LPP

FACTBOOK

2021/22

RESERVED CROPP house MOHITO sinsay

A global brand,
a Polish company

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

WE OWN FIVE FASHION BRANDS.

RESERVED CROPP house MOHITO sinsay

Data for 2021/22 or at the end of 31.01.2022.

39
countries
offline + online

PLN 14.0 bn
revenues

2,244
stores

c.32,000
employees

e-commerce
28%
of revenues

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1. Group overview

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

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

OUR VISION

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

OUR MISSION

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

FIRE–
FUELLED

We are fuelled by internal fire.

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

AMBITION–
DRIVEN

Ambition drives us in action.

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

SOCIALLY–
RESPONSIBLE

We are responsible for what we do.

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

TEAM–
ORIENTED

As a team we are the greatest strength.

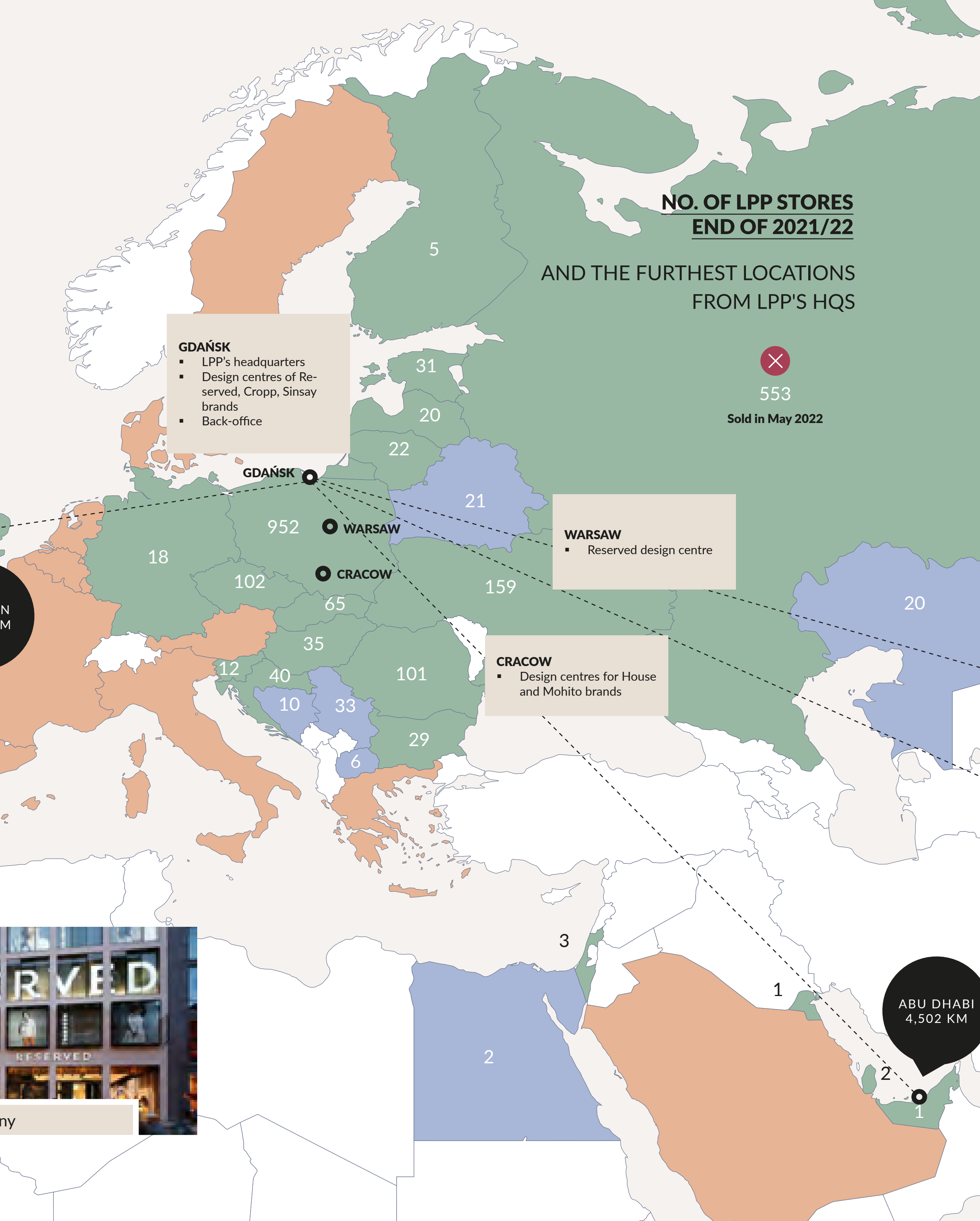
The opinion of each team member is just as important. We treat everyone as we would like to be treated ourselves. Fairness, respect, justice and tolerance are our guideposts of action.

LPP on the world stage

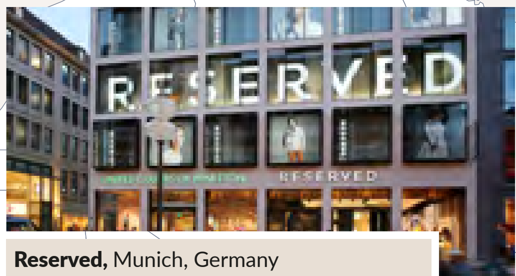
A GLOBAL CLOTHING RETAILER

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

At the end of 2021/22 we had 2,244 stores in 26 countries and on 3 continents.



Reserved, Dubai, ZEA



Reserved, Munich, Germany

POLAND	952
Reserved	189
Cropp	175
House	188
Mohito	133
Sinsay	267

BELARUS	21
Reserved	3
Cropp	3
House	3
Mohito	2
Sinsay	10

CROATIA	40
Reserved	7
Cropp	6
House	7
Mohito	6
Sinsay	14

CZECH REP.	102
Reserved	22
Cropp	21
House	18
Mohito	14
Sinsay	27

ESTONIA	31
Reserved	5
Cropp	7
House	6
Mohito	5
Sinsay	8

LITHUANIA	22
Reserved	6
Cropp	5
House	3
Mohito	4
Sinsay	4

HUNGARY	35
Reserved	14
Cropp	3
House	2
Mohito	4
Sinsay	12

BULGARIA	29
Reserved	7
Cropp	5
House	6
Mohito	5
Sinsay	6

KAZAKHSTAN	20
Reserved	3
Cropp	2
House	2
Mohito	2
Sinsay	11

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

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

B&H	10
Reserved	1
Cropp	1
House	1
Mohito	1
Sinsay	6

SLOVAKIA	65
Reserved	16
Cropp	13
House	10
Mohito	10
Sinsay	16

SLOVENIA	12
Reserved	3
Cropp	4
House	1
Mohito	2
Sinsay	2

ROMANIA	101
Reserved	16
Cropp	14
House	14
Mohito	9
Sinsay	48

SERBIA	33
Reserved	7
Cropp	4
House	4
Mohito	5
Sinsay	13

ISRAEL	3
Reserved	3

KUWAIT	1
Reserved	1

GERMANY	18
Reserved	18

UAE	1
Reserved	1

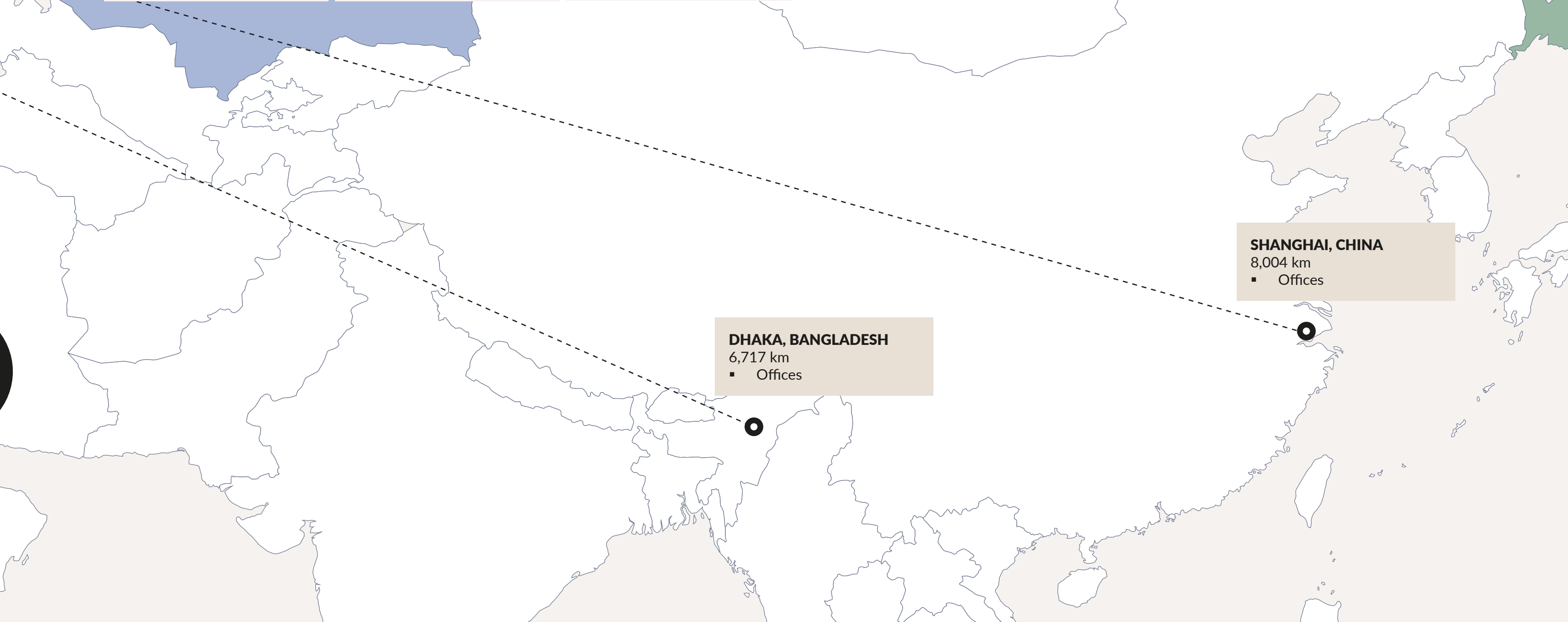
UKRAINE	159
Reserved	28
Cropp	35
House	29
Mohito	14
Sinsay	51
Outlets	2

NORTH MACEDONIA	6
Reserved	2
Cropp	1
House	1
Mohito	1
Sinsay	1

QATAR	2
Reserved	2

UK	1
Reserved	1

EGYPT	2
Reserved	2



Cropp, Prague, Czech Republic

House, Budapest, Hungary

Mohito, Warsaw, Poland

Sinsay, Warsaw, Poland

2. History

1991

Creation of Mistral company by:

- **Marek Piechocki, CEO & CO-FOUNDER**

  Present in the retail business since 1989

  CEO of LPP since 2000

  The Best-Performing CEO according to Harvard Business Review (2013)

- **Jerzy Lubianiec, CO-FOUNDER**

  1991–1997 ran Mistral company as a sole trader (LPP's predecessor)

  1995–2000 CEO of LPP

  President of the Supervisory Board between 2000-2020

1993	1994	1995
Sale of goods imported from Asia.	First designed clothes.	Mistral transformed into LPP.

1997	1998	2001	2002-03	2003	2004
Opening of offices in Shanghai.	Launch of Reserved – first retail store opened.	IPO on the Warsaw Stock Exchange (debut at PLN 48.4 share price).	Start of international expansion (Russia, Czech Republic, Estonia, Hungary, Latvia).	Further international expansion (Lithuania, Ukraine, Slovakia).	Launch of Cropp brand.

2005	2008	2010	2010/11	2013	2014
Creation of Esotiq brand.	Launch of the modern Distribution Centre in Pruszcz Gdański. Acquisition of Artman, owner of House and Mohito brands. Further international expansion (Romania, Bulgaria).	Payment of first dividend.	Divesture of Esotiq brand.	Launch of Sinsay brand. Joining the ACCORD alliance.	Entry into MSCI and WIG20 indices. New countries: Germany, Croatia.

2015

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

2016

Launch of Tallinder brand (closed down in 2017).

New country in ME: United Arab Emirates.

2017

Opening of Reserved London flagship. Campaign with Kate Moss.

Entry to Belraus and Serbia.

Signing agreement with SGS company on audits in Asian factories.

LPP among family companies – LPP joins Family Business Network Poland.

2018

Reserved global campaign with Cindy Crawford.

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

LPP a family company after changes in shareholder structure.

LPP entered Slovenia, Israel and Kazakhstan.

2019/20

Launch of online stores of all brands in Croatia.

Start of online sales in Ukraine.

Launch of pan-European e-store.

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

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

Launch of international Reserved campaign starring the top model Kendall Jenner.

New LPP Sustainable Development Strategy for 2020-2025.

Entry to Finland with stores of all five brands in Helsinki.

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

2020/21

Finalising expansion of Pruszcz Gdański Distribution Centre. Total floorspace: 100,000 m^2.

Finishing construction of new offices in Cracow, where design centres for House and Mohito are located.

Completion of reorganization proceedings in Germany and restoration of normal operations after negotiating new terms and conditions with the landlords.

Opening of Reserved store in Dubai, in the world's largest shopping center, Dubai Mall.

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

2021/22

STRENGHENING E-COMMERCE IN ROMANIA

Doubling floorspace of e-commerce Facility Centre in Romania (43,000 m²).

2021/22

AGM APPROVES DIVIDEND PAYMENT

Annual General Meeting of Shareholders appointed a new Management Board Member and the Supervisory Board. On top, it approved a sizeable dividend payment.

RESERVED APP

Launch of Reserved application in Polish language version.

2021/22

MORE GREEN ENERGY

Signing a letter of intent with Figene company to deliver green energy.

Installation of 4 ths solar panels in Brześć Kujawski Distribution Centre.

GROWING PRESENCE IN THE BALKANS

Launch of e-store operations in Bulgaria.

Entry to North Macedonia with offline stores.

2021/22

AWARDS FOR OUR BUILDINGS

The main prize in the "best office" contest in Tri-City for Fashion Lab2 office building in Gdańsk.

Breeam certificate (assessing buildings in terms of environmental standards) for offices of the Cracow branch.

FC EXPANSION

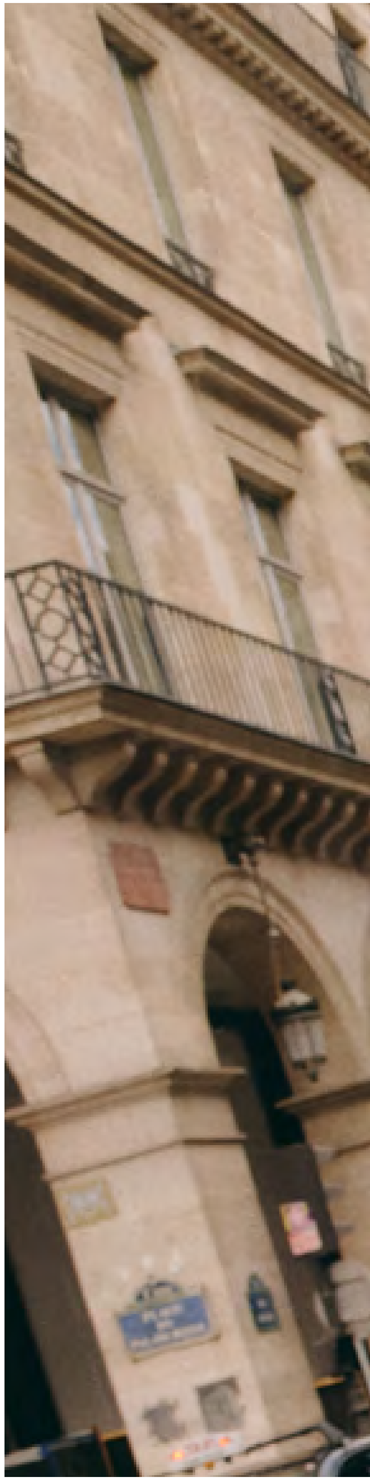
Contract for the lease of a new Fulfillment Center in Pruszcz Gdański, located in Panattoni Tricity South II Park.

2021/22

LOGISTICS EXPANSION

Introduction of automatic sorting system in Slovak Fulfillment Centre.

Signing a lease agreement for the warehouse space (67,000 m²) in Podkarpacie region.



3. Brands

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

We concentrate on mainstream prices

	RESERVED	CROPP	house	MOHITO	sinsay
KEY BRAND FEATURES	Anchor brand with a broad customer base.	Streetwear brand influenced by contemporary culture and music.	An optimistic fashion brand.	Comfort and elegance for business and informal meetings.	Clothes for every day inspirations and original party outfits.
TARGET CUSTOMERS	Women, men, children, newborn	Teenagers (boys and girls)	Teenagers (boys and girls)	Woman	Women, men, teenagers, children, newborn
YEAR Of LAUNCH	1998	2004	2001 (at LPP since 4Q08)	2008 (at LPP since 4Q08)	2013
COUNTRIES/ REGIONS PRESENT	CEE, SEE, Baltic, CIS, WE, ME	CEE, SEE, Baltic, CIS, WE (Finland)	CEE, SEE, Baltic, CIS, WE (Finland)	CEE, SEE, Baltic, CIS, WE (Finland)	CEE, SEE, Baltic, CIS, WE (Finland)
# STORES/ FLOORSPACE	447 710.2 ths m^2	398 191.5 ths m^2	368 173.4 ths m^2	286 122.5 ths m^2	743 689.1 ths m^2
AVERAGE STORE SIZE	1,589 m^2	481 m^2	471 m^2	428 m^2	927 m^2

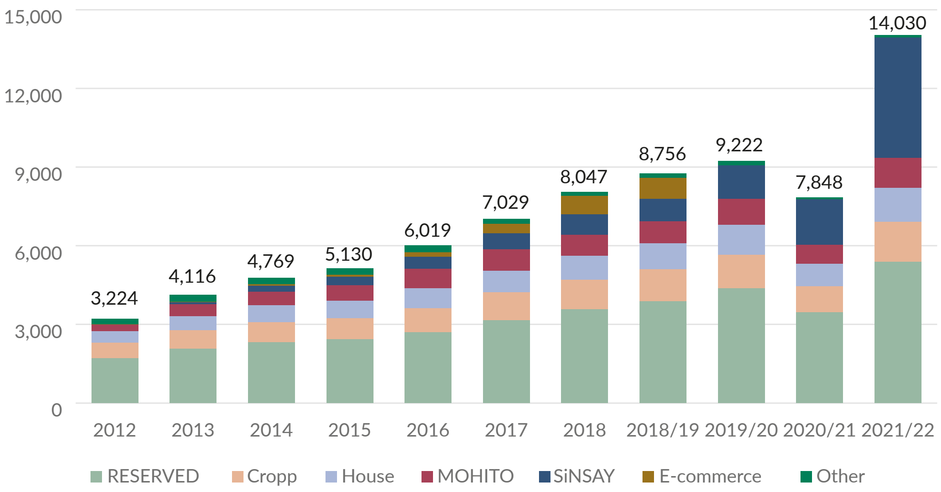
Note: sum of brands' store numbers and floorspace does not equal group's numbers due to outlets at the end of 2021/22.

REVENUES BY BRANDS

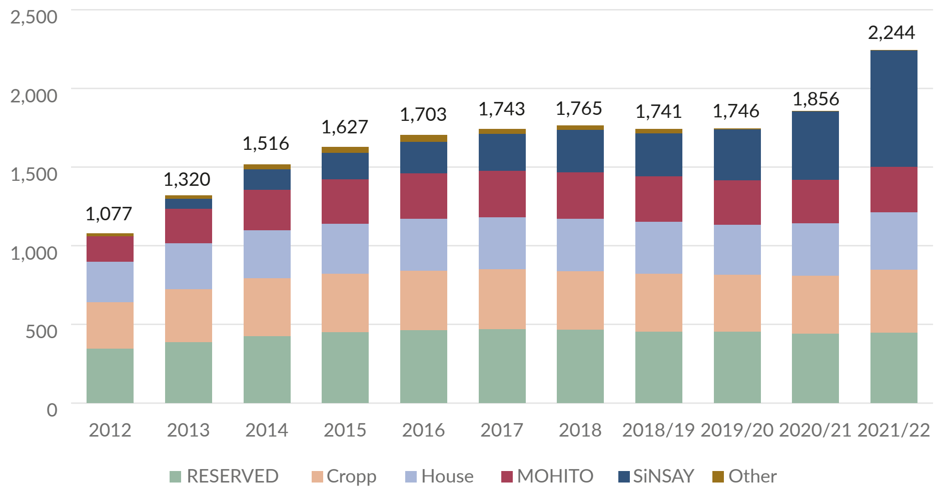
PLN m	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20 (13M)	2019/20	2020/21	2021/22
Revenues	**3 224**	**4,116**	**4,769**	**5,130**	**6,019**	**7,029**	**8,047**	**8,756**	**9,899**	**9,222**	**7,848**	**14,030**
RESERVED	1 714	2,074	2,311	2,434	2,693	3,160	3,578	3,881	4,047	4,370	3,467	5,386
Cropp	580	687	771	790	915	1,064	1,120	1,206	1,300	1,289	972	1,526
House	437	546	634	673	767	805	920	993	1,117	1,135	875	1,295
MOHITO	259	456	523	586	737	829	782	846	897	987	708	1,144
SiNSAY	-	74	225	329	461	610	789	851	1,208	1,282	1,738	4,587
E-commerce	6	27	65	79	173	361	712	802	1,174	-	-	-
Other	227	252	241	239	261	200	146	178	156	159	88	92
Tallinder	-	-	-	-	12	1	-	-	-	-	-	-
ESOTIQ	-	-	-	-	-	-	-	-	-	-	-	-
Floorspace (m²)	**434 050**	**588,562**	**722,510**	**843,473**	**920,724**	**1,000,611**	**1,091,320**	**1,075,639**	**1,230,860**	**1,230,860**	**1,435,402**	**1,888,149**

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

REVENUES BY BRANDS (PLN M)



STORES BY BRANDS



online markets
33

offline markets
26

stores
447

revenues
PLN 5.4 bn

year of launch
1998

floorspace
710 ths m²

3.1. Reserved brand

Reserved is the Group's brand established in 1998. Since then, it has gained strong reputation and become highly recognisable in Central and Eastern Europe. Female and male collections are divided into two lines dedicated to different market segments and needs. Our customers may also find unisex collections and maternity clothing. Reserved offer is available in offline and online stores. The brand operates in line with the omnichannel strategy giving full access to products regardless of the sales channel. It is supported by an innovative distribution system and the latest technological solutions, including RFID. Owing to the above, it is possible to precisely allocate goods as required in individual locations and adjust the product range to customers' preferences. Reserved brand is mainstream priced with average price tag at PLN 62 in 2021/22.

Reserved carries out the assumptions of the new sustainable development strategy "For People, For Our Planet", in which LPP undertook to reduce its environment impact thus bringing benefits both to our planet and future generations. The brand has repeatedly, in line with LPP's sustainable development, increased the share of environmentally friendly products of the Eco Aware line. In 2021/22, the said share reached 13.1% of our sales and 54.5% of the entire Eco Aware collection sold. By 2025, the brand plans to have 100% of its stores covered by the Eco Aware Stores project. At the same time, starting from 2021, Reserved has been implementing its plan to have its servers and online stores supplied with renewable energy. By 2023, it intends to have met further environmentally sustainable goals i.e. using recycled packaging only.

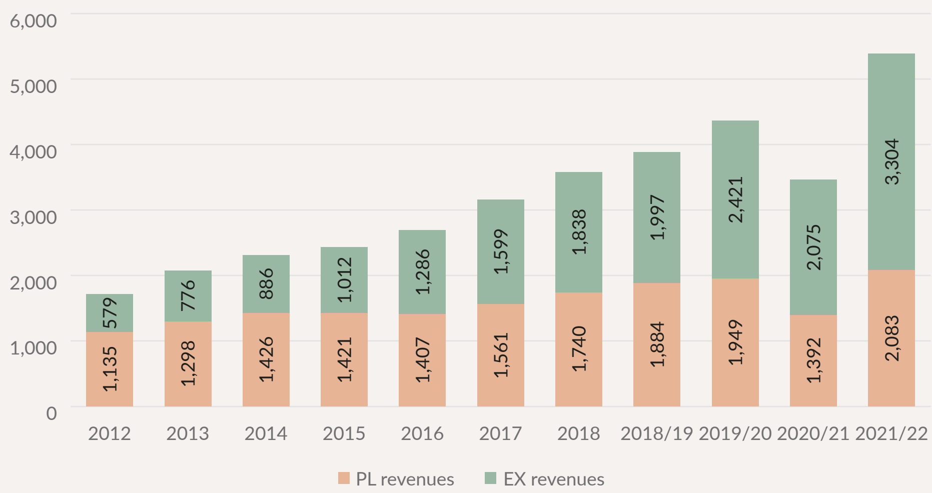
Our flagship brand

www.reserved.com

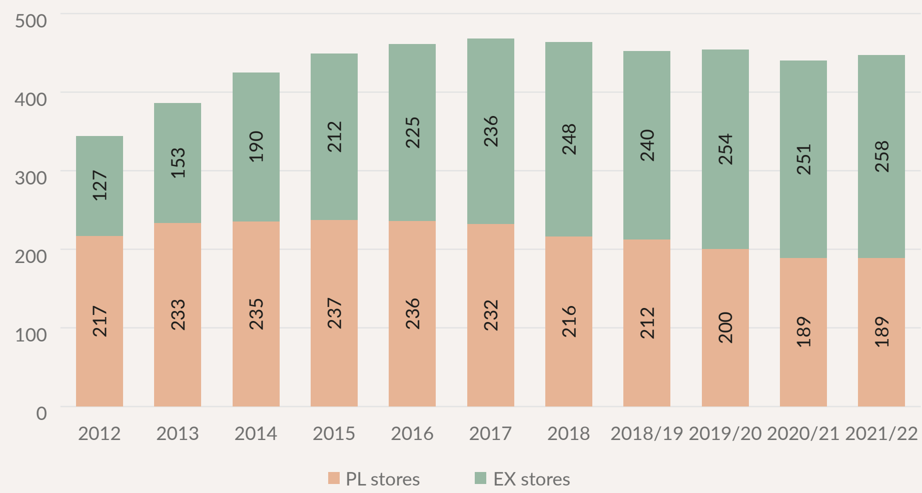
RESERVED – BASIC FIGURES

PLN m	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Revenues	**1,714**	**2,074**	**2,311**	**2,434**	**2,693**	**3,160**	**3,578**	**3,881**	**4,370**	**3,467**	**5,386**
No. of stores	344	386	425	449	461	468	464	452	454	440	447
Store size (m^2)	733	835	917	1,027	1,104	1,201	1,329	1,338	1,464	1,533	1,589
Floorspace (eop, ths m^2)	252	322	390	461	509	562	617	605	665	675	710
Sales/m^2 monthly	628	617	547	483	475	514	527	525	500	441	657
% of floorspace in PL	62%	59%	54%	50%	49%	47%	44%	44%	41%	40%	38%
No. of countries offline	11	11	13	17	18	20	23	23	25	25	26
No. of countries online	1	1	2	5	6	11	16	16	30	30	33

RESERVED – REVENUES (PLN M)



RESERVED – STORES



online markets
14

offline markets
19

stores
398

revenues
PLN 1.5 bn

year of launch
2004

floorspace
191 ths m²

3.2. Cropp brand

Cropp is a streetwear brand enabling our customers to create their individual style from our female and male collections supplemented with a wide variety of footwear and modern accessories. The brand helps to express emotions and cross boundaries. Brand designers get inspired by modern culture and music, creatively mixing them in projects with fashion straight from catwalks around the world.

