



LPP S.A.

REPORT

on the Implementation of the Tax Strategy
for the Fiscal Year Ended 31 January 2021

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List of Abbreviations

<u>TAX CODE</u>	Act of 29 August 1997 "Tax Code" (Journal of Laws 2021.1540, as amended).
<u>CIT ACT</u>	Act of 15 February 1992 on Corporate Income Tax (Journal of Laws 2020.1406, as amended)
<u>ACCOUNTANCY ACT</u>	The Act of 29 September, 1994 on accounting (Journal of Laws 2021.217, as amended)
<u>CIT</u>	Corporate Income Tax
<u>PCC</u>	Tax on Civil Law Transactions
<u>PIT</u>	Personal Income Tax
<u>VAT</u>	Value Added Tax
<u>STRATEGY, TAX STRATEGY</u>	This document
<u>COMPANY OR LPP</u>	LPP spółka akcyjna
<u>HEAD OF THE NTA</u>	Head of the National Tax Administration

Introduction

LPP is a Polish, family-owned company dealing with the designing, manufacturing and distribution of clothing. The Company has nearly 30 years of experience in the clothing industry. Its retail network covers the whole Poland, countries of Central, Eastern and Western Europe, the Balkans, and the Middle East.

The Company offers its customers visiting its brick-and-mortar stores clothes, accessories and footwear under five brands: Reserved, Cropp, House, Mohito and Sinsay. Each of the brands has a different target audience and a different character.

The LPP Group comprises 6 Polish companies (including the parent company) and 25 foreign ones. The Group's foreign subsidiaries are mainly companies dealing with the distribution of branded products outside Poland.

The Group operates a centralised liquidity management model, i.e., The Company purchases goods, distributes them to its subsidiaries and the subsidiaries pay the Company for the goods in the local currencies. The Company has decision-making powers concerning the collection of receivables, exchange of currencies and undertaking financial obligations.

All intra-group transactions are made on an arm's length basis based on the updated transfer pricing policy developed in consultation with external tax advisors. The Company also uses advisory services with regard to all transfer pricing obligations.

This report on the implementation of the tax strategy only covers the period from 1 February 2020 to 31 January 2021 and includes transactions, documentations, procedures, plans as well as other elements and knowledge relevant to the situation at the time.

The report has been prepared in order to address the requirements of the tax law (Article 27 of the CIT Act).

Information about tax processes and procedures used in the management of the fulfilment of the tax law obligations and ensuring the proper fulfilment of the obligations, forms of voluntary cooperation with the tax authorities, applications made by the taxpayer for tax information

1. TAX PROCESSES AND PROCEDURES USED

Seeking to ensure compliance of its activities with the tax law, and to ensure the proper management of the fulfilment of the obligations provided for in the tax law, the Company has implemented and maintains tax procedures and processes tailored to the size and structure of the Company, i.e.:

1. A **tax strategy** including a tax policy of the Company, tax risk management principles, its attitude to tax planning and relations with the tax authorities;
2. **tax procedures and processes in effect in the Company**, documented or not documented, clarifying the rules stipulated in this Strategy with regard to selected specific tax obligations of the Company and the areas of its operations, as well as including various activities related to the tax reporting and remittance processes. The procedures and processes comprise:
 - a. the proper accounting for business events giving or not giving rise to tax obligations and tax liabilities;
 - b. the proper recognition of the events posted in the books of accounts in the tax accounting;
 - c. the proper fulfilment of formal obligations, including the punctual filing of necessary tax returns, declarations and reports, notices and other necessary submissions;
 - d. the proper application of the tax rates;
 - e. the proper qualification of the parties to economic events to the extent this affects tax obligations and tax liabilities;
 - f. the proper qualification of the object of economic events to the extent this affects tax obligations and tax liabilities;
 - g. the proper qualification of the circumstances of economic events to the extent this affects tax obligations and tax liabilities;
 - h. the proper collection and preparation of documentation directly required by the tax law;
 - i. the proper collection and preparation of documentation indirectly required by the tax law, but affecting the application of due care for the proper fulfilment of the tax obligations;
 - j. obligations concerning the MDR (a so-called MDR Procedure).

