LPP

LPP SA GROUP
CONSOLIDATED ANNUAL REPORT FOR 2020/21

This report covers the financial year of the LPP SA Group, lasting from 1 February 2020 to 31 January 2021 (further referred as “2020/2021 financial year”).

RESERVED CROPP house MOHITO sinsay

SPIS TREŚCI

1 PRESIDENT'S LETTER TO SHAREHOLDERS

DEAR SHAREHOLDERS,

We passed through a difficult year causing hardship for all economies. The global crisis has become the hallmark of the pandemic, thus requiring the majority of entrepreneurs, specifically in the retail sector, to minimise the effects of the global slow-down and fight the blocking of traditional sale instead of striving for record-breaking results. LPP suffered the similar problem.

We entered 2020 with a strong financial cushion securing, to a large extent, our interests during that difficult time. As a result, we closed 2020/21 with revenue of PLN 7.8 bln. That year was weaker y/y/ by approx. 15%, however, considering the circumstances faced by the retail sector, the said result was above what we had initially assumed. A triple lock-down was reflected in the volume of traditional sales, falling last year by 31% y/y. The above result was partially compensated with very good results of online sales the dynamics of which reached as much as 106%, generating a revenue exceeding PLN 2 bln. Nonetheless, for the first time in our history, we closed 2020 with a net loss of PLN 190 mln.

In the last year's report, I assured you that, having faced a new reality dominated by the coronavirus pandemic, we would create new scenarios for LPP's operations, which would help us to overcome that difficult time. Therefore, we decided to focus on several pillars: e-commerce strengthening, strict cost discipline, implementation of logistics improvements and effective stock management. I consider that plan executed in full.

In consequence of prolonged lock-downs throughout the year, the majority of our customers changed their habits by transferring to the on-line world. Thus, we were forced to make quick steps to enhance the e-commerce channel, increase the capacity of our brands' websites and ensure their full scalability. To that end, we decided to maximise the capacity of cloud solutions for our brands' websites. The above served as the basis for the further development of the e-commerce channel which, for most of the year, remained our only source of revenue. It should be emphasized, as a result of the above steps, we were also able to optimise costs. Owing to technological solutions and automated addition of subsequent resources in the cloud, our servers could handle the increased traffic with no need to make any cost-consuming decisions to buy additional IT infrastructure.

Simultaneously, due to occurring circumstances, we were forced to implement expedite changes to improve our distribution network. Last year, in Slovakia, we launched a warehouse dedicated to e-commerce and, in just several weeks, we adjusted our fully automated distribution centre in Pruszcz Gdański, dedicated to the replenishment of the on-site network, to support five e-commerce warehouses in the distribution of on-line orders.

However, a major interest in online sales and a clear-cut shift in capacities of both sales channels did not bring about the end of on-site trade as predicted by some. As shown by temporary lifting of lock-downs, customers, specifically in the fashion sector, decided to reach out to products directly despite the fear of repeated visits in shopping centres. Customers no longer treated brand stores as showrooms and a source of fashion inspirations but rather as a place they went to thinking of trying on and buying specific products. That was an impulse to make a decision to further develop our on-site chain. Last year, the number of our brand stores increased by 6% while our retail space increased by 17% y/y. Our development was focused on younger brands as we had decided to expand their on-site chains specifically on the markets of East Europe where the traditional channel is still very important. To that end, we allocated the total of PLN 622 mln, with joint capital expenditures reaching PLN 826 mln.

Last year, as part of cost rationalisation and due to the need to ensure the Company's stability, we had to make also difficult decisions. One of them was a four-month suspension of one of our logistics projects i.e. construction of a distribution centre in Brześć Kujawski. We restored that project as part of our investment plans in October 2020 in a modified version. However, we did not change the time schedule for construction works and, as before, we plan to launch the said centre in Q1 2022, with target employment of approx. 1,000 people.

Furthermore, we changed our plans regarding debuts of our brands in North Macedonia. The opening planed originally for Q3 2020 was delayed deliberately by 12 months. Despite the above, last year, availability of our offer was still high. At present, collections of our 5 brands are jointly available on 38 markets, including 30 markets with online sales.

Last year, rational stock management played also a substantive role. We reduced the volume of our orders by almost 40%, launching simultaneously our in-house Defrost programme which let us defrost the stock blocked in closed on-site stores. We integrated the stock in both sales channels and, owing to the RFID technology implemented last year in Reserved, we were fully aware of the stock volume in individual stores which had become dispatch points for intensified online orders.

During subsequent weeks of 2020, we noticed also quite large changes in our customers' shopping baskets. Along with life style changes caused by the pandemic, customers' product preferences had also changed. We modified our collections accordingly, increasing the volume of homewear which today gains importance.

New reality had polarised customers' expectations. On one hand, products offered with the best price--quality ratio were very popular. On the other hand, we noticed customers' increased interest in more eco-friendly clothing. Last year, in this segment, we made quite a progress.

Despite market hardships and our focus on ensuring the Company's stability, we had not ceased to execute goals set in our sustained development policy "For People For Our Planet". On the contrary, specific goals being part of that policy were executed to an extent larger than originally planned. In 2020, almost 19% of our collections were products labelled Eco Aware. In Reserved, every third item of clothing was made of eco-friendly materials or manufactured in a sustainable process.

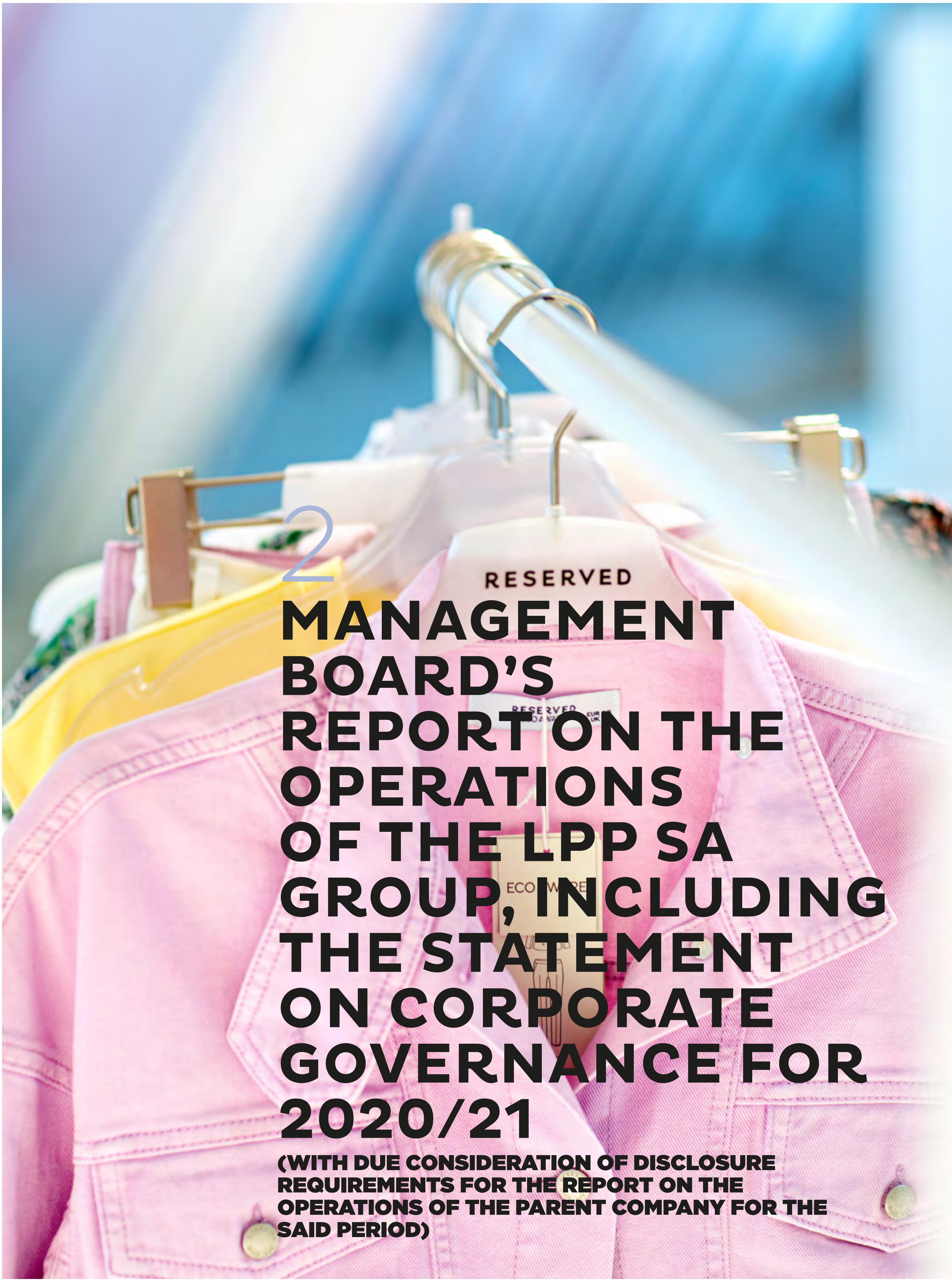
At the same time, we worked on further limitation of plastic in our sales and distribution networks. Last year, we managed to eliminate in full plastics in packaging designated for dispatching online orders in Mohito and Reserved. In the remaining brands, we used recycled foil only. Consequently, in 12 months, in our retail operations, we eliminated another 300 tonnes of single-use plastics. It means that the 2019 result was almost doubled, with a total reduction of as much as 570 tonnes of plastics in last 4 years.

In mid-2020, we joined the Zero Discharge of Hazardous Chemicals, an initiative aimed at global limitation of the adverse impact of the clothing sector on the environment and at eliminating hazardous substances. A month later, we joined the Polish Plastics Pact, an inter-segment cooperation platform for companies and organisations striving at changing the current model of using plastic raw materials on the Polish market towards a closed circuit economy.

That difficult year has not deprived us of social sensitivity in ongoing circumstances. Having regard of increasing epidemic hazards and intensified difficulties in medical centres and non-governmental organisations, together with our foundation, we decided to launch the #LPPpomaga aid scheme. We therefore supported over 300 medical and non-medical centres throughout Poland, which received personal safety products and funds for purchasing medical equipment indispensable for saving patients' lives. Furthermore, we provided online learning equipment for children staying in orphanages.

In our memory, last year will always remain as the time of tough and uncompromised decisions. In LPP's history, that was a breakthrough time which proved that, despite being deprived of the main source of revenue, we were able to ensure the Company's safety, liquidity and stability preserving rational cost policy, optimum stock management and focusing on maintaining efficient logistics and flexible online sales. Please be ensured that we have adopted similar priorities for the year 2021, entering it full of energy and ambitious goals.

Marek Piechocki
President of the Management Board of LPP SA



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MANAGEMENT BOARD'S REPORT ON THE OPERATIONS OF THE LPP SA GROUP, INCLUDING THE STATEMENT ON CORPORATE GOVERNANCE FOR 2020/21

(WITH DUE CONSIDERATION OF DISCLOSURE REQUIREMENTS FOR THE REPORT ON THE OPERATIONS OF THE PARENT COMPANY FOR THE SAID PERIOD)

INTRODUCTION

This Report of the Management Board on the operations of the LPP SA Group for 2020/21 incorporates information the scope of which has been set forth in §§ 70-71 of the Regulation of the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities [...] (the Regulation).

Under § 71 subparagraph 8 of the Regulation, this report comprises also disclosures required for the Report on the operations of the Parent Company, referred to in § 70 subparagraph 1 point 4 of the Regulation.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the Management Board

Przemysław Lutkiewicz
Vice-President of the Management Board

Jacek Kujawa
Vice-President of the Management Board

Sławomir Łoboda
Vice-President of the Management Board

Gdańsk, 27 April 2021

ABOUT US

WHO WE ARE

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

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

Our staff consists of approx. 22 thousand people employed in our offices as well as sales and distribution units in Poland and European and Asian countries. Openness, diversity, responsibility for common development and mutual respect are the cornerstones of LPP's culture.


GDAŃSK
The head office of LPP, where designs of Reserved, Cropp and Sinsay collections are made. In Gdańsk, the Management Board of LPP takes key decisions for the Company's operations and development. The Company's all key departments are located in the head office

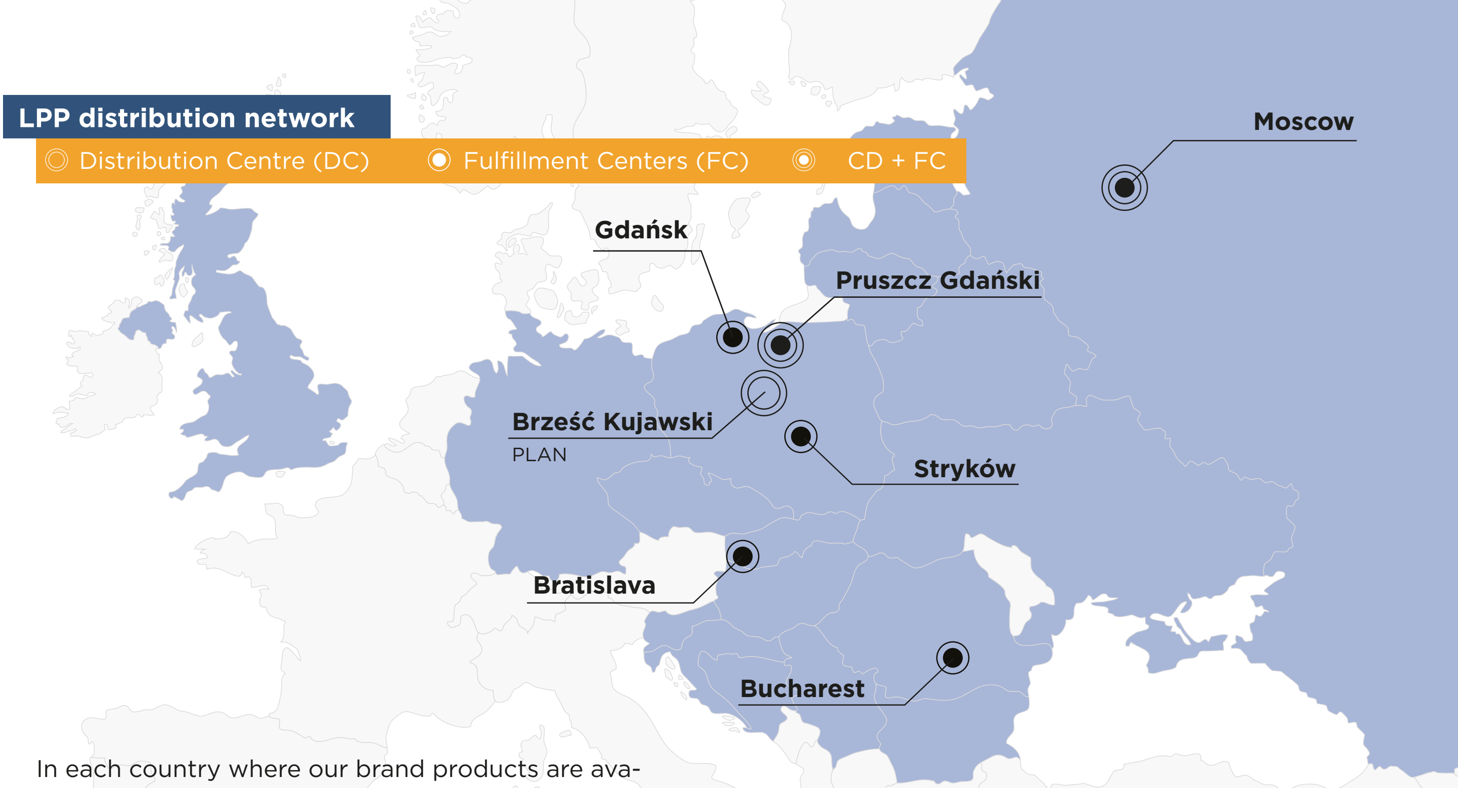
CRACOW
In Cracow, there are design offices of House and Mohito and their sale department as well as our administrative department for both brands.



WARSAW
In 2017, in Warsaw, we launched the Reserved product office. Its 50-person team assists the product development department in Gdańsk both in creating regular collections, including Eco Aware, and in special projects. Showrooms of all LPP brands are also located in Warsaw

SHANGHAI
Our Asian office in Shanghai has been operating since 1997. Its staff is responsible, among others, for soliciting suppliers, supporting individual manufacturing stages and quality control. Furthermore, the office's major task is verification of our suppliers' compliance with the Code of Conduct in terms of safety rules and employees' rights


DHAKA
In 2015, we launched our representative office in Dhaka, the capital city of Bangladesh. Its staff is responsible for coordinating and supervising production of our collections in local manufacturing plants. Our employees' major task is also the auditing of manufacturing plants we cooperate with in terms of adequate working conditions and respect for human rights.



In each country where our brand products are available, there is a local representative unit of LPP. Foreign LPP companies are led by the best fashion specialists successfully managing our business in specific countries.

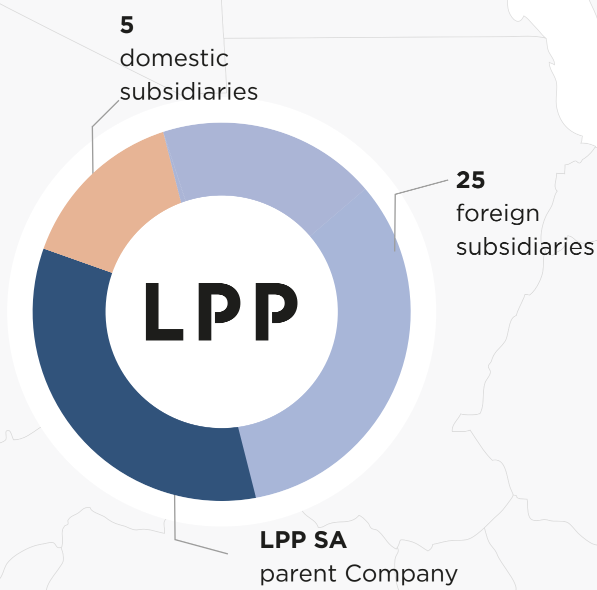
HOW WE OPERATE AS A GROUP

The LPP SA Group is composed of 6 Polish companies (including the Parent Company) and 25 foreign companies. The Group's foreign subsidiaries are, to a major extent, engaged in the distribution of products of all our brands outside Poland.

The consolidated financial statements of the Group, covering the period between 1 February 2020 and 31 January 2021, include separate results of LPP SA, the results of foreign subsidiaries and three Polish subsidiaries: LPP Retail Sp. z o.o. engaged in the operation of stores in Poland, LPP Printable Sp. z o.o. handling the sale of promotional clothing and LPP Logistics Sp. z o.o. engaged in the warehousing of goods to be resold and general logistics issues. The remaining two Polish subsidiaries (engaged in the lease of real properties where our brand stores are operated in Poland) were not consolidated due to irrelevance of data.

In the reporting period, we welcomed a new company in our Group: LPP Logistics Sp. z o.o.

Structure of the LPP SA Group



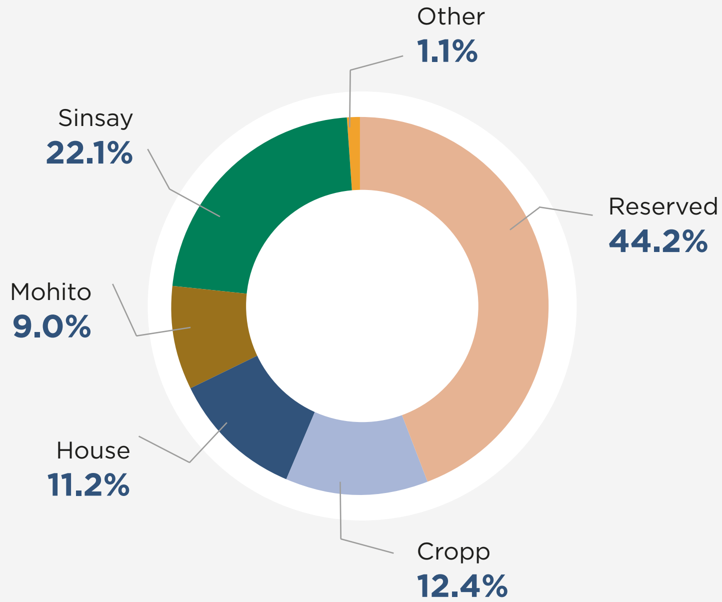
The Group's subsidiaries:

No	Company name	Registered office	Shareholding
1.	LPP Retail Sp. zo.o.	Gdańsk, Poland	100.0%
2.	DP&SL Sp. z o.o.	Gdańsk, Poland	100.0%
3.	IL&DL Sp. z o.o.	Gdańsk, Poland	100.0%
4.	LPP Printable Sp. z o.o.	Gdańsk, Poland	100.0%
5.	LPP Logistics Sp. Z o.o.	Gdańsk, Poland	100.0%
6.	LPP Estonia OU	Tallinn, Estonia	100.0%
7.	LPP Czech Republik SRO	Prague, the Czech Republic	100.0%
8.	LPP Hungary KFT	Budapest, Hungary	100.0%
9.	LPP Latvia LTD	Riga, Latvia	100.0%
10.	LPP Lithuania UAB	Vilnius, Lithuania	100.0%
11.	LPP Ukraina AT	Peremyshliany, Ukraine	100.0%
12.	RE Trading OOO	Moscow, Russia	100.0%
13.	LPP Romania Fashion SRL	Bucharest, Romania	100.0%
14.	LPP Bulgaria EOOD	Sofia, Bulgaria	100.0%
15.	LPP Fashion Bulgaria EOOD	Sofia, Bulgaria	100.0%
16.	LPP Slovakia SRO	Banská Bistrica, Slovakia	100.0%
17.	Gothals LTD	Nicosia, Cyprus	100.0%
18.	LPP Croatia DOO	Zagreb, Croatia	100.0%
19.	LPP Deutschland GmbH	Hamburg, Germany	100.0%
20.	IPMS Management Services FZE	Ras Al Khaimah, UAE	100.0%
21.	LPP Reserved UK LTD	Altrincham, UK	100.0%
22.	LLC Re Development	Moscow, Russia	100.0%
23.	LPP Reserved DOO Beograd	Belgrade, Serbia	100.0%
24.	P&L Marketing&Advertising Agency SAL	Beirut, Lebanon	97.3%
25.	LPP BH DOO	Banja Luka, Bosnia and Her-cegovina	100.0%
26.	LPP Kazakhstan LLP	Almaty, Kazakhstan	100.0%
27.	Reserved Fashion, Modne Znamke DOO	Ljubljana, Slovenia	100.0%
28.	LPP Finland LTD	Helsinki, Finlandia	100.0%
29.	OOO LPP BLR	Helsinki, Finland	100.0%
30.	LPP Macedonia DOOEL	Skopje, Macedonia	100.0%

OUR PORTFOLIO

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

Share in sales



RESERVED

RESERVED

In its collections, Reserved follows the latest trends, mixing classic designs with original and latest fashion offers. It gets inspired by multicultural atmosphere of the largest cities in Europe and America and metropolitan everyday life of Tokyo or Seoul. The Reserved offer is addressed to women, men and children. Our customers may also find unisex collections and maternity clothing. Reserved offers diverse products: the latest-trend collections, those reflecting minimalism and premium collections with high-quality apparel. When creating new collections, the brand puts emphasis on testing new sustainable fashion solutions and gradually increases the share of environmentally friendly Eco Aware products. In 2020/21, that share increased to as much as 32.4%.

Basic data on the brand for 2020/21:

Date of establishment:	1998
Website:	www.reserved.com
Location of the design centre:	Gdańsk, Warsaw
Revenue for 2020/2021 and change in % y/y:	3,467 mln, decrease -20.7% y/y
Number of brand stores (as at 31.01.2021):	440
Store area (as at 31.01.2021) and change in % y/y:	675 thousand m^2, increase 1.5% y/y
Number of markets and countries in which the brand is available in on-site stores:	25 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Belarus, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Germany, Great Britain, Finland, Egypt, United Arab Emirates, Kuwait, Qatar, Israel
Countries in which the brand is available in online stores:	30 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Romania, Croatia, Serbia, Slovenia, Germany, Great Britain, Finland, Portugal, Spain, Ireland, the Netherlands, Belgium, Luxembourg, France, Greece, Italy, Austria, Sweden, Denmark, United Arab Emirates, Saudi Arabia, Israel

Basic data on the brand for 2020/21:

Date of establishment:	2004
Website:	www.cropp.com
Location of the design centre:	Gdańsk
Revenue for 2020/2021 and change in % y/y:	PLN 972 mln, decrease -24.5% y/y
Number of brand stores (as at 31.01.2021):	369
Store area (as at 31.01.2021) and change in % y/y:	166 thousand m^2, increase 12.3% y/y
Number of markets and countries in which the brand is available in on-site stores:	17 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland
Countries in which the brand is available in online stores:	13 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Slovenia, Germany

CROPP

CROPP

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 accessories and footwear. The brand helps to express emotions and cross boundaries. Brand designers get inspired mainly by the Internet. Their inspirations come also from modern culture and music, creatively mixing them in projects with the latest trends. When designing a collection, the Cropp brand cooperates with illustrators as well as visual arts and graffiti artists from all over the world. For many years, Cropp has supported street art events.

Basic data on the brand for 2020/21:

Date of establishment:	2001
Website:	www.housebrand.com
Location of the design centre:	Cracow
Revenue for 2020/2021 and change in % y/y:	PLN 875 mln, decrease -22.9% y/y
Number of brand stores (as at 31.01.2021):	332
Store area (as at 31.01.2021) and change in % y/y:	147 thousand m^2, increase 15.2% y/y
Number of markets and countries in which the brand is available in on-site stores:	17 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland
Countries in which the brand is available in online stores:	13 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Slovenia, Germany

HOUSE

The House brand mixes the latest trends with street styles. It focuses on casual clothing, offering bold combinations and distinctive accessories. Our customers are people who are young or feel young, with self-distancing, at ease, wanting to live life to the full. In House collections, we make references to art, pop culture and social media trends, being inspired by metropolitan streets. We inspire our customers to play with fashion and intentionally create their own look. Brand designers use professional tools to analyse fashion trends, having a close look on the style of metropolitan streets, taking part in textile fairs and being constantly present in the web. House cares for eco quality and its strategy covers social responsibility to create more sustainable future in fashion.

Basic data on the brand for 2020/21:

Date of establishment:	2008
Website:	www.mohito.com
Location of the design centre:	Cracow
Revenue for 2020/2021 and change in % y/y:	PLN 708 mln, decrease -28.3% y/y
Number of brand stores (as at 31.01.2021):	278
Store area (as at 31.01.2021) and change in % y/y:	115 thousand m^2, increase 3.2% y/y
Number of markets and countries in which the brand is available in on-site stores:	18 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Belarus, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland
Countries in which the brand is available in online stores:	13 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Slovenia, Germany

MOHITO

Mohito always put emphasis on femininity on every occasion (whether you go for a party or stay at home – remote working). Our male and female designers carefully follow global trends, maintaining balance between fashion inspirations and nowadays highly expected functionality and comfort. They derive inspirations from various sources, from catwalks through websites and social media to clothing worn by people met. Mohito offers affordable clothes manufactured based on ethical principles, in which every female may feel natural and beautiful.

Basic data on the brand for 2020/21:

Date of establishment:	2013
Website:	www.sinsay.com
Location of the design centre:	Gdańsk
Revenue for 2020/2021 and change in % y/y:	PLN 1,738 mln, increase 35.5% y/y
Number of brand stores (as at 31.01.2021):	434
Store area (as at 31.01.2021) and change in % y/y:	330 thousand m^2, increase 90.3% y/y
Number of markets and countries in which the brand is available in on-site stores:	18 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Kazakhstan, Belarus, Bulgaria, Romania, Croatia, Serbia, Slovenia, Bosnia and Hercegovina, Finland
Countries in which the brand is available in online stores:	13 markets: Poland, the Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Russia, Ukraine, Romania, Croatia, Slovenia, Germany

SINSAY

The brand responds to the needs of teenagers, young women, parents and their children. Collections offered include Lady, Teen, Man, Kids, ACC, Home and Beauty lines. Therefore, Sinsay may offer products for customers in each age category. Brand designers derive inspirations from various sources. At present, the most important trend is from home to street. As our customers' homes are currently the centre of their world, Sinsay clothes and accessories? at the market's best prices are designed to offer the maximum comfort. Individual Sinsay designs may be matched differently, they are multi-tasked just like our homes recently, where our customers work, study, play and live their every-day lives.

OUR BUSINESS MODEL

Our business model is defined in 4 steps:

STEP 1: DESIGNING

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

Over **300** designers, **5** different brands

Our designers monitor latest developments in fashion capitals, at events organised online during the pandemic, and, on a daily basis, follow street fashion and social media to create original collections which creatively match given-season trends (colours, patterns, models) with our customers' needs.

STEP 2: MANUFACTURING

Over **1,100** suppliers from Asia and Europe

Approx. 9% of collections of all LPP brands manufactured in close proximity, 90% in Asia

No own manufacturing plants

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

STEP 3:
DISPATCH AND LOGISTICS

253 thousand m² of the total warehousing space

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

Almost **23 mln** e-commerce orders executed in the financial year

Currently, apart from successful collections, the quality of logistics services is of major importance for customers in the shopping process. Therefore, on a regular basis, we develop our logistics network. In Pruszcz Gdański, we have one of the most state-of-the-art distribution centres in this part of Europe; our other warehousing facilities are located in Stryków (Central Poland), Brześć Kujawski (project in progress) and abroad: in Russia (Moscow), Romania (Bucharest) and Slovakia (Bratislava). Furthermore, we invest in new technologies facilitating the entire process of product distribution to brand stores and the e-commerce channel.

STEP 4:
SALE

Our collections are available (in traditional stores and online) in **39** countries on **3** continents

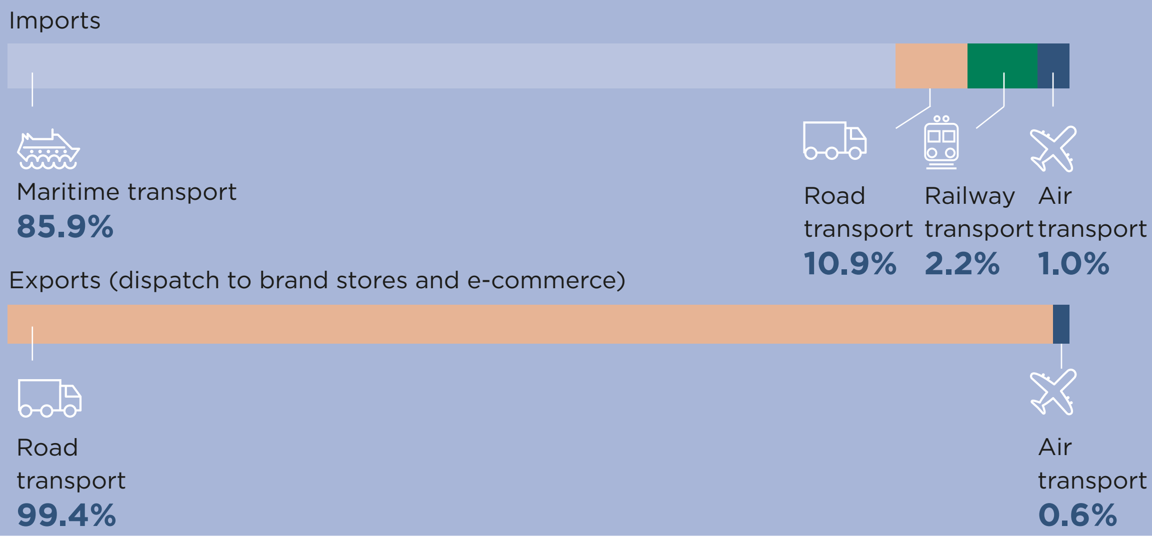
1,856 brand stores of the total area of **1,435 thousand m²** in **25** countries

Online sales in **30** countries

Almost **233 mln** of clothing items sold annually

Due to customers' changing preferences and behaviour and pervasive digitalisation and transformation in retail trade, we put emphasis on the omnichannel. We take a holistic approach to both sales channels (traditional and online) offering our brand products in a constantly developing double-channel store chain. We focus on the highest-quality customer service, implementing state-of-the-art Fashion Tech solutions.

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



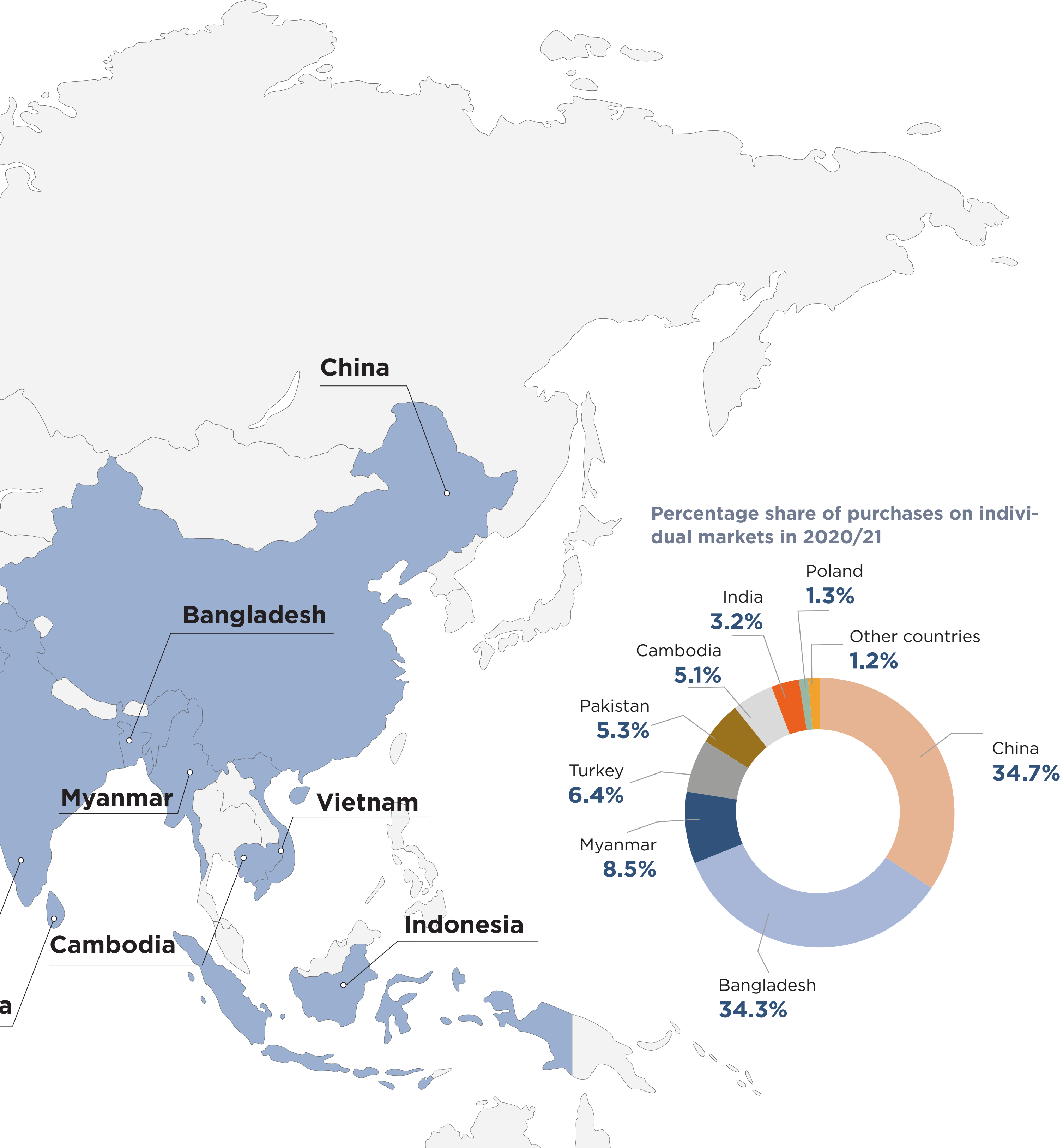

COUNTRIES WHERE OUR CLOTHES ARE MANUFACTURED
Finland
Poland
Lithuania
Romania
Serbia
Ukraine
Italy
Georgia
Portugal
Turkey
Morocco
Tunisia
Egypt
Pakistan
India

OUR SUPPLIERS

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

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

In 2020/20, none of individual suppliers manufactured goods of a value exceeding 5% of total purchases. The majority of orders were executed in China 34.7%, Bangladesh 34.3%, Myanmar 8.5%, Turkey 6.4%, Pakistan 5.3%, Cambodia 5.1%, India 3.2%. In 2020/21, Polish plants manufactured 1.3% of products ordered.



OUR RECIPIENTS

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

Direct recipients of products of LPP SA (parent company) are subsidiaries (foreign companies) and non-affiliated entities (mainly franchise partners).

Subsidiaries build the chains of retail stores of our individual brands locally and are supplied with trading commodities by LPP SA, the parent company.

Due to the specific character of certain local markets, we decide to sell goods in the franchise model based on which our products are sold by entities more experienced in this area, i.e. local business partners. They are responsible for finding the best location, building a store in line with our standards and for its management.

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

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

Currently, we have 9 franchise stores of Reserved in 5 countries in the Middle East (Egypt, Qatar, Kuwait, United Arab Emirates and Israel), operated by two business partners from that region.

In 2020/21, exports sales to franchise partners reached PLN 14,853 thousand i.e. 0.4% of revenue of LPP SA (parent company).

OUR MARKET PRESENCE

We operate in 38 countries on 3 continents, offering our products to customers in traditional and online stores.

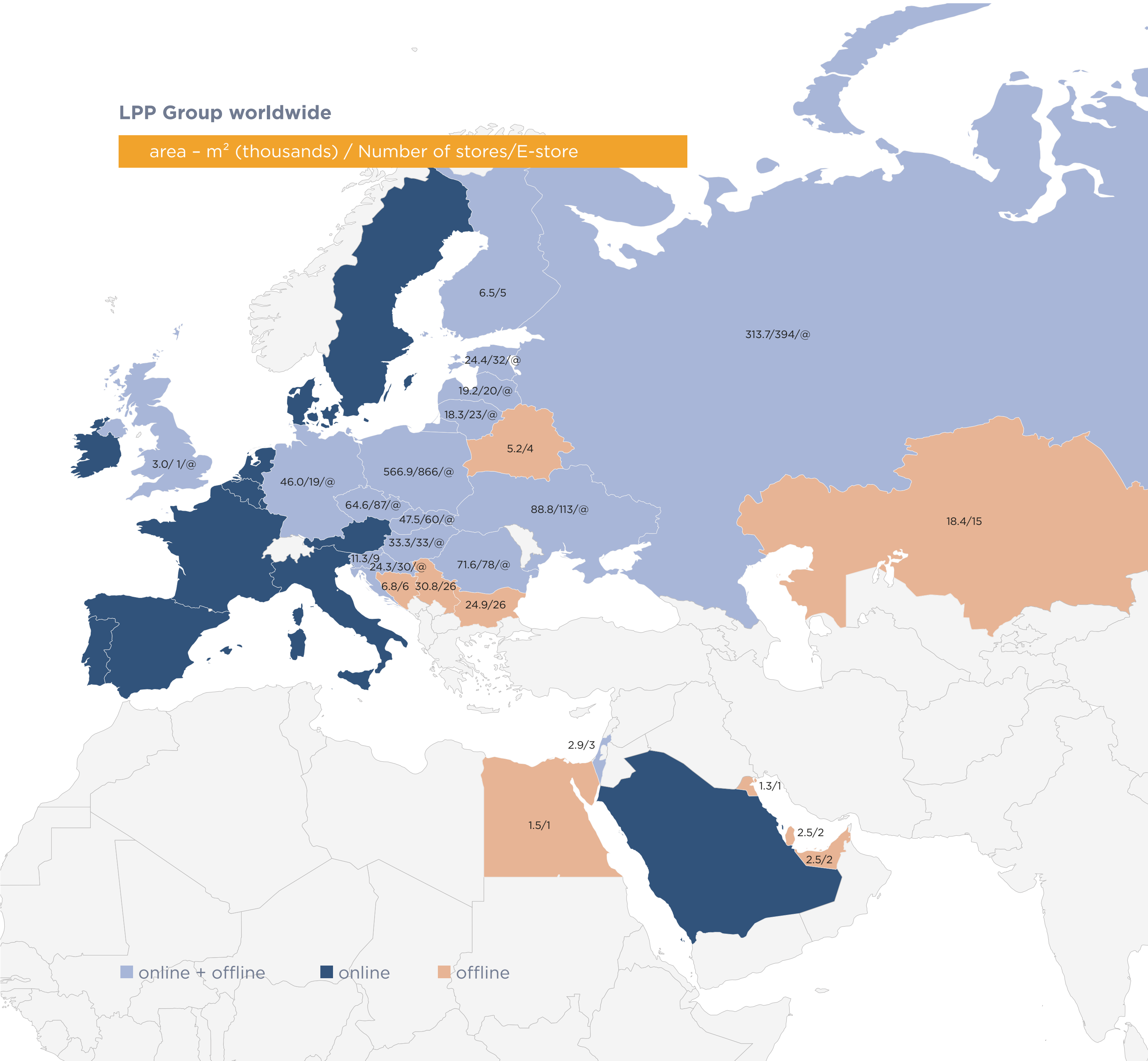
Our chain of traditional stores comprises 1,856 retail stores in 25 countries, of the total area of 1,435.4 thousand m².