Cropp's customers are persons following the latest trends but not blindly, opting for individuality and expressing a unique style. Cropp is a mainstream priced brand with an average price tag of PLN 62 in 2021/22.

Furthermore, Cropp gives attention to ecology. Year by year, the brand has been expanding the Eco Aware line comprising clothes designed in line with the idea of sustainable development. In Polish brand stores, plastic shopping bags have been substituted with paper ones while online orders are packed in 100% recycled foil.

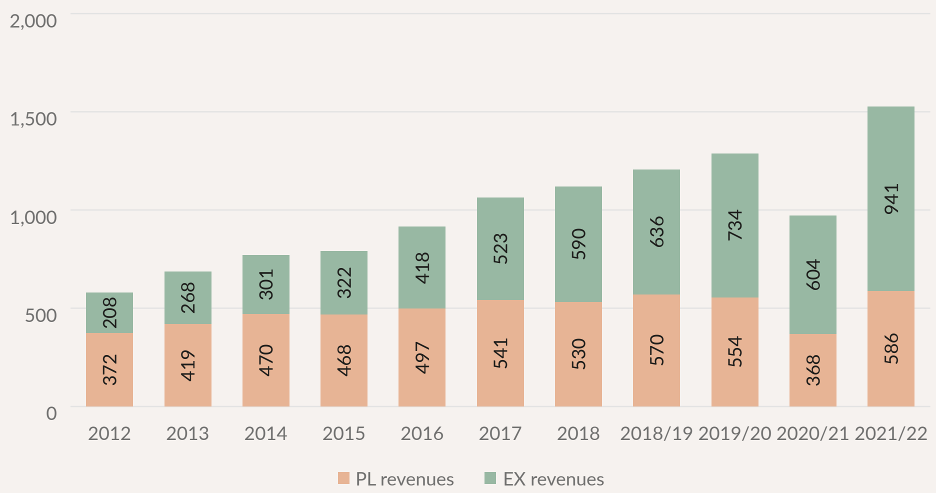
Casual streetwear brand

www.cropp.com

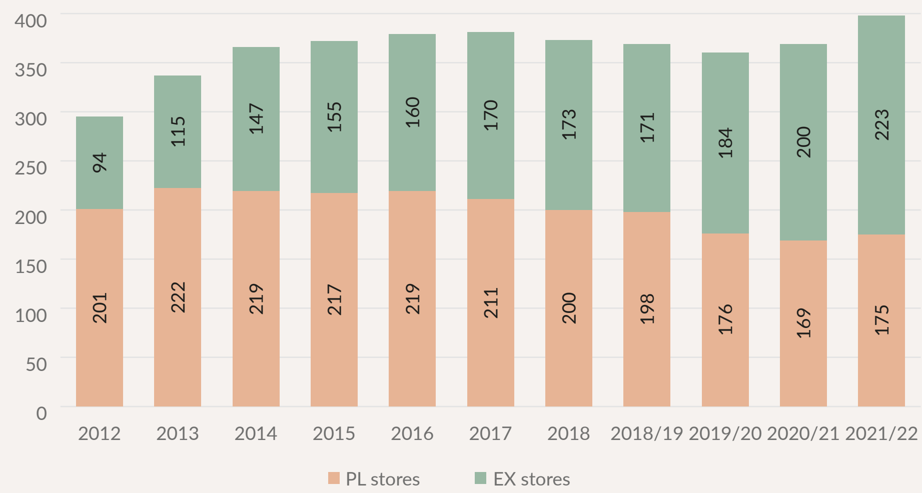
CROPP – BASIC FIGURES

PLN m	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Revenues	**580**	**687**	**771**	**790**	**915**	**1,064**	**1,120**	**1,206**	**1,289**	**972**	**1,526**
No. of stores	295	337	366	372	379	381	373	369	360	369	398
Store size (m²)	244	269	288	308	318	334	359	360	411	450	481
Floorspace (eop, ths m²)	72	91	105	114	120	127	134	133	148	166	191
Sales/m² monthly	756	725	647	591	653	732	729	723	717	517	712
% of floorspace in PL	62%	60%	55%	55%	54%	52%	50%	50%	43%	38%	36%
No. of countries offline	11	11	12	12	12	13	15	15	17	17	19
No. of countries online	1	1	1	1	6	9	10	10	12	13	14

CROPP – REVENUES (PLN m)



CROPP – STORES



online markets
14

offline markets
19

stores
368

revenues
PLN 1.3 bn

year of launch
2001
(at LPP since 4Q08)

floorspace
173 ths m²

3.3. House brand

House makes creative space for young people who want, through their style, to show who they are and how they feel, and they see experimenting with fashion as a way to express their emotions.

The brand offers interesting combinations of the latest trends with a casual style. It also inspires to be brave, play with styles and consciously shape your own image. House focuses on listening to customers' needs and observing their environment: things they are interested in, hobbies, plans and dreams. Knowing their world, it is possible to meet their expectations and adjust to their dynamic pace of life, creating fashionable and, at the same time, casual every-day outfits for men and women.

House collections are created following observations of the style of metropolitan streets and pop-culture, being also inspired by trends present in social media, music and art. Brand designers use professional tools to analyse fashion trends and take part in textile fairs. House continues to stay within the mainstream pricing - 2021/22 average price tag came in at PLN 53.

House cares for eco quality and its strategy covers social responsibility to create more sustainable future in fashion.

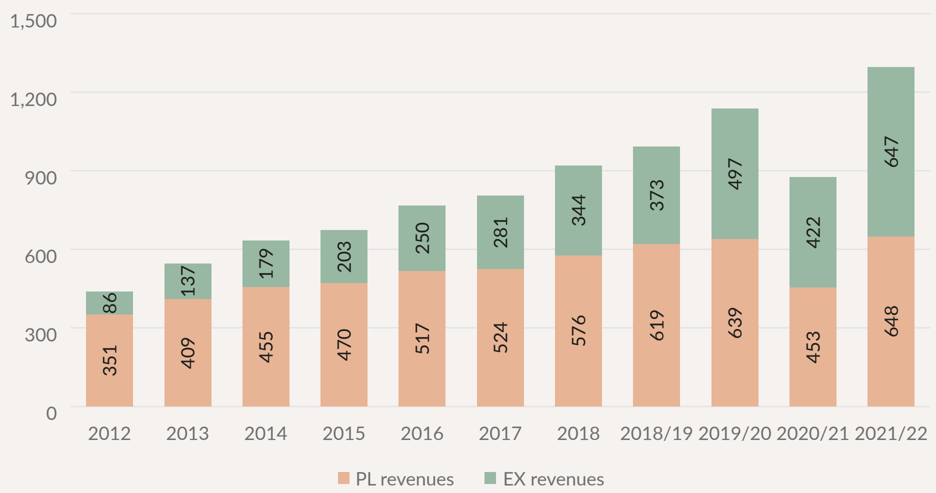
Brand that combines the latest trends with street style

www.housebrand.com

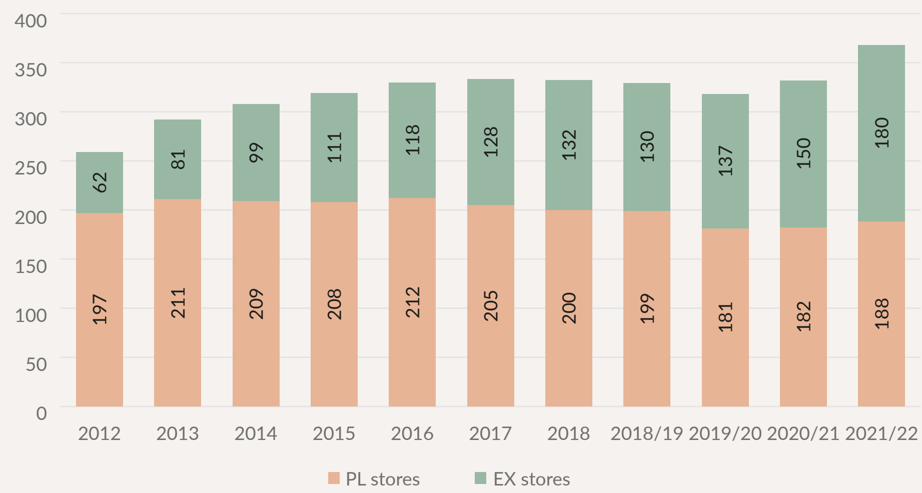
HOUSE – BASIC FIGURES

PLN m	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Revenues	**437**	**546**	**634**	**673**	**767**	**805**	**920**	**993**	**1,135**	**875**	**1,295**
No. of stores	259	292	308	319	330	333	332	329	318	332	368
Store size (m²)	247	275	291	313	320	332	350	350	401	442	471
Floorspace (eop, ths m²)	64	80	90	100	106	111	116	115	127	147	173
Sales/m² monthly	654	652	612	579	621	639	689	684	715	535	673
% of floorspace in PL	73%	69%	64%	62%	61%	59%	58%	58%	51%	49%	45%
No. of countries offline	9	9	10	12	12	13	15	15	17	17	19
No. of countries online	1	1	1	1	6	10	10	10	12	13	14

HOUSE – REVENUES (PLN m)



HOUSE – STORES



online markets
15

offline markets
19

stores
286

revenues
PLN 1.1 bn

year of launch
2008
(at LPP since 4Q08)

floorspace
123 ths m²

3.4. Mohito brand

Mohito is a proposal for women who love fashion and appreciate original urban elegance. Casual, confident, sensual and loving life - this is how designers from the Polish brand see each woman. The brand carefully follows global trends, maintaining in its design the balance between fashion inspiration, comfort and functionality which is particularly expected now.

The collections include classic and modern cuts, a wide range of colours, original prints and fashionable patterns. Mohito offers clothes at an affordable price – the average price tag of PLN 73 in 2021/22 was the highest among our brands.

Year after year, the brand increases the quantity of Eco Aware products in its collections. When creating an ecological line of clothes and accessories, brand designers use environmentally friendly raw materials from sustainable sources. Eco Aware materials include organic cotton, linen, recycled polyester and ecological viscose.

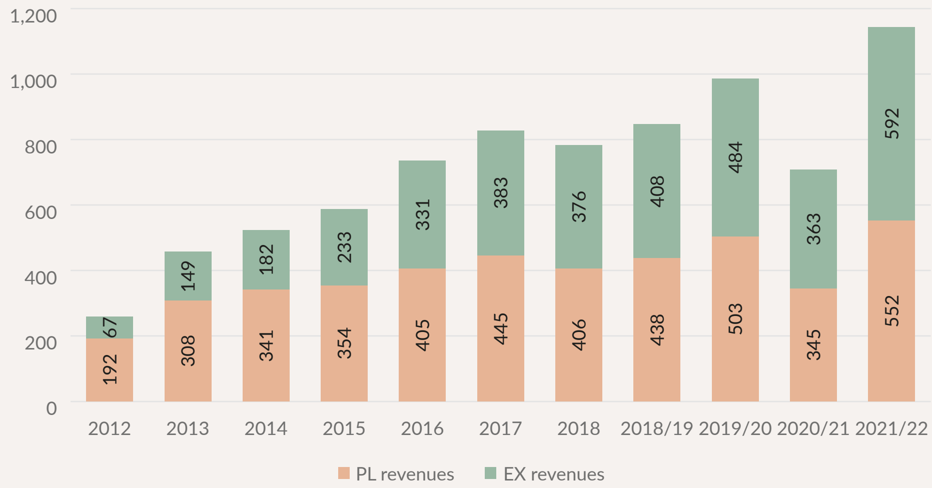
Fashion brand emphasizing feminity and elegance

www.mohito.com

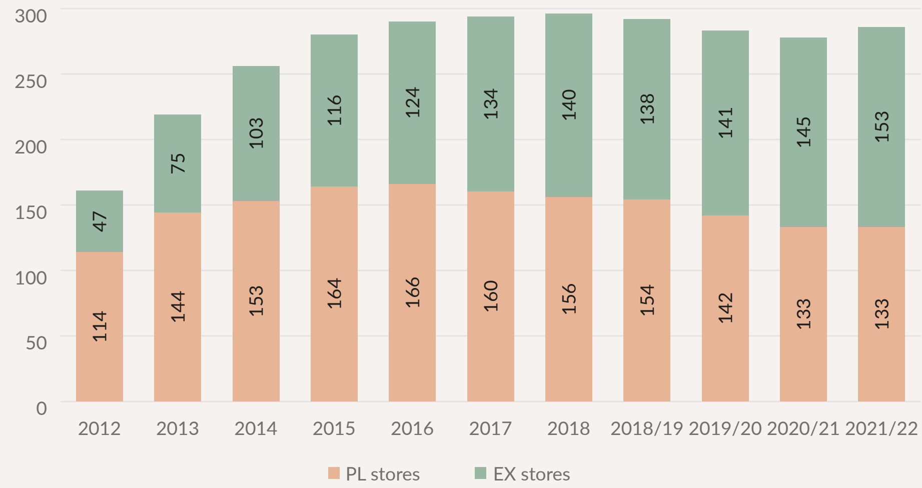
MOHITO – BASIC FIGURES

PLN m	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Revenues	**259**	**456**	**523**	**586**	**737**	**829**	**782**	**846**	**987**	**708**	**1,144**
No. of stores	161	219	256	280	290	294	296	292	283	278	286
Store size (m^2)	242	301	323	337	342	353	370	370	395	414	428
Floorspace (eop, ths m^2)	39	66	83	94	99	104	109	108	112	115	123
Sales/m^2 monthly	843	759	583	549	636	696	620	619	631	523	801
% of floorspace in PL	67%	62%	56%	55%	54%	51%	49%	50%	46%	44%	42%
No. of countries offline	8	9	12	12	12	13	15	15	17	18	19
No. of countries online	1	1	1	1	6	10	10	10	12	13	15

MOHITO – REVENUES (PLN m)



MOHITO – STORES



online markets
14

offline markets
19

year of launch
2013

stores
743

revenues
PLN 4.6bn

floorspace
689 ths m²

3.5. Sinsay brand

Sinsay responds to customers' extensive needs, offering the latest trends at affordable prices. The diversity of our collections allows customers to freely create trendy looks for any occasion. The brand designs product lines that are a daily source of inspiration for teenagers and women as well as men preferring a casual urban style. Sinsay also offers comfortable and functional clothing for mums and cute products and accessories for children. The brand's offer is complemented by interior design products and a line of make-up and beauty products.

The brand is mainstream priced yet has the lowest average price tag (PLN 24 in 2021/22), so that it is affordable for the target group.

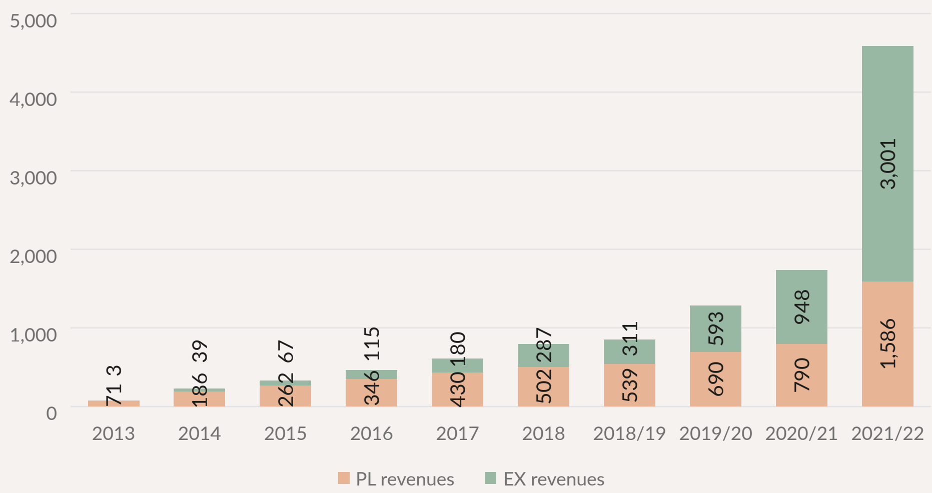
Everyday clothes and original party outfits

www.sinsay.com

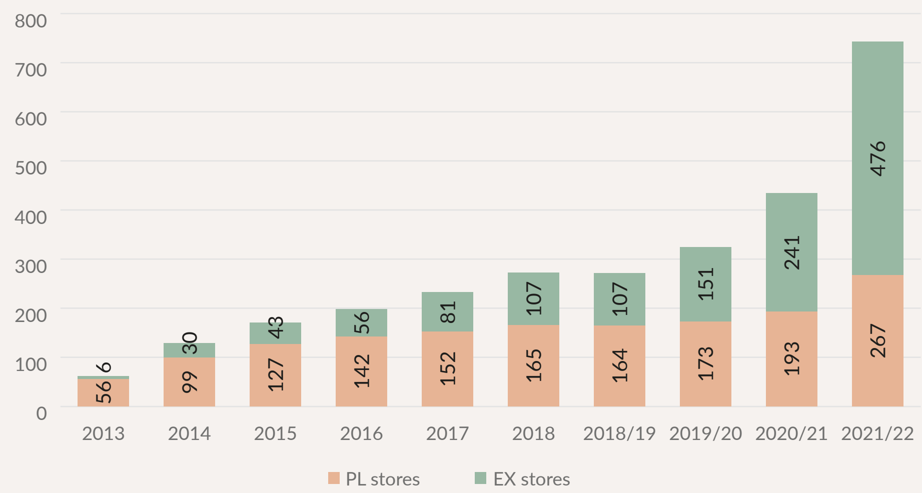
SINSAY – BASIC FIGURES

PLN m	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Revenues	**-**	**74**	**225**	**329**	**461**	**610**	**789**	**851**	**1,282**	**1,738**	**4,587**
No. of stores	-	62	129	170	198	233	272	271	324	434	743
Store size (m²)	-	325	338	351	352	363	379	379	535	760	927
Floorspace (eop, ths m²)	-	20	44	60	70	85	103	103	173	330	689
Sales/m² monthly	-	670	584	531	607	690	719	709	728	615	790
% of floorspace in PL	-	89%	75%	73%	70%	63%	58%	58%	45%	35%	30%
No. of countries offline	-	4	10	11	11	13	15	15	17	18	19
No. of countries online	-	1	1	1	6	10	10	10	12	13	14

SINSAY – REVENUES (PLN m)



SINSAY – STORES



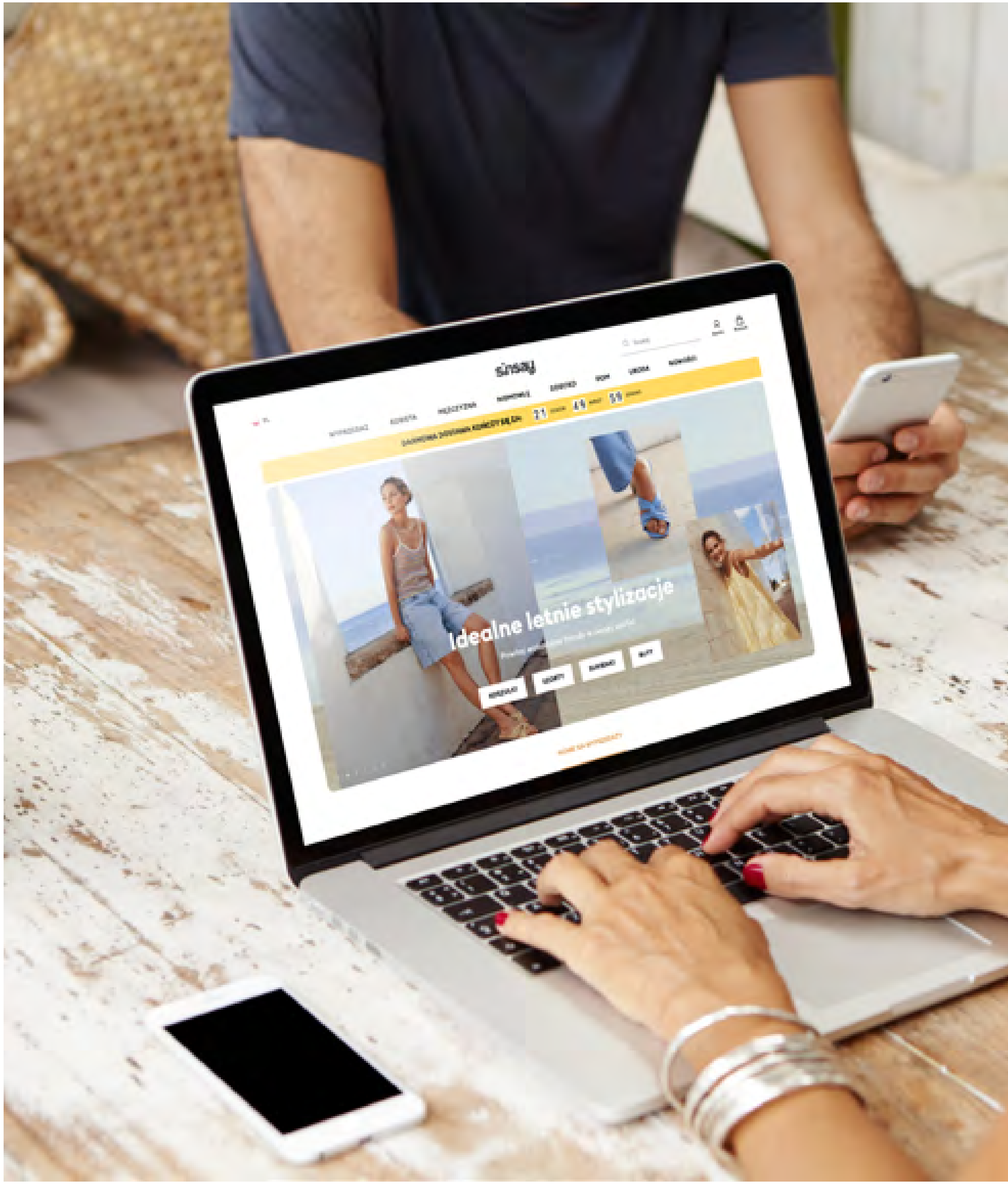
4. E-commerce

Even though the majority of our business is brick-and-mortar, we accelerate investments in online operations, as this is where our customers are going, especially after COVID-19. In 2021/22 online sales constituted 28% of our group revenues.

Our e-commerce strategy is based on single brand e-stores as opposed to multibrand e-stores. All our five brands have high-quality internet stores and mobile websites. 39% of our e-commerce revenues comes from Poland. However, apart from domestic development, we invest in internet stores abroad.

Our online presence at the end of 2021/22 span on 33 countries. E-stores of our brands were present in Poland, Czech Republic, Slovakia, Hungary, Romania, Germany, Lithuania, Latvia, Estonia, Russia, Ukraine, Slovenia and Bulgaria. In remaining EU countries our presence took place via pan-European online store.

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



40
cooperating model agencies

120+
team of people responsible for content production

55
professional photographic studios and photographic posts

54,000
photographed products per year

2011

RESERVED, HOUSE, CROPP, MOHITO, SINSAY, Poland

2014

RESERVED, Germany

2015

RESERVED, Slovakia, Czech Republic, Romania

2016

TALLINDER, Poland

RESERVED, Hungary

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

2017

RESERVED, UK

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

RESERVED, HOUSE, MOHITO, SINSAY, Russia

2018

CROPP, Russia

RESERVED, 5 ME countries (Reserved via franchise partner)

2019/20

Launching own online stores in Ukraine and Croatia

Opening of pan-European e-store

2020/21

E-commerce boom due to COVID-19 pandemics

RESERVED, Israel (via a franchise partner)

RESERVED, CROPP, HOUSE, MOHITO, SINSAY, Slovenia

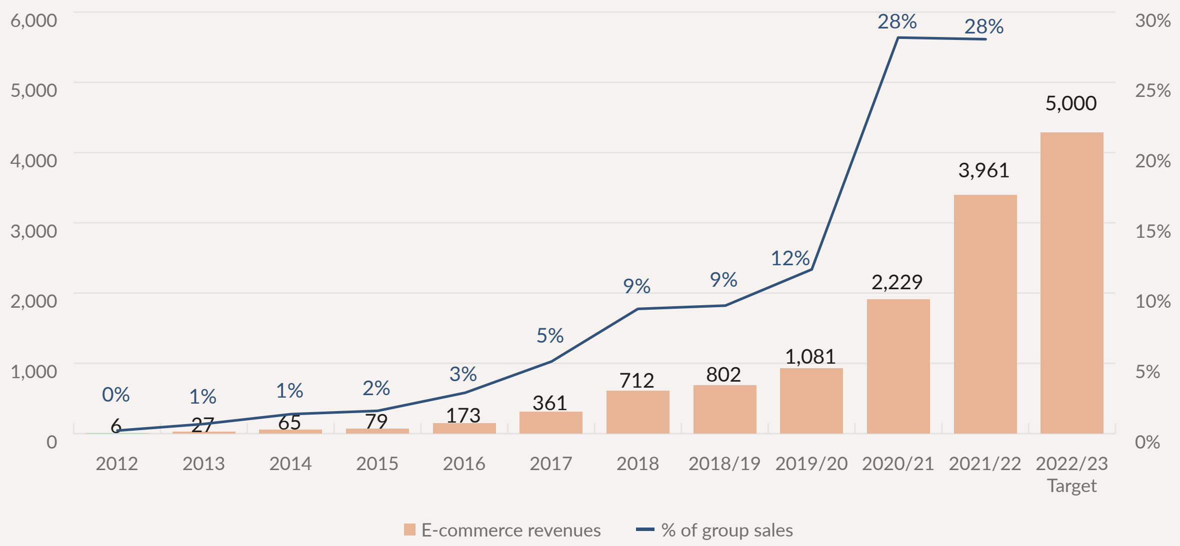
2021/22

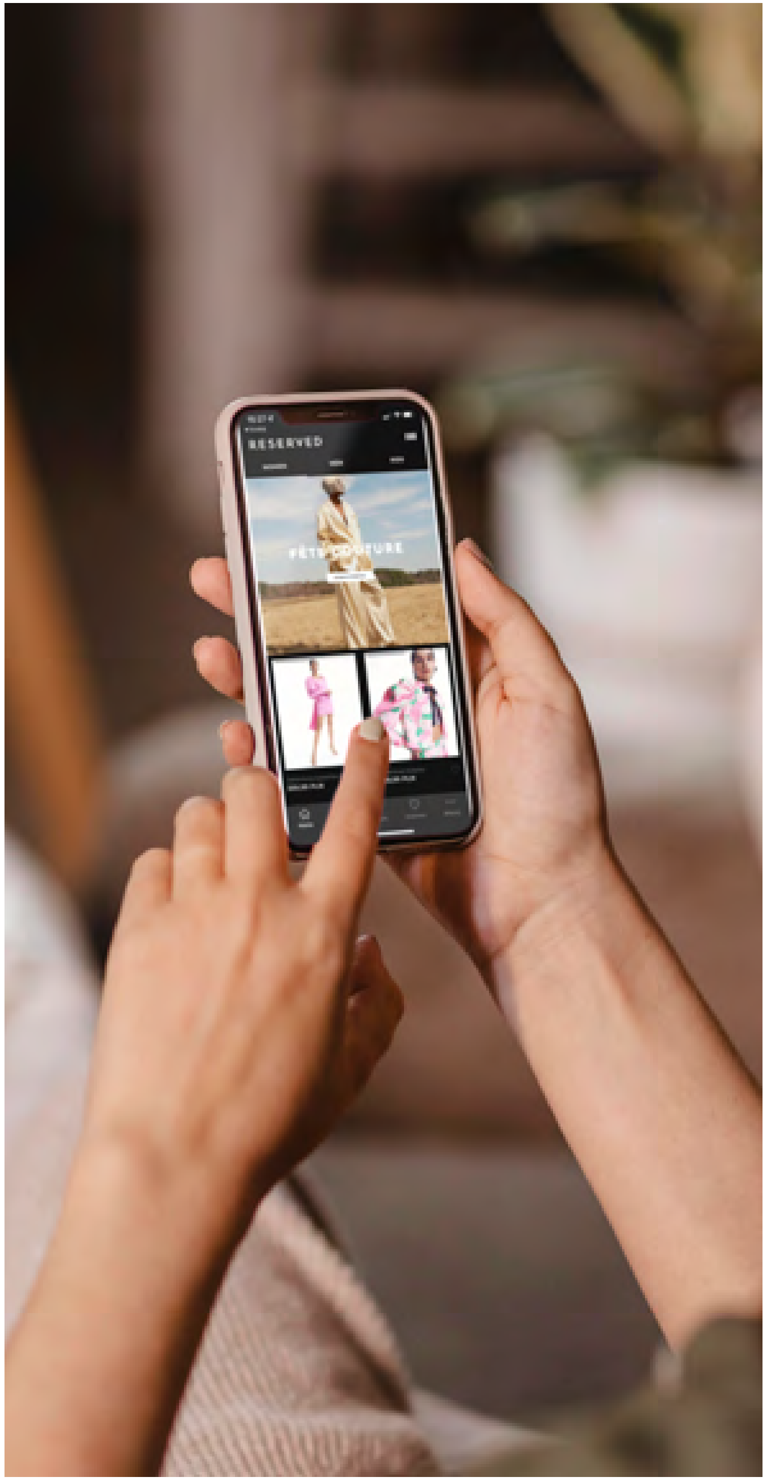
RESERVED, CROPP, HOUSE, MOHITO, SINSAY, Bulgaria