The Company has adopted and implemented an internal procedure to prevent the failure to observe the obligation to disclose information about tax schemes (MDR Procedure) taking into account tax pronouncements concerning the application of rules related to the obligation to report tax schemes to the Head of the National Tax Administration, published on 31 January 2019.

The MDR procedure specifies in particular:

- actions or activities to implement and apply measures to prevent the failure to observe the obligation to disclose information about tax schemes;
- measures used in order to properly fulfil the tax scheme disclosure obligation;
- rules of retention of documents and information;
- rules of the fulfilment of obligations including the reporting of tax schemes to the Head of the National Tax Administration;
- rules of educating the Company's staff on the laws and regulations concerning the reporting of tax schemes and the MDR Procedure;
- rules of reporting by the staff of actual or potential breaches of the law or regulations concerning the reporting of tax schemes and the MDR Procedure;
- rules of internal control or audit in regard to the observance of the law or regulations concerning the reporting of tax schemes and the rules of conduct laid down in the MDR Procedure.

Information about tax schemes and their application is to be reported to the Head of the National Tax Administration within appropriate time frames.

- k. other necessary rules of behaviour which are undocumented but reflected in the corporate culture of the Company, whose continuity and consistency affects the proper fulfilment of tax obligation.

The Company deems these processes and actions as necessary to address tax risks inherent in the operations of the Company, including but not limited to:

- the risk of changes in the tax and customs law concerning the purchase of clothing from outside the EU;
- risks related to the growing number of administrative duties, whether concerning the fulfilment of new obligations or the necessity to update or purchase new information technology solutions;
- the risk of rapid legislative developments requiring adjustments in the systems (e.g. a new VAT Uniform Control File - JPK VAT) or legislative developments with a short *vacatio legis*,
- the risk of divergent advance tax rulings by the tax authorities;
- risks involved in the conducting of business across several tax jurisdictions.

In the rapidly changing legal and business environment, the management of those risks requires a number of actions and significant expenditure on the part of the Company. The Company established a Tax Division in its organization, which sees to the proper and punctual fulfilment of tax obligations, in close cooperation with the Management Board, IT Division and external tax advisors.

2. COLLABORATION AGREEMENT WITH THE HEAD OF THE NATIONAL TAX ADMINISTRATION

At the end of the reported period, the Company was not a party to any collaboration agreement with the Head of the NTA but it was conducting a processes aimed at entering into such an agreement.

On 26 August 2020, LPP SA submitted an application to the Head of the NTA in which the Company stated its intent to join the so-called horizontal monitoring programme, which resulted in the preparation by the NTA of a so-called taxpayer

profile for LPP. After a preliminary analysis and evaluation of the Company by the NTA, on 9 December 2020, the Company received a notice from the Head of the NTA about the commencement of an audit. The audit is scheduled to end on 31/01/2022.

Selected principal obligations of the Company under tax law, including the MDR

1. INFORMATION ABOUT THE FULFILMENT BY THE TAXPAYER OF ITS TAX OBLIGATIONS IN THE TERRITORY OF THE REPUBLIC OF POLAND IN 2020

	Type of tax		Does Company pay tax
Direct taxes	CIT	Taxpayer	YES
		Remitter	YES
	PIT	Taxpayer	NO
		Remitter	YES
Indirect taxes	VAT		YES
	Excise		NO
	CUSTOMS DUTY		YES
	PCC		YES (sporadically)
Local taxes	Property tax		YES
	Vehicle tax		YES
	Forest tax		NO
	Agricultural tax		NO

2. MDR

Information about tax schemes reported to the Head of the NTA during fiscal year covered by the report on the implementation of the Tax Strategy in which the Company was involved as a promoter, user or facilitator, broken down by tax types

Spółka nie przekazywała Szefowi KAS informacji o schematach podatkowych w roku podatkowym objętym informacją z realizacji Strategii podatkowej, w które zaangażowana była Spółka jako promotor, korzystający lub wspomagający w roku podatkowym, którego dotyczy niniejsza informacja z realizacji Strategia podatkowej.

