LPP

LPP SA GROUP

CONSOLIDATED CONDENSED INTERIM REPORT FOR H1 2020/21

RESERVED CROPP house MOHITO sinsay

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CONSOLIDATED INTERIM REPORT ON THE OPERATIONS OF THE LPP SA GROUP

ABOUT US

WHO WE ARE

LPP is a Polish family-run company engaged in the design, manufacturing and distribution of clothing. We have almost 30-year experience in the clothing sector. Our sales network covers entire Poland, the countries of Central, Western and Eastern Europe, the Balkans and the Middle East. Customers visiting our traditional stores and shopping online are offered apparel, accessories and footwear under our five brands: Reserved, Cropp, House, Mohito and Sinsay. Each of those brands, differing in character, is targeted to a different customer group.

Although we operate on 38 markets, our brand concepts are developed, all our collections are created and all strategic decisions are made in Poland. The heart of our organisation is the head office in Gdańsk, where the company's history has begun. Our offices are located also in Cracow, Warsaw, Shanghai and Dhaka.

Our staff consists in total of approx. 24 thousand people employed in our offices as well as sales and distribution units in Poland as well as European and Asian countries. Openness, diversity, responsibility for common development and mutual respect are the cornerstones of LPP's culture.

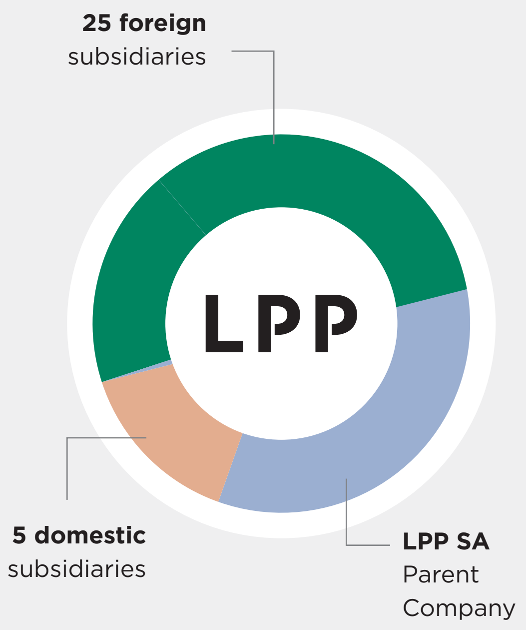
HOW WE OPERATE AS A GROUP

W The LPP SA Group is composed of the Parent Company with its registered office in Poland, 5 domestic companies and 25 foreign companies.

The Group's foreign subsidiaries are, to a major extent, engaged in the distribution of products of our brands outside Poland.

These consolidated financial statements of the Group, covering the period between 1 February 2020 and 31 July 2020, include separate results of LPP SA, the results of foreign subsidiaries and three Polish subsidiaries (LPP Retail Sp. z o.o. engaged in the operation of stores in Poland, Printable Sp. z o.o. engaged in the sale of promotional clothing and LPP Logistics Sp. z o.o. handling logistics issues). The remaining two Polish subsidiaries (engaged in the lease of real properties where our brand stores are operated in Poland) were not consolidated due to irrelevance of data.

Structure of the LPP SA Group



The Group's subsidiaries:

No	Company name	Registered office	Shareholding
1.	LPP Retail Sp. z o.o.	Gdańsk, Poland	100%
2.	DP&SL Sp. z o.o.	Gdańsk, Poland	100%
3.	IL&DL Sp. z o.o.	Gdańsk, Poland	100%
4.	Printable Sp. z o.o.	Gdańsk, Poland	100%
5.	LPP Logistics Sp. z o.o.	Gdańsk, Poland	100%
6.	LPP Estonia OU	Tallin, Estonia	100%
7.	LPP Czech Republic s.r.o.	Prague, the Czech Republic	100%
8.	LPP Hungary KFT	Budapest, Hungary	100%
9.	LPP Latvia Ltd	Riga, Latvia	100%
10.	LPP Lithuania UAB	Vilnius, Lithuania	100%
11.	LPP Ukraina AT	Peremyshliany, Ukraine	100%
12.	RE Trading OOO	Moscow, Russia	100%
13.	LPP Romania Fashion SRL	Bucharest, Romania	100%
14.	LPP Bulgaria EOOD	Sofia, Bulgaria	100%
15.	LPP Slovakia s.r.o.	Bańska Bystrzyca, Slovakia	100%
16.	LPP Fashion Bulgaria EOOD	Sofia, Bulgaria	100%
17.	Gothals LTD	Nicosia, Cyprus	100%
18.	LPP Croatia DOO	Zagreb, Croatia	100%
19.	LPP Deutschland GmbH	Hamburg, Germany	100%
20.	IPMS Management Services FZE	Ras Al Khaimah, UAE	100%
21.	LPP Reserved UK Ltd	Altrincham, UK	100%
22.	LLC Re Development	Moscow, Russia	100%
23.	LPP Reserved doo Beograd	Belgrade, Serbia	100%
24.	P&L Marketing&Advertising Agency SAL	Beirut, Lebanon	97,32%
25.	Reserved Fashion, Modne Znamke DOO	Ljubljana, Slovenia	100%
26.	LPP Kazakstan LLP	Almaty, Kazakhstan	100%
27.	LPP BH DOO	Banja Luka, Bosnia and Her-cegovina	100%
28.	OOO LPP BLR	Minsk, Belarus	100%
29.	LPP Finland LTD	Helsinki, Finland	100%
30.	LPP Macedonia DOOEL	Skopje, Macedonia	100%

In the reporting period, the Group was joined by LPP Logistics Sp. z o.o. with its registered office in Gdańsk. The newly created company is engaged in the warehousing of goods to be resold and handles general logistics issues.

OUR SHAREHOLDERS

Shares in LPP SA have been quoted on the main market of the Warsaw Stock Exchange (WSE) since 2001 as part of domestic indices (WIG, WIG Poland, WIG20, WIG30, WIG Clothes, WIG ESG) and foreign ones (MSCI Poland Index, CECE Index, STOXX Europe 600, FTSE Russell Index).

On the debut date, the price of the Company's shares was PLN 48.00. The highest value was recorded in 2018: PLN 10,170.00.

The Company has two key shareholders with shareholdings of 17% and 12% in the share capital and, respectively, 32% and 29% of votes at the GM. Other shareholders hold 70% of the share capital and have 40% of votes. Furthermore, the Company has 18,006 treasury shares.

The table below presents shareholders holding, as at the date of publishing the report for H1 2020/21, directly or indirectly through subsidiaries, at least 5% of the general number of votes at the GM of LPP. In the period following the publishing of the previous report (for Q1 2020/21), there were no changes in the major LPP shareholdings.

Shareholder	Number of shares held	Share in the share capital	Number of votes at the GM	Share in the total number of votes at the GM	Nominal value of shares
Semper Simul Foundation*	319,208	17.2%	1,019,208	31.5%	638,416
Sky Foundation**	226,338	12.2%	926,338	28.6%	452,676
Treasury shares***	18,006	1.0%	0	0.0%	36,012
Other shareholders	1,288,871	69.6%	1,288,871	39.9%	2,577,742
Total	**1,852,423**	**100.0%**	**3,234,417**	**100.0%**	**3,704,846**

*The Semper Simul Foundation is associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR)
**The Sky Foundation is associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act)
***LPP SA may not exercise voting rights at the GM, attached to 18,006 shares, as these are treasury shares of LPP SA.

OUR MANAGEMENT AND SUPERVISORY BOARDS

AS AT 31 JULY 2020, THE MANAGEMENT BOARD OF LPP WAS COMPOSED OF:

- Marek Piechocki – President of LPP's Management Board
- Jacek Kujawa – Vice-President of LPP's Management Board
- Przemysław Lutkiewicz – Vice-President of LPP's Management Board
- Sławomir Łoboda – Vice-President of LPP's Management Board

AS AT 31 JULY 2020, THE SUPERVISORY BOARD OF LPP WAS COMPOSED OF:

- Jerzy Lubianiec – Chairman of LPP's Supervisory Board
- Wojciech Olejniczak – Vice-Chairman of LPP's Supervisory Board
- Piotr Piechocki – Member of LPP's Supervisory Board
- Magdalena Sekuła – independent Member of LPP's Supervisory Board
- Antoni Tymiński – independent Member of LPP's Supervisory Board
- Miłosz Wiśniewski – independent Member of LPP's Supervisory Board

Three independent members meet independence criteria set forth in the Act on Statutory Auditors, Audit Companies and Public Supervision of 11 May 2017 and the requirements specified in the Best Practice for GPW Listed Companies.

The table below presents the LPP shareholdings of management and supervisory officers as at the date of publishing the report for H1 2020/21. In the period following the publishing of the previous report (for Q1 2020/21), there were no changes in the LPP shareholdings of management and supervisory officers.

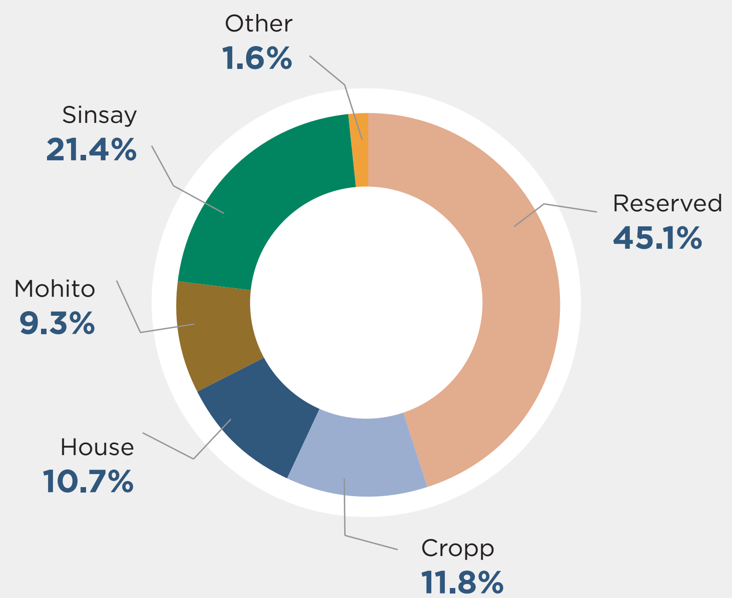
Shareholder	Number of shares held	Number of votes at the GM
Marek Piechocki – President of the Management Board	342	342
Przemysław Lutkiewicz - Vice-President of the Management Board	220	220
Jacek Kujawa - Vice-President of the Management Board	373	373
Sławomir Łoboda - Vice-President of the Management Board	312	312
Jerzy Lubianiec - Chairman of the Supervisory Board*	226,338	926,338
Antoni Tymiński - Member of the Supervisory Board	11	11

**shares held indirectly through a subsidiary

OUR PORTFOLIO

We own five recognisable brands: Reserved, Mohito, Cropp, House and Sinsay. Each of them is dedicated to a different group of customers representing various lifestyles, having different needs and expressing themselves in their own way.

Percentage share in sales of specific brands in H1 2020/21



RESERVED

Reserved is our flagship brand. Its stores may be found in world's fashion capitals: London, Berlin or Moscow.

When creating collections, Reserved designers get inspired by multicultural atmosphere of the largest cities in Europe and America, metropolitan every-day life of Tokyo or Seoul, searching for inspiration also during fashion and cultural events such as the Premier Vision fair in Paris or an art biennale in Venice.

The Reserved offer is addressed to women, men and children.

Every year, the brand launches special collections on the market.

When creating new Reserved collections, we put emphasis on testing new sustainable fashion solutions. In Reserved, we have introduced, among others, the environmentally friendly Eco Aware collection. Eco Aware is a line of products designed optimising material consumption and waste reduction, including the search for sustainable semi-raw materials (including the possibility of using organic pigments in prints).

In Reserved promotion campaigns, we cooperate with Polish and foreign superstars, the real fashion icons such as Kate Moss, Cindy Crawford, and Kendall Jenner.

Basic data on the brand (for H1 2020/21:

Date of establishment:	1998
Website:	www.reserved.com
Location of the design centre:	Gdańsk, Warsaw
Revenue for H1 2020/21 and change in % y/y:	PLN 1,493 mln, decrease -26.2% y/y
Number of brand stores (as at 31.07.2020):	442
Number of markets and countries in which the brand is available in on-site stores:	24 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Germany, Great Britain, Finland, Egypt, United Arab Emirates, Kuwait, Qatar, Israel
Countries in which the brand is available in online stores:	28 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Ukraine, Romania, Croatia, Germany, Great Britain, Finland, Ireland, Denmark, Sweden, Austria, the Netherlands, Belgium, Luxembourg, Italy, France, Greece, Spain, Portugal, United Arab Emirates, Saudi Arabia

CROPP

Cropp is a streetwear brand enabling our customers to create their individual style, helping to express their emotions and cross boundaries. Brand designers get inspired by, among others, modern culture and music, creatively mixing them in projects with the latest catwalk trends. When designing a collection, Cropp brand cooperates with illustrators as well as visual arts and graffiti artists from all over the world. For many years, Cropp has been a partner of street art events, sponsoring eg. the Gdańsk music festival and Baltic Games, an extreme sports event.

Cropp offers streetwear collections for men and women, supplemented with a wide variety of accessories and footwear.

Eco trends are reflected in this brand also. In our designs, we make references to environment protection and use organic cotton.

Basic data on the brand (for H1 2020/21:

Date of establishment:	2004
Website:	www.cropp.com
Location of the design centre:	Gdańsk
Revenue for H1 2020/21 and change in % y/y:	PLN 391 mln, decrease -33.4% y/y
Number of brand stores (as at 31.07.2020):	372
Number of markets and countries in which the brand is available in on-site stores:	17 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland
Countries in which the brand is available in online stores:	12 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Ukraine, Russia, Romania, Croatia, Germany

HOUSE

The House brand mixes the latest trends with street styles. It offers casual clothing, suggesting bold combinations and distinctive accessories. The House offer is addressed to both men and women. House clients are people who are young or feel young, with self-distancing, at ease, wanting to live life to the full. House collections refer to art, pop culture and social media trends. Campaigns are always cheerful and full of positive energy.
In 2019, House started introducing clothes made of certified, environmentally friendly materials. In 2020, the brand will make further changes in collections, focusing on more eco-friendly solutions, especially when choosing materials for our T-shirts and denim which may be may be manufactured from e.g. recycled bottles.

Basic data on the brand (for H1 2020/21:

Date of establishment:	2001
Website:	www.housebrand.com
Location of the design centre:	Cracow
Revenue for H1 2020/21 and change in % y/y:	PLN 356 mln, decrease -31.6% y/y
Number of brand stores (as at 31.07.2020):	329
Number of markets and countries in which the brand is available in on-site stores:	17 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland
Countries in which the brand is available in online stores:	12 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Germany

MOHITO

Mohito is addressed to female customers in love with fashion, valuing original urban elegance, self-confident, aware of their strengths, who like to dress expressing their individual and exceptional style. Mohito offers its female customers apparel and accessories in a wide variety of energetic colours emphasising femininity in any place and at any occasion. Mohito collections reflect the latest global trends. Our designers analyse what is going on during fashion weeks, on catwalks and metropolitan streets, looking for inspiration in culture and reacting to current events to create interesting and fashionable designs.

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

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Basic data on the brand (for H1 2020/21:

Date of establishment:	2008
Website:	www.mohito.com
Location of the design centre:	Cracow
Revenue for H1 2020/21 and change in % y/y:	PLN 308 mln, decrease -33.4% y/y
Number of brand stores (as at 31.07.2020):	277
Number of markets and countries in which the brand is available in on-site stores:	18 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Belarus, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland
Countries in which the brand is available in online stores:	12 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Germany

SINSAY

Initially, the Sinsay brand was addressed to teenagers. At present, the brand takes effort to respond to the needs of not only teenagers but also young women, parents and their children.

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

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

Basic data on the brand (for H1 2020/21:

Date of establishment:	2013
Website:	www.sinsay.com
Location of the design centre:	Gdańsk
Revenue for H1 2020/21 and change in % y/y:	PLN 709 mln, increase by 35.5% y/y
Number of brand stores (as at 31.07.2020):	354
Number of markets and countries in which the brand is available in on-site stores:	17 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland
Countries in which the brand is available in online stores:	12 markets - Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Germany

OUR BUSINESS MODEL

Our business model is defined in 4 steps:

STEP 1:
DESIGNING

3 design offices in Poland (Gdańsk, Cracow, Warsaw)

Over **300** designers,
5 different brands

Our designers monitor fashion fairs in global fashion capitals and, on a daily basis, pay attention to street fashion to create original collections which creatively match given-season trends (colours, patterns, models) with our customers' needs.

STEP 2:
MANUFACTURING

Over **1 200** suppliers from Asia and Europe

2 representative offices in Asia (Shanghai, Dhaka), supporting the manufacturing process

10% of all our collections are manufactured in close proximity, **90%** in Asia

No own manufacturing plants

Our collections are sewn by external entities. We cooperate with duly selected manufacturing plants in Asia and Europe, preparing individual models and taking care of high quality. We focus on sustainable development in the supply chain. Our suppliers undergo audits and training courses covering respect for human rights and employees' rights. We pay attention to our suppliers' environmental impact. In Asia, we act through our representative offices. From year to year, production in Europe is on the grow.

STEP 3:
DISPATCH AND LOGISTICS

240 ths m2 of the total warehousing space

Almost **10 mln** orders completed in e-commerce in H1 2020/21

Distribution centres in Poland and abroad (Moscow, Romania, Slovakia)

Customers appreciate our collections and, every year, we sell more and more items of clothing. Therefore, on a regular basis, we develop logistics. in Pruszcz Gdański, we have one of the most state-of-the-art distribution centres in this part of Europe; our other warehousing facilities are located in Stryków (Central Poland), Brześć Kujawski (project in progress) and abroad: in Russia, Romania and Slovakia. Furthermore, we invest in new technologies facilitating the entire process of product distribution to brand stores and the e-commerce channel.

STEP 4:
SALES

Our collections are available (in traditional stores and online) in **38 countries** on **3** continents

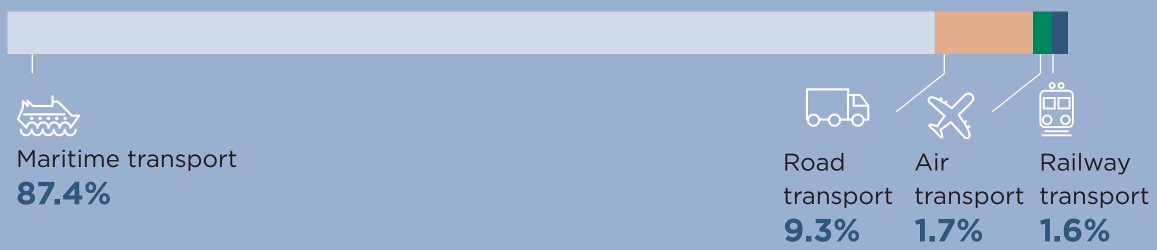
1,779 brand stores of the total area of **1,304.9 ths m2** in **25** countries

Online sales in **28** countries

We put emphasis on the omnichannel, offering our brand products in a constantly developing chain of traditional and online stores. Every year, LPP's collections are available for customers on new markets. We focus on the highest customer service quality and implement contemporary Fashion Tech solutions.

Percentage share of specific modes of transport in H1 2020/21:

Imports



Exports (dispatch to brand stores and e-commerce)

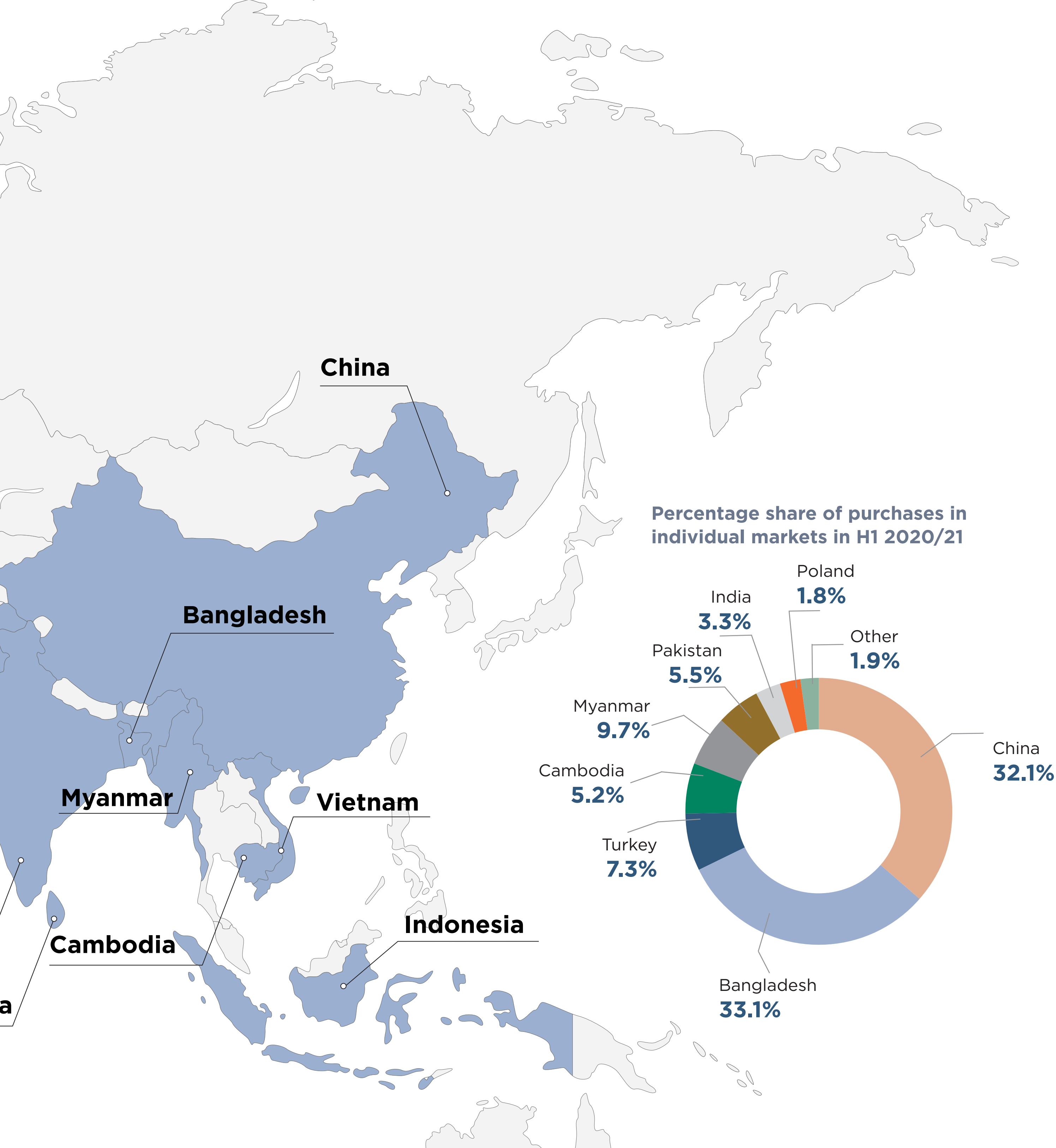
WHERE ARE OUR CLOTHES MADE?

OUR SUPPLIERS

We have no own manufacturing plants and, therefore, the sewing of designed collections is outsourced to external companies. This model is very popular in the clothing industry. Consequently, specific parts of our collections are manufactured in plants specialising in individual types of clothing.

Manufacturing plants cooperating with us are located in Poland, Europe and Asia.

In H1 2020/21, the majority of orders were executed in Bangladesh - 33.1%, China - 32.1%, Myanmar - 9.7%, Turkey - 7.3%, Pakistan - 5.5%, Cambodia - 5.2% and India - 3.3%. In the same period, Polish plants manufactured approx. 2.5% of products ordered.



OUR RECIPIENTS

Final recipients of our products both in on-site and online stores are individual customers preferring clothing purchases in a moderate price range. Each brand is addressed to a different customer group representing various styles, character and differing needs.

