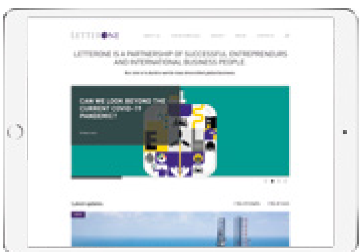
Navigating a paradigm shift

Realising potential

LetterOne
Annual Review 2020

LETTERONE

Our purpose is to invest in sectors that have a strong bias to satisfy society's needs, including health, food, retail, energy, and technology.



www.letterone.com

LetterOne

Different world, same purpose

The pandemic shifted the paradigm. But by staying true to our purpose, we've kept on course. By asking the questions that matter, we've been inspired to find solutions that make a difference. It's why we've shown strong performance so far, and why we'll keep navigating towards success.

We realise potential →

At a glance

We aim to build a portfolio of successful companies that are leaders in their fields. L1 currently invests through majority or minority equity holdings in public and private companies or through structured equity. Our portfolio and capital allocation reflects a balance of sector and company exposure with diversification across cycles, geographies, currencies, and commodities.

A sustainable approach
We look for companies that will be the new stars in this changing landscape and aim to build the companies of the future. To do this:

- We invest for long-term growth
- We make large-scale investments in sectors we know well
- We engage personally with management teams
- We target persistent value creation
- We are committed to best governance practice

Financial highlights
At 31 December 2020

$22.3bn
Net assets
(2019: $23.4bn)

$1.8bn
Capital deployed
(2019: $2.9bn)

$0.4bn
Cash realisations
(2019: $0.6bn)

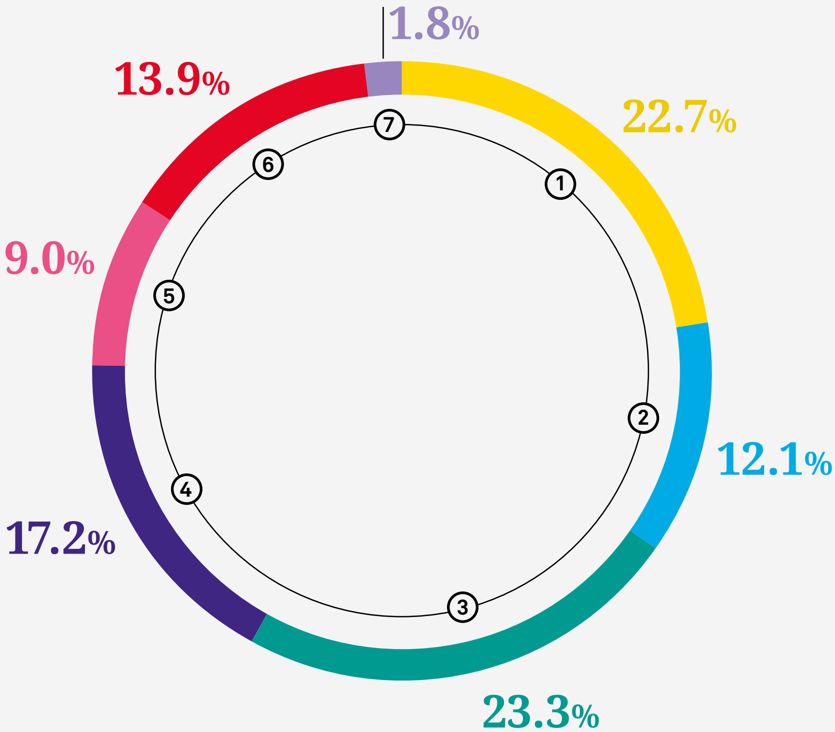
-4.7%
Decrease in net assets value

$4.3bn
Liquidity
(2019: $5.2bn)

$0.1bn
Dividends paid
(2019: $0.2bn)

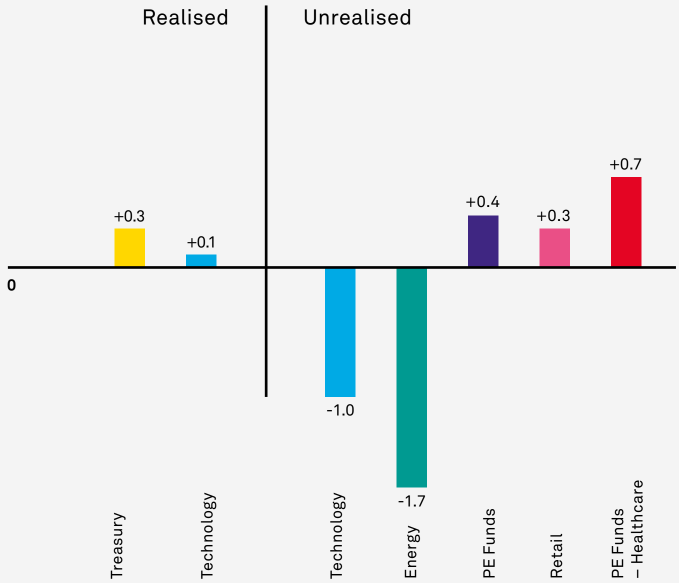
Net assets under management
As at 31 December 2020

1. L1 Treasury and other assets $5.1bn
2. L1 Technology $2.7bn
3. L1 Energy $5.2bn
4. PE Funds $3.8bn
5. L1 Retail $2.0bn
6. PE Funds – Healthcare $3.1bn
7. L1 Health $0.4bn



Return by business unit
For the year ended 31 December 2020

Gain/Loss ($bn)



Chairman's review

"I ended this year with a much stronger faith in human ingenuity than I started with."

Lord Davies of Abersoch
Non-Executive Chairman

Chairman's review

Q&A

Lord Davies of Abersoch
Non-Executive Chairman

Q: It's been a turbulent year. What do you think the economic impact of COVID-19 will be?

A: It is too early to tell, particularly if you combine the impact of COVID-19 and Brexit, but I ended this year with a much stronger faith in human ingenuity than I started with.

If you look back, we've seen some amazing developments in terms of the pace of innovation, the remarkable vaccine development, and the resilience of people who have adapted to a new way of living and working.

I'm reassured about the capacity and adaptability of humans, but I also see an uncertain economic and social environment.

Q: How has L1 come out of the year? What's surprised you?

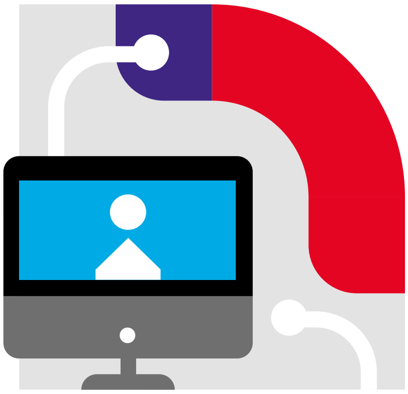
A: I think L1 has come out of this stronger. L1, like every other company, has been tested by the events of the past year. Was our investment philosophy fit for purpose? Were our systems able to accommodate remote working?

Yes, L1 responded well to these challenges. Holland & Barrett and DIA Group, an international distributor of food and household items operating in Spain, Portugal, Brazil and Argentina, continued trading throughout the pandemic. Wintershall Dea, despite low oil prices and the challenges of producing gas during a pandemic, continued to drive efficiencies. The challenge for big corporates is how to tap into innovation whilst running normal businesses day-to-day. That's what L1 has been successful at this year.

Q: Many are saying COVID-19 accelerated paradigm shifts. Do you think it did?

A: The pandemic accelerated some structural shifts that have been happening for some time in e-commerce and remote working. The importance of Environmental, Social and Governance (ESG) was reinforced, which I had not expected.

It is clear that the continued depletion of our planet's natural resources has health consequences. Diseases like COVID-19 and MERS are driven by biodiversity crises caused by things like deforestation.



COVID-19 has also made the health inequalities that exist between the poorest and richest communities worse in the UK. During the pandemic, the wealthiest in society have become richer while the most vulnerable have become poorer.

On the positive side, we are more conscious and vocal about these inequalities. There is a growing sense that this is unacceptable and must be addressed. I believe business has a role to play in this by creating prosperity for all stakeholders and society as a whole.

Q: How did we miss seeing these inequalities?

A: The pandemic has taught business leaders that the prevailing measures of economic success are inadequate and counterproductive.

Take the leading index of economic growth, the Gross Domestic Product or GDP. That straightforward measure of output by country is useful, but only to a point. It misses the full, interrelated ecosystem of commercial and social activities that comprise the real productive capacity and welfare of nations. What good is a GDP measure if it misses ill-health, racial inequities, and climate change impacts?

For this reason, L1 is sponsoring research at the University of Cambridge's Bennett Institute of Public Policy to develop a more 360-degree gauge of economic wellbeing that measures what we call the "wealth economy". Businesses live and die by the balance sheet, but nations don't compile them. I believe that wealth economics will help countries understand the full suite of assets available to them and how they are being managed over time.

Q: How has L1 responded in terms of ESG?

A: Many people imagined that ESG would take a back seat in the face of the pandemic. But 2020 saw an increasing focus on ESG issues, especially climate and social issues.

While it remains to be seen how substantive the UK's green initiatives turn out to be, the fact that the country is hosting the COP26 conference in November guarantees that climate change will remain a high priority.

As the FT reported recently, the McKinsey Global Institute has found that companies that took a long-term approach had 47% stronger cumulative revenue growth with less volatility than other groups. Yet 70% of executives surveyed by McKinsey in 2020 believed that their CEOs would sacrifice long-term growth for short-term financial objectives. We have worked to avoid that mistake.

Q: What's your view on the investment climate going forward?

A: I see an uncertain economic and social environment. Structural shifts that have been happening for a long time have accelerated in the last 12 months, which could have dramatic implications for the structure and cohesion of our society.

"We've seen some amazing developments in terms of the pace of innovation, the remarkable vaccine development, and the resilience of people who have adapted to a new way of living and working."

I am pleased to tell you that in December the Board approved our ESG policy. As a long-term investor, L1 identifies and assesses relevant ESG impacts as part of its investment process. In this way, L1 helps create more successful and sustainable businesses over the long term.

As I said last year, capitalism is changing and businesses that don't change will be left behind. Retaining top talent will also depend on our adhering to these new realities.

Q: Do you think being a long-term investor is an advantage in times like these?

A: In any crisis, short-termism is an engrained response, but L1 has looked through that – at how the crisis informed its longer-term strategy and what opportunities have arisen as a result of the pandemic.

Many businesses and individuals rely on unprecedented levels of government and central bank support. High government deficits and historically low interest rates mean there is less room to support the economy through "traditional" channels.

The long-term impact of this stimulus is unclear, as are the speed and mechanisms of unwinding it. It could be a challenge in the coming years to balance the moral imperatives of supporting the most vulnerable in society while ensuring macroeconomic stability.

Lord Davies of Abersoch
Non-Executive Chairman

Chief Executive's review

"Thanks to our people, we came through 2020 not only intact, but stronger for the experience."

Jonathan Muir
Chief Executive Officer

Chief Executive's review

Review

Jonathan Muir
Chief Executive Officer

Performance highlights
It is an understatement to say that 2020 was a challenging year but we came through not only intact, but stronger for the experience. It is in large part due to our people, so firstly a huge thank you to all throughout L1.

In terms of financial performance we weathered the economic storm reasonably well, ending the year with a decrease in net asset value to $22.3bn from $23.4bn in 2019. We experienced growth in valuations across several business units, including Pamplona, DIA, and Holland & Barrett. Our healthcare assets of K2 and Destination Pet also grew. These were offset by decreases in Wintershall Dea, caused by reduced oil and gas prices, and in VEON and Turkcell due to performance and currency impacts. Treasury again delivered a very positive result.

Overall portfolio resilience during COVID-19
Sustainability is now recognised as fundamental for businesses. In reflecting on 2020, it is evident that our portfolio has a firm foundation. We invested in industries and sectors that traded through the turbulence and adapted to the new environment without the need to furlough or cease operations. Without exception, they have come out stronger, more digital, and focused on the future.

Our overall resilience and success are underpinned by our belief that a combination of long-term investment horizons, entrepreneurship, and innovation will serve us well as the world changes.

We have seen evidence of this last year through business performance, but also our ability to adapt and take opportunities as they arise. We have, for example, changed the capital structure in DIA, not to earn short-term arbitrage gains, but to build a base to allow the supermarket chain to invest and improve its business for the future.

In addition, we are responding to the rapid pace of change in the ways customers want to access products and services. Digital and omni-channel delivery will be paramount, and all our businesses will deliver on digital strategies that have been developed and enhanced for 2021 and beyond.

Wintershall Dea driving efficiencies
Wintershall Dea has made good progress this year, despite the fall in the oil price. Full-year production was in line with guidance at 623 mboe/d, underpinned by solid operating performance.

EBITDAX was impacted by the weaker commodity price environment, but the team responded by safely reducing its underlying production costs to €3.5 per boe, and through operational excellence and continuous improvement, it expects further cost efficiencies in the future.

VEON and Turkcell restructured
Despite the pandemic, VEON made good progress with its strategy and completed its transformation from a centralised entity to fully empowered country operations governed by strengthened local operating boards.

VEON delivered FY 2020 results in line with guidance, with full-year revenue falling slightly to $8bn but, most importantly, starting to see some green shoots of growth in both the core business and digital strategies.