We are present on 30 markets online.

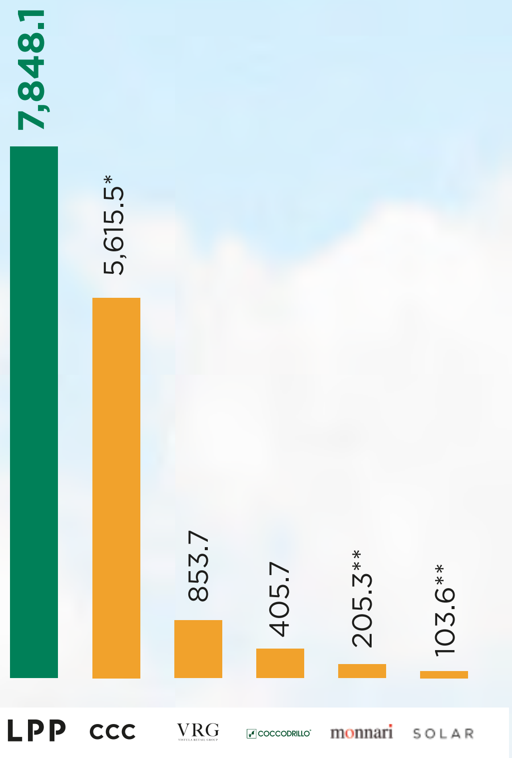
Number and area of stores in m² by brand as at 31.01.2021

	Reserved	Cropp	House	Mohito	Sinsay	Outlet
Number of stores	440	369	332	278	434	3
Area of stores in m²	674.7	166.1	146.8	115.2	329.8	2.8

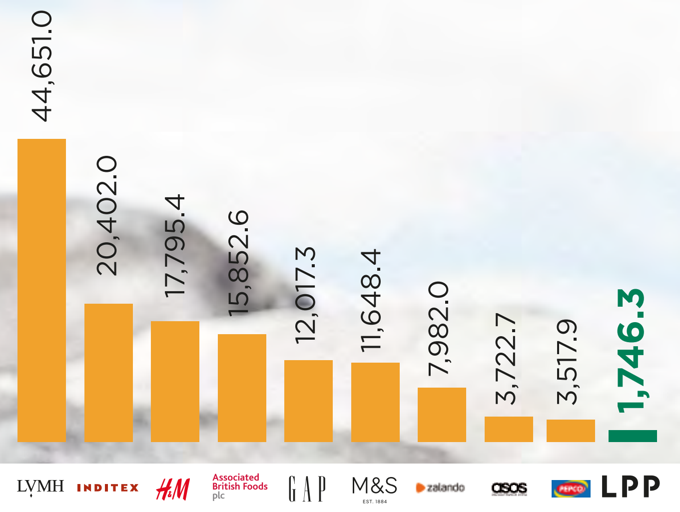
LPP Group worldwide



WE ARE ONE OF THE POLISH MARKET LEADERS



LPP versus domestic competitors
Consolidated revenues (in PLN mln)



LPP versus global competitors
Consolidated revenues (in EUR mln)

*13-month financial year, **estimated data*

KEY EVENTS IN 2020/21

FEBRUARY

EXPANSION OF THE DISTRIBUTION CENTRE IN PRUSZCZ GDAŃSKI
Completed expansion of the Distribution Centre in Pruszcz Gdański, of the total area of 91.4 thousand m^2.

MARCH

ECO AWARE
Development of Eco Aware collections in all brands of the Group as part of the Sustainable Development Strategy.

#LPPPOMAGA
Launching the #LPPpomaga project helping medical centres to fight the coronavirus pandemic.

MARCH

APRIL

NEW OFFICES IN CRACOW
Completed construction of a contemporary building in Cracow, hosting design centres of House and Mohito, of the area of 9 thousand m^2.

MAY

LPP IN THE CLOUD
Choosing Google to be our strategic digital partner. Decision made to accelerate migration to the cloud.

AUGUST

ZDHC – A GLOBAL INITIATIVE
LPP joined Zero Discharge of Hazardous Chemicals, a global initiative aimed at limiting our environmental impact.

COMPLETION OF NEGOTIATIONS WITH LESSORS
Completed negotiations with managers of shopping centres. The said negotiations involved 30% of the Group's space being the subject matter of terminated lease agreements.

COMPLETED RESTRUCTURING PROCEDURE IN GERMANY
Completion of the recovery procedure and reinstatement of the company's regular operations following negotiations with lessors, involving better lease terms and conditions.

AUGUST

SEPTEMBER

PLASTICS PACT
LPP joined the Polish Plastics Pact to change the current model of using plastic raw materials in packaging towards a closed circuit economy.

GENERAL MEETING OF SHAREHOLDERS OF LPP SA
Shareholders decided upon non-payment of a dividend and setting a buy-back of shares, totalling PLN 2.1 bln in 5 years.

OCTOBER

MADE IN POLAND – A NEW OPENING
Presentation of LPP's omni-channel activities, showing benefits of technological and logistics investments.

RESTARTING CONTRUCTION OF THE DISTRIBUTION CENTRE IN BRZEŚĆ KUJAWSKI
Adoption of the decision to restart investments in the Distribution Centre in Brześć Kujawski. A modified project relaunched in Q1 2021.

NOVEMBER

LPP – A FAMILY-RUN COMPANY
Acquisition by the Semper Simul Foundation of a controlling interest in LPP to ensure that it remains a family-run company and that the execution of its strategy is guaranteed.

BRAND STORE IN DUBAI
Opening of the Reserved brand store in Dubai, of the area of 1,4 thousand m², in Dubai Mall, the world's largest shopping centre.

DECEMBER

#LPPPOMAGA PROJECT – THE SECOND OPENING
LPP made a decision to provide material and financial aid to medical centres fighting with the second pandemic wave (support for hospitals in the Pomerania and Lesser Poland regions).

JANUARY

COMPLETION OF THE FIRST STAGE OF DEVELOPMENT OF THE FASHION LAB COMPLEX
LPP employees started working in a new headquarter building at Łąkowa Street, of the total area of 17,5 thousand m². Therefore, the total area of the Company's headquarters in Gdańsk was doubled.

OUR FINANCIAL POSITION AND RESULTS FOR 2020/21

NUMBER OF STORES AND RETAIL SPACE

At the end of 2020/21, the LPP SA Group had 1,856 stores in 25 countries, having the total area of approx. 1,435.4 thousand sq. m., with 990 stores located abroad (868.5 thousand sq. m.). Compared to 2019/20, the total retail space increased by 16.6%.

The largest nominal increase in retail space y/y and the largest growth dynamics y/y were recorded by Sinsay owing to the brand's consistent development both domestically and abroad.

	31.01.2021	31.01.2020	
	Number of stores	Number of stores	Change y/y
Reserved	440	454	-14
Cropp	369	360	9
House	332	318	14
Mohito	278	283	-5
Sinsay	434	324	110
Outlet	3	7	-4
Total LPP Group	**1,856**	**1,746**	**110**

	31.01.2021	31.01.2020	
	Area in thousand m^2	Area in thousand m^2	Change y/y (%)
Reserved	674.7	664.8	1.5%
Cropp	166.1	147.9	12.3%
House	146.8	127.4	15.2%
Mohito	115.2	111.7	3.2%
Sinsay	329.8	173.3	90.3%
Outlet	2.8	5.8	-50.7%
Total LPP Group	**1,435.4**	**1,230.9**	**16.6%**

SALES OF OUR INDIVIDUAL BRANDS

In 2020/21, the Group's revenue was generated from the revenue of five brands, yielded from their on-site and online stores. At the same time, these values were approx. 15% lower than those recorded by the Group a year ago. The decrease in revenue of almost all brands had been caused by restrictions implemented in countries where the Group had its on-site stores. Restrictions implemented by governments of individual countries resulted from the spreading COVID-19 pandemic and required the closure by the Group of on-site stores which previously had generated approx. 90% of the Group's revenue. The outbreak of the pandemic and the restrictions forced the Group's customers to shop in online stores of individual brands which, at that time, recorded very high revenue dynamics. Nonetheless, increased revenue in the online channel did not compensate decreases in the traditional channel.

The only brand of the Group, which recorded, at that time, sales increases and sales dynamics was Sinsay. Such result had been generated by the said brand owing to successful collections appreciated by female and male customers and consistent space development (opening of new stores and expanding existing ones).

Simultaneously, it should be noted that, in 2020/21, almost all our brands (except House) generated more revenue abroad than domestically which proves that they are gaining more and more global recognition.

Sales in both channels i.e. in on-site and online stores of individual brands in 2020/21 are given in the table below.

In PLN mln	Sales 2020/21	Sales 2019/20	Change y/y (%)
Reserved	3,467	4,370	-20.7%
Cropp	972	1,289	-24.5%
House	875	1,135	-22.9%
Mohito	708	987	-28.3%
Sinsay	1,738	1,282	35.5%
Other	88	159	-44.3%
Total	**7,848**	**9,222**	**-14.9%**

OUR SALES IN LFL STORES

In 2020/21, sales revenue in like-for-like (LFL) stores in local currencies decreased by 38%.

In the reporting period, negative LFLs were recorded by all brands. Geographically, all countries where the Group was present recorded negative LFL sales due to the closure of on-site stores during repeated lockdowns implemented last year.

ONLINE SALES

In 2020/21, the LPP SA Group generated revenue of PLN 2,229 mln from online sales, i.e. 106.3% more than a year ago. High three-digit growths in online sales result from the COVID 19 pandemic and changes in customers' habits. When on-site stores were closed, online shopping had become an alternative for the traditional shopping channel. At the same time, the opening of on-site stores throughout the year had not resulted in a decrease in popularity of the online channel which had become a shopping opportunity also for customers previously preferring traditional purchases.
In 2020/21, revenue from online sales accounted for 28.4% of the Group's sales and 32.0% of domestic revenue, compared to 11.9% and 13.4%, respectively, a year ago. In 2020/21, approx. 49% of online sales were generated by domestic sales.

	2020/21	2019/20	Change y/y (%)
Sales in PLN mln	2,229.3	1,080.8	106.3%

SALES REVENUES BROKEN DOWN BY COUNTRY AND REGION

In 2020/21, revenue generated abroad exceed domestic revenue, which confirms our Group's global range. At the same time, all sales regions recorded, in the reporting period, a decrease in revenue y/y due to the pandemic. The smallest decrease in revenue was recorded in European countries.

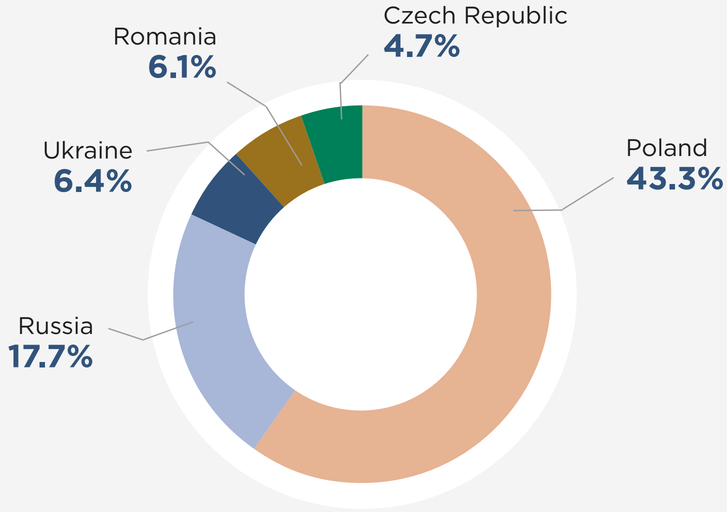
Revenue from sales generated by our companies operating in individual countries and regions is given in table below (with the exclusion of intra-Group sales):

Country	2020/21	2019/20	Change y/y (%)
Poland	3,397,742	4,418,683	-23.1%
Czech Republic	369,081	468,198	-21.2%
Slovakia	270,117	281,538	-4.1%
Hungary	242,876	234,128	3.7%
Lithuania	165,884	163,794	1.3%
Latvia	119,721	120,796	-0.9%
Estonia	116,195	132,742	-12.5%
Russia	1,392,645	1,664,778	-16.3%
Ukraine	499,938	495,885	0.8%
Belarus	6,842	9,156	-25.3%
Kazakhstan	29,857	29,666	0.6%
Bulgaria	63,827	104,317	-38.8%
Romania	477,833	388,157	23.1%
Croatia	152,659	147,826	3.3%
Serbia	99,469	77,804	27.8%
Slovenia	29,985	22,375	34.0%
Bosnia and Hercegovina	26,959	21,242	26.9%
Germany	283,139	334,556	-15.4%
Great Britain	40,724	53,507	-23.9%
Finland	37,385	20,439	82.9%
Other European countries	8,426	1,814	364.6%
Middle East*	16,776	30,256	-44.6%
Total	**7,848,079**	**9,221,656**	**-14.9%**

Country	2020/21	2019/20	Change y/y (%)
Poland	3,397,742	4,418,683	-23.1%
Other European countries	2,504,280	2,573,233	-2.7%
CIS	1,929,281	2,199,485	-12.3%
Middle East*	16,776	30,256	-44.6%
Total	**7,848,079**	**9,221,656**	**-14.9%**

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

TOP 5 countries by revenue



SALES BY M²

In 2020/21, total sales per m² of the LPP Group decreased by 25.4% compared to the preceding year.

	2020/21	2019/20	Change y/y (%)
Total sales per m²/month in PLN*	500	671	-25.4%

* This indicator is calculated as the Group's sales divided by the average total working floor space / 12.

OPERATING COSTS

Our operating costs include costs of own stores and franchise stores in Poland, distribution costs and general costs. Costs of own stores comprise rental, payroll and other costs. Distribution costs comprise the costs of logistics and e-commerce. General costs include costs of marketing, back-office as well as the sales and product departments i.e. the head office in Gdańsk, offices in Cracow and Warsaw and offices of foreign subsidiaries.

In 2020/21, the Group recorded a decrease in operating costs by 2.3%, mainly due to the decrease in the costs of on-site stores. The above resulted from lower costs of store operation during the closure of shopping centres (lower rents and payroll costs) and from the renegotiation of rents adjusted to new conditions applicable there.

	2020/21 (IFRS 16)	2019/20 (IFRS 16)	Change y/y (%)
Operating costs (in PLN mln)	3,848	3,937	-2.3%
Operating costs per m²/month	247	289	-14.6%

CAPITAL INVESTMENTS AND EXPENDITURES

Apart from capital engagement in subsidiaries, we had no other capital investments, while financial surpluses yielded were designated, first of all, for overdraft repayment and, subsequently, allocated for negotiated bank deposits and money market funds.

In 2020/21, our capital expenditures (CAPEX) amounted to PLN 824.8 mln and were made for the development of sales and distribution networks, offices and technologies. From the said amount, we allocated PLN 621.8 mln for the construction of new brand stores and modernisation of existing ones both domestically and abroad. We spent PLN 84.7 mln on the construction and extension of our offices. Capital expenditures in logistics, amounting to PLN 71.3 mln, were made for the expansion of the existing Distribution Centre in Pruszcz Gdański and for equipping the Fulfilment Centre in Slovakia. IT expenditures amounted to PLN 47.0 mln.

In total, capital expenditures in 2020/21 were 14% lower compared to the previous year, with such decrease resulting from the decision of the Management Board of LPP to reduce CAPEX due to uncertain circumstances following the outbreak of the COVID-19 pandemic in 2020.

INVENTORY

Our inventory consists of goods in stores, stock in warehouses (including those handling online stores) and merchandise in transit - from the manufacturer to a logistics centre. We strive at minimising inventory and, at the same time, maintaining a sufficient product volume to maximise sales.

In 2020/21, the inventory level was higher by 8.0%. Despite effective clearance sales of the 2020/21 A/A collections, we recorded an increase in inventory y/y due to replenishment with a new collection the share of which, at the end of the financial year, was 72%.

At the same time, at the end of 2020/21, the inventory level per m² was 7.4% lower that year ago due to a dynamic space increase.

	31.01.2021	31.01.2020	Change y/y (%)
Inventory (PLN mln)	2,074	1,921	8.0%
Inventory per m² in PLN	1,455	1,572	-7.4%

EQUITY (STRUCTURE OF OUR ASSETS AND LIABILITIES)

The assets of our Group comprise two major components: (1) fixed assets being store fixtures and equipment, in the amount of PLN 2,440 mln as at the end of 2020/21, and (2) inventories of trading commodities in the amount of PLN 2,074 mln as at the end of 2020/21. The value of fixed assets increases along with development of our sales network and the increase in the number of stores. The volume of trade inventory depends on the size of retail space and increases as subsequent online stores are being launched. At the same time, we work on diminishing our financial engagement in inventories by reducing store replenishment and, simultaneously, by accelerating goods rotation which should translate into an increased efficiency of operations.

The LPP SA Group pursues a conservative liabilities management policy aimed at maintaining a safe financing structure. Before implementation of IFRS 16, our goal was to maintain an over 50% share of equity capital in liabilities, after its implementation – the goal is to maintain the share of approx. 30%. At the end of 2020/21, the share of equity capital in liabilities was 29.6%, with equity capital amounting to PLN 3,068 mln. We finance our operations also with liabilities owed to suppliers (aiming at prolonging the liabilities turnover cycle) and employing credit facilities, investment loans and overdrafts. At the end of 2020/21, the balance of bank loans was PLN 712 mln and was higher by PLN 431.0 mln compared to the balance as at the end of the preceding year.

BASIC ECONOMIC AND FINANCIAL FIGURES OF THE LPP SA GROUP AND SELECTED INDICATORS

	2020/21	2019/20	Change y/y (%)
Revenues	7,848,079	9,221,656	-14.9%
Gross profit on sales	4,083,939	4,940,159	-17.3%
Costs of stores and distribution and general costs	3,847,572	3,937,342	-2.3%
EBITDA	1,226,069	1,896,963	-35.4%
Operating profit (loss)	153,024	879,246	-82.6%
Net profit (loss)	-190,130	486,005	n/m
Equity	3,068,391	3,247,491	-5.5%
Liabilities and provisions for liabilities:	7,285,392	6,358,386	14.6%
Long-term liabilities	3,114,193	3,159,266	-1.4%
Short-term liabilities:	4,171,199	3,199,120	30.4%
- bank loans	521,097	109,451	376.1%
- owed to suppliers and other	2,775,815	2,053,635	35.2%
Non-current assets	5,620,568	5,870,719	-4.3%
Current assets, including:	4,733,200	3,735,143	26.7%
Inventory	2,074,447	1,921,139	8.0%
Trade receivables	158,055	143,783	9.9%

PROFITABILITY RATIOS

	2020/21	2019/20	Change y/y (p.p)
Gross profit margin on sales	52.0%	53.6%	-1.5
Operating profit margin	1.9%	9.5%	-7.6
Return on sales (ROS)	-2.4%	5.3%	-7.7
Return on assets (ROA)	-1.9%	5.6%	-7.5
Return on equity (ROE)	-6.0%	16.0%	-22.1

gross profit margin on sales – gross profit on sales divided by revenues from sales of goods and services
operating profit margin – operating profit divided by revenues from sales of goods and services
Return on Sales – net profit divided by revenues from sales of goods and services
Return on Assets – net profit divided by average assets during the financial year
Return on Equity – net profit divided by average equity during the financial year

LIQUIDITY RATIOS

	2020/21	2019/20	Change y/y (%)
Current liquidity ratio	1.1	1.2	-2.8%
Quick liquidity ratio	0.6	0.6	12.4%
Inventory turnover (days)	194	133	45.5%
Receivables turnover (days)	7	5	43.8%
Trade liabilities turnover (days)	235	142	64.9%

current liquidity ratio – current assets divided by the carrying amount of short-term liabilities
quick liquidity ratio – current assets less inventory divided by the carrying amount of short-term liabilities
inventory turnover ratio (days) – average inventory divided by costs of goods and products sold and multiplied by the number of days in a given period
receivables turnover ratio (days) – average trade receivables divided by revenues from sales and multiplied by the number of days in a given period
trade liabilities turnover ratio (days) – average trade liabilities divided by costs of goods and products sold and multiplied by the number of days in a given period

ASSET MANAGEMENT RATIOS

	2020/21	2019/20	Change y/y (p.p)
Fixed assets to equity ratio	54.6%	55.3%	-0.7
Total debt ratio	70.4%	66.2%	4.2
Short-term debt ratio	40.3%	33.3%	7.0
Long-term debt ratio	30.1%	32.9%	-2.8

fixed assets to equity ratio – shareholders' equity divided by fixed assets
total debt ratio – long- and short-term payables divided (including provisions for liabilities) by the balance sheet total
short-term debt ratio – short-term debt divided by the balance sheet total
long-term debt ratio – long-term debt divided by the balance sheet total

FACTORS AND EVENTS (INCLUDING OF EXTRAORDINARY NATURE) HAVING A MAJOR IMPACT ON OUR OPERATIONS AND FINANCIAL STATEMENTS OF THE GROUP, INCLUDING ON PROFIT EARNED

In 2020/21, the Group's financial results were substantially affected by extraordinary circumstances of unprecedented nature, caused by the outbreak and spreading of the COVID-19 pandemic in countries where the Group operates. From mid-March to the beginning of May 2020, our Group was forced to close its on-site stores in almost all the said countries. Store closure had resulted from administrative decisions made, and restrictions implemented, by governments of countries affected by the pandemic. As shown over time, throughout the year, due to intensified pandemic waves, individual countries implemented repeated lockdowns, thus causing subsequent closures of our brand stores in countries afflicted by the restrictions.

During store closure, for many customers, online shopping became an alternative for the traditional sales channel. Therefore, the Group was forced to quickly enhance the capacities of e-commerce and logistics. Such activities resulted in a three-digit increase of revenue from online stores.

Repeated cessation, throughout the year, of sales in the on-site channel, previously generating approx. 90% of the Group's revenue, adversely affected sales volumes, causing a decrease in total sales by approx. 15% compared to the previous year.

Due to the closure of on-site stores, we recorded also a temporary increase in their replenishment, which caused bigger clearance sales y/y following store opening and simultaneous promotion campaigns in the online channel. As a result of both these factors and the inability to translate disadvantageous foreign exchange rates to prices in selected quarters, the Group generated a gross margin lower by 1.5 p.p. compared to the same period a year ago.

The pandemic affected also operating costs. In 2020/21, the said costs decreased by 2.3% y/y due to lower rent costs resulting from the exemption to pay rent in shopping centres during the trading ban under a regulation of the Polish government and bonuses negotiated with owners of shopping centres abroad.

An additional factor influencing the decrease in operating costs was temporary reduction of remuneration payable to all the Group's employees.

At the same time, due to a significant share of fixed costs in the structure of the Group's operating costs, the decrease in operating costs in 2020/21 was lower than the sales decrease in that period.

Other operating costs and income were unusually influenced by revaluation write-offs on unprofitable stores (PLN 70.6 mln), goodwill (PLN 26.4 mln) and write-offs related to a change in the classification of lease agreements (PLN 29.5 mln) and sub1sidies mainly providing additional financing for payroll and social security purposes ((PLN 83.3 mln, of which the largest amounts were received in Poland i.e. PLN 33.4 mln and in the Czech Republic i.e. PLN 14.6 mln).

In the financial year 2020/21, due to higher foreign exchange losses (PLN 102.5 mln) under IFRS 16, which were not fully compensated with the profit of PLN 66.5 mln, gained from rent reductions and waivers, the Group recorded a less advantageous impact of net financial activities.

Due to the above-mentioned factors mainly of extraordinary nature, occurring in the financial year 2020/21, the LPP Group recorded a net loss of 190 mln versus the previous year's net profit of PLN 486 mln.

BASIC ECONOMIC AND FINANCIAL FIGURES OF LPP SA (PARENT COMPANY)

	2020/21	2019/20	Change y/y (%)
Revenues	5,948,241	7,153,381	-16.8%
Gross profit on sales	2,267,077	2,813,792	-19.4%
Costs of stores and distribution and general costs	2,300,113	2,420,060	-5.0%
EBITDA	411,752	752,052	-45.2%
Operating profit (loss)	-34,952	324,053	n/m
Net profit (loss)	-409,997	443,391	n/m
Equity	3,097,356	3,393,887	-8.7%
Liabilities and provisions for liabilities:	5,203,244	3,861,955	34.7%
Long-term liabilities	1,561,418	1,340,554	16.5%
Short-term liabilities, including:	3,641,826	2,521,401	44.4%
- bank loans	421,252	60,162	600.2%
- owed to suppliers and other	2,841,349	1,934,036	46.9%
Non-current assets	4,701,883	4,432,309	6.1%
Current assets, including:	3,598,717	2,823,533	27.5%
Inventories	1,590,682	1,365,814	16.5%
Trade receivables	203,126	225,195	-9.8%

GOALS SET AND METHODS ADOPTED FOR FINANCIAL RISK MANAGEMENT

FINANCIAL LIQUIDITY RISK

Financial liquidity is the company's capacity to timely pay its financial liabilities. This is closely related to the company's ability to generate cash and manage its funds.

The business model adopted by our Group (sale of goods for cash to an end-purchaser) guarantees that we will generate, on a constant basis, day-to-day cash proceeds, and that we will not depend on single large recipients. Liquidity management consists in goods management, in determining adequate prices and margins and in the strict control of costs and expenses. The Company uses also external financing (bank loans) to cover short-term liquidity fluctuations resulting mainly from the seasonality of sales and the goods ordering cycle or temporary hindrances affecting the Company's basic operations, such as closure of on-site stores, due the spreading of the COVID-19 pandemic in 2020.

The Company's liquidity is audited by way of day-to-day monitoring of the balance of bank accounts, creating cash flow forecasts for monthly periods and by planning cash flows between subsidiaries and LPP SA. In the last financial year, due to extraordinary circumstances arising from the pandemic, the Management Board of LPP monitored daily financial liquidity and, on a regular basis, carried out stress tests covering several months of further operating activities. Analyses of prognosed cash flows were based on hypothetical cautious assumption that the Company would remain a going concern, facing the circumstances affecting the fashion branch in retail trade. According to those analyses, revenue generated by on-site stores had been quite adversely affected and, at the same time, there was an increase in online sales and the Management Board had undertaken numerous steps to minimise the liquidity risk (limitation of investing activities, no dividend, optimisation of operating costs). Stress tests served as a tool for the Group to manage the liquidity risk by taking, on a day-to-day basis, steps aimed at continuing its business in the event of a scaling-down of operational capacities due to the closure of retail space.

The important element of liquidity risk management is also adequate management of working capital. To that end, the Company uses the supplier financing programme (reversed factoring). Therefore, the Company attains its long-term goal of balancing trade liabilities with inventory i.e. the release of working capital.

CREDIT RISK

The yielding by the Group of profit on a long-term basis increases financial safety and makes it possible to gain creditworthiness on the market, which is an important element of the company's image, guaranteeing its development and stability.

The priority of the Management Board of LPP SA in the finance area is the earning by the Group of profits in an amount enabling the daily handling of credit liabilities and ensuring funds for the Group's further development. LPP makes endeavours to maintain borrower's creditworthiness at a high level – by paying, on a day-to-day basis, all of its liabilities, by increasing sales and optimising costs, and by adequate future planning to recognise beforehand any upcoming hazards. To that end, budgets, financial plans, cash flow prognoses and stress tests are prepared. Financial ratios, including debt ratios, are monitored.

INVESTMENT RISK

The investment risk involves failure to gain expected results from an investment venture or prolongation in time of investment completion. Such risk may stem from the lack of detailed knowledge of the investment-related issues, excessive financial engagement considering the company's capacities and occurrence of unexpected circumstances, such as the COVID-19 pandemic spreading in the financial year in question.

The Group invests in ventures falling within the scope of its competences, which makes a success more probable. The Company's key investments involve the development of the sales network in Poland and abroad, construction of Distribution Centres and Fashion Tech projects.

Simultaneously, the Group avoids investments in other sectors and capital market instruments.

Furthermore, the Company's Management Board regularly evaluates investments capacities with due consideration of needs, adjusting to the dynamically changing circumstances as exemplified by the 2020 events and temporary 4-month suspension by the Company of the construction of the distribution centre in Brześć Kujawski and subsequent resumption of the project in a modified and fit-to-needs form. Additionally, due to the circumstances caused by the pandemic during the financial year, it was required to implement quick changes to improve online sales by redirecting investment projects to that sales channel.

INTEREST RATE RISK

The interest rate risk is related to the utilisation by the Company of bank loans, bonds issued and, a to a lesser extent, loans extended.

Bank loans taken out by LPP are charged with a variable interest rate depending on changes in market interest rates. According to the Management Board, based on the analysis of the value of current interest rates and their changes in recent years, any potential increase of this parameter, determining the costs of bank loans taken out, cannot substantially affect the financial results achieved.

Additionally, lately, the Company has identified also the interest rate risk correlated with a negative interest rate it is exposed to due to the depositing of a financial surplus and introduction of commissions charged by banks on deposits.

Dealing with low interest rates, on one hand, the Company generates lower costs arising from credit lines extended but, on the other hand, yields no interest on its cash surpluses. At present, at the interest rate market, the Company balances its loan and deposit policy in terms of costs.

CURRENCY RISK

Currently, approx. 43% of sales inflows are generated by the Group in PLN. The basic settlement currency for a majority of transactions involving the purchase of trade commodities is USD. A minor part of settlements in that respect is made in EUR. The half of sales proceeds is earned in PLN. Therefore, the Company hedges the USD/PLN exchange rate by entering into forward contracts for payments in USD to suppliers. The transactions are aimed at minimising foreign exchange differences in financial operations (i.e. below the operating profit). Apart from the currency risk relating to the settlement currency used for purchasing trade commodities, there is also a risk related to the settlement of rents under retail space lease agreements in EUR.

MANAGEMENT OF FINANCIAL RESOURCES

The management of financial resources entails the adoption of decisions concerning the sourcing of funds utilised for the company's operations and development.

To pursue its operations, the Group must have both material resources (goods) and funds i.e. financial resources. Material and financial resources are inter-related. The Group needs to have financial resources to finance both its day-to-day transactions (eg. payment for goods and services) and investments (brand stores, distribution centres, technology), supporting ongoing operations and being, indirectly, the source of inflows for the Group. Funds gained increase the Group's financial resources and are used in a subsequent cycle of its operations. The cash flow timing and intensity are of importance, requiring to be managed properly.

In our Group, the management of financial resources consists in controlling indebtedness, timely performance of liabilities as well as monitoring of the level and structure of our Company's current assets. Owing to effective management of financial resources, the Group is capable of gaining profits and executing the adopted strategy.

Our basic business model consisting in retail sales allows to receive immediate payments for goods sold. Proceeds generated and bank loan agreements concluded safeguard in full the discharge of liabilities incurred.

CREDIT COMMITMENTS

The Group strives at minimising indebtedness to maintain financial security. Our internal policy of entering into and paying credit commitments is centralised and implemented by LPP SA, the Parent Company. The only exceptions from the centralisation principle are two subsidiaries: LPP Russia and LPP Ukraine, utilising short-term borrowings in the form of revolving loans extended by local banks in Russia and Ukraine.

As part of its short-term borrowings, LPP SA may utilise multi-purpose credit lines which may be appropriated for bank guarantees, letters of credit or as a revolving loan used occasionally, if need be, and repaid from on-going inflows. At the end of the financial year, LPP SA had multi-purpose credit lines in 6 banks, in the total amount of PLN 1.27 bln, utilised for specific products as follows: PLN 119.8 mln - bank guarantees, PLN 244.9 mln - letters of credit, with no overdraft utilised.

Additionally, the Company uses the supplier financing programme (reversed factoring) based on which it may negotiate better conditions for payment deferral with suppliers, reduce financing costs and increase LPP's financial liquidity. As at 31 January 2021, reversed factoring was utilised in the amount of PLN 1.6 bln.

Furthermore, LPP SA has short-term debts arising from its revolving loans, in the total amount of PLN 375 mln, and long-term debts utilised for investment projects (construction and extension of distribution centres and the head office). At the end of the financial year, the value of investment loans was PLN 243.7 mln.

Detailed information on bank loans and borrowings taken out as at 31 January 20201 and their maturity dates is given in the Group's financial statements (notes 23) and LPP's financial statements (note 25).

BONDS

In 2019, to diversify sources of financial resources, the Company issued 300 thousand unsecured ordinary 5-year bearer bonds of the A series. Bonds of the nominal value of PLN 1 thousand per bond, of the total value of PLN 300 mln, charged with WIBOR 6M increased with a margin of 1.1%, will be redeemed on 12 December 2024. Bonds were issued as part of non-public placement and were offered to specific qualified investors.

Bonds have no paper form and are registered in the depository of securities kept by Krajowy Depozyt Papierów Wartościowych SA and were introduced to trading on the Catalyst bond market in the Alternative Trading System operated by Giełda Papierów Wartościowych w Warszawie SA (Warsaw Stock Exchange).

FINANCIAL SURPLUSES

LPP SA designates its financial surpluses primarily for the repayment of overdrafts. Subsequently, the Company allocates financial means for negotiated bank deposits and monetary funds. In line with our internal policy, financial resources are allocated with due consideration of geographic and currency diversification as well as diversification of entities accepting cash deposits.

At the end of 2020/21, the Group had PLN 1,278 mln in cash; after deducting debts, we showed PLN 272 mln, compared to PLN 789 mln a year ago. Additionally, we held PLN 953 mln in deposits allocated for reversed factoring and money market funds, which are not shown in the "cash" item.

The balance of short-term and long-term loans, bonds and net cash in PLN thousand is given in the table below. Credit consumption as at 31 January 2021 is shown in a relevant table in the consolidated financial statements (note 23) and separate financial statements (note 25).

	31.01.2021	31.01.2020	Change y/y (%)
Short-term debt	521,097	109,451	376.1%
Long-term debt	190,596	171,234	11.3%
Bond	294,104	291,675	0.8%
Cash	1,277,854	1,361,474	-6.1%
Net debt (net cash)	**-272,057**	**-789,114**	**-65.5%**

TRANSFER PRICING POLICY AND CENTRALISED CURRENCY MANAGEMENT

The Group applies a centralised liquidity management model: the Parent Company (LPP SA) purchases goods and distributes them to subsidiaries and, next, subsidiaries pay the parent company for those goods in a local currency. LPP SA is vested with decision-making capacities in terms of the flow of receivables, foreign currency exchange and the incurring of financial liabilities.

By selling goods to subsidiaries and also by applying the transfer pricing policy and issuing invoices to subsidiaries, LPP SA regulates their profitability and its flow of revenues. By centralising the money flow received as given above from part of revenues yielded by subsidiaries, LPP SA generates multi-currency revenues. The FC position is managed based on spot and futures transactions.

The Company performs currency operations with financial institutions both domestically and abroad.

FINANCIAL PRODUCTS

The following financial instruments were identified in the Company: bank loans taken out, bank deposits, participation units in money market funds, bonds, loans extended, derivatives transactions i.e. forward foreign exchange contracts aimed at managing foreign exchange risk involved in the purchase of trading commodities abroad.

LPP SA substantially diversifies financial institutions and products utilised. Both partners cooperating with the Company and financial products themselves are revised and renegotiated on a regular basis. Furthermore, LPP SA actively participates in choosing institutions and their financial products utilised locally by its subsidiaries.

Additionally, the Company utilises embedded currency derivatives related to retail space lease agreements, with rent calculated based on the currency exchange rate, and receivables in foreign currencies, resulting from the sale of trade commodities to foreign contracting parties. These instruments are neither measured nor shown in the balance sheet, which is compliant with IAS on the detailed principles for the recognition, measurement, disclosure and presentation of financial instruments.

OUR STRATEGY, PLANS, PERSPECTIVES AND DEVELOPMENT DIRECTIONS

OUR STRATEGY

Our goal is to develop LPP on a constant basis, transforming it in a global company with brands recognisable all over the world. We keep improving our offer and adjust it to customers' changing needs. We increase the availability of our collections by further expansion involving development of the traditional store chain (increasing retail space y/y) and online stores. We develop our operations through the omnichannel to make all our products available to customers regardless of the sales channel. At the same time, we keep abreast with technological and environmental challenges of the surrounding world.

Therefore, in view of the said LPP development plan set for the years to come, our strategy has been based on the following three cornerstones: the omnichannel, digitalization and sustainable development.

OMNICHANNEL ORGANISATION

LPP is an omnichannel organisation with traditional and online sales being integrated in full. We aim at giving our customers the best shopping experience both when purchasing our collections in on-site stores and online. That is why we develop both these channels having regard of a coherent offer presentation.

Our priority is to:

- further develop our 5 fashion brands (Reserved, Cropp, House, Mohito and Sinsay) falling within a moderate price range or in the Affordable Fashion Retail branch, dedicated to various customer groups;
- increase the availability of brand offers by expanding simultaneously the on-site store chain and the online offer to give our customers the possibility of shopping where and what they want in the integrated channels.

EXPANSION THROUGH BRANDS

We concentrate on attracting new customers and making current customers even more satisfied.

We started building our portfolio with the Reserved brand which opened its first store in 1998. At present, we manage already five brands dedicated to different customer groups, starting with men and women (Reserved, Mohito and Sinsay) through children (part of Reserved and Sinsay) and teenagers (Cropp, House, Sinsay).

Reserved, Cropp, House and Mohito fall within a moderate price range while Sinsay offer products in the Affordable Fashion Retail segment.

At present, we have no plans for creating any new brands, with our efforts being concentrated on developing the brands we already own, with special emphasis put on Sinsay, our youngest brand.

Expansion through brands

1998	Reserved
2004	Cropp
2005	Esotiq *(sold in 2010/2011)*
2008	House, Mohito *(both brands acquired due to the acquisition of Artman)*
2013	Sinsay
2016	Tallinder *(closed in 2017)*

ON-SITE AND ONLINE EXPANSION

Brand development would not be comprehensive if not correlated with the expansion of our on-site and on-line sales networks.

Our goal is to diversify the Group's revenues, i.e. maintaining our current domestic position and increasing the share of sales abroad. Currently, revenues from foreign markets constitute already over the half of our Group's revenues.

Today, we are present in six geographic territories on three continents, with each of them having different development perspectives:

- **Central and Eastern Europe (CEE)**, covering countries such as Poland, the Czech Republic, Slovakia, Hungary.
  For us, this is a mature market due to the long-standing presence of our brands in this area. Therefore, on this market, we focus mainly on quality and not the number of stores. Consequently, as provided for in our strategy, in Central and Eastern Europe, we plan to implement the project involving modernisation of the on-site store network and regularly expand stores to implement the omnichannel concept in full.

- **Baltic Sea Region (BSR)**, with our brand stores operating in Lithuania, Latvia and Estonia.
  Just like the CEE markets, these three markets are considered mature, with emphasis put mainly on quality and not the number of stores.

- **Commonwealth of Independent States (CIS)** i.e. Russia, Ukraine, Belarus, Kazakhstan.
  These are the markets where we see a long-term brand development potential, specifically on the Russian market being the second largest source of the Group's revenue after Poland.

- **South Eastern Europe (SEE)** i.e. Bulgaria, Romania, Croatia, Serbia and Slovenia markets with a large development potential for all LPP's brands. In 2021, we plan further expansion – the launching of our brand stores in North Macedonia.

Expansion by country

1998	Poland
2002	Russia, Latvia, Estonia, the Czech Republic, Hungary
2003	Ukraine, Slovakia, Lithuania
2007	Romania
2008	Bulgaria
2014	Croatia, Germany
2015	Egypt, Qatar, Kuwait, Saudi Arabia
2016	United Arab Emirates
2017	Great Britain, Belarus, Serbia
2018	Kazakhstan, Slovenia, Israel
2019	Bosnia and Hercegovina, Finland

- **Western Europe (WE)** i.e. Germany, Great Britain and Finland this is an early-growth region with a substantial development potential.
  In this region, our goal is, among others, to increase recognisability of the Reserved and, therefore, become a global brand in the future.

- **Middle East (ME)** i.e. Egypt, Qatar, Kuwait, United Arab Emirates, Israel. Having launched the Reserved brand in that region, we expand our presence in cooperation with a franchise partner. For us, this is an early-growth region, with quite a potential recognised specifically in Israel.

