INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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

The audit report on the annual consolidated financial statements

We have audited the accompanying annual consolidated financial statements for the year ended 31 December 2017 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 Street, containing the consolidated statement of financial position as at 31 December 2017, the consolidated comprehensive income statement, the consolidated statement of changes in equity, the consolidated cash flow statement for the period from 1 January 2017 to 31 December 2017, as well as the accounting principles (policies) and additional explanatory notes ('the accompanying consolidated financial statements').

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

The Company's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission decrees and other applicable laws, as well as the Company's Statute. The Company's Management is also responsible for such internal control as determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act of 29 September 1994 (the 'Accounting Act'), the Company's Management and the members of the Company's Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our objective was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view [1] of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

We conducted our audit of the accompanying consolidated financial statements in accordance with:

[1] Translation of the following expression in Polish is 'rzetelny i jasny obraz'.

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (‘Act on Statutory Auditors’),
- National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 with subsequent amendments,
- 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 (“Regulation 537/2014”).

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the consolidated financial statements as a whole were prepared based on properly maintained accounting records and are free from material misstatement due to fraud or error, and to issue an independent auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it is not guaranteed that an audit conducted in accordance with the above mentioned standards will always detect material misstatements. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in aggregate, they could influence economic decisions of the users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not recognizing a material misstatement due to an error, as fraud may involve collusion, falsification, deliberate omissions, misleading or circumventing internal control and may affect every area of law and regulation, not just this directly affecting the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation of the consolidated financial statements 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 Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

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

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, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor’s professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report to the Audit Committee issued on the date of this report.

Independence

While conducting our audit, the key certified auditor and the audit firm remained independent of the entities comprising the Group in accordance with the regulations of Act on Statutory Auditors, Regulation 537/2014 and principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

Based on our best knowledge and belief, we declare that we have not provided non-audit services, that are prohibited based on article 136 of the Act on Statutory Auditors and article 5, point 1 of Regulation 537/2014, to the Company.

Appointment of the audit firm

We were appointed to audit the consolidated financial statements based on the Company's Supervisory Board resolution dated 15th May 2017. We have been auditing the consolidated financial statements of the Company for the first time for the financial year ended 31 December 2017.

Most significant assessed risks

In the course of our audit we have identified the below described most significant assessed risks of material misstatement (key audit matters), including due to fraud and we designed appropriate audit procedures in response to those risks. Where we considered to be relevant in order to understand the nature of the identified risk and audit procedures performed we have also included key observations arising with respect to those risks.

These matters were addressed in the context of our audit of the accompanying consolidated financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

Description of the nature of the risk of material misstatement (key audit matters)	*Audit procedures in response to the identified risk*
First year audit *Why a matter was determined to be a key audit matter* The consolidated financial statements for the financial year ended 31 December 2017 were the first being subject to our audit.	*Audit approach* Our audit procedures included among others: · conducting the kick off meeting with key personnel responsible for financial reporting of the Group,

Bearing in mind the size and scope of operations of the Company and other entities within the Group, the key was to understand the complexity of the Group's organizational structure and its impact on the processes within the Group. During the audit, we performed a number of additional procedures necessary to understand and gain knowledge about: (i) the Group's business profile and its accompanying processes (ii) specific risks related to the business (iii) control mechanisms implemented by the Group entities and adopted policies affecting financial reporting of the Group. These procedures allowed us to assess the risk of the audit, identify the risk of material misstatement, including inherent audit risks and control risks, determine materiality levels and the scope of audit procedures. In addition, as part of the first-year audit, the purpose of our additional procedures was to determine whether opening balances contain distortions that materially affect the financial statements for the current period and whether the accounting policies applied to the opening balance were applied continuously in the preparation of financial statements for the current period, or whether the changes made therein were correctly accounted for and properly presented in accordance with the applicable financial reporting assumptions. *Reference to related disclosures in the consolidated financial statements* The Group's disclosure on changes in the presentation are included in Note 8 *"Change in applied accounting principles"* of the additional explanatory notes to the accompanying consolidated financial statements of the Group for the year ended 31 December 2017.	· gaining an understanding of the control environment in the Company and entities within the Group and testing of selected controls in relation to individual processes, · understanding of the Group's accounting policy and significant values included in financial statements based on professional judgment and estimates, · communication with a predecessor auditor, including discussion of key audit matters of the Group audit, · assessment of the main audit issues from the previous reporting period and their impact on the Group's financial statements for the current financial year and the opening balances, · assessment of the adequacy of disclosures, in accordance with the International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, in the consolidated financial statements. The results of our procedures as well as the revised audit strategy based on them have been communicated to the Management Board of the Company and to the Audit Committee.
Uncertainty connected with the tax implications of selected transactions *Why a matter was determined to be a key audit matter*	*Audit approach* Our audit procedures included among others the documentation of our understanding of significant transactions, including their tax

