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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., containing: the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2018 to 31 December 2018 and additional information to the consolidated financial statements, including the accounting principles (policies) and additional explanatory notes (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 December 2018 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,

- are 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 10 April 2019.

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.

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 the actual status of the ongoing tax proceeding for the year 2012 in relation to the treatment as tax deductible costs of the license fees paid for usage of the Group's trademarks that have been contributed in kind by the Company to its subsidiary with a seat in Cyprus. 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. Our opinion does not include a qualification with respect to this matter.

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	Audit response
Uncertainties connected with the tax implications of selected 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 Company is a party of proceedings with tax authorities that have significant impact on the Group's financial statements. 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 judgment 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 uncertainty is related to this matter. We have therefore identified the uncertainties associated with the tax treatment of transactions as a key audit matter. Disclosures regarding the uncertainty related to the tax treatment of certain transactions are presented in note 28.2 "Tax settlements" 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.	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 provision created for the tax settlements. Furthermore, we have assessed the adequacy of disclosures connected with this matter in the consolidated financial statements with the underlying documentation.

Key audit matter	Audit response
Impairment of assets connected with points of sale	
The Group does possess over 1700 points of sales in 23 different countries of Europe, Middle East and Asia. 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 720 million zlotys as at 31 December 2018, as well as the judgment and estimates involved in the identification of impairment indicators and assessment of recoverability of those assets. The above mentioned estimates relate mainly to the Group's Management's expectations relating to future performance of particular points of sale, that depend 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 the impairment of particular points of sale took place for stores operating longer than 3 years (or 5 years for the stores operating in Western Europe), based on historical financial 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 (stores) are included in Note 14 "Tangible fixed assets" of the additional explanatory notes to the accompanying consolidated financial statements.	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, in particular confirming legitimacy of differentiating assumptions applied for particular countries where the Group does possess points of sales. We have identified internal controls implemented in the Group ensuring accuracy and completeness of recognized impairment write-offs, including the review performed by the Group's Management of financial results of particular stores operating longer than 3 years in a given location (or 5 years for the stores operating in Western Europe). We have confirmed the consistency within the Group and we have verified the arithmetical accuracy of the historical data regarding financial results realized by particular points of sale and afterwards, we have performed analysis of this data. We have re-assessed the adequacy of the impairment write off recognized by the Group's Management for selected assets connected with the unprofitable points of sale. Furthermore, we have assessed the adequacy of disclosures connected with this matter in the consolidated financial statements with the underlying documentation.

Key audit matter	Audit response
Inventory management	
As at 31 December 2018 the net value of inventories presented in the consolidated statement of financial position amounted to 1.6 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 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 in 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 the on-line sale, and takes that into consideration during the assessment of the net selling price. The Group's disclosures relating to the inventory management are included in Note 19 "Inventories" of the additional explanatory notes to the accompanying consolidated financial statements.	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 performed in selected locations and based on that we have assessed the quantity of inventories as at the balance sheet date. We have also assessed the reasonableness of the accounting policy used by the Group in this area, tested classification of assets to respective aging groups (collections) and based on that we have performed a recalculation of the inventory write-off, using the rules set up by the Group in the Group's accounting policies. We have performed an assessment of the Group's analysis and accounting policies used, including the rationality and objectivity of the Management in relation to the performed inventory analysis. We have also 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 detailed discussions regarding 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, based 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 underlying documentation.

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, based on properly maintained accounting records, 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 Company's 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 Company's 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 Company's 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 from 1 January 2018 to 31 December 2018, 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.

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 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 will prepare such a separate report.

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

Representation on the provision of non-audit services

To the best or our knowledge and belief, we declare that we have not provided services other than audits of the financial statements to the Company and its subsidiaries, in particular we have not rendered services other than audits, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors.

Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements for the first time based on the resolution of the Company's Supervisory Board dated 15 May 2017 and reappointed based on the resolution dated 25 May 2018. The consolidated financial statements of the Group have been audited by us for the last two consecutive years starting from the financial year ended on 31 December 2017.

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.
Rondo ONZ 1, 00-124 Warsaw
no on the audit firms list: 130

Warsaw, 10 April 2019