In 2020 L1 entered into a series of agreements to restructure ownership of Turkcell and put an end to many years of shareholder disagreements. As a result, L1 increased its interest to a 24.8% more liquid stake in this successful company.

While the lockdown did reduce high street footfall, this was offset by higher online demand. Overall revenue for the year ended 30 September 2020 increased by 2.8% to £730m with EBITDA rising significantly to £124m.

DIA – positive results of its transformation plan
DIA delivered stable top line performance, with like-for-like improvement showing early positive results of its business transformation plan.

“Our overall resilience and success are underpinned by our belief that a combination of long-term investment horizons, entrepreneurship, and innovation will serve us well as the world changes.”

Subsequently, L1 sold 5% of Turkcell shares and decreased its economic exposure to Turkcell to 19.8%.

Our healthcare operations adapted well
In healthcare, K2, our lending operation in biopharma, has continued successful deployment of capital, ending the year with 11 loans and $185m in capital deployed. It also delivered over 11% in core yield with a healthy pipeline of opportunities.

Destination Pet LLC, which is our vet and animal health business in the US, has also traded through the crisis, with vet practices in particular operating successfully in what was a very difficult environment.

Holland & Barrett – essential retailer played an important role during COVID-19
Looking at retail, during the pandemic Holland & Barrett played an important role in providing customers and local communities with access to advice and products, both in stores and online, to support immunity and provide food staples.

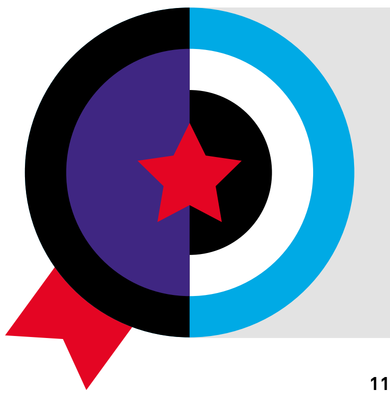
The lockdown period, which affected each of its markets in different ways, was clearly a contributor to improving sales as businesses were shut and people prepared meals at home.

This performance was supported by continued cost discipline and underpinned by a strengthened financial structure leading to EBITDA increasing strongly to €123m.

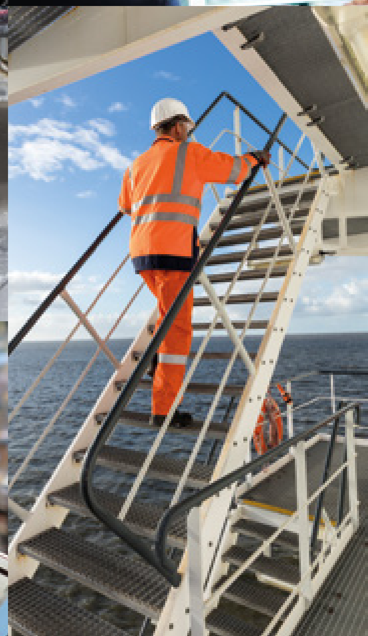
In addition, in order to put in place a capital structure to support the transformation plan, L1 supported a successful capital raise of €605m, which increased our holding to 74.8%.

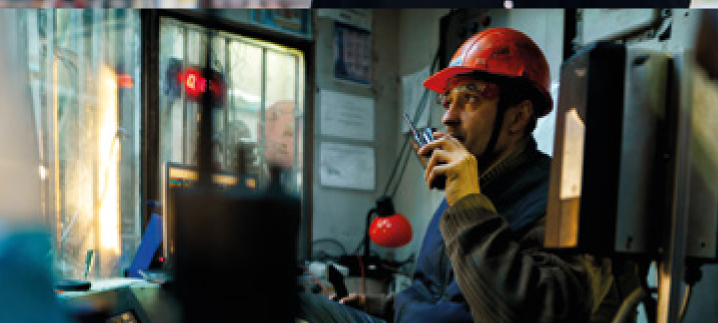
L1 Treasury – performed well in 2020
L1 Treasury’s portfolio performed well in 2020, producing a return of 5.50% for the year, equivalent to 4.87% over one-month LIBOR. All of our investment books showed positive performance, with the biggest contribution coming from our hedge fund investments and our bond portfolio.

Jonathan Muir
Chief Executive Officer








How our world has changed

We've lived through unfathomably difficult times, but also incredible advances and breakthroughs





CLUB
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THANK YOU FOR PRACTICING
SOCIAL DISTANCING




Our perspectives

Life sciences

What does health and wellbeing mean post-pandemic?

Parag Shah
Founding Managing Director & CEO, K2 HealthVentures

At this time last year, we were only just beginning to grasp the totality of the COVID-19 pandemic. The collective loss of life, incalculable suffering, and social and economic disruption experienced during this historic time has been staggering and, at times, unfathomable. It will also go down in history as one of the greatest, most impactful periods of scientific and medical contribution to society on record, and a culmination of the significant advances and breakthroughs of the last several decades – something for which those of us in the industry can be very proud.

We can all recognise how incredible an achievement it has been to develop and deliver multiple highly efficacious novel vaccines to the public in less than 12 months from the first documented case of COVID-19. At the time of writing, over 710 million doses have been administered across 153 countries, a scale that most would not have contemplated even just a few months ago.

Vaccines are not the only triumph of this effort, however. Innovations have taken place across all segments of healthcare, with health practitioners, industry, government, and communities working collaboratively and quickly towards solutions. Telehealth broke through barriers and saw a dramatic surge in demand as providers and patients delivered and accessed care in a virtual setting. New diagnostic tests identified infected patients and served as the cornerstone of "close contact" and surveillance protocols that have successfully been used to return children to school and employees to work sites. There is still much work to be done in the fight against COVID-19, but it is truly extraordinary and humbling to reflect upon the unprecedented response and mobilisation by our industry in response to this crisis.

Where do we go from here? Beyond the work needed to continue to fight COVID-19, numerous global health challenges remain. Tens of millions of patients suffer from diseases for which there are no treatment options. Healthcare remains inaccessible to billions. Depression, addiction, and obesity have been exacerbated by social isolation during the pandemic. These and other complex chronic illnesses require not just new therapies, but new ways of managing patients. At the same time, there are exciting and novel tools whose potential to impact life sciences are in their early stages, including AI and

Stefano Quadrio Curzio
Adviser to L1 Board

machine learning, as well as powerful new technologies to edit DNA and unravel the complexities of molecular biology.

The good news is that in terms of capital formation and investment, 2020 was one of the strongest years ever for life sciences, and that momentum has continued in 2021. This bodes well for the future of our industry and its ability to make an impact and drive the next cycle of innovation. Specifically, private healthcare funding totalled $52bn in 2020, breaking all previous records by a wide margin. The public markets also saw record fundraising activity, led by the biotech sector, which saw $14bn in IPO proceeds and another $37bn in follow-on offerings.

At K2 HealthVentures we are doing our part to enable this next generation of innovation in healthcare through providing flexible, long-term financing solutions to private and public companies. Among the many impactful and innovative companies in our portfolio, we would like to highlight two – VBI Vaccines and Evelo Biosciences, which are both working at the forefront of medical science to directly combat COVID-19 (as well as other infectious and inflammatory diseases). We are excited to continue to support these and other promising life sciences companies that are focused on making a difference and improving people's lives.

Investment climate

How much has the shutdown shifted global economics?

In last year's review, I observed that even before the COVID-19 outbreak hit western economies, central banks had embarked on a course of full debt monetisation, by buying bonds issued by their respective governments. The level of debts and deficits was so high that the slightest effort by central banks to return to a more neutral cost of capital and balance sheet would have resulted in a fall in asset values. This was attempted by the Fed in autumn 2018 and quickly reversed. We learnt through that experience that the Fed, as the monetary authority of the world's reserve currency, will draw the line at equity market corrections of 10–20% before stepping in through a range of market-supporting operations.

The economic shutdowns across the western economies imposed by governments in the wake of the virus outbreak have cemented this policy of full monetisation as the rule rather than the exception. Across Europe and the US, central banks have monetised over 100% of the exploding debts of their respective governments. This policy, once embarked on, cannot be stopped as the debt that is generated would have to be defaulted on, being largely unproductive debt.

Our perspectives
continued

As the private sector was not called upon to fund the government deficits but was instead provided with extra liquidity to avoid calamitous debt defaults through furlough and business loan/holiday schemes, it was left free to chase asset values to very high levels in a year that saw the biggest disconnect in decades between economic results and equity prices. As a result, 2020 ended with the highest level of private sector net worth to GDP in history.

In many sectors of the equity and bond markets, there is no longer any connection between valuation and underlying economic reality. Much of this is explained by great optimism about an economic boom, taking the view that this is not the worst recession for 300 years but an economic shock poised for rapid recovery, fuelled by government stimulus packages and high levels of household savings that will supposedly materialise post COVID-19. A lot is fuelled by the biggest government spending programme ever witnessed in modern history.

“Flexibility, an ability to react to policy decisions, and the freedom to move capital across sectors, geographies, and time frames have become crucial assets.”

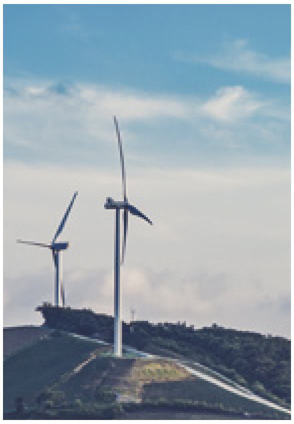
As we enter 2021, financial stability issues should become more topical again. The policy of central banks funding any level of deficit while keeping to their arbitrary inflation targets will, of course, continue. However, should financial instabilities arise again in this environment, their actions will have to take on a more radical bend. Though it is impossible to guess at the moment what such actions may be in response, at the time of writing, in early 2021, investors are embracing risk with a high level of confidence, as shown by the number of loss-making IPOs, the volume of SPACs being quoted, use of leverage, and high levels of retail participation in the stock market.

As a result of all the above factors, we face an extremely uncertain and unstable environment. Flexibility, an ability to react to policy decisions as they become manifest, and freedom to move one’s capital across sectors, geographies, and time frames have become crucial assets. None can be taken for granted any longer, but L1’s shareholders’ heritage gives us a good starting point as we address these challenges.

Tim Summers
Managing Partner
L1 New Energy

Energy transition

Why has lower-carbon energy become an even higher priority?



The dramatic global events of the past year have further accelerated the drive in the ongoing move to a lower-carbon energy mix across the world's economies.

The market penetration of renewable energy continues to increase, and customers demand cleaner, less impactful, and often more local energy sources with larger recycled content wherever possible.

However, it remains the case that, despite extensive media coverage of negative investor sentiment, hydrocarbon energy sources will remain key to the global energy mix for much time to come, albeit with only the cleanest, lowest carbon, low-cost hydrocarbons finding acceptance in society.

Removing carbon from these traditional energy sources continues to be the focus of the mainstream energy industry, building infrastructure to mitigate carbon emissions from core assets and continuing to reposition asset bases to a lower-carbon world. It is a difficult and complex journey, and it is clear that some organisations are managing this transition more elegantly than others.

Carbon capture projects in Europe are progressing and will draw on many of the project management and subsurface skills of the mainstream hydrocarbon industry. Returns in these projects are likely to be challenging as existing assets are repurposed, but it is progress, nonetheless.

Much has been written in the past year about the rise of the hydrogen economy, with a strong lobby developing in Europe, driving policy and subsequent regulation. The costs of using hydrogen at scale remain very high however, and investors are justifiably cautious.

Cost of supply matters, and sweeping promises of future deflation should encourage scepticism and require scrutiny. The cheapest and most reliable way, by far, to abate CO_2 emissions at scale is to plant trees; a truth that is perhaps inconvenient to many in industry.

Investment activity in the circular economy is significant and is on the increase, as customers become ever more thoughtful about the effects and scale of plastic pollution, waste management, and the full cycle impact of their purchasing patterns and lifestyles.

The last 12 months have resulted in families being in their own households for often long periods, and the focus on product use and individual impact has surely increased as a result. The travel restrictions worldwide – unthinkable only a short time ago – have challenged long-distance supply chains and intensified the local nature of life in many communities.

The limitations on food and household products, the first experienced at scale in many decades for Western economies, have added awareness to the role that the circular economy can play in minimising waste and maximising recycling and reuse.

Transportation is also being reconsidered by customers and businesses both large and small, and sales and development of electric and hybrid vehicles – both retail as well as commercial – continue to grow. The technology and infrastructure to service and refuel this growing fleet efficiently, with its changing consumer patterns, requires huge investment, and this will no doubt remain a key area of competition.

As investors, we continue searching for opportunities that capitalise on these trends, and we embrace the transition to a New Energy mix.

Leaving a lasting legacy

With our long-term support, companies are achieving more


6 CEREALES
315 g
CHAPATA DIA
400 G
0,90€
2,25 € / KG
CHAPATA
400 g
85 g
PETIT D'OR DIA
0,35€
PANECILLO RÚSTICO

Our approach

Long-term capital, unmatched sector expertise, world-class teams, and active engagement will ultimately bring rewards for all. We are a partnership of successful entrepreneurs and former CEOs and international businesspeople who aim to create one of the world's pre-eminent international investment firms.