Direct recipients of LPP SA products are subsidiaries (foreign companies) and non-affiliated entities (mainly franchise partners). The Parent Company (LPP SA) distributes goods purchased from suppliers to its subsidiaries operating on individual foreign markets, that is selling collections of the Group's specific brands. For the said purchases, subsidiaries make payments to the Parent Company in local currencies. Consequently, the Parent Company generates multi-currency revenue, exercising decision-making functions in terms of the inflow of receivables.

Due to the specific character of certain local markets, recipients of goods are non-affiliated companies. In this case, our cooperation is based on in the franchise model i.e. we entrust the sale of our products to entities more experienced in this area, that is local business partners. They are responsible for finding the best location, building a store in line with our standards and for managing such brand store.

As part of the franchise cooperation, LPP is required to provide any and all tools and know-how, ensuring support at each stage of the cooperation.

The pricing policy on a local market is determined jointly with a franchisee based on market research and competitors' strategy. Store replenishment is carried out on the same terms and conditions as those applicable to own brand stores, taking in consideration only climate differences and cultural factors, mainly religious restrictions.

Currently, we have 8 franchise stores of Reserved in 5 countries in the Middle East (Egypt, Qatar, Kuwait, United Arab Emirates and Israel), operated by two business partners from that region.

As regards selection of collections for individual foreign markets, the Parent Company is supported by a group of specialists having knowledge of preferences of customers from different countries.

OUR MARKET PRESENCE

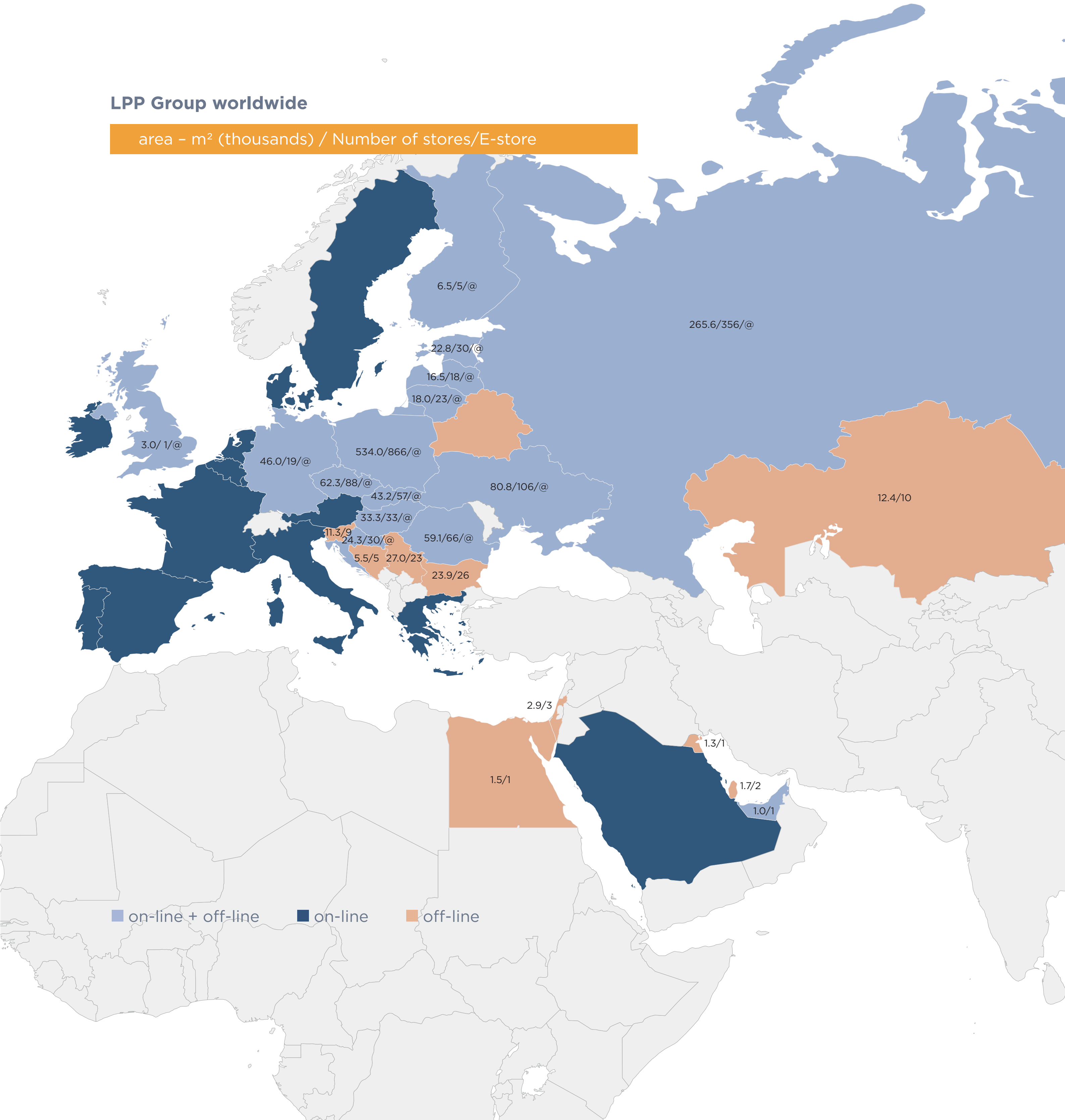
We offer our products to customers in on-site and online stores jointly in 38 countries on 3 continents.

Our on-site store chain comprises 1,779 stores of the total area of 1,304.9 thousand m2.

We are present online in 28 markets.

LPP Group worldwide

area – m² (thousands) / Number of stores/E-store



BASIC FIGURES PRESENTING THE EFFECTS OF THE LPP SA GROUP'S OPERATIONS

1. NUMBER OF STORES AND RETAIL SPACE

At the end of H1 2020/21, the LPP SA Group offered its products in 1,779 stores of the total area of approx. 1,304.9 thousand sq. m. Compared to H1 2019, the total area of on-site stores of the Group increased by 14.9%.

At the end of H1 2020/21, outside Poland, the Group had 913 stores of the area of 770.8 thousand m2.

As at 31.07.2020	Number of stores	Change y/y (%)	H1 2020/21	H1 2019/20	Change y/y
			Area in ths m^2	Area in ths m^2	Area in ths m^2
Reserved	442	-12	670	634	35
Cropp	372	2	157	141	16
House	329	5	138	122	17
Mohito	277	-11	112	109	3
Sinsay	354	66	223	121	102
Outlet	5	-16	5	10	-5
LPP Group in total	**1,779**	**34**	**1,305**	**1,136**	**169**

2. SALES BROKEN DOWN BY BRAND

The Group's revenue in H1 2020/21 was generated based on revenue of five brands from on-site and online stores. At the same time, the said revenue was approx. 21% lower than that yielded by the Group in the same period last year. The decrease in revenue resulted from the closure in H1 2020/21, for approx. 2 months, of almost all on-site stores of the Group, which previously generated approx. 90% of sales. Store closures resulted from decisions of governments of individual countries in which the Group operates, with such decisions being made due to the spread of the COVID-19 pandemic and the necessity to introduce restrictions in the operation of retail and service facilities (in which the Group has its on-site stores).

The outbreak of the pandemic and restrictions implemented forced the Group's customers to shop in online stores of individual LPP brands which, at that time, recorded very high revenue dynamics. Nonetheless, revenue increases in the online channel did not compensate decreases in the traditional channel, the consequence of which was the decrease in the Group's revenue in H1 2020/21.

The highest decrease in sales was recorded by Cropp and Mohito, the lowest – by Reserved. However, Sinsay recorded positive sales dynamics y/y as the only brand.

In H1 2020/21, the largest share in the Group's revenue was generated by Reserved (45.1%), which confirms that the said brand plays a key role in the Group's portfolio.

At the same time, it should be noted that, in H1 2020/21, almost all brands (except House) generated more revenue abroad than domestically, which confirms that they are more and more recognised globally.

Sales in individual brands in both channels, i.e. in traditional and online stores in H1 2020/21 and in Q2 2020/21, are given in the table below (in PLN mln).

In PLN mln	Sales in H1 2020/21	Sales in H1 2019/20	Change y/y (%)
Reserved	1,493	2,024	-26.2%
Cropp	391	587	-33.4%
House	356	520	-31.6%
Mohito	308	462	-33.4%
Sinsay	709	523	35.5%
Other	52	49	5.3%
Total	**3,308**	**4,165**	**-20.6%**

In PLN mln	Sales in Q2 2020/21	Sales in Q2 2019/20	Change y/y (%)
Reserved	939	1,120	-16.1%
Cropp	257	341	-24.7%
House	237	298	-20.7%
Mohito	182	260	-30.1%
Sinsay	478	298	60.3%
Other	38	28	36.6%
Total	**2,129**	**2,345**	**-9.2%**

3. SALES IN LFL STORES

In H1 2020/21 and Q2 2020/21, sales revenue in like-for-like (LFL) stores (in local currencies) decreased, respectively, by 45.9% and 36.5%. The said decrease in LFL sales was caused by the closure in H1, for approx. 2 months, of traditional stores of all LPP brands due to the spread of the COVID-19 pandemic at that time.

Negative two-digit LFLs were recorded by all brands of the Group both in H1 and Q2 2020/21.

4. ON-LINE SALES

In H1 2020/21, the Group's revenue from online sales reached PLN 1,005 mln i.e. 123.1 % more than a year ago. The three-digit increases in online sales resulted from customer migration from the traditional sales channel to e-commerce. This trend, although noticeable for some time, accelerated at the time of the outbreak of the COVID-19 pandemic. The on-line shopping became an alternative for on-site stores which ceased their operations for approx. 2 months. At the same time, the reopening of on-site stores did not decrease the popularity of the online channel which was used for shopping also by customers preferring so far to shop in a traditional way.

Consequently, the importance of revenue from the online channel in the Group's total revenue is on the grow. In H1 2020/21, the said revenue accounted for 30.4% of the Group's total sales. Simultaneously, approx. 50% of online sales were generated by domestic sales, thus translating into 33.5% of domestic revenue.

Online sales in H1 2020/21 and Q2 2020/21 are given in the table below (in PLN mln).

In PLN mln	H1 2020/21	H1 2019/20	Change y/y (%)	Q2 2020/21	Q2 2019/20	Change y/y (%)
Sales in PLN mln	1,005	451	123.1%	621	276	124.8%

5. REVENUE BROKEN DOWN BY REGION

In H1 2020/21, foreign sales exceeded domestic sales, which confirms the Group's global reach. At the same time, due to the pandemic, all regions recorded decreases in revenue y/y. The lowest decrease in revenue in H1 2020/21 was recorded in European countries. In Q2 only, that region recorded an increase in revenue y/y as the only one. Significantly noticeable increases were generated in the countries of Central-Eastern Europe following the Group's logistics development in that region.

Revenue generated by the Group's companies operating in individual countries and regions in H1 2020/21 and Q2 2020/21 is given in the tables below (in PLN thousand).

Country	H1 2020/21	H1 2019/20	Change y/y (%)	Q2 2020/21	Q2 2019/20	Change y/y (%)
Poland	1,498,194	2,042,537	-26.7%	962,142	1,130,732	-14.9%
Other European countries	1,084,308	1,121,195	-3.3%	737,245	639,856	15.2%
CIS	719,395	987,005	-27.1%	427,560	566,665	-24.5%
Middle East*	6,047	14,705	-58.9%	2,350	7,500	-68.7%
Total	**3,307,944**	**4,165,443**	**-20.6%**	**2,129,297**	**2,344,752**	**-9.2%**

*Revenues from the Middle East countries are generated by franchise stores.

6. OPERATING EXPENSES

The Group's operating expenses include costs of own and franchise stores in Poland, distribution costs and general costs. Costs of own stores comprise rental, payroll and other costs while distribution costs comprise the costs of logistics and e-commerce. General costs include marketing costs, back-office costs as well as costs of the sales and product departments.

In H1 2020/21, the LPP SA Group recorded a decrease in operating expenses by 5.1%, mainly due to the decrease in the costs of on-site stores arising from lower rental costs and payroll cuts. Lower operating expenses resulted mainly from lower rents for the period from March to July 2020. Rent discounts resulted from the closure of retail and service facilities following decisions of administrative authorities. Rent discount obtained were recognised by the Group as adjustment of the lease liability, with a corresponding adjustment of financial income.

	H1 2020/21 (IFRS 16)	H1 2019/20 (IFRS 16)	Change y/y (%)	Q2 2020/21 (IFRS 16)	Q2 2019/20 (IFRS 16)	Change y/y (%)
Operating expenses (in PLN mln)	1,783	1,878	-5.1%	967	965	0.2%
Operating expenses per m2/month	240	288	-16.5%	257	289	-11.3%

7. CAPITAL EXPENDITURES

In H1 2020/21, capital expenditures (CAPEX) amounted to PLN 353.3 mln, i.e. approx. 16% less compared to H1 of the preceding year. Lower capital expenditures resulted from the decisions of the Company's Management Board to have investment outlays reduced by the Group due to the outbreak of the COVID-19 pandemic and an uncertain macroeconomic situation in countries where the Group operates.

8. INVENTORY

In H1 2020/21, the inventory level was lower by 16.2% y/y, with inventory level per m2 being lower by 27.3%. Inventory reduction y/y was caused by reduced orders for Autumn-Winter 2020/21 due to the outbreak of the COVID-19 pandemic and uncertain demand. At the same time, the Spring-Summer collections were welcomed by female and male customers. Inventory decreases resulted from promotions activities carried out by the Group in Q2 2020/21.

Inventory levels at the end of H1 2020/21 (w PLN mln) and per m2 are given in the table below.

	31.07.2020	31.07.2019	Change y/y (%)
Inventory (PLN mln)	1,642	1,959	-16.2%
Inventory per m2 in PLN	1,266	1,743	-27.3%

9. DEBT

LPP has credit lines in 6 banks in the total amount of PLN 1.3 billion, utilised for bank guarantees, letters of credit to finance trade or as a revolving loan.

Additionally, in H1 2020/21 (in June), LPP signed an agreement with HSBC France on two short-term bank loans to be utilised for payment of trade liabilities to suppliers, resulting from reversed factoring, for the total amount of PLN 292.2 mln (without interest).

Apart from the above-mentioned bank loans extended to LPP (the Parent Company), three subsidiaries, i.e. the Russian, Ukrainian and Kazakh companies, utilise credit lines extended by local banks, which, at the end of July 2020/21, were utilised in the total amount of PLN 138.3 mln.

Simultaneously, LPP uses a supplier financing programme (reversed factoring). At the end of H1 2020/21, the relevant limit was utilised in the amount of PLN 990 mln.

Furthermore, LPP has a debt arising from investment credit facilities extended to finance the expansion of the Distribution Centre and the head office in Gdańsk. At the end of H1 2020/21, the said credit facilities totalled PLN 285.2 mln.

To diversify sources of funds, in 2019, LPP issued 300 thousand of unsecured ordinary 5-year bearer A series bonds. Bonds of the nominal value of PLN 1 thousand and of the total value of PLN 300 mln, charged with WIBOR 6M increased with the margin of 1.1%, have a maturity date falling on 12 December 2024. Bonds were issued through non-public subscription addressed to specified qualified investors. Bonds have no paper form and are registered in the securities depository kept by Krajowy Depozyt Papierów Wartościowych SA and were introduced to trading in the Catalyst Alternative Trading System operated by Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange).

At the end of H1 2020/21, the Group held cash of PLN 1,763 mln and showed net cash of PLN 727 mln compared to PLN 666 mln year ago.

The table below shows the level of net debt (cash) in PLN thousand. The information of loans as at 31 July 2020 is given in point 14 of the consolidated financial statements for H1 2020/21.

	As at 31.07.2020	As at 31.07.2019 (unpublished)	Change y/y (%)	As at 30.06.2019
Short-term loans	520,708	172,651	201.6%	175,025
Long-term loans	215,082	57,449	274.4%	61,901
Bonds*	300,456	-	-	-
Cash	1,763,509	896,357	96.7%	862,850
Net debt (net cash)	**-727,263**	**-666,257**	**9.2%**	**-625,924**

* PLN 300,456 thousand (discounted value of bonds PLN 291,699 thousand and interest charged in the amount of PLN 8,757 thousand)

10. FACTORS AND EVENTS, INCLUDING THOSE OF EXTRAORDINARY NATURE, SIGNIFICANTLY AFFECTING THE CONDENSED FINANCIAL STATEMENTS

In H1 2020/21, there were events of extraordinary and precedent nature affecting the Group's financial result. The said circumstances were caused by the outbreak and spread of the COVID-19 pandemic in countries where the Group operates. From Mid-March to the beginning of May, the LPP Group was forced to close its on-site stores in almost all countries in which it operates. Stores were closed following administrative decisions and restrictions implemented by governments of pandemic-affected countries.

The cessation of sales in the traditional channel previously generating approx. 90% of the Group's revenue adversely affected its value, causing a decrease of approx. 21% compared to the same period last year.

Due to both these factors and a less favorable PLN/USD exchange rate, which in a pandemic period gives less opportunity to transfer into prices, resulted the Group's gross margin was lower by 4 p.p. compared to the same period last year.

The pandemic affected also operating expenses. In H1 2020/21, these costs were reduced by approx. 5% y/y. The said decrease was caused by the decrease in rental costs owing to the exemption from the duty to pay rent in shopping centres during the trading ban instituted under the resolution of the Polish government and discounts negotiated with owners of shopping centres abroad. Another factor resulting in the decrease of operating expenses was reduced remunerations of all employees of the Group.

At the same time, the decrease in operating expenses in H1 was lower than the decrease in sales in that period due to the fact that fixed costs have a major share in the Group's operating expense structure.

Other operating income and expenses were untypically affected by revaluation write-offs on stores in the German company due to their unprofitability (approx. PLN 38 mln) and subsidies providing mainly additional financing for payroll and social security purposes (PLN 55 mln).

In H1 2020/21, the LPP Group recorded a less advantageous effect of net financial activity due to higher losses on foreign exchange differences arising from IFRS 16.

Consequently, due to prevailing extraordinary factors in the reporting period, the LPP Group recorded a net loss of PLN 335 mln versus net profit of PLN 55 mln, generated a year ago.

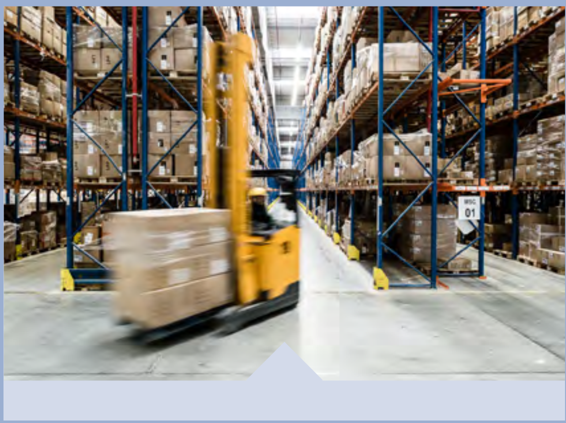
Basic figures reflecting the Group's performance and margins gained in H1 2020/21 and Q2 2020/21 are given in tables below.

	H1 2020/21	H1 2019/20	Change y/y (%)	Q2 2020/21	Q2 2019/20	Change y/y (%)
Revenue	3,307,944	4,165,443	-20.6%	2,129,297	2,344,752	-9.2%
Gross sales profit	1,581,153	2,155,619	-26.6%	1,013,336	1,156,444	-12.4%
Costs of stores and distribution and general costs	1,782,642	1,877,705	-5.1%	966,858	964,695	0.2%
EBITDA	325,710	721,622	-54.9%	308,126	423,260	-27.2%
Operating profit (loss)	-228,221	249,637	n/m	32,301	185,621	-82.6%
Net profit (loss)	-392,629	55,237	n/m	-30,639	31,940	n/m

Margin (%)	H1 2020/21	H1 2019/20	Change y/y (p.p.)	Q2 2020/21	Q2 2019/20	Change y/y (p.p.)
Gross sales margin	47.8%	51.8%	-4.0	47.6%	49.3%	-1.7
EBITDA	9.8%	17.3%	-7.5	14.5%	18.1%	-3.6
Operating	-6.9%	6.0%	-12.9	1.5%	7.9%	-6.4
Net	-11.9%	1.3%	-13.2	-1.4%	1.4%	-2.8

11. OTHER MAJOR EVENTS IN H1 2020/21 AND IN THE PERIOD PRECEDING PUBLICATION OF THIS REPORT

FEBRUARY



COMPLETION OF THE EXTENSION OF THE DISTRIBUTION CENTRE IN PRUSZCZ GDAŃSKI

Upon completion of the project encompassing the extension of the Distribution Centre, the Group gained 21 thousand sq.m. of additional contemporary warehouse space and 4.4 thousand sq.m. of office space.

The newly built part of the Distribution Centre comprises 29 additional automatic warehouse lanes, thus offering space for 522 thousand cardboard boxes.

There are 10 new RFID tunnels and 10 RFiD stations to identify an individual product in the supply chain, aiming at a thorough control of incoming and outgoing goods. The Centre's warehousing capacity increased in total to almost 1.5 mln of cardboard boxes.

The value of the said investment is approx. PLN 200 mln. Currently, after the expansion, the Centre's total space is 91.4 thousand sq. m.

MARCH – JUNE

SUPPORTING THE FIGHT AGAINST COVID-19 – COMMUNITY AND CHARITY PROJECTS

LPP allocated almost PLN 5.7 mln to support the fight against the COVID-19 pandemic, delivering, among others, one million protection masks to over 300 medical centres throughout Poland. Furthermore, owing to our cooperation with almost 50 organisations, we provided people in need with over 27 thousand cotton masks and 1,660 protective aprons sewn by LPP employees.

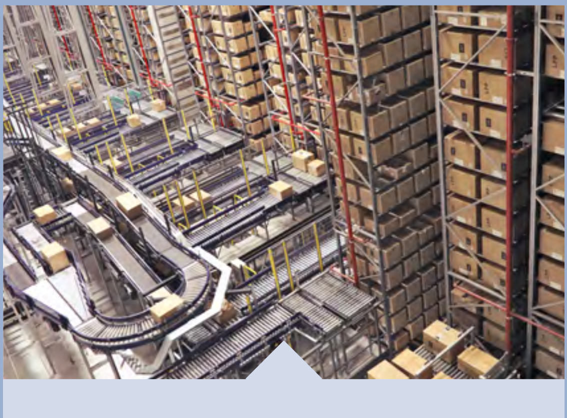
MAY

PUBLISHING THE NON-FINANCIAL REPORT: TOWARDS SUSTAINABLE FASHION

The LPP Group published another non-financial report. The leading topic of the 2019/20 report is sustainable fashion. The report presents:

- the background of operations of the Group's brands and their direction towards sustainable fashion;
- the Group's economic, environmental and social impact.

JUNE



IMPLEMENTATION OF AI ALGORYTHMS IN THE FUFILMENT CENTER

In LPP's Fulfilment Center, we implemented a solution based on AI algorithms to increase the efficiency of handling online orders by optimising the order completion path, increasing facility performance, optimising the utilisation of warehoused goods, which, in consequence, will substantially accelerate the dispatch of e-commerce orders.

JULY

LAUNCHING THE E-COMMERCE WAREHOUSE IN SLOVAKIA

In Slovakia, LPP launched the Fulfilment Center to handle online sales on the markets of Central Europe. The warehouse space of 32 thousand m2, situated in PNK Park SEREĎ, will give the possibility of offering customers of LPP brands from Central Europe deliveries on the next business day and, in certain locations, even on the same day.

AUGUST

JOINING THE GLOBAL INITIATIVE OF ZERO DISCHARGE OF HAZARDOUS CHEMICALS (ZDHC)

LPP as the first Polish company joined the international initiative aimed at limiting globally the adverse impact of the clothing industry on natural environment. The mission of the ZDHC initiative is to enable the implementation by the textile, clothing and footwear industries of best practice in terms of sustainable chemical safety in the entire supply chain by establishing and implementing new standards with joint engagement of companies, research and academic centers, i.e. striving at eliminating hazardous substances in the clothing industry.

