

# LPP

## Corporate Governance Statement for 2017

### Application of corporate governance principles

The Management Board of the Issuer declares that, in 2017, the Company applied corporate governance principles attached as Enclosure to Resolution No 26/1413/2015 of the Supervisory 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](https://www.gpw.pl/lad_korporacyjny_na_gpw).

The Management Board of LPP SA declares that the Company and its governing bodies applied in 2017 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 through a plenipotentiary).

The Company does not apply the said recommendation.

The above-mentioned recommendation is not applied by the Company as its implementation would involve a technical risk. 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 than the meeting room. Therefore, the Company may not 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 expectations of shareholders in respect of conducting the General Meeting of Shareholders using electronic communication means.

- Recommendation VI.R.1 – the remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy.

The Company does not apply the said recommendation.

The Company has not implemented any remuneration policy. However, LPP does not exclude future application of the said rule.

■ Recommendation VI.R.2 – the remuneration policy should be closely tied to the company’s strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

The Company does not apply the said recommendation.

The Company has not implemented any remuneration policy. However, LPP SA does not exclude future application of the said rule.

■ 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 resolutions is 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 is 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 Company will not publish a report on its remuneration policy due to the fact that no such policy has been implemented. However, LPP SA does not exclude future application of the said principle.

### **Description of internal control and risk management systems in relation to the process of preparing financial statements and consolidated financial statements**

LPP SA 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, significant risks.

Elements of the internal control system within LPP SA include:

- control activities taken at all levels and in all units of the Company, based on procedures (permits, authorizations, verifications, reconciliation, review of operational activities, distribution of duties) ensuring compliance with guidelines of the Company's Management Board and, at the same time, enabling to identify and take actions necessary to minimise errors and risks for the Company,
- Workflow Guide - proper records and documentation circulation control system (to ensure compliance of account records with accounting evidence),
- suitably qualified controlling personnel,
- division of duties excluding a possibility that one employee performs an action 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 amortisation of intangible and tangible fixed assets,
- IT system - the Company's accounting books are kept based on the computerised Integrated Enterprise Management System AWEK at the Company's headquarters, which provides credibility, reliability and accuracy of processed information. Access to AWEK information resources is limited to authorised personnel, for performance of their duties only.
- accounting policy, taking into account 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, elements of employee documentation, commissioning of equipment purchases, payment orders, etc.).

The audit of the financial statements, carried out by an independent statutory auditor, is an essential element of internal control in the process of preparing the Company's financial statements, both separate and consolidated.

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

Three departments are responsible for preparing the financial statements, i.e. accounting, finance and investor relations departments headed, respectively, by the Chief Accountant, the Chief Financial Officer and the Investor Relations Manager. Before submitting the 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 for completeness and correctness of all economic events.

In LPP SA, the strategy and business plan performance is 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 business units or even individual stores are analysed each month.

Internal control and closely related risk management in relation to financial reporting processes are matters of daily interest for the Company's governing bodies. LPP SA analyses business risk factors related to company operations. An important role in this respect is also played by the management staff, being responsible for controlling the activities of their departments, including identification and assessment of risks associated with the process of preparing the financial statements in an accurate, reliable manner and in compliance with the law.

## Shares and shareholders

### Shareholding structure

The LPP SA shareholding structure as at 31 December 2017.

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
Marek Piechocki	175 497	9.5%	875 493	27,1%	350 994
Jerzy Lubianiec	174 999	9.4%	874 995	27,1%	349 998
Forum TFI SA*	195 050	10.5%	195 058	6,0%	390 100
Treasury shares**	18 978	1.0%	0	0,0%	37 956
Other shareholders	1 287 899	69.5%	1 287 899	39,8%	2 575 789
<b>Total</b>	<b>1 852 423</b>	<b>100.0%</b>	<b>3 233 445</b>	<b>100,0%</b>	<b>3 704 846</b>

\*Forum TFI SA manages the funds of Forum 64 Closed-End Investment Fund (entity affiliated with Mr Jerzy Lubianiec, shareholder of LPP SA) and Forum 65 Closed-End Investment Fund (entity affiliated with Mr Marek Piechocki, shareholder of LPP SA).

\*\* LPP SA may not exercise voting rights at the GM, attached to 18 978 shares, as these are treasury shares of LPP SA.

## Shares held by key management and supervisory officers

As at 31 December 2017, key management and supervisory officers held the following shareholdings in the Company:

Shareholder	Number of shares held	Number of votes at the GM
Marek Piechocki – President of the Management Board	175 497	875 493
Jacek Kujawa – Vice-President of the Management Board	153	153
Przemysław Lutkiewicz - Vice-President of the Management Board	10	10
Sławomir Łoboda - Vice-President of the Management Board	102	102
Jerzy Lubianiec – Chairman of the Supervisory Board	174 999	874 995
Piotr Piechocki – Member of the Supervisory Board	14	14
Antoni Tymiński – Member of the Supervisory Board	11	11

Key management and supervisory officers hold no shares in any associates.

