and details on how our financial results are generated.

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 (including internet operations). 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 m^2 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.

The development targets of brands are set at the country level. Such an approach allows to judge further expansion potential. It is our intention to be in the best shopping malls and the most important high streets. Naturally, the lower the number of stores and the higher the affluence of customers, the more abundant the growth

GROUP REVENUES

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues (PLN m)	1,623	2,003	2,079	2,493	3,224	4,116	4,769	5,130	6,019	7,029
YoY growth	27%	23%	4%	20%	29%	28%	16%	8%	17%	17%
Revenues/m^2 monthly (PLN)	704	674	572	610	675	664	589	536	575	628
YoY growth	-14%	-4%	-15%	7%	11%	-2%	-11%	-9%	7%	9%
Store revenues	1,503	1,845	1,933	2,364	3,060	3,921	4,560	4,937	5,703	6,571
YoY growth	28%	23%	5%	22%	29%	28%	16%	8%	16%	15%
E-commerce	-	-	4	4	6	27	65	79	173	361
YoY growth	-	-	-	16%	46%	343%	143%	22%	118%	108%
Wholesale revenues	120	159	147	125	164	169	145	114	143	97
YoY growth	20%	32%	-7%	-15%	31%	3%	-14%	-22%	26%	-32%

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 advertising 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 (4) time of delivery.

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, (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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
LFLs	5.5%	-13.0%	-9.5%	15.7%	11.3%	5.6%	-2.5%	0.6%	6.4%	10.1%

7.2. GROSS 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.

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, India, Vietnam or Cambodia. Overall, the Far East constituted 92% of our supplies. The rest is almost entirely split between Turkey and Poland. The latter is scheduled to increase on importance in the upcoming years.

2017 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. 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 it 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.

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 tend to have high margins in the second and the fourth quarter when we sell our collections in full prices. 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 52.9% along with successful Reserved brand restructuring.

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Gross profit (PLN m)	965	1,058	1,133	1,424	1,827	2,409	2,793	2,743	2,934	3,720
YoY growth	28.2%	9.6%	7.1%	25.6%	28.3%	31.9%	15.9%	-1.8%	7.0%	26.8%
Gross profit/ m^2 monthly (PLN)	419	356	312	367	403	405	356	293	280	332
YoY growth	-14%	-15%	-12%	18%	10%	0%	-12%	-18%	-4%	19%
Gross profit margin	59.5%	52.8%	54.5%	57.1%	56.7%	58.5%	58.6%	53.5%	48.7%	52.9%
USD/PLN average rate	2.41	3.12	3.02	3.23	3.26	3.16	3.15	3.77	3.94	3.78

2016 gross profit margin adjusted for the sale of obsolete inventory would come at 50.8%.

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. However, 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/m^2 ratio on a monthly basis. These have reached PLN 300 in 2012 while PLN 280 in 2017, despite inflation and growing salaries. Costs of stores dominate over costs of headquarters. Costs of stores took up 77% in 2017 SG&A costs, leaving 23% for HQ.

One of the characteristics of our business is a high operating leverage. 30% of our SG&A costs are variable while as much as 70% are fixed, 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 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 (45% of 2017 costs of own stores) are typically denominated in euro (75%), however other currencies also appear (US$ 12%, mostly in CIS) as well as RUB, PLN and CZK (13%). 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.

SG&A COSTS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
SG&A costs (PLN m)	731	863	928	1,070	1,361	1,759	2,148	2,192	2,609	3,100
YoY growth	29%	18%	8%	15%	27%	29%	22%	2%	19%	19%
SG&A/m^2 monthly (PLN)	317	290	255	276	300	296	274	234	237	280
YoY growth	-13%	-8%	-12%	8%	9%	-1%	-8%	-14%	1%	11%
% of sales	45%	43%	45%	43%	42%	43%	45%	43%	43%	44%
Costs of stores (PLN m)	499	648	745	833	1,075	1,423	1,731	1,780	2,080	2,377
YoY growth	35%	30%	15%	12%	29%	32%	22%	2%	17%	14%
Costs of headquarters (PLN m)	232	215	187	237	286	336	417	411	528	723
YoY growth	18%	-7%	-13%	27%	21%	17%	24%	2%	28%	37%

HR costs (29% in 2017 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 12 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 (26% in 2017) include many items like energy, security, payment card commission, out of which the largest part (half of the whole amount) is depreciation. Capex for the stores is depreciated over a 7-year period. Other items include banking provisions for cards, security of the stores, costs of media and electricity.

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 logictics centres to stores.

Please note that the group's overall HR costs are not directly shown in the operating cost split. 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 the group's operating cost structure, costs of own 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.

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of group employees	5,343	6,739	7,880	9,277	12,014	15,854	19,970	21,563	25,106	25,635
Employees in Poland	3,973	5,281	5,847	6,762	8,198	10,515	12,767	13,894	16,239	14,736
office & warehouse	1,297	1,413	1,353	1,380	1,370	1,651	2,039	2,200	2,708	3,320
stores	2,676	3,868	4,494	5,382	6,828	8,864	10,728	11,694	13,531	11,416
Employees abroad	1,371	1,458	2,034	2,515	3,816	5,339	7,203	7,669	8,867	10,899
office	211	208	241	266	331	383	455	454	486	539
stores	1,160	1,250	1,793	2,249	3,485	4,956	6,748	7,215	8,381	10,360

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 bothways: 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).

EBIT

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EBIT (PLN m)	215	181	199	343	454	616	609	503	226	578
YoY growth	23%	-16%	10%	72%	32%	35%	-1%	-17%	-55%	155%
EBIT margin	13%	9%	10%	14%	14%	15%	13%	10%	4%	8%

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.

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, only bank loans are used yet to a lower extent. The level of short-term debt, used to finance ongoing operations, is higher than the long-term indebtedness which largely consists of loans taken to finance distribution centre and headquarters expansion. Short-term financing cost is more favourable than the long-term one. Financial costs line also includes provisions and fees for the banks.

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 should also lower 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.

NET FINANCIALS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net financials (PLN m)	-2	-42	-18	-12	-30	-92	-149	-88	-32	-15
Financial income	18	3	11	14	2	2	3	2	1	5
Financial costs	-20	-45	-29	-26	-32	-94	-152	-90	-34	-20

Much lower scale of FX differences due to counteractive measures undertaken.

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 (eg. 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 one of the sources of 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 than corrected in March and paid to the tax office.

2017 TAX RATES BY COUNTRIES

Poland	19%	Lithuania	15%	Ukraine	18%
Czech Republic	19%	Latvia	15%	Bulgaria	10%
Slovakia	21%	Estonia	20%	Romania	16%
Hungary	9%	Russia	20%	Cyprus	12.5%
Croatia	18%	Serbia	15%	Germany	30.5%

TAXES

PLN m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Taxes	46	35	43	62	70	91	-22	63	19	123
Current taxation	43	47	40	64	72	97	95	56	27	135
Deferred taxation	3	-13	4	-3	-2	-6	-117	7	-7	-12
Effective tax rate	21%	25%	24%	19%	17%	17%	-5%	15%	10%	22%

We would like to underline that the differences between taxes accrued and paid do not result from foreign exchange differences treatment. In 2010 we changed the treatment of foreign exchange differences, switching tax method for accounting method. The tax method allows only the realised foreign exchange gains or losses to be included in the tax base (based on which taxes are calculated). The accounting method allows both realised and unrealised foreign exchange differences to be included in the tax base of the company. The Polish CIT law obliges us to use this method for three years before we can change this. So far we are satisfied with our decision.

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, yet a small amount appeared in 2017.

NET INCOME

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net income (PLN m)	167	105	137	269	352	431	480	351	175	441
YoY growth	24%	-38%	31%	96%	31%	22%	11%	-27%	-50%	152%
Net margin	10%	5%	7%	11%	11%	10%	10%	7%	3%	6%

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 takes away from our operating cash flows. This is because we sell the inventory slower than we pay our liabilities. However, overall our business model generates cash, despite this NWC drag, due to high gross profit and operating margins.

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 10 days on average. 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. Fast growing internet operations are also blurring the picture. 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. 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.

The level of liabilities depends on Far East purchases. Half of settlements with suppliers is conducted in the form of a letter of credit. We also use other payment modes like documentary collection and bank transfers. 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 120 days.

Please also note that the cash cycle ratio underwent changes in 2016 and 2017. 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. We are in the process of lengthening the liabilities period. In exchange we offer our suppliers the possibility to discount their invoices at LPP's discount rate at our financing platform. It is our aim to match the level of liabilities to the level of inventory.