RESERVED, Qatar (via a franchise partner)

Almost 1/3 of revenues online

E-COMMERCE REVENUES (PLN M)





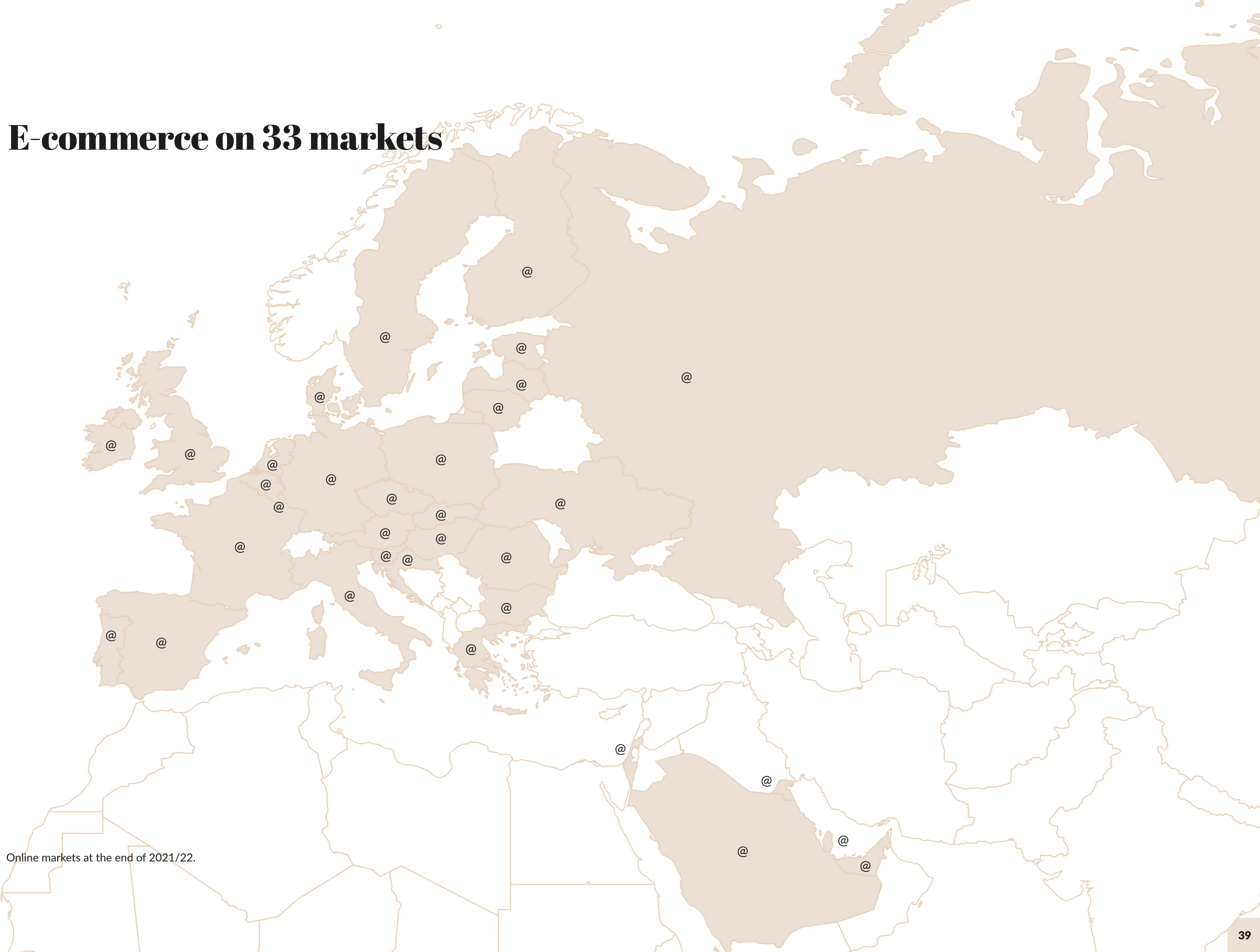
DEVELOPMENT THROUGH OWN E-STORES GIVES US:

- direct access to retail customers,
- control over inventory and pricing policy,
- stability (no intermediaries, continuation of contact).

GOALS BEHIND THE LAUNCH OF PAN-EUROPEAN E-STORE:

- online sales growth,
- learning the tastes of Western European customers,
- identification of potential new markets for traditional stores.

E-commerce on 33 markets



Online markets at the end of 2021/22.

5. Regions

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

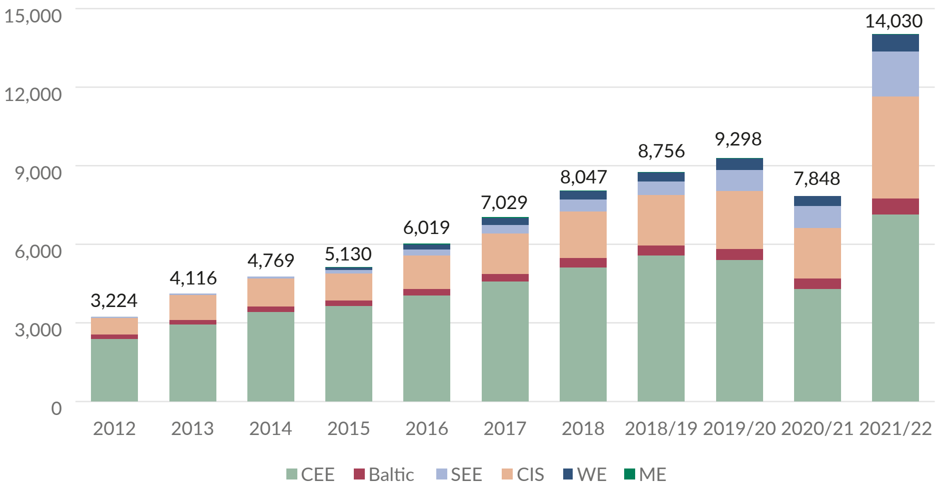
We believe we will be successful on the developing and early stage markets as the price-to-quality ratio offering in our stores meets the customers' expectations.

	MATURITY		NO GROWTH	DEVELOPING	EARLY STAGE	
DEVELOPMENT STAGE	**CEE**	**BALTIC**	**CIS**	**SEE**	**WE**	**ME**
COUNTRIES PRESENT OFFLINE	Poland, Czech Republic, Hungary, Slovakia	Lithuania, Latvia, Estonia	Russia (now sold), Ukraine (partially operational due to war), Belarus, Kazakhstan	Bulgaria, Romania, Croatia, Serbia, Slovenia, B&H, North Macedonia	Germany, UK, Finland	Egypt, Kuwait, Qatar, UAE, Israel
BRANDS	Reserved, Cropp, House, Mohito, Sinsay	Reserved, Cropp, House, Mohito, Sinsay	Reserved, Cropp, House, Mohito, Sinsay	Reserved, Cropp, House, Mohito, Sinsay	Reserved (all countries), Cropp, House, Mohito, Sinsay (4 brands in Finland only)	Reserved
# COUNTRIES PRESENT	4	3	4	7	3	5
# STORES FLOORSPACE	1,154 853.6 ths m²	73 62.0 ths m²	753 678.1 ths m²	231 231.0 ths m²	24 53.5 ths m²	9 10.0 ths m²
TYPE OF STORES	Own	Own	Own	Own	Own	Franchise

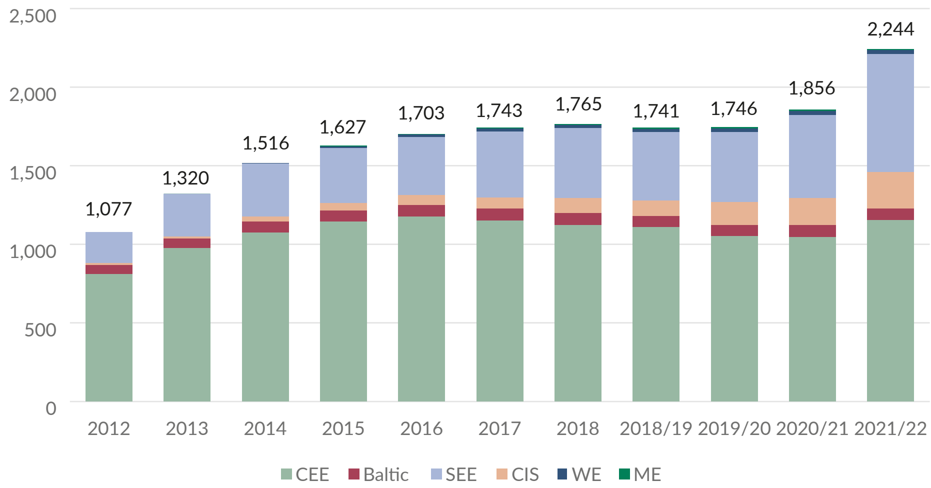
REVENUES BY REGIONS

PLN m	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Revenues	**3,224**	**4,116**	**4,769**	**5,130**	**6,019**	**7,029**	**8,047**	**8,756**	**9,222**	**7,848**	**14,030**
CEE	2,382	2,927	3,414	3,634	4,039	4,572	5,115	5,562	5,851	4,280	7,124
Baltic	162	186	200	222	256	295	358	388	437	402	619
CIS	638	952	1,076	1,025	1,269	1,542	1,770	1,924	2,199	1,929	3,892
SEE	42	52	65	134	230	317	463	513	812	851	1,721
WE	-	-	15	94	194	279	320	345	433	370	644
ME	-	-	-	23	31	24	22	24	33	17	30
Floorspace (m^2)	**434,050**	**588,562**	**722,510**	**843,473**	**920,724**	**1,000,611**	**1,091,320**	**1,075,639**	**1,230,860**	**1,435,402**	**1,888,149**

REVENUES BY REGIONS (PLN M)



STORES BY REGIONS



5.1. CEE region

The CEE region comprises of Poland, Czech Republic, Slovakia and Hungary. Poland has been our first market and is by far the most important market currently, generating 51% of group revenues. Development in Czech Republic and Hungary was gradual and took place via company-owned stores, while Slovakia had been developed via franchise until April 2014. The CEE region is a mature market for us with the exception of Hungary, where we have the lowest number of stores in the region. We have e-stores of all our brands in each of the countries in the region. We see development possibilities in value-for-money segment, which opens possibility to develop traditional stores in retail parks. On top, we will continue with omnichannel development.

CEE REGION OVERVIEW (END OF 2021/22)

CEE REGION – STORES & FLOORSPACE BY COUNTRY

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**809**	**976**	**1,075**	**1,144**	**1,177**	**1,149**	**1,122**	**1,109**	**1,051**	**1,046**	**1,154**
Poland	745	886	943	986	1,017	990	959	949	874	866	952
Other CEE	64	90	132	158	160	159	163	160	177	180	202
Floorspace (ths m²)	**309**	**409**	**475**	**545**	**581**	**602**	**635**	**627**	**663**	**712**	**854**
Poland	279	366	414	465	497	514	529	523	530	567	677
Other CEE	30	43	62	80	84	88	106	104	134	145	176

CEE REGION – STORES

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**809**	**976**	**1,075**	**1,144**	**1,177**	**1,149**	**1,122**	**1,109**	**1,051**	**1,046**	**1,154**
Reserved	246	266	286	293	293	286	268	262	256	242	241
Cropp	214	241	256	259	261	253	238	236	214	206	212
House	216	235	233	239	243	236	229	227	210	209	218
Mohito	117	154	167	183	186	181	181	179	169	160	161
Sinsay	-	60	105	136	151	162	183	182	200	229	322
Tallinder	-	-	-	-	9	-	-	-	-	-	-
Outlets	16	20	28	34	34	31	23	23	2	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

CEE REGION – FLOORSPACE

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Floorspace (ths m^2)	**309**	**409**	**475**	**545**	**581**	**602**	**635**	**627**	**663**	**712**	**854**
Reserved	177	216	248	281	301	322	340	333	347	342	350
Cropp	48	60	68	75	77	78	79	78	77	78	85
House	51	62	64	71	74	74	76	76	78	83	92
Mohito	27	44	51	59	60	61	64	64	63	62	64
Sinsay	-	19	35	47	52	57	68	68	96	146	263
Tallinder	-	-	-	-	4	-	-	-	-	-	-
Outlets	6	8	10	12	12	11	8	8	1	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.1.1. Poland

Poland is our anchor market and is going to remain one over the next years. Although dependency has fallen from 79% in 2006 to 39% in 2021/22, the market remains the center of our interest and profits.

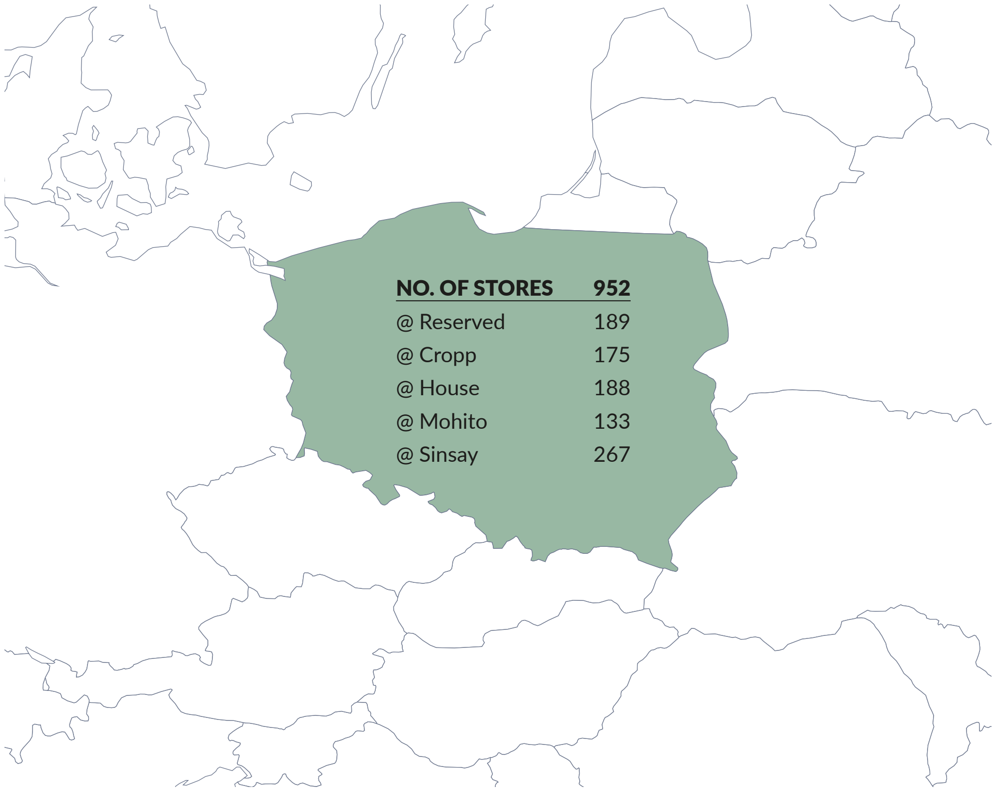
The dominance of the domestic market results from:

- the highest number of stores (952 in 2021/22);
- development of each new brand starting on the core market;
- high sales per square meter as a consequence of strong brand recognition.

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

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

STORES IN POLAND (END OF 2021/22)



NO. OF STORES	952
@ Reserved	189
@ Cropp	175
@ House	188
@ Mohito	133
@ Sinsay	267

POLAND – STORES

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**745**	**886**	**943**	**986**	**1,017**	**990**	**959**	**949**	**874**	**866**	**952**
Reserved	217	233	235	237	236	232	216	212	200	189	189
Cropp	201	222	219	217	219	211	200	198	176	169	175
House	197	211	209	208	212	205	200	199	181	182	188
Mohito	114	144	153	164	166	160	156	154	142	133	133
Sinsay	-	56	99	127	142	152	165	164	173	193	267
Tallinder	-	-	-	-	9	-	-	-	-	-	-
Outlets	16	20	28	33	33	30	22	22	2	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

POLAND – FLOORSPACE

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Floorspace (ths m²)	**279**	**366**	**414**	**465**	**497**	**514**	**529**	**523**	**530**	**567**	**677**
Reserved	156	189	209	233	249	267	273	269	270	268	273
Cropp	45	55	58	63	65	66	67	66	63	64	70
House	46	55	57	62	65	65	67	67	66	71	77
Mohito	26	41	46	52	53	53	54	53	51	50	51
Sinsay	-	18	33	44	49	53	60	60	78	114	207
Tallinder	-	-	-	-	4	-	-	-	-	-	-
Outlets	6	8	10	12	12	10	8	8	1	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.1.2. Other CEE

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

OTHER CEE (EXCL. POLAND) REGION OVERVIEW (END OF 2021/22)

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

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**64**	**90**	**132**	**158**	**160**	**159**	**163**	**160**	**177**	**180**	**202**
Czech Republic	43	66	73	80	80	83	82	79	89	87	102
Slovakia	12	13	48	61	62	57	56	56	57	60	65
Hungary	9	11	11	17	18	19	25	25	31	33	35
Floorspace (ths m²)	**30**	**43**	**62**	**80**	**84**	**88**	**106**	**104**	**134**	**145**	**176**
Czech Republic	21	33	37	43	43	44	48	46	63	65	83
Slovakia	3	4	18	25	28	27	33	33	39	47	56
Hungary	5	7	7	12	14	17	25	25	31	33	37

OTHER CEE REGION (EXCL. POLAND) – STORES

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**64**	**90**	**132**	**158**	**160**	**159**	**163**	**160**	**177**	**180**	**202**
Reserved	29	33	51	56	57	54	52	50	56	53	52
Cropp	13	19	37	42	42	42	38	38	38	37	37
House	19	24	24	31	31	31	29	28	29	27	30
Mohito	3	10	14	19	20	21	25	25	27	27	28
Sinsay	-	4	6	9	9	10	18	18	27	36	55
Outlets	-	-	-	1	1	1	1	1	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

OTHER CEE REGION (EXCL. POLAND) – FLOORSPACE

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Floorspace (ths m^2)	**30**	**43**	**62**	**80**	**84**	**88**	**106**	**104**	**134**	**145**	**176**
Reserved	21	27	39	48	53	55	66	64	77	75	77
Cropp	3	6	10	12	12	12	13	13	14	14	15
House	4	6	6	9	9	9	9	9	13	12	15
Mohito	1	3	5	7	7	8	10	10	12	12	13
Sinsay	-	1	2	3	3	4	8	8	18	33	56
Outlets	-	-	-	0	0	0	0	0	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.2. Baltic region

The Baltic region by which we understand Lithuania, Latvia and Estonia is the second one after CEE where we have reached maturity. We are in all countries of the region. We can see medium to long-term potential for entry into new shopping malls and upgrades of stores in high streets. We are in the process of modernising our floorspace in the region, where we also see growth potential for the value-for-moeny Sinsay brand. We have e-stores of all our brands in each country of the region and similarly to the CEE we focus on omnichannel implementation.

BALTIC REGION OVERVIEW (END OF 2021/22)

BALTIC REGION – STORES & FLOORSPACE BY COUNTRY

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**59**	**58**	**70**	**71**	**73**	**79**	**75**	**71**	**71**	**75**	**73**
Lithuania	25	23	25	26	28	28	23	20	23	23	22
Latvia	14	16	19	19	19	19	19	18	19	20	20
Estonia	20	19	26	26	26	32	33	33	29	32	31
Floorspace (ths m²)	**24**	**27**	**36**	**38**	**40**	**43**	**43**	**41**	**51**	**62**	**62**
Lithuania	10	11	12	14	15	15	13	11	18	18	18
Latvia	6	7	11	11	11	11	11	10	14	19	19
Estonia	8	9	14	14	14	17	20	20	19	24	25

BALTIC REGION – STORES

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**59**	**58**	**70**	**71**	**73**	**79**	**75**	**71**	**71**	**75**	**73**
Reserved	24	24	24	23	23	23	21	19	18	17	16
Cropp	16	15	16	16	16	17	16	15	15	16	16
House	9	8	11	11	11	12	11	11	12	13	13
Mohito	10	10	14	15	16	17	16	15	14	14	12
Sinsay	-	1	5	6	7	10	11	11	12	15	16
Outlets	-	-	-	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

BALTIC REGION – FLOORSPACE

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Floorspace (ths m²)	**24**	**27**	**36**	**38**	**40**	**43**	**43**	**41**	**51**	**62**	**62**
Reserved	16	18	22	23	23	23	24	22	28	31	30
Cropp	4	4	5	5	5	6	6	6	7	9	9
House	2	2	3	3	3	4	4	4	5	6	6
Mohito	2	3	4	5	5	6	6	5	6	7	6
Sinsay	-	0	2	2	2	4	4	4	5	9	10
Outlets	-	-	-	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.3. CIS region

The CIS is the Commonwealth of Independent States, i.e. the countries of the former Soviet Union, which is now a no growth region for us. At the end of 2016, we were only present in Russia and Ukraine. Expansion in Russia was originated in 2002, i.e. only four years after the start of the first Reserved store in Poland. Until the end of 2021/22 the region was the second most important one after CEE, contributing 28% of group revenues. The CIS expansion so far took place in three stages: (1) first was development in the European part of Russia and in Ukraine, (2) the second stage was accelerated expansion especially in Eastern or Asian part of Russia and to a smaller extent in Ukraine, along with appearing possibilities of shopping malls openings in towns with more than 1 million inhabitants; and (3) the slowdown in expansion that we have been experiencing since mid-2014 following the geopolitical issues between Russia and Ukraine. After that moment we noticed potential in this region and went into the fourth stage of our CIS expansion. In April 2017 we opened the first franchise stores of Reserved, Cropp and House in Minsk, Belarus. Mohito and Sinsay stores followed during the year. In 2018 we opened our first own stores in Kazakhstan. In 2018 we also launched e-commerce in Russia. 2019/20 marked the start of e-store of all our brands in Ukraine. At the end of 2021/22 we had 21 own stores in Belarus - we moved away from franchise stores. We had high expectation of the Russian and Ukrainian market, especially for Sinsay development. Yet, after the February 2022 Russian invasion, we closed our Russian stores and disposed of them at the end of April 2022. Our Ukrainian operations are affected by war.

CIS REGION OVERVIEW (END OF 2021/22)

online + offline   online   offline

CIS REGION – STORES & FLOORSPACE BY COUNTRY

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**198**	**272**	**336**	**349**	**368**	**420**	**443**	**436**	**446**	**526**	**753**
Russia	159	219	267	280	296	327	336	333	332	394	553
Ukraine	39	53	69	69	72	88	93	89	104	113	159
Belarus	-	-	-	-	-	5	8	8	0	4	21
Kazakhstan	-	-	-	-	-	-	6	6	10	15	20
Floorspace (ths m²)	**94**	**142**	**180**	**194**	**207**	**247**	**275**	**271**	**322**	**426**	**678**
Russia	76	117	146	158	170	194	206	204	235	314	491
Ukraine	17	26	34	36	37	49	56	54	74	89	142
Belarus	-	-	-	-	-	4	6	6	0	5	22
Kazakhstan	-	-	-	-	-	-	8	8	12	18	23

CIS REGION – STORES

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**198**	**272**	**336**	**349**	**368**	**420**	**443**	**436**	**446**	**526**	**753**
Reserved	69	89	99	101	103	111	116	112	113	111	118
Cropp	63	78	88	89	92	101	105	104	107	118	134
House	33	47	60	63	67	76	79	78	74	82	102
Mohito	33	53	68	71	74	81	81	80	75	76	83
Sinsay	-	1	17	22	30	48	57	57	72	136	314
Outlets	-	4	4	3	2	3	5	5	5	3	2
Esotiq	-	-	-	-	-	-	-	-	-	-	-

CIS REGION – FLOORSPACE

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Floorspace (ths m²)	**94**	**142**	**180**	**194**	**207**	**247**	**275**	**271**	**322**	**426**	**678**
Reserved	55	81	97	103	109	128	145	141	161	164	187
Cropp	19	25	30	32	34	39	43	42	50	61	75
House	10	16	21	22	24	29	30	30	32	39	53
Mohito	10	19	25	26	28	31	32	31	31	32	37
Sinsay	-	0	7	9	12	19	23	23	44	126	325
Outlets	-	1	1	2	1	2	4	4	5	3	1
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.4. SEE region

The SEE region by which we understand the Balkan region is now the sole developing region. We entered Romania in 2008 and Bulgaria in 2009, as CIS region was given priority due to higher growth potential. However, the entry was followed by a prolonged economic crisis. As a result, the financial performance of our stores has been disappointing for many years (some were turned into outlets, some were closed; at the end 2012 there were 11 stores versus 19 at the end of 2011). This changed in 2014, when the economic situation improved and new quality floorspace became available. At the end of 2013 we had 14 stores in Romania and Bulgaria, while 2014 marked the entry to Croatia and the overall store number increased to 31. By the end of 2019/20 this number trippled and reached 145. We entered Serbia in 2017, Slovenia in 2018, Bosnia & Herzegovina in 2019/20 and North Macedonia in 2021/22. We plan further development in the region, also including e-commerce. 2019/20 also marked the start of own e-stores of our brands in Croatia, 2020/21 marked the start of our e-stores in Slovenia, while in 2021/22 we launched our e-store in Bulgaria.

