

**The brief assessment of the Company CCC S.A. for the financial year 2014  
including the assessment of the internal control and risk management  
system essential for the Company  
/ Approved by the Supervisory Board of CCC S.A. on 20<sup>th</sup> May 2015 /**

According to Chapter III, paragraph 1, section 1) "Best Practices of WSE Listed Companies", the Supervisory Board of CCC S.A. submits a brief assessment of the Company including an evaluation of risk management and internal control system of the Company. This assessment was prepared on the basis of the documents submitted by the Management Board, discussions made at meetings of the Supervisory Board with the participation of the Management Board, independent auditors and taking into account the financial statements and the reports on Company's operations and on the basis of the conclusions of the study of the books of the Company by the independent auditor.

**1. Implementation of the Company's strategy**

The Company CCC S.A. decisively and dynamically continued its strategy of the international expansion announced in August 2012. The company in 2014 focused on increasing retail space in Poland, the Czech Republic, Slovenia, Hungary, Romania, Slovenia, and Croatia. In contrast, with the utmost attention, it focused on investments in Germany and Austria, which are the markets with great growth potential. In 2014, the increase in retail space was 61400 m<sup>2</sup>. The Company's strategy consistently focuses on maximizing sales network and opening new stores, both domestically and abroad, carefully selected in terms of expected profitability and rate of return.

In 2014, the CCC Group increased the pace of expansion, strengthening its position of a clear leader in Poland and winning more foreign markets. At the balance sheet date, the Group comprises of companies in the Czech Republic, Slovakia, Hungary, Germany, Austria, Slovenia, Croatia, Turkey and Bulgaria, whose primary business is the distribution of goods. At the end of the year the ownership of stores amounted to 729 units of a total retail space 305 320 m<sup>2</sup>, which included: 405 CCC company stores in Poland, including 39 agencies, 79 CCC stores in the Czech Republic, 30 CCC stores in the Slovak Republic, 57 stores in Hungary, 17 stores in Austria, 6 stores in Slovenia, 8 stores in Croatia, 3 stores in Turkey, 27 stores in Germany, 8 Lasocki stores, 8 Boti owned stores. As for the franchise stores: 5 CCC franchise stores in Russia, 6 CCC stores in Latvia, 31 CCC stores in Romania, 6 CCC stores in Kazakhstan and Ukraine and 7 Boti franchise stores. At the end of 2014, the owned area of retail sales network amounted to 284.3 thousand m<sup>2</sup> (+26.8% yoy), including in Poland – 173,0 thousand m<sup>2</sup>. The retail space in franchise stores in 2014 amounted to 21,0 thousand m<sup>2</sup> (6.4% yoy), including in Poland – 0,9 thousand m<sup>2</sup>.

The Company's strategy is also reflected in the product offer and its competitiveness, which consequently increases the potential of sales chain. Price and quality of goods is an essential element of competitiveness, but also the systematic widening of the product range and the introduction of a new range of goods to shops, through the introduction of: new brand of leather shoes manufactured by CCC, a wide range of children's shoes, sports shoes of world famous brands and an expanded range of accessories accompanying the sale of shoes.

The company regularly conducts marketing activities supporting CCC brand by both classical advertising campaigns in the media, sports sponsorship as well as harmonization of internal and external arrangement of advertisements in stores. As a part of strengthening the market position is also maintaining a standardized customer service and promoting customer loyalty program (CCC Club) and effectively using this manner in activities supporting the sales.

The chosen strategy aims at increasing the scale of operations while maintaining high efficiency and operational efficiency and thereby increasing the value of the Company.

The presented development plans were well received by the capital market. The Supervisory Board also shares the ambitious plans of the Company and the business model approved by the Management Board, in addition that the Company has the potential and the right resources for their implementation, for further development and creating growth of the Company's value.

## **2. Basic results of the Company**

In the reporting period the Group CCC S.A. sold more than 24 718 000 pairs of shoes with a value of 2,009,914 billion PLN. The Company's sales structure is dominated by sales of women shoes, representing 61.5 % of sales value of footwear in 2014.