CASH CYCLE

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net working capital (PLN m)	289	176	207	331	309	421	538	713	448	350
Receivables	75	78	96	114	130	163	177	115	165	200
Inventory	463	323	424	595	656	805	979	1,320	1,164	1,473
Liabilities	248	225	313	378	478	548	619	721	881	1,323

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Cash cycle (days)	107	74	56	72	66	60	70	84	61	33
Receivables (days)	14	14	15	15	14	13	13	10	9	9
Inventory (days)	209	152	144	174	163	156	165	176	147	145
Liabilities (days)	115	91	104	118	112	110	108	102	95	122

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

Halving of the cash cycle.

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 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 3,000/m^2 and may go up in the future along with more openings in Western Europe. 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).

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. This is going to change in future. The current distribution centre will be sufficient until 2020. We have decided to locate the next distribution centre in Brześć Kujawski. It will most likely be built during the 2021-2022 period.

Other capex: The latter includes, among others, spending for refurbishing of headquarters and land parcels for further growth. 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.

We show fit-outs in three places in our financial statements:

- A large portion of fit-outs is booked as a cash inflow in the investing cash flow.
- A small proportion of fit-outs comes back to us in cash.
- The remaining portion of fit-outs is booked as a gain on sale of assets. Until the end of 2014 this gain constituted part of other operating income. From 2015 the accounting treatment changed, and the gain is depreciated over the useful life of the store (7 years) and treated as a reduction in rentals. Due to a sizeable scale of rentals, the change has a very limited impact on our profitability. 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 and fitness for employees as well as showers and changing rooms for those commuting by bicycles.

The current floorspace is not enough and works are underway to conduct further expansion of our offices. Nearby land plots have been purchased. Contrary to current modernised offices, the new buildings are to be built from scratch. We have space to build four new buildings. The first building is to be opened in 2019.

CAPEX

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capex (PLN m)	253	95	101	129	288	542	551	491	272	442
Stores	127	77	87	109	272	455	386	392	230	376
Logistics	88	2	1	8	4	56	100	31	5	5
Other	38	16	13	12	13	30	65	67	37	61
YoY growth	158%	-62%	6%	28%	123%	88%	2%	-11%	-45%	62%
% of sales	16%	5%	5%	5%	9%	13%	12%	10%	5%	6%

INFRASTRUCTURE SPENDING PLAN FOR 2018-20

PLN m	2018	2019	2020	TOTAL
Stores	**350**	**350**	**350**	**1,050**
Stores PL and EX	350	350	350	1,050
HQs	**135**	**100**	**140**	**375**
New offices, Gdańsk Łąkowa - Building 1	60	20	-	80
New offices, Gdańsk Łąkowa - Building 2	-	70	-	70
New offices, Gdańsk Łąkowa - Building 3	-	-	70	70
New offices, Gdańsk Łąkowa - Building 4	-	-	70	70
New offices, Cracow	35	-	-	35
New offices, Gdańsk (purchase)	40	10	-	50
Logistics	**60**	**170**	**230**	**460**
Expansion of Pruszcz Gdański LC	40	20	-	60
New distribution centre in Brześć Kujawski	20	150	230	400
IT&Other	**45**	**50**	**50**	**145**
TOTAL	**590**	**670**	**770**	**2,030**

VISUALISATION OF THE EXPANDED LPP HEADQUARTERS IN GDAŃSK

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. Bank debt at the level of subsidiaries is rarely taken.

Due to cash generation of the business in 2017 we have moved from net debt to net cash. 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). Dividend from 2016 earnings was 10% higher YoY. PLN 66m were paid out in September 2017.

NET DEBT

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net debt (PLN m)	464	228	272	173	27	209	399	621	144	-316
Cash and equivalents	90	197	96	117	159	149	184	224	366	515
Long-term debt	306	343	278	86	125	184	204	284	195	142
Short-term debt	247	82	91	204	61	174	378	561	315	56
Net debt/EBITDA (x)	1.6	0.8	0.9	0.4	0.0	0.3	0.5	0.9	0.3	-0.4
Dividends (PLN m)	-	-	86	135	140	154	170	58	60	66
YoY growth	-	-	-	56%	4%	10%	10%	-66%	3%	9%

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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Intangible assets	14	13	11	12	18	20	29	37	44	64
Goodwill	184	184	184	184	184	184	210	210	210	210
Trademark	78	78	78	78	78	78	78	78	78	78
Equity	565	686	734	909	1,211	1,496	1,638	1,890	2,135	2,443
Tangible equity	290	412	462	637	932	1,215	1,323	1,565	1,804	2,092
Assets	1,426	1,362	1,426	1,614	1,932	2,492	2,934	3,565	3,678	4,207

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


ROGUE

8. STRATEGY

The base of strategy has not altered over the past years. We aim to grow, developing our existing brands as well as expanding the number of countries present. However, given changes on the retail market, we also invest and develop e-commerce. We aim to become a global company with our brands being recognized all over the world.

8.1 EXPANSION BY BRANDS

EXPANSION BY BRANDS

1998 | Reserved

▼

2004 | Cropp

▼

2005 | Esotiq (divested 2010/11)

▼

2008 | House, Mohito (acquisition)

▼

2013 | Sinsay

▼

2016 | Tallinder (launch of the brand)

▼

2017 | Tallinder (closing of the brand)

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 started only with the 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), through teenagers (Cropp, House, Sinsay) and ending with more mature customers (Mohito and Reserved).

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.

8.2 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 the Western Europe 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.

We see higher growth potential in CIS (Commonwealth of Independent States) and SEE (South Eastern Europe). The situation in CIS is different. 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. We see long-term growth potential in Russia, due to large number of towns with population above 1 million. In 2017 we enlarged the number of CIS countries present and launched franchise operations in Belarus. First stores in Belarus were opened in April 2017. First own store in Kazakhstan is to be opened in 2018. We are present only in four countries of South Eastern Europe (Bulgaria, Romania, Croatia and Serbia) leaving the potential to expand in these and enter new countries. We opened our first store in Serbia in August 2017. We plan to enter 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 and in the UK. We are looking at other WE countries, yet we await BEP in Germany before taking decision on further moves. 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. We take Milan/Italy and Paris/France into account as other possibilities for flagships. At the end of 2017 we were present in four Middle East countries. We plan to enter Israel in 2018.

EXPANSION BY COUNTRIES

1998 | POLAND

▼

2002 | RUSSIA, LATVIA, ESTONIA, CZECH REPUBLIC, HUNGARY

▼

2003 | UKRAINE, SLOVAKIA, LITHUANIA

▼

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

8.3 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 be changing. At the end of 2017, we had traditional stores in 20 countries, while e-commerce operations in 11 countries (though all our five brands were present on 9 of these markets). Two most important sources of growth should be: (1) continued switch to internet sales and (2) new countries entered. As a result, in 2019 the number of e-commerce countries should reach 35, exceeding by 10 the number of countries with traditional stores. In 2018 we plan to enter Ukraine and five Middle East countries (decision of our franchise partner). In 2019 our e-stores should be operational in the whole European Union.

EXPANSION BY COUNTRIES

2011 | POLAND

▼

2014 | GERMANY

▼

2015 | CZECH REPUBLIC, SLOVAKIA, ROMANIA

▼

2016 | HUNGARY

▼

2017 | LITHUANIA, LATVIA, ESTONIA, THE UK, RUSSIA

▼

2018 | UKRAINE, BAHRAIN, KUWAIT, UAE, SAUDI ARABIA, OMAN (ME REGION THROUGH FRANCHISE PARTNER)

▼

2019 | ALL COUNTRIES OF THE EUROPEAN UNION

LPP WORLD OF FASHION TECH

RFID

System of electronic tags, which allows to identify each product during the whole value chain.

STORE VISION

Own mobile application informing about product availability and allowing its order either to the designated store or to the customer.

BIG DATA

Analysis of trends in sales to customize the offer of each store.

We expect a c. 3% sales increase from RFID implementation. We estimate the annual cost at some PLN 60 m.

M-COMMERCE

Over 40% of on-line sales goes through smartphones.

NEXT BUSINESS DAY DELIVERY

Streamlining of warehouse and logistics processes to speed up e-commerce deliveries.

OMNICHANNEL

Focus on combination of traditional stores with e-commerce and m-commerce.