Approach

Buy and build

At L1, we generally seek to buy and build companies in sectors where we have world-class expertise. By providing long-term capital – and advising the management teams of the companies we invest in – we aim to help them realise their individual and their company's potential – and create the next generation of leading international companies.

Sector expertise

We invest in sectors that have a strong bias to satisfy society's needs. People need energy, food retail, health and wellbeing, and telecoms and technology. Companies around the world are transforming their operating models because of changes in society, demographics, and technology. Our experience as executives in many industries helps us identify long-term trends. We look for companies that will be the new stars in this changing landscape.

Proactive investors

As businesspeople, we like to understand how businesses work. Our specialist investment teams work actively with the management of the companies in which we invest by providing strategic input, managing performance, and building competitive teams. We have recruited world-class CEOs, sector investment teams, and Advisory Boards to invest at scale. We have successfully managed companies through volatile periods like these. We buy and build assets, which we can develop over time as platforms of long-term sustainable growth.

Drive long-term growth

As entrepreneurs and successful businesspeople, we invest by buying and building companies where we see an attractive valuation, good management teams, competitive advantage, and market opportunity, and where our involvement will build significant value. We are investing our own capital in companies where we believe our sector experience and strategic and geographic expertise will improve performance. Our portfolio and capital allocation reflects a balance of sector and company exposure with diversification across cycles, geographies, currencies, and commodities.

Q&A

Is being a long-term investor an advantage in this investment climate?

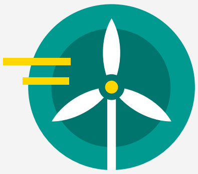
Q: How did the L1 portfolio perform during the pandemic?

A: The L1 portfolio proved its exceptional resilience in 2020 and performed exactly as hoped. As the portfolio comprises of companies supplying largely essential services and products, demand remained robust throughout the crisis. None of the companies experienced financial difficulties, and L1's cautious management of portfolio company balance sheets enabled the Group to take advantage of significantly improved debt market conditions to further strengthen the capital of DIA, Holland & Barrett, and Wintershall Dea.

Q: Is being a long-term investor an advantage in this volatile investment climate?

A: L1's long-term, fundamental investing discipline means that it was able to look over the temporary price and volume volatility in the oil and gas sector and that it was able to quickly reposition traditional bricks and mortar retailers towards a more digital offering. The necessity to live more digitally connected lives has also opened opportunities to invest in attractive green-field projects in fibre communications in the UK. While the increasing popularity of pets in the US has offered opportunities to invest in the veterinary space.

Sector specialism



Energy

Increasing population growth means increased demand for energy. We invest in good gas and oil development and production opportunities at low break-even prices, then target operating improvements and cost optimisation.

Telecoms

Telecoms companies of the future will play a role in altering the way we live, work, and relate to one another. Our investments have a presence in some of the most interesting markets for long-term growth.

Health

Technology and demographic trends are pushing the boundaries of healthcare and creating new investment opportunities in human, and animal, health and wellness. The global pet care market value is expected to hit $269bn by 2025.

Retail

The retail sector is in the midst of substantial change, driven by demographics and technology. We back companies operating in non-cyclical niches and companies that will be disruptors in the sector.

Treasury

The majority of assets are invested in low-risk, highly liquid assets so that funds can be released quickly to L1 in order to have adequate funds available at relatively short notice.

Q: Looking forward, how is the portfolio positioned?

A: Going forward, the portfolio is very well positioned for multi-year trends that will emerge in the post-pandemic economy. Health and wellness, food and nutrition, pet care, communication technology, and gas, which is a transition fuel enabling the energy transition and about to benefit from the lack of investment in production capacity over the last few years. While L1 is a long-term investor and not driven by short-term fluctuations in valuations, all its portfolio companies stand to benefit from considerable earnings growth and multiple re-ratings in the future. The latter is especially notable as most of the sectors in which we invest have until recently been rather out of favour with investors who have pursued more pure tech plays.

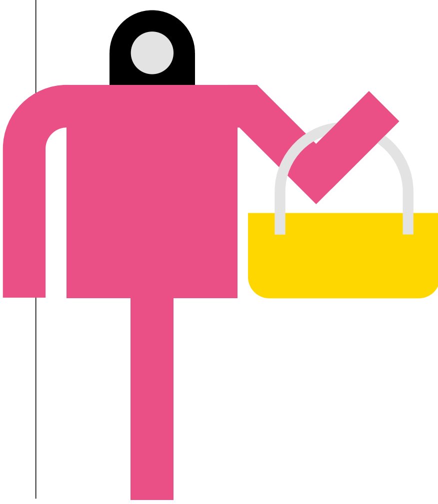
Q: How might the portfolio be impacted by ESG?

A: Climate change and ESG are increasingly impacting investors' flows of funds and valuation of businesses. The disruption to traditional business models, from retail to automotive, poses great challenges to investors as seemingly stable businesses can be suddenly disrupted. L1 is embracing ESG across its portfolio, but rather than as a single issue or marketing ploy, as one of the many paradigm shifts affecting business models today. The key to this is really culture change; in the near-term mitigating risk but in the longer term being innovative enough to identify and capitalise on new commercial opportunities brought about by this paradigm shift.

Q: What should L1's priorities be this year?

A: As asset values are overall very high, L1's focus this year will be to consolidate the acquisitions made, ensuring it has strong management teams in place, clear strategies and continuously improved execution. The portfolio is rather insulated from both the economy and financial markets, and L1 should therefore not be materially impacted by what may be some uncertain months for financial markets as they face the inevitable uncertainty that follow years of financial excesses and policy experimentations, which have to become ever wilder with every new crisis. Our Treasury management is conservatively run, mostly investing in liquid high-quality securities and funds. Even during the severe market correction experienced in March 2020, the value of the Treasury portfolio barely moved.

DIA



Case study: reinventing retail

Why are we taking a fresh approach to food retail?

Food retail has been a core focus area for L1 Retail from the outset, given our experience as operators and investors in the sector over the past 25 years.

Within food retail, our belief is that proximity is a critical element of serving customer needs – centred around the location and convenience of the store, but now also increasingly digital proximity through e-commerce and, in particular, express delivery. The second key element is having a clear and differentiated assortment, with a focus on fresh categories and on high quality private label products with a strong value-for-money reputation.

Finally, we see the importance of the role of food retail in the community, never more clearly seen as through the COVID-19 pandemic, and having a clear sense of purpose in serving society and the community is fundamental to our thinking.

Why DIA?
In our review of potential investment opportunities five years ago, Spain emerged as an attractive market opportunity, a vibrant and increasingly dynamic economy and one of the few large markets in Western Europe that has yet to see significant consolidation. In addition, Latin America, and specifically Brazil, has parallels to the consumer environment and market structure in Russia, where X5 has been very successful in growing and innovating over the past decade.

In 2017, we identified DIA as an attractive investment opportunity: a proximity retail concept that was well positioned in attractive markets, but one which had lost its customer offer, was seeing declining footfall and sales densities, and needed a fundamental reset. It was clear that the business was overly focused on driving short-term profitability and needed a reference shareholder to support much-needed business model change and investment.

We believed the business had strong potential to grow in Spain and Portugal through improved sales densities and from selective consolidation, and could see very significant growth in Brazil over the long term as the largest player in proximity retail in a market where all the large operators are focused on large stock-up baskets. In taking a significant minority stake, and in becoming DIA's reference shareholder, our intention was to influence the company in a positive way and improve the way it was run.

Accounting irregularities
Unfortunately, in October 2018, the company disclosed historic irregularities in how profitability was accounted for, leading to a crisis in confidence around the company and its board of directors. This led to a significant reduction in liquidity and the requirement for a more active role by L1 Retail to rescue the company. In May 2019, L1 Retail acquired control of the company, and in July 2019 a rescue restructuring was agreed with lenders, with L1 Retail committing a large capital injection.

L1 acquires control
Since then, DIA has experienced a significant improvement in its performance under L1 Retail control, and in August 2020 L1 Retail committed further capital to support the DIA capital structure by acquiring over 90% of the company's bond issues. This removed short-term capital structure uncertainty and has reinforced and supported management in driving the turnaround. In total, L1 Retail has invested €2.4bn in DIA over the last three years.

Four key areas of focus

Since taking control of DIA in May 2019, there have been four key areas of focus:

1

Strengthening the team

We strongly believe that long-term sustainable success can only happen with a strong team. To this end, we have invested in renewing the leadership team, both at group and country levels, by bringing in new talent to change the way we operate, together with some of the existing team that was committed to seeing a new DIA created. In addition, there's an important task of creating a new culture between those coming in and those remaining, across four countries. We have worked very hard on creating a performance-oriented culture; a culture of accountability, a culture of responsibility; and a culture with a sense of urgency.

2

Improving the customer offer

Particularly over the first year under Karl-Heinz Holland's leadership, there was a huge emphasis on fixing basics: improving the assortment, store layout, logistics and supply chain operations. Specifically, we see fresh fruit and vegetables as hugely important as a traffic driver, which is why we focused on that category across the board, in every country. This groundwork was critical to have had in place when COVID-19 hit, because having improved our basic store and commercial and supply chain operations allowed us to respond very effectively to meet our customer needs.

3

Resetting the franchise model

Approximately 50% of DIA's stores in Spain are franchised stores. Our franchisees are key partners to the business, particularly in smaller stores where they are often much better at managing costs. DIA was not aligned with its franchisees historically, not investing in supporting them and not creating incentives for growth. We have made significant progress in resetting the franchise model, providing full transparency and clear rules in terms of how the stores should be operated and managed and the rewards for achieving growth and better performance. We have seen a strong recovery in franchise stores and are actively seeking to grow this business model.

4

Empowered countries

Initially, to achieve the first phase of fixing, it was key to operate a very centralised effort, run centrally at DIA. A year into taking control, we switched to a more decentralised operating model, empowering four country CEOs to lead their businesses. DIA is one group but it's actually four local retail businesses.

DIA
continued

Decentralised operating model
DIA now has four separate country teams who work in their own languages, the language of their customers. This was an important shift in the way we sought to accelerate change at DIA a year after taking control.

As part of the second phase of its business transformation, DIA is now focused on building a modern proximity offer, an attractive value proposition, freshness, operational excellence, a win-win franchise model, and an outstanding own brand offer.

There are a number of positive indicators that point to underlying progress. In particular, higher average basket size, up 24.6% for the full year, more than offset any decrease in ticket volume as customers start to change the way they shop at DIA stores.

DIA's new organisational model, which drives empowered country leadership, with support from a lean corporate centre, has been a key contributor to performance. During the year, DIA renewed the top positions in key markets, reinforcing the country leadership and capabilities.

Read more at:
www.letterone.com/our-businesses/l1-retail/distribuidora-internacional-de-alimentacion-dia/

DIA's structure allows it to effectively drive improvement across all areas of its business, focused on initiatives in three core areas:

1

Commercial value proposition
Thanks to the improved assortment with a focus on fresh produce and the development of a new private label offer combining quality, value-for-money and more attractive packaging, DIA has successfully rolled out optimised assortment and store layouts to over 1,100 stores in Spain. This focus on the fresh fruit and vegetable offer resulted in a 12% increase in net sales for fresh produce categories.

During the second half of the year, DIA launched over 800 new stock keeping units (SKUs) of private label products, including ready-made products, in Spain and in Brazil. It also began testing a new store model in Spain, with 26 stores featuring an improved look and feel, and a more customer-friendly layout.

The expansion of online and express delivery continues in all four countries to meet new customer purchasing trends accelerated during pandemic restrictions. Online currently represents around 2% of total net sales and has increased around 120% during the year.

2

New franchise model
DIA's new franchise model saw a comprehensive rollout in the second half of the year and is now active for over two-thirds of franchisees in Spain and Portugal. The programme includes financial and operational support, a new merchandise payment and sales incentive system, as well as a simplified cost structure.

In Spain, DIA now has around 200 multi-franchisees that manage more than one store, and during the year it attracted new entrepreneurs with strategic vision that allowed it to transfer over 113 stores from owned stores to franchised stores. It is applying the learnings to its franchise models for Brazil and Argentina, adapted to the local needs of suppliers and franchisees.

3

Operational excellence
DIA is fully committed to achieving operational excellence. It is reducing complexity thanks to the ongoing redesign of its operations model across the whole supply chain and its logistics activity.

Having laid the foundations in 2019, 2020 saw DIA implement key commercial and operational improvements in each of its four countries of operation based on empowered country leadership.

Looking forward
From the outset we had a clear vision of where the business needed to migrate and an understanding of the operational and strategic levers required to deliver this. As long-term investors, we are seeking to achieve significant and sustainable value growth over a long horizon and not seeking to deliver short-term profitability.

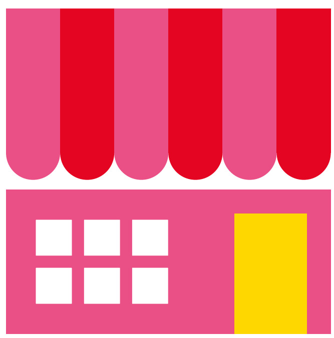
We have had our fair share of what we call "adventure" at DIA over the last four years. At each turn, the team has responded dynamically, developing solutions to move the investment in a forward direction.