## Information on agreements which may give grounds for future changes in proportions of shareholdings held by current shareholders

In the reporting period, an incentive plan was implemented for key management officers of the Parent Company for the years 2017-2018.

As part of the said plan, if the terms and conditions provided for in the Rules for the incentive plan are met, the Company will offer its participants (management officers) the acquisition of the shares in LPP SA (from treasury shares) at a price equal to their nominal value, with the reservation that the total number of shares offered may not exceed 600.

The Company has implemented no employee share control system.

Subject to the above-mentioned information, the Company has no knowledge on any agreements which could give grounds for any future changes in proportions of shareholdings held by current shareholders and bondholders.

## Treasury shares

In 2017, the LPP SA CG purchased no treasury shares.

## Share quotations

The 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 4 September 2014: PLN 10 100.00.

In 2017, the prices of LPP SA shares were between PLN 5 090.00 and PLN 9 062.96 (at closing prices). The share quotation during the last session (at closing prices) in 2016 was PLN 5 673.60, and a year later the price amounted to PLN 8 910,00.

Net earnings per ordinary share were PLN 241.36 at the end of 2017, and a year before - PLN 96.19.

As at 29 December 2017, shares in LPP SA were constituents of the following stock exchange indices:

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. The share of LPP SA in WIG-Poland was 3.5%.
2. 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, with its share amounting to 5.3%.
3. WIG30 – index comprising 30 largest and most liquid companies listed on the main market of the WSE. The share of LPP SA in WIG30 was 4.9%.
4. WIG-Clothes – a sub-sector index including WIG constituents which simultaneously belong to the “clothes and cosmetics” sector. The share of LPP in WIG-Clothes was 53.9%.
5. MSCI Poland Index – an index including over 20 key companies listed at the WSE. LPP SA has been a constituent of the said index since 2014.

### **Share-related limitations and shareholders with special control rights**

The shareholders with shareholdings conferring the right to more than 15% at the General Meeting exercise their voting rights up to 15% of votes regardless of the number of votes arising from the shares held. Two shareholders, who have been managing the company for many years, Mr. Jerzy Lubianiec and Mr. Marek Piechocki, hold each directly 174 999 shares of the B series and indirectly 1 share of the B series, preferred in terms of voting rights, with a single share giving right to 5 votes at the General Meeting of Shareholders. In addition, shares of the said shareholders are not covered by the statutory limitation described above, limiting voting rights only up to 15% of votes at the General Meeting of Shareholders regardless of the number of shares held. The above-mentioned provisions of the Articles of Association give the dominant position to the two shareholders indicated above.

Subject to the information given above, there are no other securities giving any special control rights. Limitations on transferring the ownership title to securities apply to registered shares.

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 the 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.

### **Governing bodies**

#### **LPP Management Board**

Composition of the Management Board as  
at 31 December 2017

- 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 2017, there were no changes in the composition of the Management Board.

## **Rules for appointing and dismissing key management officers and the scope of competence of the Management Board**

The Management Board consists of two to six members, including the President, and from one to five Vice-Presidents. The number of members is determined by the Supervisory Board.

Members of the Management Board are appointed for a term of five years and dismissed by the Supervisory Board.

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),
- Management Board By-Laws (available on the Company's website),
- 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 decisions on the issue or buy-out of shares.

## **Agreements with key management officers, providing for a compensation**

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 and supervisory officers are given in point 30.3 of the financial statements of LPP SA.

## **LPP Supervisory Board**

Composition of the Supervisory Board as at  
31 December 2017

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

During the financial year, changes were made in the composition of the Supervisory Board, consisting in the dismissal of all previous members, i.e. Jerzy Lubianiec, Maciej Matusiak, Wojciech Olejniczak, Krzysztof Olszewski and Dariusz Pachla, and the appointment to the Board of the following persons: Jerzy Lubianiec, Wojciech Olejniczak, Piotr Piechocki, Magdalena Sekuła, Antoni Tymiański and Miłosz Wiśniewski (CR 45/2017).

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),
- By-Laws of the Supervisory Board (available on the Company's website),
- Commercial Companies Code.

### **Supervisory Board Committees**

In the financial year 2017, within the Supervisory Board, the Audit Committee was established, being composed of:

Antoni Tymiański – Chairman of the Audit Committee  
Jerzy Lubianiec – Vice-Chairman of the Audit Committee  
Magdalena Sekuła – Member of the Audit Committee  
Piotr Piechocki – Member of the Audit Committee  
Miłosz Wiśniewski – Member of the Audit Committee

The Audit Committee composed of the above-mentioned persons meets the independence criteria and other requirements 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).