In the previous periods as well as currently the Company incurs costs connected with the sublicense fees for the usage of trademarks that have been contributed in kind to its subsidiary, i.e. Gothals Ltd with its registered seat in Cyprus. In June 2017 the Company has been provided with a decision of the Head of Customs and Fiscal Office for the Pomorskie Voivodeship, according to which the Company has been charged with an additional corporate income tax liability, as a result of an overstatement of tax deductible costs for the year 2012. At the same time on 31 January 2018 the Director of the Fiscal Administration Chamber in Gdansk withheld the Decision of the Head of Customs and Fiscal Office for the Pomorskie Voivodeship in Gdynia moving the case for reconsideration by this office and indicating the necessity to supplement the collected evidence. The Company's Management has presented its assessment of the impact of this case on the consolidated financial statements in Note 28.2 of the additional explanatory notes to the accompanying consolidated financial statements. We also refer to this matter in the *"Emphasis of matter"* paragraph of this report. The Polish corporate income tax legislation is subject to frequent changes. As a result there is a lack of reference to well-established tax regulations. The current tax legislation lacks clarity that causes frequent contradictions in legal interpretations both within government bodies and between companies and government bodies. Tax settlements are subject to review and investigation by the tax authorities, which are entitled to impose severe fines and the additional corporate income tax liabilities imposed as a result of the tax proceedings require to be settled after being in force, together with interest. Additionally, the Group conducts its business activity in many countries with different tax and legal jurisdictions. Taking into account the assessment made by the Company's Management of the impact of this matter on the accompanying consolidated financial statements, we have considered this topic to be significant from the	as well as the accounting and reporting implications. We have also 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 Management from its external advisors, i.e. tax and legal experts. We have engaged our tax specialists to perform the review of the Management's documentation relating to the selected transactions, in order to assess the level of risk connected with the assumptions used by the Management, in the light of existing regulations, as well as the basis for creation of the provision for tax settlements. Additionally, we have assessed the adequacy of disclosures connected with this matter in the consolidated financial statements with the fact pattern and the underlying documentation.

perspective of the audit of the accompanying consolidated financial statements. *Reference to related disclosures in the consolidated financial statements* The Group's disclosures relating to the uncertainty connected with the tax implications of selected transactions are included in Note 28.2 "Tax settlements" of the additional explanatory notes to the accompanying consolidated financial statements.	
Valuation of assets connected with points of sale *Why a matter was determined to be a key audit matter* The Group holds assets in 20 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 statement of financial position in the total amount of 555 million zlotys as at 31 December 2017, as well as the judgment involved in the identification of any impairment indicators and the subsequent assessment of recoverability of the invested amounts connected with those assets. The above mentioned judgements focus mainly on the Management's expectations relating to future performance of the stores, that depends from 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, if the impairment of particular points of sale took place 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.	*Audit approach* Our audit procedures included among others the assessment of the accounting policies and procedures used by the Group's Management in the identification of potential impairment indicators of loss making stores, including the review performed by the Management, of financial results of the stores operating longer than 3 years in a particular location. We have assessed the adequacy of the impairment write off recognized by the Management for selected assets connected with the particular points of sale. In case of loss making points of sale for which no impairment write off has been recognized, we have discussed with the Management the assumptions used to support the rationale for such a decision as well as the actions taken in order to improve the financial situation of a particular store. Additionally, we have assessed the adequacy of disclosures connected with this matter in the consolidated financial statements with the fact pattern and the underlying documentation.