COVID-19 has reinforced in the company a huge sense of purpose because we've been serving society and the community as a proximity player. This is our guiding light at DIA.

Looking forward we will identify further areas of improvement. The role of technology and digital, along with the shift to a platform-based business model, is taking up increasing management time and will be at the forefront of future change.

24.6%

Higher average basket size, up 24.6% for the full year



Taking the long-term view: ESG

Case study

How has the pandemic thrown ESG into sharp relief?

Contrary to the expectations of many who imagined that ESG matters would inevitably take a back seat in the face of COVID-19, if anything ESG achieved even greater prominence among investors and companies in 2020, with social issues caused or accelerated by the pandemic joining climate in the spotlight.

In 2021, while it remains to be seen how substantive the UK's green initiatives turn out to be, the fact that the country is hosting the COP26 conference in November guarantees that climate change will maintain an extremely high, and by extension corporate, profile over the coming months.

While long-dated, national and supranational plans to reach net zero are already starting to have real bite, the EU's carbon trading system, which was introduced in 2005, has seen the price of emissions allowances reach record highs as emitters and financial market participants respond to the EU's plans, and the UK plans to launch its own carbon trading system later this year. There are also signs that central banks – widely criticised for including high carbon assets in their asset purchase programmes – are starting to look more closely at the climate impacts of their actions.

Less widely discussed than climate, but inherently interconnected and of arguably equal importance, is biodiversity. In the UK, the final report of the Dasgupta Review on The Economics of Biodiversity was published in February 2021 and has been likened in significance to the Stern Review on the Economics of Climate Change that was published in October 2006. It is a precursor to the UN's COP15 Biodiversity Conference, which is now due to take place in October 2021.

It is against this background that L1 has introduced an ESG policy, which was approved by the Board in December 2020.

L1 believes that to sustain long-term value creation, a company must understand the societal and environmental impact of its business, as well as structural trends that might affect future growth.

Capitalism is facing a period of fundamental change and challenge. Each industry faces an industrial revolution and is in significant flux because of changes in societal expectations, demographics, and technology. The speed of technological change and transformation poses huge challenges, but also presents huge opportunities.

As long-term investors, we assess each investment in relation to these global challenges and work with investee companies' management to navigate these paradigm shifts and changes to their operating models, including the environmental and social impacts of their businesses.

By identifying and assessing relevant ESG criteria as part of our investment process and by ensuring that risks are properly managed and opportunities capitalised upon, L1 helps create more successful and sustainable businesses over the long term. This can enhance our investment performance through reducing reputational risks and minimising unnecessary costs while at the same time contributing to building a more stable, sustainable society and inclusive global economy.

Our policy principles

L1 has taken the following actions in order to embed ESG in its investment processes:

L1 will incorporate ESG issues into its investment decisions and its portfolio management processes.

L1 will require all of the portfolio companies it controls to have an ESG policy and identify specific ESG priorities, risks, and opportunities.

L1 will review progress against portfolio company ESG targets through its six-monthly portfolio review process.

L1 will undertake an annual ESG analysis of the most significant companies in its portfolio to understand their approach to ESG risks and opportunities in more detail.

L1 will convene annual workshops to bring together the ESG leaders of its portfolio companies in order to facilitate sharing and promotion of best practice.

L1 is committed to providing all relevant L1 employees with regular training, comprehensive responsible investing guidance, and access to relevant ESG tools.

Our ESG approach

L1 currently invests through majority or minority equity holdings in public and private companies or through structured equity. We invest our own patient capital in companies where we believe our sector experience, strategic and geographic expertise will improve performance. We are therefore, in some cases, in a position of control or significant influence on the strategic direction and operations of a company. In others, we are a minority shareholder, with limited ability to influence management.

Recognising that ESG issues can be an important driver of investment value and risk, as part of our investment due diligence process, L1 considers key ESG issues and the response to them, such as: climate, use of natural resources, waste management, human capital, diversity, supply chain and social capital, transparency, anti-bribery, and corruption.

Where L1 controls a company, it seeks to work with the company management to integrate and monitor progress on material ESG issues in areas of risk or opportunity. In order to encourage investee companies to embrace ESG, every investee company we control is required to have an ESG policy.

In companies where L1 has limited ability to influence and control the integration of ESG issues into the business plan, where possible, we will seek to monitor risks and engage management in order to persuade them to put ESG policies in place.

Pre-investment due diligence

As part of our pre-investment due diligence, L1 investment teams start by considering our Exclusion List to ensure that we do not make direct investments in companies that we consider incompatible with the UN Global Compact and our responsible investment approach.

Exclusion List

We will not knowingly invest in companies that:

- manufacture or distribute or sell anti-personnel landmines, nuclear, chemical, biological weapons, or cluster munitions;
- have as their principal activity the manufacture of arms, ammunition, or tobacco; and/or
- are complicit in systematic abuses of human rights or labour rights (including child labour).

Where any of the following issues are identified as part of the due diligence process:

- direct involvement with thermal coal production;
- responsibility for deliberate environmental damage through their own operations or supply chain; and/or
- association with corruption, including extortion and bribery,

the investment in that company will not proceed unless these issues can be effectively mitigated.

Taking the long-term view: ESG initiatives

Case study

ESG actions across the L1 portfolio

Wintershall Dea
Wintershall Dea has clearly defined targets across all aspects of ESG; however, as an oil and gas company, climate change is clearly the most significant issue it faces. It has set a goal to be net zero emissions across all upstream activities by 2030 with clear reduction targets for Scope 1 and Scope 2 GHG emissions and a commitment to address Scope 3 emissions too, which is a significant challenge for companies in this sector.

To achieve these aims, the company has put into place a four-pillar climate action strategy. The first pillar relates to its portfolio, which is predominantly (70% of reserves and production) natural gas. GHG emissions are a key metric when making investment decisions and Wintershall Dea has set an internal price of carbon to assist in this process. Second is management and achieving energy efficiency and emissions reduction in existing activities; for example reducing methane emissions and using renewable energy.

The third pillar, and for emissions that cannot be avoided at a reasonable cost through portfolio changes and emissions management, is offsetting through investments in nature-based solutions, such as afforestation or conservation projects. Wintershall Dea will develop its own projects rather than simply buy offsets on the market and is beginning the process of identifying the right prospects and talking to potential partners.

Finally, technology and in particular carbon capture and storage and hydrogen, which will both be essential to decarbonise the economy. The company has set aside around €400m to invest over the next ten years in low-carbon initiatives and technologies and has established an internal team to evaluate opportunities. For example, it is considering how it might capitalise on existing assets, such as using depleted fields in the North Sea for storage and its significant infrastructure of pipelines for hydrogen transportation.

DIA
DIA's strategy is focused on "closeness" – closeness to its customers, its communities, its employees and to wider society – and the company's unifying narrative is to be "closer every day". In 2020, following the onset of COVID-19, DIA utilised the "closeness" enabled by its network of 6,169 stores and 2,682 franchises to continue to support local communities and vulnerable individuals during a uniquely challenging year.

As part of DIA's support initiative, labelled "DIAContribuye2020", the company distributed 2.5m kilos of products between 54 Spanish food banks supporting more than a million beneficiaries and 8,000 charities. It also launched a Community Collection initiative whereby online donations from customers were turned into essential food items for the food banks of Spain. DIA's unique footprint, with the largest number of points of sale in Spain, the majority of which are focused on local communities, were fundamental in enabling the support it provided.

As well as implementing initiatives to alleviate some of the immediate impact of the pandemic, 2020 was also an important year for DIA in reviewing and renewing its approach to ESG. Following an internal assessment, the company identified 15 key areas of focus that encompass the breadth of the ESG agenda: food safety, nutritional profile, accessible feeding, sustainability of raw material, human rights management, employee and team development, employee health and safety, diversity and

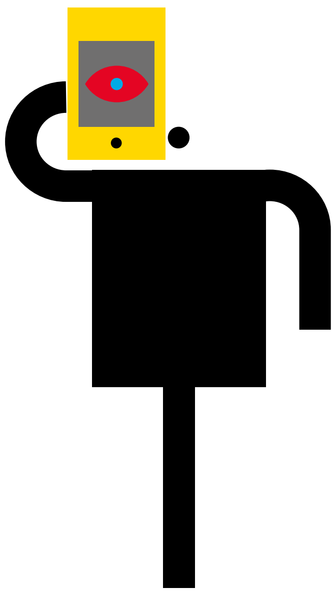
inclusion, franchise satisfaction, provider satisfaction, excessive packaging, waste and food waste management, climate change, business ethics, and community support. These are areas where DIA has identified it can make a real difference and will underpin the company's initiatives in the near and mid term.

VEON

VEON's approach to ESG is based on the concept of using technology to empower communities. This includes a digital entrepreneurship programme and a range of digital skills and literacy initiatives, which are intended to increase socioeconomic, educational, and vocational opportunities in the communities in which the company operates.

For example, JazzCash provides a comprehensive range of digital financial services to 12.2m people in Pakistan, which is ranked as one of the world's most unbanked nations. Close to 80% of its adult population lacks access to a bank account; a percentage that is higher for women, who face additional social challenges to financial inclusion. By delivering mobile banking services, JazzCash helps to overcome these challenges and bring about greater social and economic empowerment.

In Kazakhstan, VEON is a key player in the national 250+ project, launched in 2020, which aims to extend high-speed internet to all villages with a population of 250 or more. Once complete, the project will see almost 1,000 rural settlements, with a combined population of 600,000, offered 3G and 4G connections. Beeline Kazakhstan connected 500 remote villages to the internet in 2020, which are home to around 400,000 people. Of these, 54 were given access to mobile communications and the internet for the first time. This is helping to transform opportunities for individuals and communities, whilst accelerating the economic development of the Kazakh countryside.



Leaving a lasting legacy: GDP

Case study

Why is economic measurement vital to the success of long-term investors and society in a post-COVID-19 world?

For the last three years, L1 has been sponsoring research at Bennett Institute of Public Policy, University of Cambridge, into natural, social, and human capital – economic assets, which form part of what is known as the wealth economy.

The funding from L1 has enabled the Cambridge Wealth Economy Team to join the global network of over 600 scientists, economists, national statisticians, and accounting experts who have contributed to the development of a new UN Statistical Standard, which includes the contributions of nature when measuring economic prosperity and human wellbeing. This measure would ensure that natural capital – forests, wetlands, and other ecosystems – are recognised in economic reporting.

The new framework shines a spotlight on the crucial services generated by ecosystems and how they benefit people and business.

In essence, ecosystems are assets, and as with all capital, whether they are maintained or degraded will determine future output. For example, healthy trees and forests play a role in purifying air and water, reducing climate change, and mitigating floods – all of which benefit communities and businesses. Employees are more productive, supply chains more reliable, communities richer, and extreme weather events rarer and less costly when nature flourishes.

As the UN said – the adoption comes at a time when climate change continues its relentless march and the world is on track to reach new highs of warming, climbing to at least 3°C above pre-industrial levels by 2100.

According to the World Meteorological Organization, 2020 was in a dead heat to be one of the three warmest years on record, and 2011–2020 was the warmest decade on record, with the warmest six years all being since 2015. The loss of biodiversity and ecosystem integrity, together with climate change and pollution, will undermine our efforts on 80% of the Sustainable Development Goal targets.

In order to explain the importance of this development, we spoke to Matthew Agarwala, who is the project leader at Cambridge driving the research.

Q: I'm going to ask a basic question to start with: what is natural capital? Why is it important?

A: Natural capital includes water, air, soil, natural resources, and living things that provide the basic building blocks of life and what we consume as businesses.

It is an essential ingredient in the recipe for economic progress. But of all our assets – physical, human, financial – natural capital is the only one in continuous decline worldwide. As populations grow and become more affluent, we consume more. If environmental degradation continues at the same rate, we will need two planets by 2030 to fuel our consumption. It's unsustainable.

It's important because economic growth predicated on depleting natural capital, without replacing it, is not sustainable and harms future generations. We need to change the way we think and value natural capital, which we currently take for granted.

Q: Since natural capital underpins all economic activity, why have markets been so slow to catch on?

Why don't we invest more for nature?

A: Most of nature's contributions to business, people, and the economy are not traded in markets. We don't buy and sell flood protection in the supermarket; we don't trade clean air on the stock exchange. This makes them invisible in transaction data, on balance sheets, and in GDP statistics. The result is that these contributions are overlooked in discussions about business and economic strategy.

Accounts are a bit like a resume: what they reveal is interesting, but what they conceal is critical. Natural capital accounts reveal the economy's impacts and dependencies on nature.

For instance – if we looked just at the woodlands' component of natural capital in the UK, we'd see that they generate around £275m pa when harvested for timber – and that shows up in the data. But woodlands do so much more than provide timber. They trap and absorb toxic pollutants (avoiding health costs of around £938m pa), sequester carbon (18m tonnes/yr, or around 4% of UK greenhouse gas emissions, worth about £1.2bn pa), help reduce floods, reduce noise pollution, and contribute to temperature regulation and recreation. At over £3bn/yr, their annual economic contributions outside the market are about 12 times greater than their contributions inside the market.