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 internal 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 the 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 services other than the audit of financial statements, provided by an audit company or a statutory auditor and permissible according to the Policy, referred to in point 9 below;
- developing a policy for selecting 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 internal control systems;

- discussing with the Company's statutory auditors the features and scope of the annual report and periodical reviews of financial statements;
- reviewing the Company's periodical 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 to be audited,
  - key adjustments resulting from the audit,
  - compliance with applicable accounting and reporting laws;
  - informing the Company's Supervisory Board of audit results and explaining how the audit has contributed to the reliability of the Company's financial reporting and the Committee's role in the audit procedure;
  - 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 internal audit duties;
  - monitoring the compliance system applicable in the Company.
  - if there is no separate internal audit position in the Company, the Audit Committee (or the Supervisory Board if it performs the duties of the Audit Committee) evaluates every year whether there is a need for separating such position.

## **Operation of the General Meeting, its powers, description of shareholders' rights and the way of their exercise**

### **Convening the General Meeting of Shareholders**

- 1) The General Meeting of Shareholders may be convened as ordinary or extraordinary meeting.
- 2) The General Meeting of Shareholders is held in Gdańsk, Warsaw, Sopot or Pruszcz Gdański, at the place designated by the Management Board.
- 3) The Ordinary General Meeting is held within six months after the end of a financial year.
- 4) 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.
- 5) 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, in the manner provided for providing current information and in accordance with the provisions on public offering and the terms and conditions for introducing financial instruments to an organised trading system, and on public limited companies.

### **Scope of competence of the General Meeting**

- 1) Examining and approving financial statements and reports of the Management Board on the operations of LPP SA for the previous year.
- 2) Taking all decisions relating to claims for redressing damage suffered during the establishment of LPP SA or its management or supervision.
- 3) Adopting a resolution on the distribution of profits or covering losses.

- 4) Discharging members of the LPP SA governing bodies from the performance of their duties.
- 5) Adopting a resolution on the issue of bonds, including convertible bonds.
- 6) Amending the Articles of Association.
- 7) Adopting resolutions on the merger, transformation, dissolution and liquidation of LPP SA.
- 8) Adopting resolutions on the sale and lease of the enterprise and establishing beneficial ownership.
- 9) Examining and deciding on motions submitted by the Supervisory Board.
- 10) 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 of Shareholders**

- 1) 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.
- 2) The person opening the General Meeting takes action aimed at immediate election for Chairperson of the General Meeting, who directs the works of the GM and ensures efficient and proper conduct of the session.
- 3) The General Meeting adopts resolutions on items put on the agenda only.
- 4) Draft resolutions proposed for adoption by the General Meeting and other relevant issues are presented to the shareholders together with reasons and the opinion of the Supervisory Board.
- 5) The course of the General Meeting is recorded by a notary public.

### **Voting**

- 1) 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.
- 2) 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.
- 3) Each share gives right to one vote at the General Meeting. In the case of a series B preferred share, one share gives right to five votes at the GM.
- 4) The Chairperson announces voting results, which are then recorded in the session minutes.

### **Description of rules for amending the Issuer's Articles of Association**

Any amendment to the Company's Articles of Association requires a resolution of the General Meeting.

### **Description of a diversity policy applied to the Issuer's administrative, management and supervisory bodies in terms of aspects including age, gender or education and professional**

**experience, goals of such diversity policy, the manner of policy execution and its effects in a given reporting period; if the Issuer does not apply any such policy, reasons for such a decision shall be given in the statement**

The Management Board of LPP SA Group is aware of the importance and the need to ensure diversity in terms of gender, education, age and experience among all employees of the company due to the conviction of the important impact of this approach on the efficiency of the entire business and the company's position among customers, its employees as well as other stakeholders.

In managing a rich and diverse portfolio of clothing brands and also because of the nature of its business, the LPP Group naturally strengthens its company culture and work environment based on respect and appreciation of individual differences of individual team members. In this way, the personal potential of each employee contributes to the development of the company as a whole and its individual clothing brands.

Any actions taken by the company in the area of employment guarantee equal opportunities in access to development opportunities and career advancement. The overriding principle of the company is to be guided by objective substantive criteria and professionalism when selecting employees for various job functions within the organisation. At the same time, the company's governing bodies strive at preventing any discriminatory behaviour.

Our commitment to the diversity policy is manifested in the development and implementation of the company's mission and values, in which building a competitive advantage is based on fostering the development of individual talents of employees and treating them with due dignity and respect, regardless of skin colour, religion, sex, age, nationality, sexual orientation, citizenship, marital status, political opinion or disability.