In response to changing customer preferences and habits as well as omnipresent digitalisation and consequent retail market transformation, our strategy encompasses a holistic approach to the on-site and on-line sales channels. Due to the outbreak of COVID-19 epidemic, development of the online channel, based on quality and quantity, has become our priority. Development of the online channel would not be possible without logistics and technology which are determinant for e-commerce success and customer satisfaction. Therefore, our Company focuses on the expansion of the distribution network (distribution and fulfilment centres) in Poland and abroad and on the regularly increasing involvement of high-tech in logistics and customer service.

At the end of 2020/21, our brand offer was available, in total, in 38 countries: offline in 25 countries and online in 30 countries.

OUR DIGITAL PROGRESS

As we operate in the fashion business, facing in the same time the ongoing revolution in the fashion branch, we are a technology company. We develop our own IT solutions adapted to our needs. We implement state-of-the technologies i.e. Fashion Tech in the entire value chain, from a product through logistics and sales. We have our own analytical resources enabling us to understand mega trends and customer expectations. Therefore, we have the capacity to be flexible and quickly respond to changes in shopping preferences and to design collections adjusted to our customers' needs. Without the digitalisation process, we would be unable to execute LPP's business strategy.

In Fashion Tech projects, we concentrate on implementing modern technologies to:

- improve, on a constant basis, our collections to reflect our customers' expectations,
- expand the range of sale and post-sale services in line with global trends in retail trade,
- enhance the flexibility of our distribution centre,
- achieve full integration of the on-site and on-line channels to create the omnichannel.

Expansion of online stores by country

2011	Poland
2014	Germany
2015	the Czech Republic, Slovakia, Romania
2016	Hungary
2017	Latvia, Lithuania, Estonia, Great Britain, Russia
2018	Middle East countries through a franchise partner: Bahrain, Kuwait, United Arab Emirates, Saudi Arabia, Oman
2019	Croatia, Ukraine, Pan-European online store – 12 EU countries

SUSTAINABLE DEVELOPMENT

In light of increasing awareness of the cornerstones of responsible business, the LPP strategy reflects our care for the environment and humanity. The Company's development is based on sustainable rules governing all our processes.

Our sustainable development strategy is founded on responsible fashion i.e. we think of our collections not only in terms of designing, manufacturing, distribution and utilisation but also in terms of extending our clothes' life when no longer used by customers.

By taking such comprehensive approach, we respond to current climate challenges. Each year, we want to be efficiently limiting LPP's adverse environmental impact and also educate our customers and business partners how to join our efforts in taking care of our planet and future generations.

In 2019, we announced, for the second time, LPP's Sustainable Development Strategy "For People For Our Planet" to be followed in the years 2020-2025, based on four cornerstones: designing

and manufacturing, plastics elimination, chemical safety as well as infrastructure and buildings. This strategy encompasses our actions and goals for the nearest future and reflects our responsibility for the surrounding world.

Our sustainable development involves also the Company's community activities which, to a major extent, are carried out by the LPP Foundation established in 2017. We help children and young people facing life hardships and the sick. Additionally, we support medical centres and organisations helping persons threatened with social exclusion.

OUR SHORT-TERM PLANS AND FINANCIAL TARGETS

In terms of further plans for the Group's development, we look optimistically at the years to come. Both sales channels i.e. traditional and online stores remain very important for us. We will be still opening new stores, however, at a different pace in each brand. We consider that chances for further development of the on-site store network are specifically on Eastern markets, in Russia and Ukraine, and also in Romania. This year, we plan to enter another new market i.e. North Macedonia.

Online sales will be decisively developed on foreign markets as, today, still a half of revenue is generated by our e-commerce domestically.

We presume that, in 2021/22, the Group's revenue from the said channel will reach over PLN 2.8 bln.

As regards traditional trade, we will be developing mainly our younger brands: Sinsay, Cropp and House. Stores will be opened not only in shopping centres but also in retail parks and street locations, in smaller towns. We see a potential for developing in the Affordable Fashion segment.

Our target for 2021/22 is a double-digit increase in sales y/y and an increase of operating margin y/y. The Group's priority is still safe liquidity position.

We see our chances in creating successful collections of all brands, developing products to keep abreast with customers' expectations, adjusting to their new behaviour model and in digitalisation directed at supporting our omnichannel organisation.

OUR INVESTMENT PLANS FOR THE NEAREST YEARS

To execute our development plans consistently, our investments are required to be made in several areas encompassing:

- construction and modernisation of our on-site stores (in Poland and abroad),
- construction of distribution centres,
- extension and modernisation of head offices and
- e-commerce and IT.

In 2021/22, we plan to spend, in total, PLN 1,100 mln on our investments.

We plan to allocate PLN 840 mln for sales network investments.

In the current year, we plan to spend PLN 150 mln on a logistics project involving expenditures on the construction of a new distribution centre in Poland (in Brześć Kujawski). Owing to contemporary automation solutions, the investment covering 75 thousand m^2 will enable us to increase the effectiveness of our logistics and, following its implementation, reduce operating costs. We plan to allocate for the entire investment project, in total, PLN 200 mln (including PLN 10 mln spent in the financial year 2020/21).

Our plans to develop our Fashion Tech organisation require investments in IT and e-commerce, for which, this year, we plan to spend PLN 60 mln.

We have full capacity to finance pending and planned investment projects with funds deriving from equity capital, bank loans and bonds issued. Investments aimed at expanding the store chain will be financed from our own funds while investments involving the extension of the head office and the distribution centre will be financed with bank loans taken out and funds deriving from the issuance of bonds.

Our investment plan for the nearest years is given in the table below.

CAPEX (PLN mln)	2021/22	2022/23	Total
Stores:			
Stores in Poland and abroad	840	750	1,590
Offices:			
New office Gdańsk Łąkowa – Building 2	50		
New office Gdańsk Łąkowa - Building 3		50	
Offices in total	**50**	**50**	**100**
Logistics			
New DC Brześć Kujawski	150	40	190
Logistics in total	**150**	**40**	**190**
IT & other	60	60	120
Total	**1,100**	**900**	**2,000**

RISK MANAGEMENT

INTERNAL RISK FACTORS

BUSINESS MODEL RISK	**Risk:** Our Company 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. **Actions:** 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 different suppliers, we minimise the business model risk by diversifying production countries.
COLLECTION-RELATED RISK	**Risk:** The clothing market is characterised by a wide variety of customer expectations and is closely correlated with changes in fashion trends and changeable customer preferences. Fashion trends are closely correlated with social moods and trends and the macroeconomic situation. A key factor in a clothing company's success is, on one hand, the sensing of changes in fashion trends and the adjustment of the product range to current consumer needs and, on the other hand, a quick reaction to such needs. **Actions:** We pay significant attention to fashion. In our design team, we currently employ 300 designers. In total, in the product development department, there are over 1,100 employees. Each brand has a separate team of designers following fashion trends in the brand's dedicated customer group. The work of designer teams is organised so as to minimise the impact of a single designer on collections as a whole. Designers and persons engaged in the process of collection creation not only participate in exhibitions and fairs worldwide but also keep track of street fashion in the most popular fashion capitals i.e. Paris, New York, Seoul, Tokyo. Due to technology development and smartphone use, our designers get inspirations not only from catwalk collections but, first of all, from the Internet and social media. At present, this process has a different form. Due to the COVID-19 pandemic and consequent mobility restrictions, owing to technological advancement, our designers get inspirations mainly from the Internet and social media. Almost all fashion events, including famous fashion shows and fashion weeks being the source of inspiration for our designers, moved to the online world. Inspirations found and world trends followed are used in the process of collection creation and, therefore, the risk of unsuccessful collections is reduced.

PRODUCT QUALITY RISK	**Risk:** Collection quality is a key element on the highly competitive clothing market. No major player may willingly reduce quality below an expected standard as, at the times of quick information flow and social media popularity, that may result in the loss of customers' trust and a negative attitude towards a given brand. **Actions:** Our Company's merchants are to exercise diligence in term of adequate quality of clothes purchased. To that end, before placing an order, they require suppliers to send clothing specimens and designs to evaluate both material and workmanship quality. Thanks to our long-standing market presence and supplier surveys, we can cooperate with suppliers guaranteeing adequate product quality. Additionally, in LPP, there is the Quality Control Department responsible for the verification of goods after being warehoused, before they are dispatched for sale purposes. At the same time, in case of customer claims, we apply a simplified claim examination procedure as trust for our brands and customers' after-shopping satisfaction and opinions is our priority.
PRICING POLICY RISK	**Risk:** High market competitiveness requires an adequate pricing policy. Additionally, at times of crisis, a low price may become a priority for some consumers due to financial uncertainty. However, prices may not be too low as they will generate no adequate margin and may depreciate our brands and their market position. **Actions:** According to our pricing policy, prices in our four brands are maintained at levels corresponding to popular clothing companies with middle price brackets, with one brand's prices being kept within the range of the value-for-money segment. To minimise the risk of inadequate pricing policy, our employees monitor, on a day-to-day basis, prices of similar goods offered by our competitors to similar customer groups, adjusting prices of our products to market levels. At the same time, groups of products with higher demand are priced higher respectively. During clearance sales, just like our competitors, we sell out products from the passing season's collections, which were not sold at regular prices, simultaneously applying price incentives. At the same time, being supported with technological and IT tools, we are able to optimise the clearance sales area. Owing to advanced algorithms, we can forecast the optimum clearance sales with simultaneous price reductions.
SUPPLIER CREDIBILITY RISK AND SINGLE SUPPLIER DEPENDENCE RISK	**Risk:** As regards large orders for goods and services, it is important to have credible suppliers diligent in terms of quality and continuity of supplies and to diversify orders for goods and services by engaging a larger number of suppliers. **Actions:** Placing orders with different suppliers in various countries, we minimise the risk of being dependent upon a single contracting party. Purchase departments rank and assess cooperation with suppliers and, therefore, we eliminate unreliable suppliers and cooperate on a long-term basis with verified and reliable partners. Goods transported by sea are dispatched by several shipping companies, and the Logistics Department monitors, on a regular basis, the quality and prices of logistics services. As we use no unique services, we are not dependent on any single supplier. All outsourced services i.e. messenger services, store construction, packaging production, lease of retail space, banking and finance intermediation services are easily accessible, being offered by numerous companies operating on the market. The important aspect is the reliability of, and dependency on, suppliers of IT systems. We minimise that risk by engaging different companies with a well-recognised position and long-term market presence.

SINGLE SEGMENT CONCENTRATION RISK	**Risk:** The risk of concentrating on a single market segment may involve too narrow market concentration, which may be dangerous on a long-term basis. In the event of occurrence of disadvantageous macroeconomic, political or legal factors in a country or in a region where the company operates, with simultaneous absence on other markets or in other regions, this risk may be multiplied. The risk of single segment concentration is related not only to the geographical aspect but also to the sales channel. Concentration on a single geographical segment may have an adverse effect if macroeconomic, political or legal factors in a given country or region are disadvantageous and, at the same time, the company is not present on other markets or in other regions. If the company concentrates on a single segment such as traditional stores, the risk may occur at the time when customers change their shopping model and the popularity of online shopping is on the increase as has lately been the case. **Actions:** We have minimised this risk from the very beginning of our operations. We offer products under different brands, addressed to numerous age groups, thus diversifying the recipient segment. Owing to our presence in several countries and regions, we are exposed to a lesser risk of adverse consequences of legal changes occurring in a single country e.g. introduction of the Sunday trading ban or a sales tax in Poland. Following market trends and adjusting to customers' preferences, apart from the traditional sales channel existing from the very beginning, we have been developing the online sales channel. Furthermore, during the COVID-19 pandemic, we have accelerated our expansion in this sales segment thus limiting the risk of concentrating on a single segment i.e. the traditional sales segment.
RISK OF UNSUCCESSFUL STORE LOCATION	**Risk:** Our development strategy provides for the expansion of our sales network. The opening of new stores involves the risk that specific locations may prove to be unfortunate. This may result in a stores' failure to reach expected revenue performance, which, in consequence, may adversely affect our Group's financial results. **Actions:** We reduce the risk of missed locations in several ways. Owing to good market surveillance and a detailed analysis of each potential new location, we minimise the risk of choosing an unfortunate location. By diversifying the type of location depending on the brand, we are able to gain better results in a given store e.g. Sinsay stores are more popular in smaller towns and retail parks than in large shopping centres. Currently, lease agreements are concluded for shorter periods thus minimising the location risk over time. Simultaneously, we constantly optimise the development of our sales network both on the domestic market and globally. On one hand, brand stores with unsatisfactory sales performance are closed upon expiry of the lease agreement. On the other hand, we enlarge stores in good locations to offer customers full collections in retail space, using additional warehousing space the importance of which has grown due to implementation of RFID and dispatching online orders from stores.

RISK OF INEFFECTIVE LOGISTICS	**Risk:** The task of the logistics in the fashion branch is to quickly gather a relevant number of clothing dispatches to individual on-site stores and, directly, to customers making online orders, minimising simultaneously the quantity of goods in distribution centres. Investments in logistics improvements (without which the risk involving 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 more and more speedy deliveries. **Actions:** As this issue is of vital importance, the Management Board of LPP gives it a high priority and consistently introduces new solutions as required. Along with the increasing demand, the Group regularly expands its logistics facilities both domestically and abroad. Currently, we have modern distribution centres in Poland (Pruszcz Gdański, Gdańsk, Stryków and a project launched in Brześć Kujawski) and abroad (Russia, Slovakia, Romania). We cooperate with specialised external providers in the area of logistics e.g. operators specialising in e-commerce logistics and manufacturers of hi-tech and IT solutions for the logistics sector. Reacting to the changing market situation, we constantly implement IT improvements in logistics, including projects based on AI algorithms. The Group implements in-house programmes facilitating the processes of order completion and product return management and solutions integrating systems of courier companies we cooperate with. Furthermore, it introduces innovative solutions facilitating stock management (RFID) and develops Next Business Day service being a priority for e-commerce. All the above-mentioned activities performed by our Group enhance our logistics capacities thus minimising the risk of ineffective logistics and, ultimately, increasing our market competitiveness.
RISK OF SALES MIGRATION FROM ON-SITE TO ONLINE STORES	**Risk:** The increase in the popularity of online shopping, accelerated last year by the COVID-19 pandemic, has resulted in a global trend reflecting sales migration from traditional to online stores. This tendency puts pressure on sales in traditional stores, the majority of which generate fixed costs, and, consequently, may affect the Group's profitability. LPP is aware that, for a contemporary customer, both the online and offline world are of equal importance in the shopping process. Both shopping channels permeate to create the omnichannel. The online channel generates numerous shopping-related activities, often assisting offline purchases (going through collections, pictures, looking for inspiration, using aps and social media, comparing offers). Online shopping has become more and more popular, easier and, for many customers, safer. However, despite development of online stores, traditional ones will not vanish and they will be implementing new solutions and will change their format. **Actions:** For the Group, a solution minimising the risk of sales migration from traditional stores to the Internet was to adjust to the current trend of increasing popularity of Internet shopping. We did that by integrating these two channels and, consequently, by becoming an omnichannel organisation. Such integration involved sales channels and respective internal units engaged. By restructuring the organisation (liquidating the e-commerce department and creating omnichannel departments instead), we enhanced coherence in product, logistics and sales areas regardless of the sales channel preferred by customers. Today, as a Group, we take a holistic approach to on-site and online stores. We have contemporary online stores of all our brands, which are actually integrated with modern on-site stores. Our product presentation and communication is consistent and independent of a channel. Owing to common logistics and IT systems as well as integration of stock from both channels, we are able to manage the stock flexibly. Therefore, our products are accessible for customers regardless which channel is used. Consequently, the risk in question is minimised.

RISK OF LOSING KEY EMPLOYEES	**Risk:** Highly qualified and fully engaged staff guarantees due company management, adequate market offers, appropriate customer approach, and, consequently, a market success. However, there is also a risk that the company will become excessively dependent on several key officers or a highly specialised team with unique skills in a given sector. In consequence, the company may face a threat if such persons leave the company in short time. We employ approx. 22 thousand employees who are indispensable to carry out our basic operations in a profitable way. In particular, we face the risk of losing key management officers, persons involved in the process of designing and preparing our collections, IT specialists and the risk of rotation of employees in retail stores and distribution centres. There is also a threat that the Group will not be able to attract new talents and will face difficulties in soliciting an adequate number of staff, including highly qualified employees. **Actions:** Our Company takes numerous actions aimed at mitigating these risks. Key management officers take part in a share-based incentive programme. The Group puts emphasis on friendly working conditions – employees are given numerous training opportunities to ensure constant development of their skills and offered a well-defined career model. To minimise the risk of having difficulty finding employees, our Company has decided to make large investments in technologies and development of an integrated logistics system, automation and artificial intelligence. Simultaneously, to attract new talented employees, on a constant basis, by taking various actions, the Group works actively on employer branding.

RISK OF REPUTATION LOSS	**Risk:** The risk of reputation loss and a consequent branding crisis may adversely affect the company's revenues and reduce its value. Due to the development of the Internet and social media and increasing consumer awareness, in recent years, this risk has been of growing importance. As observed, this trend will be strengthening in the future. The risk of reputation loss may arise from the company's operations and involve products, environmental and social standards in the supply chain or failure to adhere to copyright law. At the same time, the risk of reputation loss may be beyond the company's control if caused by competitors' attacks or fortuitous events. **Actions:** Considering the fact that manufacturing orders are placed in the Global South countries and having regard of methods of sourcing raw materials for collection production as well as of operations in the fast-fashion sector with adverse environmental effect, our Group faces, most of all, the risk of branding crisis involving its products. To manage and minimise that risk, we have undertaken numerous actions given below. 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 and natural fur and source down for our collections from reliable sources only i.e. exclusively from suppliers holding up-to-date certificates and applying ethical methods of raw material production. Furthermore, our Company may be exposed to the risk of reputation loss arising from the improper use of other entities' copyright by using unlicensed photographs or graphics. To minimise that risk, 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 risk of reputation loss may also arise from hazards such as the loss of personal data protection, unethical advertising or unfortunate statements made in media by our employees. Our investments in technologies, in-house procedures and cooperation with a PR agency in terms of a communication crisis counteract this threat or minimise the risk of losing reputation by the Group.

BRIBERY RISK	**Risk:** The Group cooperates with numerous suppliers and recipients. Since we have subsidiaries and a decentralised purchasing process, we are exposed to the risk of misappropriation of funds or signing disadvantageous commercial contracts. **Actions:** In our Group, the bribery risk is minimised by identifying areas most exposed to that risk and determining the rules for counteracting it. The key documents for counteracting bribery, introduced and applied in our Group are as follows: – "LPP Rules" (the code of ethics) applicable in the head office and foreign subsidiaries, – "Rules of Cooperation with Contracting Parties" applicable in LPP's head office, – "Business Trips Rules", applicable in LPP's head office, – "LPP Rules for Store Employees" applicable on the domestic market. In these documents, we have discussed ethical issues, setting forth proper conduct standards to be complied with in our Company. The "LPP Rules" and the "LPP Rules for Store Employees" have been made available to employees online. All new employees get the knowledge of the said documents as part of the introductory programme developed by the HR department. Furthermore, our new employees in Poland are presented with the "Rules of Cooperation with Contracting Parties" and confirm having reviewed them by placing their signature on a document attached to their personal files. To mitigate the bribery risk, we undertake numerous actions, in particular: – we carry out periodical in-house audits and conduct investigations, – we build anti-fraud awareness, – we comply with the rules of transparency in the purchasing process, – we inform our suppliers of applicable procedures, – we set best ethical standards, – we have implemented the procedure of multi-level acceptance of cost documents and the internal audit system, – in our Group, we have implemented also a whistleblower system for reporting any irregularities found.

EXTERNAL RISK FACTORS

MACROECONOMIC RISK	**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 consumption inclinations. An economic growth or decline in countries where our brand stores are located may translate into an increase or decrease in consumers' spending, including clothing expenses. Similarly, an economic growth or decline in countries where the manufacturing of goods is located may translate into an increase, decrease or, relatively, stabilisation of manufacturing costs. As shown by the current macroeconomic situation, prices of raw materials are on the increase, including those of crude oil and cotton which are of key importance for the clothing industry. **Actions:** We minimise the macroeconomic risk in several ways. Being present on 38 markets, we diversify the risk into numerous countries with a diverse macroeconomic situation. We offer products of five different brands, responding to customers' various need (including those price-related). As regards stock purchases, we minimise the said risk by outsourcing production to numerous manufacturers in several countries on different continents, including countries with lower manufacturing costs such as Bangladesh, Myanmar, India, as well as European countries such as Turkey and Poland.

RISK OF 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 or economic problems in the countries of its occurrence as in the case of the COVID-19 pandemic. Due to the fact that the Group's revenues and margins depend on the economic situation of households and their consumption habits, the economic crisis may translate into a decrease in consumer spending, including clothing purchases, and, therefore, the Group is exposed to the risk of economic crisis caused by the epidemic/pandemic. **Actions:** Although it is difficult to be safeguarded against the risk of epidemic, our Group aims at minimising this type of risk in several ways. As regards the sale of our products, we are present on numerous markets, thus diversifying the risk into various countries. Our brands fall within the middle price range and, therefore, are 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. In crisis situations like the epidemic, 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 these actions will not safeguard the Group against the risk of epidemic and the consequential economic slow-down, they may, however, minimise its impact.

RISK OF INCREASED PRODUCT COSTS	RISK OF INCREASED PRODUCT COSTS **Risk:** The majority of our collection orders are placed with suppliers from countries with lower manufacturing costs, mainly from Asia, with the settlement currency being USD in approx. 90%. Therefore, there is a risk of increased product costs, caused by the following factors: increased manufacturing costs (the increase in costs of materials or payroll costs), an increase in the USD/PLN exchange rate and increased stock transporting costs. **Actions:** We aim at minimising this type of risk in several ways i.e. (1) placing larger orders, cooperating in that respect with reliable suppliers for a longer period, which makes it possible to decrease unit prices, (2) placing manufacturing orders in different countries with due consideration of the capacities, specialisation and standards of manufacturers operating in different countries. For example, manufacturers in Bangladesh specialise in manufacturing good-quality T-shirts, while Chinese suppliers specialise in more demanding products like jackets. The negative impact of changes in exchange rates is minimised by due adjustment of prices of selected products and simultaneous compliance with pricing policy rules. Additionally, continuous product supplies throughout the year reduce the risk of purchasing entire collections at exchange rate peaks. Increased transportation costs are minimised by diversifying transport means (by sea, railway, road, air) and long-standing cooperation with shipping partners.
FOREIGN EXCHANGE RISK	**Risk:** An adverse change in currency exchange poses a substantial risk for our Group. Over 50% of revenue are denominated in foreign currencies (mainly EUR and local currencies), the costs of goods purchases – in approx. 90% in USD, and operating costs – in over 50% in foreign currencies (mainly EUR). The highest FX exposure of our Group concerns USD and EUR. The USD exposure is related to the location of goods production and purchases (mainly Asian countries), while the EUR exposure is related to rent payments for stores. Due to the fact that Russia yields approx. 18% of our sales, our Group faces also substantial RUB exposure. LPP reports financial results in PLN. Consequently, the strong position of PLN against USD and EUR has a positive impact on our Group's margins, while its weak position against key currencies reduces our profitability. **Actions:** Due to the relevance of the foreign exchange risk, in 2017, we decided to start hedging the USD/PLN exchange rate by entering into forward contracts for payments in USD to suppliers. The transactions are aimed at minimising foreign exchange differences in financial operations (i.e. below operating profit).

RISK OF LAW AMENDMENTS	**Risk:** Laws and their amendments significantly affect our Group's operations. The Group is exposed to customs law amendments due to the scale of imports. The introduction of potential import quotas and heavy customs duties could result in the reduction of the Group's margins. The introduction of possible law amendments in each of the countries where we are present may result in the requirement to reduce revenue or incur additional costs e.g. upon introduction of the Sunday trading ban or the turnover tax levied on large stores. At the same time, specific newly introduced regulations e.g. at the EU level may cause a necessity to make changes in the business model e.g. EU regulations governing sustainable development. **Actions:** Due to a stable tax policy pursued by the European Union, the risk of customs law amendments is minimised. A more important risk is the one involving law amendments arising from both domestic and EU laws. If any such risk occurs, the Management Board of LPP will focus its activities on adjusting our business model to such law amendments and minimising their impact on the Group's financial performance, as in the case of legislative changes concerning the Sunday trading ban in Poland. Since it is not possible to shop in on-site stores on Sundays, the online channel well developed by the Company gave our customers an opportunity to purchase goods on days covered by the trading ban in question. Owing to its quick reaction adjusting its business model to changing circumstances and geographically diversified operations, the Group minimised the risk of disadvantageous laws implemented domestically.
RISK OF INTENSIFIED COMPETITION	**Risk:** With barriers to the clothing market entry being low for many years, the number of competitors increased, thus strengthening competitiveness. Additionally, on one hand, increased competitiveness was a result of the dynamic development of online sales, which expanded the product offer which was easily accessible and available globally. On the other hand, due to the outbreak of the COVID-19 pandemic, the clothing industry had to face uncertain situations. Restrictions aimed at counteracting the pandemic, implemented by governments of individual countries, changes in consumers' behaviour, social moods and the global economic crisis caused by the pandemic adversely affected the financial position of numerous entities operating in the clothing sector, with some of them being even forced to leave the fashion market. These trends are more noticeable on the West European markets and in the USA than in Central-Eastern Europe. **Actions:** The success of LPP on each market depends on the quality of collections and their acceptance by customers. It is important to know customers' habits, the time of reacting to customer needs and the quality of customer experience we offer. Another equally important factor of our success is being competitive on the market. Therefore, to minimise the risk of intensified competition, we focus our activities on offering products best reflecting current trends and meeting customers' expectations at affordable prices. Owing to investments in state-of-the-art technologies, we increasingly gain customer satisfaction, which, at present, determines the company's competitiveness. Simultaneously, we do not forget about our competitors, analysing their operations and monitoring their financial results, development of their sales networks, their product offers and price levels.

RISK OF TECHNOLOGICAL ADVANCEMENT AND INNOVATIONS	**Risk:** In recent years, speedy technological advancement brought revolutionary changes in the apparel sector. Today, these changes concern not only new technologically advanced machines and devices, but first of all computerisation of internal systems, automation of logistics processes and development of artificial intelligence. Big data and advanced data processing systems facilitate prediction of supply, advanced analytics of consumer behaviour and personalised online communication. Therefore, we better understand customer needs and quickly react to meet them. Currently, IT technologies as well as logistics automation and robotization are indispensable to effectively manage the supply chain as they influence not only cost reduction but also customer experience. All these activities have an impact on the company's competitiveness and, consequently, its financial performance. A failure to replace old technologies and solutions in today's world of high-tech and customers' varying needs poses a risk leading to the company's decreased competitiveness. **Actions:** Being aware of the technological revolution in the apparel sector and the key role of Fashion Tech i.e. modern technologies being implemented in the fashion world, we take numerous actions in the area of technology and innovation. Currently, to be competitive in the clothing sector, the company must have, apart from good designers and sales people, a team of skilled IT specialists and analysists. Investing in people, new tools and analysis departments the work of which becomes a starting point for our other units, we are not only a clothing manufacturer but also a tech company. We carry out development works in the following areas: 1) product research and development; 2) customer experience research; 3) research on new technologies and development of integrated sales forms i.e. the omnichannel; 4) research on Fashion Tech in the entire value chain, from clothing designs through logistics to multi-channel sales and post-sales customer service. The effects of such works are our investments in projects such as: RFID (electronic tags) facilitating identification of a single product at each sales stage, construction of technically advanced on-site stores (intelligent fitting rooms, progressive lighting and air-conditioning systems), investments in modern distribution centres, development of omnichannel sales (mobile, machine learning, artificial intelligence).
RISK INVOLVING WEATHER CONDITIONS	**Risk:** In the business conducted, during one season, there may occur negative effects of weather conditions, which may result in a decrease in sales, and, consequently, in our Group's margins. In recent years, we have noticed that weather is less predictable, with specific seasons permeating (specifically winters), which, in addition to unsuitable collections, may affect consumers' demand. **Actions:** To minimise negative effects of weather conditions on the sales of our collections, we monitor, on a regular basis, the level of sales and margins in specific countries, adjusting a time frame and scale of clearance offers. At the same time, following changes implemented, in previous years, in logistics and store replenishment, the Group is more flexible and may react quicker to adverse weather changes in a given season. In consideration of weather changes, we have reviewed our model of collections, increasing the share of multi-seasonal or transitional models. Therefore, our collections include a growing number of all-year products. This model reduces our business risk due to the fact that, if a given product is not sold in SS season, the Group will be able to sell it, changing the manner of its presentation, in the AW season.

CLIMATE RISK	**Risk:** The environment and climate have inevitably become risk elements. Climate changes or even a climate crisis (fires, droughts, floods, global warming) cause, most probably, the deepest changes in the world we could have observed in recent years. The climate risk will be faced by all of us regardless of location or sector. Risk management in this area and adjusting to changes will be of key importance for each company willing to continue its operations in the future. **Actions:** Climate risk management in the clothing sector will follow two tracks. On one hand, companies will fight directly with effects of climate changes. On the other hand, companies will fight climate changes themselves (mitigating their negative climate impact). The first track requires searching for new resources and solutions (e.g. new materials for manufacturing clothes). The second one requires outlays on changes in energy sources, non-emission transport infrastructure, construction of eco-friendly buildings or industrial systems. Being motivated by legal regulations (actions of international organisations and governments) and being aware of the negative impact of the climate crisis on financial performance and consumer trends, companies start working towards climate neutrality by conducting socially responsible business operations. Especially in the clothing sector, due to customers' growing awareness and social expectations, companies will take action aimed at sustainable development as society's trust will be of key importance in building competitive advantage. Being aware of climate risks and aiming at minimising them, our Group decided to adopt the Sustainable Development Strategy "For People For Our Planet" for the years 2020-2025 and has created a special organizational unit responsible for implementing relevant changes. This strategy requires our engagement at each stage of our value chain – from collection designs through selection of raw materials for manufacturing purposes (organic cotton, TencelTM, Lyocell, organic linen, recycled fibres), cooperation with suppliers, transport, the distribution network, to pro-ecological solutions in our brand stores and the e-commerce channel, including eco-friendly approach in our offices and investments in technologies enabling future disposal of textile waste. In the newly adopted Sustainable Development Strategy, we declared that we would make a decisive shift to ecology, setting ambitious and measurable goals to be reached by 2025, including, among others, the increased share of more environmentally friendly collections (Eco Aware), decreasing plastics use and production as well as reducing our carbon footprint. In 2019, we joined the New Plastics Economy Global Commitment uniting representatives of businesses and governments, acting to eliminate plastic waste and pollution and fighting plastic waste not reusable in a closed cycle. We declared that, by 2025, all plastic packaging we use (both in brand stores, in online sales and in logistics operations) will have met one of the following criteria: it will be 100% usable, recyclable or compostable. We have also joined the Polish Plastics Pact, an initiative aimed at circular economy of plastics and, as its signatory, we strive at rational plastics management by taking relevant actions in the process of designing, manufacturing, distribution and sales. Our e-commerce deliveries are made in packaging made of recycled paper only. In 2020, we joined another initiative i.e. the Zero Discharge of Hazardous Chemicals (ZDHC), a programme initiated to reduce chemical footprint in the textile, leather and footwear industries and aimed at limiting the use of chemical substances hazardous for people and the environment. The Group's goal is to achieve, by 2025, full compliance with ZDHC requirements for eliminating hazardous chemicals in our supply chain. We believe that all these actions will contribute to minimising the climate risk.

STATEMENT OF CORPORATE GOVERNANCE

APPLIED CORPORATE GOVERNANCE PRINCIPLES

The Management Board of LPP declares that, in 2020/21, the Company applied corporate governance principles attached as Enclosure to Resolution No 26/1413/2015 of the Board of the Warsaw Stock Exchange, dated 13 October 2016, titled "Best Practice for GPW Listed Companies 2016" (Corporate Governance Principles), published in a website dedicated to good practice for companies listed on the stock exchange Giełda Papierów Wartościowych w Warszawie SA, operated by Giełda Papierów Wartościowych w Warszawie SA, at website address:

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

The Management Board of LPP SA declares that the Company and its governing bodies applied in 2020/21 recommendations and detailed principles provided for in the new Collection of Good Practice for GPW Listed Companies 2016, except for:

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

  The Company does not apply the said recommendation.

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

  At the same time, in the Company's opinion, the currently applicable rules for participation in general meetings facilitate the proper and effective exercise of rights attached to shares and sufficiently secure the interests of all shareholders.

  Furthermore, the Company has not been informed of any shareholders' expectations in respect of conducting the General Meeting of Shareholders using electronic communication means.

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

  The Company does not apply the said principle.

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

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

  Additionally, detailed data on voting results and objections, if any, raised against adopted resolu-

tions are made available in the same form. Consequently, investors may obtain the knowledge of the material parts of, and matters discussed at, a general meeting.

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

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

  The Company does not apply the said principle.

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

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

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

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

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

  The Company does not apply the said principle.

  The remuneration report of the Supervisory Board will be the subject matter of the next General Meeting of LPP Shareholders. According to Article 90g of the Public Offering Act, the Company will publish the remuneration report on its corporate website.

The Management Board of LPP SA declares that the Company does not apply corporate governance practices beyond requirements set forth in domestic law.

DESCRIPTION OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

IN RELATION TO THE PROCESS OF PREPARING FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Group has implemented a well-functioning internal control system, adapted to its needs and characteristics, which provides for the following:

- complete revenue invoicing,
- appropriate cost control,
- efficient use of resources and assets,
- accuracy and reliability of financial information included in financial statements and interim reports,
- adequate protection of sensitive information and prevention of uncontrolled outflow of information from the company,
- effective and prompt identification of irregularities,
- identification of, and appropriate response to, major risks.

Elements of the internal control system in our Company include:

- control activities taken at all levels and in all departments of the Company, based on procedures (permits, authorizations, verifications, reconciliation, reviews of operational activities, distribution of duties) ensuring compliance with guidelines of the Company's Management Board and, at the same time, enabling to take actions necessary to identify and minimise errors and threats for the Company,
- Workflow Guide - proper records and documentation circulation control system (to ensure compliance of account records with accounting evidence),
- duly qualified controlling staff,
- division of duties excluding a possibility that one employee performs activities associated with execution and documentation of a business transaction from the beginning to the end,
- inventory manual, specifying the rules for the use, storage and stock-taking of assets,
- principles for balance sheet depreciation of intangible and tangible fixed assets,
- IT system - the Company's accounting books have been kept using SAP systems ensuring credibility, reliability and accuracy of information processed. Access to SAP information resources is limited to authorised personnel, for performance of their duties only.
- accounting policy recognising the principles of the International Accounting Standards and International Financial Reporting Standards (IAS/IFRS) and related interpretations published in the form of implementing regulations of the European Commission,
- electronic system for document processing (invoices, parts of employee documentation, commissioning of equipment purchases, payment orders, etc.).

In the process of preparing the Company's financial statements, both separate and consolidated, the auditing of financial statements by an independent statutory auditor, i.e. the external control, is an element supporting the system of internal control.

The statutory auditor is appointed by LPP's Supervisory Board. The tasks of the independent auditor include reviewing semi-annual financial statements and auditing annual financial statements, controlling their accuracy and compliance with accounting principles.

Three departments are responsible for preparing the financial statements i.e. CSC (the Common Services Centre), the Reporting Department and the Investor Relations Department headed, respectively, by the Chief Accountant, the Controlling Director and the Investor Relations Manager.

Before submitting financial statements to the independent statutory auditor, the Chief Financial Officer, responsible for the financial reporting process on behalf of the Management Board, verifies them in terms of completeness and correctness of all economic events.

In LPP SA, the strategy and business plan performance are reviewed semi-annually. This is due to cycles occurring in the clothing trade. After closing the first half of the year, senior and middle management staff, with the participation of the finance department, review the Company's financial results. The operating results of the Company, individual trade departments or even individual stores are analysed each month.

The internal audit of, and closely related risk management in, financial reporting processes are matters of daily interest for the Management Board of our Company. LPP SA analyses business risk factors related to the Company's operations. An important role in this respect is also played by management staff responsible for controlling the activities of their departments, including identification and assessment of risks associated with the process of preparing financial statements in an accurate, reliable and lawful manner.

In LPP, there is also an In-House Audit Department. Its works are planned every year and involve mitigation of risks and their relevance. An audit plan is approved by a Board Member and is also sent to the Supervisory Board which controls the said Department and receives regular reports on audit tasks performed from an auditor.

The In-House Audit Department operates in line with the procedure titled “In-House Audit System”. It encompasses descriptions of all major financial and operating processes and specifies risks involved, if any. In audit plans for another period, their relevance and impact on the organization are always taken into account.

The In-House Audit Department carries out audits of departments located in the Company's head office and in foreign companies. On a case-by-case basis, an audit is completed with a relevant report submitted to the Board Member responsible for a given area. The Department in question monitors also the implementation of post-audit recommendations.

In 2020/21, the In-House Audit Department carried out 15 audits completed with reports providing for relevant recommendation.

In total, there were 15 in-house audits (10 foreign companies and 5 departments in the Company's head office).

OUR SHARES AND SHAREHOLDERS

OUR OWNER

LPP SA shareholding structure as at 31 January 2021

Shareholder	Number of shares held	Share in the share capital	Number of votes at the GM	Share in the total number of votes at the GM	Nominal value of shares
Semper Simul Foundation*	536,599	29.0%	1,936,599	59.5%	1,073,198
Sky Foundation**	261,338	14.1%	261,338	8.0%	522,676
Other shareholders	1,054,486	56.9%	1,054,486	32.5%	2,108,972
Total	**1,852,423**	**100.0%**	**3,252,423**	**100.0%**	**3,704,846**

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

In the financial year, there were several changes in key shareholdings.

Changes involved 18,006 treasury shares and resulted from the acquisition by eligible persons, as part of the 2019 incentive programme, of the total of 907 treasury shares and the sale by the Company of remaining 17,099 treasury shares. Following those transactions, at the end of the financial year, the Company had no treasury shares.

The said changes were described in the following current reports: CR 30/2020 and CR 33/2020.

Changes in key shareholdings involved also shares held by the Semper Simul Foundation and the Sky Foundation.

As regards the Semper Simul Foundation, the changes resulted from the following:
- acquisition of 175,000 preference shares in LPP,
- acquisition of 252 200 ordinary shares in LPP,
- acquisition under a tender offer of 111 ordinary shares in LPP,
- transfer of 210,000 ordinary shares in LPP.

As regards the Sky Foundation, the changes resulted from the following:
- transfer of 175,000 preference shares in LPP,
- acquisition of 210,000 ordinary shares in LPP.

The said changes were described in the following current reports: CR 34/2020, CR 35/2020, CR 36/2020, CR 38/2020, CR 43/2020, CR 42/2020, CR 41/2020, CR 40/2020, CR 47/2020, CR 48/2020, CR 49/2020.

Shareholdings of key management and supervisory officers as at 31 January 2021

Apart from the above, key management and supervisory officers hold no shares in LPP or its affiliates.

Shareholder	Number of shares held	Number of votes at the GM	Nominal value of shares
Marek Piechocki, President of the Management Board	664	664	1,328
Przemysław Lutkiewicz, Vice-President of the Management Board	415	415	830
Jacek Kujawa, Vice-President of the Management Board	568	568	1,136
Sławomir Łoboda, Vice-President of the Management Board	507	507	1,014
Antoni Tymiński, Member of the Supervisory Board	11	11	22

INFORMATION ON AGREEMENTS WHICH MAY GIVE GROUNDS FOR FUTURE CHANGES IN PROPORTIONS OF SHAREHOLDINGS HELD BY CURRENT SHAREHOLDERS

The Company has no knowledge on any agreements which could give grounds for any future changes in proportions of shareholdings held by current shareholders.

TREASURY SHARES

Currently, the Company has no treasury shares. During the financial year, LPP held 18 006 treasury shares, of which 907 were awarded to eligible persons under the 2019 incentive programme (CR 30/2020). Remaining 17,099 treasury shares were transferred by the Company as part of accelerated book building (CR 32/2020, CR 33/2020).

SHARE QUOTATIONS

Shares in LPP SA have been quoted on the main market of the Warsaw Stock Exchange (WSE) since 2001.

On the debut date, the price of the Company's shares was PLN 48.00. The lowest value of the Company's shares in the history of listings was recorded by LPP SA on 18 May 2001: PLN 47.00, and the highest value was recorded on 8 January 2018: PLN 10,170.00.

In 2020/21, prices of LPP SA shares were between PLN 4,450.00 to PLN 8,680.00 (at closing prices). The share quotation during the last session (at closing prices) in the financial year i.e. on 29 January 2021 was PLN 7,690.00.

At the end of 2020/21, the Group's net loss per share was PLN -103.44, and a year before net earnings per share were PLN 264.97.