SEE REGION OVERVIEW (END OF 2021/22)

SEE REGION – STORES & FLOORSPACE BY COUNTRY

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**11**	**14**	**31**	**47**	**63**	**69**	**98**	**98**	**145**	**175**	**231**
Bulgaria	6	9	15	15	12	13	18	18	25	26	29
Romania	5	5	11	22	34	35	41	41	59	78	101
Croatia	-	-	5	10	17	18	24	24	29	30	40
Serbia	-	-	-	-	-	3	14	14	21	26	33
Slovenia	-	-	-	-	-	-	1	1	6	9	12
B&H	-	-	-	-	-	-	-	-	5	6	10
North Macedonia	-	-	-	-	-	-	-	-	-	-	6
Floorspace (ths m²)	**7**	**10**	**23**	**34**	**48**	**53**	**81**	**81**	**131**	**170**	**231**
Bulgaria	4	7	11	11	11	11	15	15	23	25	28
Romania	3	3	7	15	26	26	30	30	49	72	97
Croatia	-	-	4	7	12	12	19	19	23	24	36
Serbia	-	-	-	-	-	4	15	15	22	31	38
Slovenia	-	-	-	-	-	-	2	2	8	11	14
B&H	-	-	-	-	-	-	-	-	5	7	11
North Macedonia	-	-	-	-	-	-	-	-	-	-	8

SEE REGION – STORES

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**11**	**14**	**31**	**47**	**63**	**69**	**98**	**98**	**145**	**175**	**231**
Reserved	5	7	12	16	20	22	32	32	38	40	43
Cropp	2	3	6	8	10	10	14	14	23	28	35
House	1	2	4	6	9	9	13	13	21	27	34
Mohito	1	2	7	11	14	15	18	18	24	27	29
Sinsay	-	-	2	6	10	13	21	21	39	53	90
Outlets	2	-	-	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

SEE REGION – FLOORSPACE

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Floorspace (ths m²)	**7**	**10**	**23**	**34**	**48**	**53**	**81**	**81**	**131**	**170**	**231**
Reserved	4	8	15	22	31	34	53	53	68	75	83
Cropp	1	1	2	3	4	4	6	6	13	17	22
House	0	1	2	3	4	4	6	6	12	17	21
Mohito	0	1	3	4	6	6	8	8	12	14	15
Sinsay	-	-	1	2	4	5	8	8	27	46	89
Outlets	1	-	-	-	-	-	-	-	-	-	-
Esotiq	-	-	-	-	-	-	-	-	-	-	-

5.5. WE region

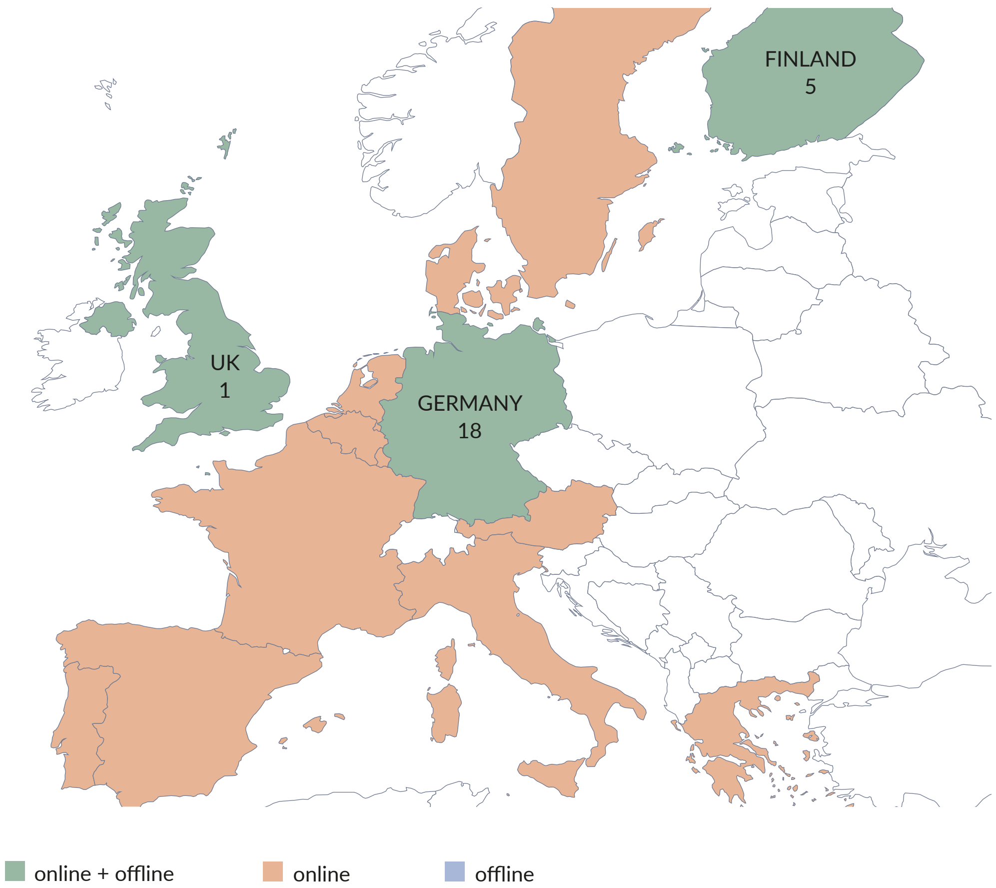
The Western Europe although geographically close to Poland, was not our priority in the past. Firstly, because we saw more opportunities in the East and we thought that 'war on two fronts' was too difficult. Secondly, we thought that the competitive landscape in the West was unlikely to change dramatically,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

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

Germany was the first country that we entered. German entry was unique for us, due to several reasons: (1) the country was first entered via internet store (in July 2014) and only later (September 2014) the first brick-and-mortar store followed; (2) the stores are sizeable (twice the size of an average Reserved store) allowing for the display of the full range of our collections; (3) we started by opening flagships on high streets instead of shopping mall floorspace only and (4) the start was marked by co-operation with international star, Georgia May Jagger. We had 18 stores operating in Germany at the end of 2021/22, restructured after COVID-19.

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

WESTERN EUROPE REGION OVERVIEW (END OF 2021/22)



WE REGION – STORES & FLOORSPACE BY COUNTRY

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2019/20	2021/22
No. of stores	**-**	**-**	**4**	**12**	**16**	**20**	**20**	**20**	**25**	**25**	**24**
Germany	-	-	4	12	16	19	19	19	19	19	18
UK	-	-	-	-	-	1	1	1	1	1	1
Finaland	-	-	-	-	-	-	-	-	5	5	5
Floorspace (ths m²)	**-**	**-**	**8**	**27**	**38**	**48**	**49**	**49**	**56**	**56**	**53**
Germany	-	-	8	27	38	45	46	46	46	46	44
UK	-	-	-	-	-	3	3	3	3	3	3
Finaland	-	-	-	-	-	-	-	-	7	7	7

WE REGION – STORES & FLOORSPACE

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**-**	**-**	**4**	**12**	**16**	**20**	**20**	**20**	**25**	**25**	**24**
Reserved	-	-	4	12	16	20	20	20	21	21	20
Cropp	-	-	-	-	-	-	-	-	1	1	1
House	-	-	-	-	-	-	-	-	1	1	1
Mohito	-	-	-	-	-	-	-	-	1	1	1
Sinsay	-	-	-	-	-	-	-	-	1	1	1
Floorspace (ths m²)	**-**	**-**	**8**	**27**	**38**	**48**	**49**	**49**	**56**	**56**	**53**
Reserved	-	-	8	27	38	48	49	49	52	52	50
Cropp	-	-	-	-	-	-	-	-	1	1	1
House	-	-	-	-	-	-	-	-	1	1	1
Mohito	-	-	-	-	-	-	-	-	1	1	1
Sinsay	-	-	-	-	-	-	-	-	1	1	1

5.6. ME region

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

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

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

MIDDLE EAST REGION OVERVIEW (END OF 2021/22)

ME REGION – STORES & FLOORSPACE BY COUNTRY

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**-**	**-**	**-**	**4**	**6**	**6**	**7**	**7**	**8**	**9**	**9**
Egypt	-	-	-	1	1	1	1	1	1	1	2
Kuwait	-	-	-	1	1	1	1	1	1	1	1
Qatar	-	-	-	1	2	3	2	2	2	2	2
Saudi Arabia	-	-	-	1	1	-	-	-	-	-	-
United Arab Emirates	-	-	-	-	1	1	1	1	1	2	1
Israel	-	-	-	-	-	-	2	2	3	3	3
Floorspace (ths m²)	**-**	**-**	**-**	**5**	**8**	**7**	**7**	**7**	**8**	**10**	**10**
Egypt	-	-	-	2	2	2	2	2	2	2	3
Kuwait	-	-	-	1	1	1	1	1	1	1	1
Qatar	-	-	-	1	2	2	2	2	2	2	2
Saudi Arabia	-	-	-	2	2	-	-	-	-	0	-
United Arab Emirates	-	-	-	-	1	1	1	1	1	2	1
Israel	-	-	-	-	-	-	2	2	3	3	3

ME REGION – STORES BY BRAND

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of stores	**-**	**-**	**-**	**4**	**6**	**6**	**7**	**7**	**8**	**9**	**9**
Reserved	-	-	-	4	6	6	7	7	8	9	9
Floorspace (ths m²)	**-**	**-**	**-**	**5**	**8**	**7**	**7**	**7**	**8**	**10**	**10**
Reserved	-	-	-	5	8	7	7	7	8	10	10

6. Value chain

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

Design	Production	Logistics	Stores	Customers
5 different brands	**93%** goods sourced from Asia	**371 ths m²** of warehousing space	**2,244** stores	**39** countries offline and online
300+ designers	**1,100+** suppliers	**41 m** e-commerce orders handled	**3** continents Europe, Asia, Africa	**412m** clothing items sold annually

6.1. Design

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

The designing process is quite a complex one and starts several months before the clothes hit the stores. Our designers look for inspirations in all possible places.

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

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

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

FASHION CATALOGUES AND LOOKBOOKS
studying publications aiming to predict the main trends in upcoming seasons.

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

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

Design centres in 3 largest cities in Poland

GDAŃSK

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

WARSAW

- Design centre responsible for Reserved.

CRACOW

- Design centre for House and Mohito brands.

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

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

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

Preparation of project models and sending documentation to suppliers

1. Analysis of previous seasons and determination of demand
2. Inspirational meeting
3. Preparation of projects
4. Projects sent to suppliers

Placing orders for models (price, dates, quality, quantity)

5. Evaluation of designs prepared by suppliers
6. MSM (meeting to decide on orders)
7. Sending comments to suppliers
8. Placing orders and negotiating terms of a contract

Coordination of production

9. Production monitoring

Shipping, display and sale of models

10. Allocation, organization of delivery and transportation
11. Visual merchandising
12. Sale and customer service
13. Replenishment

Introduction of sell-offs and withdrawal of unsold products

14. Competition price survey
15. Price adjustments in seasonal sell-offs
16. Changing seasons and withdrawal of the end of line products

6.2. Production

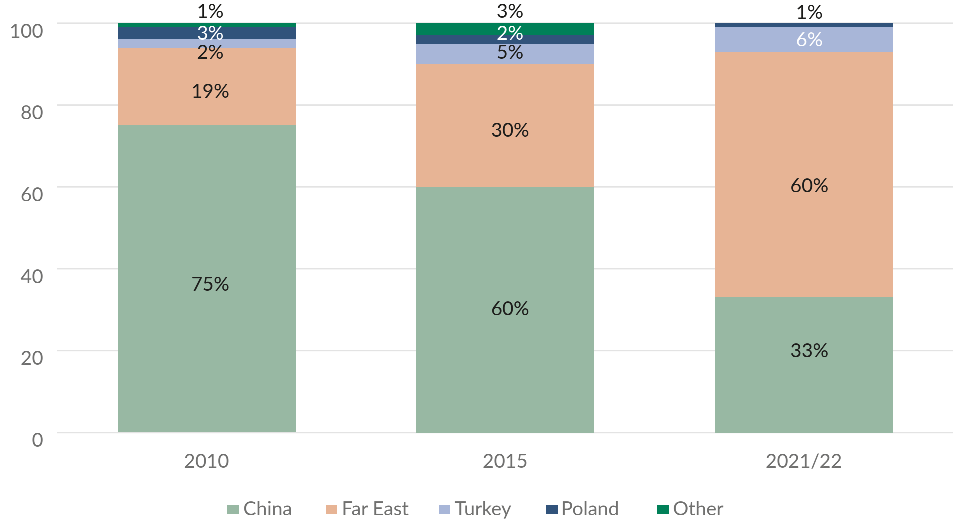
We run a lean business model and thus do not own factories. Production is sourced mostly from the Far East. Bangladesh constitutes 39.5%, China 33.4%, of our supplies while the remaining Far East countries 20%. These are Cambodia, Myanmar, Pakistan, India. 6.0% of our production is sourced from Turkey. We will continue to look for favourable new sourcing countries.

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

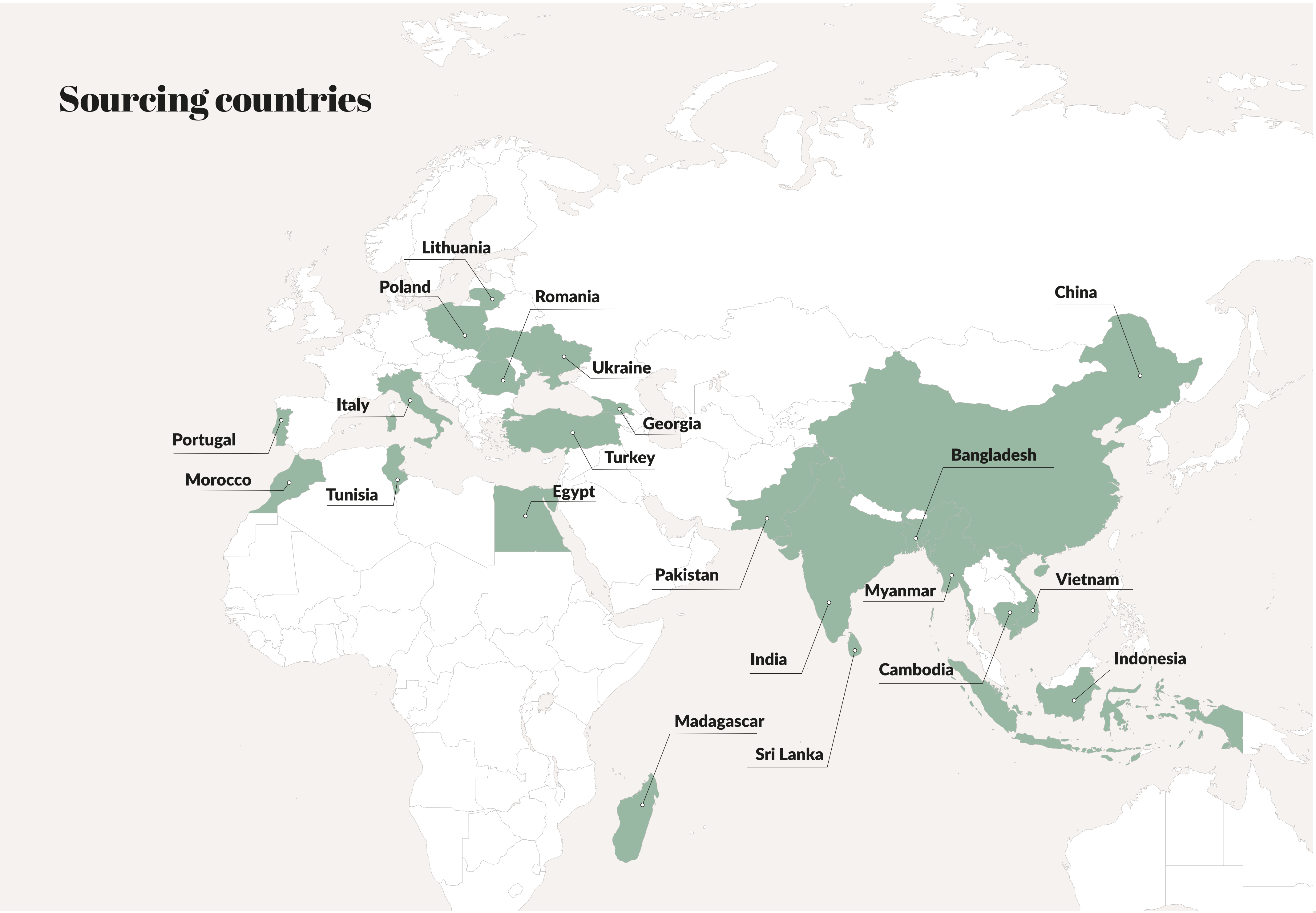
The production process is dependent on the outcome of the designing process. Once designs have been approved, an Ordering Application is created in LPP's IT system. It indicates the amount of pieces to be produced for each model, in which stores the clothing is to be sold as well as the required delivery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

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

CHANGES IN PRODUCTION SPLIT



Sourcing countries



6.3. Logistics

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

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

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

FULFILLMENT CENTRES

STRYKÓW	GDAŃSK	ROMANIA	SLOVAKIA	PODKARPACIE
46 ths m²	30 ths m²	43 ths m²	32 ths m²	69 ths m²
e-commerce, rented	e-commerce, rented	e-commerce, rented	e-commerce, rented	e-commerce, planned

DISTRIBUTION CENTRES

PRUSZCZ GDAŃSKI	BRZEŚĆ KUJAWSKI
100 ths m²	75 ths m²
traditional stores, owned	traditional stores, owned

At the end of 2021/22 there was also a Distribution Centre near Moscow for traditional stores and an FC for e-commerce. These were sold together with Russian stores.

Deliveries to stores take place every day, yet a store obtains new goods on average every 2 to 3 days. We do not own transportation vehicles. The logistics process is outsourced to couriers. To all countries the goods are delivered from Pruszcz Gdański or Brześć Kujawski. The two possessed distribution centres responsible for the traditional stores differ from one another. The Pruszcz Gdański centre is owned and is located on a plot of land owned by LPP. The location in Gdańsk proximity is highly convenient for the marine transportation used. The centre's size was expanded in 2015 and in 2020. When built in 2007, the centre had 30.5 ths m², its expansion added 35.5 ths m², while after its second expansion its floorspace amounts to 100 ths m². The Moscow centre, on the contrary, was rented only and it had a floorspace of 15 ths m². The centre was disposed of together with the Russian stores. Our new distribution centre in Brześć Kujawski has already been launched. We are now planning another distribution centre in the Podkarpackie region.

TECHNICAL PARAMETERS (PRUSZCZ GDAŃSKI)

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

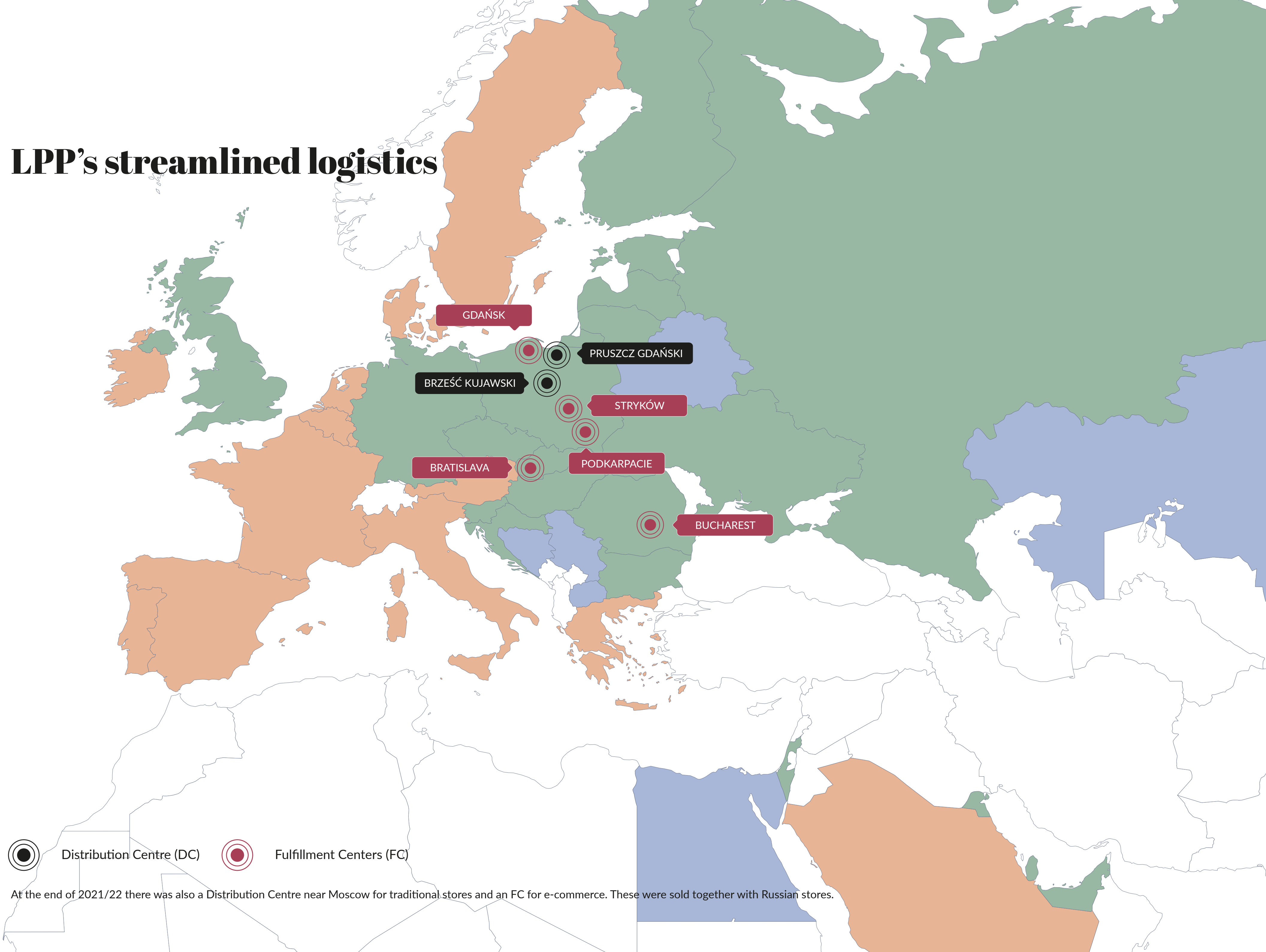
TECHNICAL PARAMETERS (BRZEŚĆ KUJAWSKI)

8 m items sent weekly (maximum capacity)	**2** automatic sorters (possibility of simultaneous delivery up to 1,000 stores)	**40 m** items of clothing stored in the system rack	**700+** workers in distribution centre

MINILOAD (PRUSZCZ GDAŃSKI)

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

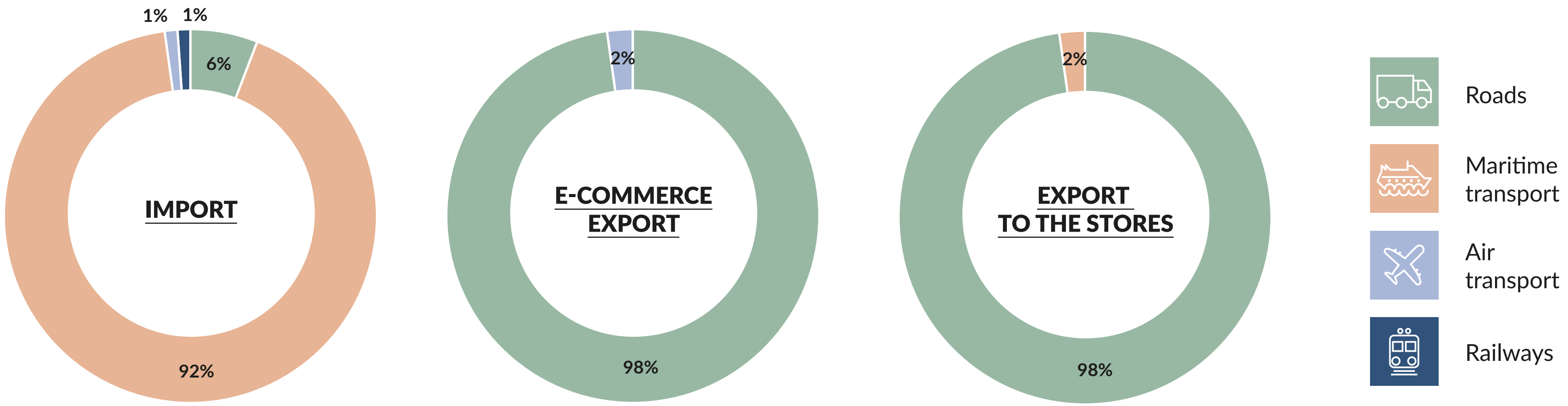
LPP's streamlined logistics



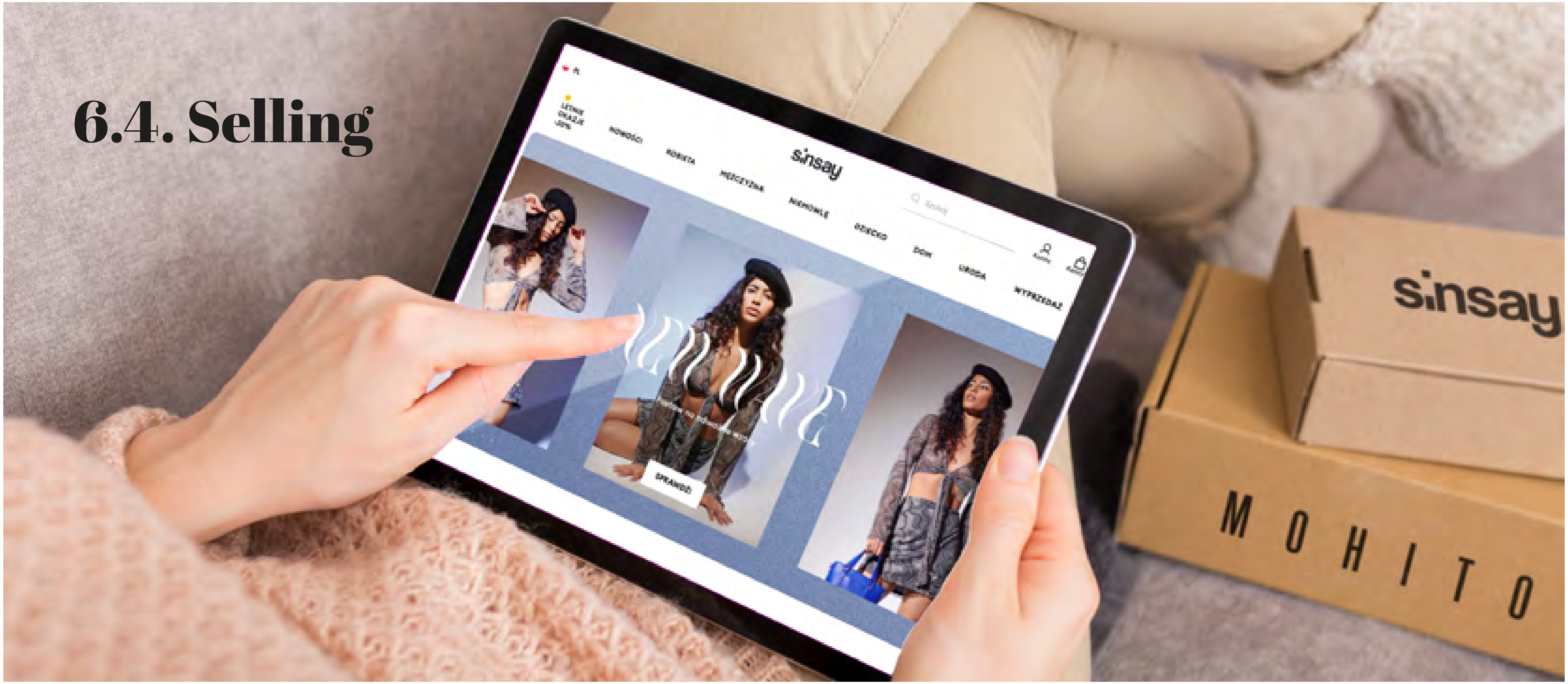
At the end of 2021/22 there was also a Distribution Centre near Moscow for traditional stores and an FC for e-commerce. These were sold together with Russian stores.