Reference to related disclosures in the consolidated financial statements 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.	
Inventory management *Why a matter was determined to be a key audit matter* As at 31 December 2017 the net value of inventories presented in the consolidated statement of financial position amounted to 1.5 billion zlotys. The Group applies 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. As at the balance sheet date the 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 and takes that into consideration during the assessment of the net selling price. *Reference to related disclosures in the consolidated financial statements* The Group's disclosures on inventory management are included in Note 19 "Inventories" of the additional explanatory notes to the accompanying consolidated financial statements.	*Audit approach* 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. We have assessed the reasonableness of the accounting policy used by the Group in this area, 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 managements of particular Group entities in relation to the performed inventory analysis, as well as we have assessed whether the controls designed and implemented in order to limit the risk of improper valuation are sufficient and effective. Additionally we have conducted substantive testing including detail discussions regarding the key assumptions used in the conducted inventory valuation. 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.

	Furthermore, we have assessed the adequacy of disclosures connected with this matter in the consolidated financial statements with the fact pattern and the underlying documentation.

Opinion

In our opinion, accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company’s Statute.

Emphasis of matter

Without qualifying our auditor’s report, we draw your attention to the Note 28.2 of the additional explanatory notes to the accompanying consolidated financial statements, in which the Company’s Management informed about obtaining the decision of the tax authorities on the ongoing tax proceeding in relation to the treatment as tax deductible cost in the CIT declaration for the year 2012 of license fees paid for the usage of the Group’s trademarks that have been contributed in kind to the Company’s subsidiary with its seat in Cyprus. On 31 January 2018 the Director of the Fiscal Administration Chamber in Gdansk, withheld the Decision of the Head of Customs and Fiscal Office for the Pomorskie Voivodeship in Gdynia moving the case for reconsideration by this office and indicating the necessity to supplement the collected evidence. In the above mentioned note the Company’s Management has also presented its assessment of the impact of this case on the accompanying consolidated financial statements. Taking into account the early stage of the ongoing proceeding, we draw attention to the uncertainty connected with the final outcome of the conducted proceeding, the impact of the obtained decisions as well as the outcome of the dispute with the tax authorities on the tax settlements of the Company in the following years.

Other matters

The consolidated financial statements for the prior financial year ended 31 December 2016 were subject to an audit by a key certified auditor acting on behalf of another authorized audit firm, who issued an unqualified opinion with an emphasis of matter on these consolidated financial statements, dated 6 April 2017. The emphasis of matter related to the ongoing tax proceeding in relation to the treatment as tax deductible costs of sublicense fees for the usage of trademarks contributed in kind to the Company’s subsidiary. We refer to this matter in the preceding paragraph.

Report on other legal and regulatory requirements

Opinion on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition, the Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report meets the requirements of the Accounting Act.

Our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the Director's Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying consolidated financial statements.

Our responsibility was also to make a statement, on whether based on our knowledge about the Company and its environment obtained during the audit of the financial statements we have identified in the Director's Report any material misstatements and to indicate the nature of each of material misstatement.

In our opinion the Directors' Report was prepared in accordance with the relevant regulations and reconciles with the information derived from the accompanying financial statements. Moreover, based on our knowledge of the Company and its environment obtained during the audit of the accompanying financial statements, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

The Company's Management and members of the Company's Supervisory Board are responsible for preparation of the representation on application of corporate governance in accordance with the applicable laws.

In connection with the conducted audit of the consolidated financial statements, our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the issuer, obliged to present a representation on application of corporate governance, constituting a separate part of the Director's Report, included in the representation information required by applicable laws and whether the related information is in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 91, section 5, point 4, letter a, b, g, j, k and l of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of deeming information required by the regulations of a non-member country equal ('Regulation'). Information stipulated in paragraph 91, section 5, point 4 letter c-f, h and i of the Regulation included in the representation on application of corporate governance is in accordance with applicable laws and information included in the accompanying consolidated financial statements.

Information on preparation of the statement on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has published information on the preparation of a separate report on non-financial information, referred to in art. 49b par. 9 of the Accounting Act and that the Company will prepare such a separate report.

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

Key Certified Auditor

Marcin Zieliński
certified auditor
No. 10402

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Warsaw, 12 March 2018