As at 31 January 2021, shares in LPP SA were constituents of the following stock exchange indices:

Strata netto GK na jedną akcję na koniec 2020/21 roku wynosiła -103.44 PLN, rok wcześniej zysk na jedną akcję w wysokości 264.97 PLN.

Domestic:
WIG – an index comprising shares listed on the main market. It shows the total relative value of companies quoted on the Warsaw Stock Exchange (WSE) compared to their value since the beginning of quotation (on 16 April 1991, the index equalled 1,000 points). It is a price index. As at 31 January 2021, the share of LPP SA in WIG was 2.6%.

WIG20 – an index calculated on the basis of the value of the portfolio of 20 largest and most liquid companies from the main market of the WSE. LPP SA has been a constituent of the said index since 2014. As at 31 January 2021, LPP's share in WIG20 amounted to 4.1%.

WIG-Poland – a national index comprising only shares in Polish companies listed on the main market of the WSE, which meet basic criteria for being index constituents. As at 31 January 2021, the share of LPP SA in WIG-Poland was 2.9%.

WIG20TR – a total return index taking into account dividends paid by 20 largest and most liquid companies listed on the WSE and rights issues. As at 31 January 2021, the share of LPP SA in WIG20TR was 4.1%.

WIG30 – index comprising 30 largest and most liquid companies listed on the main market of the WSE. As at 31 January 2021, the share of LPP SA in WIG30 was 3.8%.

WIG30TR - a total return index taking into account dividends paid by 20 largest and most liquid companies listed on the WSE and rights issues. As at 31 January 2021, the share of LPP SA in WIG30TR was 3.8%.

WIG-Clothes – a sub-sector index including WIG constituents which simultaneously belong to the “clothes and cosmetics” sector. As at 31 January 2021, the share of LPP SA in WIG-Clothes was 67.9%.

WIG ESG – index published from 3 September 2019 based on the value of the portfolio of shares in companies recognised as socially responsible i.e. observing the principles of socially responsible business, specifically in terms of environmental, social, economic issues and corporate governance. As at 31 January 2021, the share of LPP SA in WIG ESG was 4.7%.

Foreign:
MSCI Poland Index covering over 20 key countries listed at the WSE. LPP SA has been a constituent of the said index since 2014.

CECE index of the Vienna Stock Exchange, covering companies from Poland, the Czech Republic and Hungary. LPP SA has been a constituent of the said index since mid-September 2017.

STOXX Europe 600 index representing large, medium and small companies from 17 EU countries. This is index is part of the Deutsche Boerse Group. LPP SA has been a constituent of the said index since September 2018.

FTSE Russell Index of the London Stock Exchange, covering developed countries. LPP SA has been a constituent of the said index (in the category of medium companies) from 24 September 2018, i.e. from the time when Poland was transferred from the index of developing countries to the index of developed countries.

SHARE-RELATED LIMITATIONS AND SHAREHOLDERS WITH SPECIAL CONTROL RIGHTS

The sale or pledging of registered shares requires the Company’s consent. Permits for selling or pledging shares are granted by the Supervisory Board in writing, otherwise being null and void, within 14 days from the date of application. If the Company refuses to give such permit, it should designate another buyer and define the date and place of payment of the price within 30 days. If, within the above-mentioned time-frame, the Company does not indicate another buyer, shares may be sold without any limitations.

At the same time, registered shares carry voting rights of 5 votes per share at the General Meeting of Shareholders. Registered shares are held by a single entity i.e. the Semper Simul Foundation (associated with Mr Marek Piechocki, Article (3)(1)(26)(d) MAR).

The said entity holds 350,000 registered shares giving right to 875,000 votes at the General Meeting of Shareholders.

Apart from the above, there are no other securities giving any special control rights.

ISSUANCE OF SECURITIES – UTILISATION OF PROCEEDS FROM THE ISSUANCE OF SECURITIES IN THE REPORTING PERIOD

In the financial year, the Company issued no securities.

LPP'S GOVERNING BODIES

OUR MANAGEMENT BOARD AS AT 31 JANUARY 2021

Board composition and scope of its members' responsibilities for specific areas of LPP's operations

MAREK PIECHOCKI – President of the Management Board of LPP (co-founder of LPP)	– upervision over the works of the Management Board – HR – Reserved, Cropp, House, Mohito, Sinsay – brand and product development as well as omnichannel sales – Communication – Purchases and sustainable development – Control and development of sales operations
PRZEMYSŁAW LUTKIEWICZ – Vice-President of the Management Board of LPP	– Reporting and taxes – Operational controlling – Financial controlling – Common Services Centre – Management of foreign companies – In-House audit – Investor relations – Business Trip Organisation Office
JACEK KUJAWA – Vice-President of the Management Board of LPP	– IT – Logistics – Administration – Investments – Data Science – Customer Service Centre – Cyber Security
SŁAWOMIR ŁOBODA – Vice-President of the Management Board of LPP	– Lease and expansion – Legal service – Market analyses

In 2020/21, there were no changes in the composition of the Management Board of LPP.

RULES FOR APPOINTING AND DISMISSING KEY MANAGEMENT OFFICERS AND THE SCOPE OF COMPETENCE OF THE MANAGEMENT BOARD

LPP's Management Board consists of two to six members, including the President, and from one to five Vice-Presidents. Members of the Management Board are appointed for a term of five years and dismissed by the General Meeting of LPP Shareholders which also determines the number of Board members.

The scope of competence of, and rules of procedure for, the Management Board of LPP SA are set forth in the following documents:
- LPP SA Articles of Association available on the Company's website: https://www.lppsa.com/wp-content/uploads/2018/02/Articles-of-Association-of-LPP-SA-13.01.2021.pdf
- Rules of Operation of the Management Board available on the Company's website: https://www.lppsa.com/wp-content/uploads/2016/02/Regulations-of-The-Management-Board-of-LPP--SA.pdf
- Commercial Companies Code.

The Management Board is responsible for any and all matters not falling within the scope of competence of other governing bodies of LPP SA.

The Management Board is not entitled to make any decisions on the issuance or buy-out of shares.

COMPENSATION AGREEMENTS WITH KEY MANAGEMENT OFFICERS

No agreements were concluded with key management officers, which would provide for a compensation in case of their resignation or dismissal from their position otherwise than on solid grounds or if they are recalled or dismissed as a result of the issuer's merger by acquisition.

REMUNERATION OF KEY MANAGEMENT OFFICERS

Values of all remunerations of key management officers are given in consolidated financial statements (notes 29.2 and 29.3) and in separate financial statements (notes 31.3 and 31.4).

OUR SUPERVISORY BOARD AS AT 31 JANUARY 2021

Composition: Miłosz Wiśniewski, Independent* Chairman of the Supervisory Board of LPP

Wojciech Olejniczak, Vice-Chairman of the Supervisory Board of

Piotr Piechocki , Member of the Supervisory Board of LPP

Magdalena Sekuła, Independent * Member of the Supervisory Board of LPP

Antoni Tymiński, Independent * Member of the Supervisory Board of LPP

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

In 2020/1, there were changes in the composition of the Supervisory Board.

The scope of competence of, and the rules of procedure for, the Supervisory Board of LPP SA are set forth in the following documents:
- LPP SA Articles of Association (available on the Company's website),
- By-Laws of the Supervisory Board (available on the Company's website),
- Commercial Companies Code.

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

In 2020/21, there were changes in the composition of the Supervisory Board. By the end of 2020, Jerzy Lubianiec, co-founder of LPP, was Chairman of the Supervisory Board and he resigned from his position as of 30 December 2020. Mr Miłosz Wiśniewski was appointed Board Chairman on 3 February 2021, having previously been its independent member from 20 October 2017.

The scope of competence of, and the rules of procedure for, the Supervisory Board of LPP SA are set forth in the following documents:
- LPP SA Articles of Association available on the Company's website: https://www.lppsa.com/wp-content/uploads/2018/02/Articles-of-Association-of-LPP-SA-13.01.2021.pdf
- By-Laws of the Supervisory Board available on the Company's website: https://www.lppsa.com/

wp-content/uploads/2016/02/Regulations-of--The-Supervisory-Board-of-LPP-SA.pdf
- Commercial Companies Code.

In 2020/21, the Supervisory Board of LPP held 5 meetings.

REMUNERATION OF KEY SUPERVISORY OFFICERS

Values of all remunerations of key supervisory officers are given in consolidated and separate financial statements (respectively, notes 29.2 and 31.3).

LPP'S SUPERVISORY BOARD COMMITTEES

Since 2017, within the Supervisory Board, there has been the Audit Committee composed of person listed below, meeting independence and other criteria set forth in Article 129 of the Act of 11 May 2017 on Statutory Auditors, Audit Companies and Public Supervision (Journal of Laws of 2017, item 1089):

Antoni Tymiński, Chairman of the Audit Committee, meeting statutory independence criteria,

Magdalena Sekuła, Member of the Audit Committee, meeting statutory independence criteria,

Piotr Piechocki, Member of the Audit Committee,

Miłosz Wiśniewski,– Member of the Audit Committee, meeting statutory independence criteria.

Mr Antoni Tymiński, Chairman of the Audit Committee, has the knowledge and skills in the area of accounting and the auditing of financial statements; he is a licensed statutory auditor and gained experience as partner at Pricewaterhouse Coopers and manager at Deloitte&Touche, responsible for auditing financial statements. Also Mr Miłosz Wiśniewski, member of the Audit Committee, has the knowledge and skills in this area, gained while he was Finance Director at Cereal Partners Worldwide and Boryszew SA.

Mr Piotr Piechocki has the branch-specific knowledge and expertise gained while he managed the e-commerce department of LPP SA.

In 2020/21, 5 meetings of the Audit Committee were held.

The tasks of the Audit Committee comprise the following:

- monitoring the financial reporting process and provision of recommendations aimed at ensuring diligence of the said process in the Company;
- monitoring the effectiveness of in-house control and audit systems and the risk management system in the Company, including in terms of financial reporting;
- monitoring performance of financial audit activities in the Company, in particular the carrying out of an audit by an audit company, with due consideration of any and all motions and findings of the Audit Supervision Commission, arising from a control procedure carried out in the audit company;
- control and monitoring of the independence of a statutory auditor and an audit company, specifically in cases where the audit company provides non-audit services to the Company;
- informing the Supervisory Board of audit results and explaining how such audit has contributed to reliability of the Company's financial reporting and what was the Committee's role in the audit procedure;
- assessing the independence of a statutory auditor;
- granting consent for using permissible services other than the audit of financial statements, provided by an audit company or a statutory auditor;
- developing a policy for choosing an audit company for audit purposes;
- developing a policy for the provision of permissible non-audit services by an audit company carrying out the audit, entities affiliated with such audit company and a member of the audit company's group;
- determining a procedure for choosing an audit company by the Company;
- providing the Supervisory Board with recommendations in accordance with Article 130(1)(8), 130(2) and 130(3) of the Act;
- verifying work performance of a person (entity) performing the duties of statutory auditor, in particular, by contacting the statutory auditor in the course of auditing the financial statements of the Company and its subsidiaries to discuss the advancement of works and clarify any doubtful issues and reservations of the statutory auditor in terms of the applied accounting policy or in-house control systems;
- discussing with the Company's statutory auditors the features and scope of the annual report and reviews of interim financial statements;

reviewing the Company's interim and annual

(separate and consolidated) financial statements audited, focusing, in particular, on:
  - any and all changes in the accounting standards, principles and practice,
  - main areas audited,
  - key adjustments resulting from the audit,
  - compliance with applicable accounting and financial reporting laws;
- issuing opinions for the Supervisory Board on termination of the agreement with an entity authorised to audit the Company's financial statements;
- granting consent for appointment and dismissal by the Management Board of a person performing in the Company a key function covering in-house audit duties;
- monitoring the compliance system applicable in the Company,
- if there is no separate in-house audit position in the Company, the Audit Committee evaluates every year whether there is a need for such separate position.

KEY PRINCIPLES OF THE POLICY FOR CHOOSING AN AUDIT COMPANY TO CARRY OUT AN AUDIT

CRITERIA FOR CHOOSING AN AUDIT COMPANY

1. In the course of preparation by the Audit Committee of recommendations and, subsequently, in the course of choosing the Eligible Entity by the Supervisory Board of LPP SA, the following criteria are taken into consideration:

   a) a) experience gained so far by the Eligible Company as well as qualifications and experience of persons delegated to carry out financial audit activities;
   b) knowledge of the industry in which the Company operates;
   c) price conditions offered by the Eligible Company;
   d) suggested time schedule covering works involving financial audit activities;
   e) comprehensiveness of services declared to be provided by the Eligible Company;
   f) renown of the Eligible Company.

2. In the course of preparation by the Audit Committee of recommendations and, subsequently, in the course of choosing the Eligible Entity by the Supervisory Board of LPP SA, recognition is given also to the assessment made by the Eligible Company and the key statutory auditor of the following issues:

   a) meeting by the Eligible Company of independence requirements referred to in Articles 69–73 of the Statutory Auditors Act;
   b) existence of hazards for the independence of the Eligible Company and the application of safeguards to minimise them;
   c) availability of competent staff of the Eligible Company, time and other resources to carry out the audit as required;
   d) holding by a person appointed to as key statutory auditor of a license to carry out mandatory audits of financial statements, obtained in a EU country in which such audit is required, including verification whether such person has been recorded in relevant registers of statutory auditors, kept in the EU country requiring the audit.

3. Before issuing its recommendation, the Audit Committee evaluates also:

   a) the independence of the Eligible Company and persons engaged in financial audit activities in light of Articles 69–73 the Statutory Auditors Act;
   b) statutory limitations relating to the possibility of providing services to the Company, motions, if any, and instructions provided for in the annual audit report issued by the Audit Supervision Commission, as referred to in Article 90(5) of the Statutory Auditors Act, in respect of the Eligible Company, which may affect the choice of an audit company.

4. It is impermissible to accept any pressure or suggestions of any third parties in respect of selection of the Eligible Company; it also impermissible for the Company, its governing bodies or the Audit Committee to accept any instructions in respect of selection of the Eligible Company or to conclude any agreements, or enter into any undertakings, in this respect.

5. The choice is made from among audit companies which have made offers for providing services covering statutory audit activities in line with the Appointment Procedure, with the reservation that:

   a) upon expiry of the maximum periods of the audit assignment, the audit company which audited the Company's financial statements may not audit such financial statements for the next four years,
   b) the organisation of the tender procedure does not exclude participation of compa-

nies which are recorded on the list of audit companies and earned less than 15% of their total consideration for auditing services from public-interest entities in a given EU country in the preceding calendar year,

c) the Company may invite any audit companies to make offers for statutory auditing services provided that the above is not in breach of provisions of the Statutory Auditors Act.

6. On a case-by-case basis, the Eligible Company is chosen based on offers received by the Company and delivered in accordance with the Appointment Policy with due consideration of the Appointment Procedure.

APPOINTMENT LIMITATIONS

1. Limitations in respect of selection of the Eligible Company are as follows:

   a) the maximum duration of continuous statutory audit assignments executed by the Eligible Company or an audit company affiliated with the Eligible Company or any member of a network operating in EU countries, to which such audit companies belong, may not exceed 5 years;
   b) the key statutory auditor may not audit annual consolidated financial statements of the Group or annual financial statements of the Company for more than 5 years;
   c) the key statutory auditor may once again audit annual consolidated financial statements of the Group or annual financial statements of the Company upon expiry of at least 3 years from the last audit.

2. The first agreement on the audit of financial statements is concluded with the Eligible Company for a period of at least two years, with the possibility of its prolongation for next at least 2-year periods.

3. The principle, referred to in section 1 point a) above, applies to the audit of financial statements drawn up for financial years commencing after 31 December 2017.

4. The principle, referred to in section 1 point c) above, applies to waiting periods commencing on or after 17 June 2016.

5. When recommending and choosing the Eligible Company, it is required to take into account also limitations arising from the Policy for the Provision of Permitted Services.

FEE

1. The audit fee paid to the Eligible Company, its statutory auditors and subcontractors acting on their behalf and for them, may not:

   a) be subject to any conditions, including the audit result;
   b) be valued according to, or dependent on, the provision for the Company or its affiliates of additional non-audit services by the Eligible Company or any entity affiliated with the audit company or its group's member.

2. The audit fee reflects labour intensiveness, complexity of work and required qualifications.

The audit company reviewing the Company's financial statements had also provided additional services encompassing the review of interim condensed financial services. Furthermore, in the current period, the parties signed the agreement covering performance of relevant procedures involving indebtedness indices.

The recommendation for choosing an audit company to carry out audits has met the requirements stemming from relevant laws and, due to the prolongation of the agreement concluded with the audit company auditing financial statements so far, the appointment procedure was not carried out in full.

KEY PRINCIPLES OF THE POLICY FOR THE PROVISION BY THE AUDITING COMPANY OF PERMITTED NON-AUDIT SERVICES

According to the Policy for the provision by an auditing company, its affiliates and a member of its group of permitted non-audit services drawn up by the Audit Committee of the Supervisory Board of LPP SA and applied in the Company, it is required, first of all, to ensure independence of both the audit company and the statutory auditor and to limit the possibility of the conflict of interest in case of assigning the audit company to provide permitted non-audit services by way of defining prohibited and permitted services.

For example, permitted services cover due diligence procedures involving economic and financial standing, assurance services covering pro forma financial information, result forecasts or estimates, published in the audited entity's prospectus, the audit of historical financial information for the prospectus, verification of consolidation packages.

Prohibited services are, in particular, the following: tax services involving preparation of tax returns, payroll taxes, customs dues, book-keeping services, drafting of accounting documentation and financial statements, development and implementation of internal control or risk management procedures involving preparation or control of financial information or development and implementation of technological systems covering financial information, or services involving in-house audit.

Permitted services may be provided only within the scope not related to the Company's tax policy, following assessment by the Audit Committee of hazards and safeguards for the independence of the audit company, the key statutory auditor and other members of the auditing team.

GENERAL MEETING OF LPP'S SHAREHOLDERS

Operation of the General Meeting, its powers, description of shareholders' rights and the mode of their exercise

The scope of competence of, and the rules of procedure for, the General Meeting of LPP's Shareholders are set forth in the following documents:

- LPP SA Articles of Association available on the Company's website: https://www.lppsa.com/wp-content/uploads/2018/02/Articles-of-Association-of-LPP-SA-13.01.2021.pdf
- Rules of Operation of the General Meeting of LPP's Shareholders available on the Company's website: https://www.lppsa.com/wp-content/uploads/2016/03/Regulations-of-The-General-Meeting-of-Shareholders-LPP-SA.pdf
- Commercial Companies Code.

CONVENING THE GENERAL MEETING OF SHAREHOLDERS

- The General Meeting of Shareholders may be convened as ordinary or extraordinary meeting.
- The General Meeting of Shareholders is held in Gdańsk, Warsaw, Sopot or Pruszcz Gdański, at a venue designated by the Management Board.
- The Ordinary General Meeting is held annually, within six months after the end of a financial year.
- The Extraordinary General Meeting is convened by the Management Board upon its own initiative, at the request of the Supervisory Board and upon a written request of shareholders representing one twentieth of the share capital.
- The fact of convening the General Meeting, stating the date (day, hour) and place, is announced by the Management Board on the Company's website and in the manner set forth for providing current information in accordance with the provisions on public offering and the terms and conditions for introducing financial instruments to organised trading, and on public companies.

SCOPE OF COMPETENCE OF THE GENERAL MEETING

- Examining and approving financial statements and reports of the Management Board on the operations of LPP SA for the preceding year.
- Taking all decisions relating to claims for redressing damage suffered during the establishment of LPP SA or its management or supervision.
- Adopting a resolution on the distribution of profits or covering losses.
- Discharging members of the LPP SA governing bodies from the performance of their duties.
- Adopting a resolution on the issue of bonds, including convertible bonds.
- Amending the Articles of Association.
- Adopting resolutions on the merger, transformation, dissolution and liquidation of LPP SA.
- Adopting resolutions on the sale and lease of the enterprise and establishing beneficial ownership.
- Examining and deciding on motions submitted by the Supervisory Board.
- Deciding on other matters falling within the scope of competence of the General Meeting under the Commercial Companies Code and the Company's Articles of Association.

SESSIONS OF THE GENERAL MEETING

- The General Meeting is opened by the Chairman of the Supervisory Board or a person authorised by him, who then holds the elections for Chairperson of the General Meeting.
- The person opening the General Meeting takes action aimed at immediate election of Chairperson of the General Meeting, who directs the works of the GM and ensures efficient and proper conduct of the session.
- The General Meeting adopts resolutions on items put on the agenda only.
- Draft resolutions proposed for adoption by the General Meeting and other relevant materials are presented to shareholders together with reasons and the opinion of the Supervisory Board.

- The course of the General Meeting is minuted by a notary public.

VOTING

- Voting at the General Meeting is open. Secret voting takes place when electing governing bodies and on requests to dismiss the Company's governing bodies or liquidators or to make them accountable, and in personal matters. In addition, secret voting is held upon request of at least one shareholder or his/her/its representative.
- The General Meeting may appoint a three-person ballot counting committee, whose duties include ensuring the proper conduct of each voting, supervising computer service (if a vote takes place using electronic technology) as well as reviewing and announcing the results.
- Each share gives right to one vote at the General Meeting. In the case of a series B preference share, one share gives right to five votes at the General Meeting.
- The Chairperson announces voting results, which are then recorded in the session minutes.

In 2020/21, the General Meeting of Shareholders was held on 18 September 2020.

RULES FOR AMENDING OUR ARTICLES OF ASSOCIATION

Any amendment to the Company's Articles of Association requires, first of all, an initiative of a shareholder or the Company's governing bodies. They may apply for convening the General Meeting or supplementing its agenda with voting on the amendment of the Articles of Association. A draft resolution amending the Articles of Association requires a relevant majority of votes at the General Meeting. If any such resolution is adopted, the Company's Management Board is required to file an application with the registry court to record it. An amendment to the Articles of Association is effective upon its registration.

DESCRIPTION OF A DIVERSITY POLICY

APPLIED TO LPP'S ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES IN TERMS OF ASPECTS INCLUDING AGE, GENDER OR EDUCATION AND PROFESSIONAL EXPERIENCE, GOALS OF SUCH DIVERSITY POLICY, THE POLICY EXECUTION PROCESS AND ITS EFFECTS IN A GIVEN REPORTING PERIOD

LPP's Management Board is composed of four men. Two of them are between 30 and 50 years of age and two above 50 years of age. The Supervisory Board is composed of four men and one female. Two persons are between 30 and 50 years of age and three above 50 years of age.

Members of LPP's Management and Supervisory Boards have different education i.e. from technical and IT education to finance, economic and legal education. They have diversified experience both in terms of the sector in which our Group operates and types of institutions where they have gained their previous experience.

Our Company is aware of the importance and the need to ensure diversity in terms of gender, education, age and experience not only in the governing and supervisory bodies, but also among all employees of our Group.

We are an organisation promoting diversity. We evidence the above in our daily operations by prohibiting discrimination of employees and initiating actions aimed at promoting it.

Since 2019, in our Company, there has been a Diversity Team composed of employees at various levels of the HR and Communications Departments. Upon the Team's initiative, we carry out annual surveys of organisational climate and employee satisfaction, aimed, among others, at receiving employees' suggestions in terms of actions undertaken to support diversity issues in LPP.

To emphasise our commitment in promoting and developing diversity in the Company, in 2019, we signed the Diversity Charter and, therefore, we have officially undertaken to implement a discrimination ban and be active in taking action to promote diversity and engaging our employees and business partners accordingly.

The Diversity Charter is an international initiative implemented in EU countries. Its signatories emphasize the importance of equal treatment regardless, among others, of gender, health condition, nationality and ethnic origin, religion, political beliefs, psychosexual orientation, gender identity, family status and other prerequisites which could result in discriminatory behaviour. Companies undertake to create atmosphere respecting diversity, implement solutions supporting equal treatment, introduce an equal treatment policy as well as anti-mobbing and anti-discriminatory monitoring and to report annually actions taken in that respect.

To educate our employees accordingly, last year, we held a workshop on diversity issues for 20 managers and specialists from the our head office.

We analysed the remuneration gap in our Company i.e. differences between salaries of men and women. In 2020, it was 5% to women's disadvantage (according to the Central Statistical Office, the value of the said index in Poland for 2018 was 19.9%). At the same time, we continue to put emphasis on women's professional careers - 60% of managers and directors in the Company are women.

We let our employees demonstrate their beliefs. Having full understanding of the situation of Polish women, we made it possible to take a day off for all persons wanting to take part in the women's strike organised on 28 October 2020.

We employ the disabled. LPP, the Parent Company, employs 2.1% of persons with disabilities (53 employees). LPP Retail, LPP's subsidiary, employs 1.2% of the disabled (98 employees). Since in our on-site stores the number of disabled employees is low due to work specifics, we cooperate with a group of teleworkers thus developing our activation project for the disabled who support us in HR and safety-at-work processes.

Diversity is an important value for us. We confirm that, through our Company's mission and values, in which building a competitive advantage is based on fostering the development of individual talents of employees and on treating them with due dignity and respect, regardless of skin colour, religion, gender, age, nationality, sexual orientation, citizenship, marital status, political beliefs or disability.


RESERVED
OVERVIEW
Measurement QE285 / SH975
UR716
INT 1

SUPPLEMENTARY INFORMATION

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

Since 2015, the Tax and Fiscal Office in Gdynia had carried out tax audit procedures initiated to verify declared taxable bases and correctness of calculation and payment of corporate income tax, including expenses for the use of trademarks contributed in kind to our subsidiary in Cyprus (Gothals Ltd) for the years 2011, 2013 and 2016. On 3 March 2020, the Company received the results of customs and fiscal audits carried out by the Head of the Customs and Fiscal Office for the Pomeranian voivodeship in Gdynia. Following the findings made by relevant authorities, the Company adjusted its tax returns for the above-mentioned years and, simultaneously, paid additional tax liabilities in the amount of PLN 30.9 mln, increased with interest for delay.

The above-mentioned activities finally close tax audits carried out in LPP SA for the years given above.

Currently, there are no pending court or administrative procedures involving liabilities or dues of LPP or its subsidiaries.

INFORMATION ON KEY ACHIEVEMENTS IN R&D

Omnipresent digitalisation dynamically changes habits and expectations of today's customers. The revolution in the retail brand entails not only changes in the Internet, but also in logistics, warehousing, on-site stores as well as changes in approaching ecology issues. The future of the fashion industry lies in technological advancement, creating best customer experience and directing activities at sustainable i.e. eco-friendly fashion.

In response to current trends, growing importance is being placed in our Group on works involving application of technological innovations (research and development).

We carry out research works in the following areas:

- product research and development;
- customer experience research;
- research covering new technology and development of sales methods, including e-commerce and the omnichannel;
- Fashion Tech research, i.e. application of new technologies in the entire value chain, from clothing design through logistics to omnichannel sales and customer after-sales service.

In 2020/21, our greatest achievement in R&D was the accelerated transformation of technologies, logistics and sales, fully integrating on-site and e-commerce sales channels. As the first Polish retailer of this size, we have become a truly omnichannel organisation to adjust to completely new challenges faced by our business sector.

Although, for several years now, LPP has been consistently increasing outlays for implementation and advancement of new technologies regardless of any plans adopted, customers' unprecedented shift towards online shopping during the COVID-19

pandemic forced us, in its first months, to implement our in-house projects quicker than expected. We would not able to do so without having previously executed projects such as implementation of the RFID technology in Reserved, cloud solutions for online stores, optimization of solutions for online order picking, modification of the WMS, a warehouse management system, or the in-house logistics platform integrating systems of courier companies.

KEY PROJECTS AIMED AT DEVELOPING AN OMNICHANNEL ORGANISATION IN THE FINANCIAL YEAR 2020/21

Mustang

Mustang i.e. Multichannel Stock Management is our in-house software supporting sales by introducing common stock and increasing product availability in all channels.

This is how we have changed the replenishment process in brand stores and e-commerce warehouses and how we have newly defined product return rules.

Having implemented Mustang, we may easier manage product availability and its booking for all channels depending on the sale demand. Customers have been given new shopping possibilities as they may, among others, execute Click&Collect orders from the full store stock. The Company's presumption that distribution must be more customer-friendly made it also possible to test hubs which, additionally, function as mini distributions centres in locations distant from central warehouses.

Defrost

As part of the Mustang project, we started implementing the Defrost project aimed at releasing the stock not sold in traditional stores and making it available in regular online sales. This is how we expand our product offer by adding all products available in on-site stores, even the last items displayed in shop windows and on shelves. As preferred, customers may collect their order in a given brand store with no need to pay delivery costs or may receive goods purchased by courier service. Defrost gives us the opportunity to better use the potential of brand stores for executing e-commerce orders and reduce logistics costs to the last kilometre.

Strategic digital partnership with Google

Investments in new technologies have become a priority for our Company. We regularly expand our IT team, execute projects developed fully in-house and implement the best solutions available on the market.

Today, employing 400 IT specialists and experts, we are a quite large and competitive force for market players. To use the cloud potential in full for developing online sales and supporting our Company's digital transformation, we have made strategic arrangements with Google. We use the Google Cloud advanced technology in, among others, the following areas:

- analytics – we have implemented an analytical platform and data repository to gather all resources in one place and receive comprehensive reports in a short time. Different LPP teams may easily employ information collected and use it in sales, marketing and logistics;
- e-commerce infrastructure – we have implemented solutions ensuring smooth and unfailing system operation even at peak times (Christmas time, clearance sales) and product recommendations based on artificial intelligence.

Use of AI in the Customer Service Centre

The Customer Service Centre (CSC) plays a key role in developing our omnichannel organization. It receives calls from customers shopping in online stores of all our brands with chat assistance of artificial intelligence. One of last year's achievements in R&D was the use of a secondgeneration chatbot K2Bots.AI. The chatbot developed specially for LPP solves independently 200 most popular issues reported by our customers in Poland. The chatbot talks about delivery statuses, helps with product returns made by courier service and accepts customer claims using natural language and answering open questions. If a problem is more complex, the chatbot connects a customer with a CSC consultant. Currently, 30% of calls made to the CSC are solved by K2Bots.AI. In 70% of them, the chatbot responds fully independently.

Owing to automated services, at the time of three-digit increase in online sales, the implemented solution based on conversational capacities of AI has significantly increased work efficiency of the CSC. At the next stage, the chatbot will support also our customer service on foreign markets.

OTHER R&D ACHIEVEMENTS

E-commerce technologies

Our achievements in R&D include also the implementation of modern and eco-friendly packaging solutions in e-commerce dispatches.

In 2020, we continued our activities towards a closed circuit economy and eliminating single-use plastics. Last year, we reduced plastics consumption by as much as 300 tones, thus doubling the result for 2019. In total, for 4 last years, we have carried out revolutionary activities aimed at limiting the consumption of plastic raw materials which could not have been recycled or reused. Having changed our approach to e-commerce packaging, we were able to eliminate, in that period, the total of 570 tonnes of plastics. There is no plastics whatsoever in online dispatches made by Mohito and Reserved. In other brands, we used recycled foil only. We diversified the packaging size. Therefore, we adjusted their size to their content, thus minimizing the consumption of raw materials for packaging production, and we optimized the size of courier dispatches of online orders. We eliminated plastic fillers and implemented packaging of higher quality and durability, made of recycled paper, which increased the functionality of previously used cardboard boxes and foil packs.

Product research and development

Considering the fact that we are heading towards sustainable i.e. eco-friendly fashion, which is the expression of our social responsibility arising from the announced sustainable development strategy, the Eco Aware line forms part of our collections in all our brands. Eco Aware is based on two pillars i.e. gradually increasing variety of eco-friendly materials from reliable sources and responsible production. Our R&D activities are focused on searching for sustainable raw and semi-raw materials, new fibre production technologies, examining ways to use organic dyes in prints and testing recycled leather in the manufacturing of footwear and accessories.

Our goal is to reach a 25% share of the Eco Aware line in all LPP brands by 2021.

In this area, R&D are important due to the fact that our target is to have reached a share of 25% of Eco Aware lines in all LPP brands by 2021.

Technologies in buildings (on-site stores, offices and distribution centres)

Based on modern technologies, we constantly modify our brand stores, introducing not only solutions concerning products and customer service, but also those substantially reducing our environmental impact:

- energy-saving screens and smart steering of video walls, which, along with adequate preparation of screened contents, reduces power consumption by 40%,
- progressive LED lighting system saving energy when the store is closed, enabling better product display,
- modern air-conditioning system with the highest power efficiency rating, adjusting to customer traffic intensity,
- heat maps enabling the monitoring and analysis of customer traffic in stores, which, in practice, translates into better product display,
- escalators with motion sensors, which slow down when not in use;
- smart fitting rooms in Reserved stores, with tablets with special marketing content installed for customers to get fashion inspirations on a day-to-day basis, or with fitting rooms' availability signalling.
- Store Vision i.e. the internally developed application used on our brand stores by shop assistants to provide customer services through the omnichannel.

In 2020, we started implementing the Eco Aware Stores programme (EAS) specified in our sustaina-

ble development strategy. Therefore, we decrease our environmental impact also at the sales stage, providing comfort for our customers. By 2025, 100% of stores will have been included in the said programme. The programme provides for a reduction in energy consumption by implementing a new store concept based on a smart and energy-saving system encompassing the lighting, heating, ventilation and air-conditioning. As estimated, the very changing of the current lighting for led lighting is to save energy consumption by 15%. By using energy-saving screens and video walls controlled by a smart system, energy consumption may be reduced by 40% compared to traditional solutions.

Whenever possible to choose a supplier, over 25% of energy consumed by our brand stores is provided by RES. In some locations, we implemented also the SolarCool technology using solar energy in the cooling system of air-conditioning devices.

A key action implemented in 2020 was the testing of telemetric solutions improving accuracy of the analyses carried out and serving as the basis for even better determination of further steps towards energy efficiency.

In selected brand stores, we started the testing of the telemetric system i.e. the monitoring and management of electric energy. The system makes it possible to apply automatic meter reading and the analysis of energy consumption by individual installations and circuits (lighting, HVAC, LED screens etc.). Owing to a dedicated software, we generate specialist reports serving as the basis for preparing recommendations supporting energy saving in individual brand stores. Furthermore, it makes it possible to eliminate cases of unnecessary operation of installations and optimize the operation of circuits and devices indispensable during opening hours. As shown by initial tests, owing to the system, we may use current information on energy consumption. We can control it and, owing to analyses and conclusions, we can significantly reduce energy consumption. At the next testing stage, when choosing specific technical solutions, we will implement remote control of HVAC devices and, therefore, further reduce energy consumption. At present, in Poland, 88 brand stores located in shopping centres have BREEAM certificates (Building Research Establishment's Environmental Assessment Method), with one brand store having a LEED certificate (Leadership in Energy and Environmental Design).

The BREEAM certificate has been awarded to chosen brand stores in the Czech Republic, Slovakia and Latvia (one certificate in every country).

As part of our R&D achievements, we implemented high-tech solutions in LPP's offices.

In April 2020, designing teams of House and Mohito moved to a newly developed energy-saving office building at Bagrowa Street in Cracow, in which we implemented, among others, the following eco-friendly solutions:

– BMS system (Building Management System) managing automatic devices in the building, responsible for reducing their power consumption and simultaneous maintenance of interior heating comfort.
– Air recuperation system providing interior heating recovered from exhaust air, thus reducing energy demand. Furthermore, the system provides for pollution and dust filtration inside the building, leaving fresh air.
– Air handling units equipped with the highest-quality filters stopping PM^2.5 and PM10.
– Low-emission glass in windows of the size and location enabling the maximum use of sunlight potential.

In the financial year 2020/21, we also opened our new office building in Gdańsk, being part of the LPP Fashion Lab complex. In the said building, we also applied numerous high-tech solutions such as:

– cooling ceilings on three floors instead of freon-based cooling;
– rainwater harvesting for use in use in toilet cisterns;
– air handling units located in underground floors to limit noise;
– charging stations for electric cars;
– advanced BMS system (Building Management System).

We have applied for awarding a BREEAM certificate to the new building.

Our R&D achievements included also logistics buildings.

Last year, we opened the third building in our Distribution Centre in Pruszcz Gdański. Having completed the project, we obtained 29 additional alleys in the automated warehouse. Owing to new space, we can perform, additionally, almost 90 thousand operations in the mini-load warehouse daily and almost 50 thousand cardboard boxes for pick and put away processes each day. In the newly opened space, there are another 10 RFID tunnels and 10 RFID stations for identifying a single item in the supply chain and controlling, precisely, incoming and outgoing goods in the Distribution Centre.

For the year 2021/22, we plan to invest in the modernisation of part of the premises in Pruszcz Gdański. We plan to implement high-tech Automated Storage and Retrieval warehouse there.

This year, we have commenced a project encompassing a new Distribution Centre located in the Brześć Kujawski municipality. In the newly developed facility, we also plan to implement technological solutions eg. renewable energy sources (photovoltaic panels) or the harvesting of rainwater for use in toilet flushes. There will be also electric car stations.

INFORMATION ON BUSINESS SPONSORSHIP, CHARITY OR SIMILAR POLICIES

The Group builds community relations with full awareness. For almost 30 years now, we have been actively learning about the needs and expectations of beneficiaries and undertaking corresponding initiatives. Our responsibility has been defined in the Sustainable Development Strategy, with its part on charity activities being transferred for implementation purposes to the LPP Foundation established in 2017. The Foundation's goal is communityand environment-oriented activities.

The decision on the establishment of the Foundation was made in December 2017, being a natural step in developing LPP's community support activity. The Foundation's goal is communityand environment-oriented activities. According to our CSR Strategy, we pay special attention to projects supporting persons threated with social exclusion, mainly children and young people, those involving material aid and those supporting the Company's closest neighbourhood.

Last year, charity projects of LPP and its Foundation were focused substantially on fighting the pandemic's effects.

Projects in 2020/21

As a result of growing challenges brought by the pandemic, our aid was addressed to supporting, first of all, health centres. In total, in two openings of the #LPPpomaga project, we provided aid to 300 entities in need, the value of which amounted to PLN 6.9 mln. Aid was addressed to hospitals treating infectious diseases and specialist hospitals, located all around Poland well as social care centres, foundations and medical centres.

As part of the project's first opening, we bought in total 1 mln protective masks. Many LPP employees jointly engaged in the #LPPpomaga project. We created teams responsible for coordinating their dispatches to hospitals and distributing protective masks to institutions in need. Over a hundred volunteers sew, after working hours, protective masks and aprons. They succeeded to provide 27.2 thousand reusable masks and almost 1.7 thousand aprons.

Aid was provided not only by our Foundation. Reserved, Mohito and Cropp also joined the #LPPpomaga project, donating 10% of inflows from Joyful and Eco Aware collections to medical centres.

Funds collected were received by 5 hospitals in Gdańsk, Gdynia and Cracow and were allocated for purchasing missing personal protection equipment (overalls, aprons, masks and disinfectants) and equipment such as exhaust air decontamination system, chest compression devices, a cardio-monitor and defibrillator.

Furthermore, we designed and produced 10 thousand reusable masks for students, doctoral students and employees of the Gdańsk Medical University.

During the pandemic, LPP has also supported children living in children's care homes, having difficult access to computers during the time of remote learning launched in March 2020. In total, we provided 100 computers for approx. 150 children in 18 facilities in the Pomerania region and in Cracow.

In this difficult time, we have also helped senior people from the Lower City (Dolne Miasto), who received 870 dinner meals prepared by local restaurant owners and delivered also by our employees.

During the first pandemic wave, we actively participated in projects executed jointly with other entities and organisations.

- We supported the Industry Development Agency (Agencja Rozwoju Przemysłu) in providing 1 million medical overalls from Turkey, thus substantially reducing order costs.
- We acted as coordinator of the pro bono project "Polish Sewing Plants", managing the works of 18 sewing plants which provided, in total, 4 million masks.
- We took part in the project named "We Are Together. We Help!" aimed at, among others, mobilising entrepreneurs to support aid projects

to help medical services throughout Poland.
- We supported Polish government in purchasing personal protection equipment for medical services.

As part of the second opening of the #LPPpomaga project, we provided protective clothing for medical staff and funds required for purchasing indispensable equipment. In total, taking part in this initiative, we designated over PLN 1.2 mln to support medical services. Those funds were appropriated for purchasing personal protection equipment, pulse oxymeters, infusion pumps, helmets for non-invasive ventilation, high-flow therapy equipment a respirator.

Although, in 2020, our charity activities were dominated by initiatives supporting, first of all, the fight against the effects of the COVID-19 pandemic, our Foundation did not suspend activities being an integral part of its statutory charity operations i.e. counteracting social exclusion, healthcare and employee volunteering projects.