9. FINANCIALS

CONSOLIDATED INCOME STATEMENT

PLN m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues	1,623	2,003	2,079	2,493	3,224	4,116	4,769	5,130	6,019	7,029
COGS	658	945	946	1,069	1,397	1,707	1,977	2,388	3,085	3,309
Gross profit	**965**	**1,058**	**1,133**	**1,424**	**1,827**	**2,409**	**2,793**	**2,743**	**2,934**	**3,720**
SG&A costs	731	863	928	1,070	1,361	1,759	2,148	2,192	2,609	3,100
Costs of sales	637	773	837	968	1,228	1,605	1,943	2,012	2,405	2,752
G&A costs	93	90	91	102	132	154	205	179	204	348
Other operating line	-20	-14	-6	-10	-12	-34	-35	-48	-99	-42
Other operating income	9	28	23	21	28	34	46	24	25	36
Other operating costs	28	42	28	31	40	68	81	73	124	77
EBIT	**215**	**181**	**199**	**343**	**454**	**616**	**609**	**503**	**226**	**578**
Net financials	-2	-42	-18	-12	-30	-92	-149	-88	-32	-15
Financial income	18	3	11	14	2	2	3	2	1	5
Financial costs	20	45	29	26	32	94	152	90	34	20
Taxes	46	35	43	62	70	91	-22	63	19	123
Minorities & discontinued operations	0	0	0	0	2	2	2	0	0	0
Net income	**167**	**105**	**137**	**269**	**352**	**431**	**480**	**351**	**175**	**441**
Depreciation	66	96	96	95	109	148	194	224	267	293
EBITDA	**281**	**277**	**295**	**439**	**563**	**764**	**803**	**726**	**494**	**872**

CONSOLIDATED INCOME STATEMENT, YOY DYNAMICS

PLN m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues	27%	23%	4%	20%	29%	28%	16%	8%	17%	17%
COGS	26%	44%	0%	13%	31%	22%	16%	21%	29%	7%
Gross profit	**28%**	**10%**	**7%**	**26%**	**28%**	**32%**	**16%**	**-2%**	**7%**	**27%**
SG&A costs	29%	18%	8%	15%	27%	29%	22%	2%	19%	19%
Costs of sales	28%	21%	8%	16%	27%	31%	21%	4%	20%	14%
G&A costs	33%	-4%	1%	12%	29%	17%	33%	-13%	14%	71%
Other operating line	92%	-28%	-59%	78%	15%	189%	2%	38%	103%	-58%
Other operating income	57%	226%	-20%	-9%	34%	22%	36%	-47%	5%	41%
Other operating costs	80%	50%	-33%	9%	28%	72%	19%	-10%	71%	-38%
EBIT	**23%**	**-16%**	**10%**	**72%**	**32%**	**35%**	**-1%**	**-17%**	**-55%**	**155%**
Net financials	-84%	2,613%	-57%	-34%	151%	203%	63%	-41%	-63%	-54%
Financial income	1,099%	-84%	259%	27%	-84%	6%	28%	-34%	-34%	264%
Financial costs	82%	126%	-36%	-11%	27%	190%	62%	-41%	-63%	-42%
Taxes	47%	-24%	26%	43%	13%	30%	-124%	-387%	-69%	537%
Minorities & discontinued operations	n/m	164%	-100%	n/m	268%	22%	22%	-100%	-	-
Net income	**24%**	**-38%**	**31%**	**96%**	**31%**	**22%**	**11%**	**-27%**	**-50%**	**152%**
Depreciation	33%	45%	0%	-1%	14%	36%	31%	15%	20%	10%
EBITDA	**25%**	**-1%**	**6%**	**49%**	**28%**	**36%**	**5%**	**-10%**	**-32%**	**77%**

CONSOLIDATED BALANCE SHEET

PLN m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Non-current assets	**767**	**740**	**710**	**745**	**910**	**1,232**	**1,516**	**1,797**	**1,839**	**1,920**
Tangible fixed assets	469	442	420	448	599	897	1,039	1,259	1,291	1,348
Intangible assets	14	13	11	12	18	20	29	37	44	64
Goodwill	184	184	184	184	184	184	210	210	210	210
Trademark	78	78	78	78	78	78	78	78	78	78
Investments in subsidiaries	1	1	0	0	0	0	0	0	0	0
Other investments	0	0	0	1	1	10	2	2	0	0
Receivables and loans	2	1	1	5	9	13	6	6	6	5
Deferred tax assets	20	22	16	19	23	30	144	139	144	159
Pre-payments	0	0	0	0	0	0	9	67	67	57
Current assets	**660**	**622**	**716**	**869**	**1,022**	**1,260**	**1,417**	**1,768**	**1,839**	**2,287**
Inventory	463	323	424	595	656	805	979	1,320	1,164	1,473
Trade receivables	75	78	96	114	130	163	177	115	165	200
Receivables from income tax	0	0	1	2	5	17	11	47	75	6
Other receivables	26	15	23	31	60	97	46	35	0	0
Loans	0	1	0	0	0	12	0	0	2	2
Other financial assets	0	0	69	0	0	0	0	0	29	48
Pre-payments	6	7	7	10	11	16	20	27	38	44
Cash and cash equivalents	90	197	96	117	159	149	184	224	366	515
Total assets	**1,426**	**1,362**	**1,426**	**1,614**	**1,932**	**2,492**	**2,934**	**3,565**	**3,678**	**4,207**

CONSOLIDATED BALANCE SHEET

PLN m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Equity	**565**	**686**	**734**	**909**	**1,211**	**1,496**	**1,638**	**1,890**	**2,135**	**2,443**
Share capital	3	4	4	4	4	4	4	4	4	4
Treasury shares	-49	-49	-49	-49	-49	-49	-43	-43	-43	-43
Additional paid-in capital	108	108	108	150	235	235	235	235	251	278
Other capital	328	512	548	562	657	860	1,092	1,324	1,608	1,823
Foreign exchange differences from subsidiaries	-3	1	-1	-5	-3	-4	-184	-229	-115	-208
Retained earnings	177	110	124	244	365	447	532	599	430	590
Profit (loss) from previous years	9	5	-13	-25	13	16	52	248	255	149
Net profit (loss) for the current period	168	105	137	269	352	431	480	351	175	441
Minority interest	0	0	0	3	3	3	3	0	0	0
Long-term liabilities	**322**	**348**	**281**	**89**	**131**	**192**	**211**	**344**	**267**	**233**
Bank loans	306	227	156	86	125	184	204	284	195	142
Other financial liabilities	0	116	122	0	0	0	0	0	0	0
Provisions for employee benefits	1	0	1	1	1	3	2	2	3	1
Provision for deferred income tax	15	1	2	2	4	5	5	7	4	7
Other long-term liabilities	0	4	0	0	0	0	0	0	0	0
Accruals	0	0	0	0	0	0	0	51	66	83
Short-term liabilities	**539**	**328**	**411**	**615**	**590**	**803**	**1,085**	**1,331**	**1,276**	**1,530**
Trade and other liabilities	248	225	313	378	478	548	619	721	881	1,323
Income tax liabilities	31	14	1	12	19	38	38	3	7	53
Bank loans	247	76	87	118	61	174	378	561	315	56
Other financial liabilities	0	6	4	86	0	0	0	0	0	0
Provisions	8	3	3	15	20	25	20	18	38	54
Special funds	0	0	0	0	0	0	0	0	0	0
Accruals	4	3	4	7	12	19	29	28	34	44
Total liabilities	**1,426**	**1,362**	**1,426**	**1,614**	**1,932**	**2,492**	**2,934**	**3,565**	**3,678**	**4,207**

CONSOLIDATED CASH FLOW STATEMENT

PLN m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Pre-tax profit (loss)	**213**	**139**	**181**	**331**	**424**	**524**	**460**	**414**	**194**	**564**
Total adjustments	-18	179	17	-77	57	-15	33	-160	524	330
Amortisation and depreciation	66	96	96	95	109	148	194	224	267	293
Income tax paid	-39	-65	-53	-53	-56	-92	-91	-128	-59	-92
Net working capital	-67	128	-43	-145	-22	-96	-127	-223	256	101
- Change in inventories	-122	127	-103	-159	-72	-178	-259	-382	212	-354
- Change in receivables	-15	18	-28	-17	-103	-82	52	7	-36	-39
- Change in liabilities	69	-17	88	31	153	165	80	152	80	494
Change in provisions	2	-3	0	13	5	8	0	-1	16	15
Other adjustments	20	22	15	12	21	17	58	-31	44	12
Net operating cash flow	**195**	**318**	**197**	**254**	**481**	**509**	**493**	**254**	**718**	**893**
Investing inflows	7	25	62	95	31	49	88	75	91	58
Capex	-253	-95	-101	-129	-288	-542	-551	-491	-272	-442
Other investing outflows	-332	-2	-92	-5	-3	-25	-13	0	0	0
Investing cash flow	**-577**	**-71**	**-131**	**-40**	**-261**	**-518**	**-476**	**-416**	**-181**	**-384**
Financing inflows	635	164	15	6	4	220	283	365	16	26
Interest bearing debt	598	164	15	3	4	220	283	365	16	26
Other	37	0	0	3	0	0	0	0	0	0
Financing outflows	-216	-304	-183	-200	-182	-220	-265	-164	-410	-386
Treasury shares	-49	0	0	0	0	0	0	0	0	0
Dividends	0	0	-86	-135	-140	-154	-170	-58	-60	-66
Interest bearing debt	-149	-280	-75	-46	-23	-52	-79	-87	-329	-309
Other	-19	-24	-22	-19	-20	-14	-17	-19	-22	-17
Financing cash flow	**418**	**-139**	**-168**	**-194**	**-178**	**-1**	**17**	**201**	**-394**	**-360**