COMPLETION OF REMEDIAL ACTIONS IN THE GERMAN SUBSIDIARY LPP DEUTSCHLAND GMBH

The Group has successfully completed remedial actions aimed at improving the standing of the German subsidiary (LPP Deutschland GmbH). Therefore, the German company recommenced its normal operations. Having attained the main goal, i.e. negotiation with lessors of new lease terms and conditions in retail premises, the said company has substantially reduced the costs involved and has been given a chance to become profitable.

SEPTEMBER

JOINING THE POLISH PLASTIC PACT

LPP joined the Polish Plastic Pact established on 10 September 2020. This is the Company's yet another step to implement a sustainable development strategy. The Polish Plastic pact is an inter-sector cooperation platform under the umbrella of "17 Goals Campaign" for companies and industry-specific and non-governmental organisations, grouping members of the plastic packaging's value chain. The platform is created by 12 companies, including packaging manufacturers, companies introducing packed products to market, retail networks as well as recyclers and recovery organisations. Members of this initiative aim at changing the current model of utilising plastic in packaging on the Polish market towards a closed circle economy. By taking relevant actions, members of this pact will reduce the use of plastic in packaging introduced to market by 30% and, by 2025, already 100% of plastic packaging is to be reusable or recyclable. Another important element in the fight for a new plastic flow model will be the improvement of quality and effectiveness of consumer education in the area of segregation, recycling, reuse and limitation of packaging.

DECISIONS OF THE GENERAL MEETING OF LPP

On 18 September 2020, the General Meeting of the Company was held during which resolutions were adopted on, among others, the division of profit generated by the Company for 2019/20, which was to be retained in the Company in full, and on the approval of non-payment of a dividend in 2020. At the same time, the General Meeting adopted a scheme for the buy-out of treasury shares up to PLN 2.1 bln, which may be implemented during the next 5 years.

3. BASIC RISKS AND THREATS RELATED TO OTHER MONTHS OF THE FINANCIAL YEAR

The attainment of strategic tasks and goals of the LPP Group may be affected by internal and external factors involving either chances or risks and threats for the Group. Below, the Group gives their detailed description.

INTERNAL RISK FACTORS

BUSINESS MODEL RISK	**Risk:** Our Group focuses its activity on the designing and distribution of clothing as well as building its brands. Our business models involves the outsourcing of manufacturing activities to professional entities in different parts of the world, without own manufacturing capacities. Our investments are directed at creating our own on-site sales network and at e-commerce, logistics, development and technology as well as at attracting loyal consumers. On one hand, outsourcing enables effective production placement and gives access to modern and constantly changing technologies. On the other hand, however, it involves the risk of choosing inadequate suppliers and is closely related to the economic and political situation in suppliers' countries. **Actions:** Risks related to our business model are minimised by choosing suppliers not only in terms of price but also their offer, modern machinery and ethical treatment of workers. Additionally, on a regular basis, we evaluate our suppliers, who are supervised by the LPP offices in Shanghai, China, and Dhaka, Bangladesh. Furthermore, the Company's purchase departments rank and assess cooperation with suppliers to eliminate unreliable ones and establish long-term cooperation with verified and reliable suppliers. Simultaneously, we make sure that the Group is not dependent on any of over 1 200 cooperating suppliers (none of them has exceeded the threshold of 5% of purchases). By purchasing goods from different suppliers in various countries, i.e. by diversifying production countries, we minimise the business model risk.

COLLECTION-RELATED RISK	**Risk:** The clothing market is characterised by a wide variety of customer expectations and is closely correlated with changes in fashion trends and changeable customer preferences. Fashion trends are correlated with society and its culture, history, social moods or macroeconomy trends. A key element in a clothing company's success is, on one hand, the sensing of changes in fashion trends and the adjustment of the product range to current consumer needs and, on the other hand, a quick reaction to such needs. **Actions:** Our Group pays significant attention to fashion. Each brand has a separate team of designers following global fashion trend in the brand's dedicated customer group. The work of designer teams is organised so as to minimise the impact of a single designer on entire collections. Designers and persons engaged in the process of collection creation not only participate in exhibitions and fairs worldwide but also keep track of street fashion in the most popular fashion capitals i.e. Paris, New York, Seoul, Tokyo. Due to technology development and smartphone prevalence, our designers get inspirations not only from catwalk collections but, first of all, from the Internet and social media. Inspirations found and world trends are used in the process of collection creation and, therefore, the risk of unmatched collections and trends is reduced.
PRICING POLICY RISK	**Risk:** High market competitiveness requires an adequate pricing policy. Prices may not be too high to avoid diminishing the volume of products sold and maintain their comprehensive availability. Additionally, due to financial insecurity at times of crisis, there may be consumers for whom a low price will be a priority. Nonetheless, they may not be too low as they will generate no adequate margin and may depreciate our brands and their market position. **Actions:** According to our pricing policy, prices are maintained at levels corresponding to popular clothing companies with middle price brackets. To minimise the risk of inadequate pricing policy, our employees monitor, a day-to-day basis, prices of similar goods offered by our competitors to similar customer groups, adjusting prices of our products to market levels. At the same time, groups of products with higher demand are priced higher respectively. During clearance sales, just like our competitors, we sell out products from the passing season's collections, which were not sold at regular prices, simultaneously applying price incentives. At the same time, being supported by technological and IT tools, we are able to optimise clearance sales stock, with the optimum reduction of prices.
SINGLE SEGMENT CONCENTRATION RISK	**Risk:** The concentration on a single market segment in geographical terms may have an adverse impact in the event of occurrence of disadvantageous macroeconomic, political or legal factors in a country or in a region where the company operates, with simultaneous absence on other markets or in other regions. Single segment (sales channel) concentration may involve a risk arising when customers change their shopping model, i.e. when popularity of online shopping is increasing. **Actions:** We have minimised this risk from the very beginning of our operations. We offer products under different brands, addressed to numerous age groups, thus diversifying the recipient segment. Owing to our presence in several countries and regions, we are exposed to a lesser risk of adverse consequences of legal changes occurring in a single country e.g. introduction of the Sunday trading ban in Poland. Following market trends and adjusting to customers' preferences, apart from the traditional sales channels existing from the very beginning, we have developed the online sales channel, thus limiting the single segment concentration risk.

RISK OF MISSED STORE LOCATION	**Risk:** Our development strategy provides for the expansion of our on-site sales network. The opening of new stores involves the risk that specific locations may prove to be missed. This may result in a stores' failure to reach expected revenue performance, which, in consequence, may adversely affect our Group's financial results. **Actions:** We reduce the risk of missed locations owing to good market surveillance and a detailed analysis of each potential new location. At present, we optimise the development of our sales network. On one hand, locations with unsatisfactory sales level are closed upon contract termination, and, on the other hand, stores in good locations are expanded to offer customers full collections. We undertake optimisation activities both in Poland and globally, on each market where we have operated for more than 5-7 years.
RISK OF INEFFECTIVE LOGISTICS	**Risk:** The task of the logistics team is to quickly gather a relevant number of clothing dispatches to stores and, directly, to customers making online orders, with simultaneous minimisation of the quantity of goods in distribution centres. The increase in of retail space, dynamic development of the Group's online sales, changes in customers' shopping behaviour and their expectations (including the increasing importance of speedy deliveries) require investments in logistics improvements, the absence of which increases the risk of the optimum handling of logistics needs. **Actions:** As this issue is of vital importance, the Management Board of LPP gives it a high priority, consistently introducing new solutions such as: – expansion, along with the increasing demand, of logistics facilities both domestically and abroad, – cooperation with specialised external providers in the area of online sales logistics, – implementation of IT improvements in logistics, including those based on AI such as the solution implemented in the Fulfilment Center in the financial period to optimise the order completion path using AI algorithms, aimed at shortening the order completion process, increasing facility performance, optimised utilisation of warehoused goods and substantial acceleration of the handling of e-commerce dispatches.

RISK OF SALES MIGRATION FROM TRADITIONAL STORES TO THE INTERNET	**Risk:** The increase in the popularity of online shopping results in a global trend reflecting sales migration from traditional stores to online stores. This tendency puts pressure on sales in traditional stores, the majority of which generate fixed costs, and, consequently, affects the Group's profitability. For contemporary customers, both the online and offline world are of equal importance. Both shopping channels permeate to create the omnichannel. The online channel generates numerous shopping-related activities, often assisting offline purchases (reviewing offers, pictures, looking for inspiration, use of applications, comparing offers, social media). Online shopping has become more and more popular and easier. Migration of customers from the traditional channel to e-commerce will become obvious. However, despite development of online stores, traditional ones are estimated to remain on the market and they will be implementing new solutions and changing their format. **Actions:** A solution minimising the risk of sales migration from traditional stores to the Internet is to adjust to the current trend of increasing popularity of Internet shopping and to integrate these two channels into the omnichannel. The Group operates modern online stores of all of our brands and continuously takes actions aimed at further development of this sales channel. We gradually open online stores both on the markets where we have launched our traditional stores and in other EU countries, and we improve mobile sales platforms and supply logistics. At the same time, to encourage customers to visit our traditional stores, we are constantly adjusting to customers' changing needs and requirements and current trends. Developing and implementing new store concepts for our brands, we take actions aimed at levelling technological differences between on-site and online sales and at integrating these two sales channels, which are considered rather as complementing than competitive, with no rivalry between the two, thus mitigating the risk of sales migration from traditional stores to the Internet.
EMPLOYEE-RELATED RISK	**Risk:** Highly qualified and fully engaged staff guarantees that companies will be able to make adequate market offers, approach customers in a proper way, duly manage the company and, consequently, reach a market success. However, there is also a risk that the company will become excessively dependent on several key officers or a highly specialised team with unique skills in a given sector (the company may face serious difficulties if such persons leave the company within a short period, without having educated their successors). Our Group employs approx. 24 thousand employees who are indispensable to carry out our basic operations in a profitable way. In particular, we face the risk of losing key management officers, persons involved in the process of designing and preparing our collections and rotation of employees in retail stores and distribution centres. There is also a risk that the Group will not be able to attract new talents and will face difficulties in soliciting an adequate number of staff, including highly qualified employees. **Actions:** Our Company takes numerous actions aimed at mitigating these risks. Key management officers take part in a share-based incentive programme. The Group puts emphasis on friendly working conditions – employees are given numerous training opportunities to ensure constant development of their skills and the possibility of being promoted. To minimise the risk of having difficulty finding employees, our Company has decided to make large investments in technologies and development of an integrated logistics system, automation and artificial intelligence. Simultaneously, to attract new talented employees, on a constant basis, by taking various actions, the Group works actively on employer branding.

EXTERNAL RISK FACTORS

MACROECONOMIC RISK	**Risk:** The situation in countries where we sell our products and where factories of our suppliers are located are crucial for our Group. The above involves such countries' economic standing and unexpected events like armed conflicts or pandemics. The Group's revenues and margins depend on the economic situation of households and consumption inclinations. An economic growth or decline in countries where our brand stores are located may translate into an increase or decrease in consumers' spending, including clothing expenses. Similarly, an economic growth or decline in countries where the manufacturing of goods is located may translate into an increase, decrease or, relatively, stabilisation of manufacturing costs. **Actions:** We minimise the macroeconomic risk in several ways. Being present on numerous markets, we diversify the risk into numerous countries with diverse macroeconomic situation. We sell our goods under several brands, thus splitting the risk into several age groups. Our goods fall within a wide price range, from cheaper and therefore easily accessible products to more expensive items. We diversify also sales channels (on-site and online stores). As regards purchases of goods, we minimise risk by placing manufacturing orders with numerous manufacturers in several countries on different continents, including countries with lower manufacturing costs such as Bangladesh, India, China as well as European countries such as Turkey and Poland. Having cooperated on a long-term basis with selected suppliers, we are able to negotiate good prices and, therefore, minimise the adverse impact of macroeconomic changes in manufacturing countries on the Group.

EPIDEMIC AND PANDEMIC RISK	**Risk:** The outbreak of an epidemic on markets where we have our collections manufactured and where we sell our collections may substantially affect the situation in those countries and, in consequence, adversely affect the Group's results. The epidemic spreading in countries where our suppliers' plants are located may cause disturbances in the continuity of our supply chain i.e. delays in, or lack of, supplies of textiles, raw materials, accessories or even the closure of manufacturing and sewing plants. The above may halt the manufacturing process. Additionally, during an epidemic, there might be logistics problems in transporting and warehousing goods. In consequence, all these factors may adversely affect our product offer and its availability. At the same time, the outbreak of an epidemic on markets where we sell our collections may have a negative impact on customer demand. Restricted mobility resulting from the fear of contracting a disease and regulations implemented by governments to minimise the epidemic spread may cause a decrease in shopping or even putting a halt on purchases in case of closure of on-site stores. Furthermore, an epidemic may bring about an economic crisis in the affected countries or even a global crisis as in the case of the COVID-19 pandemic. Due to the fact that the Group's revenues and margins depend on the economic situation of households and their consumption inclinations, the economic crisis may translate into a decrease in consumer spending, including clothing purchases, and, therefore, the Group is exposed to the risk of economic crisis caused by the epidemic/pandemic. **Actions:** Although it is difficult to be safeguarded against the risk of epidemic, our Group aims at minimising this type of risk in several ways. As regards the sale of our products, we are present on numerous markets, thus diversifying the risk into various countries. Our brands fall within the middle price range and, therefore, are available to customers at times of economic crisis. We diversify sales channels by developing e-commerce which, in the event of closure of on-site stores during a quarantine, becomes an alternative shopping channel for customers. In crisis situations like the epidemic, the Management Board of LPP reacts, on a day-to-day basis, by taking decisions aimed at maintaining the Group's liquidity position by reducing operating expenses or capital expenditures. Although all the above-mentioned actions will not safeguard the Group against the risk of a pandemic and, in consequence, a potential economic slow-down, they may minimise its impact.

CURRENCY RISK	**Risk:** An adverse change in currency exchange poses a substantial risk for our Group. Over a half of our revenue was denominated in foreign currencies (mainly EUR and local currencies), the costs of goods purchases – mainly in USD, and operating expenses – in more than 50% in foreign currencies (mainly EUR). The highest FX exposure of our Group concerns USD and EUR. The USD exposure is related to the location of goods production and purchases (mainly Asian countries), while the EUR exposure is related to rent payments for stores. Due to the fact that Russia ranks second in terms of revenue generated (a 15% share in H1 2020/21, an 18% share in 2020/21), the Company faces also substantial RUB exposure. LPP reports financial results in PLN. Consequently, the strong position of PLN against USD and EUR has a positive impact on our Group's margins, while its weak position against key currencies reduces our profitability. **Actions:** Due to the relevance of the foreign exchange risk, in June 2017, we decided to start hedging the USD/PLN exchange rate by entering into forward contracts for payments in USD to suppliers. The transactions are aimed at minimising foreign exchange differences in financial operations (i.e. below operating profit).
RISK OF LAW AMENDMENTS	**Risk:** Tax and customs laws have a significant impact on the Group's activity. Therefore, law amendments in this area may significantly affect our operations. The Group is exposed to customs law amendments due to the scale of imports, specifically from Asian countries. The introduction of potential import quotas and heavy customs duties could result in the reduction of the Group's margins. The introduction of law amendments in each of the countries where we are present may result in the requirement to incur additional costs or reduce revenue, thus adversely affecting the Group's profitability. An example of such potential risk is gradual introduction of the Sunday trading ban or prospective implementation of turnover tax to be charged on large stores in Poland. **Actions:** Our head office and the majority of our brand stores are located in the EU. As assessed by the Group, the European Union pursues a stable customs policy. Moreover, any changes in the customs policy would affect all entities operating in the retail sector in the EU. The more important risk is the one involving law amendments, which arises from both domestic and EU laws. If any such risk occurs, the Management Board of LPP will focus its activities on minimising their impact on the Group's financial performance, as in the case of law amendments concerning the Sunday trading ban in Poland. As we have a well-developed e-commerce channel, the Group's customers are able to shop online at times when on-site stores are closed.

RISK OF INTENSIFIED COMPETITION	**Risk:** With barriers to the clothing market entry being low, the number of competitors increases, thus enhancing competitiveness. Additionally, in recent years, apparel online shopping has become more and more popular (also globally), which caused even more intensified competitiveness in this sector. Each year, new players enter and leave the markets where we operate. On each market, we compete with both local competitors and international players. **Actions:** Our success on each market depends on the quality of collections and their acceptance by customers. It is important to know customers' habits, the time of reacting to customer needs and the quality of customer experience we offer. Another equally important factor of our success is being competitive on the market. Therefore, to minimise the risk of intensified competition, we focus our activities on offering products best reflecting current trends and meeting customers' expectations at affordable prices. Owing to investments in state-of-the-art technologies, we increasingly gain customer satisfaction, which, at present, determines the company's competitiveness. Simultaneously, we do not forget about our competitors, analysing their operations and monitoring their financial performance, development of their sales networks as well as their product offers and prices.
RISK OF TECHNOLOGICAL ADVANCEMENT AND INNOVATIONS	**Risk:** In recent years, speedy technological advancement brought revolutionary changes in the apparel sector. Today, these changes concern not only new technologically advanced machines and devices, but first of all computerisation of internal systems, automation of logistics processes and development of artificial intelligence. Big data and advanced data processing systems facilitate prediction of supply, advanced analytics of consumer behaviour and personalised online communication. Therefore, we better understand customer needs and quickly react to meet them. Currently, IT technologies as well as logistics automation and robotization are indispensable to effectively manage the supply chain as they not only affect cost reduction but also have a positive effect on customer experience. All these activities affect the company's competitiveness and, consequently, its financial performance. **Actions:** Being aware of the technological revolution in the apparel sector and the key role of Fashion Tech i.e. modern technologies being implemented in the fashion world, we take numerous actions in the area of technology and innovation. We carry out development works in the following areas: 1) product research and development; 2) customer experience research; 3) research on new technologies and development of sales forms, especially in e-commerce; 4) research on Fashion Tech in the entire supply chain, from clothing designs through logistics to multi-channel sales and post-sales customer service. The effects of such works are our investments in projects such as: RFID (electronic tags) facilitating identification of a single product at each sales stage, construction of technically advanced on-site stores (intelligent fitting rooms, progressive lighting and air-conditioning systems), investments in modern distribution centres and development of online sales (mobile, machine learning, artificial intelligence).

RISK INVOLVING WEATHER CON-DITIONS	**Risk:** In the business conducted, during one season, there may occur positive or negative effects of weather conditions, which may affect an increase/decrease in sales, and, consequently, an increase/decrease of our Group's margins. In recent years, we have noticed that weather is less predictable, with specific seasons per-meating (especially winters), which is a consequence of climate changes. **Actions:** To minimise negative effects of weather conditions on the sales of our collections, we monitor, on a regular basis, the level of sales and margins in speci-fic countries, adjusting a time frame and scale of sales promotions. At the same time, following changes implemented, in previous quarters, in logi-stics and store replenishment, the Group is more flexible and may react quicker to adverse weather changes in a given season. In consideration of weather changes, we have reviewed our model of collections to make it more multi-seasonal e.g. by adequate choice of textiles which may be sold all year round. Therefore, our collections include more and more all-year pro-ducts. The multi-seasonal model reduces the business risk due to the fact that, if a given product is not sold in Spring-Summer season, the Group will be able to sell it, changing the manner of its presentation, in the Autumn-Winter season.

4. FACTORS WHICH MAY AFFECT RESULTS GAINED BY THE LPP GROUP WITHIN AT LEAST H2 2020/21

All factors described below may affect financial results generated by the Group in upcoming ca-lendar quarters, with the highest impact of the ef-fects of the COVID-19 pandemic. Due to negative effects of the pandemic, the Group expects that, in 2020/21, its revenue will decrease by up to 15%. Nonetheless, the Groups expects that the decre-ase in sales will be temporary and, upon expiry of the pandemic, in the years to come, the Group will continue to increase its revenue and develop its operations in line with its long-term strategy and it will pay a dividend.

The effects of COVID-19 will probably affect also the gross margin and operating result generated by the Group. The gross margin may reach of the range of 47-49% and operating profit above zero..

a) Situation resulting from the COVID-19 pandemic

The potential another wave of the COVID-19 pandemic could affect the results gained by the Group. Another spread of the epidemic in coun-tries where manufacturing plants of the Group's suppliers are located could cause disturbances in the continuity of the supply chain and, in con-sequence, delays in supplies of collections. In consequence, production in those countries could be halted. Additionally, during the pandemic, there may be logistic problems involving transportation and warehousing of goods. All these elements could adversely affect the Group's product offer and its availability and, consequently, its financial performance.

At the same time, the outbreak of the second wave of the pandemic in countries where the Group sells its collections could adversely affect customer demand. The limited mobility of people resulting from the fear of contracting the disease and regulations implemented by governmental authorities to minimise another spread of the pandemic could result in a decrease in shopping in traditional stores.

Although it is difficult to protect oneself against the another wave of the pandemic, the LPP Group strives at minimising negative effects of that po-tential factor in several ways.

As regards the purchase of goods, the Group in-creases its flexibility in terms of searching for new sources of supplies (both in the countries of the Far East as well as European and African coun-tries) and using different modes of transport (e.g. railway transport). As the Group operates not only in the traditional sales channel and develops also online sales, it will be able to adjust to potential restrictions in shopping centres.

b) Economic and political situation in Poland and countries where the stores of the LPP SA Group are operated

The COVID-19 pandemic has caused a global economic crisis. Due to the fact that the Group's revenue and margins depend on the economic situation of households and their consumption inclinations and since the economic crisis may result in the decrease of consumer spending, including outlays for clothing, the Group's results may be affected by the scale of the crisis and the pace of post-crisis recovery.

At the same time, considering the fact that the Group manages five brands falling within a moderate price range, the adverse effect of economic slowdown on the demand for products offered by the Group is minimised. Additionally, adjusting to the current situation, the Group has successfully developed the concept of the Sinsay brand with the lowest prices in the entire portfolio. Sinsay collections have been supplemented with female, male and children's lines as well as interior design products.

c) Fashion trends, attractiveness of collections, consumer behaviour model

The precarious economic situation, a decline in social moods, including consumer attitudes, and a changed lifestyle in the post-pandemic reality may have a bearing on the new consumer behaviour model, a change in preferences as to how people dress and changes in fashion trends.

Due to financial insecurity, there may be consumers seldom purchasing clothes and thus putting emphasis on timeless classic models of better quality. Furthermore, there may be customers for whom low prices will be a priority. Additionally, due to increasing consumer awareness, there may be more consumers for whom ecological motivation will have decisive importance.

Simultaneously, as a result of lifestyle and mode-of-work changes, dressing principles as well as casual and work style will change. Formal clothes will be in defence while home wear, casual or athleisure (combination of sports and streetwear clothes) will become more and more popular.

The Group's results will be decisively affected by the way in which collections of five brands will be adjusted to currently changing trends. Therefore, the Group puts special emphasis on fashion issues. Design teams of each brand keep abreast with fashion trends which are often related to macroeconomic trends. Designers and persons engaged in the process of preparing collections for the brands of the LPP Group take part in exhibitions, fashion shows and fairs which, at the time of the pandemic, owing to digital advancement, may be attended also online. Owing to technological development and smartphone prevalence, LPP designers get currently inspired by the Internet and social media, being therefore able to quickly react to changing trends.

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d) PLN/USD, PLN/EUR and PLN/RUB exchange rates

Due to the fact that over a half of the Group's revenues are denominated in foreign currencies (with costs of purchases of goods being denominated in approx. 90% in USD, and SG&A in over 50% in EUR – according to IAS17)), the USD/PLN and EUR/PLN exchange rates will affect the Group's results. USD exposure is related to the venue of manufacturing and purchasing goods (mainly Asian countries), while EUR exposure is related to payments of rent in brand stores. Consequently, the strengthening of PLN versus USD and EUR may positively affect our margins, while the weakening of PLN versus key currencies may decrease the Group's profitability. At the same time, the model of continuous product supplies reduces the risk of purchasing entire collections at exchange rate peaks.

