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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

To the Shareholders Meeting and Supervisory Board of LPP S.A.

Audit report on the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements of LPP S.A. Group (the 'Group'), for which the holding company is LPP S.A. (the 'Company') located in Gdańsk at Łąkowa 39/44 St., which include: the consolidated statement of financial position as at 31 January 2020, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity, for the period of 13 months from 1 January 2019 to 31 January 2020 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the 'consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 January 2020 and its consolidated financial performance and its consolidated cash flows for the period of 13 months from 1 January 2019 to 31 January 2020 in accordance with required applicable rules of International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are prepared in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 20 May 2020.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'Regulation 537/2014').

Our responsibilities under those standards are further described in the *'Auditor's responsibilities for the audit of the financial statements'* section of our report.

We are independent of the Group in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
Going concern – analysis of the liquidity risk	
Consolidated financial statements of the Group have been prepared based on the assumption, that the entities of the Group will be able to continue as a going concern in the foreseeable future, which is for at least next 12 months after the balance sheet date. On 11 March 2020 the World Health Organization has announced global pandemic of the COVID-19 disease caused by the coronavirus SARS-CoV-2. Based on the decree of the Ministry of Health that announced a state of epidemy threat in Poland, restrictions have been introduced on the retail trade for the	Based on the received forecasts and discussions held with the Company's Management we have performed analysis of the liquidity position of the Group and financial needs during the period of next 12 months after the balance sheet date. Additionally, our procedures included, among others: • getting acquainted with the financial position of the Company after the balance sheet date, including fluctuations of the cash balance and working capital and availability of the additional financing; • understanding and analysis of the steps taken by the Company to limit the impact of the market conditions on the financial

Key audit matter	How the matter was addressed in our audit
tenants in the shopping centers larger than 2.000 sqm, that caused lack of possibility to operate in the retail stores located in the shopping centers. At the same time, due to the announcement of the pandemic and gradual restrictions being introduced in countries where the Group conducts its operations in the retail stores, the Company's Management has made a decision about temporary closing all stores in 21 countries. In the period of 13 months ended 31 January 2020, sale in retail stores amounted to 88% of the Group's revenue, whereas other part relates mainly to the sales in the e-commerce channel. On 4 May 2020, gradual release of the restrictions related to the retail trade has started in Poland, allowing tenants to operate in their stores located in the shopping centers. Due to the aforementioned factors of the current market environment that puts significant pressure on the financial liquidity of the Group, that arose after the balance sheet date due to the epidemic of coronavirus SARS-CoV-2, the Company's Management has made an assessment regarding the potential impact of the current situation on the Group's ability to continue as going concern, including impact on the forecasted cash flows. This assessment included, among others, analysis of various stressed scenarios regarding the impact of the market situation and further development of the pandemic on future cash flows of the Group. The going concern assumption as a base of the preparation of the consolidated financial statements requires making significant assumptions regarding future impact of the past events or current market and legal conditions in which	position of the Group after closure of the retail stores, including significant reduction of the operating costs and investment activities and assuring financial liquidity and discussing with the Company's Management what potential events might have significant impact on the going concern assumption of the Group; • evaluating alternative stressed scenarios analyzed by the Management of the Company; • we have performed additional, independent analysis of the Group's ability to continue as going concern in different time perspectives in light of the probable scenarios of the development of the pandemic and customers' buying habits as well as their purchase power after retail stores are re-opened again and we have engaged our valuation and modelling specialists to support us with underlying assumptions and models to those analysis; • analysis of the growing e-commerce channel and intensive growth of the on-line sales noted after the balance sheet date due to the closure of the traditional retail stores; • discussions with the Company's Management regarding the results of the performed going concern analysis, including Management's assessment in respect of the impact of coronavirus SARS-CoV-2 on the forecasted cash flows, base of which was analysis of the negative scenarios that might have an impact on the Group's operations after the balance sheet date due to the pandemic; • analysis of the impact of the current situation on the covenants included in the loan agreements; • discussions with the Company's Management in terms of the risk related to the outflow of the cash due to the guarantees provided by the Group; • obtaining information regarding current status of negotiations of retail space lease agreements with landlords and status of the

