

Procedure for the selection of an audit firm to audit the financial statements of LPP S.A.

Amended, consolidated text, effective from May 31, 2023.

§ 1

[Definitions]

1. For the purposes of this procedures, the terms used herein are understood as follows:

Emergency Selection Mode – selection of the Authorized Entity in the circumstances referred to in the Polish Financial Supervision Authority Guidelines, i.e. in particular in the event of the Authorized Entity losing its authorizations in the course of the audit or review or other reasons preventing the Authorized Entity from carrying out the audit or review within the time limit;

Key Certified Auditor, and, respectively, Certified Auditor – a key certified auditor or a certified auditor within the meaning of the Act on Certified Auditors, respectively, appointed by the Entity Authorized to Audit Financial Statements;

Authorized Entity – an audit company that audits the Financial Statements;

Permitted Services Provision Policy - Policy for the provision by the audit firm conducting the audit, by entities related to this audit firm and by a member of the audit firm's network of permitted non-audit services referred to in Article 130 section 1 point 6 of the Act on Certified Auditors, developed and adopted by the Audit Committee operating within the Supervisory Board of the Company;

Selection Policy - The Policy for selecting the entity authorized to audit the Financial Statements of LPP S.A., referred to in Article 130 section 1 point 5 of the Act on Certified Auditors developed and adopted by the Audit Committee operating within the Supervisory Board of the Company;

Selection Procedure - The procedure for selecting the entity authorized to audit the Financial Statements of LPP S.A., referred to in Article 130 section 1 point 7 of the Act on Certified Auditors defined and adopted by the Audit Committee operating within the Supervisory Board of the Company;

Regulation 537 - Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on detailed requirements for statutory audits of public-interest entities, repealing Commission Decision 2005/909/EC;

Financial Statements - individual financial statements of the Company and consolidated financial statements of the LPP Capital Group;

Company / audited entity - LPP S.A. with its registered office in Gdańsk at ul. Łąkowa 39/44, 80-769 Gdańsk, entered into the Register of Entrepreneurs kept by the District Court Gdańsk-Północ in Gdańsk, 7th Commercial Division of the National Court Register under KRS number: 0000000778;

PANA Report - a report of the Polish Audit Oversight Agency referred to in Article 90 section 5 of the Act on Certified Auditors;

Transparency Report - report of the audit firm referred to in Article 13 of Regulation 537;

UKNF – Office of the Polish Financial Supervision Authority;

Act on Certified Auditors - Act of May 11, 2017 on Certified Auditors, Audit Firms and Public Oversight [Journal of Laws of June 6, 2017, item 1089];

Accounting Act - Act of September 29, 1994 on accountancy [Journal of Laws of 2016, item 1047]

UKNF Guidelines - UKNF Guidelines of September 21, 2022, ref. DSP-DSPZR.4423.23.2022.JS;

Regular Selection Mode – selection of the Authorized Entity when the circumstances referred to in the UKNF Guidelines do not occur.

2. In the remaining scope, definitions and terms are used in accordance with the meaning given in the Act on Certified Auditors and Regulation 537.

§ 2

[General rules]

1. This procedure sets out the mode for selecting the Authorized Entity and has been drawn up pursuant to Article 130 section 1 point 7 of the Act of Certified Auditors, taking into account Regulation 537, taking into account the UKNF Guidelines.
2. In case of interpretation doubts, this procedure should be interpreted in accordance with the Act of Certified Auditors and Regulation 537.
3. The procedure for selecting the Authorized Entity is determined by the Audit Committee operating within the Supervisory Board of LPP S.A. in accordance with § 6 section 3 of the Selection Policy.
4. The Selection Procedure is adopted in accordance with § 6 section 4 of the Selection Policy.
5. Pursuant to § 35 section 2 of the Company's Articles of Association, the selection of the Authorized Entity is made by the Supervisory Board of the Company, taking into account, to the extent applicable, the Selection Policy and this Procedure.
6. In the course of the procedure for selecting the Authorized Entity, the following are taken into account:
 - a) Selection Policy and Permitted Services Provision Policy,
 - b) Findings or conclusions contained in the annual PANA Report that may affect the selection of the audit firm,
 - c) Transparency Reports, published by audit firms that have expressed interest in participating in the selection procedure and have been qualified for negotiations,
 - d) Information on conclusions and findings from audits carried out by the Polish Audit Oversight Agency in relation to the entities referred to in point c) above, if they are publicly available.
7. The following entities may join the proceedings:
 - a) are authorized to audit financial statements;
 - b) possess the necessary knowledge, experience and have at their disposal persons capable to perform the audit;
 - c) have the economic and financial standing ensuring the performance of the audit;
 - d) submit an offer with the required documents, statements, appendices and certificates.
8. Only the following entities may participate in the proceedings:
 - a) specified in the Act of Certified Auditors,
 - b) having a third party liability insurance policy in accordance with the Regulation of the Minister of Finance of December 3, 2009 on compulsory third party liability insurance of entities authorized to audit financial statements /Journal of Laws of 2009 No. 205 item 1583/.
9. The selection of the Authorized Entity takes place:
 - a) in the Regular Selection Mode, provided that the selection in this mode allows for compliance with all legal requirements and deadlines related to the conduct of a financial audit related to the audit or review and the publication by the Company of periodic reports containing audit or review reports;
 - b) in the Emergency Selection Mode - in all cases other than the one indicated in point (a) of this paragraph.
10. In the case of the Emergency Selection Mode, the Company will consider, at the Management Board's own initiative or at the request of the Audit Committee, changing the date of publication

of the next required periodic report to the maximum date provided for by law, unless such a date has already been set.