LPP

CONSOLIDATED RATIOS

PLN m	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Gross profit margin	59.5%	52.8%	54.5%	57.1%	56.7%	58.5%	58.6%	53.5%	48.7%	52.9%
EBITDA margin	17.3%	13.8%	14.2%	17.6%	17.5%	18.6%	16.8%	14.2%	8.2%	12.4%
EBIT margin	13.2%	9.0%	9.6%	13.8%	14.1%	15.0%	12.8%	9.8%	3.8%	8.2%
Net income margin	10.3%	5.2%	6.6%	10.8%	10.9%	10.5%	10.1%	6.8%	2.9%	6.3%
ROE	29.6%	15.3%	18.7%	29.6%	29.1%	28.8%	29.3%	30.6%	19.9%	8.7%
Cash cycle (days)	107	74	56	72	66	60	70	84	61	33
receivables	14	14	15	15	14	13	13	10	9	9
inventory	209	152	144	174	163	156	165	176	147	145
liabilities	115	91	104	118	112	110	108	102	95	122
Net debt/ EBITDA	1.6	0.8	0.9	0.4	0.0	0.3	0.5	0.9	0.3	-0.4
Net debt/ equity	0.8	0.3	0.4	0.2	0.0	0.1	0.2	0.3	0.1	-0.1

10. OUTLOOK

We plan to develop two-ways: by opening on-line stores in countries where traditional stores are present and by adding new traditional floorspace. We also plan to launch our e-stores in countries where no traditional stores exist.

We have in-house developed the Reserved brand. In 2004, we launched the teenage oriented Cropp brand. In 2005 we launched the underwear Esotiq brand, divested to its management at the end of 2010. Along with the Artman merger we have obtained the House and Mohito brands. In 2013, we have successfully launched the girls-oriented Sinsay brand. 1Q16 marked the start of our sixth brand, Tallinder, the first one in the upper part of the retail market, with high quality clothes and more traditional cuts. However, due to unsatisfactory sales results, in September 2016 we took the decision to close the brand as of the end of February 2017.

We are present in several regions, each having different growth opportunities. In 2018 we plan to have 1,105.2 ths m^2, up 10.5% YoY. The growth in majority is to come from opening of company-owned stores versus franchise stores.

Central Eastern Europe

In Poland, development of the more mature Reserved, Cropp and House brands is going to depend on new shopping malls openings. We see potential for more dynamic add-ons in Mohito and Sinsay brands. From 2017 we concentrate on quality not quantity of the stores and as a result, we close suboptimal locations whose rental agreements expire. In other countries from the Central Eastern Europe region like Czech Republic and Slovakia we feel we have reached a maturity stage, with more dynamic openings possible in Hungary. On-line stores of all brands are present in each country of the region.

Baltic

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

Commonwealth of Independent States

We still see development potential in the CIS markets, i.e. Russia and Ukraine, looking at the population of both countries and the amount of high quality shopping mall floorspace available. From 2H16 we accelerated development in Russia and later on in Ukraine. 2H17 marked the start of our on-line stores in Russia, while Ukraine should be launched in 2018. In 2017 we opened the first franchise stores in Belarus, while 2018 should mark the first own stores in Kazakhstan.

South Eastern Europe

We are growing optimistic about the South Eastern Europe region. So far we are only present in four countries: Bulgaria, Romania, Croatia and Serbia, leaving sizeable upside in terms of number of countries in the long-term. We see significant improvement in our Romanian operations. New management, 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. Romanian openings should dominate over the Bulgarian and Croatian ones. First stores in Serbia were opened in 2017. Entry to Slovenia is planned for 2018, while 2019 should mark the start in Bosnia & Herzegovina.

Western Europe

We are currently only in two countries of Western Europe. The first is Germany, while the second is the UK. Even though the first stores in Germany were opened in 2H14, Germany was our fifth market by revenues in 2017. Currently, all five brands are present on-line, but only Reserved brand has traditional stores on the ground. Once its success is proven, we are likely to deploy other brands for development. We plan to have 20 stores in Germany which should materialise along with Frankfurt am Main store being opened in 3Q18. Further growth should take place once these reach a BEP. In the medium-term, we also plan to enter other Western European markets. In September 2017 we opened our first flagship Reserved store in London (UK). It is located at Oxford Street. We are also actively looking for flagship space in Italy (Milan) and France (Paris). Also, in 1H19 our on-line stores should be operational in all countries of the European Union.

Middle East

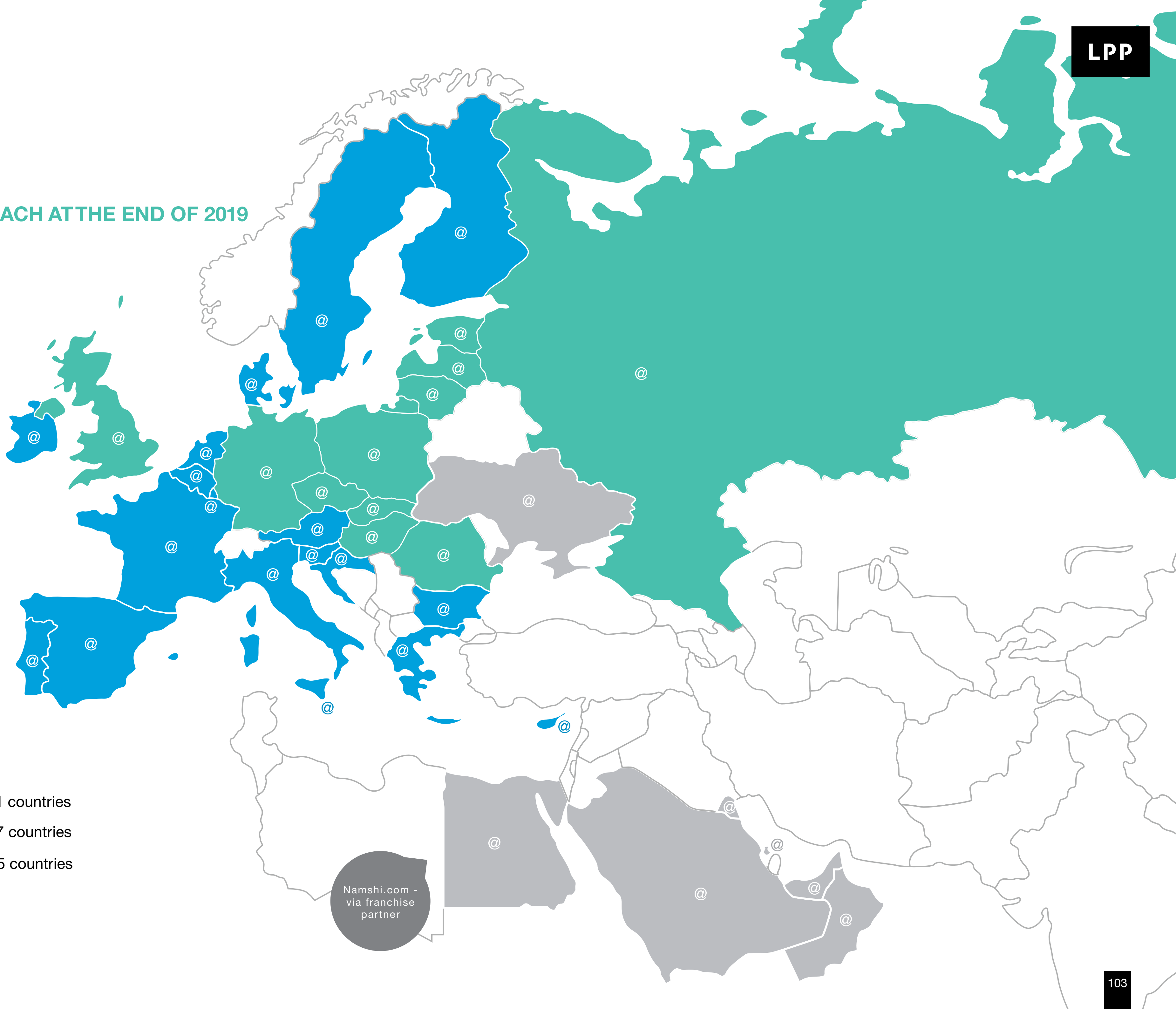
We plan to continue our expansion on the Middle East market via franchise stores. In the medium-term, more countries in the region could be entered (such as Bahrain, Jordan, Lebanon and Oman) however, the growth is dependent on the macroeconomic and political situation as well as the number of tourists in the region. We also plan to develop in Israel - first franchise stores are to be opened in 2018. Similarly to Germany, 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 on-line in Saudi Arabia, UAE, Bahrain, Oman and Kuwait.