Another factor affecting the Group's financial performance will be IFRS 16 implemented in 2019, relating to the conversion of lease liabilities (mainly in EUR) based on a current exchange rate.

e) Control of operating expenses (SG&A)

In the nearest future, the control of operating expenses will affect the Group's financial results. The operating expenses of the Group include the costs of own stores and franchise stores in Poland as well as distribution and general costs. The costs of own stores comprise mainly rent and payroll costs, while distribution costs include the costs of logistics and e-commerce. General costs comprise the costs of marketing, back-office as well as sales and products departments.

The Management Board of LPP has decided to implement a savings scheme. One of the elements of the said savings scheme is the renegotiation of lease contracts for retail space in shopping centres. Negotiations held with owners of shopping centres in which the majority of the Group's traditional stores are located and their outcome will have a bearing on the value of the Group's operating expenses and, in consequence, on the Group's financial results.

f) Dynamic e-commerce development

The regularly increasing importance of e-commerce reported even before the pandemic has definitely been on the grow, changing the balance of powers between the two sales channels i.e. the traditional channel (on-site stores) and the online one. Most probably, the change of customers' shopping habits i.e. the transfer of shopping processes to the online channel will last. Adjusting to the current trend, the Group has taken action aimed at further expansion of the said sales channel. The Group plans to develop e-commerce by entering new markets and using in this sales channel the RFID technology implemented in the Reserved brand and by further improvements in logistics. The emphasis put on the development of the said channel as part of the Group's strategy will have a bearing on the results yielded. The Group plans that, owing to these activities, in 2020/21, it will double its revenue on online sales y/y, reaching PLN 2 bln.

g) Development of the on-site store chain

The results generated the Group will be affected by the development of the chain of on-site stores. The Group's goal is to develop the chain of on-site stores of all brands, with simultaneous optimisation of retail space (closing of unprofitable stores and expanding profitable ones). In 2020/21, the Group plans to increase its retail space by 11% y/y, i.e. up to 1,363.5 thousand m2. The Group will focus specifically on the development of Sinsay, House and Cropp brands, a selective increase of retail space in Poland, continuing growths in Europe, mainly in South-Eastern Europe, and on the development of retail space in the CIS region. At the same time, the planned entry on the new market, i.e. North Macedonia, has been postponed.

h) Logistics development

Considering the fact that retail trade will be transferred, to the growing extent, to the Internet, and, as regards online orders, apart from collection attractiveness, factors of key importance are speedy deliveries, safety and flexibility, the Group will be required to adjust logistics currently focused on handling traditional sales to online sales purposes. Owing to recently made investments in logistics and IT, the Group will be able to quickly adapt to new conditions and customer expectations. Consequently, the investments in question may have a positive impact on the Group's results.

i) Omnichannel

The creation of the omnichannel system will affect results generated by the Group. Owing to the omnichannel system, customers will be able to freely purchase goods in both channels, with both sales channels permeating. Traditional stores support online sales and, therefore, it is necessary to invest in modern stores encouraging customers to pay a visit. Building the omnichannel system, the LPP Group invests in the development of modern stores, logistics and state-of-the-art technology. Investments in such solutions will determine the possibility of adjusting the business model to the new reality, simultaneously enabling the Group to operate in upcoming economic conditions with a potential higher than that of its competitors.

j) CAPEX

The Group's results will be affected by capital expenditures. Due to the COVID-19 pandemic, capital expenditures have been modified compared to those planned by the Group before. Capital expenditures planned in 2020/21 total PLN 730 mln. The value of capital expenditures comprises the following: on-site stores - PLN 500 mln, offices – PLN 90 mln, logistics - PLN 60 mln and IT – PLN 80 mln.

5. SUPPLEMENTARY INFORMATION

1. STANDPOINT OF THE MANAGEMENT BOARD ON POSSIBLE FULFILMENT OF PREVIOUSLY PUBLISHED PROGNOSES OF RESULTS FOR A GIVEN YEAR IN LIGHT OF RESULTS PRESENTED IN THE REPORT COMPARED TO PROGNOSED RESULTS

No prognoses were published for 2020/21.

2. INFORMATION ON SIGNIFICANT PROCEEDINGS PENDING BEFORE COURTS AND ARBITRATION OR PUBLIC ADMINISTRATION AUTHORITIES IN RESPECT OF LIABILITIES OR RECEIVABLES OF THE ISSUER OR ITS SUBSIDIARY, WITH THE SPECIFICATION OF THE SUBJECT MATTER OF THE PROCEEDINGS, VALUE OF THE OBJECT OF DISPUTE, DATE OF COMMENCEMENT OF THE PROCEEDINGS, PARTIES THERETO AND THE ISSUER'S STANDPOINT

The current situation is discussed in point 18 of the consolidated financial statements and point 20 of the separate financial statements for H1 2020/21.

3. INFORMATION ON A SINGLE OR MULTIPLE TRANSACTIONS ENTERED INTO BY THE ISSUER OR ITS SUBSIDIARY WITH ASSOCIATES OTHERWISE THAN AT ARM'S LENGTH BASIS, INCLUDING THEIR VALUES

In the reporting period, there were no transactions with associates other than those specified in point 17 of the consolidated financial statements and point 19 of the separate financial statements for H1 2020/21.

4. INFORMATION ON THE GRANTING BY THE ISSUER OR ITS SUBSIDIARY OF CREDIT OR LOAN SURETIES OR GUARANTEES – JOINTLY TO SINGLE ENTITY OR ITS SUBSIDIARY IF THE TOTAL VALUE OF EXISTING SURETIES OR GUARANTEES IS SIGNIFICANT, STATING THE NAME OF THE ENTITY TO WHICH SURETIES OR GUARANTEES WERE GRANTED, THE TOTAL VALUE OF CREDIT FACILITIES OR LOANS THAT HAVE BEEN ASSURED OR GUARANTEED IN FULL OR IN PART, A PERIOD FOR WHICH SUCH SURETIES OR GUARANTEES WERE GRANTED, FINANCIAL TERMS AND CONDITIONS THEREOF, AND THE NATURE OF RELATIONSHIPS BETWEEN THE ISSUER AND THE ENTITY TAKING SUCH CREDIT FACILITY OR LOAN

In the reporting period, neither LPP nor any of its subsidiaries granted any substantial credit or loan sureties or guarantees jointly to a single entity or its subsidiary.

5. OTHER INFORMATION IMPORTANT IN THE ISSUER'S OPINION TO EVALUATE ITS STAFFING, PROPERTY AND FINANCIAL STANDING, ITS FINANCIAL RESULT AND THEIR CHANGES AS WELL AS INFORMATION RELEVANT FOR EVALUATING THE ISSUER'S CAPACITY TO EXECUTE ITS OBLIGATIONS

This report contains basic information essential for evaluating the standing of the LPP Group. In the opinion of the Management Board, currently, the execution of the obligations of the LPP Group remains unthreatened.

02

SELECTED CONSOLIDATED INTERIM FINANCIAL DATA

SELECTED CONSOLIDATED INTERIM FINANCIAL DATA

for 6 months ended 31 July 2020

	in PLN ths			EUR		
Selected consolidated financial data	Cumulatively					
	2020/21	2019/20	2019	2020/21	2019/20	2019
	01.02 - 31.07	01.02 - 31.07	01.01 - 30.06	01.02 - 31.07	01.02 - 31.07	01.01 - 30.06
Revenues	3,307,944	4,165,443	4,041,822	741,858	970,988	942,589
Operating profit (loss)	-228,221	249,637	252,311	-51,182	58,192	58,841
Pre-tax profit (loss)	-353,025	182,792	224,921	-79,171	42,610	52,454
Net profit (loss)	-392,629	55,237	90,888	-88,053	12,876	21,196
Weighted average number of shares	1,834,417	1,834,067	1,833,926	1,834,417	1,834,067	1,833,926
Profit (loss) per share	-214.03	30.12	49.56	-48.00	7.02	11.56
Net cash flows from operating activities	472,784	582,533	636,364	106,029	135,792	148,406
Net cash flows from investing activities	-221,808	-277,947	-304,448	-49,744	-64,791	-71,000
Net cash flows from financing activities	193,603	-485,422	-511,562	43,418	-113,155	-119,301
Total net cash flows	444,579	-180,836	-179,646	99,704	-42,154	-41,895

	PLN		EUR	
Selected consolidated financial data	2020/21	2019/20	2020/21	2019/20
	31.07.2020	31.01.2020	31.07.2020	31.01.2020
Total assets	9,408,014	9,605,862	2,134,692	2,233,402
Long-term liabilities	3,095,797	3,159,266	702,441	734,542
Short-term liabilities	3,554,375	3,199,120	806,493	743,808
Equity	2,757,857	3,247,491	625,762	755,055
Share capital	3,705	3,705	841	861
Weighted average number of shares	1,834,417	1,834,192	1,834,417	1,834,192
Book value per share	1,503,40	1,770,53	341.12	411.66
Declared or paid dividend per share	0.00	60.00	0.00	13.95

03

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

INTRODUCTION

We hereby approve the consolidated condensed interim financial statements of the LPP SA Group for the period of 6 months ended 31 July 2020, comprising the consolidated condensed interim statement of comprehensive income, with comprehensive income totalling PLN (490,728) thousand, the consolidated condensed interim statement of financial position, with assets and liabilities totalling PLN 9,408,014 thousand, the consolidated condensed interim cash flow statement, indicating an increase in net cash by PLN 444,579 thousand, the consolidated condensed interim statement of changes in equity, indicating a decrease in equity by PLN 489,634 thousand, as well as notes describing significant accounting principles and other explanatory data.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the Management Board

Przemysław Lutkiewicz
Vice-President of the Management Board

Jacek Kujawa
Vice-President of the Management Board

Sławomir Łoboda
Vice-President of the Management Board

Gdańsk, 7 October 2020

CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

for 6 months ended 31 July 2020

		H1		
Comprehensive income statement (in PLN thousand)	Notes	2020	2019 (unpublished)	2019
		01.02-31.07	01.02-31.07	01.01 - 30.06
Continuing operations				
Revenue	6	3,307,944	4,165,443	4,041,822
Cost of goods sold		1,726,791	2,009,824	1,936,043
Gross profit (loss) on sales		**1,581,153**	**2,155,619**	**2,105,779**
Costs of stores and distribution		1,537,265	1,636,015	1,592,256
General costs		245,377	241,690	230,349
Other operating income	7	66,019	21,452	17,895
Other operating expenses	7	92,751	49,729	48,758
Operating profit (loss)		**-228,221**	**249,637**	**252,311**
Financial income	8	69,373	5,038	36,479
Financial expenses	8	194,177	71,883	63,869
Pre-tax profit (loss)		**-353,025**	**182,792**	**224,921**
Income tax	9	39,604	127,555	134,033
Net profit (loss) on continuing operations		**-392,629**	**55,237**	**90,888**
Net profit attributable to:				
Shareholders of the parent company		-392,629	55,237	90,888
Non-controlling interests		0	0	0
Other comprehensive income				
Items transferred to profit or loss				
Currency translation on foreign operations		-98,099	39,243	33,958
Total comprehensive income		**-490,728**	**94,480**	**124,846**
Attributable to:				
Shareholders of the parent company		-490,728	94,480	124,846
Non-controlling interests		0	0	0
Weighted average number of shares		1,834,417	1,834,067	1,833,926
Diluted number of shares		1,834,417	1,834,832	1,834,833
Profit (loss) per share		-214.03	30.12	49.56
Diluted profit (loss) per share		-214.03	30.10	49.53

Sprawozdanie z całkowitych dochodów (w tys. PLN)	Notes	Q2 2020 01.05 - 31.07	2019 (unpublished) 01.05 - 31.07	2019 01.04 - 30.06
Continuing operations				
Revenue		2,129,297	2,344,752	2,214,142
Cost of goods sold		1,115,961	1,188,308	901,320
Gross profit (loss) on sales		**1,013,336**	**1,156,444**	**1,312,822**
Costs of stores and distribution		830,267	850,923	833,830
General costs		136,591	113,772	114,729
Other operating income	7	56,943	15,181	12,265
Other operating expenses	7	71,120	21,309	23,993
Operating profit (loss)		**32,301**	**185,621**	**352,535**
Financial income	8	65,977	1,242	24,152
Financial expenses	8	32,266	40,784	34,913
Pre-tax profit (loss)		**66,012**	**146,079**	**341,774**
Income tax	9	96,651	114,139	136,297
Net profit (loss) on continuing operations		**-30,639**	**31,940**	**205,477**
Net profit attributable to:				
Shareholders of the parent company		-30,639	31,940	205,477
Non-controlling interests		0	0	0
Other comprehensive income				
Items transferred to profit or loss				
Currency translation on foreign operations		-88,425	16,124	-6,096
Total comprehensive income		**-119,064**	**48,064**	**199,381**
Attributable to:				
Shareholders of the parent company		-119,064	48,064	199,381
Non-controlling interests		0	0	0
Weighted average number of shares		1,834,417	1,834,067	1,833,926
Diluted number of shares		1,834,417	1,834,832	1,834,833
Profit (loss) per share		-16.70	17.41	112.04
Diluted profit (loss) per share		-16.70	17.41	111.99

CONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION

as at 31 July 2020

Statement of financial position (in PLN thousand)	Notes	31.07.2020	31.01.2020	31.07.2019 (unpublished)	30.06.2019
ASSETS					
Fixed assets		**5,663,959**	**5,870,719**	**5,438,532**	**5,393,427**
1. Tangible assets	10	2,294,660	2,312,386	2,039,746	1,992,045
2. Intangible assets		130,003	126,234	109,077	107,597
3. Right-of-use assets		2,808,242	3,000,237	2,861,124	2,868,198
4. Goodwill		209,598	209,598	209,598	209,598
5. Trademark		77,508	77,508	77,508	77,508
6. Other financial assets	12	12,116	7,965	10,116	9,966
7. Deferred tax assets		130,086	134,795	129,065	126,381
8. Prepayments		1,746	1,996	2,298	2,134
Current assets		**3,744,055**	**3,735,143**	**3,253,723**	**3,197,317**
1. Inventory	11	1,641,734	1,921,139	1,958,638	1,984,838
2. Trade receivables		155,162	143,783	145,991	167,309
3. Income tax receivables		63,956	7,870	12,620	8,110
4. Other financial assets	12	45,187	210,968	110,272	106,210
5. Other non-financial assets		55,214	53,017	95,262	32,491
6. Prepayments		19,293	36,892	34,583	35,509
7. Cash and cash equivalents		1,763,509	1,361,474	896,357	862,850
TOTAL assets		**9,408,014**	**9,605,862**	**8,692,255**	**8,590,744**

Statement of financial position (in PLN thousand)	Notes	31.07.2020	31.01.2020	31.07.2019 (unpublished)	30.06.2019
EQUITY AND LIABILITIES					
Equity		**2,757,857**	**3,247,491**	**2,803,401**	**2,878,618**
1. Share capital	13	3,705	3,705	3,705	3,705
2. Treasury shares		-41,115	-41,115	-41,115	-41,115
3. Share premium		284,877	284,877	284,877	284,877
4. Other reserves		2,735,253	2,733,227	2,729,398	2,729,398
5. Currency translation on foreign operations		-260,902	-162,803	-174,572	-197,696
6. Retained earnings		36,039	429,600	1,108	99,449
– profit (loss) from previous years		428,668	8,561	-54,129	8,561
– net profit (loss) for the current period		-392,629	421,039	55,237	90,888
Non-controlling interest capital		**-15**	**-15**	**-15**	**-15**
Long-term liabilities		**3,095,797**	**3,159,266**	**2,618,527**	**2,609,187**
1. Bank loans and borrowings	14	215,082	171,234	57,449	61,901
2. Lease liabilities		2,476,313	2,567,953	2,444,142	2,431,251
3. Other financial liabilities (bonds)		291,699	291,675	0	0
4. Employee liabilities		1,462	1,463	1,009	1,009
5. Deferred tax liabilities		647	276	311	309
6. Accruals		108,097	126,665	115,616	114,717
7. Other long-term liabilities		2,497	0	0	0
Short-term liabilities		**3,554,375**	**3,199,120**	**3,270,342**	**3,102,954**
1. Trade and other liabilities		2,195,053	2,053,635	2,222,678	1,988,573
2. Contract liabilities		15,606	19,929	14,127	16,552
3. Repayment liabilities		36,174	27,207	46,310	50,841
4. Bank loans and borrowings	14	520,708	109,451	172,651	175,025
5. Lease liabilities		700,528	680,184	593,613	598,997
6. Employee liabilities		35,217	80,483	55,374	60,146
7. Deferred tax liabilities		7,973	174,363	106,525	153,597
8. Provisions		2,377	9,097	18,144	2,136
9. Accruals		40,739	44,771	40,920	57,087
TOTAL equity and liabilities		**9,408,014**	**9,605,862**	**8,692,255**	**8,590,744**

CONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT

for 6 months ended 31 July 2020

		H1		
Cash flow statement (in PLN thousand)	Notes	2020	2019 (unpublished)	2019
		01.02-31.07	01.02-31.07	01.01 - 30.06
A. Cash flows from operating activities – indirect method				
I. Pre-tax profit (loss)		**-353,025**	**182,792**	**224,921**
II. Total adjustments		**825,809**	**399,741**	**411,443**
1. Amortisation and depreciation		553,931	471,985	474,753
2. Foreign exchange gains (losses)		48,659	-3,919	15,628
3. Interest and dividends		77,596	54,324	29,132
4. Profit (loss) on investing activities		39,685	-9,276	-7,498
5. Income tax paid		-213,409	-216,556	-182,531
6. Change in provisions and employee benefits		-50,485	-68,800	-51,018
7. Change in inventories		218,654	-605,102	-391,382
8. Change in receivables and other assets		-11,760	-83,108	-20,011
9. Change in short-term liabilities, excluding bank loans and borrowings		192,557	862,637	543,815
10. Change in prepayments and accruals		-17,508	-7,644	12,664
11. Other adjustments		-12,111	5,200	-12,109
III. Net cash flows from operating activities		**472,784**	**582,533**	**636,364**
B. Cash flows from investing activities				
I. Inflows		**241,553**	**200,203**	**204,149**
1. Disposal of intangible and fixed assets		34,762	64,618	68,584
2. From financial assets, including:		1,335	1,264	1,262
a) in associates		0	0	0
b) in other entities		1,335	1,264	1,262
– repayment of loans granted		27	42	40
– interest and other inflows from financial assets	12	1,308	1,222	1,222
3. Other investing inflows (investment funds)	12	205,456	134,321	134,303
II. Outflows		**463,361**	**478,150**	**508,597**
1. Purchase of intangible and fixed assets		353,345	420,443	405,950
2. For financial assets, including:		16	2,707	2,647

a) in associates		0	0	0
– purchase of shares		0	0	0
– loans granted		0	0	0
b) in other entities		16	2,707	2,647
– purchase of shares		0	2,627	2,627
– loans granted		16	80	20
3. Other investing outflows (investment funds)	12	110,000	55,000	100,000
III. Net cash flows from investing activities		**-221,808**	**-277,947**	**-304,448**
C. Cash flows from financing activities				
I. Inflows		**668,378**	**255,664**	**281,366**
1. Proceeds from issuance of shares		0	2	0
2. Loans and borrowings		668,378	255,662	281,366
3. Other financial inflows		0	0	0
II. Outflows		**474,775**	**741,086**	**792,928**
1. Cost of maintenance of treasury shares		0	0	0
2. Dividends and other payments to owners		0	110,065	110,065
3. Repayment of loans and borrowings		188,721	256,895	342,049
4. Lease liabilities paid		208,283	315,246	275,503
5. Interest		77,648	58,880	65,311
6. Other financial outflows		123	0	0
III. Net cash flows from financing activities		**193,603**	**-485,422**	**-511,562**
D. Total net cash flows		444,579	-180,836	-179,646
E. Balance sheet change in cash, including:		402,035	-173,980	-182,119
– change in cash due to foreign currency translation		-42,545	6,856	-2,473
F. Opening balance of cash		1,348,311	1,075,895	1,043,947
G. Closing balance of cash		1,792,890	894,059	864,301

Sprawozdanie z przepływów pieniężnych (w tys. PLN)	Notes	Q2 2020 01.05 - 31.07	2019 (unpublished) 01.05 - 31.07	2019 01.04 - 30.06
A. Cash flows from operating activities – indirect method				
I. Pre-tax profit (loss)		**66,012**	**146,079**	**341,774**
II. Total adjustments		**689,749**	**425,888**	**172,721**
1. Amortisation and depreciation		275,825	237,639	242,377
2. Foreign exchange gains (losses)		89,068	10,080	28,280
3. Interest and dividends		36,156	27,158	21,023
4. Profit (loss) on investing activities		44,886	-5,032	-3,579
5. Income tax paid		-147,238	-47,248	-14,787
6. Change in provisions and employee benefits		-21,138	-24,878	-11,063
7. Change in inventories		303,328	-244,348	-623,803
8. Change in receivables and other assets		24,373	-4,442	77,574
9. Change in short-term liabilities, excluding bank loans and borrowings		97,522	485,694	444,649
10. Change in prepayments and accruals		9,395	-16,408	21,981
11. Other adjustments		-22,428	7,673	-9,931
III. Net cash flows from operating activities		**755,761**	**571,874**	**514,495**
B. Cash flows from investing activities				
I. Inflows		**43,929**	**69,694**	**35,872**
1. Disposal of intangible and fixed assets		15,986	41,552	52,760
2. From financial assets, including:		72	492	850
a) in associates		0	0	0
dividends		0	0	0
b) in other entities		72	492	850
– repayment of loans granted		27	12	17
– interest and other inflows from financial assets		45	480	833
3. Other investing inflows (investment funds)		27,871	27,650	-17,738
II. Outflows		**161,621**	**226,505**	**216,663**
1. Purchase of intangible and fixed assets		161,621	187,405	214,016
2. For financial assets, including:		0	2,687	2,647
a) in associates		0	0	0

– purchase of shares	0	0	0
– loans granted	0	0	0
b) in other entities	0	2,687	2,647
– purchase of shares	0	2,627	2,627
– loans granted	0	60	20
3. Other investing outflows (investment funds)	0	36,413	0
III. Net cash flows from investing activities	**-117,692**	**-156,811**	**-180,791**
C. Cash flows from financing activities			
I. Inflows	**72,848**	**50,231**	**22,121**
1. Proceeds from issuance of shares	0	0	0
2. Loans and borrowings	72,848	50,231	22,121
3. Other financial inflows	0	0	0
II. Outflows	**501,992**	**452,982**	**476,722**
1. Cost of maintenance of treasury shares	0	0	0
2. Dividends and other payments to owners	0	110,065	110,065
3. Repayment of loans and borrowings	383,297	144,342	183,101
4. Lease liabilities paid	78,838	168,059	143,871
5. Interest	39,857	30,516	39,685
6. Other financial outflows	0	0	0
III. Net cash flows from financing activities	**-429,144**	**-402,751**	**-454,601**
D. Total net cash flows	208,925	12,405	-120,897
E. Balance sheet change in cash, including:	124,304	11,054	-128,998
– change in cash due to foreign currency translation	-84,622	-1,351	-8,101
F. Opening balance in cash	1,583,965	882,654	985,198
G. Closing balance in cash	1,792,890	895,059	864,301

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

for 6 months ended 31 July 2020

Statement of changes in equity (in PLN thousand)	Share capital	Treasury shares	Share premium	Other reserves
Balance as at 1 February 2020	3,705	-41,115	284,877	2,733,227
Distribution of profit for 13 months ended 31 January 2020	0	0	0	932
Remuneration paid in shares	0	0	0	1,094
Transactions with owners	**0**	**0**	**0**	**2,026**
Net loss for H1 2020 ended 31 July 2020	0	0	0	0
Currency translation on foreign operations	0	0	0	0
Total comprehensive income	**0**	**0**	**0**	**0**
Balance as at 31 July 2020	3,705	-41,115	284,877	2,735,253
Balance as at 1 February 2019	3,705	-43,067	278,591	2,251,623
Distribution of profit for 2018	0	0	0	482,729
Dividend payment	0	0	0	0
Remuneration paid in shares	0	0	0	3,282
Reconciliation of the incentive programme	0	1,952	6,286	-8,236
Transactions with owners	**0**	**1,952**	**6,286**	**477,775**
Net profit for H1 2019 ended 31 July 2019	0	0	0	0
Currency translation on foreign operations	0	0	0	0
Total comprehensive income	**0**	**0**	**0**	**0**
Balance as at 31 July 2019 (unpublished)	3,705	-41,115	284,877	2,729,398
Balance as at 1 January 2019	3,705	-43,067	278,591	2,251,623
Distribution of profit for 2018	0	0	0	482,729
Dividend payment	0	0	0	0
Remuneration paid in shares	0	0	0	3,282
Reconciliation of the incentive programme	0	1,952	6,286	-8,236
Transactions with owners	**0**	**1,952**	**6,286**	**477,775**
Net profit for H1 2019 ended 30 June 2019	0	0	0	0
Currency translation on foreign operations	0	0	0	0
Total comprehensive income	**0**	**0**	**0**	**0**
Balance as at 30 June 2019	3,705	-41,115	284,877	2,729,398

Currency translation on foreign operations	Profit (loss) from previous years	Profit (loss) for the current period	Equity attributable to the parent company	Minority interests	TOTAL equity
-162,803	429,6	0	3,247,491	-15	3,247,476
0	-932	0	0	0	0
0	0	0	1,094	0	1,094
0	**-932**	**0**	**1,094**	**0**	**1,094**
0	0	-392,629	-392,629	0	-392,629
-98,099	0	0	-98,099	0	-98,099
-98,099	**0**	**-392,629**	**-490,728**	**0**	**-490,728**
-260,902	428,668	-392,629	2,757,857	-15	2,757,842
-213,815	538,665	0	2,815,702	-15	2,815,687
0	-482,729	0	0	0	0
0	-110,065	0	-110,065	0	-110,065
0	0	0	3,282	0	3,282
0	0	0	2	0	2
0	**-592,794**	**0**	**-106,781**	**0**	**-106,781**
0	0	55,237	55,237	0	55,237
39,243	0	0	39,243	0	39,243
39,243	**0**	**55,237**	**94,48**	**0**	**94,48**
-174,572	-54,129	55,237	2,803,401	-15	2,803,386
-231,654	601,355	0	2,860,553	-15	2,860,538
0	-482,729	0	0	0	0
0	-110,065	0	-110,065	0	-110,065
0	0	0	3,282	0	3,282
0	0	0	2	0	2
0	**-592,794**	**0**	**-106,781**	**0**	**-106,781**
0	0	90,888	90,888	0	90,888
33,958	0	0	33,958	0	33,958
33,958	**0**	**90,888**	**124,846**	**0**	**124,846**
-197,696	8,561	90,888	2,878,618	-15	2,878,603

04

ADDITIONAL INFORMATION ON AND NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD FROM 01.02.2020 TO 31.07.2020

1. OVERVIEW

The LPP SA Group (further referred to as the "Group", "LPP Group") is composed of LPP SA ("Parent Company", "Company") and its subsidiaries.