Key audit matter	How the matter was addressed in our audit
the Group operates, including future decisions of the customers and their buying habits as well as the purchase power. This is connected with inherent uncertainty. Taking this into consideration we have identified the aforementioned issue as a key audit matter. In the note 6 of the additional explanatory notes to the consolidated financial statements "Basis for preparation of the consolidated financial statements" and in the note 36 "Events after the balance-sheet date" the Company's Management has presented impact of the epidemic situation on the current operations of the Group as well as factors, assumptions and actions taken based on which the consolidated financial statements of the Group have been prepared based on the assumption of the going concern of the Group in the foreseeable future.	applications filed by the Group into various government subsidy programs; • evaluating Management's plans and assumptions including risk of further development of the coronavirus pandemic that might have an impact on further operations of the Group in the future. Furthermore, we have assessed the adequacy of disclosures connected with the going concern assumption and with the analysis of the liquidity risk in the consolidated financial statements.
Uncertainty connected with the tax implications of certain transactions	
The Group in which the Company is the holding entity has a complex structure and operates within constantly changing legal and tax environment. Tax settlements of the Group are therefore difficult and complex as they require individual interpretations. The decision to create respective provisions and as to their amounts, as well as the estimates and scope of disclosures relating to contingent liabilities are subject to complex judgments of the Company's Management, which are often based on currently available information on the legal and actual status of the proceedings, including interpretations of those, due to the frequent lack of reference to established regulations or legal precedents. Inherent risk of	Our audit procedures included, among others, the documentation of our understanding of significant transactions, including their tax as well as the accounting and reporting implications. As part of our work, with the participation of our tax specialists: (i) we performed a review of the documentation possessed by the Company's Management, including the communication with tax authorities, as well as the tax opinions gathered by the Company's Management from its external advisors i.e. legal and tax specialists; (ii) we have performed an assessment of the level of risk connected with the assumptions used by the Company's Management in the light of existing regulations, as well as the basis for the amount of the tax liability recognized by the Management of the Company.

Key audit matter	How the matter was addressed in our audit
uncertainty is related to this matter. We have therefore identified uncertainties associated with the tax treatment of certain transactions as a key audit matter. The Company was also a party of proceedings with tax authorities in Poland that have significant impact on the Group's consolidated financial statements. In particular, in 2019 and in prior periods the Company was a party of the proceedings from tax authorities in respect of the correctness of the calculation of the corporate income tax regarding the tax deductibility of the license fees paid for the use of trademarks contributed in kind by the Company to the Company's subsidiary located on Cyprus. On 3 March 2020, the Company has received the results of the custom and fiscal controls and made relevant corrections of the corporate income tax returns for the prior periods while at the same time paying additional amounts of the tax liabilities including interest, which finalized the conducted controls. Disclosures regarding the uncertainty related to the tax treatment of certain transactions are presented in note 27.2 "Tax settlements" and in note 10.1 "Effective tax rate" of the additional explanatory notes to the consolidated financial statements.	Furthermore, we have assessed the adequacy of disclosures connected with this matter in the consolidated financial statements.
Valuation of assets connected with points of sale	
The Group holds assets in over 1700 points of sales in 24 different countries, including Europe and Middle East. Investments in points of sale are significant from the audit's perspective due to their significant value presented in the consolidated statement of financial position in the total amount of 917 million zlotys as at 31 January 2020,	Our audit procedures included among others the assessment of the accounting policies and procedures used by the Company's Management in the identification of potential impairment indicators of loss making stores, in particular confirming legitimacy of differentiating assumptions applied for particular countries where the Group does possess its points of sales.

Key audit matter	How the matter was addressed in our audit
as well as the judgment involved in the identification of any impairment indicators and assumptions made for the purpose of assessment of the recoverable amounts of those assets. The above mentioned judgements focus mainly on the Management's expectations relating to future performance of the stores, that depends on the expected store traffic, basket size and the competitive landscape on the local markets, e.g. in shopping mall. Each year the Group's Management makes an assessment, whether impairment indications exists and afterwards, if the impairment of particular points of sale exists for stores operating longer than 3 years (5 years for the stores operating in Western Europe), based on historical results as well as further development plans for a particular location. The Group's disclosures relating to the impairment of investments in particular points of sale are included in Note 13 "Tangible fixed assets" of the additional explanatory notes to the accompanying consolidated financial statements.	We have identified internal controls implemented in the Group ensuring accuracy and completeness of recognized impairment write-offs, including the review performed by the Management, of financial results of the stores operating longer than 3 years in a particular location (5 years for the stores operating in Western Europe). We have confirmed the consistency of the methodologies and assumptions within the Group and we have verified the arithmetical correctness of the historical data regarding financial results incurred by the points of sale and afterwards, we have performed analysis of this data. We have assessed the adequacy of the impairment write off recognized by the Management for selected assets connected with the particular unprofitable points of sale. Additionally, we have assessed the adequacy of disclosures connected with this matter in the consolidated financial statements.
Inventories	
As at 31 January 2020 the net book value of inventories presented in the consolidated statement of financial position amounted to 1.9 billion zlotys. The Group applies the weighted average cost method for inventory valuation purposes. In case of goods held in the customs warehouse the valuation is performed based on the identification of particular items method.	Our audit procedures included among others documentation of our understanding of the inventory valuation process comparing to the assumed net selling prices, identification of controls over this area, and the performance of tests around the above mentioned controls. We have also taken part in inventory stock counts in selected locations and based on that we have assessed the quantity of inventories as at the balance sheet date.