Share of different modes of transportation in 2021/22

(by the number of items shipped)



6.4. Selling



Internet

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

Stores

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

Omnichannel

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

We focus on modern store concepts

RESERVED

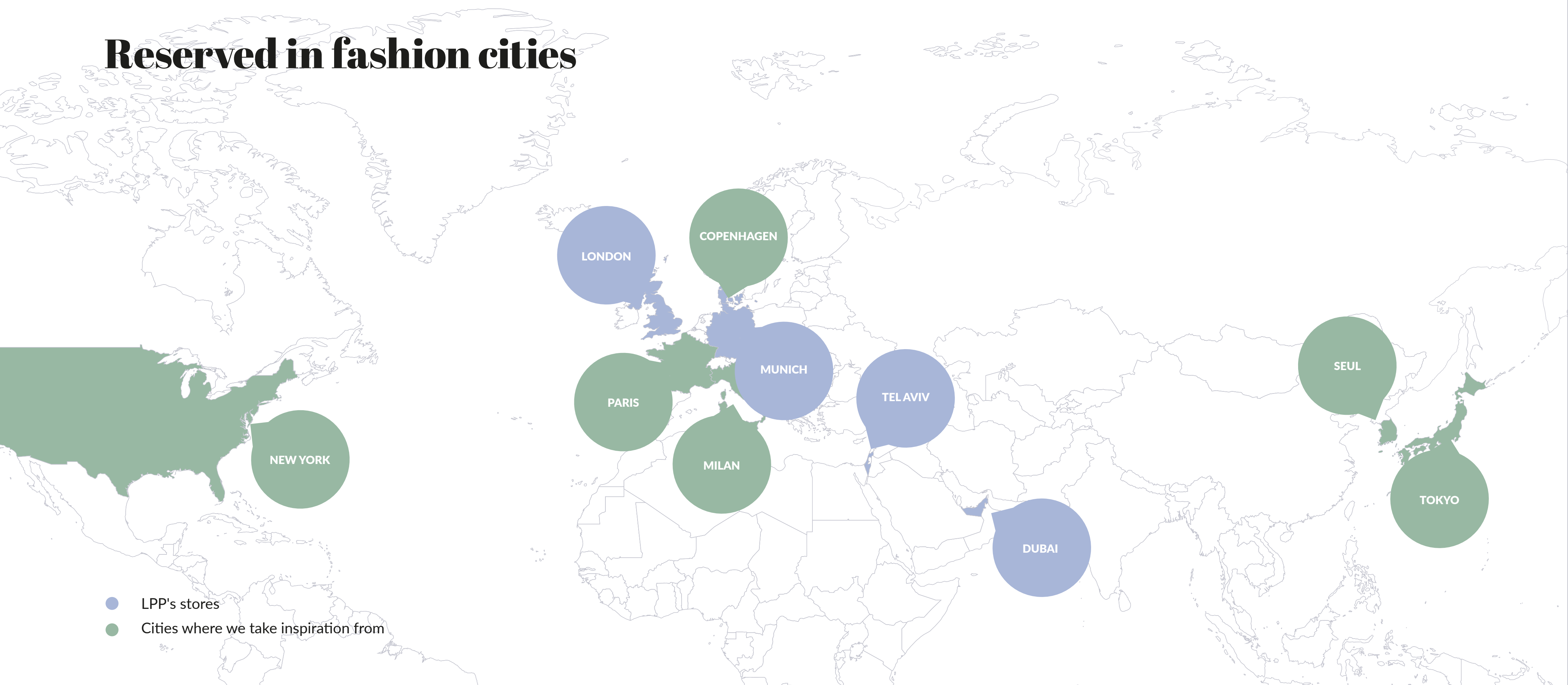
CROPP

house

MOHITO

sinsay

Reserved in fashion cities




Tel Aviv, Israel


Munich, Germany


London, UK


Dubai, United Arab Emirates

6.5. Advertising

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

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

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

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

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

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

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

LPP's selected fashion campaigns

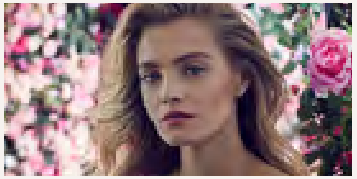
SS08

Star collection with
Paprocki & Brzozowski

AW08/09

Star collection with
Gosia Baczyńska

AW10/11



Anna Jagodzińska

Karmen Pedaru

SS11/ AW11/12

Magdalena Frąckowiak

Sasha Pivovarowa

SS12 / AW12/13

Anna Vialicyna

Julia Stegner

SS13 / AW13/14

Cara Delevingne

Freja Beha Erichsen

SS14

Frida Gustavsson

AW14/15

Georgia May Jagger

Anja Rubik

SS15

Georgia May Jagger
star collection

Elizabeth Jagger

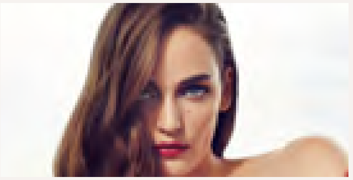
Jerry Hall

Brooklyn Beckham

AW15/16

Georgia May Jagger

Zuzanna Bijoch



SS16 / AW16/17

Anna Jagodzińska

Magdalena Frąckowiak

AW17/18

Kate Moss

Irina Shayk

SS18/ AW18/19

Cindy Crawford

Joanna Kulig

AW19/20

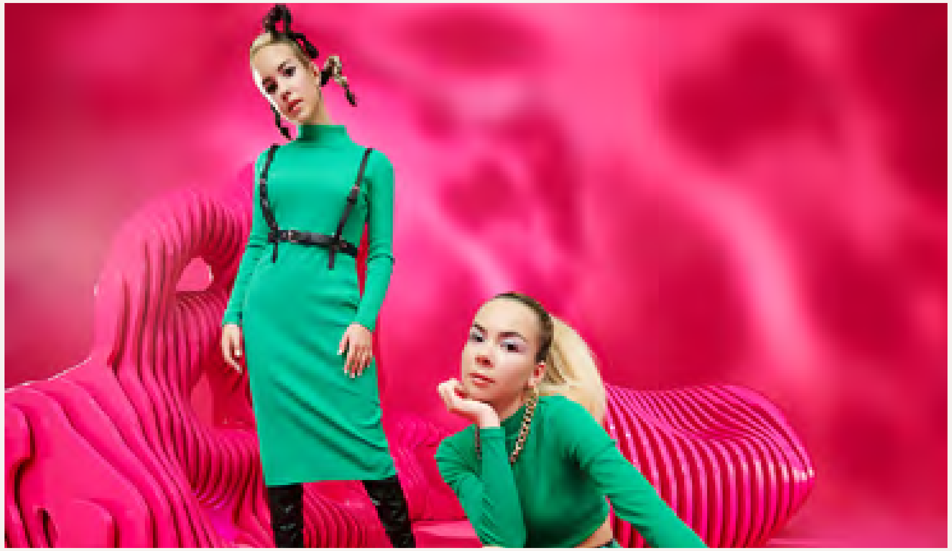
Kendall Jenner

Marketing changes along with our customers

Monika Brodka

RESERVED

Cooperation with Polish artists to promote extravagant but ECO clothing



Kinga Sawczuk i Antonina Flak

CROPP

Cooperation with 2 top Polish generation Z TikTok influencers – Kinga Sawczuk @ kompleksiaraxx and Antonina Flak @samosiaa_yt.

Magda Mołek

RESERVED

A series of podcasts run by a Polish journalists and youtuber touching on topics important for generation X, Y and Z.

7. Business model

Below we present an in-depth description of our business model and details on how our financial results are generated. Please note that two important changes took place in the way we present our financials. The first one encompassed a change in our fiscal year which moved away from calendar year. 2019/20 was the only 13-month-long year in our history. Data shown from 2020/21 include 12-months of audited financials. The second change encompassed introduction of IFRS16 from January 1, 2019, which replaced IAS17. As a result, majority of our operating leases were reclasified into finance leases.

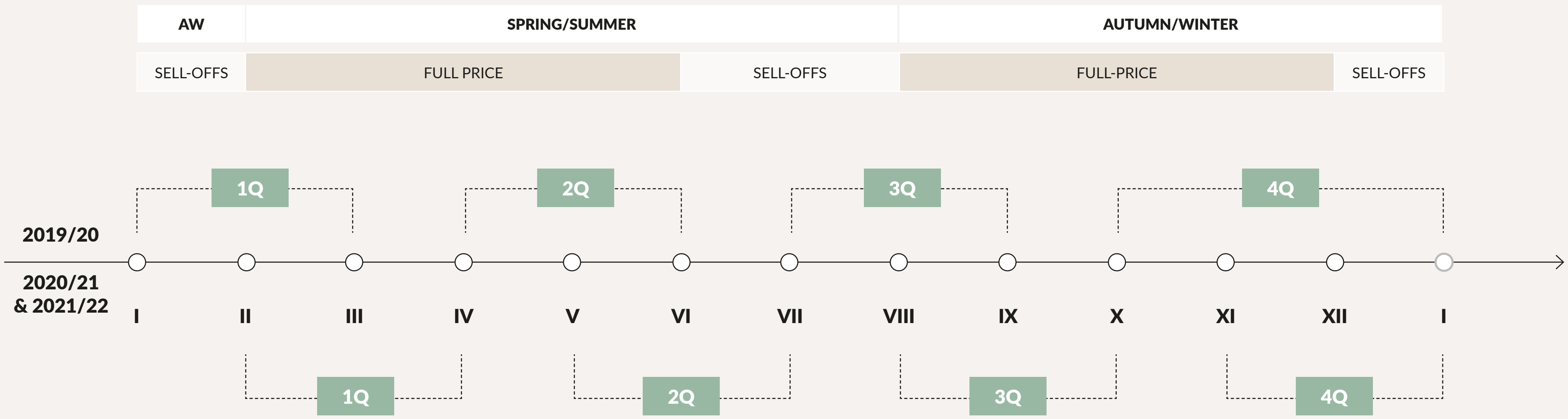
Fiscal year 2019/20 was the only 13-month-long year.

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

2020/21 and 2021/22 fiscal year were 12-month-long.

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

Change in the fiscal year from 2019



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

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

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

7.1. Revenues

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

7.1.1. Store revenues

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

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

GROUP REVENUES

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20 (13M)	2020/21	2021/22
Revenues (PLN m)	3,224	4,116	4,769	5,130	6,019	7,029	8,047	8,756	9,899	7,848	14,030
YoY growth	29%	28%	16%	8%	17%	17%	14%	-	13%	-21%	79%
Revenues/m² monthly (PLN)	675	664	589	536	575	628	662	657	671	500	715
YoY growth	11%	-2%	-11%	-9%	7%	9%	5%	-	2%	-25%	43%
Store revenues	3,054	3,921	4,560	4,937	5,703	6,571	7,235	7,776	8,569	7,760	9,977
YoY growth	29%	28%	16%	8%	16%	15%	10%	-	10%	-9%	29%
E-commerce	6	27	65	79	173	361	712	802	1,174	2,229	3,961
YoY growth	46%	343%	143%	22%	118%	108%	97%	-	46%	90%	78%
Wholesale revenues	164	169	145	114	143	97	100	178	156	88	92
YoY growth	31%	3%	-14%	-22%	26%	-32%	2%	-	-12%	-43%	4%

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

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

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

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

7.1.2. E-commerce

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

7.1.3. Wholesale

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

GROUP LFLS

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
LFLs	11.3%	5.6%	-2.5%	0.6%	6.4%	10.1%	7.2%	7.8%	3.6%	-38,0%	55.8%

7.2. Gross profit margin

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

The largest cost is the cost of suppliers. We do not own factories and thus look for the most attractive sources of clothes and accessories among third parties. Such an approach gives us flexibility to react to changing macroeconomic conditions and lowers cash outlflows (no construction capex needed). China has been our most important supplier since the company's inception. However, we have not produced in the same place over the years. Our office in Shanghai, supervising the production, is constantly on the lookout for new suppliers or better offers, taking the growing production quantities into account. Over the past years, we have been diversifying our production sourcing into other Far East countries. In 2021/22 Bangladesh sourcing exceeded this from China. The key reason is growing prices in China and its orientation on more sophisticated and value added production (e.g. we do not source simple T-shirts from China). Other countries that we produce in are: Bangladesh, Cambodia, Myanmar, Pakistan, India. Overall, the Far East constituted c. 90% of our supplies. The rest is almost entirely split between Turkey and Poland.

2021/22 CUSTOMS DUTIES BY COUNTRIES

Bangladesh	0%	Myanmar	0%
Cambodia	0%	Pakistan	0%
China	12%	Thailand	12%
India	9.6%	Vietnam	10%
Indonesia	9.6%	Turkey	0%

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

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

Although historically, the costs of freight have not been a sizeable component of the gross profit margin, their importance is on the rise. We have started experiencing sizeable growth in freight costs as well as their availability since 2Q21/22, followed by disturbances in supply chains from Asia.

The gross profit margin is affected not only by the US$/ PLN relationship, but also by competitive pressure (the decisions of competitors), the affluence of customers and their propensity to consume, by the collections (whether or not they meet the needs of the customers) as well as a growing share of Sinsay in revenues (the brand bears lower margins than other brands).

The gross profit margin varies between quarters. We used to have high margins in the second and the fourth quarter when we sell our collections in full prices. That has now changed with the shifted fiscal year. In 2H16 we introduced a new inventory management policy. As a result, we tend to minimise the number and scale of sell-offs after the arrival of new collections, but tend to maximise the amount of goods sold during the sell-off months. Post-season inventory is sold to third parties and does not return to our stores. In December 2016 we sold off obsolete inventory to improve our cash flows and lower inventory levels. Without this transaction, 2016 gross profit margin would come in at 50.8%. In 2017 our gross profit margin increased to 53.0% along with successful Reserved brand restructuring, while in 2018 it reached the level of 54.7%. In 2019/20 gross profit margin came in at 52.0%, down 0.9 pp. YoY. Decrease in gross margin despite good acceptance of the SS19 and AW19 collections, was due to negative impact of weather in May and December 2019, high US$ as well as a higher Sinsay share in revenues (gross margin lower than at other brands). 2020/21 gross profit margin has been affected by pandemics, while in 2021/22 we have recorded sizeable gross profit margin growth due to, among others, delayed demand and favourable purchase prices.

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

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

GROSS PROFIT MARGIN

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20 (13M)	2020/21	2021/22
Gross profit (PLN m)	1,827	2,409	2,793	2,743	2,934	3,727	4,401	4,628	5,146	4,084	8,107
YoY growth	28.3%	31.9%	15.9%	-1.8%	7.0%	27.0%	18.1%	-	11.2%	-17.3%	98.5%
Gross profit/ m^2 monthly (PLN)	403	405	356	293	280	333	358	347	349	260	413
YoY growth	10%	0%	-12%	-18%	-4%	19%	8%	-	0%	-26%	58.5%
Gross profit margin	56.7%	58.5%	58.6%	53.5%	48.7%	53.0%	54.7%	52.9%	52.0%	52.0%	57.8%
USD/PLN average rate	3.26	3.16	3.15	3.77	3.94	3.78	3.61	3.62	3.84	3.89	3.89

IFRS16 application from 2019

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

Balance sheet	Income statement	Cash flow statement
▪ Higher assets due to recognition of right-of-use asset. ▪ Higher financing liabilities. ▪ Only basic rental agreements within the scope of IFRS16 (no additional charges, no floating rates).	▪ Some half of rental expenses were initially recognised under IFRS16. ▪ Higher depreciation, equal to the amount of rentals excluded from EBIT. ▪ Higher financial costs. FX differences on foreign-denominated lease liabilities.	▪ Operating cash flow: growth due to higher depreciation charge. ▪ Financing cash flow: higher costs, lease payments.
+ ASSETS / +LIABILITIES	**++ EBITDA /+EBIT**	**+ OPERATING CASH FLOWS**

IFRS16 impact summary on 2021/22 numbers

EBITDA	PLN 599.3m of additional amortisation of right-of-use asset.
EBIT	56% of rentals under IFRS16 (PLN 659.5m).
NET INCOME	Financial income related to the asset (PLN 139.9m) and FX gains (PLN 3.9m). PLN 9.0m impact of deferred taxes.

7.3. SG&A costs

Apart from COGS our costs also comprise of SG&A costs (selling and general administration costs). However, we believe that our business model is easier to understand if we split the operating costs into costs of stores and costs of headquarters. For managerial purposes we look at costs at the per sqm basis and suggest a similar approach while analysing and forecasting our results. We are constantly working on improving the SG&A/m² ratio on a monthly basis. These have reached PLN 300 in 2012 and PLN 305 in 2021/22, despite inflation and growing salaries. Costs of stores dominate over costs of headquarters. Costs of stores took up 53% in 2021/22 SG&A costs, leaving 47% for HQ.

One of the characteristics of our business is a high operating leverage. 41% of our SG&A costs are variable while as much as 59% are fixed (IAS17), i.e. this portion of operating costs does not change along with changes in revenues. The high operating leverage is favourable for us in moments of positive LFLs and growing sales, as the positive effect on EBIT is more than proportional. However, in times of slowdown and falling LFLs the operating leverage is working against us, requiring cost reductions to maintain EBIT levels. Still, due to growing share of online in our revenues we gradually switch from SG&A/m² approach to calculating SG&A as percentage of revenues. It is our ambitious aim to keep this ratio around 40% in the future.

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

RENTAL COSTS (36% in 2021/22 costs of own stores) are typically denominated in EUR (72%), however other currencies also appear: 9% US$ (mostly in CIS), overall 19%: RUB, PLN and CZK. The rental formulas tend to be complex and include a fixed and a floating element. The contracts we sign tend to have a fixed floor value which is paid until a certain level of store revenue is reached. Once the stipulated threshold is crossed, a certain percentage of turnover is paid to the landlord. As a result, we share to a larger extent with our landlord in times of economic prosperity, yet we have to cope with fixed cost in times of slowdown. We continuously work on more favourable rental levels, both domestically and abroad. This became especially important to us during the COVID-19 pandemics.

SG&A COSTS

									IFRS16		
	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20 (13M)	2020/21	2021/22
SG&A costs (PLN m)	1,361	1,759	2,148	2,192	2,609	3,100	3,532	3,822	4,213	3,848	5,961
YoY growth	27%	29%	22%	2%	19%	19%	14%	-	10.2%	-2.3%	54.9%
SG&A/m² monthly (PLN)	300	296	274	234	237	280	291	287	289	247	305
YoY growth	9%	-1%	-8%	-14%	1%	11%	4%	-	1%	-15%	23%
% of sales	42%	43%	45%	43%	43%	44%	44%	44%	43%	42%	42%
Costs of stores (PLN m)	1,075	1,423	1,731	1,780	2,080	2,377	2,555	2,751	2,959	2,355	3,158
YoY growth	29%	32%	22%	2%	17%	14%	7%	-	8%	25%	34%
Costs of headquarters (PLN m)	286	336	417	411	528	723	977	1,071	1,254	1,492	2,803
YoY growth	21%	17%	24%	2%	28%	37%	35%	-	17%	-14%	88%

HR COSTS (29% in 2021/22 costs of own stores) are costs of employees working in our stores, both domestically and abroad. We try to optimize the number of employees per store. Although this differs from brand to brand (large Reserved stores versus medium size of other brands) on average there are 12 people per store. Their remuneration consists of a fixed and a variable portion, with the fixed portion being usually the minimum wage while the variable portion depending on the revenues of the store. We often recruit students to our stores for whom this is the first job.

OTHER COSTS OF STORES (35% in 2021/22) include many items like costs of media and electricity, security of the stores, payment card commission, depreciation (the largest part - half of the whole amount). Capex for the stores is depreciated over a 7-year period.

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

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

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

EMPLOYEES DATA

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
No. of group employees	12,014	15,854	19,970	21,563	25,106	25,635	25,174	24,588	24,447	21,977	31,808
Employees in Poland	8,198	10,515	12,767	13,894	16,239	14,736	14,294	13,827	14,061	11,578	15,144
- office & warehouse	1,370	1,651	2,039	2,200	2,708	3,320	3,347	3,414	3,776	3,486	3,101
- stores	6,828	8,864	10,728	11,694	13,531	11,416	10,947	10,413	10,285	8,092	12,043
Employees abroad	3,816	5,339	7,203	7,669	8,867	10,899	10,880	10,761	10,386	10,399	16,664
- office	331	383	455	454	486	539	501	550	625	714	1,263
- stores	3,485	4,956	6,748	7,215	8,381	10,360	10,379	10,211	9,761	9,685	15,401

7.4. EBIT

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

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

EBIT

									IFRS16		
	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20 (13M)	2020/21	2021/22
EBIT (PLN m)	**454**	**616**	**609**	**503**	**226**	**578**	**757**	**688**	**806**	**153**	**1,479**
YoY growth	32%	35%	-1%	-17%	-55%	155%	31%	-	17%	-83%	866%
EBIT margin	14%	15%	13%	10%	4%	8%	9%	8%	8%	2%	11%

7.5. Net financials line

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

7.5.1. Interest payments

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

7.5.2. FX differences

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

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

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

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

NET FINANCIALS

									IFRS16		
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2018/19**	**2019/20 (13M)**	**2020/21**	**2021/22**
Net financials (PLN m)	**-30**	**-92**	**-149**	**-88**	**-32**	**-15**	**-33**	**-31**	**-140**	**-270**	**-247**
Financial income	2	2	3	2	1	5	8	9	11	72	26
Financial costs	32	94	152	90	34	20	41	41	151	341	273

7.6 Taxes

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

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

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

2021/22 TAX RATES BY COUNTRIES

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

TAXES

PLN m	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21	2021/22
Taxes	**70**	**91**	**-22**	**63**	**19**	**123**	**219**	**214**	**244**	**74**	**278**
Current taxation	72	97	95	56	27	135	231	235	212	121	518
Deferred taxation	-2	-6	-117	7	-7	-12	-12	-21	32	-47	-240
Effective tax rate	17%	17%	-5%	15%	10%	22%	30%	33%	37%	-63%	23%

7.7. Net profit

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

NET INCOME

	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21	IFRS16 2021/22
Net income (PLN m)	**352**	**431**	**480**	**351**	**175**	**441**	**505**	**442**	**421**	**-190**	**954**
YoY growth	31%	22%	11%	-27%	-50%	152%	15%	-	-5%	N/M	N/M
Net margin	11%	10%	10%	7%	3%	6%	6%	5%	4%	-2%	7%

7.8. Cash cycle

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

Net working capital is defined as trade receivables plus inventories minus trade liabilities. Once these are translated into days, the formula defines a cash conversion cycle. Please note that in calculations we use a 365 day year and average values of inventory, receivables and liabilities. Due to a long lead time of production in the Far East, the net working capital used to take away from our operating cash flows. This was because we sold the inventory slower than we paid our liabilities. This has changed since 2016 when we started introducing supply chain financing, which has been growing YoY.

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

Inventory consists of three elements: (1) goods in transit – from factories to the final port (FOB, i.e. Free on Board, method used), (2) goods in the warehouse, (3) goods in stores. The nominal level of inventory has been growing and may continue to do so. This results from ongoing network expansion – each new store increases the demand for working capital as more goods need to be ordered. Thus, it is more practical to look at inventory from a per square meter perspective. For analysis we use end-of-period group floorspace with exception of the ME and Belarus franchise stores (Belarus until the end of 2019/20). This ratio has been relatively stable in the past though appreciating US$ versus zloty puts a pressure on working capital and increases the value of inventory held and inventory ratios. Over the past years inventory days have oscillated around 150 days. That is however now also changing (now inventory day comes in between 180-190 days) as fast growing internet operations are blurring the per sqm picture.

The level of liabilities depends on Far East purchases. We rarely use letter of credits or bank transfers now and mostly concentrate on supply chain financing. Goods are ordered 3-4 months in advance of their shipment and the latter takes up to 30-40 days to Poland. Our liabilities cycle grew from below 100 days to over some 244 days.

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

CASH CYCLE

	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21	2021/22
Net working capital (PLN m)	309	421	538	713	448	350	155	-27	-36	-605	-958
Receivables	130	163	177	115	165	200	122	104	144	158	246
Inventory	656	805	979	1,320	1,164	1,473	1,590	1,210	1,921	2,074	3,864
Liabilities	478	548	619	721	881	1,323	1,557	1,341	2,101	2,837	5,068

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Cash cycle (days)	66	60	70	84	61	33	16	11	-1	-34	-56
Receivables (days)	14	13	13	10	9	9	7	7	5	7	5
Inventory (days)	163	156	165	176	147	145	153	129	146	194	183
Liabilities (days)	112	110	108	102	95	122	144	125	152	235	244

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

SUPPLY CHAIN FINANCE - SCF (SUPPLIER FINANCING PROGRAMME)

BENEFITS FOR LPP

- Extended payment periods on invoices for goods purchased.
- Net working capital and operating cash flows improvement.
- No cost for LPP – cost is included in discount rate used.

BANKING PLATFORM

BENEFITS FOR SUPPLIERS

- Possibility to discount invoices for LPP before the payment deadline (low discount rate based on LPP's standing).
- No impact on credit ability.
- Lower cost than banking debt.

PLN 3.3BN POSITIVE EFFECT AT THE END OF 2021/22.

7.9. Capex

SPLIT OF CAPEX

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

CAPEX ON STORES: Outlays include costs of setting up new stores in shopping malls, retail parks and high streets as well as costs of refurbishing and upgrades. The majority of outlays is conducted for new stores. Maintenance capex (understood as rebuilts and extentions) constitutes c. 10% of all store capex spending. Our capex spending is reduced by fit-outs from shopping mall developers. Our target capex is now close to PLN 3,700/m² and may go up due to inflation in materials and services. It should also be noted that capex per sqm meter is calculated not on net additions (difference in end-of-period values) but on gross floorspace additions (not made public). In 2019/20 we incurred higher than historical level of store capex. This was not only related to larger network but also a sizeable portion of our store rental agreements expiring. We have decided to thoroughly renew these stores that are to remain.

