Building a better working world

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 and the Supervisory Board of LPP S.A.

Audit report on the annual consolidated financial statements

Qualified opinion

We have audited annual consolidated financial statements of LPP S.A. Group (the 'Group'), for which the parent company is LPP S.A. (the 'Parent Company') located in Gdańsk at Łąkowa St. no 39/44, which comprise the consolidated statement of financial position as at 31 January 2022, 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 2021 to 31 January 2022 and additional information to the consolidated financial statements, including a summary of significant accounting policies and additional explanatory notes (the 'consolidated financial statements').

In our opinion, except for the effect of the matter described in paragraphs '*Basis for qualified opinion'* the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 January 2022 and its consolidated financial performance and its consolidated cash flows for the period from 1 February 2021 to 31 January 2022 in accordance with required applicable rules of International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- comply in respect of the form and content with laws applicable to the Group and the Parent Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 20 April 2022.

Basis for qualified opinion

As disclosed in the additional explanatory notes 9.3 and 13 to the consolidated financial statements, the Group has decided to write off the fixed assets and inventories in the total amount of 608 million PLN due to the military attack of Russia on Ukraine and due to sanctions and restrictions that have been implemented as its consequence. In our opinion, according to the provisions of IAS 10 "Post balance sheet events", the military conflict in Ukraine represents a non-adjusting event that should not impact the valuation of the Group's assets and liabilities as at 31 January 2022. Had the Group recognized the write off in line with the provisions of IAS 10, the assets of the Group as at 31 January 2022 as well as the gross profit for the year then ended would have been higher by 608 million PLN.

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 EU Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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. In addition to the matters described in the 'Basis for qualified opinion' section we have determined the matters described below to be the key audit matters. We do not provide a separate opinion on these matters.

Key audit matter	How our audit responded to this matter
Valuation of the assets connected with the points of sale	
The Group holds assets in over 2 200 points of sales in 20 different countries in Europe, as well as in Middle East and Asia. Investments in the points of sale are significant from the audit's perspective due to their significant value included in the consolidated statement of financial position as at 31 January 2022 in the total amount of 1,1 billion PLN and the respective right of use assets connected with them amounting to 3,2 billion PLN 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 indicators exist and afterwards, if such indicators exist for particular points of sale, the Management	Our audit procedures included among others the assessment of the accounting policies and procedures used by the Parent 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 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 Management of the financial results of the stores operating longer than 6 months in a particular location. We have confirmed the consistency of the methodologies and assumptions applied within the Group related to the forecasted results of selected points of sales 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.

evaluates whether an impairment write-off should be recognized for stores operating longer than 6 months, based on their 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 (shops) and the respective right of use assets connected with them 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 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 scope and adequacy of disclosures connected with this matter in the consolidated financial statements.
Inventories	
As at 31 January 2022 the net book value of inventories included in the consolidated statement of financial position amounted to 3.9 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 recognized 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 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 the inventory management are included in Note 19 "Inventories" of the additional explanatory notes to the 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 the 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 designed and implemented in order to limit the risk of improper valuation. We have tested a 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 analysis prepared by the Management of the Parent Company and accounting principles used, including the rationality and objectivity of the Management in relation to the performed inventory analysis. Additionally we have conducted substantive testing including detailed 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, based 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 scope and adequacy of disclosures connected with this matter in the consolidated financial statements.

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

The Management Board of the Parent Company 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 applicable International Financial Reporting Standards adopted by the European Union, the applied accounting policies, other applicable laws, as well as the Statute of the Parent Company, and is also responsible for such internal control as the Management Board of the Parent Company determines 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 Management Board of the Parent Company is responsible for assessing the Group's (the Parent 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 Management Board of the Parent Company either intends to liquidate the Group (the Parent Company or significant components) or to cease operations, or has no realistic alternative but to do so.

The Management Board of the Parent Company and the members of its 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 Supervisory Board of the Parent Company are responsible for overseeing the 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 a 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 they, individually or in the aggregate, could be reasonably expected to influence the economic decisions of the users taken on the basis of these consolidated financial statements.

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 opinions 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 efficiency or effectiveness of conducting business matters now and in the future by the Management of the Parent Company.

As part of an 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 Group's Management,
- conclude on the appropriateness of the Parent 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 consolidated 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 consolidated management report of the Group for the period from 1 February 2021 to 31 January 2022 ("Directors' Report"), the consolidated statement on corporate governance and the consolidated statement on non-financial information, which are separate sections of the Directors' Report and other elements of the Consolidated Annual Financial Report for the financial year ended 31 January 2022 others than the consolidated financial statements and our auditor's report thereon (jointly 'Other Information').

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

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

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

Auditor's responsibilities

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 Parent Company has prepared the consolidated statement on non-financial information and to issue an opinion on whether the Parent Company has included the required information in the consolidated statement on 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 in the Directors' Report material misstatements, others than those related to the matter we are referring to in the section '*Basis for qualified opinion*'.

Opinion on the corporate governance statement

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 consolidated statement on 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 Act on Statutory Auditors, we confirm, that the Parent Company has prepared the consolidated statement on non-financial information mentioned in article 55, section 2b of the Accounting Act as a separate section of the Directors' Report.

We have not performed any assurance procedures on the statement on non-financial information and do not provide any assurance thereon.