The Group's consolidated condensed interim financial statements cover the period of 6 months ended 31 July 2020 and comprise comparative data for the period of 6 months ended 31 July 2019, for the period of 6 months ended 30 June 2019 and as at 31 January 2020. The comprehensive income statement and notes thereto comprise also data for Q2 i.e. for the period of 3 months ended 31 July 2020 and comparative data for the period of 3 months ended 31 July 2019 and 30 June 2019 – this data has neither been reviewed nor audited by a statutory auditor.

The Parent Company is recorded in the register of entrepreneurs of the National Court Register kept by the District Court for Gdańsk-North in Gdańsk, 7th Economic Division of the National Court Register, under number KRS 0000000778.

The Parent Company and the Group companies have been established for an unlimited period of time.

The Group's basic scope of business is:

– retail sale of clothing,
– wholesale of clothing.

These consolidated condensed interim financial statements of the Group for the period of 6 months ended 31 July 2020 was approved by the Management Board of LPP SA for publishing on 7 October 2020.

2. CHANGES IN THE COMPOSITION OF THE GROUP

During 6 months ended 31 July 2020, there was a change in the composition of the Group as compared to 31 January 2020 following the establishment of the Polish company LPP Logistics Sp. z o.o. with its registered office in Gdańsk.

The newly created company will handle the warehousing of goods to be further resold and general logistics issues.

3. BASIS FOR PREPARATION OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS AND KEY ACCOUNTING PRINCIPLES

3.1. BASIS FOR PREPARATION

TThe consolidated condensed interim financial statements do not contain all the information and disclosures required in the annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 January 2020, approved for publishing on 20 May 2020.

The currency of these consolidated condensed interim financial statements is Polish Zloty and, unless provided otherwise, all amounts are expressed in PLN thousand.

Data presented in these financial statements for the period of 6 months ended 31 July 2020 have been reviewed semi-annually by a statutory auditor. The consolidated comprehensive income statement and notes thereto comprise also data for Q2 i.e. for the period of 3 months ended 31 July 2020 and comparative data for the period of 3 months ended 31 July 2019 and for the period of 3 months ended 30 June 2019 – this data has neither been reviewed nor audited by a statutory auditor.

In the periods covered by these consolidated condensed financial statements, the following PLN/EUR exchange rates fixed by the National Bank of Poland were applied to convert selected financial data:

– exchange rate as at the last day of the reporting period: 31.07.2020 – PLN/EUR 4.4072, 31.01.2020 – PLN/EUR 4.3010,
– average exchange rate for the period, calculated as an arithmetic average of the rates as at the last day of each month in a given period: 01.02-31.07.2020 – PLN/EUR 4,4590, 01.01.-30.06.2019 – PLN/EUR 4,2880, 01.02-31.07.2019 - PLN/EUR 4.2899.

These consolidated condensed interim financial statements were prepared based on the assumption that the Group would remain a going concern in the foreseeable future despite occurrence of the following circumstances affecting the Company's remaining a going concern in the nearest future.

In March 2020, in numerous countries, due to the COVID-19 pandemic, retail and service facilities were closed following decisions of administrative authorities. Abruptly, stores ceased their operations and the Company was temporarily unable to sell goods and generate revenue in this distribution channel. The online store became the only source of revenue.

In May 2020, the Polish government started alleviating quarantine restrictions and the Company's stores recommenced their operations. To secure financial liquidity, maintain the Company's operations and reduce losses, the Management Board of LPP SA has undertaken numerous activities including, among other, efforts concentrating on the development of e-commerce which, so far, had been a complementary sales channel.

Another step was a decision to reduce operating expenses by decreasing remunerations of both store and head office staff, introducing a downtime pay, limiting service outsourcing and renegotiating rents for the lease of retail space.

The actions taken included also reduction of capital expenditures, i.e. ceased construction of new offices and a new distribution centre, suspended construction of new stores.

Simultaneously, the Management Board decided to reduce spending on goods by reducing the number of new collections ordered, postponing supplies and transferring part of goods from the spring to autumn collection.

Additionally, the Management Board recommended that the Supervisory Board should suspend dividend payment.

At the same time, the Group companies requested banks and governmental institutions to provide financial aid and additional financing. As a result of those activities, the Group sourced approx. PLN 500 mln in short-term bank loans and PLN 55 mln of additional financing for employees receiving a downtime pay.

Following renegotiations of lease agreements, conducted with owners of retail space, specifically in shopping centres, owing to regular reopening of on-site stores and restored sales levels compared to pre-pandemic figures and maintained high online sales dynamics, the Group companies were able to improve their liquidity and maintain their cash position in Q2 compared to figures as at the end of the last year, i.e. 31 January 2020.

The Company's Management Board still monitors the Group's cash flow and prognoses future cash flow (stress tests). At present, the risk of insolvency has been substantially reduced. The Group generates positive cash flows and, if the economic and social situation does not deteriorate significantly due to the second wave of the pandemic, it should remain a going concern in foreseeable future.

For the purposes of analyses of the Group companies' capacity to remain a going concern in foreseeable future and also for impairment tests, the Group assumed that on-site stores will continue their operations in the analysed period, i.e. the stores will not be once again closed under governmental decisions. As a result of impairment tests carried out, in the condensed interim financial statements, the Company recognised a write-off on the value of shares in the German company, the details of which are given in note 10 to the separate condensed interim financial statements. At the same time, in the German company, a revaluation write-off was made on capitalised outlays in all 19 on-site stores and a deferred income tax asset due to the absence of short-term perspectives for utilising the asset and repaid capitalised outlays.

Consequently, the enclosed consolidated condensed interim financial statements have been prepared based on the assumption that the Group remains a going concern and do not incorporate any adjustments concerning various valuation methods and classification and assets and liabilities, which would be deemed required if the Group was unable to continue its operations in foreseeable future. Simultaneously, it is difficult to foresee both short- and long-term impact of the current pandemic situation on macroeconomic conditions, financial markets, consumers' shopping habits and their buying power. Due to deteriorated economic situation, customers may start choosing clothes to be bought more selectively and, in fear of the absence of adequate conditions in on-site stores, they may, to a greater extent, shop online. In consequence, this situation may substantially affect the Group's operations.

Due to above-mentioned requirement to close stores in March, April and May 2020 following a decision made by the Polish government and in the majority of European countries and their ceased operations and due to general uncertainty at post-pandemic times, the Company's Management Board started negotiations with owners of shopping centres to reduce rents and charges payable for the lease of retail space.

The Group's goal was to renegotiate contractual terms and conditions and change fixed rent to variable rent, i.e. calculated as a percentage of the volume of sales or obtaining discounts for the pandemic period involving lower turnover in stores.

Contractual terms and conditions and rent costs were renegotiated from May to September 2020 and, on the part of LPP SA, involved 680 lease agreements in total. Due to process complexity, so far, the Company has received only part of the so-called COVID annexes despite the fact that all on-site stores of the Company have already been reopened and operate in full in current circumstances.

The analysis of annexes as at the date of their last listing, i.e. 29 September 2020, was as follows.

Due to prolonged renegotiation process involving also termination of part of lease agreements and subsequent intensive efforts encompassing the analysis and recalculation of annexes in question and considering the fact that the Group has not yet received all the annexes to valid lease agreements, LPP is unable to make, as at the date of publishing this H1 report, necessary recalculations of right-of-use assets and the lease liability, which would also affect relevant items in the statement of comprehensive income. At the same time, the Group expects that works involving registration and detailed recalculation of lease agreements based on new conditions will be completed in H2 2020.

Lease agreements - Poland	All agreements	Agreements subject to IFRS 16	Agreements not subject to IFRS 16
All agreements	**902**	**460**	**442**
Non-negotiated agreements	222	0	222
Renegotiated COVID agreements, of which:	680	460	220
– Annexes received by 29 September 2020	330	160	170
– Annexes in progress, to be received	350	300	50

3.2. CHANGES IN ESTIMATES AND ASSUMPTIONS

In the current reporting period, the Group made no changes in estimates or assumptions.

3.3. ACCOUNTING PRINCIPLES

These consolidated condensed interim financial statements were prepared in accordance with the accounting principles presented in the Group's last consolidated financial statements for the year ended 31 January 2020, except new or amended standards and interpretations applicable to annual periods beginning on or after 1 February 2020.

Amendments to IFRS 3 *Definition of a Business*

According to the amended IFRS 3, in order to be recognised as business, an integrated set of actions and assets must include at least one input and one significant process, which jointly substantially contribute to the capacity to create a product. Furthermore, these amendments clarify that a business may exist without all inputs and processes required to manufacture a product.

These amendments do not substantially affect the condensed interim financial statements of LPP SA.

Amendments to IFRS 7, IFRS 9 and IAS 39: *Interest Rate Benchmark Reform*

Amendments to IFRS 9 and IAS 39 introduce numerous reliefs for all hedging relationships directly affected by IBOR reform. The IBOR reform affects a hedging relationship if it causes uncertainty as to the time schedule and/or amount of cash flows based on a benchmark interest rate, resulting from the item hedged or a hedging instrument based on a benchmark interest rate.

These amendments do not substantially affect the condensed interim financial statements of LPP SA.

Amendments to IAS 1 and IAS 8 *Definition of Material*

Amendments to IAS 1 and IAS 8 introduce a new definition of material, according to which "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". These amendments clarify that materiality will depend on the nature or extent of information, separately or jointly with other information, in the context of financial statements as a whole.

These amendments do not substantially affect the separate condensed interim financial statements of LPP SA.

Conceptual framework for financial reporting of 29 March 2018

The conceptual framework does not constitute a separate standard and none of notions presented therein replaces or repeals notions presented in any standard or any standard-based requirements. The goal of the Conceptual Framework is to support the IASB in establishing standards, helping persons preparing financial statements in developing coherent accounting rules (policy) where there is no appropriate standard and in supporting all parties to financial reporting to understand and apply standards. The revised conceptual framework includes some new notions and revised definitions and criteria for recognition of assets and liabilities. It also specifies in detail some important notions.

This framework does not substantially affect the separate condensed interim financial statements of LPP SA.

The Group made no decision on early application of any other standard, interpretation or amendment published, yet not in force under the EU provisions.

The following standards and interpretations were published by IASB, yet are not binding for these financial statements (i.e., interim financial statements for 6 months ended 31 July 2020).

3.4. ERROR CORRECTIONS AND CHANGE IN ACCOUNTING PRINCIPLES

The consolidated condensed financial statements comprise no corrections of errors from previous years.

4. SEASONALITY OF OPERATIONS

Seasonality in sales is a characteristic feature of the entire clothing market both in Poland and abroad. Typically, the gross margin achieved in periods of selling new collections at regular prices is higher than the one recorded during clearance sales. This results in disproportions in the value of margins generated in individual calendar quarters (with the highest margins in Q2 and Q4 and the lowest in Q1 and Q3). To avoid significant differences in margins between calendar quarters, the Group changed the financial year by adjusting it to the collection calendar and, therefore, alleviated the impact of clearance sales and seasonality on margins of individual calendar quarters.

5. OPERATING SEGMENTS

The LPP SA Group conducts one type of activity (one business segment considered as basic). A division into two geographical segments was applied: activity within and outside the European Union. The division into geographical segments was based on the criterion of location of the Group's assets.

Revenues and financial results regarding geographical segments for the period from 1 February 2020 to 31 July 2020 and for a comparable period are given in tables below.

01.02-31.07.2020 (in PLN thousand)	European Union countries	Other countries	Consolidation adjustments	Values not attributed to segments	Total
External sales	2,572,254	735,690	0	0	3,307,944
Sales between segments	481,881	0	-481,881	0	0
Other operating income	61,173	4,846	0	0	66,019
Total revenue	**3,115,308**	**740,536**	**-481,881**	**0**	**3,373,963**
Total operating expenses, including	2,972,850	776,774	-485,568	245,377	3,509,433
Cost of sale of goods between segments	344,325	0	-344,325	0	0
Other operating expenses	69,294	23,457	0	0	92,751
Operating profit (loss)	**73,164**	**-59,695**	**3,687**	**-245,377**	**-228,221**
Financial income					69,373
Financial expenses					194,177
Pre-tax profit (loss)					**-353,025**
Income tax					39,604
Net profit on continuing operations					**-392,629**

01.02 - 31.07.2019 (unpublished) (in PLN thousand)	European Union countries	Other countries	Consolidation adjustments	Values not attributed to segments	Total
External sales	3,146,942	1,018,501	0	0	4,165,443
Sales between segments	641,729	4,374	-646,103	0	0
Other operating income	14,535	6,917	0	0	21,452
Total revenue	**3,803,206**	**1,029,792**	**-646,103**	**0**	**4,186,895**
Total operating expenses, including	3,336,778	936,711	-627,650	241,690	3,887,529
Cost of sale of goods between segments	478,234	0	-478,234	0	0
Other operating expenses	30,984	18,745	0	0	49,729
Operating profit (loss)	**435,444**	**74,336**	**-18,453**	**-241,690**	**249,637**
Financial income					5,038
Financial expenses					71,883
Pre-tax profit (loss)					**182,792**
Income tax					127,555
Net profit on continuing operations					**55,237**

01.01 - 30.06.2019 (in PLN thousand)	European Union countries	Other countries	Consolidation adjustments	Values not attributed to segments	Total
External sales	3,069,666	972,156	0	0	4,041,822
Sales between segments	580,405	8,905	-589,310	0	0
Other operating income	10,045	7,850	0	0	17,895
Total revenue	**3,660,116**	**988,911**	**-589,310**	**0**	**4,059,717**
Total operating expenses, including	3,202,182	894,482	-568,365	230,349	3,758,648
Cost of sale of goods between segments	438,193	0	-438,193	0	0
Other operating expenses	28,058	20,604	0	96	48,758
Operating profit (loss)	**429,876**	**73,825**	**-20,945**	**-230,445**	**252,311**
Financial income					36,479
Financial expenses					63,869
Pre-tax profit (loss)					**224,921**
Income tax					134,033
Net profit on continuing operations					**90,888**

6. REVENUE FROM CONTRACTS WITH CUSTOMERS

The table below presents revenue from contracts with customers, broken down by categories reflecting the manner in which economic factors affect the nature, amount, payment date and uncertainty of revenue and cash flows.

(In PLN thousand)	2020	2019	2019
	01.02-31.07	01.02-31.07 (unpublished)	01.01-30.06
Type of sale			
Sale of goods, including:	3,306,985	4,154,076	4,040,104
E-commerce	1,005,243	450,541	450,314
Sale of services	959	11,367	1,718
Total	**3,307,944**	**4,165,443**	**4,041,822**
Brand			
Reserved	1,493,077	2,024,211	1,991,773
Cropp	391,162	587,129	560,211
House	355,579	520,011	498,208
Mohito	307,551	461,729	456,294
Sinsay	708,726	523,121	492,392
Other	51,849	49,242	42,944
Total	**3,307,944**	**4,165,443**	**4,041,822**

Trade and other receivables

The LPP Group sells clothes and accessories to customers in its own stores and online in Poland and abroad, with payments made in cash or by credit/debit cards. Due to this business model, the balance of receivables is relatively low. Trade receivables comprise wholesale settlements.

Revaluation write-offs

During 6 months ended 31 July 2020, the Group recognised changes in revaluation write-offs on receivables in respect of all receivables or assets under contracts with customers.

Changes made in the current period and in the comparative period are given in the table below.

Revaluation write-offs on receivables (in PLN thousand)	2020 01.02-31.07	2019 01.02-31.07 (unpublished)	2019 01.01-30.06
Opening balance	38,309	28,571	28,562
Write-offs made in the period	13,770	3,643	3,662
Write-offs reversed in the period	10,620	6,504	6,544
Currency translation	177	-172	124
Closing balance	**41,636**	**25,538**	**25,804**

7. OTHER OPERATING INCOME AND EXPENSES

H1

Other operating income (in PLN thousand)	2020 01.02-31.07	2019 01.02-31.07 (unpublished)	2019 01.01-30.06
Profit on sales of non-financial fixed assets	73	0	96
Subsidies	54,791	0	0
Other operating income, including:	11,155	21,452	17,799
– profit on contract annulment under IFRS 16	6,468	725	421
– compensations	822	3,287	2,283
– reversal of revaluation write-offs on net fixed assets	0	1,966	2,234
– reversal of revaluation write-offs on net receivables	0	662	2,835
Other operating income in total	**66,019**	**21,452**	**17,895**

	Q2		
Other operating income (in PLN thousand)	2020 01.05-31.07	2019 01.05-31.07 (unpublished)	2019 01.04-30.06
Profit on sales of non-financial fixed assets	32	0	96
Subsidies	49,837	0	0
Other operating income, including:	7,074	15,181	12,169
– profit on contract annulment under IFRS 16	5,099	594	128
– compensations	386	1,565	654
– reversal of revaluation write-offs on net fixed assets	0	397	720
– reversal of revaluation write-offs on net receivables	0	662	2,835
Other operating income in total	**56,943**	**15,181**	**12,265**

In the reporting period, the Group obtained approx. PLN 55 mln in subsidies providing additional financing for payroll and social security purposes.

	H1		
Other operating expenses (in PLN thousand)	2020 01.02-31.07	2019 01.02-31.07 (unpublished)	2019 01.01-30.06
Loss on sales of non-financial fixed assets	0	535	0
Revaluation of non-financial assets, including:	42,162	0	0
– revaluation write-offs on net fixed assets	38,995	0	0
– revaluation write-offs on net receivables	3,167	0	0
Other operating expenses, including	50,589	49,194	48,758
– losses on current and non-current assets	37,418	41,184	38,081
Other operating expenses in total	**92,751**	**49,729**	**48,758**

Other operating expenses (in PLN thousand)	Q2 2020 01.05-31.07	2019 01.05-31.07 (unpublished)	2019 01.04-30.06
Loss on sales of non-financial fixed assets	0	0	0
Revaluation of non-financial assets, including:	38,622	-2,725	-2,334
– revaluation write-offs on net fixed assets	38,829	0	-448
– revaluation write-offs on net receivables	-207	-2,725	-1,886
Other operating expenses, including	32,498	24,034	26,327
– losses on current and non-current assets	23,833	19,506	19,711
Other operating expenses in total	**71,120**	**21,309**	**23,993**

In the reporting period, the value of revaluations write-offs on non-current assets was PLN 39 mln, of which PLN 38,005 thousand was the value of revaluation write-offs on stores in the German company due to their non-profitability.

8. FINANCIAL INCOME AND EXPENSES

Financial income (in PLN thousand)	H1 2020 01.02-31.07	2019 01.02-31.07 (unpublished)	2019 01.01-30.06
Interest	4,015	4,000	4,522
Measurement of participation units in funds	-115	974	974
Dividends	0	24	24
Other financial income, including:	65,473	40	30,959
– currency translation balance	0	0	30,949
– adjustment of lease liability	65,453	0	0
Total financial income	**69,373**	**5,038**	**36,479**

II KWARTAŁ

Financial income (in PLN thousand)	2020	2019	2019
	01.05-31.07	01.05-31.07 (unpublished)	01.04-30.06
Interest	637	963	601
Measurement of participation units in funds	-439	232	974
Dividends	0	24	24
Other financial income, including:	65,779	23	22,553
– currency translation balance	0	0	22,543
– adjustment of lease liability	65,453	0	0
Total financial income	**65,977**	**1,242**	**24,152**

During 6 months ended 31 July 2020, as provided for in note 3.1 to the consolidated condensed interim financial statements, the Group renegotiated retail space lease agreements. Rent discounts obtained for the period from March to July 2020 were recognised by the Group as an adjustment of the lease liability, adjusting correspondingly financial income, as shown in the table above, in item "adjustment of lease liability".

H1

Financial expenses (in PLN thousand)	2020	2019	2019
	01.02-31.07	01.02-31.07 (unpublished)	01.01-30.06
Interest expenses – bank loans	10,161	7,254	7,403
Interest expenses – bonds	4,347	0	0
Interest expenses – budget and other	57	5,009	5,214
Interest expenses – lease liabilities	67,148	51,749	50,392
Bank commissions	3,399	611	860
Other financial expenses, including:	109,065	7,260	0
– currency translation balance	109,065	7,260	0
Total financial expenses	**194,177**	**71,883**	**63,869**

Q2

Financial expenses (in PLN thousand)	2020	2019	2019
	01.05-31.07	01.05-31.07 (unpublished)	01.04-30.06
Interest expenses – bank loans	4,358	3,291	3,933
Interest expenses – bonds	2,124	0	0
Interest expenses – budget and other	49	4,970	5,187
Interest expenses – lease liabilities	34,875	27,176	25,993
Bank commissions	2,115	566	-200
Other financial expenses, including:	-11,255	4,781	0
– currency translation balance	-11,255	4,781	0
Total financial expenses	**32,266**	**40,784**	**34,913**

9. INCOME TAX

The main components of the Group's income tax liability for the period from 1 February 2020 to 31 July 2020 and for comparative periods are given in the table below.

H1

Income tax (in PLN thousand)	2020	2019	2019
	01.02-31.07	01.02-31.07 (unpublished)	01.01-30.06
Current income tax	18,612	78,805	90,100
Taxation of foreign controlled companies	21,591	5,365	5,365
Deferred income tax	-599	43,385	38,568
Total	**39,604**	**127,555**	**134,033**

The main components of the Group's income tax liability for the period from 1 May 2020 to 31 July 2020 and for comparative periods are given in the table below.