CAPEX ON LOGISTICS: Historically, this capex line was oriented on the Pruszcz Gdański Distribution Centre. There were two waves of the outlays. The first when the new Distribution Centre was built. The second one, when the distribution centre was expanded (finished in 2Q15). Construction cost PLN 120m, while expansion PLN 177m. The DC was also expanded in 2019/20. We have decided to locate the next distribution centre in Brześć Kujawski, which is now operational, adding to capex in the past years.

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

FIT-OUTS

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

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

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

HEADQUARTERS

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

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

Further expansion was needed and contrary to the old buildings, new ones are built from scratch on a nearby plot of land. The first building has already been erected, while the others are under construction.

CAPEX

									IFRS16		
	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20 (13M)	2020/21	2021/22
Capex (PLN m)	**288**	**542**	**551**	**491**	**272**	**442**	**799**	**932**	**1,004**	**825**	**1,325**
Stores	272	455	386	392	230	376	489	620	729	622	912
Logistics	4	56	100	31	5	5	181	180	133	71	275
Other	13	30	65	67	37	61	129	132	142	132	138
YoY growth	123%	88%	2%	-11%	-45%	62%	81%	-	8%	-13%	61%
% of sales	9%	13%	12%	10%	5%	6%	10%	11%	10%	9%	9%

Infrastructure spending for 2022/23

PLN m	2022/23
Stores	630
Offices	80
Logistics	220
IT & Other	70
TOTAL	**1,000**

7.10. Net debt versus dividend

We use debt in financing our growth in order to: 1) speed-up our development, 2) increase ROE and 3) lower WACC (weighted average cost of capital). Short-term debt is used to finance net working capital charges and store openings. Long-term debt is related to longer tenure projects, mostly financing of distribution centre expansion and refurbishing of the headquarters and financing new store openings. Historically, debt was also used to acquire our competitor Artman. Currently, we use bank debt yet to a lower extent and do not have any corporate bonds outstanding. Our banking exposure is split into several large banks in Poland. Debt is taken at the parent company level (centralisation). Exemption is made for Ukraine subsidiary. Due to cash generation of the business in 2017 we have moved from net debt to net cash and we have doubled the net cash position in 2019/20 versus 2017 levels. The net cash levels continued. Usage of debt and fast floorspace growth have not stopped us from dividend payments. The first dividend was paid from 2009 earnings in 2010. Dividend per share has grown at a 2010-14 CAGR of 17%, picking up from PLN 50 to PLN 93.6. The external turbulences in 2014-16 have led us to the decision to cut the dividend payment in 2015 (DPS of PLN 32 from 2014 earnings) and in 2016 (DPS of PLN 33 from 2015 earnings). Since then dividends have been on the rise, reaching PLN 60 per share and PLN 110.1m from 2018 earnings, paid out in June 2019. No dividend was paid from 2019/20 earnings due to negative impact of COVID-19. PLN 834m dividend from retained earnings was approved by AGM in June 2021. The first of equal tranches was paid in July 2021. The second was paid in October 2021. We continued dividend payments in tranches in 2022.

NET DEBT

IAS17	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Net debt (PLN m)	27	209	399	621	144	-316	-753	-841	-789	-272	-381
Cash and equivalents	159	149	184	224	366	515	1,045	1,070	1,361	1,278	1 355
Long-term debt	125	184	204	284	195	142	89	84	463	485	439
Short-term debt	61	174	378	561	315	56	203	145	109	521	535
Net debt/EBITDA (x)	0.0	0.3	0.5	0.9	0.3	-0.4	-0.7	-0.7	-0.6	-0.4	-0.2
Dividends (PLN m)	140	154	170	58	60	66	73	73	110	-	834
YoY growth	4%	10%	10%	-66%	3%	9%	12%	-	50%	N/M	N/M

Note: Dividends are shown under the year paid.

7.11. Goodwill

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

GOODWILL

									IFRS16		
PLN m	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Intangible assets	18	20	29	37	44	64	90	93	126	136	144
Goodwill	184	184	210	210	210	210	210	210	210	183	183
Trademark	78	78	78	78	78	78	78	78	78	78	78
Equity	1,211	1,496	1,638	1,890	2,135	2,443	2,861	2,816	3,247	3,068	3,272
Tangible equity	932	1,215	1,323	1,565	1,804	2,092	2,484	2,436	2,834	2,671	2,867
Assets	1,932	2,492	2,934	3,565	3,678	4,207	5,381	7,906	9,606	10,354	14,135

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

8. Financials

CONSOLIDATED INCOME STATEMENT

PLN m	2012	2013	2014	2015	2016	2017	2018	2018/19	IFRS16 2019/20 (13M)	IFRS16 2020/21	IFRS16 2021/22
Revenues	3,224	4,116	4,769	5,130	6,019	7,029	8,047	8,756	9,899	7,848	14,030
COGS	1,397	1,707	1,977	2,388	3,085	3,302	3,645	4,128	4,754	3,764	5,922
Gross profit	**1,827**	**2,409**	**2,793**	**2,743**	**2,934**	**3,727**	**4,401**	**4,628**	**5,146**	**4,084**	**8,107**
SG&A costs	1,361	1,759	2,148	2,192	2,609	3,100	3,532	3,822	4,213	3,848	5,961
Other operating line	-12	-34	-35	-48	-99	-42	-113	-118	-127	-83	-667
EBIT	**454**	**616**	**609**	**503**	**226**	**578**	**757**	**688**	**806**	**153**	**1,479**
Net financials	-30	-92	-149	-88	-32	-15	-33	-31	-140	-270	-247
Taxes	70	91	-22	63	19	123	219	214	244	74	278
Minorities & discontinued operations	2	2	2	0	0	0	0	0	0	0	0
Net income	**352**	**431**	**480**	**351**	**175**	**441**	**505**	**442**	**421**	**-190**	**954**
Depreciation	109	148	194	224	267	293	349	427	1,094	1,018	1,148
EBITDA	**563**	**764**	**803**	**726**	**494**	**872**	**1,106**	**1,115**	**1,899**	**1,171**	**2,627**

CONSOLIDATED INCOME STATEMENT, YOY DYNAMICS

									IFRS16		
PLN m	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20 (13M)	2020/21	2021/22
Revenues	29%	28%	16%	8%	17%	17%	14%	-	13%	-21%	79%
COGS	31%	22%	16%	21%	29%	7%	10%	-	15%	-21%	57%
Gross profit	**28%**	**32%**	**16%**	**-2%**	**7%**	**27%**	**18%**	**-**	**11%**	**-21%**	**99%**
SG&A costs	27%	29%	22%	2%	19%	19%	14%	-	10%	-2%	55%
Costs of sales	27%	31%	21%	4%	20%	14%	11%	-	8%	-34%	701%
EBIT	**32%**	**35%**	**-1%**	**-17%**	**-55%**	**155%**	**31%**	**-**	**17%**	**-83%**	**866%**
Net financials	151%	203%	63%	-41%	-63%	-54%	123%	-	347%	92%	-8%
Taxes	13%	30%	-124%	-387%	-69%	537%	78%	-	14%	-70%	278%
Minorities & discontinued operations	268%	22%	22%	-100%	-	-	-	-	-	-	-
Net income	**31%**	**22%**	**11%**	**-27%**	**-50%**	**152%**	**15%**	**-**	**-5%**	**N/M**	**-602%**
Depreciation	14%	36%	31%	15%	20%	10%	19%	-	156%	-7%	13%
EBITDA	**28%**	**36%**	**5%**	**-10%**	**-32%**	**77%**	**27%**	**-**	**70%**	**-38%**	**124%**

CONSOLIDATED BALANCE SHEET

PLN m	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
									IFRS16		
Non-current assets	**910**	**1,232**	**1,516**	**1,797**	**1,839**	**1,920**	**2,418**	**5,280**	**5,871**	**5,621**	**7,028**
Tangible fixed assets	599	897	1,039	1,259	1,291	1,348	1,818	1,821	2,312	2,440	2,760
Right-of-use assets	0	0	0	0	0	0	0	2,894	3,000	2,589	3,412
Intangible assets	18	20	29	37	44	64	90	93	126	136	144
Goodwill	184	184	210	210	210	210	210	210	210	183	183
Trademark	78	78	78	78	78	78	78	78	78	78	78
Other investments	1	10	2	2	0	0	0	0	0	0	0
Receivables and loans	9	13	6	6	6	5	8	8	8	14	19
Deferred tax assets	23	30	144	139	144	159	164	173	135	179	425
Pre-payments	0	0	9	67	67	57	51	4	2	2	6
Current assets	**1,022**	**1,260**	**1,417**	**1,768**	**1,839**	**2,287**	**2,963**	**2,627**	**3,735**	**4,733**	**7,108**
Inventory	656	805	979	1,320	1,164	1,473	1,590	1,210	1,921	2,074	3,864
Trade receivables	130	163	177	115	165	200	122	104	144	158	246
Receivables from income tax	5	17	11	47	75	6	0	1	8	103	34
Other receivables	60	97	46	35	0	0	0	0	0	0	0
Loans	0	12	0	0	2	2	135	170	211	1,024	1,363
Other financial assets	0	0	0	0	29	48	38	45	53	64	196
Pre-payments	11	16	20	27	38	44	33	26	37	32	49
Cash and cash equivalents	159	149	184	224	366	515	1,045	1,070	1,361	1,278	1,355
Total assets	**1,932**	**2,492**	**2,934**	**3,565**	**3,678**	**4,207**	**5,381**	**7,906**	**9,606**	**10,354**	**14,135**

CONSOLIDATED BALANCE SHEET

									IFRS16		
PLN m	2012	2013	2014	2015	2016	2017	2018	2018/19	2020/21	2020/21	2021/22
Equity	**1,211**	**1,496**	**1,638**	**1,890**	**2,135**	**2,443**	**2,861**	**2,816**	**3,247**	**3,068**	**3,272**
Share capital	4	4	4	4	4	4	4	4	4	4	4
Treasury shares	-49	-49	-43	-43	-43	-43	-43	-43	-41	0	0
Additional paid-in capital	235	235	235	235	251	278	279	279	285	364	364
Other capital	657	860	1,092	1,324	1,608	1,823	2,252	2,252	2,733	3,155	2,345
Foreign exchange differences from subsidiaries	-3	-4	-184	-229	-115	-208	-232	-214	-163	-265	-205
Retained earnings	365	447	532	599	430	590	601	539	430	-190	764
Profit (loss) from previous years	13	16	52	248	255	149	96	96	9	0	-190
Net profit (loss) for the current period	352	431	480	351	175	441	505	442	421	-190	954
Minority interest	3	3	3	0	0	0	0	0	0	0	0
Long-term liabilities	**131**	**192**	**211**	**344**	**267**	**233**	**346**	**2,634**	**3,159**	**3,114**	**3,983**
Bank loans	125	184	204	284	195	142	89	84	171	191	144
Other financial liabilities	0	0	0	0	0	0	0	0	292	294	295
Finance lease (IFRS16)	0	0	0	0	0	0	0	2,439	2,568	2,524	3,428
Provisions for employee benefits	1	3	2	2	3	1	1	1	1	2	1
Provision for deferred income tax	4	5	5	7	4	7	1	0	0	0	1
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0	0
Accruals	0	0	0	51	66	83	256	109	127	104	114
Short-term liabilities	**590**	**803**	**1,085**	**1,331**	**1,276**	**1,530**	**2,174**	**2,456**	**3,199**	**4,171**	**6,880**
Trade and other liabilities	478	548	619	721	881	1,323	1,557	1,341	2,101	2,837	5,068
Income tax liabilities	19	38	38	3	7	53	234	236	174	68	311
Bank loans	61	174	378	561	315	56	203	145	109	521	535
Other financial liabilities	0	0	0	0	0	0	0	0	0	0	0
Finance lease (IFRS16)	0	0	0	0	0	0	0	566	680	654	749
Provisions	20	25	20	18	38	54	107	132	90	35	160
Special funds	0	0	0	0	0	0	0	36	45	56	57
Accruals	12	19	29	28	34	44	72	0	0	0	0
Total liabilities	**1,932**	**2,492**	**2,934**	**3,565**	**3,678**	**4,207**	**5,381**	**7,906**	**9,606**	**10,354**	**14,135**

CONSOLIDATED CASH FLOW STATEMENT

									IFRS16		
PLN m	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2018/19**	**2019/20 (13M)**	**2020/21**	**2021/22**
Pre-tax profit (loss)	**424**	**524**	**460**	**414**	**194**	**564**	**724**	**657**	**665**	**-117**	**1,232**
Total adjustments	57	-15	33	-160	524	330	488	943	1,183	1,191	1,772
Amortisation and depreciation	109	148	194	224	267	293	349	427	1,094	1,073	1,148
Income tax paid	-56	-92	-91	-128	-59	-92	-42	-45	-296	-327	-320
Net working capital	-22	-96	-127	-223	256	101	125	469	269	113	145
- Change in inventories	-72	-178	-259	-382	212	-354	-133	330	-315	-218	-1,998
- Change in receivables	-103	-82	52	7	-36	-39	4	52	-66	-579	-661
- Change in liabilities	153	165	80	152	80	494	254	87	650	911	2,804
Change in provisions	5	8	0	-1	16	15	61	78	-22	-53	87
Other adjustments	21	17	58	-31	44	12	-4	14	139	-920	-1,205
Net operating cash flow	**481**	**509**	**493**	**254**	**718**	**893**	**1,212**	**1,600**	**1,848**	**1,075**	**3,004**
Investing inflows	31	49	88	75	91	58	635	639	480	374	287
Capex	-288	-542	-551	-491	-272	-442	-799	-932	-1,004	-825	-1,325
Other investing outflows	-3	-25	-13	0	0	0	-540	-640	-338	-556	-290
Investing cash flow	**-261**	**-518**	**-476**	**-416**	**-181**	**-384**	**-704**	**-933**	**-861**	**-1,007**	**-1,328**
Financing inflows	4	220	283	365	16	26	369	390	949	1,325	7
Interest bearing debt	4	220	283	365	16	26	369	390	949	1,213	7
Other	0	0	0	0	0	0	0	0	0	112	0
Financing outflows	-182	-220	-265	-164	-410	-386	-348	-497	-1,632	1,465	1,642
Treasury shares	0	0	0	0	0	0	0	0	0	0	0
Dividends	-140	-154	-170	-58	-60	-66	-73	-73	-110	0	-834
Interest bearing debt	-23	-52	-79	-87	-329	-309	-261	-349	-664	768	56
Interest and finance lease	-20	-14	-17	-19	-22	-17	-14	-75	-858	696	753
Financing cash flow	**-178**	**-1**	**17**	**201**	**-394**	**-360**	**21**	**-106**	**-682**	**-140**	**-1,635**

CONSOLIDATED RATIOS

	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20 (13M)	2020/21	2021/22
Gross profit margin	56.7%	58.5%	58.6%	53.5%	48.7%	53.0%	54.7%	52.9%	52.0%	52.0%	57.8%
EBITDA margin	17.5%	18.6%	16.8%	14.2%	8.2%	12.4%	13.7%	12.7%	19.2%	14.9%	18.7%
EBIT margin	14.1%	15.0%	12.8%	9.8%	3.8%	8.2%	9.4%	7.9%	8.1%	1.9%	10.5%
Net income margin	10.9%	10.5%	10.1%	6.8%	2.9%	6.3%	6.3%	5.1%	4.3%	-2.4%	6.8%
ROE	29.1%	28.8%	29.3%	30.6%	19.9%	8.7%	19.3%	16.8%	13.9%	-6.0%	30.1%
Cash cycle (days)	66	60	70	84	61	33	16	11	-1	-34	-56
- receivables	14	13	13	10	9	9	7	7	5	7	5
- inventory	163	156	165	176	147	145	153	129	146	194	183
- liabilities	112	110	108	102	95	122	144	125	152	235	244
Net debt/ EBITDA (IAS17)	0.0	0.3	0.5	0.9	0.3	-0.4	-0.7	-0.7	-0.6	-0.4	-0.2
Net debt/ equity (IAS17)	0.0	0.1	0.2	0.3	0.1	-0.1	-0.3	-0,3	-0.2	-0.1	-0.1

9. Strategy

Our goal is to continuously develop LPP and transform it into an increasingly sustainable company that responds to the climate challenges of today. We are incessantly improving our offer and adapting it to the ever-changing customer expectations. Our collections are more and more accessible thanks to the extension of our traditional stores network (increasing commercial floorspace YoY), as well as online stores. We are driving our development towards the omnichannel concept to ensure that our customers have full access to the products, regardless of the sales channel. At the same time, we are constantly responding to the challenges posed by the world around us in both technological and environmental context.

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

9.1. Omnichannel organisation

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

Our priorities are as follows:

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

9.1.1. Expansion by brands

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

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

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

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

EXPANSION BY BRANDS

1998 Reserved

2004 Cropp

2005 Esotiq (divested 2010/11)

2008 House, Mohito (acquisition)

2013 Sinsay

2016 Tallinder (closed down in 2017)

9.1.2. Expansion by countries

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

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

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

The highest growth potential lies in two markets at early stage of development – Western Europe (WE) and the Middle East (ME). In Western Europe so far we are only present in Germany, the UK and Finland. We are looking at other WE countries, like Greece and Itally. On top, due to COVID-19 impact in 2020/21 our German operations were under restructuring. In 2019/20 we entered the third WE market which is Finland. We are also on the look-out for a venue for flagships. In September 2017 we opened our first flagship in London, at Oxford Street. At the end of 2020/21 we were present in five Middle East countries with our franchise stores, as we entered Israel in 2018. In 2022/23, following the Russian invasion on Ukraine, we divested our Russian operations.

EXPANSION BY COUNTRIES

1998	Poland
2002	Russia, Latvia, Estonia, Czech Republic, Hungary
2003	Ukraine, Slovakia, Lithuania
2008	Romania, Bulgaria
2014	Croatia, Germany
2015	Egypt, Qatar, Kuwait, Saudi Arabia
2016	United Arab Emirates
2017	UK, Belarus, Serbia, Saudi Arabia (-)
2018	Kazakhstan, Slovenia, Israel
2019	B&H, Finland
2021/22	North Macedonia
2022/23	Albania, Greece, Itally, Russia (-)

Disposal of the Russian subsidiary

The sale agreement includes, among others:

- the buyer's inability to use LPP brand names and trademarks both in offline and online stores (logos in stores have been changed);
- recovery by LPP of receivables from inventories in Russia (regular repayment along with the liquidation of the goods).

01.22
Growing risk of Russia's attack on Ukraine

→

02.22
Russia’s invasion on Ukraine

→

03.22
Closing down all stores in Russia

↓

04.22
Decision to sell the Russian’s business

→

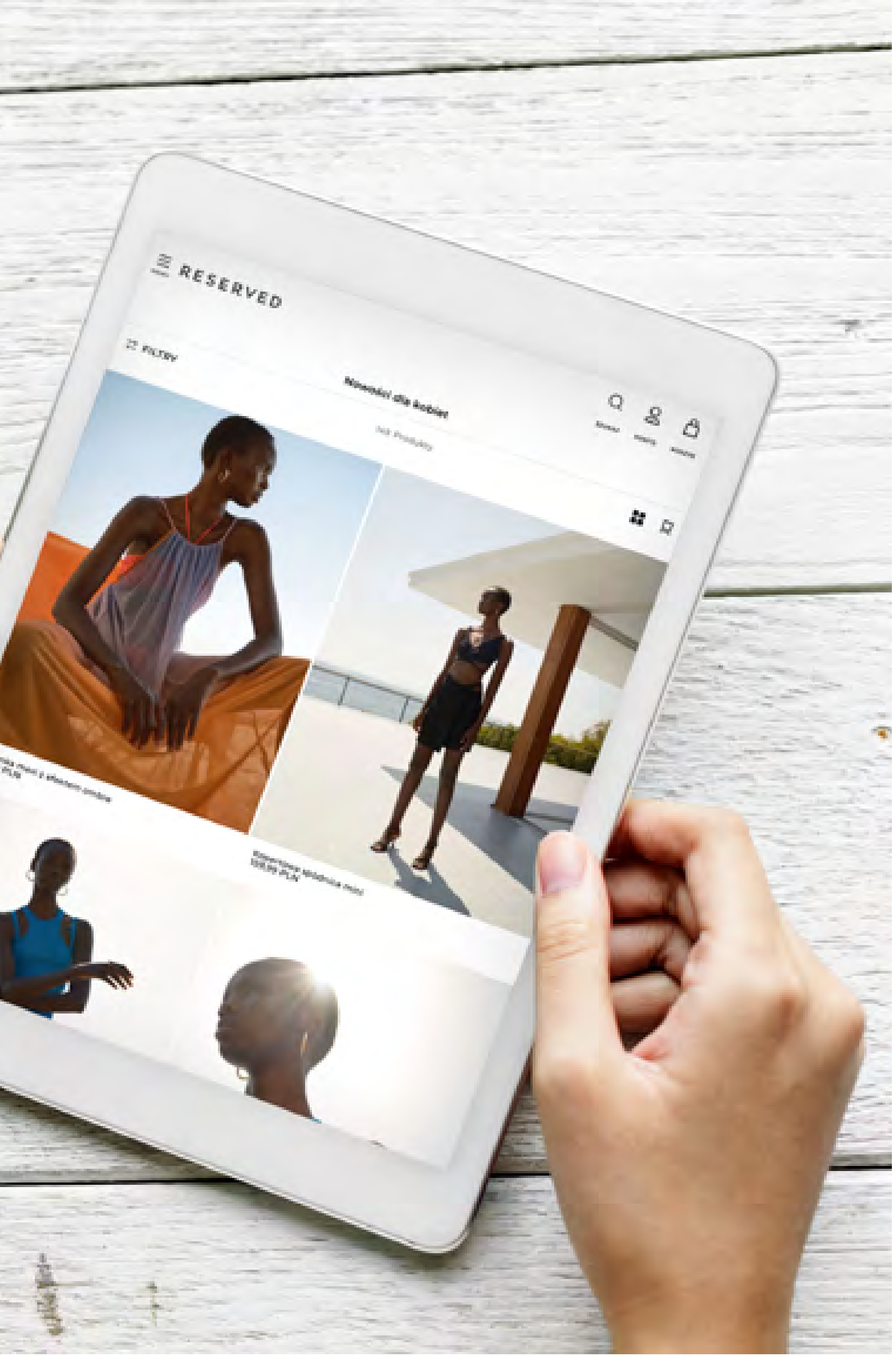
05.22
Sale of all stores in Russia

9.1.3. E-commerce

We see that e-commerce and the overall experience in the form of omnichannel are the future. This is why we continue to invest in logistics and technology that allows us to double e-commerce revenues. We plan to gradually have e-stores of all our 5 brands in all the countries that we have our brick-and-mortar operations. Although Poland is more important to e-commerce revenues than it is to traditional stores, this should gradually change. Our approach to e-commerce is a comprehensive one. We have own e-stores of five our brands in 13 countries and Reserved e-store is operational in the UK. On top, via decision of our franchise partner, Reserved clothes and accessories are available on ME e-commerce platforms. Additionally, Reserved brand offering is also available on our pan-European e-store. As a result, Reserved brand was present in 26 countries offline and 33 countries online at the end of 2021/22. We are also moving towards more and more towards omnichannel.

EXPANSION BY COUNTRIES

2011	Poland
2014	Germany
2015	Czech Republic, Slovakia, Romania
2016	Hungary
2017	Lithuania, Latvia, Estonia, the UK, Russia
2018	Bahrain, Kuwait, UAE, Saudi Arabia, Oman (ME region through franchise partner)
2019	Ukraine, Croatia, pan-European e-store
2020/21	Slovenia, Israel
2021/22	Bulgaria



9.2. Digitalisation of the organisation

OWN STORE VISION APPLICATION

RFID USAGE IN STORES

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

DATA IS PROCESSED BY ALGORITHMS
We use machine learning which means that algorithms learn and improve themselves on their own.

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

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

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

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

Saturation of currently present markets as a growth source

THE MAJORITY OF FLOORSPACE GROWTH SHOULD COME FROM EXISTING MARKETS

We know the markets, their characteristics	We know the markets regulations	We know the preferences of local customers

WE SEE POTENTIAL TO OBTAIN MUCH HIGHER REVENUES FROM EXISTING COUNTRIES

Potential to add another 200+ stores in Poland in 2-3 years time (mostly Sinsay)	Potential to reach 300+ stores in the SEE region in 2-3 years time (mostly Sinsay)

9.3. Sustainable development

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

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

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

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

10. Outlook

Our development is to be oriented on omnichannel: i.e. merging of offline with online operations. Both have been impacted by the COVID-19 pandemics which started in 2020. In terms of traditional network, we plan to have 1,695.4 ths m² of floorspace at the end of 2022/23, 10% lower YoY due to divesture of Russian operations. It is our aim to grow 10-15% p.a. in floorspace in the next two years. In terms of online, we will continue to focus on own e-stores, which are increasingly important in 'the new normal'. We do not plan development of new brands. As we are present in several geographies, each having different growth opportunities, we present outlook by key regions.

CENTRAL EASTERN EUROPE

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

BALTIC

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

COMMONWEALTH OF INDEPENDENT STATES

Following the Russian invasion on Ukraine in February 2022, we first closed and later sold all our stores in Russia. Also, for the first months of the war we have stopped our Ukrainian operations which we are now rebuilding in areas that are not close to the front line. We will take decisions regarding further expansion once the war stops. We changed franchise stores in Belarus into own ones, which should allow for further expansion. We still see some floorspace development opportunities in Kazakhstan.

SOUTH EASTERN EUROPE

We are optimistic about growth opportunities in the South Eastern Europe region. At the end of 2020/21 we were present in six countries: Bulgaria, Romania, Croatia, Serbia, Slovenia and B&H, leaving upside in terms of number of countries in the long-term. We see significant improvement in our Romanian operations. Successful management change, new store openings and improved macroeconomic situation, have all led to a new start in this high-growth potential market, which we plan to continue in the medium-term. Additionally, we have made logistics improvements in Romania, by starting a fulfilment centre. Entry to Northern Macedonia materialised in 2021/22. We see also development opportunities in e-commerce, as our own e-stores are operational only in Romania, Croatia and Slovenia, leaving upside potential. We plan entry to Albania in 2023/24.

WESTERN EUROPE

Western Europe is a region where we are still a fledgling. In terms of offline operations, we are present in three countries: Germany, the UK and Finland. Germany was the first Western Europe market that we entered – this took place in 2H14. Even though in 2019/20 Germany was the sixth largest market by revenues, it 2020/21 we filled for restructuring of our operations due to a negative impact of COVID-19. It has been successfully accomplished in 2020/21. Yet, we still see long-term development opportunities. Currently, all five brands are present online in Germany, but only Reserved brand has traditional stores on the ground. Situation looks similar in the UK, where in September 2017 we opened our first flagship Reserved store in London (Oxford Street). It is supported by Reserved online operations. Our UK operations have also suffered due to pandemics. We have applied a different approach in 2019/20, when traditional stores of all five brands were opened in a shopping mall in Helsinki (Finland). The reception was very strong. Also, 2H19/20 marked the start of our pan-European online store, present in majority of EU countries. This stores gives us an opportunity to learn the tastes of customers in different European countries and judge which country we can enter with traditional stores. We plan stronger entry to WE, opening offline stores in Italy and Greece in 2023/24. The first Reserved store in Italy (Milan) is to be opened in 1Q23/24, similarly to the first Sinsay stores in Italy and Greece.