Report on other legal and regulatory requirements

Opinion on the compliance of marking up of the consolidated financial statements prepared in the single electronic reporting format with the requirements of the regulation on technical standards on the specification of a single electronic reporting format

As part of our audit of the consolidated financial statements we were engaged to perform a reasonable assurance engagement to express an opinion on whether the consolidated financial statements of the Group as at and for the year ended 31 January 2022, prepared in the single electronic reporting format, included in the file named „GK_LPP_2022-01-31_PL.zip" ('consolidated financial statements in ESEF format'), was marked up in accordance with the requirements stipulated in the Commission Delegated Regulation (EU) of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the 'ESEF Regulations').

Identification of the applicable criteria and description of the subject matter

The consolidated financial statements in ESEF format were prepared by the Parent Company's Management in order to meet the tagging requirements and technical requirements of a single electronic reporting format which are specified in the ESEF Regulations.

The subject matter of our assurance engagement is the compliance of marking up of consolidated financial statements in ESEF format with the requirements of the ESEF Regulations, while the requirements specified in these regulations represent, in our opinion, applicable criteria for us to express an opinion.

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

The Management of the Parent Company is responsible for the preparation of the consolidated financial statements in ESEF format in accordance with the tagging requirements and technical requirements of a single electronic reporting format which are specified in the ESEF Regulations. Such responsibility includes the selection and application of appropriate XBRL tags using the taxonomy specified in these regulations.

The responsibility of the Management also includes the design, implementation and maintenance of such internal control as Management determines is necessary to enable the preparation of the consolidated financial statements in ESEF format that are free from any material incompliances with the ESEF Regulations.

The members of the Supervisory Board of the Parent Company are responsible for overseeing the financial reporting process, which include also the preparation of financial statements in the format required by applicable regulations.

Auditor's responsibilities

Our objective is to express an opinion, based on the performed reasonable assurance engagement, that the consolidated financial statements in ESEF format have been tagged in accordance with ESEF Regulations.

We have performed our assurance engagement in accordance with the National Standard on Assurance Engagements Other than Audit and Review 3001 PL on audit of financial statement prepared in the single electronic reporting format ('NSAE 3001PL') and when applicable in accordance with National Standard on Assurance Engagements Other than Audit and Review 3000 (R) in the form of the International Standard on Assurance Engagements 3000 (revised) – 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information' ('NSAE 3000 (R)').

The standard requires us to design and perform procedures to obtain reasonable assurance that the consolidated financial statements in ESEF format have been prepared in accordance with the applicable criteria.

Reasonable assurance is a high level of assurance, but it is not a guarantee that the assurance engagement conducted in accordance with NSAE 3001PL and, when appropriate, in accordance with NSAE 3000 (R), will always detect material misstatement when it exists.

The selection of procedures depends on the auditor's professional judgment, including the auditor's assessment of risks of material misstatements, whether due to fraud or error. When performing risk assessment the auditor takes account of internal controls related to preparation of the consolidated financial statements in ESEF format, to design procedures responsive to those risks in order to obtain evidence that is sufficient and appropriate. The assessment of internal control was not performed for the purpose of expressing an opinion on its operational effectiveness.

Summary of work performed

Procedures that were designed and performed by us included among others:

- obtaining an understanding of the process of preparation of the consolidated financial statements in ESEF format, including the process of selection and application of XBRL markups and maintaining compliance with the ESEF Regulations, as well as obtaining an understanding of internal controls related to this process;
- reconciling the tagged information in consolidated financial statements in ESEF format to the audited consolidated financial statements;
- assessment of the compliance with the technical standards on the specification of a single electronic reporting format with the use of specialistic IT tools and IT expert;
- assessment of the completeness of tagging of information in the consolidated financial statements in ESEF format with XBRL tags with the use of specialistic IT tools and IT expert;
- assessment whether XBRL tags from the taxonomy specified by the ESEF Regulations have been applied appropriately and whether extension taxonomy elements have been used when there are no appropriate elements in the core taxonomy specified in the ESEF Regulations;
- evaluating of the anchoring of the extension taxonomy elements to the core taxonomy elements specified by the ESEF Regulations.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the compliance of marking up with ESEF Regulations.

Ethical requirements, including independence

While performing the assurance engagement, the key statutory auditor and the audit firm have complied with the independence and other ethical requirements as specified by the IESBA Code. The IESBA Code is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. We have also complied with other independence and ethical requirements applicable to this assurance engagement in Poland.

Quality control requirements

The audit firm applies national quality control standards in the form of International Standard on Quality Control 1 – 'Quality Control for Firms that Perform Audits and Reviews of Financial Statements and other Assurance and Related Services Engagements' as adopted by a resolution of the National Council of Certified Auditors ('NSQC').

In accordance with NSQC, the audit firm maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Opinion on compliance with the ESEF Regulations

Our opinion has been formed on the basis of the matters outlined in this report and therefore should be read in conjunction with these matters.

In our opinion, the consolidated financial statements in ESEF format have been marked up, in all material respects, in accordance with the requirements of the ESEF Regulations.

Statement on the provision of non-audit services

To the best of our knowledge and belief, we represent that services, which we have provided to the Group, are compliant with the laws and regulations applicable in Poland, and that non-audit service, which are prohibited under article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors, were not provided. 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 from 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 five consecutive years.

Key Certified Auditor

[signed with the certified electronic signature
on 20 April 2022 on the original version in Polish]

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, 20 April 2022