Q2

Income tax (in PLN thousand)	2020	2019	2019
	01.05-31.07	01.05-31.07 (unpublished)	01.04-30.06
Current income tax	18,338	67,969	84,360
Taxation of foreign controlled companies	21,591	5,365	5,365
Deferred income tax	56,722	40,805	46,572
Total	**96,651**	**114,139**	**136,297**

10. TANGIBLE FIXED ASSETS

PURCHASE AND SALE

During 6 months ended 31 July 2020, the Group purchased tangible fixed assets totalling PLN 35, 665 thousand (during 6 months ended 30 June 2019: PLN 340,498 thousand). Those were mainly investments related to the development of new stores and the construction of a new part of the logistics centre in Pruszcz Gdański and offices in Gdańsk.

During 6 months ended 31 July 2020, the Group sold tangible fixed assets of a net value of PLN 440 thousand (during 6 months ended 30 June 2019: PLN 953 thousand), reaching a net sales profit of PLN 73 thousand (2019: loss totalling PLN 96 thousand).

IMPAIRMENT WRITE-OFFS

In the period ended 31 July 2020, the Group recognised an additional impairment write-off on fixed assets, totalling PLN 40,720 thousand mainly due to non-profitability of stores in Germany (in the period of 6 months ended 30 June 2019: PLN 699 thousand). At the same time, in 2020, the impairment write-off was reversed through partial use of PLN 951 thousand and reversed in the amount of PLN 1,725 thousand due to the absence of prerequisites (in the period of 6 months ended 30 June 2019, the said write-off was also reversed through use of PLN 10,494 thousand and reversed in the amount of PLN 2,933 thousand due the absence of prerequisites). In the statement of comprehensive income, the surplus of write-offs established over their reversed value is shown in other operating expenses, in the amount of PLN 38,995 thousand.

CONTRACTUAL OBLIGATIONS TO PURCHASE TANGIBLE FIXED ASSETS

As at the balance sheet date, the Group had contractual obligations to purchase tangible fixed assets totalling PLN 97,314 thousand.

The said amount comprised the following:

- obligations related to the development of LPP stores – PLN 844,608 thousand,
- obligations under contracts on the expansion of logistics centers – PLN 30,755 thousand,
- obligations under contracts on the construction of office buildings – PLN 21,951 thousand.

In comparative periods, this value was as follows:

- 30.06.2019 – PLN 214,476 thousand
- 31.01.2020 – PLN 174,324 thousand

11. INVENTORIES

In the period of 6 months ended 31 July 2020, the Group reversed impairment write-offs on inventories in the amount of PLN 1,380 thousand (during 6 months ended 30 June 2019, there was a write-off reversal totalling PLN 5,128 thousand). This amount was recognised in the cost of goods sold.

The key item in inventories is trade commodities. A detailed structure of inventories is given in the table below.

Inventories – balance sheet value (in PLN thousand)	31.07.2020	31.01.2020
Materials	23,075	25,700
Goods	1,597,198	1,876,290
Product return assets	21,461	19,149
Total	**1,641,734**	**1,921,139**

12. OTHER FINANCIAL ASSETS

(in PLN thousand)	31.07.2020	31.01.2020
Non-current assets		
Other receivables	12,032	7,905
Loans granted	84	60
Other non-current financial assets	**12,116**	**7,965**
Current assets		
Other receivables	0	0
Receivables payable by payment card operators	36,232	22,236
Loans granted	81	55
Participation units in funds	0	96,877
Forward contract valuation	0	4,509
Foreign currency sold	8,874	87,291
Other current financial assets	**45,187**	**210,968**
Other financial assets in total	57,303	218,933

In the reporting period, the Group amortised all participation units in money market funds. As at 31 July 2020, their value was PLN 0. In the cash flow statement, in investing activities, the Company reports the acquisition in the amount of PLN 110,000 thousand and the amortisation of funds in the amount of PLN 205,456 thousand. The value of profit earned from amortised units amounted to PLN 1,308 thousand and was reported in investing activities, in interest and other inflows from financial assets. The measurement of the above-mentioned instruments is at level 2of the fair value hierarchy in respect of participation units in unquoted funds.

The remaining values in other financial assets are given in the table above. The measurement of the above-mentioned instruments is at level 2 of the fair value hierarchy.

13. SHARE CAPITAL

The Group's share capital is the share capital of the Parent Company.

As at 31 January 2020, the stated capital amounted to PLN 3,705 thousand, with no change compared to 31 January 2020. It was divided into 1,852,423 shares of the nominal value of PLN 2 per share.

The shareholding structure of the Parent Company as at 31 July 2020 is given in the table below.

Shareholder	Number of shares held	Shareholding	Number of votes at the GM	Share in the total number of votes at the GM	Nominal value of shares
Semper Simul Foundation*	319,208	17.2%	1,019,208	31.5%	638,416
Sky Foundation**	226,338	12.2%	926,338	28.6%	452,676
Treasury shares	18,006	1.0%	0	0.0%	36,012
Other shareholders	1,288,871	69.6%	1,288,871	39.9%	2,577,742
Total	**1,852,423**	**100.0%**	**3,234,417**	**100.0%**	**3,704,846**

*The Semper Simul Foundation is closely associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR)
**The Sky Foundation is closely associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act)

14. BANK LOANS

In the balance sheet period, LPP SA signed relevant agreements and launched new bank loans: an investment loan with the balance as at the balance sheet date of PLN 63 mln and two working capital loans totalling PLN 304.3 mln. These loans are charged with Wibor 1m, Wibor 3m or Libor 3m plus the bank's margin.

The maturity date of the investment loan is 31 August 2027, while working capital loans are short-term loans with maturity dates falling on 1 June 2021 and 29 January 2021.

In the balance sheet period, other bank loans launched were as follows: short-term bank loans in Re Trading, in the amount of PLN 104.8 mln as at the balance sheet date, LPP Ukraina – PLN 27.3 mln and LPP Kazakhstan – PLN 6 mln PLN. All these loans have maturity dates falling within the next 12 months.

Additionally, as at 31 July 2020, the Group had trade liabilities of PLN 990,437 thousand, owed to HSBC Polska SA and Santander Polska SA under supplier financing programmes.

15. DIVIDENDS PAID AND OFFERED FOR PAYMENT

On 18 September 2020, the General Meeting of LPP SA adopted a resolution on non-payment of a dividend from profit earned for the period of 13 months, i.e. from 1 January 2019 to 31 January 2020. At the same time, despite the decision made, in subsequent years, the Company plans to pay dividends anew.

In the comparative period, on 7 June 2019, by resolution no 17, the General Meeting of LPP SA decided to allocate part of profit earned for 2018 for dividend payment in the amount of PLN 110,065,020. The dividend date was set for 18 June 2019, while the dividend payment date was set for 27 June 2019. The value of dividend per share was PLN 60.00.

16. CONTINGENT ASSETS AND LIABILITIES

In H1 2020, the LPP SA Group companies utilised bank guarantees to secure payment of rent for the leased premises designated for brand stores, offices and a warehouse.

As at 31 July 2020, the total value of bank guarantees issued upon request and at the responsibility of LPP SA amounted to approx. PLN 287,539 thousand, of which:

- guarantees issued to secure agreements concluded by LPP SA amounted to PLN 84,390 thousand,
- guarantees issued to secure agreements concluded by consolidated associates amounted to PLN 193,169 thousand,
- guarantees issued to secure warehouse and office space lease agreements concluded by LPP SA amounted to PLN 9,980 thousand

In H1 2020, the Company received also guarantees as collateral for payments from a contracting party. As at 31 July 2020, the value of guarantees was PLN 1, 636 thousand. On 31 July 2020, the value of sureties granted by the Parent Company was PLN 148,093 thousand. In the opinion of the Management Board, any outflow of funds recognised in off-balance sheet/contingent liabilities is very unlikely. The majority of these liabilities are related to guarantees securing payment of rent by the LPP SA Group companies. In the reporting period, neither Issuer nor its subsidiary granted any sureties for bank loans or credits or any guarantees – jointly to a single entity or such entity's subsidiary, of a value exceeding 10.0% of the issuer's equity.

17. TRANSACTIONS WITH ASSOCIATES

The Group's associates include:

- key management officers of the LPP SA Group and their close family members,
- entities controlled or significantly influenced by key management officers or their close family members within the meaning provided for in IAS 24.

17.1. REMUNERATIONS OF KEY MANAGEMENT OFFICERS OF LPP SA

The Company recognises members of the Parent Company's Management Board and the Supervisory Board as key management officers.

In the period from 1 February to 31 July 2020, short-term benefits of members of the Parent Company's Management Board amounted to PLN 1,845 thousand.

In the period from 1 February to 31 July 2020, short-term benefits of members of the Parent Company's Supervisory Board amounted to PLN 0.

18. LITIGATION

The Customs and Fiscal Office in Gdynia carries out customs and tax audit procedures to review declared taxable bases and correctness of calculation and payment of CIT, including expenses for the use of trademarks contributed in kind to the subsidiary in Cyprus, i.e. Gothals Ltd, for the years 2011, 2013 and 2016. On 3 March 2020, the Company received the results of customs and fiscal audits carried out by the Head of the Customs and Fiscal Office for the Pomorskie Voivodeship in Gdynia. Following the findings made, the Company adjusted tax returns for the above-mentioned years and, simultaneously, paid additional tax liabilities in the amount of PLN 30,9 mln plus interest for delay. The above activities ultimately close tax audits in LPP SA, covering the years given above.

19. EVENTS AFTER THE BALANCE SHEET DATE

The LPP Groups is recommencing its normal operations affected, after H1 2020, by the COVID-19 impact on the entire economy. On-site stores conduct standard business, adhering at the same time to hygiene and disinfection instructions. The Company is in process of ordering goods for Spring/ Summer 2021 and plans further development of its stores in Eastern Europe.

On 18 September 2020, the General Meeting was held to approve the Company's financial statements for 2019, discharge the Management and Supervisory Boards from the performance of their duties and to adopt the resolution on the distribution of profit (which was retained in the Company in full) and non-payment of a dividend in 2020. At the same time, the General Meeting adopted a resolution on the buy-out of treasury shares, which may be applied during the next 5 years.

By the date of publishing the enclosed financial statements, there were no events after the balance sheet date, requiring any additional disclosures.

20. APPROVAL FOR PUBLISHING

These consolidated condensed interim financial statements prepared for 6 months ended 31 July 2020 (with comparative data) were approved for publishing by the Management Board of LPP SA on 7 October 2020.

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SELECTED SEPARATE CONDENSED INTERIM FINANCIAL DATA

SELECTED SEPARATE CONDENSED INTERIM FINANCIAL DATA

for 6 months ended 31 July 2020

Selected separate financial data	in PLN thousand			in EUR thousand		
	Cumulatively					
	2020/21	2019/20	2019	2020/21	2019/20	2019
	01.02 - 31.07	01.02 - 31.07	01.01 - 30.06	01.02 - 31.07	01.02 - 31.07	01.01 - 30.06
Revenue	2,638,131	3,295,427	3,183,169	591,642	768,183	742,344
Operating profit (loss)	-9,196	74,537	90,153	-2,062	17,375	21,024
Pre-tax profit (loss)	-168,920	38,286	88,347	-37,883	8,925	20,603
Net profit (loss)	-199,750	-33,554	6,082	-44,797	-7,822	1,418
Weighted average number of shares	1,834,417	1,834,067	1,833,926	1,834,417	1,834,067	1,833,926
Profit (loss) per share	-108.89	-18.29	3.32	-24.42	-4.26	0.77
Net cash flows from operating activities	1,837	197,889	280,702	412	46,129	65,462
Net cash flows from investing activities	-185,684	-108,008	-121,315	-41,643	-25,177	-28,292
Net cash flows from financing activities	247,194	-285,324	-316,321	55,437	-66,511	-73,769
Total net cash flows	63,347	-195,443	-156,934	14,207	-45,559	-36,598

Selected separate financial data	PLN		EUR	
	2020/21	2019/20	2020/21	2019/20
	31.07	31.01	31.07	31.01
Total assets	7,257,017	7,255,842	1,646,628	1,687,013
Long-term liabilities	1,356,376	1,340,554	307,764	311,684
Short-term liabilities	2,705,410	2,521,401	613,861	586,236
Equity	3,195,231	3,393,887	725,002	789,093
Share capital	3,705	3,705	841	861
Weighted average number of ordinary shares	1,834,417	1,834,192	1,834,417	1,834,192
Book value per share	1,741.82	1,850.34	395.22	430.21
Declared or paid dividend per share	0.00	60.00	0.00	13.95

06

SEPARATE CONDENSED INTERIM FINANCIAL STATEMENTS

INTRODUCTION

We hereby approve separate condensed interim financial statements of the LPP SA for 6 months ended 31 July 2020, comprising the separate condensed interim statement of comprehensive income, with comprehensive income totalling PLN (199,750) thousand, the separate condensed interim statement of financial position, with assets and liabilities totalling PLN 7,257,017 thousand, the separate condensed interim cash flow statement, indicating an increase in net cash by PLN 63,347 thousand, the separate condensed interim statement of changes in equity, indicating a decrease in equity by PLN 198,656 thousand, as well as notes describing key accounting principles and other explanatory data.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the Management Board

Przemysław Lutkiewicz
Vice-President of the Management Board

Jacek Kujawa
Vice-President of the Management Board

Sławomir Łoboda
Vice-President of the Management Board

Gdańsk, 7 October 2020

SEPARATE CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME

for 6 months ended 31 July 2020

Statement of comprehensive income (in PLN thousand)	Notes	H1 2020	H1 2019 (unpublished)	2019
		01.02-31.07	01.02-31.07	01.01 - 30.06
Continuing operations				
Revenue	5	2,638,131	3,295,427	3,183,169
Cost of goods sold		1,617,049	2,042,610	1,950,687
Gross profit (loss) on sales		**1,021,082**	**1,252,817**	**1,232,482**
Costs of stores and distribution		736,389	836,242	815,143
General costs		287,958	331,464	314,372
Other operating income	6	23,754	12,239	8,646
Other operating expenses	6	29,685	22,813	21,460
Operating profit (loss)		**-9,196**	**74,537**	**90,153**
Financial income	7	37,194	6,310	20,626
Financial expenses	7	196,918	42,561	22,432
Pre-tax profit (loss)		**-168,920**	**38,286**	**88,347**
Income tax	8	30,830	71,840	82,265
Net profit (loss)		**-199,750**	**-33,554**	**6,082**
Other comprehensive income				
Total comprehensive income		-199,750	-33,554	6,082
Weighted average number of shares		1,834,417	1,834,067	1,833,926
Diluted number of shares		1,834,417	1,834,832	1,834,833
Net profit (loss) per share		-108.89	-18.29	3.32
Diluted net profit (loss) per share		-108.89	-18.29	3.31

Statement of comprehensive income (in PLN thousand)	Notes	Q2 2020	2019 (unpublished)	2019
		01.05 - 31.07	01.05 - 31.07	01.04 - 30.06
Continuing operations				
Revenue		1,625,246	1,816,316	1,670,432
Cost of goods sold		958,126	1,144,032	925,545
Gross profit (loss) on sales		**667,120**	**672,284**	**744,887**
Costs of stores and distribution		392,495	431,412	430,242
General costs		179,469	165,160	157,335
Other operating income	6	19,964	9,346	6,592
Other operating expenses	6	16,788	9,004	9,298
Operating profit (loss)		**98,332**	**76,054**	**154,604**
Financial income	7	34,285	2,673	16,946
Financial expenses	7	108,778	25,053	12,243
Pre-tax profit (loss)		**23,839**	**53,674**	**159,307**
Income tax		63,780	62,429	83,368
Net profit (loss)		**-39,941**	**-8,755**	**75,939**
Other comprehensive income				
Total comprehensive income		-39,941	-8,755	75,939
Weighted average number of shares		1,834,417	1,834,067	1,833,926
Diluted number of shares		1,834,417	1,834,832	1,834,833
Net profit (loss) per share		-21.77	-4.77	41.41
Diluted net profit (loss) per share		-21.77	-4.77	41.39

SEPARATE CONDENSED INTERIM STATEMENT OF FINANCIAL

as at 31 July 2020

Statement of financial position (in PLN thousand)	Notes	31.07.2020	31.01.2020	31.07.2019 (unpublished)	30.06.2019
ASSETS					
Non-current assets		**4,459,298**	**4,432,309**	**4,087,764**	**4,049,559**
1. Fixed assets	9	1,361,687	1,327,041	1,217,086	1,198,645
2. Intangible assets		127,135	123,179	105,908	104,409
3. Right of usufruct		883,043	938,484	908,552	927,420
4. Goodwill		179,618	179,618	179,618	179,618
5. Investments in subsidiaries	10	1,851,321	1,814,405	1,607,524	1,569,151
6. Other financial assets	12	7,319	3,091	3,035	2,996
7. Deferred tax assets		48,732	45,599	64,971	66,403
8. Prepayments		443	892	1,070	917
Current assets		**2,797,719**	**2,823,533**	**2,396,743**	**2,360,918**
1. Inventory	11	1,220,470	1,365,814	1,498,816	1,509,132
2. Trade receivables		475,515	225,195	291,492	270,613
3. Income tax receivables		50,743	0	0	0
4. Other financial assets	12	20,824	205,011	90,668	61,133
5. Other non-financial assets		473	8,955	971	996
6. Prepayments		10,163	19,830	13,747	13,598
7. Cash and cash equivalents		1,019,531	998,728	501,049	505,446
TOTAL assets		**7,257,017**	**7,255,842**	**6,484,507**	**6,410,477**

Statement of financial position (in PLN thousand)	Notes	31.07.2020	31.01.2020	31.07.2019 (unpublished)	30.06.2019
EQUITY AND LIABILITIES					
Equity		**3,195,231**	**3,393,887**	**2,913,113**	**2,974,443**
1. Share capital	14	3,705	3,705	3,705	3,705
2. Treasury shares		-41,115	-41,115	-41,115	-41,115
3. Share premium		284,877	284,877	284,877	284,877
4. Other reserves		2,725,817	2,724,723	2,720,894	2,720,894
5. Retained earnings		221,947	421,697	-55,248	6,082
– profit (loss) from previous years		421,697	0	-21,694	0
– net profit (loss) for the current period		-199,750	421,697	-33,554	6,082
Long-term liabilities		**1,356,376**	**1,340,554**	**901,953**	**918,658**
1. Bank loans and borrowings	15	215,082	171,234	57,449	61,901
2. Lease liabilities		801,731	824,849	788,398	799,230
3. Other financial liabilities (bonds)		291,699	291,675	0	0
4. Employee liabilities		1,289	1,289	944	944
5. Accruals		46,575	51,507	55,162	56,583
6. Other long-term liabilities		0	0	0	0
Short-term liabilities		**2,705,410**	**2,521,401**	**2,669,441**	**2,517,376**
1. Trade and other liabilities		1,985,074	1,934,036	2,173,750	1,961,109
2. Contract liabilities		12,072	15,624	11,169	11,981
3. Customer refund liabilities		21,272	16,093	31,595	36,478
4. Bank loans and borrowings	15	382,446	60,162	51,251	55,870
5. Lease liabilities		269,422	249,140	235,522	234,330
6. Employee liabilities		12,619	53,709	49,759	32,782
7. Income tax liabilities		0	163,315	93,685	144,951
8. Provisions		0	7,000	0	0
9. Accruals		22,505	22,322	22,710	39,875
TOTAL equity and liabilities		**7,257,017**	**7,255,842**	**6,484,507**	**6,410,477**

SEPARATE CONDENSED INTERIM CASH FLOW STATEMENT

for 6 months ended 31 July 2020

Cash flow statement (in PLN thousand)	Noty	H1 2020 01.02-31.07	2019 (unpublished) 01.02-31.07	2019 01.01 - 30.06
A. Cash flows from operating activities – indirect method				
I. Pre-tax profit (loss)		**-168,920**	**38,286**	**88,347**
II. Total adjustments		**170,757**	**159,603**	**192,355**
1. Amortisation and depreciation		227,321	206,260	204,705
2. Foreign exchange gains (losses)		42,564	-6,856	14,351
3. Interest and dividends		25,681	13,114	13,212
4. Profit (loss) on investing activities		104,931	-7,934	-7,761
5. Income tax paid		-200 402	-187,340	-156,770
6. Change in provisions and employee benefits		-48,089	-33,953	-49,766
7. Change in inventories		145,894	-535,168	-344,724
8. Change in receivables and other assets		-200,403	-147,348	-124,113
9. Change in short-term liabilities, excluding bank loans and borrowings		62,480	855,413	627,686
10. Change in prepayments and accruals		9,686	132	12,252
11. Other adjustments		1,094	3,283	3,283
III. Net cash flows from operating activities		**1,837**	**197,889**	**280,702**
B. Cash flows from investing activities				
I. Inflows		**231,883**	**210,282**	**207,101**
1. Disposal of intangible and fixed assets		17,655	23,366	20,206
2. From financial assets, including:		8,772	52,595	52,591
a) in associates		7,437	51,333	51,333
– dividends		7,437	0	0
– other (reimbursement of additional contributions)		0	51,333	51,333
b) in other entities		1,335	1,262	1,258
– repayment of loans granted		27	40	37
– interest and other inflows from financial assets	12	1,308	1,222	1,221
3. Other investing inflows	12	205,456	134,321	134,304

II. Outflows		**417,567**	**318,290**	**328,416**
1. Purchase of intangible and fixed assets		163,275	178,053	181,612
2. For financial assets, including:		144,292	85,237	46,804
a) in associates		144,276	85,157	46,784
– purchase of shares		141,945	85,157	46,784
b) in other entities		16	80	20
– loans granted		16	80	20
3. Other investing outflows	12	110,000	55,000	100,000
III. Net cash flows from investing activities		**-185,684**	**-108,008**	**-121,315**
C. Cash flow from financial activities				
I. Inflows		**378,624**	**2**	**0**
1. Proceeds from issuance of shares		0	2	0
2. Loans and borrowings		378,624	0	0
3. Other financial inflows		0	0	0
II. Outflows		**131,430**	**285,326**	**316,321**
1. Cost of maintenance of treasury shares		0	0	0
2. Dividends and other payments to owners		0	110,065	110,065
3. Repayment of loans and borrowings		12,161	28,481	60,215
4. Lease liabilities paid		93,413	130,352	129,637
5. Interest		25,733	16,428	16,404
6. Other financial outflows		123	0	0
III. Net cash flows from financing activities		**247,194**	**-285,324**	**-316,321**
D. Total net cash flows		63,347	-195,443	-156,934
E. Balance sheet change in cash, including:		20,802	-188,587	-159,407
– change in cash due to foreign currency translation		-42,545	6,856	-2,473
F. Opening balance of cash		985,565	695,195	663,831
G. Closing balance of cash		1,048,912	499,752	506,897

Cash flow statement (in PLN thousand)	Notes	Q2 2020 01.05 - 31.07	Q2 2019 (unpublished) 01.05 - 31.07	Q2 2019 01.04 - 30.06
A. Cash flows from operating activities – indirect method				
I. Pre-tax profit (loss)		**23,839**	**53,674**	**159,307**
II. Total adjustments		**388,062**	**318,815**	**230,067**
1. Amortisation and depreciation		113,857	105,128	103,563
2. Foreign exchange gains (losses)		83,773	8,878	27,117
3. Interest and dividends		11,608	5,584	5,179
4. Profit (loss) on investing activities		111,463	-4,059	-3,388
5. Income tax paid		-146,156	-37,902	-10,287
6. Change in provisions and employee benefits		-26,777	2,032	-17,947
7. Change in inventories		150,308	-255,906	-572,184
8. Change in receivables and other assets		59,014	-127,602	180,491
9. Change in short-term liabilities, excluding bank loans and borrowings		-5,121	618,564	493,861
10. Change in prepayments and accruals		36,093	815	20,379
11. Other adjustments		0	3,283	3,283
III. Net cash flows from operating activities		**411,901**	**372,489**	**389,374**
B. Cash flows from investing activities				
I. Inflows		**38,569**	**40,999**	**-9,673**
1. Disposal of intangible and fixed assets		10,625	12,857	7,215
2. From financial assets, including:		72	492	849
a) in associates		0	0	0
– dividends		0	0	0
– other (reimbursement of additional contributions)		0	0	0
b) in other entities		72	492	849
– repayment of loans granted		14	12	17
– interest and other inflows from financial assets	12	58	480	832
3. Other investing inflows	12	27,872	27,650	-17,737