Examining these income flows over time, we see that if we focus on just the market (timber) contributions, woodlands had an asset value of about £8.9bn in 2017. But if we include the wider suite of benefits, this grows to £129.7bn in 2017.

This is a story that plays out over any number of different ecosystems – woodlands, highlands, beaches, and oceans. For a business to be sustainable economically and resilient, it needs to know – from a natural capital perspective – what it consumes as part of its process in the pursuit of profit – and what it returns.

Q: We all feel that the weather is becoming more volatile but what has natural capital to do with climate change?

A: A stable climate system is central to strong natural capital. It is degraded by greenhouse gas emissions and interacts with all other assets, including ecosystems and human capital.

Sometimes there is confusion, even tension, between climate and nature. Essentially, the climate system should be considered a part of natural capital – an important part, but just a part. Natural capital is much broader and includes ecosystems, biodiversity, and water resources.

It's an important distinction. Unfortunately, sometimes what makes great carbon policy makes terrible biodiversity, land use, or water policy. We see this, for instance, where hydropower dams along the Mekong destroy sensitive river ecosystems (on which millions rely for food), or where growing crops for biofuels drives deforestation.

Leaving a lasting legacy: GDP
continued

We need businesses to understand that climate and broader environmental change has consequences. For instance, emerging diseases like COVID-19, SARS, MERS, Ebola, and even HIV, are driven by biodiversity crises rather than climate change. We need investment strategies that tackle both simultaneously.

As we have seen this year, particularly in Texas, extreme weather events are now more frequent due to climate change and even rich countries can suffer. Increasing greenhouse gas (GHG) emissions are putting the world and businesses at risk.

Q: How do we know where climate change damage might occur?

A: In terms of assessing what and where that climate change damage might occur, we, with colleagues at the London School of Economics, have noticed a disparity of impacts between currently colder countries such as Canada, Russia, and Northern Europe and warmer regions that have recently been severely damaged by extreme weather, like Australia and Brazil.

These warmer countries are being beaten up by natural disasters even though they account for relatively small amounts of CO_2 emissions.

For instance, Brazil's production-based emissions are only 1.3% of the global total, yet it is expected to suffer 14%–30% of the global damages from climate change. Australia accounts for just 1.3% of global CO_2 production, yet is on track to experience between 12 and 24 times more damage from climate change than the world per capita average. From a business perspective, this is important to know.

Q: With COP26 on the horizon, how might your team's work be useful for finance assessing climate change risk?

A: Private finance is going to be a central player in either meeting – or failing to meet – net zero targets and wider environmental goals. The scale of investment needed means governments cannot do this alone. We must crowd-in private investment and mobilise capital markets to deliver environmental as well as economic returns.

Markets need credible, digestible information on how climate change translates into material risks. Instead, an explosion of ESG ratings and voluntary, ad hoc, unregulated climate disclosures has created a confusing world of unfamiliar, incomparable, and conflicting metrics.

A key concern is the yawning gap between what climate science and economic models tell us on the one hand, and what metrics are available to assess financial risks on the other.

Q: How might we close that gap?

A: To close the gap between climate science and climate finance, we combined AI with climate economics and S&P's sovereign ratings formula to hardwire climate science into assessments of sovereign creditworthiness.

We have created the world's first climate-smart sovereign rating. We've found strong evidence of climate-driven sovereign downgrades as soon as 2030 for countries all around the world (hot and cold, rich and poor). These downgrades impact the cost of sovereign and corporate debt, and our approach lets us calculate their respective increases in annual interest payments.

We believe this is unique and will lead to a paradigm shift in management of bond portfolios, the perception of risk, and the trading of sovereign debt.

Q: That's amazing. You are also studying other capital measures to replace GDP as part of this wealth economy study. What are you looking at? Why is this important for business?

A: What's extraordinary is that as businesses you live and die by the balance sheet, but nations don't even compile them of their socio-economic assets. So how can businesses judge the real "health of an economy" before they invest in a company whose growth is dependent on it?

We believe that an index that assesses the wealth economy rather than just GDP will provide businesses and politicians with a more comprehensive understanding of modern economies.

We are all aware of the pace of political, economic, and technological change today. It's this pace of change that makes the measurement of social and institutional capital even more important.

New technologies such as AI, machine learning, biotechnologies, big data, and automation create both opportunities and challenges. Managing all these changes will require social, economic, and political institutions that can mitigate the losses whilst maximising the gains.

Q: What do businesses need to look at?

A: We believe that business leaders will get much more insight into the long-term capacity of the economy to deliver sustained growth and improve living standards for the benefit of all by looking at the following six fundamental socio-economic assets:

1

Natural capital,
which is a measurement of the resources and services provided by nature.

2

Intangible assets,
such as intellectual property and data bases.

3

Human capital,
the accumulated skills and the physical and mental health of citizens.

4

Social and institutional capital.

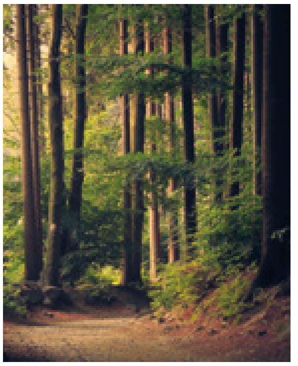
5

Physical assets and produced capital,
including access to infrastructure and new technologies.

6

Net financial capital available to the economy.

Our hope is that this new measurement system will help address many of today's pressing social, economic, and environmental challenges, reduce political and economic volatility and help businesses in their investment decisions too.




wintershall dea

How we all had to respond, adapt, and change

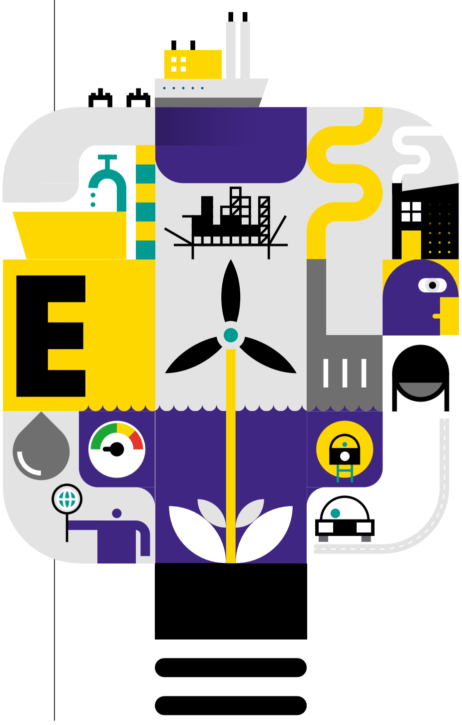
Looking back on a year of resilience, ingenuity, and achievement against the odds

L1 Energy

L1 Energy's ambition is to build a safe, sustainably growing energy group, which is recognised as a partner of choice in its industry, which helps enable the energy transition to a lower-carbon economy.

70%

Percentage of gas in Wintershall Dea portfolio



L1 Energy's ambition is to build a safe, sustainably growing energy group which is recognised as a partner of choice in its industry, and helps enable the energy transition to a lower-carbon economy.

The demand for energy is rising and will continue to do so as populations and economies grow, but the proportion that comes from fossil fuels will fall. Nevertheless, gas will continue to play an important part in enabling the energy transition for many decades.

L1 Energy now holds 33% of Wintershall Dea. With 70% gas in its portfolio – and a low equity greenhouse gas intensity of around 7.4 kg CO_2e/boe compared to IOGP average (18.5 kg CO_2e/boe) – Wintershall Dea is well positioned for the future energy transition.

In 2020, Wintershall Dea committed to target net zero greenhouse gas emissions from its upstream portfolio (Scope 1 & 2) by 2030, for its operated and non-operated projects. It will bring methane emissions intensity below 0.1% by 2025, and maintain no routine flaring of associated gas in its operations, according to the company's commitment to the World Bank's "Zero Routine Flaring by 2030" initiative. Beyond 2030, it intends to start meaningfully reducing its Scope 3 emissions.

> **"2020 was undoubtedly a difficult year for everybody and I'm proud of the way that Wintershall Dea responded to the challenge."**
>
> **Mario Mehren**
> Wintershall Dea Chairman & CEO

The only realistic route to decarbonisation is for oil and gas companies to take greater responsibility for the emissions they and their customers produce, and start doing things that take the carbon out of hydrocarbons.

Enabling the energy transition

In May 2019, L1 Energy and BASF completed the merger of their oil and gas businesses to create Wintershall Dea. All necessary regulatory approvals were received from nine countries, including Germany, Norway, the UK, and Russia.

This merger, the largest in the oil and gas sector for a decade, created a new gas and oil company – Wintershall Dea – which is Europe's leading independent natural gas and oil company.

Wintershall Dea strategy

Wintershall Dea's strategy is to strengthen its position as a European gas and oil company by delivering safe and profitable growth, a sustainable return to shareholders, and play an active role in the energy transition.

Competitive returns in a volatile low oil price environment

The combination of the Wintershall and DEA portfolios created an enhanced platform to capture new synergies. In 2020, Wintershall Dea has safely reduced its underlying production costs to €3.5 per boe, and through operational excellence and continuous improvement, it expects to maintain its peer-leading cost structure.

In 2020, Wintershall Dea delivered €180m of synergies and is confident it will exceed its cash synergies target of €200m per year in 2022.

Operational and financial performance
Wintershall Dea's FY 2020 production was in line with guidance at 623 mboe/d, underpinned by solid operating performance and record production level in Q4 2020.

EBITDAX was impacted by the weaker commodity price environment, with Brent down 35% to $43 per bbl, and European gas down 38%, respectively year-on-year, with gas prices averaging $3.1mcf. For the full calendar year 2020, EBITDAX amounted to €1,643m (2019: €2,828m). However, despite the most challenging of years, Wintershall Dea delivered a positive free cash flow of €159m.

As at 31 December 2020, Wintershall Dea held 2P reserves of 3,554 million barrels of oil equivalent, which corresponds to c. 93% of the reserves reported as at 31 December 2019.

Committed to reducing emissions
During 2020, Wintershall Dea committed to reduce Scope 1 and 2 GHG emissions from its combined operated and non-operated upstream activities on equity basis to net zero by 2030, through portfolio optimisation, emissions management, and energy efficiency initiatives. For example, it has started to supply Mittelplate with 100% renewable power from the shore.

Emissions that cannot be avoided at a reasonable cost through portfolio and emissions management will be offset through investments in nature-based solutions, such as afforestation or conservation projects. In the longer term, it plans to reduce its Scope 3 GHG emissions and intends to invest around €400m over the next ten years in low-carbon initiatives and technologies focusing on carbon capture and storage, and hydrogen.

2020 operational highlights

Wintershall Dea has a significant number of development projects that came on-stream in 2020 and are due in 2021.

Norway

Ærfugl and Snorre started production on time and on budget. Wintershall Dea continues to progress its major development projects, Nova, Dvalin and Njord, and expects first production from these fields in the second half of 2022

Russia

Production from the Turonian layer of the Yuzhno-Russkoye field came on-stream. The development of the Achimov 4A/5A projects progressed well, despite the pandemic, and commissioning of Achimov 4A started in January 2021. In April 2021 Achim Development started the hot commissioning of Area 5A of the Urengoyskoye oil, gas and condensate field in Western Siberia.

MENA region

Raven, the last piece of the West Nile Delta development, started gas production in April 2021. The major contracts for the Ghasha project in the UAE are currently being retendered.

Mexico

Wintershall Dea executed a successful exploration campaign in Mexico, with significant oil discoveries in Polok and Chinwol. It is continuing the unitisation process of the large-scale Zama discovery with the final investment decision to be taken following the unitisation process.

Find out more at:
www.letterone.com/our-businesses/l1-Energy/

L1 Technology

We are long-term growth investors in telecoms and technology – with no fixed investment time horizons and significant funding available of our own patient capital.

213m

customers in nine growing economies

Find out more at:
www.letterone.com/our-businesses/l1-Technology/

L1 Technology owns a 47.85% voting stake in VEON, the global telecoms company headquartered in Amsterdam, and a 19.8% stake in Turkcell, Turkey's leading telecoms operator.

L1 already has a strategic stake in Qvantel, a provider of Business Support System (BSS) solutions for telecoms that continues to be focused on developing its next-generation BSS product and executing a number of large customer deliveries.

VEON back to growth in an unexpected year

VEON is a leading emerging markets connectivity and digital services company, serving 213m customers in nine growing economies with favourable long-term demographics and rising disposable incomes. VEON's strategy is to provide connectivity – traditional mobile and fixed line voice and data services – and new, digitally enabled experiences tailored to modern customer needs.