FLOORSPACE DEVELOPMENT TARGETS

	2016	2017	YoY growth	2018	YoY growth
Reserved	**509.1**	**562.3**	**10.5%**	**627.8**	**11.7%**
CEE	301.2	321.5	6.7%	338.7	5.3%
BALTIC	23.0	23.5	2.2%	23.7	1.0%
CIS	108.7	128.1	17.9%	148.9	16.3%
SEE	30.9	34.1	10.2%	61.2	79.7%
WE	37.7	48.5	28.6%	49.0	1.1%
ME	7.6	6.6	-13.3%	6.2	-5.5%
Cropp	**120.4**	**127.2**	**5.7%**	**134.8**	**5.9%**
CEE	77.2	78.1	1.2%	78.8	0.9%
BALTIC	5.4	6.0	10.4%	6.0	0.1%
CIS	34.0	39.3	15.7%	42.3	7.5%
SEE	3.9	3.9	0.0%	7.8	99.0%
WE	0.0	0.0	n/m	0.0	n/m
ME	0.0	0.0	n/m	0.0	n/m
House	**105.7**	**110.6**	**4.7%**	**116.9**	**5.6%**
CEE	74.2	74.5	0.4%	76.0	2.1%
BALTIC	3.4	3.8	14.0%	3.8	-1.8%
CIS	24.3	28.6	17.3%	30.2	5.9%
SEE	3.8	3.8	0.0%	6.9	79.5%
WE	0.0	0.0	n/m	0.0	n/m
ME	0.0	0.0	n/m	0.0	n/m
Mohito	**99.1**	**103.8**	**4.7%**	**110.0**	**6.0%**
CEE	60.3	60.6	0.4%	64.2	6.1%
BALTIC	5.4	5.9	10.7%	5.7	-3.3%
CIS	27.7	31.1	12.3%	30.8	-0.7%
SEE	5.8	6.2	7.8%	9.2	47.8%
WE	0.0	0.0	n/m	0.0	n/m
ME	0.0	0.0	n/m	0.0	n/m

	2016	2017	YoY growth	2018	YoY growth
Sinsay	**69.8**	**84.6**	**16.9%**	**105.0**	**24.1%**
CEE	51.9	57.0	10.8%	67.6	18.6%
BALTIC	2.5	3.8	23.6%	4.3	12.4%
CIS	11.5	18.7	34.5%	22.8	22.4%
SEE	3.9	5.1	69.9%	10.2	99.1%
WE	0.0	0.0	n/m	0.0	n/m
ME	0.0	0.0	n/m	0.0	n/m
Tallinder	**4.1**	**0.0**	**n/m**	**0.0**	**n/m**
CEE	4.1	0.0	n/m	0.0	n/m
BALTIC	0.0	0.0	n/m	0.0	n/m
CIS	0.0	0.0	n/m	0.0	n/m
SEE	0.0	0.0	n/m	0.0	n/m
WE	0.0	0.0	n/m	0.0	n/m
ME	0.0	0.0	n/m	0.0	n/m
Outlets	**12.6**	**12.1**	**-8.6%**	**10.8**	**-10.5%**
CEE	11.8	10.5	0.0%	8.7	-17.6%
BALTIC	0.0	0.0	n/m	0.0	n/m
CIS	0.8	1.6	-60.2%	2.1	37.8%
SEE	0.0	0.0	n/m	0.0	n/m
WE	0.0	0.0	n/m	0.0	n/m
ME	0.0	0.0	n/m	0.0	n/m
CEE	580.6	602.1	6.6%	634.0	5.3%
BALTIC	39.5	43.0	3.6%	43.5	1.1%
CIS	207.0	247.3	6.7%	277.3	12.1%
SEE	48.3	53.1	41.7%	95.2	79.2%
WE	37.7	48.5	39.3%	49.0	1.1%
ME	7.6	6.6	38.3%	6.2	-5.5%
TOTAL	**920.7**	**1,000.6**	**9.2%**	**1,105.2**	**10.5%**

E-COMMERCE REACH AT THE END OF 2019



- E-commerce 2017 - 11 countries
- E-commerce 2018 - 17 countries
- E-commerce 2019 - 35 countries

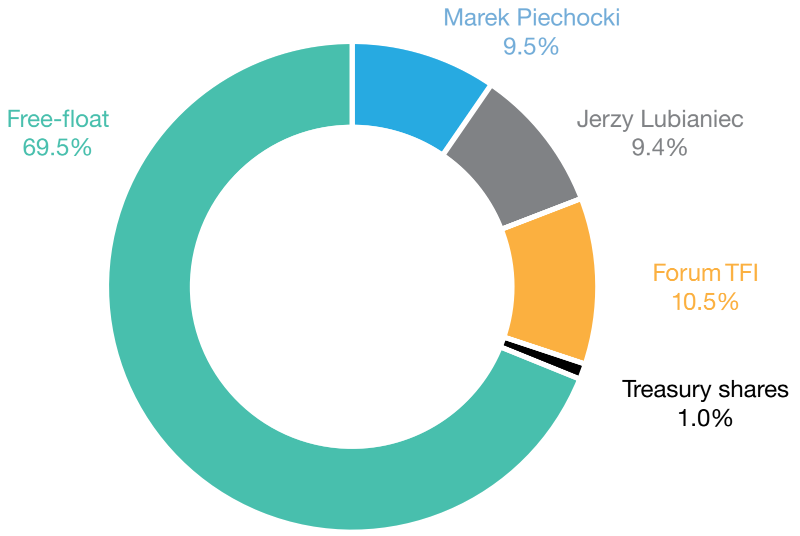
11. PRESENCE ON WARSAW STOCK EXCHANGE

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.

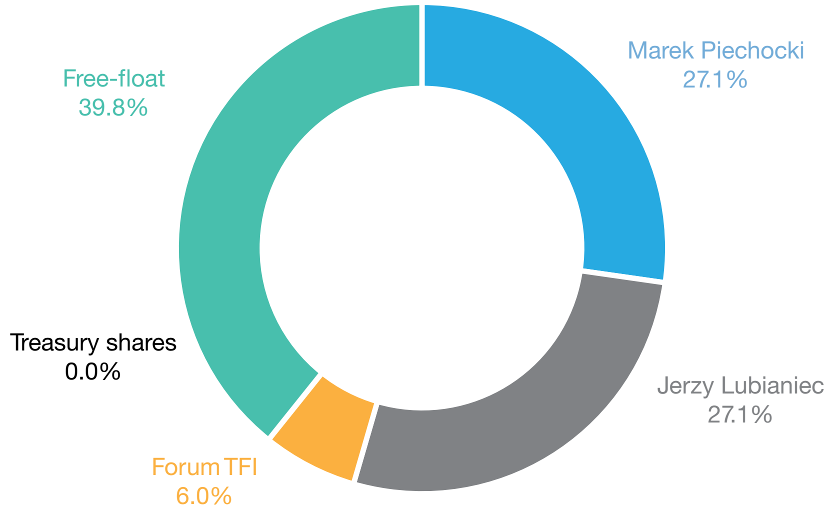
11.1. SHAREHOLDER STRUCTURE

LPP continues to be controlled via its founders, Marek Piechocki and Jerzy Lubianiec who possess a long-term development vision. Both founders hold ordinary and privileged shares (1 to 5 in votes) as well as have a direct and indirect involvement (the latter via a Forum TFI fund). Effectively, the founders control c.30% of equity and c.60% of votes, leaving a high 69% free-float. The company holds a c.1% of its equity in treasury shares, which are used for the purpose of stock option plans.

SHAREHOLDERS BY EQUITY – 31.12.2017



SHAREHOLDERS BY VOTES – 31.12.2017



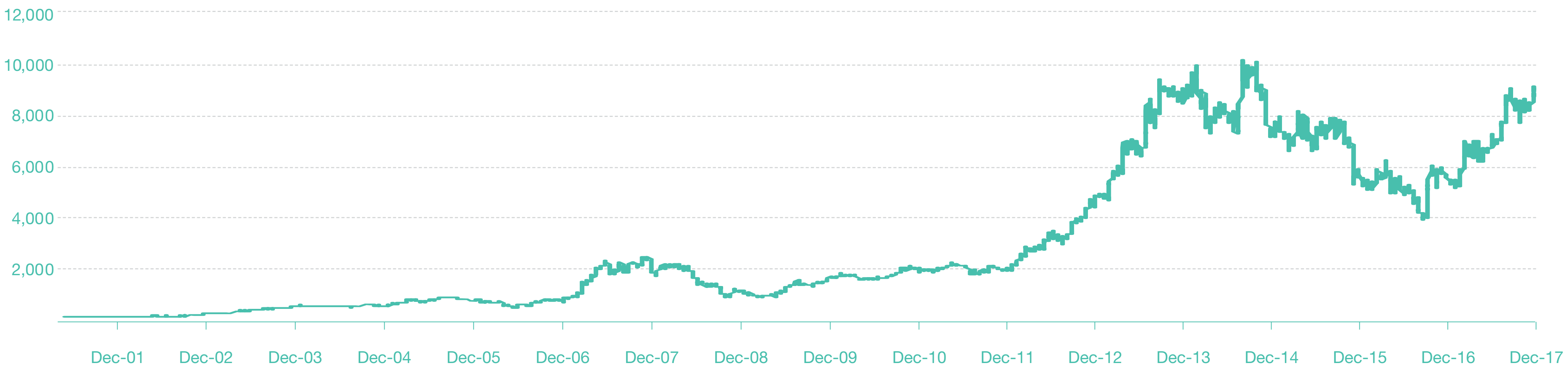
LPP's stock performance shows the success story of the company since its debut on the Warsaw Stock Exchange (WSE).