II. Outflows		**82,311**	**170,001**	**98,115**
1. Purchase of intangible and fixed assets		79,980	90,684	93,625
2. For financial assets, including:		2,331	42,903	4,490
a) in associates		2,331	42,843	4,470
– purchase of shares		0	42,843	4,470
b) in other entities		0	60	20
– loans granted		0	60	20
3. Other investing outflows	12	0	36,414	0
III. Net cash flows from investing activities		**-43,742**	**-129,002**	**-107,788**
C. Cash flows from financing activities				
I. Inflows		**0**	**0**	**0**
1. Proceeds from issuance of shares		0	0	0
2. Loans and borrowings		0	0	0
3. Other inflows from financing activities		0	0	0
II. Outflows		**352,833**	**282,040**	**432,173**
1. Cost of maintenance of treasury shares		0	0	0
2. Dividends and other payments to owners		0	110,065	110,065
3. Repayment of loans and borrowings		294,923	90,781	241,238
4. Lease liabilities paid		42,600	73,208	72,607
5. Interest		15,310	7,986	8,263
6. Other financial outflows		0	0	0
III. Net cash flows from financing activities		**-352,833**	**-282,040**	**-432,173**
D. Total net cash flows		15,326	-38,553	-150,587
E. Balance sheet change in cash, including:		-69,296	-39,904	-158,688
– - change in cash due to foreign currency translation		-84,622	-1,351	-8,101
F. Opening balance of cash		1,033,586	538,305	657,484
G. Closing balance of cash		1,048,912	499,752	506,897

SEPARATE CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY

for 6 months ended 31 July 2020

Statement of changes in equity (in PLN thousand)	Share capital	Treasury shares
Balance as at 1 February 2020	3,705	-41,115
Remuneration paid in shares	0	0
Transactions with owners	**0**	**0**
Net loss for 6 months ended 31 July 2020	0	0
Total comprehensive income	**0**	**0**
Balance as at 31 July 2020	3,705	-41,115
Balance as at 1 February 2019	3,705	-43,067
Remuneration paid in shares	0	0
Reconciliation of the incentive programme	0	1,952
Division of profit for 2018	0	0
Dividend payment	0	0
Transactions with owners	**0**	**1,952**
Net loss for 6 months ended 31 July 2019	0	0
Total comprehensive income	**0**	**0**
Balance as at 31 July 2019 (unpublished)	3,705	-41,115
Balance as at 1 January 2019	3,705	-43,067
Remuneration paid in shares	0	0
Reconciliation of the incentive programme	0	1,952
Division of profit for 2018	0	0
Dividend payment	0	0
Transactions with shareholders	**0**	**1,952**
Net profit for 6 months ended 30 June 2019	0	0
Total comprehensive income	**0**	**0**
Balance as at 30 June 2019	3,705	-41,115

Share premium	Other reserves	Profit (loss) from previous years	Profit (loss) for the current period	TOTAL equity
284,877	2,724,723	421,697	0	3,393,887
0	1,094	0	0	1,094
0	**1,094**	**0**	**0**	**1,094**
0	0	0	-199,75	-199,75
0	**0**	**0**	**-199,75**	**-199,75**
284,877	2,725,817	421,697	-199,75	3,195,231
278,591	2,243,618	570,601	0	3,053,448
0	3,282	0	0	3,282
6,286	-8,236	0	0	2
0	482,23	-482,23	0	0
0	0	-110,065	0	-110,065
6,286	**477,276**	**-592,295**	**0**	**-106,781**
0	0	0	-33,554	-33,554
0	**0**	**0**	**-33,554**	**-33,554**
284,877	2,720,894	-21,694	-33,554	2,913,113
278,591	2,243,618	592,295	0	3,075,142
0	3,282	0	0	3,282
6,286	-8,236	0	0	2
0	482,23	-482,23	0	0
0	0	-110,065	0	-110,065
6,286	**477,276**	**-592,295**	**0**	**-106,781**
0	0	0	6,082	6,082
0	**0**	**0**	**6,082**	**6,082**
284,877	2,720,894	0	6,082	2,974,443

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ADDITIONAL INFORMATION ON AND EXPLANATORY NOTES TO THE SEPARATE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE PERIOD FROM 1 FEBRUARY 2020 TO 31 JULY 2020

1. OVERVIEW

LPP SA (further referred to as “LPP”, “Company”) is a joint-stock company with publicly traded shares.

The Company is recorded in the register of entrepreneurs of the National Court Register in the District Court for Gdańsk-North in Gdańsk, 7th Economic Division, under number KRS 0000000778. The Parent Company holds REGON statistical identification number 190852164.

The Company’s registered office is located at ul. Łąkowa 39/44 in Gdańsk (80-769).

LPP SA is a company involved in the designing and distribution of clothing in Poland, the countries of Central, Eastern and Western Europe and in the Middle East. The Group's basic products are sold under the following trademarks: Reserved, Cropp, House, Mohito and Sinsay.

These separate condensed interim financial statements of the Company for 6 months ended 31 July 2019 was approved by the Management Board for publishing on 7 October 2020.

For data comparability purposes, in these condensed interim financial statements, the Company incorporated also data as at 31 July 2019 and for the then ended period of 6 months, which were neither published nor reviewed by a statutory auditor.

2. BASIS FOR PREPARATION OF THE SEPARATE CONDENSED INTERIM FINANCIAL STATEMENTS AND KEY ACCOUNTING PRINCIPLES

2.1. BASIS FOR PREPARATION

These separate condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, approved by the European Union (“IAS 34”).

The separate condensed interim financial statements of LPP SA do not contain all the information and disclosures required in the annual financial statements and should be read in conjunction with the separate financial statements of the Company for the year ended 31 January 2020, approved for publishing on 20 May 2020.

The currency of these condensed interim financial statements is Polish Zloty and, unless provided otherwise, all amounts are expressed in PLN thousand.

In these statements, data for 6 months ended 31 July 2020 has undergone an semi-annual review by a statutory auditor. The comprehensive income statement and notes thereto comprise also data for Q2 i.e. for the period of 3 months ended 30 June 2019 and comparative data for the period of 3 months ended 31 July 2019 – this data has neither been reviewed nor audited by a statutory auditor.

In the periods covered by these separate condensed interim financial statements, the following PLN/EUR exchange rates fixed by the National Bank of Poland were applied to convert selected financial data:

- exchange rate as at the last day of the reporting period: 31.07.2020 – PLN/EUR 4.4072, 31.01.2020 – PLN/EUR 4.3010,
- average exchange rate for the period, calculated as an arithmetic average of the rates as at the last day of each month in a given period: 01.02-31.07.2020 – PLN/EUR 4.4590, 01.01.-30.06.2019 – PLN/EUR 4.2880, 01.02-31.07.2019 – PLN/EUR 4.2899.

These separate condensed interim financial statements were prepared based on the assumption that the Company would remain a going concern in the foreseeable future despite occurrence of the following circumstances affecting the Company’s remaining a going concern in the nearest future.

In March 2020, in numerous countries, including Poland, due to the COVID-19 pandemic, following decisions made by administrative authorities, retail and service facilities were closed. Suddenly, the stores ceased their operations and the Company was temporarily unable to sell goods and generate revenue in this distribution channel. The online store became the only source of revenue.

In May 2020, the Polish government started alleviating quarantine restrictions and the Company’s stores recommenced their operations. To secure financial liquidity, maintain the Company’s operations and reduce losses, the Management Board of LPP SA has undertaken numerous activities including, among other, efforts concentrating on the development of e-commerce which, so far, had been a complementary sales channel.

Another step was a decision to reduce operating expenses by decreasing remunerations of both store and head office staff, introducing a downtime pay, limiting services outsourcing and renegotiating rents for the lease of retail space.

The actions taken included reduction of capital expenditures, i.e. ceased construction of new offices and a new distribution centre, suspended construction of new stores.

Simultaneously, the Management Board decided to reduce spending on goods by reducing the number of new collections ordered, postponing supplies, transferring part of goods from the spring to autumn collection.

Additionally, the Management Board recommended that the Supervisory Board should suspend dividend payment.

At the same time, the Group companies requested banks and governmental institutions to provide financial aid and additional financing. As a result of those activities, the Group sourced approx. PLN 500 mln in short-term loans (with the Company gaining PLN 360 mln in short-term loans) and PLN 55 mln of additional financing for employees receiving the downtime pay (the Company: PLN 12 mln).

Following renegotiations of lease agreements, conducted with owners of retail space, specifically in shopping centres, owing to regular reopening of on-site stores and restored sales levels compared to pre-pandemic figures and maintained high online sales dynamics, the Company was able to improve its liquidity and maintain its cash position in summer as compared to the balance as at the end of the last year, i.e. 31 January 2020.

The Company's Management Board still monitors the Company's and the Group's cash flow and prognoses future cash flow (stress tests). At present, the risk of insolvency has been substantially reduced. The Company generates positive cash flows and, if the economic and social situation do not deteriorate significantly due to the second wave of the pandemic, it should remain a going concern in foreseeable future.

For the purposes of analyses of the Group companies' capacity to remain a going concern in foreseeable future and also for impairment tests, the Group assumed that on-site stores will continue their operations in the analysed period, i.e. the stores will not be once again closed under governmental decisions. As a result of impairment tests carried out, in the separate condensed interim financial statements, the Company recognised a write-off on the value of shares in the German company, the details of which are given in note 10 to the separate condensed interim financial statements.

Consequently, the enclosed financial statements have been prepared based on the assumption that the Company remains a going concern and do not incorporate any adjustments concerning various valuation methods and the classification and assets and liabilities, which would be deemed required if the Group was unable to continue its operations in foreseeable future. Simultaneously, it is difficult to foresee both short- and long-term impact of the current pandemic situation on macroeconomic conditions, financial markets, consumers' shopping habits and their buying power. Due to deteriorated economic situation, customers may start choosing clothes to be bought more selectively and, in fear of the absence of adequate conditions in on-site stores, they may, to a greater extent, shop online. In consequence, this situation may substantially affect the Company's operations.

Due to above-mentioned requirement to close on-site stores following a decision made by the Polish government and in the majority of European countries, the cessation of their operations and general uncertainty at post-pandemic times, the Company's Management Board started negotiations with owners of shopping centres to reduce rents and charges payable for the lease of retail space.

The Group's goal was to renegotiate contractual terms and conditions and change fixed rent to variable rent, i.e. calculated as a percentage of the volume of sales in a given store or obtaining discounts for the pandemic period involving lower turnover in stores.

Contractual terms and conditions and rent costs were renegotiated from May to September 2020 and, on the part of LPP SA, involved 680 lease agreements in total. Due to process complexity, so far, the Company has received only part of the so-called COVID annexes despite the fact that all on-site stores of the Company have already been reopened and operate in full in current circumstances.

The analysis of annexes as at the date of their last listing, i.e. 29 September 2020, was as follows.

reements - Poland	All agreements	Agreements subject to IFRS 16	Agreements not subject to IFRS 16
All agreements	**902**	**460**	**442**
Non-negotiated agreements	222	0	222
Renegotiated COVID agreements, of which:	680	460	220
– Annexes received by 29 September 2020	330	160	170
– Annexes in progress, to be received	350	300	50

Due to prolonged renegotiation process involving also termination of part of lease agreements and subsequent intensive efforts encompassing the analysis and recalculation of annexes in question and considering the fact that the Company has not yet received all the annexes to valid lease agreements, LPP is unable to make, as at the date of publishing this H1 report, necessary recalculations of right-of-use assets and the lease liability, which would also affect relevant items in the statement of comprehensive income. At the same time, the Group expects that works involving registration and detail recalculation of lease agreements based on new conditions will be completed in H2 2020.

2.2. CHANGES IN ESTIMATES AND ASSUMPTIONS

In the current reporting period, there were no changes in estimates or assumptions.

3.3. ACCOUNTING PRINCIPLES

These consolidated condensed interim financial statements were prepared in accordance with the accounting principles presented in the Group's last consolidated financial statements for the year ended 31 January 2020, except new or amended standards and interpretations applicable to annual periods beginning on or after 1 February 2020.

Amendments to IFRS 3 *Definition of a Business*

According to the amended IFRS 3, in order to be recognised as business, an integrated set of actions and assets must include at least one input and one significant process, which jointly substantially contribute to the capacity to create a product. Furthermore, these amendments clarify that a business may exist without all inputs and processes required to manufacture a product.

These amendments do not substantially affect the condensed interim financial statements of LPP SA.

Amendments to IFRS 7, IFRS 9 and IAS 39: *Interest Rate Benchmark Reform*

Amendments to IFRS 9 and IAS 39 introduce numerous reliefs for all hedging relationships directly affected by IBOR reform. The IBOR reform affects a hedging relationship if it causes uncertainty as to the time schedule and/or amount of cash flows based on a benchmark interest rate, resulting from the item hedged or a hedging instrument based on a benchmark interest rate.

These amendments do not substantially affect the condensed interim financial statements of LPP SA.

Amendments to IAS 1 and IAS 8 *Definition of Material*

Amendments to IAS 1 and IAS 8 introduce a new definition of material, according to which "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". These amendments clarify that materiality will depend on the nature or extent of information, separately or jointly with other information, in the context of financial statements as a whole.

These amendments do not substantially affect the separate condensed interim financial statements of LPP SA.

Conceptual framework for financial reporting of 29 March 2018

The conceptual framework does not constitute a separate standard and none of notions presented therein replaces or repeals notions presented in any standard or any standard-based requirements. The goal of the Conceptual Framework is to support the IASB in establishing standards, helping persons preparing financial statements in developing coherent accounting rules (policy) where there is no appropriate standard and in supporting all parties to financial reporting to understand and apply standards. The revised conceptual framework includes some new notions and revised definitions and criteria for recognition of assets and liabilities. It also specifies in detail some important notions.

This framework does not substantially affect the separate condensed interim financial statements of LPP SA.

The Group made no decision on early application of any other standard, interpretation or amendment published, yet not in force under the EU provisions.

The following standards and interpretations were published by IASB, yet are not binding for these financial statements (i.e. interim financial statements for 6 months ended 31 July 2020).

3. ERROR CORRECTIONS AND CHANGE IN ACCOUNTING PRINCIPLES

These separate condensed interim financial statements comprise no corrections of errors from previous years.

4. SEASONALITY OF OPERATIONS

Seasonality in sales is a characteristic feature of the entire clothing market both in Poland and abroad. Typically, the gross margin achieved in periods of selling new collections at regular prices is higher than the one recorded during clearance sales. This results in disproportions in the value of margins generated in individual calendar quarters (with the highest margins in Q2 and Q4 and the lowest in Q1 and Q3). To avoid significant differences in margins between calendar quarters, the Company changed the financial year by adjusting it to the collection calendar and, therefore, alleviated the impact of clearance sales and seasonality on margins of individual calendar quarters.

5. REVENUE FROM CONTRACTS WITH CUSTOMERS

The table below specifies revenue from contracts with customers, broken down by categories reflecting the manner in which economic factors affect the nature, amount, payment date and uncertainty of revenue and cash flows.

in PLN thousand	2020	2019	2019
	01.02-31.07	01.02-31.07 (unpublished)	01.01-30.06
Type of sale			
Sale of goods, including:	2,635,093	3,290,668	3,178,633
E-commerce	617,364	250,024	251,433
Sale of services	3,038	4,759	4,536
Total	**2,638,131**	**3,295,427**	**3,183,169**
Brand			
Reserved	1,127,693	1,522,664	1,486,369
Cropp	302,297	462,270	439,190
House	299,973	446,652	420,721
Mohito	250,110	385,391	375,383
Sinsay	654,571	457,836	422,886
Other	3,487	20,614	38,620
Total	**2,638,131**	**3,295,427**	**3,183,169**

The only contracting party exceeding more than 10% of total revenue is “Re Trading”, the Russian subsidiary.

6. OTHER OPERATING INCOME AND EXPENSES

Other operating income (in PLN thousand)	2020	2019	2019
	01.02-31.07	01.02-31.07 (unpublished)	01.01-30.06
Profit on sales of non-financial fixed assets	0	9	9
Subsidies	14,066	0	0
Other operating income, including:	9,688	12,230	8,637
– profit on contract annulment under IFRS 16	5,934	337	164
– compensations	417	1,494	1,003
– reversal of revaluation write-offs on net receivables	0	666	666
Total other operating income	**23,754**	**12,239**	**8,646**

Other operating income (in PLN thousand)	2020	2019	2019
	01.05-31.07	01.05-31.07 (unpublished)	01.04-30.06
Profit on sales of non-financial fixed assets	0	5	4
Subsidies	13,733	0	0
Other operating income, including:	6,231	9,341	6,588
– profit on contract annulment under IFRS 16	4,565	0	164
– compensations	111	840	720
– reversal of revaluation write-offs on net receivables	0	0	0
Total other operating income	**19,964**	**9,346**	**6,592**

Other operating expenses (in PLN thousand)	2020	2019	2019
	01.02-31.07	01.02-31.07 (unpublished)	01.01-30.06
Loss on sales of non-financial fixed assets	32	0	0
Revaluation of non-financial assets, including:	5,152	698	698
– revaluation write-offs on net fixed assets	1,467	698	698
– revaluation write-offs on net receivables	3,685	0	0
Other operating expenses, including	24,501	22,115	20,762
– losses on current and non-current assets	14,864	14,838	13,990
Other operating expenses in total	**29,685**	**22,813**	**21,460**

Other operating expenses (in PLN thousand)	2020	2019	2019
	01.05-31.07	01.05-31.07 (unpublished)	01.04-30.06
Loss on sales of non-financial fixed assets	32	0	0
Revaluation of non-financial assets, including:	3,045	-2,799	-1,636
– revaluation write-offs on net fixed assets	1,467	73	250
– revaluation write-offs on net receivables	1,578	-2,872	-1,886
Other operating expenses, including	13,711	11,803	10,934
– losses on current and non-current assets	8,279	7,831	6,421
Other operating expenses in total	**16,788**	**9,004**	**9,298**

7. FINANCIAL INCOME AND EXPENSES

Financial income (in PLN thousand)	2020	2019	2019
	01.02-31.07	01.02-31.07 (unpublished)	01.01-30.06
Interest	3,427	3,566	4,223
Measurement of participation units in funds	-115	974	974
Dividends	0	1,770	1,770
Other financial income, including:	33,882	0	13,659
– currency translation balance	0	0	13,659
– adjustment of lease liability	33,882	0	0
Total financial income	**37,194**	**6,310**	**20,626**

Financial income (in PLN thousand)	2020	2019	2019
	01.05-31.07	01.05-31.07 (unpublished)	01.04-30.06
Interest	842	2,441	543
Measurement of participation units in funds	-439	232	974
Dividends	0	0	1,770
Other financial income, including:	33,882	0	13,659
– currency translation balance	0	0	13,659
– adjustment of lease liability	33,882	0	0
Total financial income	**34,285**	**2,673**	**16,946**

Financial expenses (in PLN thousand)	2020	2019	2019
	01.02-31.07	01.02-31.07 (unpublished)	01.01-30.06
Interest expenses – bank loans	6,653	2,752	2,811
Interest expenses – bonds	4,347	0	0
Interest expenses – budget and other	57	4,999	4,999
Interest expenses – lease liabilities	15,157	13,799	13,878
Revaluation of investments	105,030	0	0
Bank commissions	3,349	584	744
Other financial expenses, including:	62,325	20,427	0
– currency translation balance	62,325	20,427	0
Total financial expenses	**196,918**	**42,561**	**22,432**

Financial expenses (in PLN thousand)	2020	2019	2019
	01.05-31.07	01.05-31.07 (unpublished)	01.04-30.06
Interest expenses – bank loans	3,431	937	1,236
Interest expenses – bonds	2,124	0	0
Interest expenses – budget and other	49	4,956	4,972
Interest expenses – lease liabilities	7,682	7,001	6,230
Revaluation of investments	105,030	0	0
Bank commissions	2,414	280	-195
Other financial expenses, including:	-11,952	11,879	0
– currency translation balance	-11,952	11,879	0
Total financial expenses	**108,778**	**25,053**	**12,243**

During 6 months ended 31 July 2020, as provided for in note 2.1 to the separate condensed interim financial statements, the Company renegotiated retail space lease agreements. Rent discounts obtained for the period from March to July 2020 were recognised by the Company as adjustment of the lease liability, adjusting correspondingly financial income.

8. INCOME TAX

The main components of the income tax liability of LPP SA for the period from 1 February 2020 to 31 July 2020 and for comparative periods are given in the table below.

Income tax (in PLN thousand)	2020	2019	2019
	01.02-31.07	01.02-31.07 (unpublished)	01.01-30.06
Current income tax	12,371	60,871	73,053
Taxation of foreign controlled companies	21,591	5,365	5,365
Deferred income tax	-3,132	5,604	3,847
Total	**30,830**	**71,840**	**82,265**

9. TANGIBLE FIXED ASSETS

PURCHASE AND SALE

During 6 months ended 31 July 2020, the Company purchased tangible fixed assets totalling PLN 113,610 thousand (during 6 months ended 30 June 2019: PLN 128,521 thousand). Those were mainly investments related to the development of new stores and the construction of a new part of the logistics centre in Pruszcz Gdański and offices in Gdańsk.

During 6 months ended 31 July 2020, the Company sold tangible fixed assets of a net value of PLN 130 thousand (during 6 months ended 30 June 2019: PLN 26 thousand), reaching a net sales loss of PLN 32 thousand (2019: a net profit of PLN 9 thousand).

IMPAIRMENT WRITE-OFFS

In the period ended 31 July 2020, LPP SA recognised an additional impairment write-off on fixed assets, totalling PLN 1,467 thousand due to non-profitability and early store closure (in the period of 6 months ended 30 June 2019: PLN 699 thousand). At the same time, in 2020, the impairment write-off was reversed in the amount of PLN 647 thousand (in the period of 6 months ended 30 June 2019: PLN 6,656 thousand). In the statement of comprehensive income, the establishment of the revaluation write-off was shown in other operating expenses, in the amount of PLN 1,467 thousand.

CONTRACTUAL OBLIGATIONS TO PURCHASE TANGIBLE FIXED ASSETS

As at the balance sheet date, LPP SA had contractual obligations to purchase tangible fixed assets totalling PLN 69,688 thousand.

The said amount comprised the following:

- obligations related to the development of LPP stores – PLN 16,982 thousand,
- obligations under contracts on the expansion of logistics centers – PLN 30,755 thousand,
- obligations under contracts on the construction of office buildings – PLN 21,951 thousand.

In comparative periods, this value was as follows:

- 30.06.2019 – PLN 183,242 thousand
- 31.01.2020 – PLN 117,773 thousand

10. INVESTMENTS IN SUBSIDIARIES

The value of shares in subsidiaries and additional contributions to their share capitals based on the purchase price as well as changes in specific periods are given in the table below.

Investments in subsidiaries (in PLN thousand)	Shares	Additional contributions
Balance as at 1 February 2020	**695,701**	**1,155,899**
- increase	42,945	99,000
- decrease	0	0
Balance as at 31 July 2020	**738,646**	**1,254,899**
Balance as at 1 February 2019 (unpublished)	**531,455**	**1,176,169**
- increase	85,156	0
- decrease	0	51,332
Balance as at 31 July 2019	**616,611**	**1,124,837**
Balance as at 1 January 2019	**531,455**	**1,176,169**
- increase	46,783	0
- decrease	0	51,332
Balance as at 30 June 2019	**578,238**	**1,124,837**

In the current reporting period, the value of shares in subsidiaries increased due to the establishment of new subsidiaries in Poland and provision of additional contributions to companies in Serbia and Belarus. At the same time, an additional contribution was made in the Polish company.