Organisations supported by our Foundation
In the financial year 2020/21, we donated funds to specific organisations to carry out tasks in 3 key areas:

Counteracting social exclusion and support for local community

- We donated funds for purchasing the Children's Day gifts for young beneficiaries of by the MATIO Foundation.
- We provided financial aid to children's care homes for purchasing indispensable equipment and carrying out required renovation works.
- We financed equipment for dining and leisure rooms in an innovative centre for intellectually disabled adults, operated by the "Our Friendly Home" Foundation in Sopot. In the said facility, such adult persons receive both care and employment.
- We provided funds for the renovation of the daily care centre SPOT Youth Point in Gdynia; LPP's female designers prepared a graffiti project for that facility to be displayed on a wall jointly with young people helped by that centre.
- We donated funds for additional equipment for, and renovation of, the "FAScynacje" Foundation supporting persons affected by the fetal alcohol syndrome (FAS) and the fetal alcohol spectrum disorder (FASD).
- We provided additional financing for a warming centre for the homeless, operated by the St. Brother Albert Aid Society in Tczew.
- We appropriated PLN 95 thousand for holiday trips organised for almost 200 person supported by 5 organisations providing care for children threatened with social exclusion, located in Tricity and Cracow, as well as for healthy siblings of children staying in a hospice.
- We provided financial aid for "Albertiana" Stage and Music Art Festival for the Disabled and funded 3 scholarships for the Found Hope Academy.
- We designated 50% of income from the sale of dedicated House t-shirts to the ATALAYA Foundation as part of House Denim Days AW2020. The said funds were allocated for helping young people staying in childcare centres to start their adult life by taking part in self-confidence workshops and educational courses.
- We donated funds for the Christmas Eve Supper for the homeless and the poor, organized by the Dominican monastery in Gdańsk.

Due to the COVID-19 pandemic, the majority of our financial aid were appropriated by the Foundation for healthcare purposes. Apart from aid provided in two openings of the above-mentioned #LPPpomaga project, we provided funds for the "Good Energy for Medical Rescuers" project to attain two goals. On one hand, we supported several dozens of medical rescue teams in the Pomerania region by providing them with 1,000 energy snacks for ambulance staff. On the other hand, those sets had been prepared by the team working in the socially responsible SoStay hotel in Gdańsk and, therefore, in the time of hardships faced by the gastronomy sector, they had been given work/assignment i.e. funds to be paid to their employees – adult persons who had lived in children's care homes.

- The Hospice Foundation was supported with funds for purchasing required equipment and materials.
- The Pomerania for Children Hospice received funds for conducting consultations in the After-Loss Support Centre EMOCja.
- We supported the organisation of a virtual charity run High Five from the Heart.
- We made donations for 16 ill employees and their closest relatives.

Ecology and Environmental Protection
Despite the pandemic, we tried to help , even to small extent, animals. We supported 4 centres and

organised, for the third time already, an Autumn voluntary project “Cat Shelters” for the Pomeranian Temporary Cat Care Centre and the KOTANGENS Foundation.

Activisation of local communities

We continued to be engaged in initiatives organised in the surroundins of our head office in the Lower City and the Distribution Centre being developed in Brześć Kujawski.

Total value of aid provided by LPP and LPP’s Foundation as part of the jointly carried out #LPPpomaga project	**PLN 6.9 mln**
Number of volunteers engaged in the said project	**115**

Social engagement other than the #LPPpomaga project	LPP	LPP’s Foundation
Total value of aid other than the #LPPpomaga project	PLN 185 thousand	PLN 2.0 mln
Including value of financial aid	PLN 84 thousand	PLN 629 thousand
Number of organisations supported with financial donations	6	43
Including the value of material aid	0	PLN 1.4 mln
Number of volunteers engaged in the projects	59	
Quantity of clothing donated	-	105,000 items
Number of entities provided with clothing	-	136
Funds designated for supporting local community and projects aimed at counteracting social exclusion	-	PLN 353 thousand
Funds allocated for healthcare	-	PLN 250 thousand
Funds for eco-friendly projects	-	PLN 26 thousand

HOW DID WE HELP?

Support provided by LPP and LPP's Foundation
PLN 6.9 MLN
value of our aid

including
our brands' engagement
PLN 240 THOUSAND
provided to hospitals
for purchasing equipment

WHOM DID WE SUPPORT?

hospitals
healthcare centres
emergency stations
health care centres
care-providing organisations
non-governmental organisations
social care centres

AID ADDRESSED TO LOCAL COMMUNITIES

children's care homes

100 computers

senior people

870 dinner meals

DOMESTIC AID

Thermometers

Protective aprons:

sewn by our employees
1.7 THOUSAND

Masks

1 MLN single-use masks

reusable masks designed and sewn by LPP
10 THOUSAND

reusable masks sewn by our employees
27.2 THOUSAND

Clothing

over **20 THOUSAND** items of clothing
provided to medical staff

PROJECTS CARRIED OUT JOINTLY WITH OTHER INSTITUTIONS

support for Industry Development Agency
1 MLN
protective overalls brought to Poland (the Polish Sewing Plants project)

help for the government

"**We Are Together. We Help!**" project

INFORMATION ON SIGNIFICANT AGREEMENTS CONCLUDED, INCLUDING AGREEMENTS BETWEEN SHAREHOLDERS AS WELL AS INSURANCE AND COOPERATION AGREEMENTS

In 2020/21, we concluded the following agreements:

- agreement on the provision of insurance guarantees for payment of a customs debt;
- insurance agreement – a global insurance policy covering all assets of the Group, including real property, goods, machinery and devices;
- 136 lease agreements and 1,325 annexes amending the terms and conditions of previous agreements with owners of commercial space in Poland and abroad;
- agreements with banks, including annexes to existing agreements, with:
  - Pekao SA (annexes to investment loan agreements, an annex to the multi-purpose credit line agreement);
  - BNP Paribas Bank Polska SA (annexes to the multi-purpose credit line agreement);
  - Citi Bank Handlowy SA (the annex to the letter of credit line agreement, termination of the letter of credit line agreement and the factoring contract);
  - HSBC France SA (the revolving loan agreement, the non-revolving loan agreement, annexes to the letter of credit line agreement);
  - Santander SA (annexes to the letter of credit line agreement);
  - PKO Bank Polska SA (annexes to investment loan agreements, the annex the multi-purpose credit line agreement, the revolving working capital loan agreement)
- agreements on the lease of warehouse space with:
  - Panattoni Europe (lease of additional space of 9 thousand m^2 for the Fulfilment Centre in Gdańsk),
  - SEGRO Poland Sp. z o.o. (prolongation of the lease agreement in Stryków, 46 thousand m^2, for additional 2 years),
  - WDP DEVELOPMENT RO (lease of 21.5 thousand m^2 of additional space in the Fulfilment Centre in Romania),
  - PNK Group (lease agreement for 30 thousand m^2 for the Fulfilment Centre in Russia).
- agreement for the construction of the Distribution Centre in Brześć Kujawski.

The Group has no knowledge on any agreements concluded between shareholders, affecting its operations.

INFORMATION ON AGREEMENTS CONCLUDED AND TERMINATED IN THE REPORTING PERIOD, COVERING LOANS AND BORROWINGS, WITH THE SPECIFICATION OF AT LEAST THEIR AMOUNT, TYPE, INTEREST RATE, CURRENCY AND MATURITY DATE

Information on bank loans taken out as at 31 January 2021 and their maturity dates is given in the financial statements of the LPP SA Group (note 23) and the financial statements of LPP SA (note 25).

In the preceding year, no bank loans were taken out by the LPP SA Group.

INFORMATION ON GUARANTEES GRANTED AND RECEIVED IN THE REPORTING PERIOD, INCLUDING THOSE GRANTED TO THE ISSUER'S ASSOCIATES

Information on guarantees granted and received, including those granted to the issuer's affiliates, is given in the financial statements of the LPP SA Group (note 28) and the financial statements of LPP SA (note 30).

INFORMATION ON TRANSACTIONS ENTERED INTO BY THE ISSUER OR ITS SUBSIDIARY WITH ASSOCIATES OTHERWISE THAN AT ARM'S LENGTH BASIS, INCLUDING THEIR AMOUNTS AND DETAILS SPECIFYING THEIR NATURE

All transactions entered into by LPP with associates in the reporting period were concluded at arm's length basis.

Detailed information on transactions with associates is given in the financial statements of the LPP SA Group (note 29.1) and the financial statements of LPP SA (notes 31.1 and 3.2).

INFORMATION ON THE EMPLOYEE SHARE CONTROL SYSTEM

The Company has implemented no employee share control system.

INFORMATION ON THE AUDIT COMPANY AUDITING OUR FINANCIAL STATEMENTS

This information is given in in the financial statements of the LPP SA Group (note 36) and the financial statements of LPP SA (note 32).

INFORMATION ON LOANS EXTENDED IN THE REPORTING PERIOD, INCLUDING THOSE GRANTED TO THE ISSUER'S ASSOCIATES, WITH THE SPECIFICATION OF AT LEAST THEIR AMOUNT, TYPE, INTEREST RATE, CURRENCY AND MATURITY DATE

Information on loans extended in the financial year is given in the financial statements of the LPP SA Group (note 17.1) and the financial statements of LPP SA (note 19.1).

DIFFERENCES BETWEEN FINANCIAL RESULTS SHOWN IN THE ANNUAL REPORT AND PREVIOUSLY PUBLISHED FORECASTS FOR A GIVEN YEAR

We published no forecasts of financial results.

3
CONSOLIDATED FINANCIAL STATEMENTS LPP GROUP

INTRODUCTION

We hereby approve the consolidated financial statements of the LPP SA Group for the period of 12 months ended 31 January 2021, comprising the comprehensive income statement, with comprehensive income totalling PLN -292,565 thousand, the statement of financial position, with assets and liabilities totalling PLN 10,353,768 thousand, the cash flow statement, showing a decrease in net cash by PLN 72,068 thousand, the statement of changes in equity, showing a decrease in equity by PLN 179,100 thousand, and notes with a description of material accounting principles and other explanations.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the Management Board

Przemysław Lutkiewicz
Vice-President of the Management Board

Jacek Kujawa
Vice-President of the Management Board

Sławomir Łoboda
Vice-President of the Management Board

Gdańsk, 27 April 2021

SELECTED FINANCIAL DATE

for the period of 12 months ended 31 January 2021

	PLN			EUR		
Selected consolidated financial data (in PLN thousand)*	**2020/21**	**2019/20**	**2019/20***	**2020/21**	**2019/20**	**2019/20***
	01.02.2020 – 31.01.2021	01.02.2019 – 31.01.2020	01.01.2019 – 31.01.2020	01.02.2020 – 31.01.2021	01.02.2019 – 31.01.2020	01.01.2019 – 31.01.2020
Revenues	7,848,079	9,221,656	9,899,243	1,746,346	2,142,827	2,301,240
Operating profit (loss)	153,024	879,246	805,672	34,051	204,310	187,292
Pre-tax profit (loss)	-116,514	737,116	665,190	-25,927	171,283	154,634
Net profit (loss)	-190,130	486,005	421,039	-42,308	112,932	97,877
Weighted average number of shares	1,838,066	1,834,192	1,834,192	1,838,066	1,834,192	1,834,192
Profit (loss) per share	-103.44	264.97	229.55	-23.02	61.57	53.36
Net cash flows from operating activities	1,074,533	1,572,551	1,848,301	239,104	365,412	429,668
Net cash flows from investing activities	-1,007,058	-753,122	-861,467	-224,089	-175,002	-200,262
Net cash flows from financing activities	-139,543	-547,013	-682,470	-31,051	-127,109	-158,651
Total net cash flows	-72,068	272,416	304,364	-16,036	63,301	70,754

*audited year

	PLN		EUR	
Wybrane skonsolidowane dane finansowe (in PLN thousand)	**2020/21**	**2019/20***	**2020/21**	**2019/20***
	Stan na 31.01.2021	Stan na 31.01.2020	Stan na 31.01.2021	Stan na 31.01.2020
Total assets	10,353,768	9,605,862	2,281,319	2,233,402
Long-term liabilities	3,114,193	3,159,266	686,172	734,542
Short-term liabilities	4,171,199	3,199,120	919,070	743,808
Equity	3,068,391	3,247,491	676,080	755,055
Share capital	3,705	3,705	816	861
Weighted average number of shares	1,838,066	1,834,192	1,838,066	1,834,192
Book value per share	1,669.36	1,770.53	367.82	411.66
Declared or paid dividend per share	0.00	60.00	0.00	13.95

*audited year

CONSOLIDATED COMPREHENSIVE INCOME STATEMENT

for the period of 12 months ended 31 January 2021

Comprehensive income statement (in PLN thousand)	No-tes	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Continuing operations				
Revenue	9.1	7,848,079	9,221,656	9,899,243
Cost of goods sold	9.2	3,764,140	4,281,497	4,753,528
Gross profit (loss) on sales		**4,083,939**	**4,940,159**	**5,145,715**
Costs of stores and distribution	9.5	3,368,322	3,427,452	3,676,135
General costs	9.5	479,250	509,890	536,967
Other operating income	9.3	126,924	20,188	21,518
Other operating costs	9.3	210,267	143,759	148,459
Operating profit (loss)		**153,024**	**879,246**	**805,672**
Financial income	9.4	71,508	10,747	10,914
Financial costs	9.4	341,046	152,877	151,396
Pre-tax profit (loss)		**-116,514**	**737,116**	**665,190**
Income tax	10	73,616	251,111	244,151
Net profit (loss) on continuing operations		**-190,130**	**486,005**	**421,039**
Net profit attributable to:				
Shareholders of the parent company		-190,130	486,005	421,039
Non-controlling interests		0	0	0
Other comprehensive income				
Items transferred to profit or loss				
Currency translation on foreign operations		-102,435	68,851	68,851
Total comprehensive income		**-292,565**	**554,856**	**489,890**
Attributable to:				
Shareholders of the parent company		-292,565	554,856	489,890
Non-controlling interests		0	0	0
Weighted average number of shares		1,838,066	1834192	1,834,192
Net profit (loss) per share	11	-103.44	264.97	229.55
Diluted profit (loss) per share	11	-103.44	264.84	229.44

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 January 2021

Statement of financial position (in PLN thousand)	Notes	As at 31.01.2021	As at 31.01.2020
Non-current assets		**5,620,568**	**5,870,719**
1. Property, plant and equipment	13	2,439,778	2,312,386
2. Intangible assets	15	136,453	126,234
3. Right-of-use assets	14	2,589,063	3,000,237
4. Goodwill	16	183,203	209,598
5. Trademark	15	77,508	77,508
6. Deferred tax assets	10.3	178,864	134,795
7. Prepayments	27	2,187	1,996
8. Other financial assets	17.1	13,512	7,965
Current assets		**4,733,200**	**3,735,143**
1. Inventory	19	2,074,447	1,921,139
2. Trade receivables	20	158,055	143,783
3. Income tax receivables		102,726	7,870
4. Other non-financial assets	17.2	63,722	53,017
5. Prepayments	27	32,249	36,892
6. Other financial assets	17.1	71,131	114,091
7. Deposits and investment funds	18	953,016	96,877
8. Cash and cash equivalents	21	1,277,854	1,361,474
TOTAL assets		**10,353,768**	**9,605,862**
Equity		**3,068,391**	**3,247,491**
1. Share capital	22.1	3,705	3,705
2. Treasury shares	22.1	0	-41,115
3. Share premium	22.2	364,315	284,877
4. Other reserves	22.3	3,155,123	2,733,227
5. Currency translation on foreign operations		-265,238	-162,803
6. Retained earnings		-189,514	429,600
Non-controlling interest capital		**-15**	**-15**
Long-term liabilities		**3,114,193**	**3,159,266**
1. Bank loans and borrowings	23	190,596	171,234
2. Lease liabilities	14	2,523,669	2,567,953
3. Other financial liabilities	26	294,104	291,675
2. Employee liabilities	24.1	1,818	1,463
3. Deferred tax liabilities	10.3	22	276
4. Accruals	27	103,984	126,665
Short-rem liabilities		**4,171,199**	**3,199,120**
1. Trade and other liabilities	26	2,775,815	2,053,635
2. Contract liabilities	9.1	18,566	19,929
3. Customer refund liabilities	9.1	42,711	27,207
4. Bank loans and borrowings	23	521,097	109,451
5. Lease liabilities	14	654,010	680,184
6. Employee liabilities	24.2	33,676	80,483
7. Income tax liabilities		67,664	174,363
8. Provisions	25	1,384	9,097
9. Accruals	27	56,276	44,771
TOTAL equity and liabilities		**10,353,768**	**9,605,862**

CONSOLIDATED CASH FLOW STATEMENT

for 12 months ended 31 January 2021

Cash flow statement (in PLN thousand)	Notes	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
A. Cash flow statement from operating activities – indirect method				
I. Pre-tax profit (loss)		**-116,514**	**737,116**	**665,190**
II. Total adjustments		**1,191,047**	**835,435**	**1,183,111**
1. Amortisation and depreciation		1,073,045	1,017,717	1,093,784
2. Foreign exchange gains (losses)		21,113	-13,249	-7,042
3. Interest and dividends		153,332	84,108	133,523
4. Profit (loss) on investing activities		204,722	8,188	10,743
5. Income tax paid		-326,724	-296,993	-295,820
6. Change in provisions and employee benefits	24, 25	-52,866	-43,737	-22,357
7. Change in inventories	19	-218,250	-762,916	-315,200
8. Change in receivables and other assets	17, 20	-579,288	-78,688	-66,127
9. Change in liabilities, excluding bank loans and borrowings	26	910,711	889,571	650,157
10. Change in prepayments and accruals	27	-9,673	3,458	-9,897
11. Other adjustments		14,925	27,976	11,347
III. Net cash flows from operating activities		**1,074,533**	**1,572,551**	**1,848,301**
B. Cash flows from investing activities				
I. Inflows		**373,880**	**429,527**	**480,047**
1. Disposal of intangible and fixed assets		156,748	134,925	185,440
2. Repayment of loans granted		99	89	70
3. Interest and other inflows from financial assets		1,309	1,507	1,531
4. Other investing inflows (investment funds)		215,724	293,006	293,006
II. Outflows		**1,380,938**	**1,182,649**	**1,341,514**
1. Purchase of intangible assets and property, plant and equipment		824,777	944,929	1,003,794
2. Acquisition of shares		0	2,628	2,628
3. Loans granted		137	92	92
4. Other investing outflows (investment funds)		556,024	235,000	335,000
III. Net cash flows from investing activities		**-1,007,058**	**-753,122**	**-861,467**
C. Cash flows from financing activities				
I. Inflows		**1,325,321**	**891,316**	**949,239**
1. Inflows from the sale of treasury shares		112,347	2	2
2. Bank loans and borrowings		1,212,974	591,563	649,486

Cash flow statement (in PLN thousand)	Notes	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
3. Issuance of bonds		0	299,751	299,751
II. Dividends		**1,464,864**	**1,438,329**	**1,631,709**
1. Dividends and other payments to owners		0	110,065	110,065
2. Repayment of bank loans and borrowings		768,492	537,215	663,512
3. Lease liabilities paid		538,564	663,373	721,137
4. Interest		157,685	127,676	136,995
5. Other financial outflows		123	0	0
III. Net cash flows from financing activities		**-139,543**	**-547,013**	**-682,470**
D. Total net cash flows		**-72,068**	**272,416**	**304,364**
E. Balance sheet change in cash, including:		**-83,620**	**291,137**	**316,505**
- change in cash due to foreign currency translation		-11,552	18,721	12,141
F. Opening balance of cash		**1,348,311**	**1,075,895**	**1,043,947**
G. Closing balance of cash		**1,276,243**	**1,348,311**	**1,348,311**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for 12 months ended 31 January 2021

Statement of changes in equity (in PLN thousand)	Share capital	Treasury shares	Share premium
Balance as at 1 February 2020	**3,705**	**-41,115**	**284,877**
Distribution of profit for 2019	0	0	0
Remuneration paid in shares	0	0	0
Settlement of the incentive programme	0	2,071	6,137
Sale of treasury shares	0	39,044	73,301
Transactions with shareholders	**0**	**41,115**	**79,438**
Net loss for 12 months ended 31 January 2021	0	0	0
Foreign exchange differences	0	0	0
Total comprehensive income	**0**	**0**	**0**
Balance as at 31 January 2021	**3,705**	**0**	**364,315**

Balance as at 1 January 2019	**3,705**	**-43,067**	**278,591**
Distribution of profit for 2018	0	0	0
Dividend paid	0	0	0
Remuneration paid in shares	0	0	0
Settlement of the incentive programme	0	1,952	6,286
Transactions with shareholders	**0**	**1,952**	**6,286**
Net profit for the period of 13 months ended 31 January 2020	0	0	0
Foreign exchange differences	0	0	0
Total comprehensive income	**0**	**0**	**0**
Balance as at 31 January 2020	**3,705**	**-41,115**	**284,877**

Other capitals	Currency translation on foreign operation	Profit (loss) from previous years	Profit (loss) for the current period	Equity attributable to the parent company	Non-controlling interests
2,733,227	**-162,803**	**429,624**	**3,247,515**	**-15**	**3,247,500**
429,008	0	-429,008	0	0	0
1,094	0	0	1,094	0	1,094
-8,206	0	0	2	0	2
0	0	0	112,345	0	112,345
421,896	**0**	**-429,008**	**113,441**	**0**	**113,441**
0	0	-190,130	-190,130	0	-190,130
0	-102,435	0	-102,435	0	-102,435
0	**-102,435**	**-190,130**	**-292,565**	**0**	**-292,565**
3,155,123	**-265,238**	**-189,514**	**3,068,391**	**-15**	**3,068,376**

2,251,623	**-231,654**	**601,355**	**2,860,553**	**-15**	**2,860,538**
482,729	0	-482,729	0	0	0
0	0	-110,065	-110,065	0	-110,065
7,111	0	0	7,111	0	7,111
-8,236	0	0	2	0	2
481,604	**0**	**-592,794**	**-102,952**	**0**	**-102,952**
0	0	421,039	421,039	0	421,039
0	68,851	0	68,851	0	68,851
0	**68,851**	**421,039**	**489,890**	**0**	**489,890**
2,733,227	**-162,803**	**429,600**	**3,247,491**	**-15**	**3,247,476**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ACCOUNTING PRINCIPLES (POLICIES) AND ADDITIONAL EXPLANATORY NOTES

1. OVERVIEW

The LPP SA Group ("Group") is composed of LPP SA ("Parent Company", "Company") and its subsidiaries. The Group's consolidated financial statements cover the year ended 31 January 2021 and incorporate comparative data for the year ended 31 January 2020.

On 25 May 2018, the Ordinary General Meeting of Shareholders of LPP SA adopted a resolution on the change of the Company's financial year to make it last, ultimately, from 1 February to 31 January of a subsequent calendar year.

This change resulted from the inherent calendar of the clothing sector, with new collections being sold from February and a clearance sales period ending in January.

Therefore, reporting periods cover the period of 12 months, from 1 February to 31 January of a subsequent calendar year.

Comparative periods cover both the financial year lasting 13 calendar months, audited by a statutory auditor, i.e. from 1 January 2019 to 31 January 2020, and an additional period of 12 months from 1 February 2019 to 31 January 2020 for the comprehensive income statement and the cash flow statement, not audited by the statutory auditor.

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

The head office of LPP SA is located at: Łąkowa 39/44, Gdańsk, Poland.

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

The Group's basic scope of business is:
- retail sale of clothing,
- wholesale of clothing.

2. COMPOSITION

The Group is composed of LPP SA and the following subsidiaries:

No	Company name	Registered office	Shareholding
1.	LPP Retail Sp. zo.o.	Gdańsk, Poland	100.0%
2.	DP&SL Sp. z o.o.	Gdańsk, Poland	100.0%
3.	IL&DL Sp. z o.o.	Gdańsk, Poland	100.0%
4.	LPP Printable Sp. z o.o.	Gdańsk, Poland	100.0%
5.	LPP Logistics Sp. Z o.o.	Gdańsk, Poland	100.0%
6.	LPP Estonia OU	Tallinn, Estonia	100.0%
7.	LPP Czech Republik SRO	Prague, the Czech Republic	100.0%
8.	LPP Hungary KFT	Budapest, Hungary	100.0%
9.	LPP Latvia LTD	Riga, Latvia	100.0%
10.	LPP Lithuania UAB	Vilnius, Lithuania	100.0%
11.	LPP Ukraina AT	Peremyshliany, Ukraine	100.0%
12.	RE Trading OOO	Moscow, Russia	100.0%
13.	LPP Romania Fashion SRL	Bucharest, Romania	100.0%
14.	LPP Bulgaria EOOD	Sofia, Bulgaria	100.0%
15.	LPP Fashion Bulgaria EOOD	Sofia, Bulgaria	100.0%
16.	LPP Slovakia SRO	Banská Bystrica, Słowacja	100.0%
17.	Gothals LTD	Nicosia, Cyprus	100.0%
18.	LPP Croatia DOO	Zagreb, Croatia	100.0%
19.	LPP Deutschland GmbH	Hamburg, Germany	100.0%
20.	IPMS Management Services FZE	Ras Al Khaimah, UAE	100.0%
21.	LPP Reserved UK LTD	Altrincham, UK	100.0%
22.	LLC Re Development	Moscow, Russia	100.0%
23.	LPP Reserved DOO Beograd	Belgrade, Serbia	100.0%
24.	P&L Marketing&Advertising Agency SAL	Beirut, Lebanon	97.3%
25.	LPP BH DOO	Banja Luka, Bosnia and Hercegovina	100.0%
26.	LPP Kazakhstan LLP	Almaty, Kazakhstan	100.0%
27.	Reserved Fashion, Modne Znamke DOO	Ljubljana, Slovenia	100.0%
28.	LPP Finland LTD	Helsinki, Finland	100.0%
29.	OOO LPP BLR	Minsk, Belarus	100.0%
30.	LPP Macedonia DOOEL	Skopje, Macedonia	100.0%

As at 31 January 2021 and as at 31 January 2020, the share in the total number of votes held by the Group in subsidiaries was equal to the Group's shareholdings in those entities, with no changes compared with the preceding year.

In the reporting period, the Group was joined by a new subsidiary "LPP Logistics".

3. COMPOSITION OF THE MANAGEMENT BOARD OF THE PARENT COMPANY

Composition of the Management Board of LPP SA as at 31.01.2021:
- **Marek Piechocki,** President of the Management Board
- **Przemysław Lutkiewicz,** Vice-President of the Management Board
- **Jacek Kujawa,** Vice-President of the Management Board
- **Sławomir Łoboda,** Vice-President of the Management Board

In the reporting period and by the date of approving these financial statements, the composition of the Management Board of the Parent Company remained unchanged.

4. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Management Board of LPP SA for publishing on 27 April 2021.

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

5.1. PROFESSIONAL JUDGMENT

The preparation of the Group's consolidated financial statements requires the Management Board of the Parent Company to make judgments, estimates and assumptions affecting presented revenues, costs, assets and liabilities and related additional notes as well as disclosures regarding contingent liabilities. Uncertainty over these assumptions and estimates may, in the future, result in major adjustments in balance sheet values of assets and liabilities in the future.

While applying accounting principles, the Management Board made the following judgments affecting, to the largest extent, the presented balance sheet values of assets and liabilities.

- **Classification of lease agreements**
  The Group as lessor classifies lease as operating or finance lease based on the assessment of the extent in which risk and benefits arising from the possession of a leased object are attributable to the lessor and to the lessee. This assessment is based on the economic substance of each transaction.

- **Lease – the Group as lessee**
  Judgments on lease where the Group is a lessee, in the following areas: recognition whether a given agreement incorporates a lease, agreements for an unlimited period of time, exercise of the option to prolong or shorten the lease term, are given in note 14 Leases.

  LPP and its subsidiaries concluded lease agreements for retail space to operate brand stores.

- **Recognition of revenue**
  In the financial statements, the Group calculates and recognises a product return asset as part of "inventory" and "customer refund liabilities" items, and makes relevant adjustments of revenues and the respective cost of goods sold. The Group makes judgment of the value of refunds in a given period, as described in note 9.1.

- **Asset impairment**
  The Group makes judgements regarding occurrence of prerequisites for impairment. If any such prerequisites are identified, the Group assesses future cash flows generated by a cash-generating unit and determines a discount rate for calculating the current value of such flows.

- **Reversed factoring**
  The Group is a party to a reversed factoring agreement. Key judgments in this respect are provided for in note 26.

5.2. UNCERTAINTY OVER ESTIMATES AND ASSUMPTIONS

Basic assumptions for the future and other key sources of uncertainty, occurring as at the balance sheet date, involving a major risk of substantial adjustments in the values of assets and liabilities in the next financial year, are given below.

The methodology employed for determining estimated values is based on the best knowledge of the Management Board of the Parent Company and complies with IFRS requirements. Assumptions and estimates made may be changed due to future events resulting from market changes or changes beyond the Group's control.

Estimates made by the Parent Company's Management Board, affecting the values disclosed in the financial statements, cover the following:

- **depreciation rates**
  The value of depreciation rates is determined based on the estimated economic useful life of property, plant and equipment and intangible assets. For the right-of-use right, values of depreciation rates were determined depending on agreement duration. Each year, based on current estimates, the Group verifies the economic useful life applied.

- **lessee's marginal interest rate**
  Estimates made when determining the lessee's marginal interest rate are given in note 14 Leases.

- **percentage of returns of goods sold in the reporting period, to be made in the next reporting period**
  Due to the fact that customers make product claims and return goods purchased at retail locations and in wholesale, revenues are updated by adjusting the estimated value of such returns. Based on historical data, a percentage rate reflecting the ratio of product returns versus the sales volume is estimated. At the end of each reporting period, this ratio is re-estimated.

  At present, the Parent Company adopted the following product return ratios for specific sales channels:

- in on-site stores – 1.5%
- in online stores – 5%

Other companies adopted their own product return ratios.

By the end of 2018, the Group estimated a provision for product returns by applying an average product return ratio for both channels.

– Impairment losses on assets
As at each balance sheet date, the Group assesses whether there is objective evidence for permanent impairment of an asset or a group of assets. The Group treats individual retail sales units as separate cash generating units and, at their level, estimates such impairment, if any. Furthermore, as estimated by the Group, the initial phase of the store's operations lasts 3 years (5 years in the countries of Western Europe), during which newly opened stores may generate losses. After that period, the Group analyses the profitability of individual retail sales units. For selected brand stores, the Group carried out the analysis of estimated cash flows generated by a given store as a single cash generating unit. In the event of identifying stores without any promising perspectives for improving results within a given time-frame, the Group makes a decision on a permanent impairment loss on assets assigned to such unprofitable store.

If there is objective evidence and a need to make the write-off in question, the Group determines an estimated recoverable value of an asset and makes an impairment write-off in an amount equal to a difference between the recoverable value and the balance sheet value. An impairment loss is recognised in the comprehensive income statement in the period in which it was identified.

– valuation of provisions for retirement and pension benefits
The Group makes a provision for future liabilities arising from retirement and pension benefits, applying actuarial methods. Assumptions made in this respect are presented in note 24. A change in financial indices serving as the basis for the estimate, i.e. an increase in the discount rate by 0.5 p.p. and a decrease in the remuneration index by 0.5 p.p., would result in the decrease of the provision by PLN 71 thousand.

– future tax results taken into account when determining deferred income tax assets
The Group recognises a deferred income tax asset based on the assumption that, in the future, tax profit will be generated and, thus, utilised. A future deterioration in tax results yielded could make this assumption illegitimate.

The Group assesses in detail the nature and scope of evidence justifying the conclusion that it is probable that the Group will yield a future taxable profit sufficient to deduct unsettled tax losses, unused tax reliefs or other negative temporary differences.

When assessing whether it is probable that there will be future taxable income (probability exceeding 50%), the Group takes into account all evidence available, confirming both such probability and its absence.

– assumptions made for reviewing trademark and goodwill impairment
Intangible assets with an unspecified useful life are annually tested for impairment. Assumptions made in this respect are discussed in notes 15 and 16.

As regards the previous reporting period, methods for determining estimated values are applied on a continuous basis.

There was a change in estimates covering the scope given below (in line with the methodology employed):
- estimated economic useful life of property, plant and equipment – applicable to outlays in third-party premises (determination of a new depreciation period after modernisation),
- future tax results taken into account when determining deferred income tax assets,
- sales adjustment ratio related to product returns to be made in the next reporting period,
- valuation of the provision for retirement and pension benefits,
- assumptions made for reviewing trademark and goodwill impairment,
- uncertainty over tax settlements.

The Group's tax settlements are subject to tax audit. Due to the fact that, in the event of numerous transactions, the construing of tax laws may differ from that applied by the Management Board in the utmost good faith, amounts disclosed in the financial statements may be changed at a later time upon their final determination by authorities authorised to carry out tax audits. Similar changes may affect, depending on future interpretations of tax authorities, the possibility of employing tax benefits recognised in the financial statements as deferred income tax assets.

On 15 July 2016, the Tax Ordinance was amended to give recognition to the General Anti-Abuse Rule (GAAR). GAAR is intended to prevent the creation and implementation of artificial legal arrangements to avoid payment of tax in Poland. Under new regulations, a substantially higher degree of judgment will be required to be made when assessing the effects of individual transactions.

GAAR should be applied to transactions concluded after its entry into force and to transactions effected before its entry into force, yet involving benefits gained after the said date or those still gainable. Following implementation of the said provisions, Polish fiscal authorities will be able to question legal arrangements made, and agreements entered into, by taxpayers, such as group restructuring and reorganisation.

The Group recognises and measures current and deferred tax assets or liabilities satisfying the criteria of IAS 12 Income Taxes based on tax profit (loss), a taxable basis, unsettled tax losses, unused tax reliefs and tax rates, with due consideration of assessed uncertainty over tax settlements.

If it is uncertain whether, and to what extent, a tax authority will approve specific tax settlements for a given transaction, the Group recognizes such settlements giving recognition of such uncertainty.

6. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

Pursuant to the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2021, item 217), from 1 January 2005, LPP SA has presented its consolidated financial statements based on International Financial Reporting Standards (IFRS), approved by the EU (IFRS EU).

These consolidated financial statements have been drawn up in accordance with the historical cost accounting model, except for financial instruments measured at fair value.

These consolidated financial statements have been drawn up presuming that the Group companies remain a going concern in the foreseeable future despite occurrence of circumstances affecting the above.

Despite a difficult economic situation brought, among others, by lock-downs in numerous countries during and after the financial year, which directly affected the operations of the Group and the fashion industry, the financial standing of the Group remains stable. Numerous activities undertaken in 2020 due to the Covid-19 pandemic, involving cost and expense reductions and, specifically, completion of rent negotiations with retail space owners, have brought positive results. The Group maintains safe financial liquidity, reimplemented its development plans i.e. new stores are opened. Furthermore, it has relaunched its investment project involving the construction of a new warehouse. When planning replenishment with the 2021 SS collection, LPP presumed that the post--Covid situation would stabilize and things would be coming to normal. Yet, in April 2021, many Group's stores were closed (approx. 1,000 stores in 12 countries where the LPP Group operates). However, the reducing number of Covid-19 cases during the third pandemic wave and the launching of massive vaccinations against Covid-19 gives the Group hope for normal operations starting from Q2 2021.

Based on the analyses of the Group's current liquidity and prepared forecasts of prognosed cash flows, the LPP Management has concluded that, as at the date of approving these financial statements, there is no significant uncertainty for the Group remaining as a going concern in the foreseeable future i.e. in the next 12 months at the minimum. Thus, the enclosed financial statements have been drawn up based on the above-mentioned presumption and comprise no adjustments of different methods for measurement and classification of assets and liabilities, which could have been deemed required should the Group not remain a going concern in the foreseeable future.

These financial statements are presented in PLN, and, unless given otherwise, all values are given in PLN thousand.

6.1. DECLARATION OF COMPLIANCE WITH IFRS

These consolidated financial statements have been drawn up in line with the International Financial Reporting Standards (IFRS) approved by the European Union, covering standards and interpretations approved by the International Accounting Standards Board. As at the date of approval of these financial statements for publishing, considering the pending process of implementation of IFRS in the EU, IFRS applicable to these financial statements do not differ from IFRS EU.

In these financial statements, no voluntary early standard or interpretation has been voluntarily adopted early.

6.2. NEW STANDARDS AND INTERPRETATIONS PUBLISHED YET NOT IN FORCE

New standards and interpretations published yet not in force:

Standard/interpretation	Effective date
IFRS 14 *Regulatory Deferral Accounts*	– annual periods beginning on or after 1 January 2016 – published on 30 January 2014 – as decided by the European Commission, the approval process for the standard in its initial form will not commence before the standard is published in its final wording; not approved by the EU by the date of approval of these financial statements
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment to IFRS 10 and IAS 28)	– no date for entry into force – voluntary application – published on 11 September 2014 – the EU approval procedure suspended
IFRS 17 *Insurance Contracts*	– annual periods beginning on or after 1 January 2021 – published on 18 May 2017 – not approved by the EU by the date of approval of these financial statements
Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)	– annual periods beginning on or after 1 January 2022 – published on 23 January 2020 – not approved by the EU by the date of approval of these financial statements
Amendments to IFRS 3 *Reference to the IFRS Conceptual Framework*	– annual periods beginning on or after 1 January 2022 – published on 14 May 2020 – not approved by the EU by the date of approval of these financial statements
Property, Plant and Equipment — Proceeds before Intended Use (Amendment to IAS 16)s to IAS 16)	– annual periods beginning on or after 1 January 2022 – published on 14 May 2020 – not approved by the EU by the date of approval of these financial statements
Amendments to IAS 37 *Onerous Contracts – Cost of Fulfilling a Contract*	– annual periods beginning on or after 1 January 2022 – published on 14 May 2020 – not approved by the EU by the date of approval of these financial statements
Amendments stemming from the review of IFRS 2018-2020	– annual periods beginning on or after 1 January 2022 – published on 14 May 2020 – not approved by the EU by the date of approval of these financial statements
Amendments to IFRS 4 *Insurance Contracts – Deferral of effective date of IFRS 9*	– annual periods beginning on or after 1 January 2021 – published on 25 June 2020
Amendments to IFRS 9, IAS 39, IFRS 7, INFRS 4 and IFRS MSSF 16 *IBOR Reforms and the Effects on Financial Reporting*	– annual periods beginning on or after 1 January 2021 – published on 27 August 2020

Standard/interpretation	Effective date
Amendments to IAS and IFRS Practice Statement 2 *Disclosure of Accounting Principles*	– annual periods beginning on or after 1 January 2023 – published on 12 February 2021 – not approved by the EU by the date of approval of these financial statements
Amendments to MSR 8 *Definition of Accounting Estimates*	– annual periods beginning on or after 1 January 2023 – published on 12 February 2021 – not approved by the EU by the date of approval of these financial statements
Amendments to MSSF 16 *Leasing: Covid-19-Related Rent Concessions after 30 June 2021*	– annual periods beginning on or after 1 April 2021 – published on 31 March 2021 – not approved by the EU by the date of approval of these financial statements

- **Implementation of other standards and interpretations**
  By the date of approving these financial statement for publishing, the Parent Company's Management Board had not completed works involving the assessment of the impact of introducing other standards and interpretations on the accounting principles (policy) applied by the Group in relation to the Group's operations or financial results.

7. KEY ACCOUNTING PRINCIPLES

The key accounting principles applied when preparing these consolidated financial statements are given in relevant subsequent notes.

These principles were applied in all presented years on a continuous basis, except for new standards and interpretations, referred to in point 8, applied for the first time.

7.1. CONVERSION OF ITEMS DENOMINATED IN FOREIGN CURRENCIES

The functional currency of the Parent Company and the presentation currency of the Group is PLN.

The functional currency of foreign subsidiaries is their local currency.

Foreign exchange differences on conversion are recognised, respectively, in financial income or costs.

As at the balance sheet date, assets and liabilities of foreign subsidiaries are converted into the Group's presentation currency according to an exchange rate of the National Bank of Poland, applicable on the balance sheet date. Their comprehensive income statements are converted according an average weighted exchange rate for a given financial period. Foreign exchange differences arising from currency translation are recognised in other comprehensive income and accumulated in a separate equity item.

At the time of transfer of a foreign entity, foreign exchange differences accumulated in the equity of a given foreign entity are recognised in profit or loss.

For balance sheet measurement, the following foreign exchange rates have been applied.

	31.01.21	31.01.20
EUR	4.5385	4.3010
CZK	0.1743	0.1704
BGN	2.3205	2.1990
HUF	0.012660	0.012777
RUB	0.0491	0.0616
UAH	0.1332	0.1558
HRK	0.5997	0.5780
RON	0.9308	0.9003
RSD	0.0387	0.0364
KZT	0.008767	0.010273
BAM	2.3133	2.1848
GBP	5.1190	5.1160
BYN	1.4478	1.8273

Average weighted exchange rates for specific financial periods were as follows.