Information about related party transactions the amount of which exceeded 5% of the total assets and restructuring measures contemplated or undertaken by the Company, which might affect the amount of the tax liabilities of the Company or its related parties in the fiscal year covered by this report on the implementation of the Tax Strategy

1. COMPANY'S TRANSACTIONS WITH RELATED PARTIES

The total assets of the Company as at 31/01/2021 amounted to PLN 8,300,600 thousand.

The table below presents transactions with entities in which the Company has direct shareholdings.

Related parties (PLN'000)	Payables as at 31/01/2021	Receivables as at 31/01/2021	Loans granted as at 31/01/2021	Income during period 01/02/2020 - 31/01/2021	Purchases during period 01/02/2020 - 31/01/2021
Domestic subsidiaries	29,349	1,987	0	7,491	237,154
Foreign subsidiaries	339,597	135,926	133,305	2,447,835	258,440
Total	368,946	137,913	133,305	2,455,326	495,594

All the transactions made by the Company with related parties were on an arm's length basis.

The Company's income from its domestic subsidiaries is mainly due to the accounting and payroll services provided by the Company and to a marginal extent from the lease of office space to those entities. On the other hand, the Company's income from its foreign subsidiaries results from the sale of goods and services.

2. INFORMATION ABOUT RESTRUCTURING MEASURES CONTEMPLATED OR UNDERTAKEN BY THE COMPANY, WHICH MIGHT AFFECT THE AMOUNT OF THE TAX LIABILITIES OF THE COMPANY OR ITS RELATED PARTIES

During the period covered by this report, the Company contemplated a cross-border merger by acquisition, whereby the Company, as the acquiring company, was to merge with Gothals Limited, a company established and existing on the basis of the Cyprus law, based in Nicosia - a direct wholly-owned subsidiary of the Company. The transaction was the subject of an advance tax ruling of 30 April 2020.

Also, during the fiscal year covered by this report on the implementation of the Tax Strategy, the Company established LPP Logistics sp. z o.o., a company based in Gdańsk, on 24 February 2020 (registration in the National Court Registry on 11

March 2020), the objects of which comprise warehousing of goods and general logistics. On 26 November 2020, LPP Logistics sp. z o.o. received a decision concerning aid in connection with the building of a new logistics centre in Brześć Kujawski.

Information about applications filed by the taxpayer for general advance tax rulings, individual advance tax rulings, binding rate information and binding excise information

1. GENERAL ADVANCE TAX RULINGS

The Company did not apply for any general advance tax ruling during the fiscal year covered by this report on the implementation of the Tax Strategy.

2. INDIVIDUAL ADVANCE TAX RULINGS

The Company did not apply for any individual advance tax rulings during the fiscal year covered by this report on the implementation of the Tax Strategy.

3. BINDING RATE INFORMATION

The Company did not apply for any binding rate information during the fiscal year covered by this report on the implementation of the Tax Strategy.

4. BINDING EXCISE INFORMATION

The Company did not apply for any binding excise information during the fiscal year covered by this report on the implementation of the Tax Strategy.

Information concerning the settlement of taxes in territories or jurisdictions applying harmful tax competition

A list of countries applying harmful tax competition as per the Regulation of the Minister of Finance of 28 March 2019 on the identification of territories or jurisdictions applying harmful tax competition in regard to personal income tax (Journal of Laws 2019.599) and the Regulation of the Minister of Finance of 28 March 2019 on the identification of territories or jurisdictions applying harmful tax competition in regard to corporate income tax (Journal of Laws 2019.600).