The Company analysed the existence of impairments prerequisites for investments in subsidiaries. When analysing such prerequisites, the Company took into consideration the results of individual subsidiaries and the current macroeconomic situation. Consequently, LPP SA carried out an impairment test in the German company for which relevant prerequisites had been identified, including a remedial procedure completed in August 2020. The impairment test covered 5-year cash flows, with WACC of 8% applied for discounting them. For cash flows above 5, a growth rate of 2% was applied. Following test completion, the Company recognised a revaluation write-off on shares in the German company in the amount of PLN 105,029 thousand.

The value of revaluation write-offs and additional contributions in subsidiaries in individual periods were as follows.

Revaluation write-off (in PLN thousand)	Revaluation write-off on shares	Revaluation write-off on additional contributions
Balance as at 1 February 2020	**37,195**	**0**
- increase	93,256	11,773
- decrease	0	0
Balance as at 31 July 2020	**130,451**	**11,773**
Balance as at 1 February 2019 (unpublished)	**57,445**	**76,479**
- increase	0	0
- decrease	0	0
Balance as at 31 July 2019	**57,445**	**76,479**
Balance as at 1 January 2019	**57,445**	**76,479**
- increase	0	0
- decrease	0	0
Balance as at 30 June 2019	**57,445**	**76,479**

In the current reporting period, the value of revaluation write-offs was increased by establishing write-offs for the German company due to its unprofitability and the pending restructuring process.

11. INVENTORIES

In the period of 6 months ended 31 July 2020, the Company reversed inventory write-offs to a recoverable value of PLN 14,123 thousand (during 6 months ended 30 June 2019: PLN 6,715). This amount was recognised in the cost of goods sold.

The key item in inventories is trade commodities. A detailed structure of inventories is given in the table below.

Inventories – balance sheet value (in PLN thousand)	31.07.2020	31.01.2020
Materials	11 612	13 398
Goods	1 196 567	1 341 546
Product return assets	12 291	10 870
Total	**1 220 470**	**1 365 814**

12. OTHER FINANCIAL ASSETS

Other financial assets (in PLN thousand)	31.07.2020	31.01.2020
Non-current assets		
Other receivables	7,276	3,031
Loans granted	43	60
Other non-current financial assets	**7,319**	**3,091**
Current assets		
Other receivables	0	7,380
Receivables payable by payment card operators	9,636	8,899
Loans granted	2,314	55
Participation units in funds	0	96,877
Forward contract valuation	0	4,509
Foreign currency sold	8,874	87,291
Dividend receivables	0	0
Other current financial assets	**20,824**	**205,011**
Other financial assets in total	**28,143**	**208,102**

In the reporting period, the Company amortised all participation units in money market funds. As at 31 July 2020, their value was PLN 0. In the cash flow statement, in investing activities, the Company reports the acquisition in the amount of PLN 110,000 thousand and amortised funds in the amount of PLN 205,456 thousand. The value of profit earned from amortised units amounted to PLN 1,308 thousand and was reported in investing activities, in interest and other inflows from financial assets. The measurement of the above-mentioned instruments is at level 2of the fair value hierarchy in respect of participation units in unquoted funds.

The remaining values in other financial assets are given in the table above. The measurement of the above-mentioned instruments is at level 2 of the fair value hierarchy.

13. REVALUATION WRITE-OFFS ON OTHER ASSETS

Revaluation write-offs on fixed assets (in PLN thousand)	2020	2019	2019
	01.02-31.07	01.02-31.07 (unpublished)	01.01-30.06
Opening balance	9,479	16,817	16,967
Write-offs recognised as cost in the period	1,467	699	699
Write-offs reversed in the period	647	7,021	6,656
Closing balance	**10,299**	**10,495**	**11,010**

Revaluation write-offs on receivables (in PLN thousand)	2020	2019	2019
	01.02-31.07	01.02-31.07 (unpublished)	01.01-30.06
Opening balance	29,166	19,668	19,671
Write-offs recognised as cost in the period	13,843	3,630	3,630
Write-offs reversed in the period	10,159	4,342	4,342
Closing balance	**32,850**	**18,956**	**18,959**

14. SHARE CAPITAL

As at 31 July 2020, the Company's share capital amounted to PLN 3,705 thousand, with no change compared to 31 January 2020. It was divided into 1,852,423 shares of a nominal value of PLN 2 per share.

The shareholding structure in the Parent Company as at 31 July 2020 is given below.

Shareholder	Number of shares held	Shareholding	Number of votes at the GM	Share in the total number of votes at the GM	Nominal value of shares
Semper Simul Foundation*	319,208	17.2%	1,019,208	31.5%	638,416
Sky Foundation**	226,338	12.2%	926,338	28.6%	452,676
Treasury shares	18,006	1.0%	0	0.0%	36,012
Other shareholders	1,288,871	69.6%	1,288,871	39.9%	2,577,742
Total	**1,852,423**	**100.0%**	**3,234,417**	**100.0%**	**3,704,846**

*The Semper Simul Foundation is associated with Mr Marek Piechocki (Article 3(1)(26)(d) MAR).
**The Sky Foundation is associated with Mr Jerzy Lubianiec (Article 3(1)(26)(d) and Article 4(15) of the Public Offering Act).

15. BANK LOANS AND BORROWINGS

In the balance sheet period, LPP SA signed relevant agreements and launched new bank loans: an investment loan with the balance as at the balance sheet date of PLN 63 mln and two working capital loans totalling PLN 304.3 mln. These loans are charged with Wibor 1m, Wibor 3m or Libor 3m plus the bank's margin.

The maturity date of the investment loan is 31 August 2027, while working capital loans are short-term loans with maturity dates falling on 1 June 2021 and 29 January 2021.

Additionally, as at 31 July 2020, the Company had trade liabilities of PLN 990,437 thousand, owed to HSBC Polska SA and Santander Polska SA under supplier financing programmes.

16. CONTINGENT ASSETS AND LIABILITIES

In H1 2020, the LPP SA Group companies utilised bank guarantees to secure payment of rent for the leased premises designated for brand stores, offices and a warehouse.

As at 31 July 2020, the total value of bank guarantees issued upon request and at the responsibility of LPP SA amounted to approx. PLN 287,539 thousand, of which:

- guarantees issued to secure agreements concluded by LPP SA amounted to PLN 84,390 thousand,
- guarantees issued to secure agreements concluded by consolidated associates amounted to PLN 193,169 thousand,
- guarantees issued to secure warehouse and office space lease agreements concluded by LPP SA amounted to PLN 9,980 thousand.

In H1 2020, the Company received also guarantees as collateral for payments from a contracting party. As at 31 July 2020, the value of guarantees was PLN 12,636 thousand. On 31 July 2020, the value of sureties granted by the Parent Company was PLN 148,093 thousand. In the opinion of the Management Board, any outflow of funds recognised in off-balance sheet/contingent liabilities is very unlikely. The majority of these liabilities are related to guarantees securing payment of rent by the LPP SA Group companies. In the reporting period, neither issuer nor its subsidiary granted any sureties for bank loans or credits or any guarantees – jointly to a single entity or such entity's subsidiary, of a value exceeding 10.0% of the issuer's equity.

17. DIVIDENDS PAID AND OFFERED FOR PAYMENT

On 18 September 2020, the General Meeting of LPP SA adopted a resolution on non-payment of a dividend from the profit earned for the period of 13 months, i.e. from January 2019 to 31 January 2020. At the same time, despite the decision made, in subsequent years, the Company plans to pay dividends anew.

In the comparative period, on 7 June 2019, by resolution no 17, the General Meeting of LPP SA decided to allocate part of the profit earned for 2018 for dividend payment in the amount of PLN 110,065,020. The dividend date was set for 18 June 2019, while the dividend payment date was set for 27 June 2019. The value of dividend per share was PLN 60.00.

18. TRANSACTIONS WITH ASSOCIATES

The Company's associates include:

- Polish and foreign companies controlled by LPP SA companies based on direct shareholdings,
- key management officers of LPP SA and their close family members,
- entities controlled or significantly influenced by key management officers or their close family members within the meaning provided for in IAS 24.

18.1. REMUNERATIONS OF KEY MANAGEMENT OFFICERS OF LPP SA

The Company recognises members of the Parent Company's Management Board and the Supervisory Board as key management officers.

In the period from 1 February to 31 July 2020, short-term benefits of members of the Parent Company's Management Board amounted to PLN 1,845 thousand.

In the period from 1 February to 31 July 2020, short-term benefits of members of the Parent Company's Supervisory Board amounted to PLN 0.

19. TRANSACTIONS WITH ASSOCIATES

Associates (in PLN thousand)	Liabilities as at 31.07.2020	Receivables as at 31.07.2020	Revenue for 01.02-31.07.2020	Purchases for 01.02-31.07.2020
Domestic subsidiaries	17,804	2,443	3,038	97,357
Foreign subsidiaries	192,202	395,713	1,094,205	114,384
Total	**210,006**	**398,156**	**1,097,243**	**211,741**

Associates (in PLN thousand) (unpublished)	Liabilities as at 31.07.2019	Receivables as at a 31.07.2019	Revenue for 01.02-31.07.2019	Purchases for 01.02-31.07.2019
Domestic subsidiaries	29,832	20,408	26,120	174,749
Foreign subsidiaries	195,767	212,633	1,227,345	141,557
Total	**225,599**	**233,041**	**1,253,465**	**316,306**

Associates (in PLN thousand)	Liabilities as at 30.06.2019	Receivables as at 30.06.2019	Revenue for 01.01-30.06.2019	Purchases for 01.01-30.06.2019
Domestic subsidiaries	30,564	20,540	22,366	171,457
Foreign subsidiaries	166,710	183,273	1,155,636	137,198
Total	**197,274**	**203,813**	**1,178,002**	**308,655**

The figures given in the tables above present only mutual transactions between LPP SA and subsidiaries, being shown from the Parent Company's perspective.

Data presented as liabilities of LPP SA are receivables in associates, and purchases are revenues of given companies.

All the transactions with associates are concluded on market terms.

Revenues generated by domestic subsidiaries are derived from the rental of office space for the purpose of their business operations and business-related services, while revenues gained by foreign subsidiaries arise from the sale of goods and services.

Purchases from domestic subsidiaries involve the rental of real properties for operating Cropp, Reserved, Mohito and House stores and business-related services. Purchases from foreign subsidiaries involve only the costs of trademark use.

20. LITIGATION

The Customs and Fiscal Office in Gdynia carried out customs and tax audit procedures to review declared taxable bases and correctness of calculation and payment of CIT, including expenses for the use of trademarks contributed in kind to the subsidiary in Cyprus, i.e. Gothals Ltd, for the years 2011, 2013 and 2016. On 3 March 2020, the Company received the results of customs and fiscal audits carried out by the Head of the Customs and Fiscal Office for the Pomorskie Voivodeship in Gdynia. Following the findings made, the Company adjusted tax returns for the above-mentioned years and, simultaneously, paid additional tax liabilities in the amount of PLN 30,9 mln plus interest for delay. The above activities ultimately close tax audits in LPP SA, covering the years given above.

21. EVENTS AFTER THE BALANCE SHEET DATE

LPP SA is recommencing its normal operations affected, after H1 2020, by the COVID-19 impact on the entire economy. On-site stores conduct standard business, adhering at the same time to hygiene and disinfection instructions. The Company is in process of ordering goods for Spring/ Summer 2021 and plans further development of its stores in Eastern Europe.

On 18 September 2020, the General Meeting was held to approve the Company's financial statements for 2019, discharge the Management and Supervisory Boards from the performance of their duties and to adopt the resolution on the distribution of profit (which was retained in the Company in full) and non-payment of a dividend in 2020. At the same time, the General Meeting adopted a resolution on the buy-out of treasury shares, which may be applied during the next 5 years.

By the date of publishing the enclosed financial statements, there were no events after the balance sheet date, requiring any additional disclosures.

22. APPROVAL FOR PUBLISHING

These separate condensed interim financial statements draw up for 6 months ended 31 July 2020 (with comparative data) were approved for publishing by the Management Board of LPP SA on 7 October 2020.

08

STATEMENT OF THE MANAGEMENT BOARD

STATEMENT OF THE MANAGEMENT BOARD

In line with the Regulation of the Minister of Finance of 29 March 2018 on current and interim information provided by issuers of securities and on the conditions for recognising information required under the law of a non-member state as equivalent, the Management Board of LPP SA declares that:

- the interim consolidated report of the Management Board on the operations of the issuer's Group presents a true view of the development, achievements and standing of the LPP SA Group, including a description of basic risks and threats.
- to the best of its knowledge, the consolidated condensed interim financial statements and comparative data have been prepared in accordance with applicable accounting standards and they give a true and fair view of the property and financial standing of the LPP SA Group and its financial result,
- to the best of its knowledge, the separate condensed interim financial statements and comparative data have been prepared in accordance with applicable accounting standards and they give a true and fair view of the property and financial standing of LPP SA and its financial result.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the Management Board

Przemysław Lutkiewicz
Vice-President of the Management Board

Jacek Kujawa
Vice-President of the Management Board

Sławomir Łoboda
Vice-President of the Management Board

Gdańsk, 7 October 2020

09

STANDPOINT OF THE MANAGEMENT BOARD AND OPINION OF THE SUPERVISORY BOARD ON THE CONCLUSION INCORPORATING A RESERVATION

STANDPOINT OF THE MANAGEMENT BOARD OF LPP SA ON CONCLUSIONS INCORPORATING A RESERVATION

In connection with conclusions made in reports of the independent statutory auditor on the review of the consolidated condensed interim financial statements and the separate interim financial statements for the period from 1 February 2020 to 31 July 2020, incorporating the following reservation:

‘Due to the pandemic of the coronavirus SARS-CoV-2 and the closure of majority of retail stores of the Group in the period covered by the interim condensed consolidated financial statements, the Group has led negotiations with the lessors of the retail space, especially in the shopping malls. Until the day of the approval for publication of these financial statements, the majority of negotiations have been finalized and the retail stores have been re-opened. As a result of the circumstances described in the note 3.1 to the interim condensed consolidated financial statements, the Group has not accounted for the effects of all changes to the rent agreements included in the annexes to those agreements signed before 31 July 2020, what would result in modification of the lease liability, the right of use assets as well as elements of the statement of comprehensive income. Therefore, we have not been able to quantify the effect of the signed annexes to the rent agreements on the right of use asset, lease liability, financial income and financial costs as well as depreciation charge included in the interim condensed consolidated financial statements.’

the Management Board of LPP Spółka Akcyjna with its registered office in Gdańsk (“Company”) presents its standpoint hereinbelow.

The Company’s Management Board clarifies that the reservation of the independent statutory auditor has been made due to the Company’s failure to obtain a substantial number of annexes to lease agreements (and other agreements granting the Company or its subsidiaries the right to use retail premises), which have been negotiated with owners of retail space due to the SARS-COVID19 pandemic situation.

As at 31 July 2020, the Company qualified 461 agreements as being subject to IFRS 16 Leases. The reviewed interim financial statements comprise data arising from 38 annexes to agreements qualified as being subject to IFRS 16. Other 122 annexes were received by the Company after the date of closing accounting books and before the date of the last stock-taking (22 September 2020), however, data from those annexes were not incorporated in accounting books. The Company is still waiting for the delivery of 300 signed annexes which, as estimated by the Company, will be subject to IFRS 16.

As estimated by the Company, the signed annexes to lease agreements will have a total impact on measurement of assets in the balance sheet (measurement of right-of-use assets under IFRS 16) of approx. PLN +125 mln, of which approx. PLN 15.5 mln have already been recognised in the interim financial statements. As assessed by the Company, measurement of the remaining approx. 422 annexes would result in an increase in the value of assets by approx. PLN 109.6 mln. Changes in the value of assets are positive due to the fact that part of agreements have been simultaneously prolonged despite reduction of rent following negotiations. Additionally, part of agreements which were earlier not subject to IFRS 16, have received a new wording after negotiation completion and, therefore, have been qualified as agreements subject to IFRS 16.

Due to the closure of stores of the Company's Group following decisions made by public administration bodies in Poland and the majority of European countries in March, April and May 2020 and the uncertain situation in the period following partial repeal of restrictions arising from the SARS-COVID19 pandemic, the Company's Management Board has taken action to change the model of rent liabilities arising from the use of retail space. Among others, there were numerous statements made on the renouncement of lease agreements and negotiations were initiated with owners of shopping centres to adjust contractual terms and conditions to the new market reality. Negotiations concerned, in particular, reduction of rent and charges for the use of retail space and, ultimately, changing fixed rent into variable one, i.e. constituting a specific percentage of revenue in a given store [first of all, by applying OCR (Occupancy Cost Ratio) or TOR (Turnover Rent) formulas] and gaining discounts for the period of pandemic-related restrictions, which was in the interest of the Company and its stakeholders.

There is no doubt that, on the Polish market, the process of renegotiation of contractual terms and conditions with owners of shopping centres was exceptionally difficult and time-consuming. Negotiations were held from May to August 2020 (on foreign markets – even longer). On the Polish market only, LPP SA negotiated in total amendments to 680 agreements. Due to process complexity, there were delays in collecting signed annexes to lease agreements (confirming renegotiated amendments) although all on-site stores of the Company had already recommenced their operations in full. Consequently, the analysis by the Company's financial and accounting departments of the terms and conditions of annexes to agreements and, first of all, adequate recalculation of right-of-use assets and the lease liability in light of fairly recently introduced IFRS 16 was prolonged. This process is very labour- and time-consuming.

Due to the above, the Group's consolidated condensed interim financial statements and the Company's separate condensed interim financial statements do not recognise the impact of all annexes signed. If recognised, such impact would quite probably result in the modification of the value of lease liabilities and right-of-sue assets.

Consequently, the audit company (the independent statutory auditor) was unable to quantify the impact of the signed annexes to lease agreements on the value of right-of-use assets, lease liabilities as well as financing activities and depreciation costs recognised in consolidated condensed interim financial statements and separate condensed interim financial statements.

The Company's Management Board holds the view that reasons for making the reservation in question by the audit company are not, in part, resting with the Company and were exceptionally difficult to avoid. Due to the above-mentioned circumstances, the audit company has formulated conclusions incorporating the reservation in reports on the review of the condensed interim financial statements of LPP SA for the period from 1 February 2020 to 31 July 2020 and the consolidated condensed interim financial statements of LPP SA for the period from 1 February 2020 to 31 July 2020.

In the opinion on the Management Board, the situation described above substantially affects the value of right-of-use assets, lease liabilities as well as financing activities and depreciation costs recognised in the condensed interim financial statements.

The Company's Management Board has taken additional action to accelerate collection (signing and archiving) of all annexes to lease agreements and making adequate recalculations of right-of-use assets, lease liabilities as well as their impact on financing activities and depreciation costs as required under IFRS 16. The Management Board plans to complete the said process in H2 2020.

As assessed by the Management Board, the problem described in the reservation made in reports of the audit company will not affect the annual financial result of the Company and its Group.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki President of the Management Board	**Przemysław Lutkiewicz** Vice-President of the Management Board	**Jacek Kujawa** Vice-President of the Management Board	**Sławomir Łoboda** Vice-President of the Management Board

Gdańsk, 5 October 2020

OPINION OF THE SUPERVISORY BOARD OF LPP SA ON THE CONCLUSION INCORPORATING A RESERVATION

RESOLUTION
OF THE SUPERVISORY BOARD OF LPP SA
OF 5 OCTOBER 2020

ON ITS OPINION ON THE CONCLUSION INCORPORATING A RESERVATION RELATING TO THE INTERIM FINANCIAL STATEMENTS

In consideration of the wording of conclusions incorporating a reservation, formulated by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa, the audit company, in reports on the review of the condensed interim financial statements of LPP SA for the period from 1 February 2020 to 31 July 2020 and the consolidated condensed interim financial statements of the LPP SA Group for the period from 1 February 2020 to 31 July 2020 and having regard of respective standpoints of the Management Board and the Audit Committee, the Supervisory Board gives the following opinion on the issue in question.

The Supervisory Board of LPP SA acknolwedges conclusions made by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością spółka komandytowa, the audit company, incorporating a reservation regarding the review of interim financial statements of LPP SA for the period from 1 February 2020 to 31 July 2020 and the consolidated condensed interim financial statements of the LPP SA Group for the period from 1 February 2020 to 31 July 2020.

The Supervisory Board holds the view that reasons for making the reservation in question by the audit company are not, in part, resting with the Company and were exceptionally difficult to avoid. The closure of stores of the Company's Group following decisions made by public administration bodies in Poland and the majority of European countries in March, April and May 2020 and the uncertain situation in the period following partial repeal of restrictions arising from the SARS-COVID19 pandemic justified the initiation by the Company's Management Board of negotiations with owners of shopping centres to reduce rent and charges for the lease of retail space. The change of fixed rent into variable one, i.e. constituting a specific percentage of revenue in a given store [first of all, by applying OCR (Occupancy Cost Ratio) or TOR (Turnover Rent) formulas] and discounts gained for the period of pandemic-related restrictions were in the interest of the Company and its stakeholders.

It is a common knowledge that, on the Polish market, the process of renegotiation of contractual terms and conditions with owners of shopping centres was exceptionally difficult and time-consuming. The same situation was on foreign markets. Negotiations were held from May to August 2020 (on foreign markets – even longer). On the Polish market only, LPP SA negotiated in total amendments to 680 agreements. The process complexity could cause delays in collecting the signed annexes to lease agreements (confirming renegotiated amendments) although all on-site stores of the Company had already recommenced their operations in full. Additionally, the analysis by the Company's financial and accounting departments of the terms and conditions of annexes to lease agreements and, first of all, adequate recalculation of right-of-use assets and the lease liability in light of fairly recently introduced IFRS 16 also requires a substantial amount of measures, time and labour.

Due to the above, the Group's consolidated condensed interim financial statements and the Company's separate condensed interim financial statements do not recognise the impact of all annexes signed. If recognised, such impact would quite probably result in the modification of the value of lease liabilities and right-of-sue assets.

Consequently, the audit company was unable to quantify the impact of the signed annexes to lease agreements on the value of right-of-use assets, lease liabilities as well as on financing activities and depreciation costs recognised in consolidated condensed interim financial statements and separate condensed interim financial statements.

As estimated by the Company, the signed annexes to lease agreements will have a total impact on measurement of assets (right-of-use assets under IFRS 16) of approx. PLN +125 mln, of which approx. PLN 15.5 mln have already been recognised in the interim financial statements. As assessed, measurement of the remaining annexes would result in an increase in the value of assets by approx. PLN 109.6 mln. Changes in the value of assets are positive due to the fact that part of agreements have been simultaneously prolonged despite reduction of rent following negotiations. Additionally, part of agreements which were earlier not subject to IFRS 16, have received a new wording after negotiation completion and, therefore, have been qualified as agreements subject to IFRS 16.

In consideration of the above-mentioned circumstances, the Supervisory Board acknowledges the legitimacy of conclusions incorporating the reservation, as formulated by the audit company in reports on the review of condensed interim financial statements of LPP SA for the period from 1 February 2020 to 31 July 2020 and the consolidated condensed interim financial statements of the LPP SA Group for the period from 1 February 2020 to 31 July 2020, in recognition of the fact that reasons for expressing the same are not, in a major part, resting with the Company. Simultaneously, the Supervisory Board holds the view that, upon completion of the process of signing and accounting for annexes to lease agreements, the problem described in the reservation made in reports of the audit company on the annual financial result of the Company and its Group will not affect the annual financial result of the Company and its Group.

At the same time, the Supervisory Board requests the Company's Management Board to intensify activities aimed at collecting (signing and archiving) all annexes to lease agreements and at adequate recalculation of right-of-use assets and lease liabilities as well as their impact on financing activities and depreciation costs as required under IFRS 16. The Supervisory Board recommends that the entire process be completed in H2 2020."

SUPERVISORY BOARD OF LPP SA:

Jerzy Lubianiec
Chairman
of the Supervisory Board

Wojciech Olejniczak
Vice-Chairman
of the Supervisory Board

Piotr Piechocki
Member
of the Supervisory Board

Magdalena Sekuła
Member
of the Supervisory Board

Antoni Tymiński
Member
of the Supervisory Board

Miłosz Wiśniewski
Member
of the Supervisory Board

Gdańsk, 5 October 2020