	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020	For 13 months ended 31.01.2020
EUR	4.4581	4.2927	4.2929
CZK	0.1683	0.1675	0.1675
BGN	2.2733	2.1940	2.1942
HUF	0.012600	0.013200	0.013200
RUB	0.0520	0.0600	0.0597
UAH	0.1400	0.1523	0.1511
HRK	0.5920	0.5783	0.5783
RON	0.9215	0.9022	0.9030
RSD	0.0379	0.0365	0.0365
KZT	0.009100	0.010000	0.010000
BAM	2.2709	2.1941	2.1941
GBP	4.9872	4.9129	4.9087
BYN	1.4541	1.8318	1.8234

7.2. CONSOLIDATION PRINCIPLES

Financial statements of subsidiaries are prepared based on accounting standards applicable in specific countries, however, for consolidation purposes, their financial data has been transformed to ensure that the consolidated financial statements are drawn up based on uniform accounting principles. Adjustments are implemented to eliminate any discrepancies in the accounting principles applied. The financial statements of subsidiaries cover reporting periods coherent with the one applied by the Parent Company.

All material balances and transactions between the Group companies, including unrealised profit from intra-Group transactions, have been eliminated in full.

Subsidiaries are consolidated in the period from the date on which the Group has taken control of them, and cease to be consolidated on the date such control expires. The Parent Company exercises control over a subsidiary if:

- it has power and authority over such entity,
- it is exposed or entitled to variable returns generated due to its engagement in a given entity,
- it may use its power and authority to shape the level of returns generated.

The Group verifies the exercise of control over other entities in cases where there might be a change in at least one condition for exercising the same.

8. CHANGES IN APPLIED ACCOUNTING PRINCIPLES

Accounting principles applied for preparing these consolidated financial statement are coherent with those applied when drawing up the Group's financial statements for the year ended 31 January 2020, except for those given below.

Amended standards and interpretations applied for the first time in 2020 do not substantially affect the Group's financial statements.

Standard/interpretation	Short description
Amendments to IFRS 3 *Definition of a Business*	As provided in detail by amendments to IFRS 3, to be considered a business, an integrated set of operations and assets must include at least at one input and one substantive process, which will significantly enhance the ability to create a product. According to the said amendments, a business may also exist without all inputs and processes required for product creation.
Amendments to IFRS9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform*	Amendments to IFRS 9 and IAS 39 introduce numerous deviations regarding all hedging relationships that are directly affected by the IBOR reform. The IBOR reform affects a hedging relationship if it leads to uncertainties concerning a time schedule and/or an amount of funds, arising from the hedged item or the hedging instrument, based on a benchmark interest rate.
Amendments to IAS 1 and IAS 8: *Definition of Material*	These amendments introduce a new definition of „material", according to which "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." As explained in the said amendments, materiality will depend on the type and size of information, individually or jointly with other information, in terms of the entirety of financial statements.

Standard/interpretation	Short description
Conceptual framework for financial reporting of 29 March 2018	The Conceptual Framework is not a separate standard and none of notions it presents replaces or repeals notions provided for in any standard or any requirements provided therein. The Conceptual Framework's purpose is to assist the IASB in developing IFRSs, to help preparers of financial statements to develop consistent accounting policies for areas that are not covered by a standard and to assist all parties to understand and interpret IFRSs. The updated Conceptual Framework incorporate certain new notions, include updated definitions and criteria for recognition of assets and liabilities as well as discuss in detail specific important concepts.
Amendments to IFRS 16 *Leases Covid-19-Related Rent Concessions of 28 May 2020, being applied retrospectively to annual periods commencing on or after 1 January 2020*	The said amendments give a lessee a practical solution i.e. an exemption from assessing whether a COVID-19-related rent concession granted directly in connection with the COVID-19 pandemic is a lease modification. A lessee taking such decision recognises all changes in lease fees, resulting from the rent concession, in the same way as it would have recognised such change applying IFRS 16 if such change was not a lease modification.

9. REVENUE AND COSTS

9.1. REVENUE

ACCOUNTING POLICY

Upon contract conclusion, the Group evaluates whether a contract meets all required criteria, i.e.:
- The parties concluded a contract (in written or oral form or in accordance with adopted trading practice) and are obligated to perform their duties;
- The Group is able to identify rights of each party to goods or services to be transferred;
- The Group is able to identify payment conditions for goods or services to be transferred;
- The contract has economic content (i.e. one may expect that, as a result of the contract, there will be a change in risk, timing or amount of the entity's future cash flows); and
- It is probable that the Group will be paid a consideration due in exchange for goods or services to be transferred to the customer.

When assessing whether payment of the consideration is probable, the Group takes into account only the customer's ability and intention to pay the amount of the consideration in due time.

Identification of performance obligations
At the time of contract conclusion, the Group evaluates goods and services promised in the contract with the customer and identifies individual contractual obligations. The Group analyses whether a good or service is different or similar and, depending on findings made, performance obligations to which revenue is allocated are recognised as required.

Determination of the transaction price
The Group allocates a transaction price to each liability in an amount reflecting the value of consideration payable in exchange for the transfer of promised goods or services.

Fulfilment of performance obligations
Revenue is recognised at the time, or in the course, of fulfilling a performance obligation by transferring a promised good or service to the customer. The above takes place when an entity transfers "control" over goods or services to a contracting party. Such control is the ability to manage the use of a given asset and obtain all major benefits from it.

As regards contracts for continuous services, under which the Group has the right to receive from the customer a consideration in an amount directly reflecting the value for the customer of a performance made so far, the Group recognises revenue over time, versus benefits transferred.

Contract assets
In contract assets, the Group recognises the rights to a consideration payable in exchange for goods or services, provided by the Group to the customer if this right is subject to a condition other than the lapse of time (e.g. to the entity's future performances).The Group assesses whether there has been an asset impairment according to IFRS 9.

Trade receivables
In trade receivables, the Group recognises the rights to a consideration payable in exchange for goods or services, provided by the Group to the customer if this right is unconditional (with the only condition for the consideration to be due and payable is the lapse of time). The Group recognises receivables in line with IFRS 9.

Contract liabilities
In contract liabilities, the Group recognises the consideration received or due from the customer, which involves the duty to provide the customer with goods or services.

Customer refund liabilities
Group recognises customer refund liabilities due to the fact that customers make product claims and return goods purchased. Revenue from the sale of goods is updated by adjusting the estimated value of such returns, divided into traditional and online sales.

Sale of goods
The Group pursues business activity covering mainly the sale of goods, including retail sales in on-site and online stores and as well as wholesale.

According to the said standard, if a contract provides for a single performance obligation, i.e. the sale of goods, then revenue is recognised at a point of time (which is when the customer obtains control of that good). As regards retail sales points (brand stores), revenue is recognised at the time of effecting a transaction. Recognition of revenue in wholesale is dependent on incoterms applied for a given transaction. In e-commerce sales, the Group recognises revenue at the time of invoice issuance, with due consideration of estimated and expected product returns.

Revenue broken down by category

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

In PLN thousand	For 12 months ended 31 January 2021	For 12 months ended 31 January 2020 (unaudited)	For 13 months ended 31 January 2020
Type of sale			
Sale of goods, including	7,847,482	9,217,109	9,894,271
E-commerce	*2,229,287*	*1,080,758*	*1,174,065*
Sale of services	597	4,547	4,972
Total	**7,848,079**	**9,221,656**	**9,899,243**
Brand			
Reserved	3,466,725	4,369,709	4,719,262
Cropp	972,332	1,288,710	1,382,814
House	875,262	1,135,314	1,218,121
Mohito	707,678	986,949	1,071,539
Sinsay	1,737,812	1,282,473	1,351,629
Other	88,270	158,501	155,878
Total	**7,848,079**	**9,221,656**	**9,899,243**

Assets and liabilities under contracts with customers

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

Contract liabilities cover gift cards purchased. Such gift cards will be utilised by customers for purchasing clothes in on-site stores. As estimated by the Group, an average gift card utilisation period is 12 months.

Considering that the main distribution channel is retail sale and, to a lesser extent, wholesale, and taking into account product returns envisaged in the Company's policy, the Group estimates, as at each balance sheet date, the value of customer refund liabilities. Such an estimate is made based on a percentage of product returns determined in consideration of data from the preceding quarter. The said value is presented in the "customer refund liabilities" item.

The Group recognised the following assets and liabilities under contracts with customers.

In PLN thousand	As at 31.01.2021	As at 31.01.2020
Trade receivables	158,055	143,783
Product return asset	20,152	19,149
Customer refund liabilities	42,711	27,207
Contract liabilities	18,566	19,929

9.2. COST OF GOODS SOLD

A detailed division of items comprised in the total value of the cost of goods sold is given in the table below.

Cost of goods sold (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Cost of goods and services sold	3,768,133	4,233,209	4,706,990
Revaluation write-off on inventories	-3,993	48,288	46,538
Total cost of goods sold	**3,764,140**	**4,281,497**	**4,753,528**

9.3. OTHER OPERATING INCOME AND COSTS

ACCOUNTING POLICY

Other operating income and costs comprise income on, and costs of, operations other than the Group's basic operations, for example profit or loss on the sale of property, plant and equipment, fines and charges, subsidies, revaluation write-offs on assets etc.

A subsidy is recognised when there is a justified certainty that it will be obtained and that all respective terms and conditions will be met.

If there are prerequisites for impairment, the Group carries out an impairment test for assets such as fixed and intangible assets and receivables. Write-offs are made when, as shown by the tests, a recoverable value is lower than the balance sheet value.

Other operating income (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Profit on sale of non-financial non-current assets	228	0	0
Subsidies	83,344	0	0
Other operating income, including:	43,352	20,188	21,518
- profit on cancellation of contracts valued according to IFRS 16	29,745	0	0
- compensations	1,179	4,841	4,414
Other operating income	**126,924**	**20,188**	**21,518**

The “subsidies” item in operating income results, in particular, from additional financing for remuneration and social insurance premium costs, resulting from the Covid-19 governmental aid in different countries. Key amounts were obtained in Poland – PLN 33,408 thousand, and in the Czech Republic – PLN 14,619 thousand.

Other operating income (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Loss on sale of non-financial non-current assets	0	1,081	1,059
Revaluation of assets, including:	97,667	41,132	40,443
– revaluation write-offs on non--current assets net	70,648	30,663	30,235
– revaluation write-offs on receivables net	623	10,469	10,208
– revaluation write-offs on goodwill	26,396	0	0
Other operating costs, including:	112,600	101,546	106,957
– losses on current and non-current assets	86,381	72,645	82,195
– fines	9,511	8,135	9,087
Other operating costs, in total	**210,267**	**143,759**	**148,459**

In the reporting period, the Group shown the value of revaluation write-offs, including impairment losses on property, plant and equipment for unprofitable stores in the amount of PLN 70,648 thousand. A detailed description of the above is given in note 13.

9.4. FINANCIAL INCOME AND COSTS

ACCOUNTING POLICY

Financial income and costs comprise, specifically, interest, revaluation of loans, foreign exchange differences, dividends and subsidies.

Interest income and costs are recognised gradually as they accrue, using the effective interest method versus the net balance sheet value of a financial asset.

Dividends are recognised at the time of determining shareholders’ rights to be paid the same.

If there are prerequisites for impairment, the Group carries out an impairment test for the investment’s value. Write-offs are made when, as shown by the tests, a recoverable value is lower than the balance sheet value.

Foreign exchange differences are shown in net values.

Financial income (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Interest, including:	4,902	7,614	8,418
– on deposits	4,323	7,614	8,418
– on loans and receivables	579	0	0
Measurement of participation units in funds	46	2,440	2,440
Dividend	12	24	24
Other financial income	66,548	669	32
– adjustments of a lease liability	66,548	0	0
Total financial income	**71,508**	**10,747**	**10,914**

In the reporting period, the Group renegotiated lease agreements for retail space. The Group's approach to disclosure of impact of annexes signed on the financial statements is given in note 14.

Financial costs (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Costs of interest – bank loans	19,475	16,046	17,136
Costs of interest – bonds	6,438	734	734
Costs of interest – state budget and other	245	231	228
Costs of interest – lease liabilities	130,581	114,401	119,915
Other, including:	184,307	21,465	13,383
– balance of foreign exchange differences	178,328	18,936	6,834
Total financial costs	**341,046**	**152,877**	**151,396**

Due to a substantial increase of the EUR exchange rate versus other currencies, in the reporting period, the Group recorded significant negative foreign exchange differences. The most important item affecting the above is lease liabilities due to which the Group showed negative foreign exchange differences amounting to PLN 102,483 thousand.

9.5. COSTS BY TYPE

Costs by type (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Depreciation	1,073,045	1,017,717	1,093,784
Rents and leaseholds	383,811	538,164	624,248
Store and warehouse operation services	279,977	157,767	166,162
Taxes and fees	47,353	38,220	40,820
Payroll	854,604	859,018	928,384
Other costs by type	1,208,782	1,326,456	1,359,704
Total costs by type	**3,847,572**	**3,937,342**	**4,213,102**

The reconciliation of costs by nature and function is given in the table below.

Costs by type (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Costs by type, including:	3,847,572	3,937,342	4,213,102
Items recognised in costs of stores and distribution	3,368,322	3,427,452	3,676,135
Items recognised in general costs	479,250	509,890	536,967

9.6. COSTS OF DEPRECIATION, EMPLOYEE BENEFITS AND INVENTORY

Items recognised in the cost of goods sold (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Measurement of inventory at purchase price	3,781,185	4,252,909	4,726,760
Revaluation write-off on inventory	-3,993	48,288	46,538
Estimated product returns	-13,052	-19,700	-19,770
Total	**3,764,140**	**4,281,497**	**4,753,528**

Items recognised in costs of stores and distribution (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Depreciation of non-current assets	407 598	360 073	381 787
Depreciation of intangible assets	2 645	2 353	2 959
Depreciation of the right of use	607 393	588 825	635 670
Costs of inventory consumption for advertising purposes	24 749	31 750	34 079
Costs of employee benefits, including	611 129	893 035	947 701
– payroll	501 782	758 142	807 708
– social security costs	109 347	134 893	139 993
Total	**1 653 514**	**1 876 036**	**2 002 196**

Items recognised in general costs (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Depreciation of non-current assets	19,592	28,334	33,334
Depreciation of intangible assets	25,963	19,712	19,910
Depreciation of the right of use	9,854	18,420	20,124
Costs of employee benefits, including	134,128	117,770	132,470
– payroll	90,664	109,376	120,676
– social security costs	43,464	8,394	11,794
Total	**189,537**	**184,236**	**205,838**

Item recognised in other operating costs (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Inventory deficits prevailing over inventory surpluses	69,711	56,420	62,654
Inventory disposal	864	2,940	3,133
Donations	716	839	839
Total	**71,291**	**60,199**	**66,626**

10. INCOME TAX

ACCOUNTING POLICY

Obligatory burdens on the financial result comprise current and deferred income tax not recognised in other comprehensive income or directly in equity.

The current tax due is calculated on the basis of the tax result in a given financial year. Estimate changes referring to previous years are recognised as an adjustment of the amount due for the current year. Tax due is calculated based on tax rates applicable in a given financial year.

Deferred tax is calculated applying the balance sheet method as tax to be paid or returned in the future based on differences between the balance sheet values of assets and liabilities and corresponding tax values applied to determine the tax base.

Deferred tax liability is made based on all taxable positive temporary differences, while the deferred tax asset is recognised to the extent that recognised negative temporary differences may be likely deducted from future tax profits.

The Group compensates deferred income tax assets and liabilities, showing the value in the statement of financial position, in a net amount separately for each Group company.

If, in the Group's opinion, it is probable that the approach of an individual company to a given tax issue or a set of tax issues will be approved by the tax authority, then each company determines taxable income (tax loss), a taxable basis, unsettled tax losses, unused tax reliefs and tax rates with due regard of the tax approach planned or applied in its tax return. When assessing such probability, the Group assumes that tax authorities authorised to control and question tax treatment will carry out such control, having access to any and all information.

If, in the Group's opinion, it is not probable that the tax authority will accept the company's approach to a given tax issue or a set of tax issues, then the company reflects the effects of uncertainty in tax accounting in the period in which it determined the above. The Group recognises income tax liability applying one of the two methods depending on which of them better reflects the manner in which such uncertainty may be materialised:

- The company determines the most probable scenario – this is a single amount from among possible results or
- The company recognises an expected value – this is a sum of probability-weighted amounts from among possible results

Key components of income tax for 12 months ended 31 January 2021 and comparative periods are given in the table below.

Income tax (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Current income tax	120,680	207,455	212,361
Deferred income tax	-47,064	43,656	31,790
Total income tax	**73,616**	**251,111**	**244,151**

10.1. EFFECTIVE INTEREST RATE

The reconciliation of income tax on the financial result before tax at a statutory tax rate, with income tax presented in the financial result for the period from 1 February 2020 to 31 January 2021 and comparative periods, is given in the table below.

Income tax (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Profit/loss before taxation	-116,514	737,116	665,190
Income tax at statutory rate applicable in Poland 19%	**-22,138**	**140,052**	**126,386**
Effect of tax rate differences between countries	-31,035	-28,320	-24,402
Adjustments of current tax from previous years	-3,810	11,271	11,271
Income tax provisions	0	23,890	23,890
Taxation of foreign controlled companies	48,853	26,128	26,128
Revaluation write-off on a tax asset involving trademarks	0	34,104	34,104
Fixed costs other than revenue earning costs	-80,560	-29,785	-19,231
Fixed revenue other than taxable basis	1,186	14,201	27,543
Other	0	0	0
Income tax (burden) recognised in profit or loss	**73,616**	**251,111**	**244,151**

The value of income tax was increased with required tax charged on foreign companies in amount of PLN 48,853 thousand (2019: PLN 26,128 thousand).

Income tax is calculated based on the following tax rates.

Poland	Estonia	Russia	Serbia	Lithuania	Latvia	Ukraine	Hungary	Croatia	Finland	Cyprus
19%	0%	20%	15%	15%	0%	18%	9%	18%	20%	2.5%

Czech Rep.	Bulgaria	Great Britain	Romania	Slovakia	Slovenia	Kazakhstan	Bosnia and Hercegovina	Belarus	Germany
19%	10%	16%	16%	21%	15%	20%	10%	18%	32%

10.2. DEFERRED INCOME TAX – FINANCIAL RESULT

Deferred income tax recognised in the financial result for the period from 1 February 2020 to 31 January 2021 and comparative periods resulted from the following items.

Deferred income tax (in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Difference between balance sheet and tax depreciation of non-current assets	3,469	3,829	3,289
Depreciation of trademarks	0	-5,896	-5,896
Revaluation write-off on the tax asset involving trademarks	0	-34,104	-34,104
Difference between the right of use and the lease liability	43,434	20,542	32,596
Revaluation of inventory	-619	8,426	8,426
Revaluation of trade receivables	-1,652	2,121	2,121
Margin on goods unsold outside the Group	34	-2,084	-2,084
Fee on outlays sold	2,801	-25,597	-25,597
Tax loss	3,350	3,357	3,357
Unpaid remuneration and surcharges	-6,532	-3,601	-3,601
Provision for product returns	1,655	-712	-712
Estimated return/estimated rent grants	-2,735	-12,842	-10,866
Other temporary differences	-2,747	2,542	3,999
Exchange differences from currency translation	6,606	363	-2,718
Total	**47,064**	**-43,656**	**-31,790**

10.3. DEFERRED TAX ASSETS AND LIABILITIES

The value of deferred tax assets and liabilities recognised in the statement of financial position results from items and figures given in the table below.

Deferred income tax assets (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Difference between balance sheet and tax depreciation of non-current assets	3,176	-293
Difference between balance sheet and tax depreciation of trademarks	0	0
Difference between the right of use and the lease liability	77,641	32,596
Revaluation of inventories	21,268	21,887
Revaluation of trade receivables	3,068	4,720
Margin on goods unsold outside the Group	19,069	19,035
Fee on outlays sold	13,540	10,739
Tax loss	38,764	34,414
Unpaid remuneration and surcharges	5,946	12,478
Provision for product returns	2,647	992
Estimated return/estimated rent grants	-6,876	-4,141
Other temporary differences	621	2,368
Total	**178,864**	**134,795**

Deferred income tax liabilities (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Difference between balance sheet and tax depreciation of non-current assets	22	276
Other temporary differences	0	0
Total	**22**	**276**

As at 31 January 2021, the Group showed deferred tax assets due to tax losses in its subsidiaries, in the amount of PLN 38,764 thousand. The key values were calculated in LPP Deutschland GmbH, totalling PLN 22,497 thousand and in LPP Ukraina AT, totalling PLN 6,112 thousand. According to tax laws applicable in both countries, there is no limited period for settling a tax loss.

11. EARNINGS PER SHARE

ACCOUNTING POLICY

Basic earnings per share are calculated by dividing net profit for a given period by the weighted average number of issued shares in LPP SA, existing in a given period.

Diluted earnings per share are calculated by dividing net profit for a given period by the weighted average number of the issued shares existing during the period, adjusted by the weighted average number of shares which would be issued upon conversion of all dilutive, prospective capital instruments to shares.

The calculation of the EPS and diluted earnings per share is given below.

(in PLN thousand)	For 12 months ended 31.01.2021	For 12 months ended 31.01.2020 (unaudited)	For 13 months ended 31.01.2020
Number of shares in the formula's denominator			
Weighted average number of shares	1,838,066	1,834,192	1,834,192
Dilutive effect of convertible warrants	0	907	907
Diluted weighted average number of shares	1,838,066	1,835,099	1,835,099
Earnings per share			
Net profit (loss) for the current period, attributable to shareholders of the parent company	-190,130	486,005	421,039
Profit (loss) per share	-103.44	264.97	229.55
Diluted profit (loss) per share	-103.44	264.84	229.44

In the period from the balance sheet date and the date of drawing up these financial statements, there were no other transactions involving ordinary or prospective ordinary shares.

12. DIVIDENDS PAID AND OFFERED FOR PAYMENT

ACCOUNTING POLICY

Dividends are recognised at the time of determining the rights of eligible shareholders or stockholders to receive the same.

On 18 September 2020, the Ordinary General Meeting of Shareholders adopted resolution no 17 on non-payment of a dividend for the financial year ended 31 January 2020 and on transferring it in full to supplementary capital. The said decision was made with a view to increasing financial security during economic hardship caused by the COVID-19 pandemic.

13. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

Property, plant and equipment are initially carried at purchase price increased with all costs directly related to the purchase and adaptation of an asset to the working condition for its intended use. Costs incurred after the date when a fixed asset was put to use, such as costs of maintenance and repairs, are charged to the financial result as they are incurred.

As at the balance sheet date, property, plant and equipment are measured at cost less accumulated depreciation and impairment write-offs.

Depreciation is made by the Group on the straight-line basis. Fixed assets are depreciated over their pre-determined expected useful life. This period is revised annually.

Depreciation rates applied for specific groups of fixed assets are as follows.

Asset group	Depreciation rate
Buildings, premises, civil engineering works, including:	2.5-50 %
– Outlays in third-party premises	14.28 %
Plant and machinery	2.5-50 %
Means of transportation	10-25 %
Other fixed assets, including:	10-40 %
– Furniture	20 %

The value of fixed assets is also periodically tested for impairment, if any, resulting from any events or changes in the business environment or within the Company, which could cause an impairment of these assets below their current book value.

When fixing depreciation rates for individual tangible fixed assets, the Group determines whether there are any components of such asset, the purchase price of which is important as compared with the purchase price of the entire fixed asset, and whether the usability period for these components is different from the usability period for the remaining part of the fixed asset.

Fixed assets under construction – as at the balance sheet date, they are carried in the total amount of costs directly related to their acquisition or production, less impairment losses.

A given item of property, plant and equipment may be removed from the statement of financial position after its sale or when no economic benefits of the asset's further use are expected. Profits or losses arising from the sale, disposal or cessation of use of fixed assets are specified as a difference between sales revenue and their net value and are recognised in the result, in other operating income or costs.

External financing costs are capitalised as part of costs of production of fixed and intangible assets. External financing costs comprise interest calculated applying the effective interest rate method and foreign exchange differences involved in external financing, up to the amount corresponding to the adjustment of the interest cost.


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Changes in fixed assets (by type) in the period from 1 February 2020 to 31 January 2021

Changes in fixed assets (by type) from 01.02.2020 to 31.01.2021 (in PLN thousand)	Land	Buildings, facilities, civil engineering works	Plant and machinery
Opening balance gross value of fixed assets	87,178	2,145,467	561,764
Foreign exchange differences	0	-58,375	-9,302
Acquisitions	604	20,539	24,864
Transfer from fixed assets under construction	0	447,846	44,239
Sale	0	152	1,455
Disposal	0	77,037	17,783
Other decreases	0	320	534
Other increases	0	1,472	4,033
Transfer from fixed assets under construction	0	0	0
Closing balance gross value of fixed assets	**87,782**	**2,479,440**	**605,826**
Opening balance accumulated depreciation (amortisation)	0	905,516	271,851
Foreign exchange differences	0	-24,673	-5,049
Depreciation for the period	0	237,634	68,619
Sale	0	49	1,333
Disposal	0	60,996	17,367
Other decreases	0	23	1,817
Other increases	0	994	154
Closing balance accumulated depreciation (amortisation)	**0**	**1,058,403**	**315,058**
Opening balance impairment write-offs	0	43,817	1,594
Foreign exchange differences	0	1,341	-133
Increase	0	75,543	798
Utilisation	0	5,162	1
Reversal	0	7,191	961
Closing balance impairment write-offs	**0**	**108,348**	**1,297**
Total net value of fixed assets as at 1 February 2020	87,178	1,196,134	288,319
Total net value of fixed assets as at 31 January 2021	87,782	1,312,689	289,471

Impairment write-off – items in the comprehensive income statement	Kwota
Increase – other operating costs, revaluation of non-financial assets	70,648
Decrease - other operating costs, revaluation of non-financial assets	

Transportation means	Other fixed assets	Fixed assets under construction	Advances for fixed assets	Fixed assets, total
14,457	833,149	247,417	133,128	4,022,560
-518	-41,746	-3,437	-4,620	-117,998
852	23,772	551,326	87,629	709,586
0	143,571	0	0	635,656
470	298	0	0	2,375
285	30,228	5,088	0	130,421
0	5,899	3,017	39,070	48,840
0	0	43,009	0	48,514
0	0	635,656	0	635,656
14,036	**922,321**	**194,554**	**177,067**	**4,481,026**
7,538	476,830	0	0	1,661,735
-353	-21,393	0	0	-51,468
2,025	118,912	0	0	427,190
466	284	0	0	2,132
215	28,141	0	0	106,719
0	2	0	0	1,842
4	1,054	0	0	2,206
8,533	**546,976**	**0**	**0**	**1,928,970**
0	3,028	0	0	48,439
0	-251	0	0	957
0	2,701	0	0	79,042
0	1,523	0	0	6,686
0	1,322	0	0	9,474
0	**2,633**	**0**	**0**	**112,278**
6,919	353,291	247,417	133,128	2,312,386
5,503	372,712	194,554	177,067	2,439,778

Changes in fixed assets (by type) in the period from 1 January 2019 to 31 January 2020

Changes in fixed assets (by type) from 01.01.2019 to 31.01.2020 (in PLN thousand)	Land	Buildings, facilities, civil engineering works	Plant and machinery
Opening balance gross value of fixed assets	63,449	1,789,346	431,168
Foreign exchange differences	0	39,004	6,380
Acquisitions	23,729	0	29,650
Transfer from fixed assets under construction	0	452,564	126,347
Sale	0	860	1,067
Disposal	0	134,587	30,714
Other decreases	0	0	0
Transfer from fixed assets under construction	0	0	0
Closing balance gross value of fixed assets	**87,178**	**2,145,467**	**561,764**
Opening balance accumulated depreciation (amortisation)	0	755,692	232,863
Foreign exchange differences	0	22,317	4,059
Depreciation for the period	0	230,960	60,427
Sale	0	0	0
Disposal	0	103,453	25,498
Closing balance accumulated depreciation (amortisation)	**0**	**905,516**	**271,851**
Opening balance impairment write-offs	0	31,011	649
Increase	0	31,700	1,623
Utilisation	0	13,213	678
Reversal	0	5,681	0
Closing balance impairment write-offs	**0**	**43,817**	**1,594**
Total net value of fixed assets as at 1 January 2019	63,449	1,002,643	197,656
Total net value of fixed assets as at 31 January 2020	87,178	1,196,134	288,319

Impairment write-off – items in the comprehensive income statement	Kwota
Increase – other operating costs, revaluation of non-financial assets	35,803
Decrease - other operating costs, revaluation of non-financial assets	5,568

Transportation means	Other fixed assets	Fixed assets under construction	Advances for fixed assets	Fixed assets, total
11,463	668,874	136,607	129,805	3,230,712
339	22,601	2,306	1,169	71,799
3,568	0	876,048	39,844	972,839
0	188,633	0	0	767,544
791	42	0	0	2,760
122	46,917	0	0	212,340
0	0	0	37,690	37,690
0	0	767,544	0	767,544
14,457	**833,149**	**247,417**	**133,128**	**4,022,560**
6,070	385,897	0	0	1,380,522
203	14,650	0	0	41,229
2,012	121,722	0	0	415,121
0	0	0	0	0
747	45,439	0	0	175,137
7,538	**476,830**	**0**	**0**	**1,661,735**
0	214	0	0	31,874
0	3,057	0	0	36,380
0	243	0	0	14,134
0	0	0	0	5,681
0	**3,028**	**0**	**0**	**48,439**
5,393	282,763	136,607	129,805	1,818,316
6,919	353,291	247,417	133,128	2,312,386

In the period ended 31 January 2021, the Group made impairment write-offs on property, plant and equipment, relating to unprofitable stores, for PLN 79,042 thousand (2019: PLN 36,380 thousand). Information on assumptions made in respect of such write-offs is given in note 5.2.

In the same period, impairments write-off were partially utilised in the amount of PLN 6,686 thousand (2019: PLN 14,134 thousand) due to store closure, and such write-offs were partially reversed in the amount of PLN 9,474 thousand (2019: PLN 5,681 thousand) in connection with occurring prerequisites for reversal.

The creation of impairment write-offs, decreased with their reversal, was shown in the comprehensive income statement, in item “other operating costs”, in the amount of PLN 70,648 thousand.

As at 31 January 2021, the Company had contractual obligations to acquire tangible fixed assets of PLN 187,634 thousand (2019: PLN 174,324 thousand).

The said amount comprised the following liabilities:
- liabilities related to the development of LPP brand stores – PLN 42,134 thousand
- liabilities under contracts on the extension of logistics centres – PLN 133,430 thousand
- liabilities under contracts on the development of office buildings – PLN 12,070 thousand

As at the balance sheet date, there were limitations in the disposal of real property in Pruszcz Gdański and Gdańsk due to investment loans. A detailed description is provided in note 23.

14. LEASES

ACCOUNTING POLICY

Upon contract conclusion, the Group assesses whether a given agreement is a lease agreement or covers leased assets. The agreement is a lease agreement or covers leased assets if it transfers the right to control the use of an identified asset for a given period in exchange for a consideration.

The Group applies a single model for recognising and measuring all leases, except for short-term and low-value leases. As at the lease commencement date, the Group recognises a right-of-use asset and a lease liability.

Right-of-use assets
The Group recognises right-of-use assets as at the lease commencement date. The right-of-use assets are measured at cost and decreased with total depreciation write-offs and impairment losses. The cost of right-of-use assets comprises the amount of lease liabilities recognised, initial direct costs incurred as well as any and all lease fees paid on or before the commencement date, decreased with any lease incentives received.

Lease liabilities
As at the lease commencement date, the Group measures lease liabilities in the amount of the current value of lease fees due and payable on that date. Lease fees comprise fixed lease fees.

When calculating the current value of lease fees, the Group applies the lessee’s marginal interest rate as at the lease commencement date if a percentage rate for the lease may not be easily determined. After the lease commencement date, the amount of lease liabilities is increased with interest and decreased with lease payments made. Furthermore, the balance sheet value of lease liabilities is re-measured if there is a change in the lease term and fixed lease fees.

Short-term and low-value lease
The Group applies an exemption as regards recognition of its short-term lease contracts (i.e. contracts with a lease term of 12 months or less, with no purchase option) as short-term lease. The Group also applies a relevant exemption as regards recognition of the lease of low-value assets. These charges are recognised as costs at their payment date.

LPP SA and its subsidiaries are parties to lease agreements for brand stores, offices, warehouses, transportation means and for the exercising the right of perpetual usufruct of land.

The following lease terms are applied:
- For brand stores – from 3 to 10 years, with the lease extension option
- For office and warehouse space – from 3 to 6 years
- For cars – from 5 to 10 years
- For the right of perpetual usufruct – as decided by the City Hall

Specific lease agreements may be prolonged or terminated. The Management Board makes a judgment to determine a term in respect of which there is reasonable certainty that such agreements will last.

Furthermore, the Group concluded agreements on the lease of retail space and cars, with a lease term of 12 months or less, and lease agreements covering office equipment and low-value equipment. As regards short-term and low-value leases, the Group benefits from a relevant exemption.

Balance sheet values of right-of-use assets and their changes in the reporting period are given in the table below.

Changes in the right of use from 01.02.2020 to 31.01.2021 (in PLN thousand)	Store lease	Other leases	Right of use, total
Opening balance gross value of the right of use	3,497,897	155,665	3,653,562
Foreign exchange differences	-56,214	385	-55,829
Increases (new leases)	424,461	1,757	426,218
Amendments to lease agreements	-198,973	59,628	-139,345
Revaluation of lease liabilities*	-277,562	-3,469	-281,031
Closing balance gross value of the right of use	**3,389,609**	**213,966**	**3,603,575**
Opening balance accumulated depreciation (amortisation)	629,240	24,085	653,325
Foreign exchange differences	-13,503	143	-13,360
Depreciation for the period	584,234	33,013	617,247
Revaluation*	-240,274	-2,426	-242,700
Closing balance accumulated depreciation (amortisation)	**959,697**	**54,815**	**1,014,512**
Total net value of fixed assets as at 1 February 2020	2,868,657	131,580	3,000,237
Total net value of fixed assets as at 31 January 2021	2,429,912	159,151	2,589,063

Changes in the right of use from 01.01.2019 to 31.01.2020 (in PLN thousand)	Store lease	Other leases	Right of use, total
Opening balance gross value of the right of use	2,770,066	156,740	2,926,806
Increases (new leases)	1,006,331	0	1,006,331
Amendments to lease agreements	-235,975	-655	-236,630
Revaluation of lease liabilities*	-42,525	-420	-42,945
Closing balance gross value of the right of use	**3,497,897**	**155,665**	**3,653,562**
Opening balance accumulated depreciation (amortisation)	0	0	0
Depreciation for the period	631,627	24,167	655,794
Revaluation*	-2,387	-82	-2,469
Closing balance accumulated depreciation (amortisation)	**629,240**	**24,085**	**653,325**
Total net value of fixed assets as at 1 January 2019	2,770,066	156,740	2,926,806
Total net value of fixed assets as at 31 January 2020	2,868,657	131,580	3,000,237

**Revaluation applies to cancelled agreements or annulment due to the shifting to rent based on turnover*

Balance sheet values of lease liabilities and their changes in the reporting period are given in the table below

Lease liabilities (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Opening balance	3,248,137	3,051,610
Increases (new agreements)	515,927	1,088,631
Amendments to lease agreements	-164,283	-226,033
Revaluation *	-61,175	-40,707
Foreign exchange differences	47,056	-24,141
Interest	130,581	119,915
Payments	-538,564	-721,138
Closing balance	**3,177,679**	**3,248,137**
Short-term	654,010	680,184
Long-term	2,523,669	2,567,953
Total	**3,177,679**	**3,248,137**

Amendments to lease agreements involved changes in lease terms, changes in lease fees subject to a rate or index and from measurement of value in a foreign currency.

In the reporting period, the Group presented the following values in the financial statements:
- Costs of depreciation of the right of use: PLN 617,247 thousand (2019: PLN 655,794 thousand);
- Interest costs: PLN 130,581 thousand (2019: PLN 119,915 thousand);
- Costs of rent under unmeasured agreements in line with IFRS 16: PLN 383,811 thousand (2019: PLN 624,248 thousand).

Due do business restrictions, closure of shopping centres and governmental resolutions adopted to counteract Covid -19, the Group renegotiated agreements on the lease of retail space. In consequence, a major part of agreements subject to IFRS 16 were amended and newly measured in annexes, in line with new terms and conditions.

The Group applied an exemption stemming from amendments to IFRS 16, published on 30 May 2020: "Leases: Covid-19-Related Rent Concessions", based on which contractual amendments made by way of annexes, meeting the criteria set forth in the above-mentioned amendments to IFRS 16 and, in particular, regulating solely issues of instalments due and payable by the date of signing a relevant annex, were recognised in financial income in the amount PLN 66 mln (note 9.4) . However, other amendments to lease agreements, stemming from signed annexes involving future rent instalments and other amendments thereto (specifically the lease term), were recognised as modification of a lease agreement, adjusting the lease liability and the right-of-use asset.

All amendments arising from renegotiated agreements were given above, in item "amendments to lease agreements".

As at 31 January 2021 and 31 January 2020, the Group shows the distribution of lease liabilities based on their maturity dates in non-discounted values, as follows.

Lease liabilities (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Up to 1 month	56,408	59,621
From 1 to 3 months	112,816	119,242
From 3 months to 1 year	507,676	536,593
Above 1 year	2,611,997	2,701,118
Total	**3,288,897**	**3,416,574**

15. INTANGIBLE ASSETS

ACCOUNTING POLICY

Intangible assets include patents and licenses, computer software, costs of brand store concepts and other intangible assets meeting criteria set forth in IAS 38.

As at the balance sheet date, intangible assets are recognised at their purchase price or their manufacturing cost, less depreciation and impairment losses. Intangible assets with a determined useful life are depreciated on the straight-line basis for the period of their economic usability. Useful lives of specific intangible assets are verified annually.

Depreciation rates applied to specific groups of intangible assets are as follows.

Asset group	Depreciation rate
Costs of completed store concept works	20%
Acquired concessions, patents, licences and similar assets	10-50%

Costs of brand store concept works
The Group's companies carry out works involving the designing and construction of model showrooms.

Outlays directly associated with such works are recognised as intangible assets.

Outlays made for concept works carried out as part of a given venture are transferred to a subsequent period if one may consider that they will be recovered in the future. Future benefits are assessed based on the principles provided for in IAS 36.

Upon initial recognition of outlays for store concept works, the historical cost model is applied, according to which assets are recognised at their purchase prices or their manufacturing cost less accumulated depreciation and accumulated impairment losses. Completed works are depreciated applying the straight-line method over an expected benefit-gaining period lasting five years.

The key intangible asset is the House trademark recognised in the statement of financial position under a separate item of fixed assets i.e. "trademark". Its balance sheet value as at 31 January 2021 was PLN 77 508 thousand (2019: PLN 77 508 thousand).

The useful life of the said asset is unspecified.

In the current reporting period, the Group carried out an annual impairment test involving this asset. According to test results, no impairment write-off was required for the asset in question.

The detailed analysis is given below.

The recoverable value of cash-generating units to which a value was assigned was determined on the basis of their value in use, applying the royalty relief method.

Detailed assumptions for the estimates are as follows.

House trademark – measured by the royalty relief method, based on the determination of charges that would have to be paid by an external company for the privilege of using the brand. This fee is usually determined as a percentage of revenues:
- the estimate is based on sales generated by clothing under the House brand, which, in 2020, amounted to PLN 1,059 mln (retail sale and wholesale) and was higher by 207% as compared with the turnover for 12 months (November 2007-October 2008), adopted for the initial balance sheet measurement,
- royalty fee amounting to 3% of turnover (2019: 3%) was adopted,
- the capitalisation ratio adopted for measurement applying CAPM (the forecast period is not defined here because it is based on the perpetual rent model) amounted to 11.38% (2019: 11%) and consisted of several elements:
- risk-free rate – 1.29%, equal to the profitability of 52-week treasury bills (2019: 1.59%)
- annual inflation rate – 2.3% (2019: 2%)
- risk premium – 3.50% (2019: 7.50%).

These assumptions are based on profitability parameters of 52-week treasury bills as at the balance sheet date and a published expected inflation rate. They were included in measurement carried out according to the model drawn up by a valuation expert determining the value of the House trademark. This value was initially recognised in the statement of financial position (thus, the assumptions are consistent with external sources of information).

Upon review, it was established that the trademark's value exceeds the carrying value of these intangible assets as at the balance sheet date, and, therefore, there was no need to make any impairment write-offs.