Harmful tax competition is used in the tax systems of the following countries and territories:

1. Principality of Andorra
2. Anguilla - Overseas Territory of the United Kingdom of Great Britain and Northern Ireland;
3. Antigua and Barbuda;
4. Sint-Maarten, Curaçao - countries belonging to the Kingdom of the Netherlands;
5. Kingdom of Bahrain
6. British Virgin Islands - Overseas Territory of the United Kingdom of Great Britain and Northern Ireland
7. Cook Islands - Self-Governing Territory Associated with New Zealand
8. Commonwealth of Dominica
9. Grenada;
10. Sark - British Crown Dependency;
11. Hong Kong - Special Administrative Region of the People's Republic of China;
12. Republic of Liberia
13. Macau - Special Administrative Region of the People's Republic of China;
14. Republic of the Maldives;
15. Republic of the Marshall Islands;
16. Republic of Mauritius;
17. Principality of Monaco;
18. Republic of Nauru;
19. Niue - Self-governing Territory Associated with New Zealand;
20. Republic of Panama;
21. Independent State of Samoa;
22. Republic of the Seychelle;
23. Saint Lucia;
24. Kingdom of Tonga;
25. Virgin Islands of the United States - an Unincorporate Territory of the United States;
26. Republic of Vanuatu.

A list of non-cooperative countries and territories for tax purposes as per the Notice by the Minister of Finance, Funds and Regional Policy of 12 October 2020 in respect of the publication of a list of countries and territories identified in the EU list of non-cooperative jurisdictions for tax purposes adopted by the Council of the European Union, which are not included in the list of countries and territories applying harmful tax competition published on the basis of personal income tax and corporate income tax legislation and the date of adoption of the list by the Council of the European Union (M.P. 2020.925).

Non-cooperative countries for tax purposes:

1. Barbados;
2. Republic of the Fiji Islands;
3. Guam;
4. Republic of Palau;
5. Republic of Trinidad and Tobago;
6. American Samoa.

During the fiscal year covered by this report, the Company did not make any tax settlements with contractors operating in the territories or countries applying harmful tax competition, as listed above.

Corporate Social Responsibility Activities

The Company was ranked 48th in the CIT payers list for 2020 by the Ministry of Finance¹. Apart from being in the top tier of companies in Poland, the Company is the leader among the companies operating in the Polish coastal area. LPP is the biggest private company with the registered office in Gdańsk, paying its taxes in Poland.

From 2016 to January 2021, the Company paid a total of PLN 4.3bn in various taxes, which is the revenue of the State and local self-governments.

	2016	2017	2018	01.2019/ 01.2020	02.2020/ 01.2021
VAT	488,056	529,929	613,318	604,754	457,190
CIT	5,692	41,703	149,611	107,893	40,458
Customs duty	143,259	157,869	131,232	239,961	115,953
PIT	14,256	18,994	20,275	24,459	19,656
Social Security Contributions, in aggregate	45,209	60,373	70,570	88,925	64,267
PFRON	345	590	696	945	880
Property tax	3,225	3,607	3,791	4,578	4,919
Vehicle tax	3	3	3	4	2
Total [PLN'000]	700,045	813,068	989,496	1,071,519	703,325

The total amount of taxes which LPP paid to the State grew year to year until 2019, but decreased in 2020 due to the outbreak of the pandemic and a significant drop in revenue. In 2020, the total amount of taxes exceeded PLN 700m (amounting precisely to PLN 703,326,000 - data prior to the filing of the tax return).

The previous years saw an increase in payments concerning specific liabilities or types of taxes. In 2017, LPP paid PLN 41.7m of CIT while in 2019, it was over PLN 108m. The customs duties paid to the State in 2017 approximated PLN 158m, whereas two years later the amount was nearly PLN 240m. The increase results from the fact that the Company is expanding into more and more foreign markets, where it sells its products. Over the years, LPP paid more and more property tax: in 2017, it amounted to nearly PLN 3.6 while in 2019 - over PLN 4.5m.

LPP pursues a transparent tax policy. We conscientiously pay our liabilities to the State and every year we publish an official report providing accurate information about taxes remitted to the State, resulting from our operations in the domestic and international markets.

¹Data available on the website of the Ministry of Finance at <https://www.gov.pl/web/finanse/2020-indywidualne-dane-podatnikow-CIT>