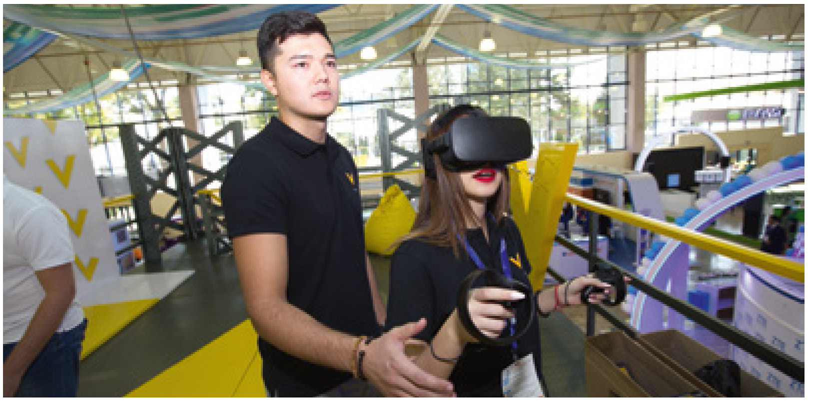
VEON 2020 performance

2020 saw the global telecoms industry facing unprecedented challenges, as the sector battled with the COVID-19 pandemic, the associated lockdowns, and faced a material macroeconomic slowdown. With all of VEON's countries facing travel restrictions which negatively impacted high-margin roaming revenues, demand for data services remained strong, enabling VEON to continue to grow its data revenues at a double-digit pace.

The group delivered FY 2020 results in line with the updated guidance, with full-year revenue of $7,980m (down 1.6% year-on-year in local currency) and adjusted EBITDA of $3,453m (down 2.1% year-on-year in local currency). Group Net Debt/EBITDA of 2.3x (post IFRS) is in line with the group's comfort level of 2.4x. VEON also successfully implemented its investment plans, with total Capex of $1,889m, supporting the expansion of 4G, which will be instrumental in driving both the continued growth in the core business and in enabling its digital services.

Driven by targeted network investments and other customer care measures, the group's 4G user base increased by 20m year-on-year, bringing the total 4G user base to 80m. Mobile data revenues for the year were up by 15.0% year-on-year in local currency, driven by the growth in 4G users with correspondingly higher ARPUs. 4G subscriber penetration was at 38% in FY 2020, and enhancing this over the next few years will be a key tailwind for the group, driving further growth in data revenues.

During 2020, the group also executed on a major transformation from a centralised entity to a structure with fully empowered country operations governed by local boards within a new Governance, Risk and Compliance (GRC) framework to enhance oversight. Group corporate costs reduced significantly as a result of the new operating model implemented, resulting in a lean and more streamlined HQ.



Since 2019, VEON's business in Russia has experienced significant challenges. In 2020, a new leadership team, led by Alexander Torbakhov at Beeline Russia, has been executing an operational turnaround. The new leadership team delivered on improving network quality with record rollout, improved the accessibility of VEON's products, and grew the range of digital services, resulting in both subscriber and revenue growth turning positive at the end of 2020.

In other countries, Ukraine and Kazakhstan delivered double-digit revenue year-on-year local currency growth, and Pakistan recorded good year-on-year growth, strengthening its market leadership. Bangladesh showed positive year-on-year revenue growth in local currency. Algeria's revenue declined due to price competition, while it continued to perform well within a contracting market.

VEON made further progress in building out its digital platforms across the three verticals of fintech, entertainment, and adtech during the year. The group continues to see immense opportunity for the digital business across its various operations, and this will remain a key driver of the long-term growth prospects for the group.

VEON did not make any dividend payments for FY 2020, in line with its guidance.

Turkcell restructuring

In 2020, L1 entered into a series of agreements, with a number of parties with direct and indirect interest in Turkcell, to restructure ownership of the company and put an end to many years of shareholder disagreements.

As part of the transaction, Telia and Cukurova exited their respective investments, while Turkey Wealth Fund acquired 26.2% in Turkcell and gained ability to control its board of directors. L1 invested an additional $334m and increased its economic exposure to Turkcell from 13.2% to 24.8%.

The transaction also included a full and global settlement of all shareholder disputes and litigation between all parties.

As a result of the transaction, Turkcell and its shareholders gained greater stability, more transparency, and a simpler ownership structure that in the future should enable the company to fulfil its growth ambitions and create value for all investors.

As a manifestation of this, on the transaction announcement the Turkcell share price increased 20%. Later, ISS and Glass Lewis, the leading independent proxy advisers, recommended minority shareholders' approval of the transaction and 93% of participating shareholders voted in favour.

In November 2020, post transaction completion, L1 decreased its economic exposure in Turkcell to 19.8% when 5.0% of Turkcell shares were sold on the open market for $216m.

Turkcell makes good progress

Turkcell achieved strong operational and financial results in 2020 driven by its digital-oriented strategy and robust business model, in spite of global economic and political repercussions of the pandemic, which impacted Turkcell's operations and Turkey in general.

FY 2020 revenues increased +15.8% year-on-year to TRY29.1bn; EBITDA grew +17.7% year-on-year to TRY12.3bn; and EBITDA margin expanded +70bps to 42.2%. Growth and profitability were supported by continued strong ARPU performance driven by an enlarged post-paid subscriber base, rising data and digital service usage, and further efforts to upsell to higher tariffs.

The company generated over TRY3.4bn of free cash flow from operations, delevered to 0.8x (0.2x year-on-year improvement) and distributed a dividend of TRY812m in FY 2020, corresponding to the highest rate permissible by the legislation and reflecting the strong fundamentals of the business.

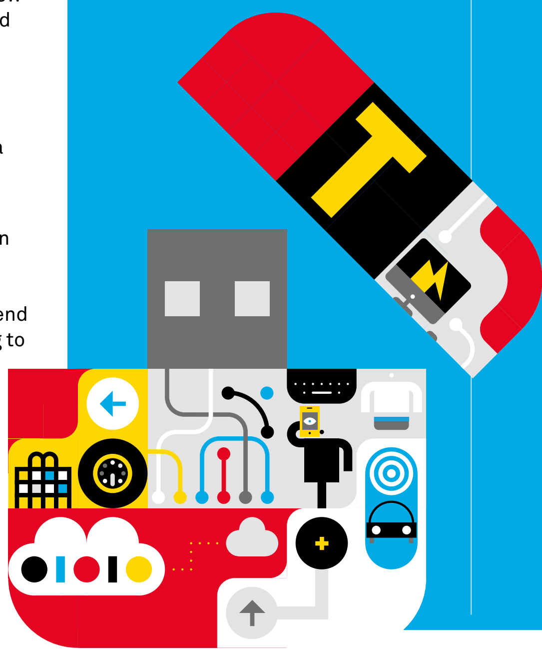
We continue to actively look for investments in the broader technology space in the EMEA region with a particular focus on the following areas:

1 Connectivity

2 Software/ digital platforms

3 Tech-enabled services

4 Data and information platforms



L1 Retail

Retail markets and concepts continue to change at an unprecedented speed, stimulated and challenged by consumer trends, technological disruption, and the increased relevance of sustainability to retail strategies.

2020 was a year of significant disruption and change resulting from COVID-19. The pandemic accelerated many structural changes already underway, stimulated and challenged by consumer trends, technological disruption, and the increased relevance of sustainability to retail strategies.

L1 Retail is a differentiated investor with a longer-term investment horizon than many other financial investors. It seeks to deploy capital into platforms that can be positioned for strong sustainable growth over ten years and beyond.

L1 Retail owns Holland & Barrett, which provides attractive exposure to the growing health and wellness market. It also owns 74.8% of Distribuidora Internacional de Alimentación SA (DIA), the Spanish food retailer.

As essential retailers, both portfolio companies responded swiftly and decisively to serve their customers safely during the pandemic.

Holland & Barrett

Holland & Barrett is Europe's leading health and wellness retailer with over 1,000 stores across the UK, Ireland, Netherlands, and Belgium.

Holland & Barrett experienced significant change in the year, with disruption in its retail business being offset by exceptional growth in its digital business. In each of its core markets, Holland & Barrett was categorised as an essential retailer during COVID-19 and has played an important role in serving customers and local communities, providing advice and products to support immunity, healthy and specialist food, and broader nutritional and wellness supplements.

Undoubtedly, COVID-19 has increased customer awareness and interest in immunity and wellness, and Holland & Barrett is well positioned to serve these growing needs. In 2020, Holland & Barrett achieved its 11th consecutive year of like-for-like growth, ahead of the overall retail market, despite the challenging overall retail environment impacted by COVID-19 and the uncertainty of Brexit. While the lockdown did impact the footfall on the high street, it was offset by strong digital performance. Health and wellness, including immunity, can be expected to play an even more important role in people's lives in the future.

The group's revenue for the year ended 30 September 2020 increased by 1.7% (2019: 2.6%) to £727m (2019: £715m). Gross profit rose to £446m in 2020 compared to £422m in 2019. Sales performance reflects a decline in retail footfall, offset by strong growth in the online channel driven by the COVID-19 impact on customer behaviour. Distribution and operating costs of £280m (2019: £304m) represent a cost to sales ratio of 38.5% (2019: 42.5%) driven by cost efficiencies as well as the change in channel mix to digital sales. Holland & Barrett reported a profit before tax of £29m (2019: loss before tax of £26m).

L1 has a clear long-term vision and growth ambition for the company to become a trusted partner to over 100 million customers in health and wellness. Achieving this ambition will be driven by digital transformation of all aspects of the current business to become a leading omnichannel retailer, as well as developing new technology products to move Holland & Barrett beyond retail to support many more customers' wellness journeys by combining products and services into personalised solutions.

DIA

DIA is a Spanish multinational company specialising in the distribution of food, household, and personal care products. It is a leading proximity food retailer network with over 6,000 owned and franchised stores in Spain, Portugal, Brazil, and Argentina.

Despite the impact of COVID-19, DIA delivered stable top line performance, with like-for-like improvement showing early positive results of its business transformation plan, with fewer stores and adverse currency effects. Throughout each quarter in 2020, DIA achieved positive group like-for-like growth, reaching 7.6% for the full year covering both pre-COVID-19 and post-lockdown periods. The lockdown period, which affected each of its markets in different ways, was clearly a contributor to group like-for-like as restaurants, schools, and offices were shut and people prepared meals at home. 2020 saw the Brazilian real depreciate by 24.1%, while the Argentinian peso depreciated by 33.7%.

This performance was supported by continued cost discipline and underpinned by a strengthened financial structure with positive cash flow, lower net debt with an enhanced maturity profile, and improved working capital. EBITDA was up strongly to €302m thanks to improved gross profit, and DIA continued cost discipline as well as a decrease in restructuring costs. DIA recorded positive Adjusted EBITDA up to 1.8% of net sales driven by increased gross profit and continued cost discipline.

6,000

owned and franchised stores in Spain, Brazil, Portugal and Argentina

7.6%

full year like-for-like growth

Find out more at:
www.letterone.com/our-businesses/l1-Retail

L1 Health

L1 Health partners with entrepreneurs and industry executives to invest in platforms that are propelled by powerful, long-term global trends and transform healthcare.

$235m

K2HV commits $235m in debt financing

Find out more at:
www.letterone.com/our-businesses/l1-Health/

Patient capital with operator mindset
With over $3bn in evergreen capital at its disposal, L1 Health has the ability to underwrite hold periods longer than a typical private equity fund. This allows it to focus on platforms that take time to build and to invest throughout economic cycles.

In October 2019, L1 Health acquired Destination Pet and launched a new animal health and wellness platform in the US and Europe. Destination Pet is a leader in pet healthcare services and a trusted high-quality pet care and vet services provider.

No bark and all bite – rapid growth of Destination Pet
During 2020, our vet and pet care platform Destination Pet emerged as one of the leading animal health platforms in the US. Acquired in October 2019, Destination Pet represents a new breed of integrated pet care solutions to expand the lives of pets. It offers pet families a full range of vet and pet care services digitally integrated and delivered through local brands tailored to their communities.

Our chain of innovative vet and pet care centres more than doubled in size, greatly strengthening our footprint in our core regions of Texas and Arizona and entering new target markets in Arizona, Arkansas, California, North Carolina, Illinois, and New Mexico. Key was the integration and turnaround of VitalPet, a chain acquired out of bankruptcy at the end of March 2020 when uncertainty created by the COVID-19 pandemic was at its climax.

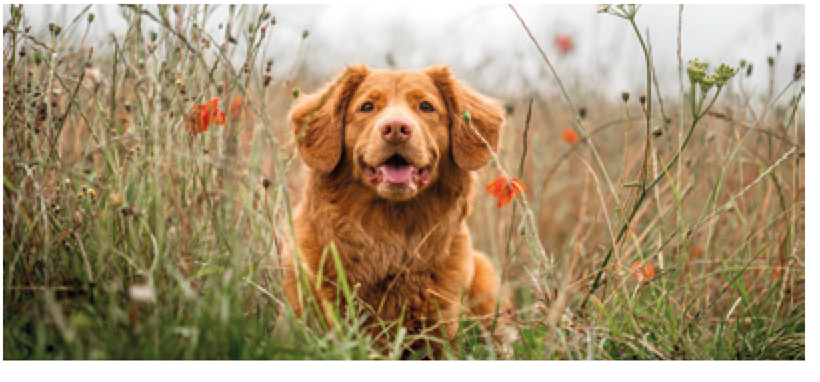
While other pet care locations across the country were shutting down, we followed our conviction in the sector's positive long-term trends. During the lockdown period, all of our centres were designated as essential service providers and remained open. We introduced new handling and cleaning procedures to give pet families confidence and attracted record numbers of new customers, growing our customer base by 7%. Our multi-line business offering allowed us to emphasise new services, such as grooming, where we doubled the number of groomers working with us, and despite the crisis grew average spend per customer by 14%. This allowed us to maintain centre profitability throughout the crisis.

