Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1
00-124 Warszawa

+48 (0) 22 557 70 00
+48 (0) 22 557 70 01
www.ey.com/pl

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, containing: the consolidated statement of financial position as at 31 January 2021, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity for the period from 1 February 2020 to 31 January 2021 and additional information to the consolidated financial statements, including the 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 2021 and its consolidated financial performance and its consolidated cash flows for the period from 1 February 2020 to 31 January 2021 in accordance with required applicable rules of 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 27 April 2021.

Basis for opinion

We conducted our audit in accordance with the National Standards on Auditing in the version of International Auditing Standards as adopted 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 International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), 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 IESBA Code. 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
Renegotiations of lease agreements	
During the year ended 31 January 2021, due to the long periods of closure of the Group's points of sales connected with the restrictions introduced for the purpose of preventing the effects of the COVID-19 pandemic, the Group has led negotiations related to the lease of retail space agreements, that were finalized with signing the amendments to the majority of the Group's rent agreements. As of the 31 January 2021 the carrying value of the lease liability recognized in the consolidated statement of financial position amounted to 3.2 billion PLN and the right of use assets amounted to 2.6 billion PLN, out of which around 94% relates to the lease of retail space agreements.	As a part of our audit procedures, we have made an analysis and evaluation of the accounting policies applied by the Group regarding the accounting treatment of the impact of signed annexes to the lease agreements on the consolidated financial statements, in particular on the carrying value of right of use assets, the lease liability, depreciation, other operating income and costs as well as financial income and financial costs, resulting from the nature of the changes introduced by the annexes to the past and future payments as well as other changes, e.g. related to the term of the lease agreement. We have also assessed the ability of the Group to apply the amendment to the International Financial Reporting Standard 16 "Leases"

Key audit matter	How the matter was addressed in our audit
Impact of modifications introduced by the signed annexes was reflected in the consolidated financial statements by decreasing the lease liability by 164 million PLN and the right of use assets by 140 million PLN and by recognizing financial income amounting to 67 million PLN in cases where changes in the agreements related only to the past payments or payments due no later than by 30 June 2021 (according to the amendment to the IFRS 16 published in May 2020) and other operating income in the amount of 30 million PLN when the agreements have been terminated based on the provision of the annexes. Due to the volume of signed annexes, variety of changes introduced to the original agreements and their impact on the consolidated financial statements, this subject was considered as a key audit matter. Disclosures related to the applied accounting policy regarding the accounting treatment of the annexes to the lease of retail space agreements and their impact on the consolidated financial statements are included in the note 14 "Leasing" of the additional explanatory notes to the consolidated financial statements.	("IFRS 16") published by the International Accounting Standards Board in May 2020. We have confirmed the consistency of the methodology applied for the accounting treatment of the impact of annexes on the consolidated financial statements depending on the provisions included in the annexes. Our audit procedures related also to the substantive testing on the selected sample of the amendments for the purpose of: • assessment of the appropriateness of the qualification of the annex to the certain category of annexes and consequent accounting treatment of the impact of the annex within respective category; • assessment of the appropriateness of the parameters used to calculate the lease liability and the right of use assets as well as verification of the correctness of the calculation. Furthermore, we have assessed the adequacy of disclosures connected with this issue in the consolidated financial statements.
Valuation of the assets connected with the points of sale	
The Group holds assets in over 1700 points of sales in 24 different countries, including Europe, Middle East and in Asia. Investments in the points of sale are significant from the audit's perspective due to their significant value presented in the consolidated statement of financial position as at 31 January 2021 in the total amount of 890 million PLN and the respective right of use assets connected with them amounting to 2,5 billion PLN	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 as well as the respective right of use assets connected with them, in particular confirming legitimacy of differentiating assumptions applied for particular countries where the Group does possess its points of sales.

Building a better working world

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, 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" and in the note 5.2 "Uncertainty over estimates and assumptions" 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 the financial results of the stores operating longer than 3 years in a particular location. We have confirmed the consistency of the methodologies and assumptions within the Group related to the forecasted results of selected points of sales, especially taking into account the potential impact of the Covid-19 pandemic, 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 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 2021 the net book value of inventories presented in the consolidated statement of financial position amounted to 2.1 billion PLN. 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. As at the balance sheet date goods are presented in the consolidated statement of financial position according to their	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. Additionally we have also performed an assessment regarding control mechanisms

Key audit matter	How the matter was addressed in our audit
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 in the stores. 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 on inventory management are included in Note 19 "Inventories" of the additional explanatory notes to the accompanying consolidated financial statements.	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, taking also into account the potential impact of the Covid-19 pandemic on the margins realized on sale. 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 an 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, depending on the purpose, 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.
Liquidity risk	
The 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.	As part of our audit procedures, we have familiarized ourselves with the budget and forecasted cash flows prepared by the Company's Management that cover the period of twelve months after the balance sheet date. Assumptions that were a basis for the preparation of the budget and forecasted cash flows have been discussed in detail with the

Key audit matter	How the matter was addressed in our audit
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 pandemic threat in Poland, starting from 14 March 2020 the first temporary restrictions were introduced on the retail trade for the 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. In the subsequent months of the period under audit and after the balance sheet date, in countries, in which the Group does possess their points of sales, similar restrictions in the retail trade and closure of the points of sales have been introduced. In the year ended 31 January 2021, the stores have been closed for 256 days in at least one country in which the Group has its point of sales. In the year ended 31 January 2021, sale in retail stores amounted to 71% (in the same period last year amounted to 88%) of the Group's revenue, whereas other part relates mainly to the sales in the e-commerce channel. Due to the aforementioned factors of the current market environment that puts significant pressure on the financial liquidity of the Group, 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. 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 the Group operates, including future	Company's Management including conditions of the availability of the sources of additional financing from the loan agreements. 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; • analysis of the availability of other than cash short term financial assets like participation units in money market funds and deposits; • understanding and analysis of the steps taken by the Company to limit the impact of the market conditions on the financial position of the Group after the closure of the retail stores, including significant reduction of the operating costs and the 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; • 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 long-term impact of coronavirus SARS-CoV-2 on the operations of the Group; • analysis of the impact of the current situation on the covenants included in the loan agreements (so-called "covenants");

Key audit matter	How the matter was addressed in our audit
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 note 6 of the additional explanatory notes to the consolidated financial statements “Basis for preparation of the consolidated financial statements”, in the note 30.2 “Liquidity risk” and in the note 37 “Events after the balance sheet date” the Company’s Management has presented the impact of the pandemic situation on the current operations of the Group and its’ liquidity 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, which is 12 months after the balance sheet date.	• 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; • analysis of the impact of re-negotiated contract terms of retail space lease agreements on the operating costs of the Group. 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.

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, actions taken to eliminate threats or safeguards applied.

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 from 1 February 2020 to 31 January 2021, the representation on the corporate governance as a separate element of the Directors' Report and the representation on preparation of the statement on non-financial information, mentioned in article 55, section 2b of the Accounting Act (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 consolidated financial statements.

Building a better working world

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 Directors' Report.

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

Warsaw, 27 April 2021