As at 31 January 2021, the key intangible assets were as follows:
- Software supporting sales in retail stores in subsidiaries. As at 31 January 2021, the balance sheet value of the said asset amounted to PLN 14,454 thousand (2019: PLN 16,971 thousand);
- Goods quantity management system. As at 31 January 2021, the balance sheet value of the said asset was PLN 10,362 thousand (2019: PLN 14,495 thousand);
- System supporting identification and stock-taking of goods in stores and warehouses. As at 31 January 2020, the balance sheet value of the said asset was PLN 8,717 thousand (2019: PLN 9,272 thousand);
- E-commerce software for Reserved, Cropp, Mohito, House and Sinsay brands. As at 31 January 2021, the balance sheet value of the said asset amounted to PLN 6,027 thousand (2019: PLN 5,440 thousand);
- System for invoicing e-commerce sales. As at 31 January 2021, the balance sheet value of the said asset was PLN 1,250 thousand (2019: PLN 2,040 thousand);
- Software for managing the designing process. As at 31 January 2021, the balance sheet value of the said asset was PLN 2,220 thousand (2019: PLN 2,910 thousand).
- SAP. As at 31 January 2021, the balance sheet value of the said asset was PLN 9,322 thousand (2019: PLN 12,369 thousand);
- Product allocation software. As at 31 January 2021, the balance sheet value of the said asset was PLN 11,056 thousand (2019: PLN 10,622 thousand).

Changes in intangible assets in the reporting period ended 31 January 2021 and in comparative periods are specified in tables below.

Changes in intangible assets in the period from 1 February 2020 to 31 January 2021

Changes in intangible assets from 01.02.2020 to 31.01.2021 (in PLN thousand)	Costs of completed store concept works	Computer software and licences	Intangible assets under construc-tion	Total
Opening balance gross value of intangible assets	11,341	197,123	21,985	230,449
Foreign exchange differences	0	-89	0	-89
Acquisitions	0	72	41,114	41,186
Transfer from intangible assets under construction	0	21,084	0	21,084
Disposal	2,246	18,025	2,260	22,531
Transfer from intangible assets under construction	0	0	21,084	21,084
Other increases	0	13	0	13
Other decreases	0	0	87	87
Closing balance gross value of intangible assets	**9,095**	**200,178**	**39,668**	**248,941**
Opening balance accumulated depreciation (amortisation)	9,950	94,265	0	104,215
Foreign exchange differences	0	-65	0	-65
Depreciation for the period	632	27,976	0	28,608
Decrease	2,246	18,024	0	20,270
Closing balance accumulated depreciation (amortisation)	**8,336**	**104,152**	**0**	**112,488**
Opening balance impairment write-offs	0	0	0	0
Decreases	**0**	**0**	**0**	**0**
Closing balance impairment write-offs	0	0	0	0
Total net value of intangible assets as at 1 February 2020	1,391	102,858	21,985	126,234
Total net value of intangible assets as at 31 January 2021	759	96,026	39,668	136,453

Changes in intangible assets from 1 January 2019 to 31 January 2020

Changes in intangible assets from 01.01.2019 to 31.01.2020 (in PLN thousand)	Costs of completed store concept works	Computer software and licences	Intangible assets under construc-tion	Total
Opening balance gross value of intangible assets	11,341	122,039	37,455	170,835
Foreign exchange differences	0	312	0	312
Acquisitions	0	0	59,444	59,444
Transfer from intangible assets under construction	0	74,914	0	74,914
Disposal	0	142	0	142
Transfer from intangible assets under construction	0	0	74,914	74,914
Closing balance gross value of intangible assets	**11,341**	**197,123**	**21,985**	**230,449**
Opening balance accumulated depreciation (amortisation)	8,589	72,616	0	81,205
Foreign exchange differences	0	279	0	279
Depreciation for the period	1,361	21,508	0	22,869
Decrease	0	138	0	138
Closing balance accumulated depreciation (amortisation)	**9,950**	**94,265**	**0**	**104,215**
Opening balance impairment write-offs	0	0	0	0
Decreases	0	0	0	0
Closing balance impairment write-offs	**0**	**0**	**0**	**0**
Total net value of intangible assets as at 1 January 2019	2,752	49,423	37,455	89,630
Total net value of intangible assets as at 1 January 2020	1,391	102,858	21,985	126,234

In the reporting period ended 31 January 2021 and comparative periods, there were no revaluation write-offs on intangible assets.

16. GOODWILL

ACCOUNTING POLICY

Goodwill is initially recognised at cost of purchase and is calculated as a difference between the two values:

- the sum of a consideration for the control of non-controlling interests and the fair value of blocks of shares (stocks) held in the acquired entity before the acquisition date, and
- the fair value of the entity's identifiable acquired net assets.

The excess of the sum calculated as given above over the fair value of the entity's identifiable acquired net assets is recognised in the assets of the separate statement of the financial position as goodwill. Goodwill represents a payment made by the acquiring company expecting future economic benefits from assets which may not be identified individually or recognised separately.

As at the reporting date, goodwill is measured at the cost of purchase less accumulated impairment write-offs made so far and deductions for the disposal of part of shares to which it was previously assigned. Impairment write-offs up to the value assigned to a cash-generating unit (unit group) are not reversible.

Goodwill is tested for impairment before the end of the reporting period in which the merger occurred, and then in each subsequent annual reporting period. If there are any prerequisites for impairment, an

As at 31 January 2021, the value of goodwill changed due to a revaluation write-off in the amount of PLN 26,395 thousand, totalling PLN 183,203 thousand (2019: PLN 209,598 thousand).

As at 31 January 2021, goodwill amounted to PLN 183,203 thousand, following the merger of LPP SA with Artman in July 2009.

Changes in goodwill are presented in the table below.

Gross value (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Opening balance	209,598	209,598
Increases	0	0
Decreases	0	0
Closing balance	**209,598**	**209,598**

Revaluation write-offs (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Opening balance	0	0
Increases	26,395	0
Closing balance	**26,395**	**0**

Net value (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Opening balance	209,598	209,598
Closing balance	**183,203**	**209,598**

According to IAS 36 and the accounting policy, as at 31 January 2021, an impairment test was carried out for the goodwill of Artman, of the balance sheet value of PLN 183,203 thousand, and the goodwill of Koba and House Plius, of the balance sheet value of PLN 26,395 thousand.

The recoverable value of cash-generating units with an allocated value was determined based on their value in use, applying the discounted cash flow (DCF) model.

Detailed assumptions for estimates are as follows.

Goodwill of Artman – estimated applying the DCF method for cash flows generated by House stores.

The valuation was based on the following assumptions:
- period covering estimated cash flows - 5 years (2020-2024), without recognising a residual value,
- annual forecasts of revenues and costs in 2020 (based on actual performance), which, in subsequent years, will increase at a rate around the inflation rate,
- annual sales in 2020-2024 in stores tested – at a level similar to 2019;
- operating costs of stores tested – maintaining 2.3% of the increase in costs per m^2 in subsequent years;
- in the forecast period, a discount rate is variable and calculated based on the weighted average capital cost (WACC). In 2019, the WACC rate was 11.3% and will remain unchanged by 2024.

The above-mentioned parameters comply with experience gained so far (for costs-sales assumptions) and are coherent with information originating from external sources for other figures.

Goodwill of Koba – estimated applying the DCF method for cash flows generated by Reserved and Cropp retail stores acquired from Koba in 2014 (by acquiring shares in Koba). The valuation was based on the following assumptions:
- period covering estimated cash flows 15 years (2021-2035), without recognising a residual value,
- annual forecasts for revenues and costs in 2021 (in line with the Company's budget), which, in subsequent years, will increase at a pace around the deflation rate (2019: annual forecasts for revenues and costs in 2020 and subsequent years, will increase at a pace around the inflation rate),
- revenues and costs forecasted for stores acquired together with Koba and still in operation (17 own stores) (2019: 19 stores),
- decrease in the annual sales in stores tested – at a sales level similar to 2020, i.e. 26.5% in subsequent years (2019: increase in the annual sales in stores tested – at a sales level similar to 2019 i.e. 3% in subsequent years),
- operating costs of stores tested – a decrease at a level similar to 2020 i.e. 13.5% (2019: maintaining the increase of approx. 3.1% in subsequent years),
- in the forecast period, a discount rate is variable and calculated based on weighted average capital cost (WACC). In 2020, the WACC rate was 1% and will remain unchanged by 2035 (2019: WACC 10%).

As a result of the tests carried out, it was found that it was required to recognise an impairment loss for the goodwill of Koba and House Plius, in the total amount of PLN 26,395 thousand.

17. OTHER ASSETS

17.1. OTHER FINANCIAL ASSETS

ACCOUNTING POLICY

Other financial assets comprise items such as deposit receivables, loans granted, forward contract measurement and the value of foreign currency sold.

The accounting policy on financial assets is specified in note 32.

Other financial assets (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Non-current assets:		
Other receivables	13,446	7,905
Loans granted	66	60
Other long-term financial assets	**13,512**	**7,965**
Current assets		
Other receivables	**1,137**	**0**
Receivables from payment card operators	32,909	22,236
Loans granted	85	55
Forward contract valuation	0	4,509
Foreign currency sold	37,000	87,291
Other short-term financial assets	**71,131**	**114,091**
Other financial assets in total	**84,643**	**122,056**

In the reporting period, the Group sold foreign currency of the value of PLN 37,000 thousand on the inter-bank market. Due to the month's last day falling on a day off, funds were credited on the bank account of LPP SA after the balance sheet date.

Loans granted are measured at amortised cost applying the effective percentage rate method. Due to the absence of an active market, it was assumed that the balance sheet value of loans is the same as their fair value.

As at 31 January 2021, the Group granted loans in PLN, of the value of PLN 151 thousand (2019: PLN 115 thousand).

Interest on loans in PLN is approx. 4%, with maturity dates falling between 2021 and 2025.

Changes in the balance sheet value of loans and revaluation write-offs are given in the table below.

Changes in the balance sheet value (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Opening balance	115	104
Loans granted in the period	137	92
Interest charged	4	5
Loans repaid with interest	-105	-86
Revaluation write-off	0	0
Closing balance	**151**	**115**

Revaluation write-off (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Opening balance	29	29
Write-offs recognised in the period	0	0
Write-offs reversed in the period	0	0
Closing balance	**29**	**29**

17.2. OTHER NON-FINANCIAL ASSETS

ACCOUNTING POLICY

Other non-financial assets include state budget receivables, except for corporate income tax receivables constituting a separate item in the financial statements, and other benefits not treated as financial instruments. The most important item is VAT receivables.

This value may be adjusted with a revaluation write-off if there are prerequisites for doing so.

Other non-financial assets (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Current assets		
State budget receivables	61,428	42,596
Other receivables	2,294	10,421
Other short-term non-financial assets	**63,722**	**53,017**
Other non-financial assets in total	**63,722**	**53,017**

As at 31 January 2021, the value of other receivables was adjusted with a revaluation write-off amounting to PLN 161 thousand (2019: PLN 192 thousand).

Changes in the value of revaluation write-offs in the reporting period and a comparative period are given in the table below.

Revaluation write-off (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Opening balance	192	190
Write-offs made in the period	3	31
Write-offs utilised in the period	5	0
Write-offs reversed in the period	29	29
Closing balance	**161**	**192**

18. DEPOSITS AND INVESTMENT FUNDS

Deposits and investment funds (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Participation units in investment funds	440,919	96,877
Securities	100,000	0
Deposit set aside	412,097	0
Deposits and investment funds	**953,016**	**96,877**

In the reporting period, the Group acquired participation units in money market funds. As at 31 January 2021, the value of participation units was PLN 440,919 thousand, comprising the value of acquired units as at the purchase date, in the amount of PLN 440,759 thousand, and their measured value, in the amount of PLN 160 thousand. In the cash flow statement, in investing activities, the Group reports the acquisition in the amount of PLN 215,724 thousand and decommitment of funds amounting to PLN 556,024 thousand. The measured value of PLN 160 thousand is recognised in operating activities, in "interest and dividends". The value of profit gained from decommitted participation units was PLN 1,309 thousand and was shown "other inflows from financial assets", in the investing activities. The measurement of the above-mentioned instruments is at level 1 of the fair value hierarchy in respect of participation units in investment funds listed on the regulated market and at level 2 of the fair value hierarchy in respect of participation units in unquoted investment funds.

With reference to trade finance agreements signed, described in detail in note 26, the Company paid a security of PLN 100 mln to secure the factor's claims and set aside a deposit of PLN 412 mln.

19. INVENTORY

ACCOUNTING POLICY

As at the balance sheet date, inventories are measured at cost of purchase not exceeding their net sale prices.

The following items as recognised as inventories:

- trade commodities,
- materials (fabrics and sewing accessories) purchased and delivered to external contracting parties for processing purposes,
- IT consumables related to the operation, maintenance and development of the computer network,
- spare parts for devices in the logistics centre, other than tangible fixed assets
- advertising materials.

Trade commodities in domestic warehouses are recorded by quantity and value and measured as follows:

- imported goods – at purchase cost comprising the purchase price, costs of transportation outside and inside Poland to the first unloading point in Poland as well as customs duties; the following foreign exchange rate is applied to convert the value in a foreign currency:
  - the one resulting from a customs document,
  - the one applicable on the day preceding the date of purchase invoice issuance in case of deliveries made directly to Russia,
- goods purchased in Poland – at cost of purchase; purchase costs are charged directly to operating costs when incurred as their value is immaterial.

Trade commodities sold from Reserved, Cropp, House, Mohito and Sinsay collections are measured at average weighted prices.

Trade commodities in bonded warehouses are measured at cost comprising a purchase price and the costs of transportation outside and inside Poland to the first unloading point in Poland.

The value of goods delivered from bonded warehouses (moved to local warehouses or sold directly abroad) is measured based on the detailed identification of goods for individual lots delivered to bonded warehouses.

The Parent Company's trade commodities in transit are measured at purchase prices increased with the costs of transportation outside and inside Poland, known at the time of preparing the statement of financial position. As regards imported goods in transit, the Company applies an average exchange rate of the National Bank of Poland, applicable on the balance sheet date.

The Group has two regular sales periods: (1) March-June for SS collections, (2) September-December for AW collections. After such periods, there are clearance sales.

Inventories with trading and useful value impaired are written off according to the following rule:

- goods for outlet stores – a revaluation write-off of 10% on their value,
- goods for brand stores - revaluation write-offs in a percentage compliant with current analyses,
- goods to be sold to external recipients – revaluation write-offs in the amount of 80% of their value

The value of a write-off in the period is shown in the cost of goods sold.

Write-offs in the comprehensive income statement are given in net amounts.

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

Inventories – balance sheet value (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Materials	22,958	25,700
Goods	2,031,337	1,876,290
Product return assets	20,152	19,149
Total	**2,074,447**	**1,921,139**

In the reporting period, due to estimated measurement of outlet goods, the Group, according to the revaluation write-off policy, recognised relevant impairment losses on inventories in the statement of financial position.

Changes in their value in the reporting period and a comparative period are given in the table below.

Revaluation write-off (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Opening balance	142,689	93,125
Write-offs made in the period	0	46,538
Write-offs reversed in the period	-3,993	0
Foreign exchange differences	-10,168	3,026
Closing balance	**128,528**	**142,689**

20. TRADE RECEIVABLES

ACCOUNTING POLICY

The Group implements a simplified approach to trade receivables, measuring a write-off for expected credit losses, in the amount equal to expected credit losses over lifetime using a provision matrix. The Group uses its historical data on credit losses, adjusted when required with the impact of information regarding the future. Trade receivables are recognised and shown in originally invoiced amounts, with due consideration of a write-off on expected credit losses over lifetime.

Short-term receivables are measured in amounts payable due to negligible discounting.

Detailed information on the structure of the Group's short-term receivables is given in the table below.

Trade receivables (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Trade receivables net	158,055	143,783
Revaluation write-offs on trade receivables	38,173	38,117
Trade receivables gross	**196,228**	**181,900**

Changes in the value of revaluation write-offs in the reporting period and a comparative period are given in the table below.

Revaluation write-off (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Opening balance	38,117	28,372
Write-offs made in the period	26,576	22,355
Write-offs utilised in the period	165	319
Write-offs reversed in the period	25,927	12,147
Foreign exchange differences	-428	-144
Closing balance	**38,173**	**38,117**

21. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents comprise cash in hand and at bank, demand deposits and short-term highly liquid investments (up to 3 months).

The balance of cash and cash equivalents, shown in the cash flow statement, is adjusted with foreign exchange differences from the balance sheet measurement of cash in a foreign currency.

The fair value of cash and cash equivalents as at 31 January 2021 was PLN 1,277,854 thousand (2019: PLN 1,361,474 thousand).

Cash (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Cash in hand and at bank	1,263,886	590,585
Other cash	13,968	770,889
Total	**1,277,854**	**1,361,474**

For the purpose of preparing the cash flow statement, the Group classifies cash in the manner adopted for presenting its financial position. The difference in the value of cash shown in the statement of financial position and in the cash flow statement is affected by the following:

Cash (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Cash and cash equivalents in the statement of financial position	1,277,854	1,361,474
Adjustments:		
Foreign exchange differences from balance sheet measurement of cash in foreign currency	-1,611	-13,163
Cash and cash equivalents recognised in CF	**1,276,243**	**1,348,311**

22. SHARE AND OTHER CAPITALS

ACCOUNTING POLICY

According to the Articles of Association of LPP SA and a record made in the National Court Register, the stated capital is shown in the nominal value of issued shares.

Shares acquired in the Parent Company and retained reduce equity. Treasury shares are measured at cost of purchase.

Capital from the sale of shares above their nominal value is created from the surplus of the issue price above the shares' nominal value, decreased with share issue costs.

Other capital comprises:
- spare capital,
- capital from settling the merger transaction,
- capital component of convertible bonds,
- reserve capital.

The value of the spare capital comprises:
- profit brought forward from previous years, qualified based on decisions of General Meetings of Shareholders,
- remunerations paid in shares, awarded in compliance with the incentive programme addressed to specific persons.

The capital from settling the merger transaction was created at the time of settling goodwill arising upon acquisition of Artman SA.
po przejęciu spółki Artman SA.

22.1. STATED CAPITAL

As at 31 January 2021, the stated capital of LPP SA amounted to PLN 3,705 thousand, with no change compared to 31 January 2020 . It was divided into 1,852,423 shares of a nominal value of PLN 2 per share.

The table below shows the total number of shares divided into separate issues.

Series/issue	Type of share	Type of privilege	Type of limitation on rights attached to shares	As at 31.01.2021	As at 31.12.2020
A	bearer	ordinary	none	100	100
B	registered	preference	none	350,000	350,000
C	bearer	ordinary	none	400,000	400,000
D	bearer	ordinary	none	350,000	350,000
E	bearer	ordinary	none	56,700	56,700
F	bearer	ordinary	none	56,700	56,700
G	bearer	ordinary	none	300,000	300,000
H	bearer	ordinary	none	190,000	190,000
I	bearer	ordinary	none	6,777	6,777
J	bearer	ordinary	none	40,000	40,000
K	bearer	ordinary	none	80,846	80,846
L	bearer	ordinary	none	21,300	21,300
Total number of shares				**1,852,423**	**1,852,423**

All issued shares are paid up in full.

Registered shares held by the Semper Simul Foundation, in the total number of 350,000, are preferred in terms of voting rights at the General Meeting of Shareholders. Each registered share gives 5 votes.

LPP SA shareholding structure as at 31 January 2021

Shareholder	Number of shares held	% in the share capital	Number of votes at the GM	% in the total number of votes at the GM	Nominal value of shares
Semper Simul Foundation*	536,599	29.0%	1,936,599	59.5%	1,073,198
Sky Foundation**	261,338	14.1%	261,338	8.0%	522,676
Other shareholders	1,054,486	56.9%	1,054,486	32.5%	2,108,972
Total	**1,852,423**	**100.0%**	**3,252,423**	**100.0%**	**3,704,846**

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

LPP SA shareholding structure as at 31 January 2020

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

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

All issued shares have been paid for in full.

Registered shares held by the Semper Simul and Sky Foundations, in the total number of 350 000, are preferred in terms of voting rights at the General Meeting of Shareholders. Each registered share gives right to 5 votes.

22.2. SHARE PREMIUM

This item is a separated amount of the supplementary capital, resulting from the surplus on the sale of shares above their nominal value, with the carrying value of PLN 364,315 thousand (2019: PLN 286,829 thousand).

22.3. OTHER CAPITALS

Values of specific types of capital are given in the table below.

Type of capital (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Supplementary capital	1,026,967	2,705,071
Capital from settling the merger transaction	-1,410	-1,410
Reserve capital	2,129,566	29,566
Total	**3,155,123**	**2,733,227**

In the current reporting period, under a resolution of the Ordinary General Meeting of Shareholders held on 18 September 2020, a reserve capital was created in the amount of PLN 2,100,000 thousand, deriving from profit from previous years, recognised in the supplementary capital of LPP SA.

The supplementary capital presented under equity as at 31 January 2021 was created mainly from net profit brought forward from previous years and following measurement of remunerations paid in shares.

The structure of the supplementary capital is as follows.

Type of supplementary capital (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Created under statutory law based on the write-off on financial result	1,349	1,349
Created according to the Articles of Association based on the write-off on financial result	991,898	2,662,890
Created from the amount of remunerations paid in shares	33,720	40,832
Total	**1,026,967**	**2,705,071**

23. BANK LOANS AND BORROWINGS

ACCOUNTING POLICY

On initial recognition, all credit and loan instruments and debt securities are measured at fair value reduced with the costs of obtaining a credit or loan instrument.

Following initial recognition, all credit and loan instruments and other debt instruments are measured at depreciated cost applying the effective interest rate method.

Revenues and costs are measured in profit or loss at the time of removing a liability from the balance sheet and as a result of settlement of an effective interest rate.

As at 31 January 2021, the debt arising from bank loans was as follows.

Bank	Utilisation of bank loans as at 31.01.2021		Bank loan cost	Maturity date
	In PLN thousand	Currency in thousands		
PKO BP SA	42,284	-	wibor 1 m+bank's margin	31.12.2022
PKO BP SA	250,690	-	wibor 1 m+bank's margin	22.12.2021
Pekao SA	44,719	-	wibor 1 m+bank's margin	31.12.2027
Pekao SA	95,097	-	wibor 1 m+bank's margin	30.09.2025
Pekao SA	60,078	-	wibor 1 m+bank's margin	31.08.2027
HSBC Continental Europe SA	118,903	USD 31,741	wibor 1 m+bank's margin	25.06.2021
BGŻ BNP Paribas Bank Polska SA	77	-	wibor 1 m+bank's margin	31.01.2022
Citibank Russia	94,499	RUB 1,924 517	libor 1m+bank's margin	13.04.2021
BNP Paribas Ukraine	5,346	UAH 40,134	libor 1m+bank's margin	23.02.2021
Total	**711,693**			

Bank loans amounting to PLN 711,693 thousand included:

- long-term loans in the amount of PLN 190,596 thousand,
- short-term loans in the amount of PLN 521,097 thousand (including PLN 51,582 thousand as part of long-term investment loans to be repaid within 12 months after the balance sheet date).

Long-term loans outstanding as at 31 January 2021 were as follows:

- PLN 18,740 thousand – investment loan allocated for the construction of the logistics centre in Pruszcz Gdański,
- PLN 76,347 thousand - investment loan allocated for financing the operations of LPP SA,
- PLN 95,509 thousand - investment loan designated for the modernisation of the registered office of LPP SA.

As at 31 January 2020, the debt arising from bank loans was as follows.

Bank	Utilisation of bank loans as at 31.01.2020		Bank loan cost	Maturity date
	In PLN thousand	Currency in thousands		
PKO BP SA	61,745	-	wibor 1 m+bank's margin	31.12.2022
PKO BP SA	11,864	-	wibor 1 m+bank's margin	04.08.2020
Pekao SA	52,822	-	wibor 1 m+bank's margin	31.12.2027
Pekao SA	104,630	-	wibor 1 m+bank's margin	30.09.2025
BGŻ BNP Paribas Bank Polska SA	344	-	wibor 1 m+bank's margin	31.01.2022
Citibank Russia	49,280	RUB 800,000	libor 1m+bank's margin	30.04.2020
Total	**280,685**			

Bank loans amounting to PLN 280,685 thousand included:

- long-term loans in the amount of PLN 171,234 thousand,
- short-term loans in the amount of PLN 109,451 thousand (including PLN 59,827 thousand as part of long-term investment loans to be repaid within 12 months after the balance sheet date).

Detailed information on bank loans as at 31 January 2021 is given below.

Bank	Type of loan / credit line	Loan amount and currency		Security
		in PLN thousand	in PLN thousand	
PKO BP SA	Multi-purpose and multi-currency credit line	200,000	PLN	blank promissory note, statement on submission to enforcement, current account and currency account deductions clause
PKO BP SA	Investment loan	166,000	PLN	ordinary and capped mortgage, assignment of receivables under insurance policy, blank promissory note, current account deductions clause
PKO BP SA	Revolving working capital credit facility	250,000	PLN	blank promissory note, contractual mortgage, assignment of receivables under insurance policy
Pekao SA	Multi-purpose and multi-currency credit line	330,000	PLN	statement on submission to enforcement,
Pekao SA	Investment loan	105,000	PLN	power of attorney for bank account transactions
Pekao SA	Investment loan	105,000	PLN	ordinary mortgage, assignment of receivables under insurance policy, power of attorney for bank account transactions in Pekao SA

Bank	Type of loan / credit line	Loan amount and currency		Security
		in PLN thousand	in PLN thousand	
Pekao SA	Investment loan	63,644	PLN	blank promissory note, power of attorney for bank account transactions in Pekao SA
BGŻ BNP Paribas Bank Polska SA	Multi-purpose and multi-currency credit line	460,000	PLN	contractual mortgage
HSBC Continental Europe SA	Revolving credit facility	125,000	PLN	blank promissory note with a promissory note declaration and statement on submission to enforcement
Citibank Bank Handlowy SA	Multi-purpose and multi-currency credit line	100,000	PLN	blank promissory note with a promissory note declaration, power of attorney held by the bank for liability payment purposes blank promissory note with a promissory note declaration, a guarantee from Bank Gospodarstwa Krajowego, submission to enforcement under Article 777 of the Code of Civil Procedure
Citibank Russia	Credit line	2,000,000	RUB	blank promissory note with a promissory note declaration and statement on submission to enforcement
BNP Paribas Ukraine	Credit line	400,000	UAH	guarantee of Citibank Polska
				guarantee of LPP SA

In the previous reporting period, the Group issued 300 000 unsecured ordinary 5-year bonds of the A series, of the nominal value of PLN 1,000 PLN per bond.

The redemption date was set for 12 December 2024. Bonds are charged with WIBOR 6M plus a margin of 1.1%.

As at 31 January 2021, the value of bonds was PLN 298,286 thousand. In the statement on financial position, this value was shown as “other financial liabilities”, in long-term liabilities, in the amount of PLN 294,104 thousand, and in “other financial liabilities” being part of “trade and other liabilities”, in the amount of interest charged, totalling PLN 4,182 thousand. These values are given in note 26.

24. EMPLOYEE BENEFITS

ACCOUNTING POLICY

According to remuneration schemes, the Group's employees have the right to retirement and pension benefits paid as one-off payments when an employee retires. The value of the said benefits depends on the duration of work and the employee's average remuneration. The Group creates a provision for future retirement-related liabilities in order to allocate costs to relevant periods.

The current value of such liabilities is calculated by an independent actuary. Accumulated liabilities equal discounted future payments, with due consideration of labour turnover, and relate to the period until the balance sheet date. Demographic and labour turnover information is based on historical data. This value is shown in the non-current part of the statement of financial position.

Remeasurement of liabilities arising from employee benefits provided for in specified benefit schemes, covering actuarial profit and loss, is recognised in other comprehensive income, without later reclassification to profit or loss.

Furthermore, the Group calculates liabilities arising from unused holiday leave and unpaid remuneration, comprising also bonuses for the current period to be disbursed in the next reporting period. These liabilities are shown in the short-term part of the financial statement in question.

24.1. RETIREMENT AND PENSION BENEFITS

The value of retirement and pension benefits following actuarial valuation is given in the table below.

Retirement and pension benefits (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Opening balance	1,463	1,012
Adjustment	0	0
Current employment costs	377	482
Benefits paid	-22	-31
Closing balance	**1,818**	**1,463**

Analysis of sensitivity to changes in actuarial assumptions

Change in the adopted discount rate by 0.5 p.p. (in PLN thousand)	increase	decrease
As at 31 January 2021		
Retirement benefit	1493	1761
Pension benefit	130	145
As at 31 January 2020		
Retirement benefit	-97	108
Pension benefit	-5	6

Change in the labour turnover rate by 0.5 p.p. (in PLN thousand)	increase	decrease
As at 31 January 2021		
Retirement benefit	1549	1697
Pension benefit	132	143
As at 31 January 2020		
Retirement benefit	-54	59
Pension benefit	-4	5

Change in the remuneration increase rate by 0.5 pp (in PLN thousand)	increase	decrease
As at 31 January 2021		
Retirement benefit	1759	1493
Pension benefit	145	130
As at 31 January 2020		
Retirement benefit	107	-97
Pension benefit	7	-5

24.2. OTHER EMPLOYEE BENEFITS

A listing of other employee benefits is given in the table below.

Employee benefits (in PLN thousand)	Unpaid remunerations	Unused holiday leave
As at 1 February 2020	49,520	30,963
– provision made	0	2,713
– provision utilised	28,886	0
– provision reversed	20,634	0
As at 31 January 2021	**0**	**33,676**
As at 1 January 2019	60,831	25,876
– provision made	49,520	5,087
– provision utilised	50,759	0
– provision reversed	10,072	0
As at 31 January 2020	**49,520**	**30,963**

25. PROVISIONS

ACCOUNTING POLICY

Provisions are created when the Group has a duty arising from past events and when it is probable that the exercise of the said duty will results in outflows of economic benefits, and when the amount of such liability may be reliably estimated. Costs relating to a given provision are shown in the Group's profit or loss, decreased with any and all returns.

The provision for other costs is calculated by the Group in the amount of costs incurred so far for services of this type.

Provisions and changes in the reporting period are listed in the table below.

Provisions (in PLN thousand)	Provision for early contract termination	Other provisions
As at 1 February 2020	0	9,097
– provision made	0	1,384
– provision utilised	0	0
– provision reversed	0	9,097
As at 31 January 2021	**0**	**1,384**
As at 1 January 2019	17,900	2,497
– provision made	0	9,097
– provision utilised	17,900	0
– provision reversed	0	2,497
As at 31 January 2020	**0**	**9,097**

In 2019, the Group utilised the provision made in the amount of PLN 17,900 thousand for early termination of lease agreements for unprofitable stores.

26. TRADE AND OTHER LIABILITIES

ACCOUNTING POLICY

Short-term trade liabilities are shown in the amount payable and recognised according to IFRS 9 as financial liabilities measured at amortised cost.

Other non-financial liabilities comprise, in particular, liabilities owed to the tax office as VAT and are shown in the amount payable.

Long-term liabilities (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Other financial liabilities (bonds)	294,104	291,675
Financial liabilities	**294,104**	**291,675**
Total long-term liabilities	**294,104**	**291,675**

Short-term liabilities (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Trade liabilities	2,640,043	1,839,271
Other financial liabilities	17,045	8,810
Financial liabilities	**2,657,088**	**1,848,081**
Liabilities payable due to tax and other benefits	75,403	143,691
Other non-financial liabilities	43,324	61,863
Non-financial liabilities	**118,727**	**205,554**
Total short-term liabilities	**2,775,815**	**2,053,635**

The increase in trade liabilities as compared with the preceding year stems, first of all, from business decisions to preserve the Group's financial liquidity. As part of effective financial operations, the Parent Company signed trade finance agreements. Under the said agreements, after presentation of an invoice for purchases made, the bank (factor) pays liabilities owed to the supplier in line with the agreed payment deadline. If the supplier decides on automatic payment, the bank (factor) pays liabilities owed to suppliers within 7 business days. If the supplier does not decide on automatic payment, the bank (factor) pays liabilities owed to suppliers within 7 days from the date of notification by the supplier of the intent to have a given liability bought out. The Group repays the liability owed to the bank (factor) in the initial period specified on invoices. The Group pays no costs of early payment of liabilities to suppliers by the factor. As assessed by the Group, the type of such liabilities remains unchanged and their terms and conditions do not differ substantially from the Group's other trade liabilities not subject to reversed factoring. Therefore, they remain classified as trade liabilities. As at 31 January 2021, LPP SA delivered to factors domestic and foreign invoices of the value of PLN 723,900 thousand and USD 227,020 thousand (2019: PLN 562,553 thousand and USD 146,891 thousand).

The Group has a limit for reversed factoring in PLN 760 mln, set forth by 31.05.2021, and USD 270 mln, set forth for an unlimited period of time. The Group's limit to be used as at 31 January 2021 was PLN 36 mln and USD 43 mln. Trade finance agreements are concluded for an unspecified period of time and, due to the increase of factoring limits in 2020, guaranteed with a security payment of PLN 100 mln, deposited on the factor's bank account, and a deposit set aside in the amount of PLN 412 mln, as described in note 18. Any release of, or decrease in, the value of the said deposit, as planned by the Group in 2021, will reduce the factoring limit and, therefore, bring forth the need to pay liabilities.

In the current period, the Group signed forward contracts with banks. As at 31 January 2021, LPP SA measured contracts not performed as at that date. The results are shown in "other financial liabilities", totalling PLN 12,863 thousand. In the comparative period, that value equalled 0.

27. PREPAYMENTS AND ACCRUALS

ACCOUNTING POLICY

In prepayments, in the assets column, the Group presents prepaid expenses relating to future reporting periods, including, first of all, rents.

In accruals, in the liabilities column of the statement of financial position, the Group presents payments received from lessors for resold outlays for store fit-out. The above involves lease agreements in respect of which neither right-of-use asset was recognised nor lease liability were recognised due to the type of payment or short-term duration.

Fit-out resale results from the conclusion of a lease agreement, being a form of reimbursement of costs incurred to adjust the brand store for sales purposes.

Prepayments - assets (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Long-term		
Retail space sourcing costs	0	0
Rent	652	1,034
Software supervision	31	336
Fixed assets maintenance	17	39
Other long-term prepayments	1,487	587
Total long-term prepayments	**2,187**	**1,996**
Short-term		
Rent	8,657	12,567
Insurance	6,315	5,297
Real property tax	4,684	4,515
Software supervision	1,325	1,509
License fees, subscription fees, Internet domains	6,910	5,127
Power consumption costs	1,609	888
Other short-term prepayments	2,749	6,989
Total short-term prepayments	**32,249**	**36,892**

Accruals – liabilities (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Long-term		
Consideration for outlays resold	96,337	126,466
Surcharges on lease agreements	2,734	0
Deferred rent	2,345	135
Other sale	2,568	64
Total long-term accruals	**103,984**	**126,665**
Short-term		
Sales based on gift cards and vouchers	0	0
Consideration for outlays resold	52,544	42,145
Surcharges on lease agreements	1,162	0
Deferred rent	400	1,645
Other sale	2,170	981
Total short-term accruals	**56,276**	**44,771**

28. CONTINGENT ASSETS AND LIABILITIES

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

As at 31 January 2021, the total value of bank guarantees issued upon request and at the responsibility of LPP SA amounted to PLN 271,691 thousand, of which:

- guarantees issued to secure agreements concluded by LPP SA amounted to PLN 89,511 thousand,
- guarantees issued to secure agreements concluded by consolidated associates amounted to PLN 174,532 thousand,
- guarantees issued to secure warehouse and office space lease agreements concluded by LPP SA amounted to PLN 7,648 thousand.

In 2020, the Parent Company received also guarantees as a collateral for payments from a contracting party. The value of guarantees received is PLN 8,616 thousand.

In the opinion of the Management Board, there is a minor probability that funds showed in contingents assets/liabilities have any impact whatsoever. The majority of these liabilities are related to guarantees securing payment of rent by the LPP SA Group companies.

28.1. LITIGATION

LPP SA is not a party to any proceedings before a court, a competent arbitration authority or a public administration body, involving liabilities or receivables of a single or total value exceeding 10% of the Company's equity.

28.2. TAX SETTLEMENTS

The Tax and Fiscal Office in Gdynia carried out customs and fiscal audits involving verification of declared taxable bases and correct calculation and payment of CIT, including expenses for the use of trademarks being contributed in kind to a subsidiary with its registered office in Cyprus (Gothals Ltd), for the years 2011, 2013 and 2016. On 3 March 2020, the Company received the results of customs and fiscal audits carried out by the Head of the Customs and Fiscal Office for the Pomorskie Voivodeship in Gdynia. Following the findings made, the Company adjusted tax returns for the above-mentioned years and, simultaneously, paid additional tax liabilities in the amount of PLN 30.09 mln plus interest for delay. The above activities ultimately close tax audits in LPP SA, covering the years given above.

On 1 July 2020, the Tax Ordinance was amended to incorporate provisions setting forth a possibility of concluding an cooperation agreement between taxpayers and the Head of NFA.

As planned, the cooperation agreement is to ensure the taxpayer's compliance with tax laws in transparent circumstances, involving mutual trust between the tax authority and the taxpayer. The entrepreneur being a party to the cooperation agreement will have the opportunity to discuss with the Head of the National Fiscal Administration important issues related to the tax settlements. Such arrangements may concern, among others: interpretation of tax laws and the content of tax rulings, transfer pricing rules, the amount of advance income tax and non-applicability of the general anti-avoidance rule. The cooperation agreement may provide the taxpayer with benefits such as reduction (by half) of the fees for an APA and for a security opinion, as well as reduction (or, in some cases, even the lack) of interest on tax arrears. The cooperation agreement may also protect an entrepreneur against additional tax liability and the tax audit. Moreover, the custom and fiscal audit of a taxpayer being a party to the cooperation agreement will be carried out by the Head of the National Fiscal Administration only.

The possibility of concluding the said agreement has been limited. It may only be concluded by the Head of the NFA upon application of the largest entities. For the first two years, this will be a pilot programme.

On 26 August 2020, LPP SA filed an application with the NFA, declaring its willingness to join the programme. Consequently, the NFA created a taxpayer profile for LPP. Following an initial analysis and assessment of LPP SA by the NFA, on 9 December 2020, the Company received a decision of the Head of the NFA to commence a fiscal audit. Its completion is planned for 31.12.2021.

29. INFORMATION ON SUBSIDIARIES

29.1. TRANSACTIONS WITH ASSOCIATES

In the reporting period ended 31 January 2021, LPP SA entered into transactions with BBK SA controlled by key staff members. These transactions involved, to a large extent, lease of retail space in "Wars&Sawa" commercial centre and, to a minor extent, the sale of trading commodities.

Associates (in PLN thousand)	Liabilities as at 31.01.2021	Receivables as at 31.01.2021	Revenue 01.02.2020 -31.01.2021	Purchases 01.02.2020 -31.01.2021
BBK SA	0	0	188	0
Total	**0**	**0**	**188**	**0**

Associates (in PLN thousand)	Liabilities as at 31.01.2020	Receivables as at 31.01.2020	Revenue 01.02.2019 -31.01.2020	Purchases 01.01.2019 -31.01.2020
BBK SA	0	0	359	0
Razem	**0**	**0**	**359**	**0**

29.2. REMUNERATIONS OF KEY MANAGEMENT OFFICERS OF THE PARENT COMPANY

The key management officers of LPP SA are members of the Management Board and the Supervisory Board.

The value of short-term benefits of members of the Management Board of the Parent Company, paid between 1 February 2020 and 31 January 2021, amounted to PLN 3,563 thousand (2019: PLN 5,153 thousand).

Remunerations shown separately for each key management officer were as follows.

First name and surname (in PLN thousand)	Position	As at 31.01.2021	As at 31.01.2020
Marek Piechocki	President of the Management Board	1,262	1,832
Przemysław Lutkiewicz	Vice-President of the Management Board	767	1,107
Jacek Kujawa	Vice-President of the Management Board	767	1,107
Sławomir Łoboda	Vice-President of the Management Board	767	1,107

The value of short-term benefits of members of the Supervisory Board of the Parent Company, paid between 1 February 2020 and 31 January 2021, amounted to PLN 83 thousand (2019: PLN 200 thousand).

Remunerations shown separately for each member of the Supervisory Board were as follows.

First name and surname (in PLN thousand)	Stanowisko	As at 31.01.2021	As at 31.01.2020
Jerzy Lubianiec	Chairman of the Supervisory Board	30	96
Wojciech Olejniczak	Vice-Chairman of the Supervisory Board	12	20
Piotr Piechocki	Member of the Supervisory Board	10	21
Magdalena Sekuła	Member of the Supervisory Board	11	21
Antoni Tymiński	Member of the Supervisory Board	10	21
Miłosz Wiśniewski	Member of the Supervisory Board	10	21

29.3. SHARE-BASED PAYMENTS TO KEY MANAGEMENT OFFICERS OF THE PARENT COMPANY

ACCOUNTING POLICY

The Company's Management Board receives share-based bonuses under relevant resolutions. The transaction cost is measured by reference to fair value as at the date of awarding such rights. The value of remuneration for work of management officers is specified indirectly by reference to the fair value of financial instruments vested. The fair value of options is measured as at the vesting date, taking into consideration also non-market vesting conditions such as the attainment of an expected financial result, when determining the fair value of share options.