Key audit matter	How the matter was addressed in our audit
As at the balance sheet date goods are presented in the consolidated statement of financial position according to their purchase prices not higher than the net selling prices. The Group performs an analysis of inventory impairment based on their aging, the inventory management policies as well as the way the goods will be sold, i.e. either in traditional stores or outlets. While making the assessment of the valuation of goods as at the balance sheet date, the Group makes an assessment of the planned returns from the current collection, including sale made on-line, and takes that into consideration during the assessment of the net selling price. The Group's disclosures on inventory management are included in Note 18 "Inventories" of the additional explanatory notes to the accompanying consolidated financial statements.	Additionally we have also performed an assessment regarding control mechanisms designed and implemented in order to limit the risk of improper valuation. We have tested classification of assets to particular aging groups (collections) and based on that we have performed a recalculation of the inventory write off, using the rules set by the Group in their accounting principles. We have performed an assessment of the Group's analysis and accounting principles used, including the rationality and objectivity of the Company's Management in relation to the performed inventory analysis. Additionally we have conducted substantive testing including detail discussions regarding the key assumptions used in the conducted inventory valuation and analysis of the historical data regarding margins realized on certain collections that have average rotation period longer than one year. In case of the valuation of inventories, on a selected sample we have performed tests around the appropriateness of valuation of particular goods according to either the weighted average cost method or identification of particular items method. Additionally, we have assessed the adequacy of disclosures connected with this matter in the consolidated financial statements.
First time adoption of IFRS 16 "Leases"	
International Financial Reporting Standards 16 "Leases" ("IFRS 16") requires analysis of contracts and business relationships, and also involves a number of judgments and estimates related to, among others, determination on whether a given contract falls under IFRS 16 scope, leasing period, including assessment of duration of contracts concluded for the indefinite time,	During the audit of the consolidated financial statements, we have analysed accounting policies applied by the Group covering application of contracts falling under IFRS 16 scope and related significant judgments and estimates, in particular: determining the scope of contracts to be recognized under IFRS 16, determination of minimum lease payments, determination of lease periods, rationale of applied incremental borrowing rates

Key audit matter	How the matter was addressed in our audit
minimum lease payments as well as incremental borrowing rates. As a result of the above, as well as the quantity and variety of contracts and impact on the Group's consolidated financial statements and due to the fact, that the Group has applied the standard for the first time, this matter was considered as a key audit matter. Management Board of the Company decided to implement IFRS 16 using the modified retrospective approach. As a result of the first application of the IFRS 16 and recognition of right-of-use assets and lease liabilities, the statement of financial position of the Group as at 1 January 2019 was increased by 3 billion PLN in comparison to 31 December 2018 presented in the prior period consolidated financial statements. Disclosures related to the implementation of the first time adoption of the IFRS 16, including key estimates and assumptions have been presented in the note 8.1 "IFRS 16 Leasing" of the additional explanatory notes to the accompanying consolidated financial statements. Disclosures related to the applied accounting policies connected with leases, including right-of-use assets and lease liabilities are presented in the note 14 "Leasing" of the additional explanatory notes to the accompanying consolidated financial statements.	and applied practical solutions, including expedients and simplifications. In addition, our audit procedures covered, among others: • understanding of IFRS 16 implementation process, recording of contracts within its scope and evaluation of related key control mechanisms; • conducting test of controls for selected controls in relation to recognition contracts within scope of IFRS 16; • performing substantive tests on sample of contracts and assessment of the correctness of parameters used in calculation of leasing liabilities and right-of-use assets; • analysis of the completeness of contracts within the scope of IFRS 16. Additionally, we have evaluated adequacy of consolidated financial statements disclosures in relation to guidelines deriving from IFRS 16, as well as related to key judgements concerning treatment of lease contracts and new standard implementation impact on the consolidated financial statements of the Group.

Responsibilities of the Company's Management and members of the Supervisory Board for the financial statements

The Company's Management is responsible for the preparation the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Company's Management is responsible for assessing the Group's (the holding company and significant components') ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Company's Management either intends to liquidate the Group (the holding company or significant components) or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the 'Accounting Act'). The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

In accordance with International Auditing Standard 320, section 5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

The scope of the audit does not include assurance on the future profitability of the Group nor effectiveness of conducting business matters now and in the future by the Company's Management.

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control,

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,

- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Group to cease to continue as a going concern,

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation,

- we obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period of 13 months from 1 January 2019 to 31 January 2020, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report (jointly 'Other Information').

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the consolidated financial statements does not include the Other Information. In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the consolidated financial statements.

In addition, we are required to inform whether the Company has prepared the representation on non-financial information and to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the consolidated financial statements.

Moreover, based on our knowledge of the Group and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Group has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information ("the Decree").

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

Information on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has included in Directors' Report information on the preparation of a separate report on non-financial information, referred to in art. 55 par. 2c of the Accounting Act and that the Company has prepared such a separate report.

We have not performed any attestation procedures in respect to the separate report on non-financial information and do not express any assurance in its respect.

Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which have been provided to the Group, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Group in the audited period, have been disclosed in the note 35 of the additional explanatory notes to the consolidated financial statements.

Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of the Supervisory Board from 15 May 2017 and reappointed based on the resolutions dated 25 May 2018 and 13 December 2018. The consolidated financial statements of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2017, i.e. for the past three consecutive years.

Key Certified Auditor

Marcin Zieliński
certified auditor
no in the register: 10402

on behalf of:
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
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Warsaw, 21 May 2020