MIDDLE EAST

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

Floorspace development targets

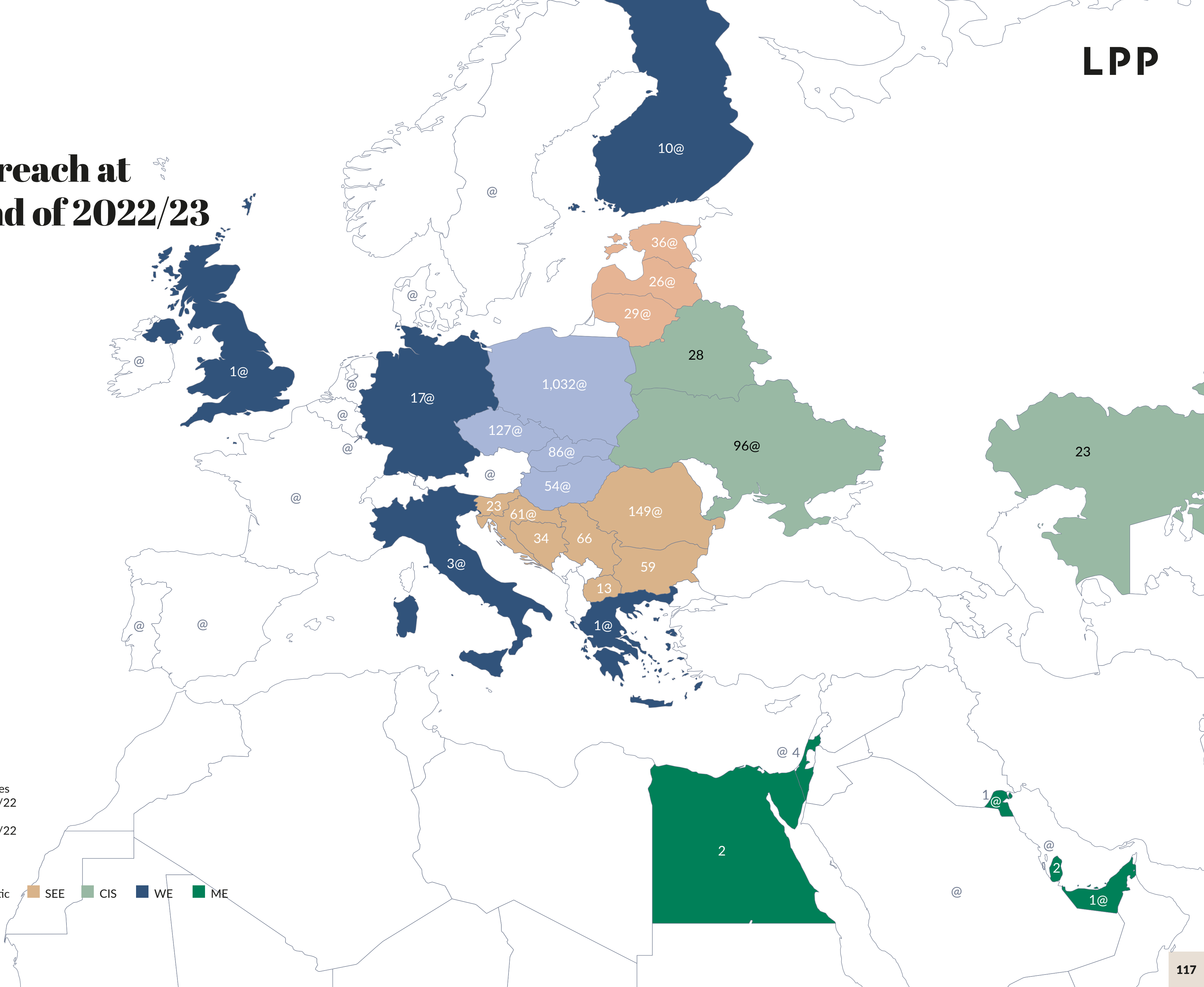
BY BRANDS

Floorspace (ths m²)	I.2022	I.2023 target	YoY
Reserved	710.2	555.0	-22%
Cropp	191.5	152.5	-20%
House	173.4	155.3	-10%
Mohito	122.5	92.9	-24%
Sinsay	689.1	739.7	7%
Outlets	1.4	0.0	-100%

BY REGIONS

Floorspace (ths m²)	I.2022	I.2023 target	YoY
Poland	677.2	766.3	13%
Europe	522.8	781.2	49%
CIS	678.1	138.0	-80%
ME	10.0	9.9	-2%
TOTAL	**1,888.1**	**1,695.4**	**-10%**

Lpp's reach at the end of 2022/23



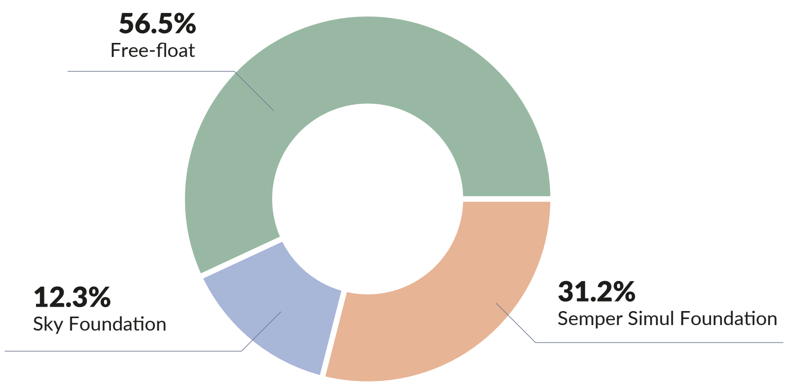
11. Presence on Warsaw Stock Exchange

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

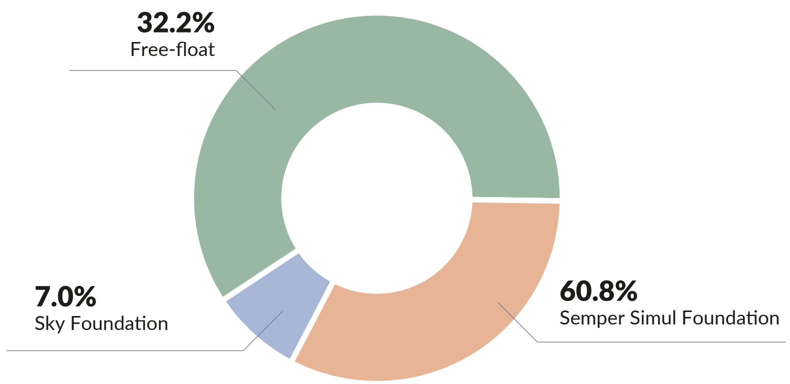
11.1. Shareholder structure

LPP's shareholder structure underwent sizeable changes in the past years. The founders Marek Piechocki and Jerzy Lubianiec have transferred their shares to foundations in order to: protect the company against fragmentation of capital in the future, ensure the family status of the company and maintain the current culture and longevity of the company. The CEO, Marek Piechocki, transferred shares to the Semper Simul Foundation, which currently holds 31.2% of equity and 60.8% of votes. Co-founder, Jerzy Lubianiec, transferred his shares to the Sky Foundation, which currently holds 12.3% of capital and 7.0% of votes. Transfer of shares does not mean an automatic succession. Both ordinary and privileged shares (1 to 5 in votes) are deposited in the foundations. LPP has a sizeable 56.5% free-float. The company no longer holds treasury shares. These were sold to the market in December 2020.

SHAREHOLDERS BY EQUITY – NOVEMBER 2022



SHAREHOLDERS BY VOTES – NOVEMBER 2022



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

In 2001 a successful IPO of G series shares took place. New investors subscribed for 300,000 shares, each for PLN 48 issue price. In 2003 the company issued new H series shares. The investors subscribed for 190,000 shares at issuing price of PLN 265. The funds gathered from both issuances were used to develop the network of Reserved stores and investments in IT systems. The highest LPP share price on WSE was PLN 18,770 in January 2022.

TICKERS		PERFORMANCE AS OF 31.01.2022	
WSE	LPP	1Y	107%
BLOOMBERG	LPP PW	3Y	90%
REUTERS	LPPP.WA	5Y	212%

LPP'S SHARE PRICE: FROM IPO UNTIL 31.01.2022

LPP’S SHARE PRICE SUMMARY

PLN	2012	2013	2014	2015	2016	2017	2018	2018/19	2019/20	2020/21	2021/22
Share price eop	4,550	9,000	7,235	5,555	5,674	8,910	7,850	8,370	8,465	7,690	15,890
Min cob	1,960	4,406	7,235	5,230	3,820	5,090	7,535	7,535	6,945	4,450	7,680
Max cob	4,800	9,477	10,100	8,099	6,210	9,063	10,170	10,170	9,125	8,680	18,770
EPS basic	198.77	239.18	264.98	193.87	96.19	241.36	275.53	241.34	229.55	-103.44	518,76
DPS	77.4	85.1	93.6	32.0	33.0	35.7	40.0	40.0	60.0	0.0	350,0
Dividend yield	1.7%	0.9%	1.3%	0.6%	0.6%	0.4%	0.5%	0.5%	0.7%	0.0%	2,2%
Payout ratio	52%	44%	39%	12%	17%	37%	22%	-	22%	0%	172%
Weighted average number of shares	1,780,848	1,809,725	1,809,725	1,812,145	1,816,932	1,826,537	1,833,483	1,833,489	1,834,192	1,838,066	1,838,066

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

11.2. Index presence

LPP’s successful business model has been reflected in increased interest of foreign institutional shareholders in the stock. Along with rising earnings and growing share price, the liquidity of the shares has also augmented. Domestically, LPP is a member of WIG20, WIG30, WIG140, WIG ESG, WIG ODZIEŻ and WIG Poland indices. WIG20 is the most important index on the WSE. LPP has entered the index in March 2014 and currently is the sole clothing retailer in it. At the end of 2021/22 LPP had a 6.9% weight in WIG20 index. WIG30 is the index of the most liquid companies on the WSE, introduced in September 2013. LPP has been its member since inception and held a 6.5% weight in this index at the end of 2021/22. LPP is also a member of the broadest index of the WSE - the WIG Index. At the end of 2021/22 LPP had a 4.7% weight in the index. Apart from domestic indices, LPP is also a member of important foreign indices. Firstly, since August 2014 LPP has been a member of MSCI Poland index, the key benchmark index for foreign financial institutions investing in Poland. LPP’s shares are also present in three FTSE indices: All-World Index, Emerging Index and Global-Style Index (FTSE indices are tracked e.g. by ETFs) and CECE Index.

POLISH INDICES

WIG20
- The most important index of the WSE
- Member since March 2014
- c. 6.9% LPP's weight
- The sole clothing retailer in the index

WIG30
- WIG30 index of the 30 most liquid companies on the WSE, launched September 2013
- Member since index inception
- c. 6.5% LPP's weight

WIG140
- WIG140 index of the 140 most liquid companies on the WSE, launched December 2021
- Member since index inception
- c. 3.8% LPP's weight

WIG
- The broadest index of the WSE
- c. 4.7% LPP's weight
- One of the largest clothing retailers in the index

WIG ESG
- The index comprises of WIG20 and mWIG40 companies, published since September 2019
- Weight in the index is among others based on ESG standing
- c. 6.1% share

INTERNATIONAL INDICES

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

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

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

On top LPP's shares belong also to WIG-Poland (index of solely Polish companies), WIG-ODZIEŻ (a sector index), WIG20TR and WIG30TR (TR indices show total return).

Since August 2021 LPP also belongs to a segment of family companies.

11.3. Awards

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

SELECTED AWARDS RELATED TO INVESTOR RELATIONS AND ESG:

- Top Investor Relations awarded by Parkiet newswire (2017, 2018, 2019, 2020, 2021).
- Top Listed Company of the Year by Puls Biznesu (2017, 2018, 2021).
- The Company of the Year title in the ranking Puls Biznesu (Polish financial newswire) in 2017 and 2018.
- The Best WIG20 Company in the Bulls and Bears competition (2021)
- Climate Aware Company - 3rd edition of the survey by Association of Listed Companies, Foundation of Reporting Standards and Bureau Veritas Polska (2021)

SELECTED AWARDS RELATED TO BUSINESS:

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

Most effective CEO (2013)

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

Top Investor Relations by Parkiet (2017, 2018, 2019, 2020, 2021)

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

Winner of the Digital Excellence Contest (2020)

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

Silver CSR Leaf (2021)

Top Listed Company of the Year by Puls Biznesu (2017, 2018, 2021)

The Best WIG20 Company in the Bulls and Bears competition (2021)

Climate Aware Company - 3rd edition of the survey by Association of Listed Companies, Foundation of Reporting Standards and Bureau Veritas Polska (2021)

12. ESG: environmental, social, governance

GENERAL SHAREHOLDER MEETING

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

appoints

SUPERVISORY BOARD

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

AUDIT COMMITTEE

- review of the financial statements
- assessment of the financial standing
- control and assessment of the internal audit reports
- assesment of risk management and internal audit

appoints

MANAGEMENT BOARD

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

12.1. Corporate governance

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

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

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

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

LPP'S SUPERVISORY BOARD

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

Supervisory Board as at the date of publication.

12.2. Management Board

MARECK PIECHOCKI

CEO & Founder

Marek Piechocki (61), creator and co-founder of LPP, focused on developing his own business right from the start of his professional career, has been involved with the retail industry since 1989. He is a graduate of the Civil Engineering Faculty at the Gdańsk University of Technology. In 1991 together with Jerzy Lubianiec he founded a Mistral company, activities of which were transferred into LPP in 1995. He has been the CEO of LPP since 2000. As Chief Executive Officer, Marek Piechocki is responsible for all aspects of the company's operations, from fashion brands' management, through product development, and sales operations in the omnichannel model. He supervises the Company's strategic actions in terms of sustainable development and manages teams responsible for outsourcing production of the collections worldwide. In 2013 he was awarded the title of The Best-Performing CEO by Harvard Business Review in 2013.

JACEK KUJAWA

Management Board Member

Jacek Kujawa (48) has been employed at LPP since 2004. Initially, he held the position of IT Director, responsible for implementation of Business Intelligence and Point of Sale systems. He was also in charge of IT systems' integration during the LPP and Artman merger. His duties encompassed, among others, coordination of the Pruszcz Gdański Distribution Centre expansion on the basis of world's best standards of logistic solutions. Since 2009, as Member of the Management Board, he has been responsible for logistics and IT issues. Moreover, he manages LPP investment projects in Poland and abroad, both in terms of expanding the chain of stores and warehouse space. He also supervises the administrative area of LPP and the structures responsible for data analysis (Data Science). His key tasks include implementation of LPP's strategic projects such as the implementation of RFID technology and expansion of distribution network in Europe. Before joining LPP, between 1999 and 2004, Jacek Kujawa has been employed at Wirtualna Polska. He graduated from the IT faculty at the Gdańsk University of Technology.

PRZEMYSŁAW LUTKIEWICZ

CFO

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

SŁAWOMIR ŁOBODA

Management Board Member

Sławomir Łoboda (57) has been co-operating with LPP since 1997. Initially, as a Managing Partner at an external legal company, he provided legal counselling for LPP. Since 2005, in addition to managing LPP legal services, he has been responsible for acquiring new retail space and store development. As Member of the Management Board, since October 2015, he has been responsible for LPP's development, i.e. acquisition of new retail space, market analyses, as well as for the legal department. During his co-operation with LPP, he has completed a number of significant projects, including creation of a franchise network, taking the company public, merger with Artman SA, disposal of the Esotiq brand and development of LPP's store network. Sławomir Łoboda is a graduate of the Law Faculty at the University of Gdańsk. In 1995, he passed the bar examination for legal advisors. He is also the President of the Council for the Hospice Foundation, a non-profit organisation which takes care of the chronically ill. For his social commitment, he was honoured with the Brown Cross of Merit awarded by President Bronisław Komorowski.

MARCIN PIECHOCKI

Management Board Member

Marcin Piechocki (33) cooperated with LPP since 2017. Initially, he held the position of an assistant buyer and then a buyer in Reserved brand. From 2017 to 2018, he was responsible for the process of purchasing goods, price negotiations with suppliers, timeliness of deliveries and analysis of sales results of the LPP Group's flagship brand. Since 2018, he has managed the process of opening and running the largest Reserved brand stores in the region. In the same year, he was entrusted with the project of supervising and co-creating the concept of Sinsay. He was responsible for Sinsay product, collection sales and brand expansion in new locations. He currently holds the position of Managing Director of Sinsay and Mohito and is responsible for the company's internal communications and LPP's external relations. He is graduate of the Faculty of Electronics and Information Technology at the Warsaw University of Technology. He started his career path in 2013 at Citibank International, where he was in charge of the IT team until 2017.

MAREK PIECHOCKI
President of the Management Board

- Supervision over the Management Board's operations
- HR

- Reserved, Cropp, House – brand development, product development, omnichannel sales
- Procurement and ESG

- Oversight and development of sales operations

PRZEMYSŁAW LUTKIEWICZ
Management Board Member

- Reporting and taxes
- Operational Controlling
- Financial Controlling
- Shared Services Centre
- Management of foreign subsidiaries
- Internal control and risk management
- Investor relations and sustainable reporting
- Office of business travel
- Central purchasing

JACEK KUJAWA
Management Board Member

- IT
- Logistics
- Administration
- Investment
- Data Science
- Customer Service Centre
- Cyber security

SŁAWOMIR ŁOBODA
Management Board Member

- Lease and expansion
- Legal matters
- Market analyses

MARCIN PIECHOCKI
Management Board Member

- Mohito and Sinsay – brand development, product development, omnichannel sales
- Internal communication, CSR and external relations

12.3. Supervisory Board

MIŁOSZ WIŚNIEWSKI
Independent Chair of Supervisory Board

Miłosz Wiśniewski (58) is a graduate of the Mikołaj Kopernik University in Toruń and Executive M.B.A. École Nationale des Ponts et Chaussées in Paris. He gained his experience in finance and management in Cereal Partners Worldwide, working there from September 1992 to May 2012 at the position of, among others, Regional Financial Controller for Western and South Europe, CPW Finance Director in Poland, Regional Director for Greece and the Balkans and Development Director for Central Europe. From May 2012 to January 2015, he acted as Finance Director of Boryszew SA. In March 2016, he became President of the Management Board of Robod SA.

WOJCIECH OLEJNICZAK
Member

Wojciech Olejniczak (66) has been a Supervisory Board Member since 1999. Concurrently, he has held the post of CEO at BBK SA, a company where both Marek Piechocki and Jerzy Lubianiec are shareholders (equal stakes). The company in no aspect competes with LPP. Before joining the supervisory board, Wojciech Olejniczak participated in LPP's operations. Between 1991 and 1996, he was a partner at Mistral company and a Management Board Member of LPP between 1996-1997.

60% of the supervisory board members are independent.

PIOTR PIECHOCKI
Member

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

MAGDALENA SEKUŁA
Independent Member

Magdalena Sekuła (47) is a graduate of the Gdańsk University, the Institute of European Sciences in Gdańsk, Université des Sciences Sociales in Toulouse and Université d'Orléans. She started her professional career in the Sopot City Hall at the position of Inspector in the City Strategy and Development Department, in the years 2004-2005. She also acted as Vice-President of the Management Board of Plan 40 Sp. z o.o. oraz Vincole Sp. z o.o., in which she was responsible for contacts with foreign contracting parties and executing new projects in co-operation with French partners. In the years 2007-2010, she was responsible for carrying out promotion and information activities related to the construction of a multi-purpose sports and entertainment arena between Gdańsk and Sopot. Since March 2010, she has continuously held the position of CEO of the company Hala Gdańsk-Sopot.

GRZEGORZ MARIA SŁUPSKI

Independent Member

Grzegorz Maria Słupski (63) is an entrepreneur and a manager, who has successfully created and led multiple firms mainly in the sectors of printing, commerce and new technologies in Poland. He is a academic teacher at University of Gdańsk – lecturer of several subjects including economics of enterprise, services, trade and advertising. He has over 20 years of experience at a housing cooperative, including multiple years as a leader of Management Board and as a Chair of the Supervisory board. Between 2008 – 20017 He hold the position of Vice-Chair of the Supervisory Board of GIK ltd. in Gdańsk also 2017-2020 as Chair of the Supervisory Board of GARG ltd. Ivest GDA. Since 2000 co-founder, shareholder and a member of Supevisory Board of Argo Card ltd. in Gdańsk and since 1995 Chair of Management Board Argo SA in Gdańsk.

JERZY LUBIANIEC

Jerzy Lubianiec (62) is the co-founder of LPP (the second co-founder is Marek Piechocki, the current CEO of LPP) and a graduate of Gdańsk University of Technology. Between 1991 and 1997 he has been running Mistral company. Jerzy Lubianiec has been the CEO of LPP (Mistral's successor) between 1995 and 2000. Later on he became the President of the Supervisory Board of LPP, supporting the development of the Group. He was also a Supervisory Board Member of Quercus Towarzystwo Funduszy Inwestycyjnych SA, where he indrectly held a stake. The activity of the above-mentioned company was not competitive to that carried out by LPP SA. Jerzy Lubianiec served as Chair of the Supervisory Board of LPP between 2000-2020.

Former Chair of Supervisory Board

12.4. Towards sustainable fashion

2013

- Joining the ACCORD alliance

2014

- Establishing of factory audit division
- Resignation from angora

2015

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

2016

- Resignation from natural furs

2017

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

2018

- Second ACCORD agreement
- Launch of the Eco Aware collection

2019/20

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

2020/21

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

2021/22

- Joining the Canopy
- Joining Cotton made in Africa

DESIGN AND MATERIAL SELECTION

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

TRANSPORT AND DISTRIBUTION NETWORK

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

PRODUCTION

- We develop partnerships with factories that reduce their water and energy consumption (e.g. in the process of dying, finishing or washing the products).
- Eco Aware amounted to 26% of LPP's collections.
- We are in the process of implementing Eco Aware Production program in relation to water management and energy sourcing. We conducted consultaions with 40 Asian producers.

SALES

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

Production

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

LPP QUALITY STANDARDS

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

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

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

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

COLLABORATION WITH SUPPLIERS IN BANGLADESH

In December 2019 we launched a pilot Quality Assurance System as part of which workers of twelve selected Bangladeshi factories underwent our product training. Each manufacturer appointed a person in charge of checking the compliance of our orders with our quality standards. We carried our audits in all the factories to check if they implemented our guidelines. In the next phase of the project we will repeat the audit to detect any potential shortcomings and help their representatives implement the system. We know of no health issues linked to our garments in 2021/22.

EVEN STRICTER APPROACH TO CHEMICALS

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

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

Eco Aware collections

ECO AWARE LABEL:

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

ECO AWARE PRODUCTION LABEL:

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

MATERIALS COMPATIBLE WITH ECO AWARE STANDARD:

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

2025 target: 50% of Reserved collections as Eco Aware

26%
Eco Aware in all brands

38%
Eco Aware in Reserved brand

We control our supply chain

CODE OF CONDUCT FOR SUPPLIERS (UPDATED DECEMBER 2020)

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

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

LPP'S REQUIREMENTS AGAINST FOREIGN SUPPLIERS:

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

THE EFFECTS OF ACCORD AGREEMENT:

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

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

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

Employees

DIVERSE AND FAMILIAL: LPP'S ORGANISATIONAL CULTURE

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

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

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

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

85%
employees are women

31,808
employees

81%
of all vacant managerial positions filled by internal candidates

EMPLOYEE BENEFITS OFFERED BY LPP SA

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

We measure our carbon footprint

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

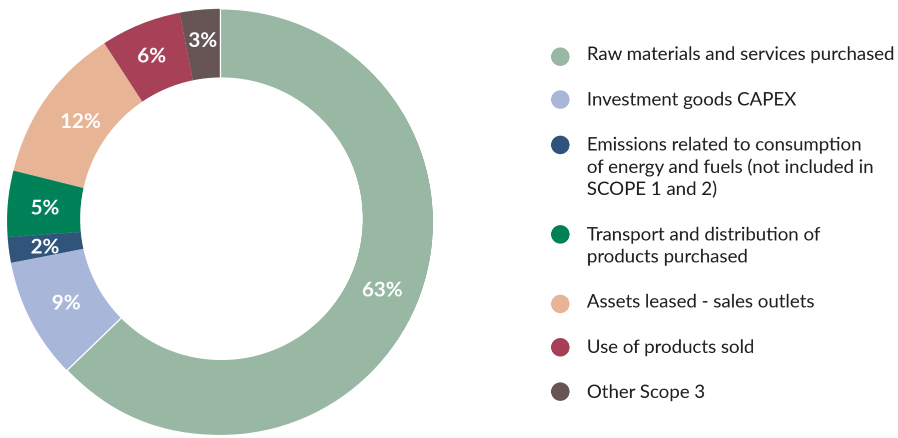
Our Sustainable Development Strategy sets the ultimate target of reducing our Scope 1 and 2 GHG emissions by 15% as compared to the 2019 levels by 2025.

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

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

LPP GROUP GHG EMISSIONS IN TONNES OF CO_2E, 2021/22

SCOPE 3 GHG EMISSIONS OF LPP GROUP BY SOURCES

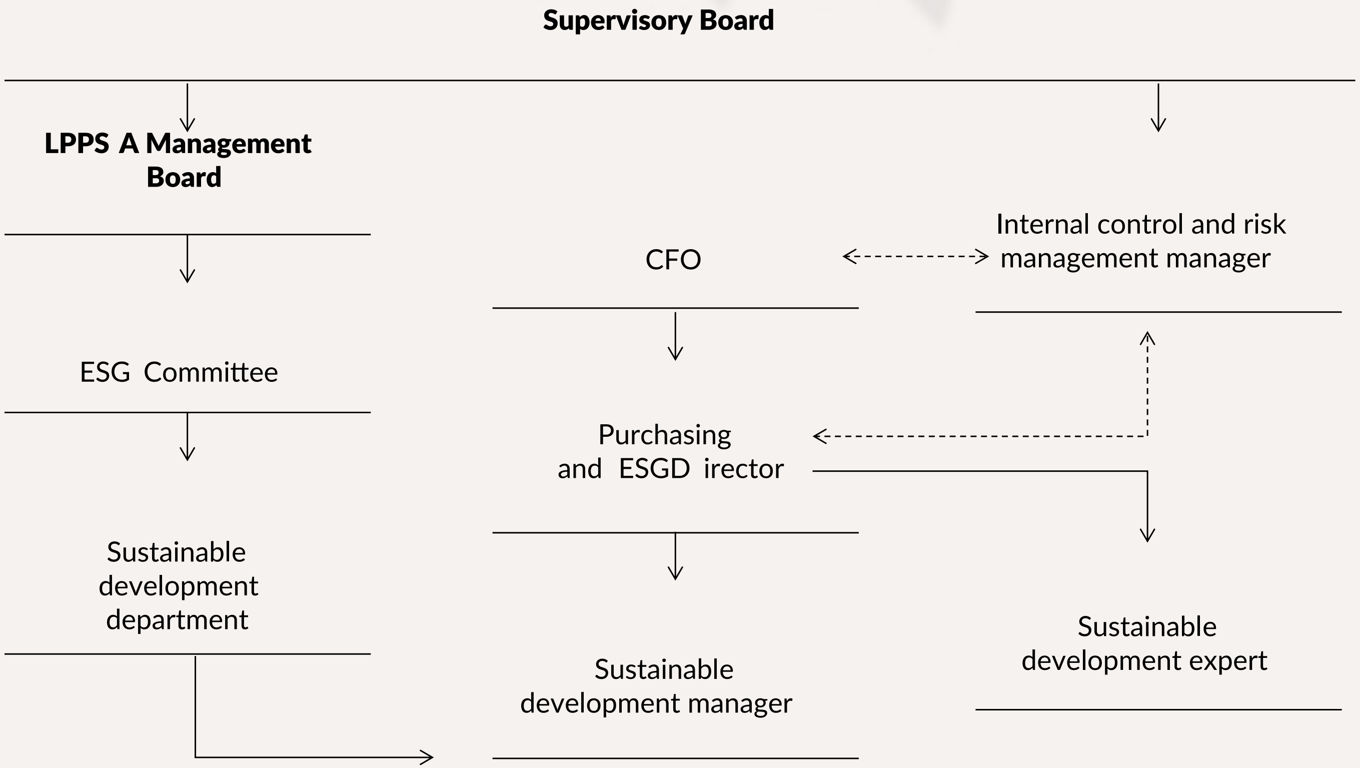


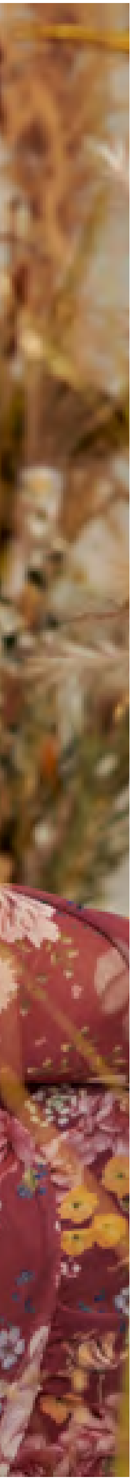
GHG calculations conducted in line with internationally recognised GHG Protocol.