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 issues were used to develop the network of Reserved stores and investments in IT systems. The highest LPP share price on WSE was PLN 10,170 reached in January 2018.

In July 2018 both founders transferred their shares and their wealth to newly established foundations with the aim to secure their shareholding for the next generations. The foundation related to the CEO is named Semper Simul and holds a 31.52% stake in votes and 17.2% stake in equity. The foundation linked to Chairman of the Supervisory Board is named Sky and holds a 28.65% stake in votes and 12.2% in equity.

TICKERS		PERFORMANCE AS OF 31.12.2017	
WSE	LPP	1Y	+57%
BLOOMBERG	LPP PW	3Y	+23%
REUTERS	LPPP.WA	5Y	+96%

LPP'S SHARE PRICE: From IPO until end-2017



LPP'S SHARE PRICE SUMMARY

PLN	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Share price eop	1,140	1,590	2,165	2,016	4,550	9,000	7,235	5,555	5,674	8,910
Min cob	925	932	1,640	1,803	1,960	4,406	7,235	5,230	3,820	5,090
Max cob	2,635	1,668	2,255	2,371	4,800	9,477	10,100	8,099	6,210	9,063
EPS basic	99.01	61.28	79.48	154.08	198.77	239.18	264.98	193.87	96.19	241.36
DPS	0	0	50.0	76.9	77.4	85.1	93.6	32.0	33.0	35.7
Dividend yield	0.0%	0.0%	2.3%	3.8%	1.7%	0.9%	1.3%	0.6%	0.6%	0.4%
Payout ratio	0%	0%	83%	98%	52%	44%	39%	12%	17%	37%
Weighted average number of shares	1,691,857	1,726,514	1,728,879	1,746,800	1,780,848	1,809,725	1,809,725	1,812,145	1,816,932	1,826,537

Note: Prices from infostrefa.com. Cob stands for close of business. Dividends shown under the year in which they were paid. DPS of PLN40.0 to be paid out from 2017 earnings in 2018.

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 and WIG30 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. Currently, LPP has a c.5.9% weight in WIG20. WIG30 is the index of the most liquid companies on the WSE, introduced in September 2013. LPP has been its member since inception and currently holds a c.5.3%

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.

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:

- Number 1 in the Investor Relations category in the ranking run by Parkiet (Polish financial newswire) in 2014 and in 2015.
- The Company of the Year title in the ranking Puls Biznesu (Polish financial newswire) in 2014, 2012 and 2011.
- mWIG40 Company of the Year title in the ranking run by Parkiet in 2012.

SELECTED AWARDS RELATED TO BUSINESS:

- 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.
- The Best of European Business in the Growth category in 2008.

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

No 1 Investor Relations by Parkiet (2014, 2015)

Most effective CEO by Harvard Business Review (2013)

No 1 at ranking Stock Company of the Year by Puls Biznesu (2014, 2012, 2011)

The most dynamically growing company in Pomerania region by Forbes (2014)

12. CORPORATE GOVERNANCE AND CSR

GENERAL SHAREHOLDER MEETING

- appoints Supervisory Board members
- approves annual financial statements
- grants discharge to the Management and Supervisory Board members

appoints

SUPERVISORY BOARD

- consists of 5 to 6 members
- appointed for a 5 year term
- appoints Management Board

AUDIT COMMITTEE

- review of the financial statements
- assessment of the financial standing
- control and assessment of the internal audit reports
- evaluation of development strategy

appoints

MANAGEMENT BOARD

- consists of 2 to 6 members
- appointed for a 5 year term
- CEO can represent the company by himself
- additionally two management board members and management board member and legal representative can sign binding agreements

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 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 appoints and supervises the actions of the management board and serves as 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 the group.

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 last joint appointment took place on June 14, 2013. From 2015 an evolutionary change took place at the CFO post. Dariusz Pachla resigned and was replaced by his deputy, Przemyslaw Lutkiewicz. In October 2015 the management board was expanded by Sławomir Łoboda, responsible for new floorspace acquisition and legal issues. In 2016, Piotr Dyka, responsible for the Reserved brand and Hubert Komorowski, responsible for House, Mohito and Sinsay brands, resigned from their posts. Since then, the composition of the management board has been stable.

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.

The composition of the audit committee operating within the structure of the supervisory board of LPP SA

ANTONI TYMIŃSKI
CHAIRMAN OF THE AUDIT COMMITTEE

JERZY LUBIANIEC
DEPUTY CHAIRMAN OF THE AUDIT COMMITTEE

PIOTR PIECHOCKI
MEMBER OF THE AUDIT COMMITTEE

MAGDALENA SEKUŁA
MEMBER OF THE AUDIT COMMITTEE

MIŁOSZ WIŚNIEWSKI
MEMBER OF THE AUDIT COMMITTEE

12.2. MANAGEMENT BOARD

MAREK PIECHOCKI

CEO & Founder

Marek Piechocki (57), one of LPP's two founders, 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. He manages the domestic and foreign strategic investment projects and participates in rental negotiations with the largest property developers on the market. He is currently responsbile for all five brands. In 2013 he was awarded the title of The Best-Performing CEO by Harvard Business Review in 2013.

JACEK KUJAWA

Deputy CEO

Jacek Kujawa (44) 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. His key current tasks include implementing LPP's strategic projects, such as the RFID technology, developing the e-commerce segment as well as expanding the company's storage areas as part of developing the 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 (47) started his career at LPP in 2008 as a Financial Controller. He was responsible for creation of a controlling department and implementation of IT management tools at LPP Group. Przemysław Lutkiewicz has been the Chief Financial Officer of LPP Group since 2015. 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 form 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 with establishing First Data's Shared Services Centre in Gdańsk, serving as Finance and Controlling Director.

SŁAWOMIR ŁOBODA

Deputy CEO

Sławomir Łoboda (53) 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. The latter remained his responsibilities as a management board member. 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.

12.3. SUPERVISORY BOARD

JERZY LUBIANIEC

CHAIRMAN & FOUNDER

Jerzy Lubianiec (58) is the co-founder 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 Chairman of the Supervisory Board of LPP, supporting the development of the group. He is also a supervisory board member of Quercus Towarzystwo Funduszy Inwestycyjnych SA, where he indrectly holds a stake. The activity of the above-mentioned company is not competitive to that carried out by LPP SA.

WOJCIECH OLEJNICZAK

MEMBER

Wojciech Olejniczak (62) 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.

PIOTR PIECHOCKI

MEMBER

Piotr Piechocki (31) 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 the launching of on-line 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 property 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 (43) 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.

ANTONI TYMIŃSKI

INDEPENDENT MEMBER

Antoni Tymiński (68) holds a PhD in economics. In the years 1979-1991, he held the position of senior research associate at the Faculty of Accounting of the Gdańsk University. He was awarded a PhD degree in 1988. He is also a graduate of the Mikołaj Kopernik University. Apart from scientific excellence, Mr Antoni Tymiński has more than 16 years of experience as consultant and auditor in leading global advisory companies such as Deloitte&Touche, Coopers&Lybrand and PricewaterhouseCoopers, in which he acted as, among others, Partner (1999-2008) and Member of the Management Board (2001-2008). Since July, he is a retired partner of PricewaterhouseCoopers. Furthermore, he is qualified as Statutory Auditor and he is a member of the Polish Chamber of Statutory Auditors. From July 2008 to June 2009, he was a member of the Supervisory Board of LPP SA.

MIŁOSZ WIŚNIEWSKI

INDEPENDENT MEMBER

Miłosz Wiśniewski (54) 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.

12.4. CORPORATE SUSTAINABILITY AND RESPONSIBILITY (CSR)

CODE OF CONDUCT FOR SUPPLIERS (updated April 2015)

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 employees 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.

PLN 16m outlays for audits of working conditions in Bangladesh factories, especially for costs of on-site inspections, audits of working conditions and membership fees for ACCORD and Rana Plaza Trust Fund.