In parallel, we invested heavily in digital capabilities. We acquired digital assets to communicate more seamlessly with pet families and launched telemedicine as a new care option, as well as for connecting with pet families pre and post in-person consultations.

L1 Health has committed $450m to build this animal health platform and expects to continue Destination Pet's expansion of locations and offerings.

Climbing to new highs – K2 HealthVentures (K2HV) scales up
Formed in 2019 as a start-up venture, K2HV provides life sciences companies at the venture and growth stages with innovative financing solutions.

Increasingly, companies at this stage of development recognise the benefits of debt financing to decrease their



average cost of capital and extend their runway to hit milestones that allow more favourable conditions for fundraising. K2HV brings deep scientific, commercial, and financing expertise to underwrite investments in innovative companies with breakthrough solutions, even if they are pre-revenue.

In 2020, K2HV committed $235m in new financing across eight deals, expanding a diversified portfolio across biotech, ag-biotech, medical devices, healthcare IT, and consumer health. K2HV's focus on breakthrough innovation has led to investments in next-generation immunotoxins, vaccine development, gene-edited crops, skincare, evidence-based care for kidney disease, and digital therapeutic solutions for neurobehavioural health.

K2HV's existing book has performed well, with its portfolio companies continuing to progress on clinical and financial milestones. Many have secured additional financing to strengthen their capital position. For K2HV, the combination of debt financing and equity rights has led to attractive returns. The acquisition of portfolio company Companion Medical by Medtronic in September 2020 marked an early gain from this strategy.

K2HV's charter commits it to spend a portion of its investment profits to fund globally underserved and underinvested areas in healthcare. With growing profitability, 2021 will be the first year in which K2HV will make charitable contributions and/or social venture investments in an area of need.

Bringing medicines to the world – new investment in CDMO platform

In 2020, L1 Health's flexible investment strategy allowed us to close out the year with an initial investment in the senior debt of South African conglomerate Ascendis Health.

Ascendis is a JSE-listed company with healthcare assets in South Africa and Europe. One of its operating companies is Cyprus-based Remedica, which develops, manufacturers, and markets high-quality generics. Its low cost, yet flexible manufacturing capabilities and broad distribution network in emerging markets, provides it with a unique advantage to feed the growing appetite for low-cost, high-quality medicines globally.

With an improved capital structure and increased liquidity, Remedica will be able to invest in R&D, capacity, and marketing to expand its business.

"The macro challenges of 2020 have validated our approach of investing in long-term trends and transformative platforms."

Stefan Linn
Managing Partner and CEO of L1 Health

K2HV commits $30m in debt financing to Rgenix

Rgenix is a privately held clinical-stage biopharmaceutical company focused on oncology. Leveraging a discovery platform developed by Rgenix's founding scientists at Rockefeller University, the company has multiple first-in-class drugs in development that target key pathways in cancer progression. This proprietary RNA-based target discovery platform can identify novel targets that are largely invisible to DNA sequencing technology. The identified cancer targets regulate key components of the tumour micro-environment, including immune cells and cancer metabolism pathways. K2HV's commitment supports Rgenix's investment in the clinical development of its pipeline products.

L1 Treasury

L1 Treasury manages the liquidity and financial investments of L1 Investment Holdings. When the group makes strategic investments, L1 Treasury provides the necessary funds, whereas when investments are sold or dividends received, L1 Treasury manages the available funds.

5.5%

5.5% return in 2020

Find out more at:
www.letterone.com/our-businesses/l1-Treasury/

Market backdrop
2020 will be a year few people will easily forget. COVID-19 is leaving a lasting impact on all aspects of society: physical, psychological, social, and economic. In addition, it has had a significant impact on financial markets, which is worth reflecting on.

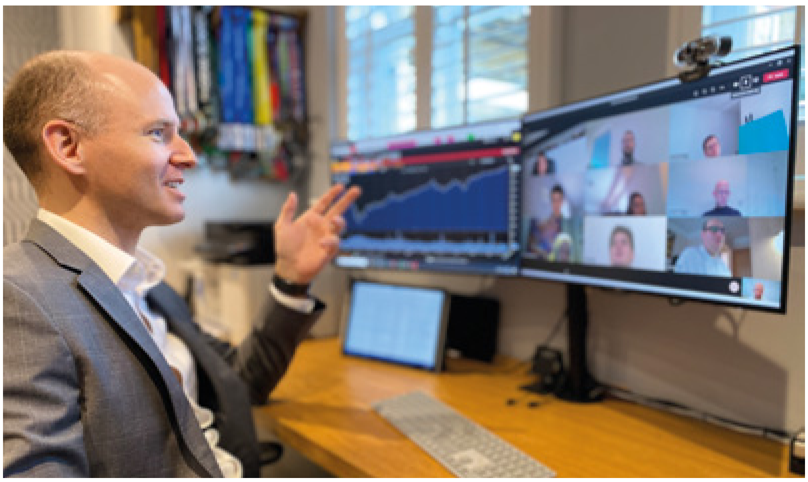
Financial markets are usually a step ahead of the real world. So, by the time the world went into lockdown and the global economy into a tailspin, equity markets had already lost 30% or more of their value. Then something interesting happened: a rapid shift of economic activity from the physical to the digital environment took place. Indeed, within a matter of weeks, we were working from home, communicating via Zoom, and buying everything online. So, value shifted from old economy companies, which trade on relatively low price/earnings multiples, to companies that are technology driven and trade on high price/earnings multiples. As a consequence, the S&P500, which is dominated by the latter type of companies, recovered to its pre-COVID-19 level by mid-summer, despite US GDP falling more than 10% in that period. By the end of the year, when the first vaccines were approved, the index was up 16%. So, the value loss in the US equity market due to the overall drop in GDP was more than compensated by the shift of economic activity from bricks and mortar businesses to digital ones.

The above illustrates how at times of extreme stress, society often adapts quickly, develops and embraces new technologies, and generally boosts productivity. Financial markets then present value the future gains from that improved productivity.

The equity markets have also been helped by the announcements of stimulus packages by governments to help the economy recover. These measures are increasing inflation expectations and are pushing up bond yields. Financial analysts expect this will initially not affect the rise in equity markets much because the rising yields will coincide with increased economic activity. However, once this is all in the price, share prices will become more vulnerable. Consensus is this could materialise as of the second half of 2021.

Portfolio highlights
L1 Treasury's mandate incorporates both liquidity and return objectives. Therefore, in its portfolio construction, L1 Treasury pursues a "barbell" strategy whereby a portfolio of cash and liquid securities is combined with higher-yielding, less liquid investments such as loans, funds, and real estate.

Our direct investments are predominantly credit investments, usually secured by real or financial assets. Geographically, these investments are in the UK, continental Europe, and the US.



The highest proportion of our direct investments is in UK-based financing businesses, namely:

- We provide short to medium-term property finance to UK real estate developers and landlords through a partner firm, Octane Capital. Since its inception in 2017, when we partnered with Jonathan Samuels and his highly talented team in setting up the company, Octane Capital has extended more than 1,100 mortgage loans totalling over £850m. Over the last four years, the company has gone from strength to strength and is one of the leading firms active in the UK in bridge mortgages and specialty buy-to-let mortgages. During the last year, as the UK's economy suffered from the effects of COVID-19, Octane Capital has increased its book of mortgages, helping borrowers to bridge this difficult period. We are very proud of what Jonathan and his team have achieved at www.octanecapital.co.uk and the contribution they have made to keep economic activity going.
- We have also provided direct large loan financings to care homes and to the development of residential housing – two sectors where the UK Government would like to see more investments.

Performance review
L1 Treasury's portfolio performed well in 2020, producing a return of 5.50% for the year, equivalent to 4.87% over one-month LIBOR. All of our investment books showed positive performance, with the biggest contribution coming from our hedge fund investments and our bond portfolio.

L1 Treasury's return on assets was achieved while experiencing significant movements in its capital base: during the year, it accommodated $2.3bn of outflows in funds required by the other parts of the group and received $1.1bn returned funds from group companies.

In order to manage these capital flows, L1 Treasury maintains substantial amounts of liquidity in cash and money market funds supplemented by committed borrowing facilities to ensure sufficient funds are available at all times for strategic investment opportunities.

Total assets under management stood at $4.25bn at the end of 2020, down from $5.2bn at the end of 2019.

Other activities
L1 Treasury often collaborates with other business units of the group in identifying, structuring, and executing investments either for its own portfolio or for the portfolio of another business unit.

L1 Treasury's highly experienced global team
The L1 Treasury team is international, with employees of 12 different nationalities. The team is highly experienced and contains all the specialities that would be found in an institutional asset management company, from risk management and investment professionals to technology and infrastructure experts.

The CIO of L1 Treasury is responsible for implementing the investment strategy within the risk limits and parameters set by its Investment and Risk Committee. The committee consists of executives of the L1 group as well as non-executives.

Portfolio highlights

The composition of L1 Treasury's portfolio at the end of 2020 was as follows:

Cash and money market funds	14.4%
Bonds	28.7%
Direct investments	21.0%
Funds	33.9%
Other	2.0%

Maintaining best-in-class governance

Ensuring robust processes and the highest standards of business ethics

Chairman's governance letter

L1 recognises that our success rests on maintaining best-in-class corporate governance and a sound business reputation.

Letter

Lord Davies of Abersoch
Non-Executive Chairman

Dear All

The COVID-19 pandemic made 2020 a year of rapid change in terms of the way we work. Despite the challenges of remote working, we have maintained the highest standards of corporate governance, training, business practice, and ethics at L1. While L1 is a privately held business, we implement governance practices that aim to meet public company international standards.

L1 has continued to update its policies and procedures to address the compliance risks that its businesses faced in 2020 and to ensure that its processes are robust and in line with the strictest international standards.

L1 has maintained its excellent banking relationships this year and prides itself on being open and transparent with all its relationships. L1 has relationships with many of the major global banking institutions.

Working from home represented a paradigm shift in terms of IT infrastructure – a massive challenge, which L1 IT masterfully rose to and handled. All systems have the best levels of protection and patching available, and L1 continues to commit significant spend to its cyber security defences. Staff training also continued to be a focus in 2020, ensuring that all persons working for L1 are aware of their personal responsibilities to act as the "human firewall".

"Despite the challenges of remote working, we have maintained the highest standards of corporate governance, training, business practice, and ethics at L1"

This year, L1 staff have undergone virtual classroom training and six online compliance training courses, and refreshed their knowledge through testing, to ensure that all persons working for L1 operate to the highest standards of business ethics and have a high level of awareness of market conduct regulations, anti-bribery legislation, sanctions compliance, and anti-money laundering laws.

In 2020, L1 has continued to focus on high standards of business ethics in its businesses, dedicating resources to its compliance monitoring programme, both within L1 and within its investee companies. The L1 compliance team has worked closely with its investee companies to support their compliance risk monitoring processes, to ensure that even remote and indirect connection with any high-risk person is flagged and requires compliance approval.

L1 takes its compliance stance extremely seriously and has a strong compliance function. Any violations of internal compliance rules are investigated by the Group Compliance Director immediately and are escalated to the CEO and the Audit & Compliance Committee. Whistleblowing procedures are in effect in L1 and in investee companies, and we ensure that any allegations are investigated and action taken where required.

Kind regards

Lord Davies of Abersoch
Non-Executive Chairman

Our standards

1. Board-level governance
2. Board of Directors
3. Audit & Compliance Committee (ACC)
4. Nomination & Remuneration Committee (NRC)
5. Corporate governance
6. Role of Advisory Boards

Our standards

Committed to the highest standards

At L1 we are committed to ensuring the highest standards of corporate governance, business practice, and ethics.

The primary goal of the Boards of Directors of Letterone Holdings S.A. ("L1 Holdings") and Letterone Investment Holdings S.A. ("L1 Investment Holdings") is to ensure the long-term success of L1 for the interest of its shareholders and its stakeholders.

L1 Holdings is the top holding company of the group which invests in the energy sector through L1 Energy. L1 Investment Holdings is the top holding company of the group which invests in all other L1 industries, through L1 Technology, L1 Health, L1 Retail, and L1 Treasury.

1

Board-level governance

At a corporate level, L1 operates through two Boards of Directors, each with executive, shareholder, and independent directors.

The Board of Directors of L1 Holdings is responsible for setting investment strategy and approving investment decisions for L1 Energy. The Board of Directors of L1 Investment Holdings is responsible for setting investment strategy and approving investment decisions for L1 Technology, L1 Treasury, L1 Health, and L1 Retail.

The Boards are supported by their Audit & Compliance and Nomination & Remuneration Committees.

2

Board of Directors

The Board of Directors for both L1 Holdings and L1 Investment Holdings consists of ten people: Chairman Lord Davies; CEO Jonathan Muir; COO Vitalij Farafonov; Non-Executive Director Wulf von Schimmelmann; Non-Executive Director Richard Burt, former US Ambassador to Germany; and five shareholders, including the principal shareholder Mikhail Fridman.

The Board of Directors of L1 Holdings and L1 Investment Holdings meet, at a minimum, on a quarterly basis in Luxembourg to review investment performance and to make decisions on capital allocation (including investments and divestments), strategy, and budgets. The Boards also receive regular updates from the Chairmen of each Board Committee. Additional Board meetings are scheduled when time-sensitive investment and strategic decisions are required.