In 2014, sales revenues amounted to 2,009,914 billion PLN (+22.3 % yoy). Retail sales revenue amounted to 1,930,127 billion PLN against 1,565,855 billion PLN in 2013 (+23.3 % yoy). During the same period, sales revenue of a franchise and other (wholesale) amounted to 78 932 000 PLN (+2.1% yoy).

Balance of the Group CCC S.A. as of 31.12.2014 at the assets and liabilities amounted to 1,797,232 million PLN. The total balance sheet increased by 674,505 million PLN in relation to the value as of 31.12.2013. Significant change in current assets related to the restructuring process of the Group it is the increase in deferred tax asset up to the amount of 267,322 million PLN.

On the liabilities side the significant changes is the debt increase of the Group CCC S.A. by 250,198 million PLN (including: 210,000 million PLN of bond issue in June 2014.)

The Supervisory Board concludes that the general situation of the company in 2014 was very good. According to the assessment of the Supervisory Board, the chosen strategy for years 2013-2015, rational cost policy, financial security in the form of concluded loan agreements enable the Company to the proper functioning and implementation of investment objectives.

### **3. Assessment of the market risk management system in the Company in 2014.**

The Supervisory Board took note of the significant risks and hazards, along with the exposure of the Company to them as well as of the risk management system in CCC, specifically described in point 3 of the report of the activities of CCC S.A. for the year 2014.

The main identified types of risks may be connected with internal conditions, strengthening its own sales chain, the increase of recognition and brand value as well as external conditions. The other types of risks are as follows:

- the level of currency exchange rates,
- change of interest rates,
- credit risk,
- general economic situation,
- seasonal sales and weather conditions,
- locations of retail units,
- trends in fashion and misguided collections.

The Management Board is responsible for the risk management at the strategic level. The material supervision over the financial reporting process is in the hands of the Vice President for Finance of the Management Board. The organization of the financial reporting process corresponds to the Chief Accountant of the Company, who simultaneously supervises the proper recording of the business transactions in the accounts of the Company. The way of documents flow allows minimizing the potential risks associated with the recording of the normal business operations. The effectiveness of the risk management system is provided on the basis of the division of responsibilities related to the economic decision-making and their registration and the established scope of financial reporting used by the Company, including the internal budgeting system.

Managing the risk management procedures is to identify and assess risk areas for all areas of activity of the Company and define the actions necessary to reduce these risks. The Company's aim in risk management is to protect the Company's ability to continue its operations, so that it can realize the return for shareholders and benefits for other interested parties as well as maintaining an optimal capital structure to reduce its cost. The Company monitors the capital using a debt ratio. The change of the ratio is consistent with the expectations of the Company.

The Supervisory Board exercising, in the full composition, the duties of the Audit Committee exercises the permanent supervision over the Company's activities also in the assessment of internal control system and risk management and makes decisions that affect increasing the likelihood of running the company's business in an effective and efficient way in order to achieve strategic objectives. The Supervisory Board states that the Company currently conducts the analysis on currency exchange markets, actively manages financial liquidity defined as the ability to pay the obligations on time and raise funds to finance current operations and investment needs, which meets the necessary functional needs.

#### **4. Evaluation of internal control system.**

The Company has a multi-level system of internal control, which is designed to prevent effectively and eliminate quickly possible arising irregularities. The internal control system covers all areas and organizational units of the Company. At the same time, the obligation of self-control staff and functional control has been maintained in full, that is exercised by all levels of leadership in the coordination and oversight-coordination responsibilities, which meets the necessary functional needs. In the process of preparing financial statements of the Company one of the basic elements of control is the verification of the financial statements by an independent auditor. The tasks of the independent auditor include in particular: to review an interim financial statement and the preliminary and major examinations of annual reports. To ensure the reliability of the accounts of the Company and the generation of the data for presentations, the Management Board adopted and approved to be used the Accounting Policy in accordance with International Financial Reporting Standards.

According to the Supervisory Board's evaluation, the system of internal control and risk management, financial reporting process functioning in CCC as well as financial auditing activities are compliant with legal requirements and meet the necessary functional needs.

Polkowice, on 20.05.2015