94 factories under ACCORD control:

- 91% of factories had their electrical installations modernised or changed,
- 78% of factories ended up with additional anti-fire alarms and installations,
- 66% of factories had their constructions strengthened. In many cases the production was transferred to other venues.

1,118 factories audited by LPP in 2017.

27 people full-time employed in Bangladesh offices.

We want to produce our clothes responsibly, taking the benefit of all our stakeholders into account. As a result, we undertake many measures to make sure that we respect our suppliers and our clients along our value chain.

April 2015 marked the approval of our updated Code of Conduct, setting up detail and strict requirements for our suppliers. These include, among others, emphasis on workers' safety in factories in which we produce, obligation to provide a decent pay to employees, introduction of a maximum 48-hours of work per week and paid overtime. On top, we do not produce in factories in which children below 15 years old are employed. Persons between 16 and 18 years old need to be treated with special care. They can only work in hours that do not collide with their education and cannot work at night.

Although we diligently choose our suppliers, we also supervise them (there is a separate audit department for factories). We run two foreign offices, one in Shanghai, overseeing the Chinese production and one in Dhaka (established in 2015), supervising production in Bangladesh.

The safety of workers is important to us. LPP was the only Polish retail company which joined the international Alliance aimed at improving the safety of workers in Bangladesh, so called ACCORD (Accord on Fire and Building Safety in Bangladesh). The Alliance was formed in October 2013 by over 200 retail companies and NGOs (non-government organizations) and affects over 1,600 factories and over 2 million workers. It was signed for 5 years during which several actions are to be taken to improve the safety and conditions of Bangladesh employees. All of the Bangladesh factories from which we source our clothes are members of ACCORD. Also, in January 2018 we signed another ACCORD agreement for the next 3 years. On top, since April 2017 we co-operate with an international SGS company in frames of auditing the working conditions at our subcontractors in Bangladesh.

Apart from workers' safety, we also put an increasing attention to the materials, from which our clothes are produced, thus answering the needs voiced by our customers. Since November 2014 we no longer use angora (i.e. rabbit fur) in our garments. In December 2015 we introduced organic cotton to our Reserved brand collections. Although the latter is now a small proportion of our collections, we plan to grow it in future. Also, from AW 2016/17 we no longer use natural furs in our collections.

In connection with the emerging information about an unethical approach to the production of mohair obtained from Angora goats in South Africa, we have made an important decision in LPP regarding further use of this raw material. By 2020, all LPP brands will resign from using the mohair or will acquire this material in a responsible manner, guaranteeing a humane treatment of animals.

Over the last several years we have realised a few dozen of social projects together with our partners. We regularly co-operate with non-governmental organizations which support children and adults in a difficult situation. We donate money and LPP products to our social partners. We support in particular the Pomeranian region where the headquarters of the company and the distribution centre are situated and Cracow where LPP branch operates. So far we have supported about 800 social care facilities by donating clothing for around 50,000 people. Over the past years we gave clothes worth PLN 19.6m for charity reasons. On top, we take part in educational projects.

We also do not forget about our employees. Our new Gdańsk HQs offer many conveniences. We co-finance the restaurant and support the physical activities of people who work for us. We focus on development of our employees, offering them a broad range of trainings. We value diversity and do not have a dress code.

LPP MORE

MORE SAFE

OUR PRODUCTS

covers our practices related to design of clothes and accessories, with the way they are designed and manufactured.

MORE CARE

OUR EMPLOYEES

includes our practices related to relations with employees, both potential and former employees.

MORE MINDFUL

OUR ENVIRONMENT

covers our practices related to consumer education, broad fashion industry and our presence in local communities.

MORE ETHICAL

OUR PRINCIPLES

includes our management approach and the way we conduct business.

LPP EDUCATIONAL PROJECT

LPP as a leader in the clothing industry in Poland and one of the major employers in the sector, is engaged in education and creative development of young Polish designers. We focus on training students and providing them with the opportunity to get to know the practical aspects of the work in the clothing industry under the watchful eye of our experts. We organise designing workshops for students from art schools (e.g. Gdańsk and Cracow) to enable future designers to familiarise with the process of creating collections for a network of shops with an international reach.

In 2017 we co-operated with universities like International School of Costume and Fashion Design (MSKPU), VIA MODA from Warsaw, Gdańsk Academy of Fine Arts, Cracow Academy of Fine Arts, School of Art and Fashion Design (SAPU) and Łodź Academy of Fine Arts. As part of the co-operation, we organised Open Days for VIA MODA and MSKPU Students. Representatives of LPP took part in the Diploma Show at the Academy of Fine Arts in Łodź and collaborated with the Academy of Fine Arts in Cracow during the creation of a textbook for students' clothing design. We also took part in the 'Sewing room only for professionals' industry meeting at the Łodź Academy of Fine Arts.

Over the past years, there have been an abundance of educational projects conducted by LPP. These involved a series of „White Shirt" and „Little Black Dress" meetings organised as a joint project of LPP and the School of Form from Poznan. These workshops were dedicated to second year students of fashion design. During the workshops conducted by Reserved designers, the participants take part in all stages of product creation – in the three previous editions students designed their own white shirts and the result of a joint work of the fourth edition which ended in June 2015 was the collection of the so-called little black dresses.

One of our most important project is the Fashion Starter, during which the students of the Gdańsk Academy of Fine Arts faced the challenge of adapting their own artistic visions, i.e. abstract silhouettes, to the requirements of a commercial collection. Their work was presented in the autumn of 2016 on the Reserved website and in shopping centres in Gdańsk, Gdynia, Warsaw, Łodź and Poznań. In the second edition of the 'Fashion Starter' project, which took place in 2017, students of the Academy of Fine Arts in Cracow took part in a series of lectures and workshops conducted by experienced designers. The main objective of the project was to provide participants with practical knowledge about the design process and to familiarise students with the secrets of the designer's work.

However, our educational projects do not focus solely on fashion. We have been supporting the LPP City of Women – aimed at promoting the need for self-checks and mammography not only within LPP but also in the Tri-City region.

EMPLOYEE VOLUNTEERING

LPP employees are happy to initiate and engage in help – they organise grass-roots collections and participate in activities organised by the company. There is already the tradition of the annual pre-Christmas collection for a previously chosen goal. In 2017, the employees painted cardboard Santas, which LPP then donated as Christmas decorations to the organisations co-operating with the company. In addition, employees prepared products and decorations for the Christmas market. Thanks to all these actions, I managed to collect PLN 117,000, which was donated to support employees or their relatives struggling with serious diseases.

As part of employee volunteering, LPP employees designed and refreshed the interiors of the dining room of the Children's Hospital in Gdańsk at Polanki. Four designers prepared designs for three rooms, then 34 people were divided into three groups and painted rooms all day. Thanks to that, in the dining rooms you can now meet unicorns, fabulous cats, bears and rainbows, and forest animals as well as rockets, cosmonauts and robots.

The Hospital for Children in Prokocim needed volunteers to distribute presents on Saint Nicholas' Days. On December 6, 2017, forty volunteers from the Cracow branch of LPP donated presents to patients of various departments in this hospital.

Socially engaged LPP employees can also be found in Russia and Slovakia. In 2017, 96 employees took part in employee volunteering in Russia and more than 60,000 rubbles were spent on activities. Our Slovak team donated the financial resources of the Eric Karova Foundation to the purchase of equipment dispensing medicines for patients of the children's hospital in Banská Bystrica.

ECONOMIC, ENVIRONMENTAL AND SOCIAL INITIATIVES SUPPORTED BY LPP

We actively support the implementation of **the UN Sustainable Development Goals** through our activities and the Sustainable Development Strategy.

UN Sustainable Development Goals	Our selected activities
No poverty	▪ We control the working conditions and remuneration of suppliers. ▪ We provide over 25,000 jobs, including 14,000 in Poland. ▪ We implement a donation policy (PLN 2 million – the total value of cash and goods transferred in 2017 to charity in Poland).
Zero hunger	▪ We offer over 25,000 jobs, including over 14,000 in Poland. ▪ We outsource the production of our projects in Asian countries, contributing to the development of the textile and clothing industry in the region. ▪ We work with 50 clothing stores in Poland, employing over 1,000 employees.
Good health and well-being	▪ We care about the quality of our products and verify them for the presence of chemical substances. ▪ We control the working conditions and remuneration of suppliers. ▪ We regularly serve fresh fruit to our employees. ▪ We subsidize starter packages for employees and purchase of sports equipment (LPP Team). Employees in Gdańsk have business bicycles at their disposal.
Quality education	▪ We work with art schools to develop the industry. ▪ We organize open meetings with experienced employees who share their knowledge and experience with students.
Gender equality	▪ We run an internal campaign on diversity – 56% of women in LPP are at managerial positions.
Clean water and sanitation	▪ We control the working conditions of suppliers (since 2013, we have allocated PLN 16 million for this purpose). ▪ We have implemented the Code of Conduct for suppliers, in which the supplier is obliged to provide employees with access to drinking water, clean sanitary facilities.
Affordable and clean energy	▪ We introduce modern, energy-efficient LED lighting in stores.
Decent work and economic growth	▪ We conducted audits at factories in Bangladesh regarding compliance by suppliers with LPP's Code of Conduct, including punctuality in payment of remuneration, overtime or work of minors.