3

Audit & Compliance Committee (ACC)

Members: Lord Davies (Chairman), Alexey Kuzmichev, Petr Aven, Vitalij Farafonov

The ACC meets on a quarterly basis in Luxembourg to review financial reporting, audit, tax, and risk management matters, and to approve the work plan of the new policies or updates. Compliance is a standing item on the agenda, and the Group Compliance Director presents a report covering the previous quarter on compliance achievements, statistics, and breaches. Our external auditor, E&Y, is invited to attend each meeting.

A key role of the ACC is to ensure the integrity of L1's financial statements, the effectiveness of the internal and external audit function, and the effectiveness of the internal controls and risk management framework of L1 and its portfolio companies. Its role is also to ensure the overall adequacy of compliance programmes and policies, including their communication throughout the group and portfolio companies, as well as the group's compliance with all legal and regulatory requirements.

> **"The oversight of our portfolio companies and strategic equity holdings is undertaken by separate teams in L1 Energy, L1 Health, L1 Technology, and L1 Retail."**

In 2020, the ACC was focused on reviewing and keeping current the risk management framework, review of the financial statements, review of the scope and results of the internal audit work, and overseeing the implementation of the compliance policies and the staff training programmes. The ACC provided guidance to top management of the portfolio companies to ensure the effectiveness of the internal controls, risk management framework, and overall compliance function.

External legal counsel continues to review and optimise compliance policies across L1.

4

Nomination & Remuneration Committee (NRC)

Members: Mikhail Fridman (Chairman), Lord Davies, Jonathan Muir

The NRC approves the employment of senior executives, sets the principles of the performance management process, approves KPIs, reviews performance, and makes decisions on remuneration and incentive schemes.

A key role of the NRC is to ensure that L1 recruits, retains, and develops the best people.

5

Corporate governance

L1 has a strong compliance culture backed by a robust compliance function, which is responsible for ensuring that we comply with all relevant laws and regulations across all countries in which we operate and uphold the highest standards of business ethics. The Group Compliance Director, Simon Roache, has more than 17 years' experience in UK regulation and compliance.

An effective compliance programme is in place, incorporating robust compliance policies and Know Your Client (KYC) procedures, enabling us to meet our anti-money laundering obligations. Risk-based due diligence measures are required to be applied to all third parties with whom we do business or seek to do business, including ongoing monitoring of all third-party relationships and transactions. All higher-risk counterparties and partners require escalation to, and approval by, the Group Compliance Director prior to the establishment of any business relationship.

L1 has strict anti-bribery and corruption procedures in place, including training for all staff. We require all business parties to comply with anti-bribery laws. L1 has robust sanctions compliance procedures to ensure that all staff are aware of sanctions risks. All transactions and counterparties are screened against all relevant sanctions lists.

Since it was established, L1 has produced consolidated IFRS financial statements, which are subject to annual audit by E&Y.

6

Role of Advisory Boards

The investment teams in L1 Energy, L1 Technology, L1 Health, and L1 Retail put forward investment recommendations, which are scrutinised thoroughly before they are presented to the L1 Holdings and L1 Investment Holdings Boards for an investment decision. To challenge our investment teams' recommendations and to challenge our assumptions, we have recruited sector investment Advisory Boards consisting of internationally respected chief executives, chairmen, and entrepreneurs. Each Advisory Board provides advice on whether to proceed with a particular opportunity in its sector. The Advisory Boards play an essential role in our investment governance process.

The oversight of our wholly owned companies and strategic equity holdings is undertaken by separate teams in L1 Energy, L1 Technology, L1 Health, and L1 Retail. They work with the management of the companies we invest in, providing strategic input and monitoring the operational performance of each portfolio.

They are responsible for setting strategy, finance, capital allocation, performance management, and top team talent management within their companies.

L1 Treasury's investment parameters are set by the Investment and Risk Committee, delegated by the L1 Treasury Board within a framework approved by the Board of L1 Investment Holdings.

Board of Directors

L1 Holdings and L1 Investment Holdings Boards

Committee membership key

- Audit & Compliance Committee (ACC)
- Nomination & Remuneration Committee (NRC)
- Ⓒ Chairman

Lord Davies of Abersoch

Non-Executive Chairman
Committee memberships: Ⓒ

Lord Davies is Chairman of Corsair Capital, a private equity firm specialising in financial services. He is Chairman of the Lawn Tennis Association (LTA), Chair of the UK-India business council for the UK Government, and Senior Non-Executive Director at Diageo. He is a former UK Minister for Trade and prior to that was Chairman and CEO of Standard Chartered for more than 12 years.

Jonathan Muir

Chief Executive Officer
Committee memberships:

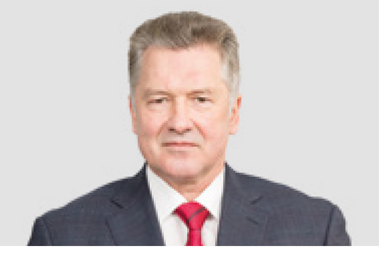
Prior to joining L1, Mr Muir was CFO (2008–2013) and Vice President of Finance and Control (2003–2008) of TNK-BP, which he joined after serving as CFO of SIDANCO, one of TNK-BP's heritage companies. Prior to this, he was a partner at the global audit and consulting company Ernst & Young (1985–2000). He graduated with first class honours from St Andrews University in the UK. He is a British qualified Chartered Accountant and a member of the Institute of Chartered Accountants of England and Wales.

Petr Aven

Co-founder of L1
Committee memberships:

Mr Aven is Chairman of ABH Holdings, a Luxembourg-based investment holding company of the Alfa Banking Group. He is a member of the Supervisory Board of Alfa Group Consortium. From 1994 to June 2011, he served as President of Alfa-Bank Russia. Prior to joining Alfa-Bank Russia in 1994, Mr Aven was Minister of Foreign Economic Relations for the Russian Federation (1991–1992). An economist by training, Mr Aven spent several years at the International Institute for Applied Systems Analysis in Laxenburg, Austria (1989–1991).

Andrei Kosogov



Co-founder of L1

Mr Kosogov holds various positions at Alfa Group Consortium, including a member of the Supervisory Board of Alfa Group Consortium. From November 2005 to June 2009, Mr Kosogov acted as Chairman of the Supervisory Board of Alfa-Bank Ukraine, and from November 2005 to April 2011 he was Chairman of the board of directors of Alfa Asset Management. Mr Kosogov graduated from the Moscow Power Engineering Institute in 1987.

Mikhail Fridman

Co-founder of L1
Committee memberships: C

Mr Fridman was born in Lviv, Ukraine. He started as an entrepreneur in 1988, establishing Courier, with a group of friends from university. With several partners, he founded Alfa Group in 1989. Alfa Bank, now the largest private bank in Russia, was founded in 1991. In 1995, they entered the food retail market. X5 Retail Group is today the No 1 food retailer in Russia. In 2003, Alfa Group and its partners completed a deal with BP to form the TNK-BP joint venture. In 2013, it was sold for $56bn.

German Khan

Co-founder of L1

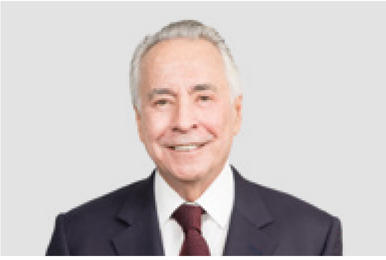
From 2003 to 2013, Mr Khan served as Executive Director and member of the Management Board of TNK-BP Management. Currently, Mr Khan holds various positions at Alfa Group, including a member of the Supervisory Board of Alfa Group Consortium. Mr Khan graduated from the Moscow Institute of Steel and Alloys. He is known as an active supporter of Jewish initiatives worldwide and is a member of the Supervisory Board of Wintershall Dea GmbH.

Alexey Kuzmichev

Co-founder of L1
Committee memberships:

Mr Kuzmichev holds various positions at Alfa Group Consortium, including a member of the Supervisory Board of Alfa Group Consortium. He is a graduate of the Moscow Institute of Steel and Alloys and is an active supporter of charities.

Richard Burt



Non-Executive Director

Ambassador Burt is a former US Ambassador to Germany and partner at McKinsey & Co. He began working for the US State Department in the early 1980s. After a period as Director of the US State Department's Bureau of Politico-Military Affairs and as Assistant Secretary of State for Europe, he was named US Ambassador to Germany in 1985. He also served as the US's Chief Nuclear Arms Negotiator in talks that concluded the US-Russian Strategic Arms Reduction Treaty (START) in 1991.

Wulf von Schimmelmann

Non-Executive Director

Mr von Schimmelmann is a member of the Board of Thomson Reuters. He is Chairman of the Supervisory Board of Deutsche Post DHL and a member of the Supervisory Board of Maxingvest AG. He was Chief Executive Officer of DeutschePostbank. Prior to this, he was on the Board of Managing Directors at BHF-Bank in Frankfurt am Main, DG Bank in Frankfurt am Main, and Landesgirokasse-Bank. Before this, he was a partner at McKinsey & Co.

Vitalij Farafonov

Chief Operating Officer

Mr Farafonov has been with the group since it was founded in 2013, initially as Group CFO. Prior to L1, he held various positions within the CFO function of TNK-BP. Mr Farafonov qualified as a Chartered Accountant with Deloitte London in 2004, after which he spent five years working in Deloitte's M&A lead advisory group. Mr Farafonov graduated from the University of Bristol with a BSc in Mathematics.

Combined pro-forma balance sheet of L1[1] (unaudited)
As at 31 December 2020

US$ million	31 Dec 2020	31 Dec 2019
Core investments		
L1 Energy – Wintershall Dea	**5,208**	6,684
L1 Technology	**2,656**	3,837
– Veon	**1,676**	2,959
– Turkcell	**917**	627
– Uber	**–**	149
– Other	**63**	102
L1 Retail	**2,033**	1,733
– DIA	**691**	564
– Holland & Barrett	**1,342**	1,169
Private equity funds	**6,976**	5,854
L1 Health	**361**	126
Total Core Investments	**17,234**	18,234
Treasury investments and other assets		
Debt instruments	**1,558**	2,083
Hedge funds (at fair value)	**1,673**	2,124
Direct lending (at amortised cost)	**552**	388
Liquidity funds	**129**	379
Other liquid instruments	**(51)**	51
Cash and cash equivalents	**85**	71
Other assets and liabilities	**1,160**	114
Total Treasury and other assets	**5,105**	5,210
Net assets[2]	**22,340**	23,444
Equity		
Share capital and reserves	**23,444**	22,162
Dividends distributed	**(113)**	(214)
(Loss)/profit for the year	**(991)**	1,496
Total equity	**22,340**	23,444

1 The Combined Financial Information has been prepared by aggregating the financial information in the audited consolidated IFRS financial statements of Letterone Holdings S.A. and Letterone Investment Holdings S.A. IFRS does not provide for specific requirements regarding the preparation of Combined Financial Information and consequently, this information has not been prepared in accordance with IFRS.

2 The combined net asset value of US$22.3bn comprises the US$7.5bn consolidated net asset value of Letterone Holdings S.A. and the US$14.8bn consolidated net asset value of Letterone Investment Holdings S.A. as at year ended 31 December 2020.

Combined pro-forma income statement of L1[1] (unaudited) for the year
Ended 31 December 2020

US$ million	Year ended 31 Dec 2020	Year ended 31 Dec 2019
(Loss)/gain from core investments		
(Loss)/gain from L1 Energy	**(1,709)**	1,413
Net (loss)/gain from Wintershall Dea	**(1,709)**	1,413
Change in fair value	**(1,709)**	1,413
(Loss)/gain from L1 Technology	**(1,007)**	128
Net (loss)/gain from VEON	**(1,172)**	120
Dividend income	**148**	296
Change in fair value	**(1,320)**	(176)
Net gain/(loss) from Turkcell	**183**	(1)
Dividend income	**17**	10
Change in fair value	**270**	(11)
Realised loss	**(104)**	–
Net (loss)/gain from other investments	**(18)**	9
Dividend income	**–**	1
Change in fair value	**(8)**	22
Realised loss	**(10)**	(14)
Gain from L1 Health	**31**	–
Change in fair value of K2HV and Destination Pet	**31**	–
Gain/(loss) from L1 Retail	**314**	(224)
Change in fair value – Holland & Barrett (including Forex hedge result)	**187**	37
Change in fair value – DIA	**126**	(261)
Gain/(loss) from private equity funds	**1,141**	(66)
Distributions	**–**	8
Change in fair value	**1,141**	(74)
Total (loss)/gain from Core Investments	**(1,231)**	1,251
Income from L1 Treasury	**252**	324
Net portfolio gain	**252**	324
Other income and expenses (net)	**(11)**	(79)
Operating (loss)/profit	**(990)**	1,496
Income tax expense	**(1)**	–
Net (loss)/profit for the year	**(991)**	1,496

1 The Combined Financial Information has been prepared by aggregating the financial information in the audited consolidated IFRS financial statements of Letterone Holdings S.A. and Letterone Investment Holdings S.A. IFRS does not provide for specific requirements regarding the preparation of Combined Financial Information and consequently this information has not been prepared in accordance with IFRS.

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