Sustainable development strategy

	Eco Aware – product and production	Chemical safety in production	Packaging Aware – plastic under control	Sustainable development in hq buildings and sales network
2020	▪ Implementing Eco Aware Production programme in the areas of water management and energy sourcing	▪ ZDHC membership	▪ 100% of online orders packaging of MO and RE without single use plastic ▪ 100% of film for HO, CR and SI online orders shipment recycled ▪ Limiting single use film for commercial samples packaging by 50%	▪ Implementing Eco Aware STORES programme
2021	▪ 25% of clothes produced by LPP are Eco Aware collections ▪ 30% of factories in Southern Asia covered by Eco Aware Production programme	▪ 100% of products containing wool or down will have RDS/RWS certificate	▪ 100% of price tags film-free	▪ 100% of green energy powering our servers and online stores
2023	▪ 100% of denim production factories covered by Eco Aware Production programme ▪ Used garments collection system in 100% of stores ▪ PLN 1m on investment in new technologies allowing for textile waste utilisation		▪ 100% of cardboard boxes with FSC certificate or recycled ▪ 100% of store packaging recycled	▪ All new buildings with environmental certification (BREEAM/LEED)
2025	▪ 50% of Reserved garments in Eco Aware collection ▪ CO_2 reduction by 15%	– Full compliance with ZDHC standards	– 100% of plastic in packaging suitable for re-use, recyclable or biodegradable	– 100% of stores covered by Eco Aware STORES programme

ESG is high on our agenda





WE REPORT USING INTERNATIONAL STANDARDS AND FRAMEWORKS

GRI | GREENHOUSE GAS PROTOCOL | SDGs | TCFD | UN GLOBAL COMPACT | NFRD | SCIENCE BASED TARGETS

WE ARE RATED BY

SUSTAINALYTICS | S&P Global Ratings | CDP | FTSE Russell | CHRB Corporate Human Rights Benchmark

WE ARE PART OF ESG INDICES

WIG ESG | MSCI

Climate is high on LPP's board agenda

OBTAINING OF RESOURCES	PRODUCTION	DISTRIBUTION & SALES	CUSTOMER
PHYSICAL (CHRONIC) RISK			
Risk of limited availability of producers and subcontractors due to progressing climate change and increasing prices of raw materials for production			
MARKET RISK			
Risk of limited availability and increase in price of materials from sustainable production (sustainable textiles, innovative materials) or materials from recycling	Risk of increase in own costs due to management of stores and supply chain costs due to increased electrical energy prices		
REGULATORY RISK			
		Risk of limited availability and increased cost of marine logistics and timely transport	
REPUTATIONAL RISK			
			Risk of a negative image and social pressure due to insuffi cient, negative or improperly received messages

High temperatures | Risk in sea level | Extreme phenomena | Cyclones

13. Risk management

In the LPP Group, risk management i.e. regular identification of risks and their mitigation is handled by the Internal Audit and Risk Management Department. The risks to which the Group is exposed have been comprehensively described in the Company internal document “Risk Management System”, approved by the Management Board of LPP. The risks described therein are periodically revised.

MARKET RISKS

- Macroeconomic risk
- Risk of law amendments
- Risk of intensified competition
- Market trend and sales risk
- Pricing accuracy risk
- Risk of increased production costs
- Single segment concentration risk
- Supplier credibility risk
- Single supplier dependence risk
- Risk of increasing prices of raw materials
- Risk of sales migration to the Internet

OPERATING RISKS

- Technology and technological advancement risk
- Product quality risk
- Staff dependency risk
- Staff unavailability risk
- Risk of ineffective logistics
- Embezzlement risk
- Reputational risk
- Business model risk
- Risk of unsuccessful store location
- Supply chain disruption risk
- Risk of compromised safety of board members

TAX RISKS

- Transfer pricing risk
- Tax miscalculation risk
- Risk of incomplete revenue and expense documents
- Risk of increased tax burdens (existing or new)

IT RISKS

- Risk of unauthorised access to infrastructure
- Risk of access to the LPP computer network
- Risk of business equipment loss
- Malicious software risk
- Risk of physical infrastructure damage/failure
- Cybercrime risk

FINANCIAL RISKS

- Financial liquidity risk
- Creditworthiness risk
- Risk associated with guarantees extended
- Investment risk
- Interest rate risk
- Exchange rate risk
- Capital outflow risk

GLOBAL RISKS

- Epidemic and pandemic risk

CLIMATE RISKS
▪ Physical climate risks ▪ Limited availability of raw materials for textile production and their increasing price ▪ Disruption of production processes ▪ Disruption of logistics processes ▪ Increasing costs of store maintenance ▪ Mismatch between the collection type and current weather conditions ▪ Climate risks associated with transferring to low-emission, climate-change-proof economy ▪ Customers' changing shopping patterns ▪ Need to cooperate only with suppliers meeting the requirements for environmentally neutral production ▪ Need to comply with legislative requirements in production and distribution countries ▪ Need to start measuring environmental resource consumption
HUMAN RIGHTS VIOLATION RISK
▪ Risk of violation by LPP of widely understood human rights
GEOPOLITICAL RIGHTS
▪ Risk of armed conflict or war ▪ Risk of imposing an embargo on the imports or exports of goods/services ▪ Risk of appropriation of trade commodities/nationalisation of assets ▪ Risk of banned sale of goods in the territory of a foreign country

13.1. Market risks

MACROECONOMIC RISK

The situation in countries where we sell our products and where factories manufacturing goods for us are located are crucial for our Group. The above involves such countries' economic and political standing as well as unexpected events like armed conflicts or epidemics.

The Group's revenues and margins depend on the economic situation of households and their 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 are goods are manufactured may translate into an increase, decrease or, relatively, stabilisation of manufacturing costs.

As shown by the current macroeconomic situation, prices of raw materials are on the increase, including prices of crude oil and cotton which are of key importance for the clothing industry.

ACTIONS MINIMISING THE RISK

The Group minimises the said risk as follows.

Sale of goods: (1) by being present on numerous European markets, we diversify the risk into numerous countries with a diverse macroeconomic situation, (2) goods sold under several brands addressed to various groups of recipients in order to spread the risk into several age groups, (3) by offering a wide range of goods at a wide range of prices - from cheap and easily accessible to more expensive.

Stock purchases: (1) by outsourcing production to numerous manufacturers in several countries, (2) by a long-term cooperation with selected suppliers, which permits negotiating advantageous product prices.

MARKET TREND AND SALES RISK

The Group operates on a highly competitive, demanding and changing fashion market that is characterised by a high level of consumer expectations and is closely correlated with changes in fashion trends and customer tastes. A key success factor is, on one hand, the sensing of changes in fashion trends and adjusting the product range to customers' current needs, and, on the other hand, a quick response to those needs. Furthermore, a natural element in our business is the cyclical nature of changing seasons, requiring changes in our collections.

ACTIONS MINIMISING THE RISK

On a constant basis, LPP monitors fashion market trends by participating in fairs, exhibitions and fashion events and by accessing the latest global publications on fashion (Internet catalogues). In the Company, a Head Designer has been appointed i.e. a multi-person team following fashion trends worldwide and educating all LPP designers on the latest ones appearing. Our Company takes actions aimed at digital advancement i.e. brand promotion in social media and cooperation with influencers and trendsetters, which has also a positive effect on limiting the market trend risk. Our collections are designed by several teams of designers and their work is organised so as to minimise the impact of a single designer on collections as a whole. Designers undergo constant assessment covering, among others, margins yielded on their collections. At the same time, the Company mitigates the risk of unsuccessful collections by offering a wide range of additional products expanding the basic apparel offer e.g. accessories, underwear, footwear, bags, and by providing an adequate structure of each collection i.e. basic i.e. classic models and fashionable products. Additionally, an important factor mitigating the said risk is addressing products to different age groups.

13.2. Operating risks

RISK OF INEFFECTIVE LOGISTICS

The Company has the chain of traditional and online stores both domestically and abroad, requiring logistics services i.e. daily delivery of goods sent from local logistics centres. Maintaining the continuity and timeliness of deliveries is critical to the operation of our business. The task of the logistics in the fashion branch is to quickly gather a relevant number of clothing dispatches to individual on-site stores and customers making online orders, optimising simultaneously the quantity of stock in logistics centres. Investments in logistics improvements (without which the risk of failing to provide optimum logistics services increases) are required due to the following factors: development of the Group's sales, the pandemic and the consequent sharp increase of the number of online orders, changes in customers' behaviour and their expectation of speedier deliveries.

ACTIONS MINIMISING THE RISK

As this issue is of vital importance, our Company's Management Board gives it a high priority and consistently introduces new solutions as required.

Along with the increasing demand, the Group regularly expands its logistics facilities both domestically and abroad. Currently, we have modern distribution centres in Poland (Pruszcz Gdański, Gdańsk, Stryków, Brześć Kujawski as well as projects launched in Rzeszów and Stryków) and abroad (Russia, Slovakia, Romania).

At the same time, in emergency cases, the Company is able to redirect containers with trade commodities to LPP's other ancillary warehouses. As regards e-commerce deliveries, part of e-commerce dispatches addressed to individual customers may be delivered from the closest traditional store.

We cooperate with specialised external service providers in logistics e.g. operators specialising in e-commerce logistics and manufacturers of hi-tech and IT solutions for the logistics sector.

Reacting to the changing market situation, we constantly implement IT improvements in logistics, including projects based on AI algorithms. The Company implements in-house software facilitating the processes of order completion and product return management as well as solutions integrating systems of courier companies we cooperate with.

Furthermore, it introduces innovative solutions facilitating stock management (RFID) and develops the Next Business Day service being a priority for e-commerce.

All the above-mentioned activities performed by our Group enhance our logistics capacities thus minimising the risk of ineffective logistics and, ultimately, increasing our market competitiveness.

In addition, projects currently being implemented by the Company, involving improvement of warehoused stock rotation and introduction of just-in-time deliveries, are aimed at enhancing supply chain management and reducing the Company's inventory loss risk.

REPUTATIONAL RISK

The reputational risk and a consequent branding crisis may adversely affect the Group's revenues and reduce its goodwill. Due to the development of the Internet and social media and increasing consumer awareness, this risk has been and will be of growing importance. Considering the fact that manufacturing orders are placed in the Global South countries with low recognition of workers' rights and safety and having regard of methods of sourcing raw materials for collection production as well as of operations in the fast-fashion sector having environmental impact, our Group is exposed, most of all, to the risk of branding crisis involving its products. Additionally, the reputational risk may arise from the improper exploitation of other entities' copyright (such as any unlicensed use of photographs or graphics) and be a consequence of hazards such as a loss of personal data protection, unethical advertising or unfortunate statements made in the media by employees. At the same time, the Group's reputational risk may be beyond its control if caused by competitors' attacks or fortuitous events.

ACTIONS MINIMISING THE RISK

To duly manage and minimise that risk, we have undertaken numerous actions given below.

We cooperate with specialist companies monitoring the media market to obtain information on any approaching branding crisis at its earliest stage possible.

We have joined the ACCORD initiative aimed at improving work conditions in the clothing industry in Bangladesh. In our organisational structure, we have formed an internal unit responsible for auditing our suppliers' plants in terms of compliance with work and safety conditions, human rights, wages and environmental protection.

We have changed the model of cooperation with independent agents to place manufacturing orders with certified suppliers only.

We have initiated eco-friendly activities in all our brands by developing more sustainable collections.

We have joined Zero Discharge of Hazardous Chemicals (ZDHC), a programme aimed at chemical safety in clothing production.

We have decided not to use angora or natural fur and source down to be used in our collections exclusively from suppliers holding up-to-date certificates and applying ethical methods of raw material production. To minimise the reputational risk arising from the improper exploitation of other entities' copyright, we have developed internal procedures for purchasing photographs and graphic licences and we have duly trained our staff directly engaged in the designing process.

The reputational risk arising from the loss of personal data protection is mitigated by way of our technology investments, while the risk of unethical advertising or unfortunate statements made in the media by employees is counteracted through internal procedures and cooperation with a PR agency in terms of a communication crisis.

BUSINESS MODEL RISK

The LPP 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 omnichannel sales network and at logistics, advancement and technology as well as at building our brands' recognition and attracting loyal consumers.

On one hand, outsourcing enables effective production placement and gives access to modern and constantly changing technologies. On the other hand, it involves the risk of choosing inadequate suppliers and is closely related to the economic and political situation in suppliers' countries.

As part of LPP's business model, we offer our brand collections in both traditional and online stores. In case of focusing on a single sales channel only such as traditional stores, there might be a risk occurring at the time of changes in consumers' shopping pattern and increasing popularity of online shopping.

ACTIONS MINIMISING THE RISK

Risks related to our business model are minimised by choosing suppliers not only in terms of price but also their offer range, modern machinery (including eco-friendly solutions in manufacturing plants) 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, and by an external company. Simultaneously, we make sure that the Group is not dependent on any of over 1,100 cooperating suppliers (none of them has exceeded the threshold of 5% of annual purchases). Placing orders with various suppliers in different countries, we minimise the business model risk by diversifying production countries.

Following market trends and adjusting to changing customer preferences, in addition to the traditional sales channel existing from the very beginning, we gradually develop online sales and integrate both channels. We monitor, on a day-to-day basis, shopping trends in the fashion branch (increasing importance of technology, including shopping via mobile devices, apps, increasing popularity of second-hand clothes or the value-for-money segment) and adjust our business model respectively.

SUPPLY CHAIN DISRUPTION RISK

The pandemic, geopolitical turmoil and diminished competition on the transport market give rise to the increased risk of congestion and delays in transport, specifically from the Far East.

ACTIONS MINIMISING THE RISK

LPP reacts to the risk of disturbances in the supply chain by: 1) diversifying production countries e.g. increasing the order volume in Turkey instead of China; 2) diversifying transportation means: increasing the share of railway transport instead of maritime transport (as an alternative, there is the New Silk Road plan); 3) implementing a new ordering strategy that gives recognition to current delays in the supply chain and accelerated orders of specific items of clothing (individual models) or entire collections; 4) investments in the development of logistics facilities and technologies, including IT; owing to the above, the last mile is shortened, compensating the prolonged time of inbound deliveries.

EPIDEMIC AND PANDEMIC RISK

The outbreak of an epidemic on markets where we have our collections manufactured and where we sell them 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 may be logistics problems in stock transporting and warehousing. In consequence, these factors may adversely affect our product offer and its availability. At the same time, the outbreak of an epidemic in countries 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 the event of closure of on-site stores. Furthermore, an epidemic may bring about an economic crisis in countries of its occurrence or cause even a global crisis. Considering the fact that the Group's revenues and margins depend on the economic situation of households and their consumption inclinations and that an economic crisis may translate into a decrease in consumer spending, including clothing purchases, the Group is exposed to the risk of economic crisis caused by the epidemic/pandemic.

ACTIONS MINIMISING THE RISK

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 more easily available to customers at times of economic crisis. We diversify sales channels by developing e-commerce being the alternative shopping channel for customers while on-site stores are closed during a quarantine. In crisis situations like the epidemic risk, the Management Board of LPP reacts, on a day-to-day basis, by making decisions aimed at maintaining the Group's liquidity position by reducing operating costs or capital expenditures. Although all these actions will not safeguard the Group against the risk of epidemic and the consequential economic slow-down, they may, however, minimise its impact.

13.3. Geopolitical risks

RISK ASSOCIATED WITH RESTRICTIONS EMERGING DUE TO THE OCCURRENCE OF POLITICAL AND ECONOMIC CRISES, AN ARMED CONFLICT OR WAR

The occurrence of an armed conflict or even a war in the territory of countries in which the Group has its sales and distribution networks or in which our suppliers' manufacturing plants are located, may adversely affect the Group's operations.

Therefore, the Company is exposed to the risk of imposition of an embargo or import or export restrictions (involving goods/services), the risk of appropriation of trade commodities, nationalisation of assets and, in consequence, the risk of losing such trade commodities or assets. There may also emerge the risk of a sales ban in the territory of countries affected by an armed conflict as well as economic and financial sanctions imposed by external organisations on countries in conflict, in which the Group pursues its business activity.

Actions given above may disturb the continuity of our sales and the supply chain, hinder the transfer of cash and cause payment backlogs, which, in consequence, may affect the Group's liquidity. In extreme situations, there is the risk of the Company having to cease operations in conflict territories.

Furthermore, the Company recognizes the risk involving negative impact on its corporate image in cases where it conducts its business activity in the territory of a country that has initiated a conflict.

The Group operates in many countries, including those in the Eastern Europe region, where the potential risk of armed conflict has been elevated for several years. This risk has materialised following the outbreak of war in Ukraine following the invasion of Russian troops in February 2022.

ACTIONS MINIMISING THE RISK

Risks associated with restrictions caused by the occurrence of restrictions caused by emerging political and economic crises are difficult to mitigate due to the unpredictability of conflict situations and consequential decisions made by institutions and international organisations. The Company takes action to mitigate the following risks: (1) operations on numerous markets (the Group operates in 39 countries, and, therefore, it is possible to limit the consequences of occurrence of disturbances on given territories); (2) limiting the Group's exposure to a given country (a share in a single country's sales may not exceed 20% of the Group's total sales, except for Poland) (3) regular monitoring of the balance of financial settlements in the Group and exercising control so as to avoid excessive liabilities/receivables which might adversely affect the Group's liquidity, (4) monitoring the current political and economic situation and, following a comprehensive analysis, making by the Company's Management Board of decisions on a day-to-day basis.

13.4. Climate risks

PHYSICAL – SUDDEN, SHORT-TERM RISKS

LIMITED AVAILABILITY OF RAW MATERIALS FOR TEXTILE PRODUCTION AND THEIR GROWING PRICES

Increasing temperatures and glacial melting bring twofold consequences for regions in which e.g. cotton is produced, being a natural raw material used in manufacturing LPP clothes. In the short to medium term, this can translate into an increased risk of flooding. In the medium to long term, on the other hand, there is an increased risk of limited access to water and prolonged periods of drought, specifically in regions where most of the world's production is concentrated. Furthermore, climate changes are causing extreme weather events such as heavy rainfall and increasingly violent monsoons, which, in some years, may cause negative supply shocks. If materialised, all the above scenarios may result in reduced availability of raw material, and, consequently, in higher prices and increased costs of purchasing goods, as a result of which the Group's sales margin may decrease.

ACTIONS MITIGATING THE RISK

LPP has a well-developed supplier chain. Therefore, in case of occurrence of short-term and region-specific shortages of raw materials or their increased prices, it is possible to change the source of cotton. Furthermore, the Company takes initiatives supporting producers' development in less threatened regions and those with potential development capacity e.g. the Company is engaged in the Cotton Made in Africa initiative aimed at improving life and work conditions of small farmers in Africa in exchange for sourcing sustainable cotton.

DISRUPTION OF PRODUCTION PROCESSES

Extreme weather events specific to certain regions, such as floods, cyclones, etc., can disrupt the continuity of production processes by affecting the continuity of the supply chain (delays in the delivery of semi-finished products, power outages).

ACTIONS MITIGATING THE RISK

LPP works with more than 1,000 manufacturing plants in more than a dozen of countries and has the ability to transfer its production, in full or in part, to suppliers in regions not threatened by extreme weather events.

DISRUPTION OF LOGISTICS PROCESSES

Extreme weather events such as the rising sea level or cyclones may cause damage to ports of importance for the supply chain as well as transport delays, specifically in maritime transport which constitutes a key transport type for LPP's stock produced. The above may result in product nonavailability in our stores and adversely affect the Group's sales.

ACTIONS MITIGATING THE RISK

LPP has the possibility of changing the transport type or route (as regards Bangladesh, it is possible to change maritime route to air transport; as regards China, it is possible to change maritime route to railway transport) as well as changing the shipping port (China).

PHYSICAL – CHRONIC, LONG-TERM RISKS

INCREASED COSTS OF STORE MAINTENANCE

Increased temperatures may require a more intense use of air-conditioning in brand stores, which may result in alleviated power consumption and, consequently, in increased operating costs.

ACTIONS MITIGATING THE RISK

The Company invests in solutions increasing the use of renewable energy sources in its warehouses. It has signed contracts on the supply of green energy with specialised external companies. Furthermore, it invests in the latest technologies limiting energy consumption.

MISMATCH BETWEEN COLLECTION TYPES AND CHANGING WEATHER CONDITIONS

Due to permeating seasons and occurrence of extreme weather changes, there is a risk that collection types will not be adjusted to current weather conditions.

ACTIONS MITIGATING THE RISK

The Company has a system for analysing temperatures and weather conditions, connected with supply planning processes involving different countries. If it is required to deliver, in a more speedy way, stock then it is possible to change the transport type from maritime to railway transport. At the same time, the portfolio of near-shore suppliers (not distant from the Group's distribution centres) is being constantly expanded.

RISKS ASSOCIATED WITH THE TRANSFER TO LOW-EMISSION CLIMATE-CHANGE-PROOF ECONOMY

Change of customers' shopping patterns

The increasing awareness of LPP's customers, associated with adverse climate changes, may bring about a change in shopping patterns towards products with the least environmental impact. Furthermore, customers may expect that the Company should make declarations on sustainable fashion (environmentally neutral production, transparency).

ACTIONS MITIGATING THE RISK

LPP has an extensive and highly skilled Sustainable Development Team that holistically works on all aspects of the matter in question, including solutions aimed at providing customers with products with the most neutral environmental impact, and develops projects to make the Company's overall business activities more environmentally friendly.

The dynamics of changes in ESG have strengthened the team engaged in works in this area, and has intensified the work itself. Consequently, the Group meets customers' requirements in the area of sustainable development and investors' requirements as well.

NEED TO COOPERATE WITH SUPPLIERS MEETING REQUIREMENTS IN TERMS OF ENVIRONMENTALLY NEUTRAL PRODUCTION

LPP's business model transforming to become increasingly sustainable may require limitation of cooperation with suppliers, leaving in business only those who meet specific production requirements. In consideration of customers' increasing expectations towards companies (environmentally neutral production, transparency) may involve also the reputational risk.

ACTIONS MITIGATING THE RISK

The Company encourages its suppliers to join initiatives supporting them in executing the assumptions of a more environmentally friendly production model (e.g. the in-house program named Eco Aware Production or the ZDHC initiative) and carries out audits in suppliers' manufacturing plants to exercise control over eco-friendly processes in such plants. Customers' increasing awareness of climate changes and investors' conditions for investment decisions drive changes towards sustainable fashion in the Company. LPP joins numerous initiatives owing to which the entire value chain may become environmentally neutral. Furthermore, LPP develops

NEED DO ADHERE TO LAW REQUIREMENTS IN PRODUCTION AND DISTRIBUTION COUNTRIES

Due to the growing importance of climate protection issues and, first of all, increasing global warming, production and distribution countries may introduce regulations aimed at mitigating climate changes (involving manufacturing processes, transport or sales). The above may require a change in the business model.

ACTIONS MITIGATING THE RISK

LPP is aware of the relevance of regulations implemented and the need to adjust its operations respectively e.g. making its own list of chemical substances compliant with the EU requirements. The dynamics of changes in ESG have strengthened the team engaged in works in this area, and has intensified the work itself. Therefore, the Company meets customers' requirements in the area of sustainable development and investors' requirements as well.

NEED TO MEASURE CONSUMPTION OF NATURAL RESOURCES

A possible consequence of both regulations implemented to mitigate climate changes and reporting requirements is the need to measure consumption of natural resources (e.g. water, power consumption).

ACTIONS MITIGATING THE RISK

LPP has installed advanced technological systems for managing power consumption in its offices and part of brand stores. Energy consumption in offices is monitored and, in subsequent years, it is planned to measure both energy and water consumption in all brand stores of the Group.

Glossary

Poland	Retail sales in Poland and other sales of LPP SA.
CEE	Region including: Czech Republic, Slovakia, Hungary and Poland (if not stated otherwise).
Baltic	Region including: Lithuania, Latvia, Estonia.
CIS	Region including: Russia, Ukraine and Belarus (from 2017) and Kazakhstan (from 2018).
SEE	Region including: Bulgaria, Romania, Croatia, Serbia (from 2017), Slovenia (from 2018), Bosnia & Herzegovina (from 2019) and North Macedonia from 2021/22.
WE	Region including Germany, the UK (from 2017) and Finland (from 2019).
ME	Region including: Egypt, Qatar, Kuwait, UAE and Israel (from 2018). Until mid-2017 the region included also Saudi Arabia.
Europe	Region including: CEE, Baltic, SEE and WE.
EBITDA	EBIT + depreciation from cash flow statement.
Average monthly revenues/m²	Revenues of segment or brand / average working total floorspace / 12.
Average monthly costs of own stores/m²	Costs of own stores / average working floorspace of own stores (ie. excluding all franchise stores which represent c. 2.5% of the working floorspace) / 12.
Average monthly SG&A PLN/m²	SG&A costs/ average working total floorspace excluding stores located in ME and Belarus (until 2020/21) / 12.
Inventory/ m²	End of period group inventory/ total floorspace without franchise stores in ME and Belarus (until 2020/21).
Inventory days	Average inventory/ group COGS * 365 days.
Receivables days	Average receivables/ group revenues * 365 days.
Liabilities days	Average short-term liabilities/ group COGS * 365 days.
Cash conversion cycle	Inventory days + receivables days – liabilities days.

Disclaimer

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Publication: November 2022

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