Industry, innovation and infrastructure	▪ We are the owner of the largest and most modern Clothing Distribution Centre in Central and Eastern Europe. ▪ We implement a number of innovative projects in the area of IT, e-commerce and sales.
Reduced inequalities	▪ We control the working conditions and remuneration of suppliers. ▪ We provide over 25,000 jobs, including 14,000 in Poland. ▪ We are implementing a donation policy.
Sustainable cities and communities	▪ We support the development of the Lower Town district and of Gdańsk, where our head office is located.
Responsible consumption and protection	▪ We are implementing a customer education programme in the area of maintenance and care of clothes. ▪ We control the working conditions and remuneration of suppliers. ▪ We conducted audits at factories in Bangladesh regarding compliance by suppliers with the LPP Code of Conduct.
Climate action	▪ ECOffice rules and actions minimising our impact on the environment.
Life below water	▪ Each of our suppliers is obliged to comply with the laws applicable in the country in the field of environmental protection, including water consumption.
Life on land	▪ We use cardboard boxes with FSC certification in transport (Forest Stewardship Council). ▪ Each of our suppliers is obliged to comply with the laws applicable in a given country in the field of environmental protection, in particular air pollution and noise generation.
Peace, justice and strong institutions	▪ We are one of the largest tax payers in Poland and the largest in the Pomeranian region.
Partnerships for the goals	▪ We work with universities to improve the quality of education.

‘FIRST FITTING’ PROJECT

- Together with the Foundation for Social Innovation, LPP helps young people to take their first professional steps.
- The project is addressed at family homes for children and teenagers entering adult life – its aim is to prepare young people to live independently on their own.
- After workshops on improving effective job hunting skills, 11 programme participants held a paid internship at Reserved stores.

Most of the participants of the pilot (8 of 11 people) were given the opportunity to continue working in LPP outlets, and 5 of them decided to also combine work with education during the school year. Programme participants gained their first experience, and professional and social skills, and the company gained employees working in stores. In addition, mentors emphasised that, for them, participation in this project was an important and valuable experience – they could prove themselves in a new role, as well as gaining new skills. In 2018, we are planning the next edition, and in the coming years we will gradually expand the project to new cities and stores in Poland.

LPP TEAM for KIDS

160 employees involved in the initiative

3m calories burned

PLN 35,000 collected for children’s homes in Gdańsk and Cracow

LPP TEAM

PLN 250,000 investment

37 starts in triathlon

11 number of competitions the most active athlete participated in

From May 2017 LPP’s employees can use free corporate bicycles.

SUMMARY OF OUR CSR ACTIONS

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 co-operation with SGS

Creation of CSR strategy

2018

First integrated report

13. RISK FACTORS

There are several internal and external factors that can influence our performance. Below we present the most important risk factors, in our opinion.

13.1. INTERNAL RISK FACTORS

BUSINESS MODEL RISK

Our business model is based on designing and selling clothes yet we do not own production factories. That means we outsource our production to third parties, making our business model a lean one. This approach allows us to source from the most modern factories and be elastic in terms of countries of supply. However, that also poses risks for the quality and conditions in which we produce. We diversify this risk through increasing the number of suppliers and expanding the number of countries from which we source. We have over 1,000 suppliers and none of them has more than 5% of our supplies. We also run scorings and assessments of our suppliers, to eliminate the untrustworthy ones, assure ongoing deliveries and proper working conditions. Sourcing from the Far East is also supervised by our offices in Shanghai (China, opened in 1997) and in Dhaka (Bangladesh, opened in 2015).

FASHION RISK

We aim to foresee the upcoming trends and include these in our collections. We attend the fashion fairs, search the streets and internet and aim to be close to our customers. However, it can still happen that we are going to miss the trends or are not going to include some must-haves into our collections. We aim to diversify this risk by having different brands with different target groups, level of fashion and price.

EFFICIENCY OF LOGISTICS RISK

As timely delivery of collections to our distribution centres and to our stores and to our e-commerce customers is of high importance, we constantly improve our logistics base. We aim to diversify in terms of geographical location of our distribution centres: the most important one is in Pruszcz Gdański, but we also operate a Moscow-based one, to which delivery takes place directly from China. Also, we outsource the logistics from our distribution centres to stores to external couriers. In that way we do not have to own the fleet necessary to deliver new of clothes and accessories to all our stores every 2 to 3 days. An example of outsourcing at e-commerce logistics is our agreement with Arvato, a third party responsible for e-commerce of 4 brands, which creates some risk for us.

RISK OF LOSING KEY PERSONNEL

Employees are of high importance to us and our business. We bear a risk of losing our key designers. Even though the team consists of some 250 people, departure of key people could result in lower quality of collections designed. To mitigate this risk and bring new blood on board, we run designing centres in three largest cities in Poland: Gdańsk, Cracow and Warsaw. There is also a risk that we fail to keep our top management which consists of highly qualified personnel. To mitigate it, we offer our employees high quality working conditions (e.g. new headquarters in Gdańsk), training and ability to develop within our group structures. On top, we run stock option programs designed at retaining our management. Similarly to other retail players, on an everyday basis we face the risk of rotation of store personnel.

STRATEGIC RISK

We also face a risk that our strategy may not hold in the long-term. Currently, we develop in two directions simultaniously. Firstly, we open new traditional stores in countries we are already present and in new regions. Secondly, we develop in e-commerce operations. There is a risk that our traditional stores will not be profitable enough and that internet will take away revenues from the traditional stores. We minimise the risk by carefully selecting our traditional stores locations and we invest in growth and improvements in our e-commerce operations.

13.2. EXTERNAL RISK FACTORS

MACROECONOMIC RISK

We are a retail company and our revenues and margins depend on the propensity of consumers to spend their money. Thus, in times of economic prosperity, we have a greater likelihood of achieving above average results. In times of economic slowdown, we may be affected by reductions in spending on clothing which is a non-necessity. However, a trade down effect should be taken into account. We believe that our brands offer good value for money, thus in times of economic hardship consumers who used to purchase more expensive goods could turn to our stores. We diversify this by operating on various markets with different affluence levels and operating several brands aimed at different customer groups.

FX RISK

Another very important external risk factor results from our dependency on foreign currencies. This originates from the scale of foreign currency revenues not being matched by the foreign currency costs. In 2017 only 44% of our revenues were denominated in foreign currencies versus 98% of COGS and 58% of SG&A costs. As we report our numbers in Polish zloty, we are a natural beneficiary of zloty appreciation versus other currencies, especially US$ and euro. Historically, we did not hedge, yet started changing our approach from 2H17.

UNFAVOURABLE WEATHER RISK

It is also worth emphasizing that the weather itself presents an external risk factor. Although we operate largely in one geography, we face the need to sell clothes within the seasons. Thus, cold and rainy spring or summer is not favourable to Spring/ Summer collection sales. In such cases consumers tend to purchase the most necessary items, the impulse purchases are rarer. A similar situation takes place in terms of Autumn/Winter collections, though due to higher average ticket prices of AW than SS the situation is a more dangerous one for our financial performance.

RISK OF UNFAVOURABLE LAW CHANGES

The regulatory environment has a significant impact on various aspects of our business. We are a sizeable importer of goods from the Far East thus any potential introduction of import quotas or pick-up in customs duties could negatively impact the gross profit margin recorded. We are also exposed to a risk of increased taxation on our core Polish market. We may have to pay a tax on turnover of domestic stores from 2019. Also, our domestic stores tend to be situated within shopping malls. Introduction of bill banning shopping malls from operations on Sunday from March 2017 resulted in the need to reschedule the way the Polish stores are operated. One of the ways in which we diversify the latter are investments into e-commerce, as our on-line stores are open 24/7.

RISK OF COMPETITION

We believe that the retail clothing market is a highly competitive one regardless on the market we operate on. The high level of competition results from the fragmentation of the market, with many players having sizeable brand portfolios. On majority of markets present we face international competition. In Poland, we are one of the leading players. Our market share in other countries is a low one. The level of competition also varies between brands. We see stronger competition in our mainstream Reserved brand than in the more niche Cropp and House. We analyse the actions of our competitors and compete by offering our customers a favourable price to quality ratio.

GLOSSARY

Poland	Retail sales in Poland and other sales of LPP SA.
CEE	Region including: Czech Republic, Slovakia, Hungary.
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. 6% 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 / 12.
Inventory/ m^2	End of period group inventory/ total floorspace without franchise stores in ME and Belarus.
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.

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