The remuneration cost and, on the other side, an increase in equity is measured based on the best available estimates on the number of options to be vested in a given period. When determining the number of options to be vested, non-market vesting conditions are taken into account. The Company adjusts the said estimates if, based on later information, the number of options vested differs from earlier estimates. Adjustments of estimates, relating to the number of options vested, are shown in the profit or loss for the current period, without making adjustments to previous periods.

The value of share-based employee benefits payable, awarded to members of the Parent Company's Management Board for the year ended 31 January 2021 and accrued in the current period was PLN 1,094 thousand (2019: PLN 7,111 thousand). Those benefits were paid in 2020.

In the current year, no share-based employee benefit programme is planned.

The costs of the share-based incentive programme (in PLN thousand) are given in the table below.

First name and surname (in PLN thousand)	Position	As at 31.01.2021	As at 31.01.2020
Marek Piechocki	President of the Management Board	389	2 524
Przemysław Lutkiewicz	Vice-President of the Management Board	235	1 529
Jacek Kujawa	Vice-President of the Management Board	235	1 529
Sławomir Łoboda	Vice-President of the Management Board	235	1 529

30. FINANCIAL RISK MANAGEMENT

The Group is exposed to numerous risks associated with financial instruments.

Risks affecting the Group include:
- credit risk,
- liquidity risk and
- market risk including currency risk and interest rate risk.

In the Group's operations, main financial instruments are bank loans (note 23) and bonds issued (note 26). Their main objective is to provide financing for the operations of the entire Group. Moreover, the Group holds other financial instruments established in the course of its business operations. Those mainly include cash and deposits (note 21), foreign currency and investment funds (note 18), trade receivables (note 20), trade liabilities (note 26), lease liabilities (note 14) and the sale of foreign currency (note 17).

Furthermore, the Parent Company enters into transactions involving derivatives, namely forward contracts. This transaction is aimed at managing currency risk occurring in the course of business activity.

The Management Board of the Parent Company verifies and agrees the rules for managing each type of risk.

According to IFRS 7, LPP SA has analysed risks related to financial instruments, affecting the Group.

30.1. CREDIT RISK

Maksymalne ryzyko kredytowe odzwierciedla wartość bilansowa wszelkich należności oraz udzielonych gwarancji i poręczeń.

Wartości bilansowe aktywów finansowych wymienionych powyżej przedstawia poniższa tabela.

Items (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Loans	151	115
Trade receivables	158,055	143,783
Other receivables	14,583	7,905
Receivables from payment card operators	32,909	22,236
Participation units	440,919	96,877
Securities and deposits	512,097	0
Measurement of forward contracts	0	4,509
Foreign currency sold	37,000	87,291
Cash and cash equivalents	1,277,854	1,361,474
Total	**2,473,568**	**1,724,190**

The Group constantly monitors outstanding payments owed by clients and to creditors, analysing credit risk individually or as part of specific classes of assets. Furthermore, as part of credit risk management, the Group enters into transactions with contracting parties with confirmed creditworthiness.

The Group considers as default the contracting party's non-performance of a liability upon expiry of 90 days from its payment deadline. The Group takes into account future-related information in applied parameters of the model for estimating expected losses, by adjusting basic coefficients of insolvency probability.

The value of guarantees and sureties granted is given in note 28.

One of the key items is receivables, with their analysis given in tables below.

Credit risk concentration related to trade receivables as at 31 January 2021 is given in the table below.

Recipient	Share in total receivables
Other recipients with dues not exceeding 5% of total receivables	100.00%
Total gross trade receivables	**100.0%**

The classification of gross trade receivables by the number of days past due as at 31 January 2021 and comparative periods is given in the table below.

Gross trade receivables (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Not overdue	153,361	164,165
Overdue up to one year	37,353	14,020
Overdue for over one year	5,514	3,715
Total	**196,228**	**181,900**

The small increase in overdue trade receivables in the current reporting period results, first of all, from limited repayments due to the COVID-19 pandemic.

No hedging instruments for the above financial risks and no hedge accounting are applied by LPP SA and its subsidiaries.

The Group companies keep funds in renowned banks with the A rating. In the Group's opinion, credit risk involving funds, foreign currencies sold and participation units is immaterial.

30.2. LIQUIDITY RISK

The Group's objective is to maintain a balance between continuity and flexibility of funding by using funding sources such as overdrafts, investment loans, reversed factoring and bonds. The Parent Company has appointed a special team to monitor cash flows in terms of maturity dates for both investments and financial assets.

Compared to the previous year, credit exposure of the Group increased significantly due to new short-term working capital credit facilities taken out to secure the Group's day-to-day operations.

As at 31 January 2021, the Group held unconsumed borrowings of PLN 975,230 thousand (2019: PLN 980,959 thousand), in respect of which all terms and conditions had been met.

A detailed description of the financial position of the Group in terms of loans extended is given in note 23, and in terms of bonds issued – in note 26.

As at the balance sheet date, the Group's financial liabilities fell within the following maturity ranges.

Bank loans (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Up to one month	45,076	21,747
From one to three months	79,279	43,494
From three months to one year	399,174	44,879
Above one year	191,148	171,894
In total	**714,677**	**282,014**

Bonds (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Up to one month	0	0
From one to three months	0	0
From three months to one year	4,182	8,810
Above one year	293,484	290,941
In total	**297,666**	**299,751**

Lease liabilities (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Up to one month	2,577,206	1,825,139
From one to three months	62,837	14,027
From three months to one year	0	105
Above one year	2,640,043	1,839,271
In total	**3 288 897**	**3 416 574**

The liquidity risk involves also liabilities stemming from purchases of goods and services.

The classification of gross trade liabilities by the number of days past due as at 31 January 2021 and a comparative period is given in the table below.

Gross trade liabilities (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Not overdue	2,577,206	1,825,139
Overdue up to one year	62,837	14,027
Overdue for over one year	0	105
In total	**2,640,043**	**1,839,271**

The increase in trade liabilities not being over due at the end of the year stems from the increased volume of goods for the SS season. The Group has been preparing for the return of regular pre-pandemic sales volumes as it hopes that, after the third pandemic wave and following initiation of mass vaccinations against Covid-19, restrictions in trade and services will be lifted, stores will open and the spring will encourage customer to buy new clothes.

30.3. CURRENCY RISK

The Group is exposed to currency risk arising from transactions concluded. Such risk occurs when the Parent Company sells or purchases goods in currencies other than its functional currency. In the Group, the basic settlement currency in most transactions involving purchases of trade commodities is USD. Approx. 98% of transactions concluded by LPP SA are denominated in foreign currencies other than the reporting currency, while 43,3% of sales in the Parent Company is denominated in its reporting currency.

Apart from the currency risk involving the settlement currency used for purchasing trade commodities, there is also a risk associated with the fact of settling retail space rents in EUR.

As at 31 January 2021, the Group's financial assets and liabilities denominated in two main foreign currencies, converted into PLN applying a closing exchange rate as at the balance sheet date, which are of importance for the financial statements, are given in the table below.

As at 31.01.2021 (in PLN thousand)	Values denominated in		Convered value
	USD	EUR	
Cash	765,517	71,118	836,635
Trade receivables	18,039	10,576	28,615
Loans and borrowing	118,903	0	118,903
Trade liabilities	1,646,804	158,137	1,804,941
Lease liabilities	0	2,611,252	2,611,252

Since the main cost for the Parent Company is purchases of trade commodities, made mainly in USD, LPP SA started using for this currency hedging derivative instruments (forward contracts) and USD deposits to hedge the risk involved in exchange rate fluctuations. By taking such action, LPP SA is capable of adjusting, to a major extent, foreign exchange losses adversely affecting the Group's result. As at 31 January 2021, a positive mark-to-market of forward contracts amounted to PLN 12,863 thousand (2019: PLN 4,509 thousand – a positive mark-to-market value) and was shown as other financial assets (note 17.1).

Negative mark-to-market of forward contracts (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Velocity	12,863	0
Total	**12,863**	**0**

Positive mark-to-market of forward contracts (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Citi Bank Handlowy	0	153
Bank Pekao SA	0	283
Velocity	0	4,073
Total	**0**	**4,509**

The sensitivity of gross profit (loss) to rational and probable USD and EUR exchange rate fluctuations, with assumed steadiness of other factors, is shown in the table below.

Balance sheet items	Increase/decrease in the foreign exchange rate	Effect on profit/loss
31 January 2021 - USD	+ 5%	-39,781
	- 5%	39,781
31 January 2020 - USD	+ 5%	-20,638
	- 5%	20,638
31 January 2021 - EUR	+ 5%	-107,562
	- 5%	107,562
31 January 2020 - EUR	+ 5%	-1,960
	- 5%	1,960

When analysing the impact of the change in USD exchange rates in 2020, it is required to take into account forward instruments utilised by the Parent Company and USD deposits.

30.4. INTEREST RATE RISK

The interest rate risk is related to the continuous utilisation by LPP SA of debt financing based on a variable value of Wibor rates and, to a minor extent, to loans granted and bonds issued. Bank loans with a variable interest rate involve a cash flow risk. The Management Board of the Parent Company holds the view that a change in interest rates, if any, will have no major impact on the results earned by the Group.

The tables below present the analysis of the impact of interest rate changes on the comprehensive income statement. This analysis covers financial items of the Group's statement of financial position as at the balance sheet date.

Interest rate risk	+/- 75 basic points of the interest rate		
Balance sheet items (in PLN thousand)	Value	Effect on profit/loss	Effect on profit/loss
Financial assets			
Loans	151	1	-1
Cash	1,277,854	9,584	-9,584
Participation units	440,919	3,307	-3,307
Securities and deposits	512,097	3,841	-3,841
Effect on financial assets before taxation		*16,733*	*-16,733*
Tax (19%)		-3,179	3,179
Effect on financial assets after taxation		*13,554*	*-13,554*
Financial liabilities			
Bank loans and borrowing	711,693	-5,338	5,338
Bonds	298,286	-2,237	2,237
Effect on financial liabilities before taxation		*-7,575*	*7,575*
Tax (19%)		1,439	-1,439
Effect on financial liabilities after taxation		*-6,136*	*6,136*
Total		**7,418**	**-7,418**

As at 31 January 2021, the Group's net profit would have been higher by PLN 7,418 thousand if interest rates in PLN, EUR and USD had been higher by 75 basis points, assuming that all the remaining parameters remained unchanged. This result is due to a substantially higher balance of cash compared with bank loans and borrowings taken out.

31. FAIR VALUES OF ASSETS AND LIABILITIES

Fair value is defined as an amount for which, at arm's length basis, a given asset could be exchanged, and a liability discharged, between well-informed unrelated interested parties. As regards financial instruments for which there is an active market, their fair value is determined based on parameters deriving from the active market (sales and purchase prices). As regards financial instruments for which there is no active market, their fair value is determined on the basis of measurement techniques, where model input data is variables deriving from active markets (exchange rates, interest rates).

In the Group's opinion, the carrying value of financial assets and liabilities is close to their fair value due to a short maturity term.

32. FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Each contract establishing a financial asset for one party and, at the same time, a financial liability or capital instrument for the other party is a financial instrument.

A financial asset or liability is recognised in the statement of financial position if the Company becomes a party to that instrument. Standardised purchase and sale transactions involving financial assets and liabilities are recognised as at the transaction date.

A financial asset is derecognised from the statement of financial position when the rights to economic benefits and risks arising from the contract have been exercised or executed, have expired or the Group has waived them.

The Group derecognises a financial liability from the statement of financial position upon its expiry, that is when the obligation specified in the contract has been discharged, cancelled or expired.

Classification and measurement

According to IFRS 9, except for some trade receivables, a financial asset is initially measured at fair value which, in the case of financial assets not measured at fair value through profit or loss, is increased with transaction costs which may be directly allocated to the purchase of such assets.

After initial recognition, an asset is measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. An entity classifies an asset based on its business model applied for financial asset management and the features of cash flows resulting from an agreement for the financial asset ("SPPI criterion").

As at the purchase date, the Group measures financial assets and liabilities at fair value, i.e. most often, at fair value of a payment made (for assets) or a payment received (for liabilities).

As at the balance sheet date, the Group's financial assets and liabilities are measured, according to IFRS 9 , following the principles given below.

Classification of financial assets
- Measured at amortised cost,
- Measured at fair value through profit or loss,
- Measured at fair value through other comprehensive income.

Except for some trade receivables, a financial asset is initially measured at fair value which, in the case of financial assets not measured at fair value through profit or loss, is increased with transaction costs which may be directly allocated to the purchase of such assets.

For the purposes of measurement after initial recognition, financial assets are classified in one of the following four categories:
- Debt instruments measured at amortised cost,
- Debt instruments measured at fair value through other comprehensive income,
- Capital instruments measured at fair value through other comprehensive income,
- Financial assets measured at fair value through profit or loss.

The Group classifies the following as financial assets measured at amortised cost:
- Trade and other receivables,
- Loans granted,
- Cash and cash equivalents.

A financial asset is measured at amortised cost if the following two conditions are met:
- A financial asset is maintained in line with the business model aimed at maintaining financial assets to gain contractual cash flows, and
- Contractual terms relating to a financial asset generate, within specific time-frames, cash flows which are mainly repayment of a principal amount and interest on an outstanding principal amount.

Financial assets not meeting criteria to be measured at amortised cost or at fair value through comprehensive income are measured at fair value through profit or loss.

The Group classifies the following as capital assets measured at fair value through profit or loss:
- Participation units in money market funds,
- Forward contracts.

Impairment of financial instruments
As regards trade receivables, the Group applies a simplified approach and measures a write-off on expected credit losses in an amount equal to expected credit losses in entire lifetime using a provision matrix. The Group uses its historical data on credit losses, adjusted in relevant cases with the impact of future-related information.

As regards other financial assets, the Group measures a write-off on expected credit losses in an amount equal to 12-month expected credit losses. If the credit risk associated with a given financial instrument substantially increased from initial recognition, then the Group measures a write-off on expected credit losses related to such financial instrument in an amount equal to expected credit losses in entire lifetime.

Financial derivatives
Financial derivatives utilised by the Company to hedge the foreign exchange risk are, first of all, forward contracts. These financial derivatives are measured at fair value. Derivatives are recognised as assets when their value is positive and as liabilities when their value is negative.

Profit or loss on changes in the fair value of derivatives not meeting the principles of hedging accounting are recognised directly in net profit or loss for the financial year.

The fair value of forward contracts is measured by reference to current forward rates for contracts of similar maturity.

Financial liabilities
Financial liabilities other than hedging derivatives are recognised under the following items of the statement of financial position:
- bank loans and borrowings,
- other financial liabilities,
- trade and other liabilities

Following initial recognition, financial liabilities are measured at amortised cost based on an effective interest rate, except for financial liabilities designated for trading or indicated as measured at fair value through profit or loss (derivatives other than hedging instruments). Short-term trade liabilities are measured in the amount payable due to negligible discounting.

The value of financial assets presented in the consolidated statement of financial position relates to the following categories of financial instruments defined in IFRS 9:
- measured at amortised cost (aAC)
- measured at fair value through profit or loss (fair value)

	As at 31.01.2021	
Non-current assets (in PLN thousand)	aAC	Fair value
Other financial assets	13,512	0

Current assets (in PLN thousand)	As at 31.01.2021	
	aAC	Fair value
Trade receivables	158,055	0
Other financial assets	71,131	0
Participation units in funds	0	440,919
Securities and deposits	512,097	0
Cash and cash equivalents	1,277,854	0

Non-current assets (in PLN thousand)	As at 31.01.2020	
	aAC	Fair value
Other financial assets	7,915	0

Current assets (in PLN thousand)	As at 31.01.2020	
	aAC	Fair value
Trade receivables	143,783	0
Other financial assets	109,582	0
Participation units in funds	0	96,877
Measurement of forward contracts	0	4,509
Cash and cash equivalents	1,361,474	0

The value of financial liabilities presented in the statement of financial position refers to the categories of financial instruments specified in IFRS 9 as financial liabilities measured at amortised cost (LAC) and financial liabilities measured at fair value through profit or loss.

Long-term liabilities (in PLN thousand)	As at 31.01.2021		
	LAC	Fair value	Beyond IFRS 9
Lease liabilities	190,596	0	0
Other financial liabilities (bonds)	2,523,669	0	0
Inne zobowiązania finansowe (obligacje)	294,104	0	0

Short-term liabilities (in PLN thousand)	As at 31.01.2021		
	LAC	Fair value	Beyond IFRS 9
Trade liabilities	2,640,043	0	0
Lease liabilities	654,010	0	0
Bonds	4,182	0	0
Other liabilities	0	0	118,727
Bank loans and borrowings	521,097	0	0

Long-term liabilities (in PLN thousand)			As at 31.01.2020
	LAC	Fair value	Beyond IFRS 9
Bank loans and borrowings	171,234	0	0
Lease liabilities	2,567,953	0	0
Other financial liabilities (bonds)	291,675	0	0

Short-term liabilities (in PLN thousand)			As at 31.01.2020
	LAC	Fair value	Beyond IFRS 9
Trade liabilities	1,839,271	0	0
Lease liabilities	680,184	0	0
Bonds	8,810	0	0
Other liabilities	0	0	205,554
Bank loans and borrowings	109,451	0	0

33. OPERATING SEGMENTS

Financial results and other information on geographical segments for the period from 1 February 2020 to 31 January 2021 and for comparative periods are given in the tables below.

For 12 months ended 31 January 2021 (in PLN thousand)	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
External sales	5,859,588	1,988,491	0	0	7,848,079
Inter-segment sales	1,177,078	0	-1,177,078	0	0
Other operating income	110,974	15,722	0	228	126,924
Total revenue	**7,147,640**	**2,004,213**	**-1,177,078**	**228**	**7,975,003**
Total operating costs, including	6,268,197	1,812,018	-947,753	479,250	7,611,712
Costs of inter-segment sales	947,753	0	-947,753	0	0
Other operating costs	143,952	66,315	0	0	210,267
Segment result	**735,491**	**125,880**	**-229,325**	**-479,022**	**153,024**
Financial income					71,508
Financial costs					341,046
Profit before taxation					**-116,514**
Income tax					73,616
Net profit attributable to shareholders of the parent company					**-190,130**
Net profit attributable to non-controlling interests					**0**

For the year ended 31 January 2021 (in PLN thousand)	EU Member States	Other co-untries	Consolida-tion adjust-ments	Values not attributed to seg-ments	Total
Segment assets	8,398,963	1,908,492	-133,303	0	10,174,152
Non-allocated assets across the group	0	0	0	179,616	179,616
Consolidated total assets	**8,398,963**	**1,908,492**	**-133,303**	**179,616**	**10,353,768**
Segment liabilities	5,455,185	1,174,029	-55,538	0	6,573,676
Non-allocated liabilities across the group	0	0	0	711,715	711,715
Consolidated total liabilities	**5,455,185**	**1,174,029**	**-55,538**	**711,715**	**7,285,391**

Other disclosures	EU Member States	Other countries
Segment capital expenditures	496,900	315,588
Segment depreciation	815,265	257,780
Impairment losses	82,210	15,457
Reversal of impairment losses	0	0
Other non-cash expenses	61,742	50,858

For 12 months ended 31 January 2020 (in PLN thousand) (unaudited)	EU Member States	Other co-untries	Consolida-tion adjust-ments	Values not attributed to seg-ments	Total
External sales	6,948,632	2,273,024	0	0	9,221,656
Inter-segment sales	1,330,765	35,389	-1,366,154	0	0
Other operating income	12,767	7,421	0	0	20,188
Total revenue	**8,292,164**	**2,315,834**	**-1,366,154**	**0**	**9,241,844**
Total operating costs, including	7,646,334	1,392,064	-1,329,449	509,890	8,218,839
Costs of inter-segment sales	978,372	35,389	-1,013,761	0	0
Other operating costs	96,997	45,681	0	1,081	143,759
Segment result	**548,833**	**878,089**	**-36,705**	**-510,971**	**879,246**
Financial income					10,747
Financial costs					152,877
Profit before taxation					**737,116**
Income tax					251,111
Net profit attributable to shareholders of the parent company					**486,005**
Net profit attributable to non-controlling interests					**0**

For the year ended 31 January 2020 (in PLN thousand)	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
Segment assets	7,972,691	1,648,638	-150,377	0	9,470,952
Non-allocated assets across the group	0	0	0	134,910	134,910
Consolidated total assets	**7,972,691**	**1,648,638**	**-150,377**	**134,910**	**9,605,862**
Segment liabilities	5,282,226	856,534	-61,335	0	6,077,425
Non-allocated liabilities across the group	0	0	0	280,961	280,961
Consolidated total liabilities	**5,282,226**	**856,534**	**-61,335**	**280,961**	**6,358,386**

Other disclosures	EU Member States	Other countries
Segment capital expenditures	697,815	247,114
Segment depreciation	812,096	205,621
Impairment losses	47,749	4,736
Reversal of impairment losses	10,840	513
Other non-cash expenses	62,926	38,620

For 13 months ended 31 January 2020 (in PLN thousand)	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
External sales	7,473,336	2,425,907	0	0	9,899,243
Inter-segment sales	1,429,947	10,227	-1,440,174	0	0
Other operating income	15,428	6,090	0	0	21,518
Total revenue	**8,918,711**	**2,442,224**	**-1,440,174**	**0**	**9,920,761**
Total operating costs, including	7,618,193	2,221,928	-1,410,458	536,967	8,966,630
Costs of inter-segment sales	1,057,455	10,227	-1,067,682	0	0
Other operating costs	99,735	48,724	0	0	148,459
Segment result	**1,200,783**	**171,572**	**-29,716**	**-536,967**	**805,672**
Financial income					10,914
Financial costs					151,396
Profit before taxation					**665,190**
Income tax					244,151
Net profit attributable to shareholders of the parent company					**421,039**
Net profit attributable to non-controlling interests					**0**

For the year ended 31 January 2020 (in PLN thousand)	EU Member States	Other countries	Consolidation adjustments	Values not attributed to segments	Total
Segment assets	7,972,691	1,648,638	-150,377	0	9,470,952
Non-allocated assets across the group	0	0	0	134,910	134,910
Consolidated total assets	**7,972,691**	**1,648,638**	**-150,377**	**134,910**	**9,605,862**
Segment liabilities	5,282,226	856,534	-61,335	0	6,077,425
Non-allocated liabilities across the group	0	0	0	280,961	280,961
Consolidated total liabilities	**5,282,226**	**856,534**	**-61,335**	**280,961**	**6,358,386**

Other disclosures	EU Member States	Other countries
Segment capital expenditures	723,632	280,162
Segment depreciation	868,430	225,354
Impairment losses	82,402	22,324
Reversal of impairment losses	11,689	6,056
Other non-cash expenses	62,890	45,126

34. CAPITAL MANAGEMENT

The Group manages capital with the aim of ensuring the Group's capacity to continue its operations and the expected rate of return for shareholders and other entities interested in the financial position of the Group.

The Group analyses the indices assessing its financial position, presented and described in detail in the Management Board's report on the Group's operations.

35. EMPLOYMENT STRUCTURE

In the year ended 31 January 2021, average employment (own work posts) in the entire Capital Group was 18,898 people (2017: 17,121 people).

36. INFORMATION ON THE FEE OF THE STATUTORY AUDITOR OR THE AUDIT COMPANY

On 5 August 2019, LPP SA signed the agreement on the audit of the annual financial statements of the Company and the LPP SA Group for the years 2019-2022 and on the review of mid-year financial statements of the Company and the LPP SA Group in the said period. The entity authorised to audit and review the financial statements of the Company and the LPP SA Group was chosen by the Supervisory Board of LPP SA acting under Article 35 of its Articles of Association.

The entity chosen was Ernst & Young Audyt Polska Sp. z o.o. spółka komandytowa with its registered office in Warsaw, entered on the list of Polish Board of Statutory Auditors under no 130.

The fee of the entity authorised to audit the consolidated and separate financial statements, paid or due for the year ended 31 January 2021 and a comparative period, broken down by types of services, is given in the table below.

Gross trade liabilities (in PLN thousand)	As at 31.01.2021	As at 31.01.2020
Obligatory audit of annual financial statements	240	350
Review of mid-year financial statements	145	125
Other services	0	0
Total	**385**	**475**

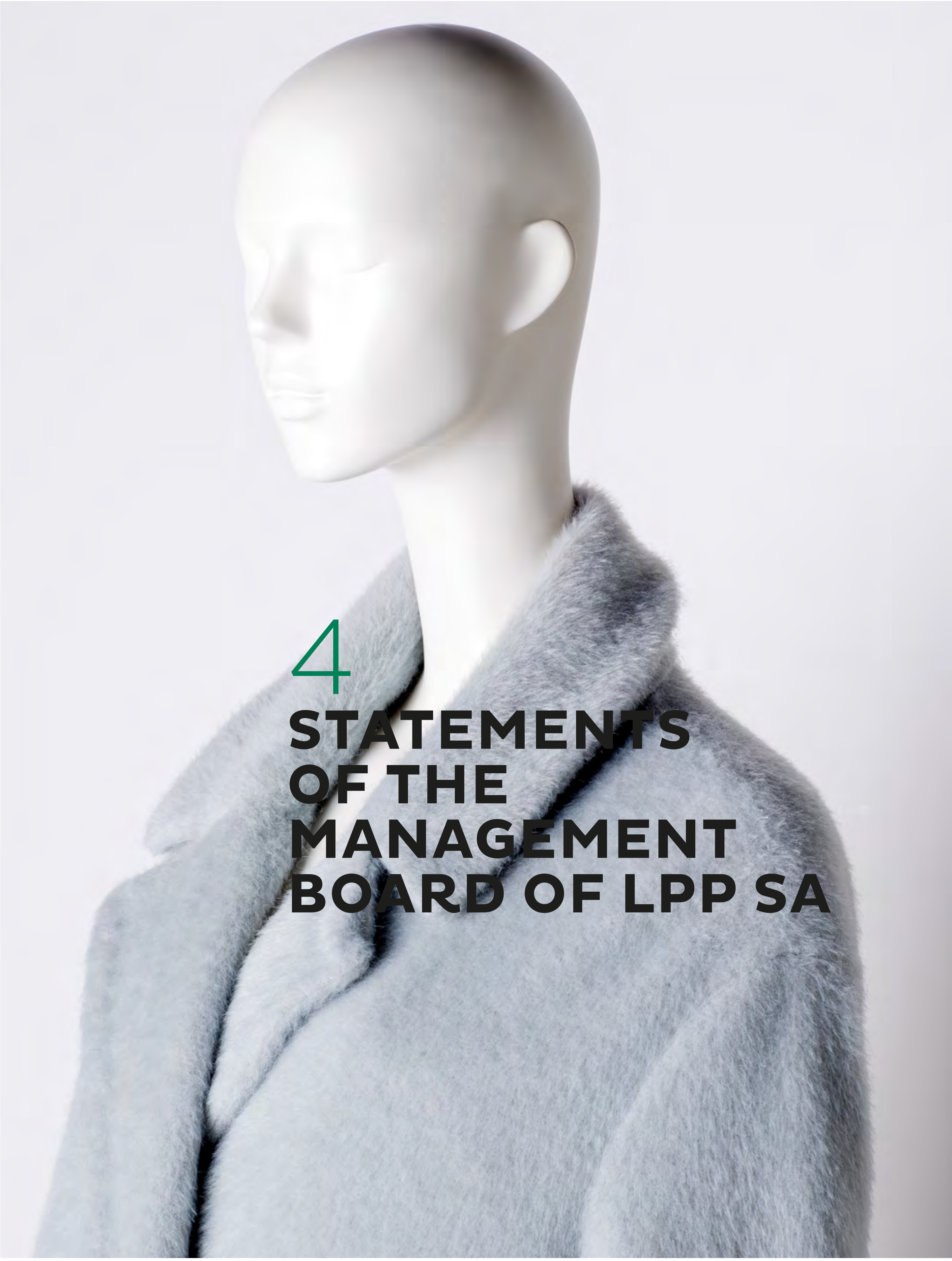
37. EVENTS AFTER THE BALANCE SHEET DATE

For May to October, we operated quite normally. Almost all stores of the LPP Group were open in that period (apart from the one in London and Kazakhstan), with financial results for Q3 being positive. However, due to the second wave of Covid-19 in October/November and the third pandemic wave in January, lasting by the time pf publication of this annual report i.e. April 2021) and causing reimplementation of lock-downs and yet another store closure, LPP's position and the situation in the entire business sector deteriorated once again. As calculated by the Group, in the financial year 2020/21, lock-downs lasted 256/365 days (at least in one country). In Poland, stores were locked down for 86 days. Consequently, the Group's goal was to survive and act diligently to maintain financial liquidity, low costs and growing online sales.

In September and October 2020, when planning replenishment for 2021, the Group presumed that there would be no more lock-downs and that economic environment would start coming back to normal. Yet, when preparing this report in April 2021, there are still lock-downs in 12 countries and over 60% of all LPP stores are closed. It means that the above-mentioned presumption was too optimistic and that Covid-19 will further affect the Group's operations in 2021. Nonetheless, LPP attempts to restore standard business activity by reinstating its plans to develop new stores and construct warehouse, with due consideration of financial liquidity and having in mind increasing its profitability and regaining profit.

The pandemic has caused numerous community-related changes and affected consumer behaviour and preferences. The Group has to adjust to new trends and circumstances in which the fashion industry is undergoing structural changes and the importance of online trade in on the grow. Yet, one can hardly anticipate how customers of traditional stores will behave (how often they will visit those located on-site). The fashion business will also be affected by macroeconomic factors including growing unemployment which may change the buying power of the Group customers making more selective choices while shopping. The above is taken by the Group into consideration when setting forth its pricing policy and developing primarily the low-cost product groups.

Currently, LPP SA is in the process of merging with its subsidiary Gothals Ltd with its registered office in Cyprus. Consequently, all assets and liabilities of Gothals Ltd will be transferred to LPP SA. Following the merger, LPP SA will become the owner or Reserved, Cropp, House, Mohito and Sinsay trademarks. The merger is to be effected in May 2021 at the latest.



4 STATEMENTS OF THE MANAGEMENT BOARD OF LPP SA

STATEMENT ON RELIABILITY OF THE FINANCIAL STATEMENTS

In line with the requirements set forth in the Regulation by the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities [...] (Regulation), the Management Board of LPP SA declares that, to the best of the Board's knowledge, the annual consolidated financial statements for the financial year 2020/21 and comparative data have been prepared in accordance with accounting principles currently in effect and present a true and fair view of the assets and the financial standing of the LPP SA Group as well as the financial result in the periods presented, and that the report of the Management Board on the operations of the LPP SA Group, together with the statement on corporate governance for 2020/21 (with due consideration of disclosure requirements for the Report on the Operations of the Parent Company for the said period), present a true and fair view of the development, achievements and the standing of the LPP SA Group and LPP SA, including a description of basic risks and threats.

MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the Management Board

Przemysław Lutkiewicz
Vice-President of the Management Board

Jacek Kujawa
Vice-President of the Management Board

Sławomir Łoboda
Vice-President of the Management Board

STATEMENT ON THE ENTITY AUTHORISED TO AUDIT FINANCIAL STATEMENTS

In line with the requirements set forth in the Regulation by the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities […] (Regulation), the Management Board of LPP SA informs that, based on the statement of the Supervisory Board of LPP SA, the entity authorised to audit financial statements, which has audited the annual consolidated financial statements of the LPP Group and the separate financial statements of LPP SA, has been chosen in accordance with the provisions of law, including those governing the selection of, and the procedure for selecting, an audit company.

The audit company Ernst&Young Audyt Polska Sp. Z o.o. sp.k and members of the auditing team met the conditions for preparing an impartial and independent report on the audit of the annual consolidated financial statements in accordance with binding laws as well as professional and ethical standards.

Furthermore, the Management Board of LPP SA informs that, based on the statement made by the Supervisory Board of LPP SA, binding laws governing the rotation of audit companies and a key statutory auditor as well as mandatory waiting periods have been complied with.

LPP SA has implemented a policy for choosing an audit company and a policy for the provision by an audit company or its affiliate or network member of additional non-audit services, including those conditionally permitted to be rendered by an audit company.

MANAGEMENT BOARD OF LPP SA:

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

STATEMENT ON NON-FINANCIAL INFORMATION

The Management Board of LPP SA declares that, together with this report being published, it publishes an integrated report for 2020/21, titled “Responsible decisions in the new reality”, providing comprehensive information on the Issuer. The integrated report meets the requirements of the Accounting Act and, being a separate document, constitutes a statement on non-financial information.

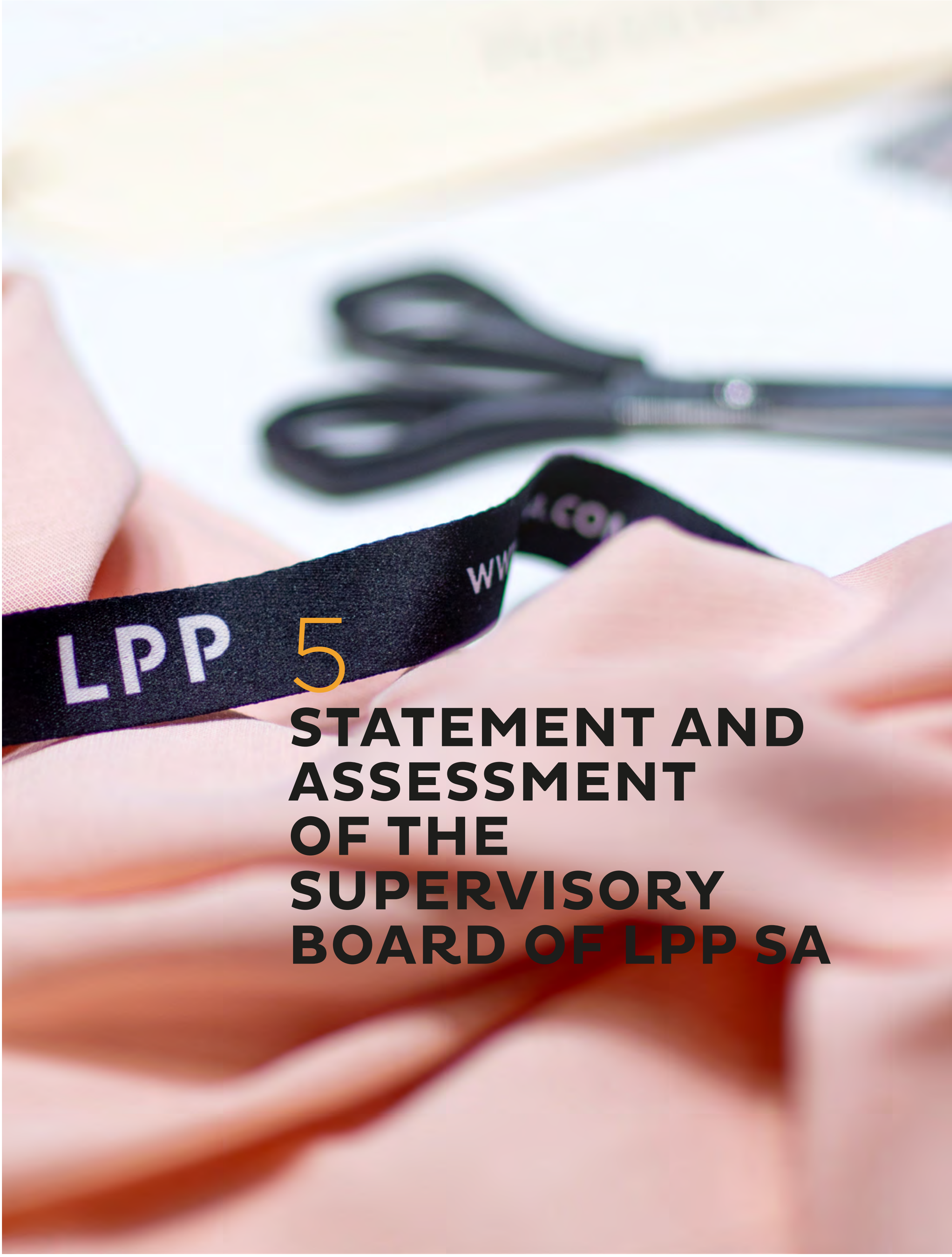
MANAGEMENT BOARD OF LPP SA:

Marek Piechocki
President of the Management Board

Przemysław Lutkiewicz
Vice-President of the Management Board

Jacek Kujawa
Vice-President of the Management Board

Sławomir Łoboda
Vice-President of the Management Board



5 STATEMENT AND ASSESSMENT OF THE SUPERVISORY BOARD OF LPP SA

STATEMENT OF THE SUPERVISORY BOARD OF LPP SA ON THE FULFILMENT BY THE AUDIT COMMITTEE OF STATUTORY REQUIREMENTS

Following the duty stemming from § 70(1)(8) and § 71(1)(8) of Regulation of the Minister of Finance, dated 29 March 2018, on current and interim information provided by issuers of securities and the terms and conditions for recognition of information required under the laws of an EU non-member state as equivalent (Journal of Laws of 2018, item 757), the Supervisory Board of LPP SA hereby declares:

- compliance with the provisions on the appointment, composition and operation of the Audit Committee of the Supervisory Board of LPP SA, including those governing fulfilment by its members of independence criteria and requirements to have knowledge and skills related to the industry sector in which LPP SA operates as well as provisions on accounting or auditing financial statements,
- that the Audit Committee of the Supervisory Board of LPP SA performed the tasks of an audit committee as provided for in binding provisions of laws, in particular those provided for in Article 130(1) of the Act dated 11 May 2017 on Statutory Auditors, Audit Companies and Public Supervision (Journal of laws of 2017, item 1089, as amended).

SUPERVISORY BOARD OF LPP SA:

Miłosz Wiśniewski
Chairman of the Supervisory Board

Wojciech Olejniczak
Member of Chairman of the Supervisory Board

Piotr Piechocki
Member of the Supervisory Board

Magdalena Sekuła
Member of the Supervisory Board

Antoni Tymiński
Member of the Supervisory Board

ASSESSMENT BY THE SUPERVISORY BOARD OF LPP SA

The Supervisory Board, having reviewed:

- the financial statements of LPP SA and the LPP SA Group for the financial year from 1 February 2020 to 31 January 2021,
- LPP SA Management Board's report on the operations of the Company's Group in the financial year from 1 February 2020 to 31 January 2021 (incorporating the report on the Company's operations in the said period),
- information provided by the team carrying out financial audit activities being the subject matter of the opinion and the report of the statutory auditor on the audit of the Company's financial statements for the financial year from 1 February 2020 to 31 January 2021;
- information provided by the team carrying out financial audit activities being the subject matter of the opinion and the report of the statutory auditor on the audit of the financial statements of the Company's Group for the financial year from 1 February 2020 to 31 January 2021;
- the opinion of the Audit Committee;

acknowledges that, in the opinion of the Supervisory Board:

- the Management Board's report on the operations of the Company's Group in the financial year from 1 February 2020 to 31 January 2021, incorporating the Management Board's report on the Company's operations in the said period;
- the financial statements of both LPP SA and its Group for the financial year from 1 February 2020 to 31 January 2021,

are complete and accurate and contain data which exhaustively presents the standing of the Company and the LPP SA Group.

Furthermore, the Supervisory Board indicates that the Management Board's report on the operations of the LPP SA Group for 2020/2021 incorporates also the Management Board's report on the operations of the Company (as parent company). The joint presentation of the two reports is permissible under Article 55(2a) of the Accounting Act of 29 September 1994 (consolidated text: Journal of Laws of 2021, item 217, as amended) and § 71(8) of the Regulation of the Minister of Finance of 29 March 2018 on current and interim information submitted by issuers of securities and on the terms and conditions for recognition as equivalent of information required under the laws of a non-member state (Journal of Laws of 2018, item 757).

The Supervisory Board recommends that the Annual General Meeting of Shareholders should adopt the resolution approving the Management Board's report on the operations of the Company's Group and the Company's operations in the financial year from 1 February 2020 to 31 January 2021.

The Supervisory Board takes such view based on the analysis of documents referred to above and the results of works of the Board's Audit Committee and the Supervisory Board itself. These activities have led to the conclusion that the Management Board's report on the operations of the Company's Group as well as separate and consolidated financial statements for the financial year from 1 February 2020 to 31 January 2021 are complete, accurate and contain data which exhaustively presents the standing of the Company and the LPP SA Group.

SUPERVISORY BOARD OF LPP SA:

Miłosz Wiśniewski
Chairman of the Supervisory Board

Wojciech Olejniczak
Member of Chairman of the Supervisory Board

Piotr Piechocki
Member of the Supervisory Board

Magdalena Sekuła
Member of the Supervisory Board

Antoni Tymiński
Member of the Supervisory Board

PLEASE CONTACT US ON THIS REPORT:

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