§ 3

[Start the process of collecting offers]

1. The process of collecting offers is started on the initiative of the Management Board by:
 - a) a notice about its commencement posted on the website or in another customary way - in the case of the Regular Selection Mode,
 - b) invitations to submit offers addressed to a group of not less than three and not more than five entities - in the case of the Emergency Selection Mode, however, in the first place, the invitation to submit offers should be addressed to those audit firms that audited the Company's financial statements in previous years, subject to the requirements of the Act on certified auditors and Regulation 537 regarding the rotation of audit firms and key certified auditors and firms that participated in previous selection processes but were classified by the Audit Committee on the list of candidates in positions two to five.
2. A request to start collecting offers may also be submitted by the Supervisory Board, and in particular by the Audit Committee, along with specifying the entities to which the request for proposals is to be addressed.
3. The proceedings referred to in section 1 of this paragraph conducted as part of:
 - a) the Ordinary selection procedure, should be initiated and carried out within a time limit enabling the Authorized Entity to participate in the inventory of the assets of the company whose report is being audited,
 - b) The Emergency selection procedure should be initiated and carried out immediately, upon confirmation by the candidate for the Authorized Entity of the possibility of meeting the deadline for auditing or reviewing financial statements, the publication of which is required by law.
4. The Company prepares tender documentation for Authorized Entities interested in commissioning, which:
 - a) enables these entities to learn about the activities of the audited public interest entity,
 - b) includes an indication of the financial statements to be audited,
 - c) contains transparent and non-discriminatory selection criteria that are used by the audited entity to evaluate the offers submitted by audit firms.
5. The process may also include offers received before the date of commencement of the collection of offers referred to in the previous sentence, provided that these offers meet the criteria and requirements referred to in this procedure, the Selection Policy and the Permitted Services Provision Policy, respectively, which also applies to the need for the Company to provide the entities involved in the process with the required information.
6. All offers are considered under this Selection Procedure, taking into account the Policies referred to in § 2 section 6.
7. Subject to § 6¹ section 4 letter b), the entity joining the procedure shall submit a written offer to the Company within the time limit specified in the notice or invitation. The offers should include:
 - a) information on the certified auditor, form of conducting business, experience in auditing financial statements of companies listed on the regulated market,
 - b) a current excerpt from the relevant register or a certificate of entry in the register of economic activity,
 - c) a document issued by the National Chamber of Certified Auditors on the entry on the list of entities authorized to audit financial statements,
 - d) information on the number of certified auditors employed and information on the persons who will conduct the audit (determination of the composition of the team conducting the audit of the Company's financial statements, specifying the persons authorized to audit the financial statements),

- e) third party liability insurance policy in accordance with the Regulation of the Minister of Finance of December 3, 2009 on compulsory third party liability insurance of entities authorized to audit financial statements. /Journal of Laws 2009 No. 205, item 1583/,
 - f) information on conclusions and findings from audits carried out by the Polish Audit Oversight Agency, if any, which may affect the selection of the audit firm, in particular through the prism of its ability to continue to provide services in the period covered by the Company's request for offers, a statement that:
 - (i) the independence requirements referred to in Article 69-73 of the Act on Certified Auditors are met;
 - (ii) there are no threats to their independence and safeguards have been applied to minimize possible threats;
 - (iii) having competent employees, time and other resources enabling the proper conduct of the audit;
 - (iv) the person appointed as the key certified auditor holds the authorization to conduct mandatory audits of financial statements obtained in a European Union member state where the audit is required, including whether he/she has been entered in the relevant registers of certified auditors kept in the European Union member state requiring the audit.
 - h) price (net and gross) for reviewing the half-yearly financial statements for the period of 6 months and auditing the Financial Statements,
 - i) a list of companies listed on the regulated market and entities with the participation of the State Treasury, in which the bidder has audited the financial statements in the last 5 years,
 - j) indication of the methods and dates of auditing the Company's financial statements, the work schedule specifying the methods of auditing and the dates of work related to the preliminary and final audit and participation in the stock-taking, as well as the date of submitting the opinion and report on the audit of the Company's financial statements,
 - k) information on the existence of circumstances that may result in the audit firm losing its authorization to audit the financial statements, in particular taking into account information on the results of already completed proceedings and on pending public oversight proceedings,
 - l) current Transparency Report prepared by the audit firm.
8. The offer should be signed by a person authorized to represent the bidder, in accordance with the submitted registration deed. The required documents should be submitted in originals or in photocopies certified as true copies by a person authorized to represent the bidder.
9. The audit firm and the members of the team performing the audit, prior to commencing the audit, shall make a statement on meeting the independence requirements referred to in Article 69–73 of the Act of Certified Auditors, under pain of criminal liability for making a false statement. The person submitting the declaration is obliged to include the following clause in it: “I am aware of criminal liability for making a false statement.” This clause replaces the instruction on criminal liability for submitting a false declaration.
10. The procedure is also carried out in the case of submitting one valid offer. The previous sentence does not apply to the situation of selecting a new Authorized Entity, unless conducting a new tender procedure would involve the risk of not being able to meet all legal requirements and deadlines related to conducting a financial audit related to the audit or review and publication by the Company of periodic reports containing audit reports or review.
11. The deadline for submission of offers should not be shorter than:
- a) in the case of the Regular Selection Mode - 14 days from the date of publication of the notice or from the start of the process in another usual way;
 - b) in the case of Emergency Selection Mode - 3 working days from the date of receipt of the invitation to submit offers.

§ 4

[Start of the selection process]

1. The procedure begins with checking whether the offers have been submitted on time, if any, and whether they contain all the documents indicated in the notice of procedure and whether the documents show that the bidder meets the requirements indicated in the notice of procedure and this procedure.
2. In the case of offers which do not contain all the documents or declarations indicated in the notice of procedure, the Management Board of the Company shall ask the bidder to supplement them, unless it conflicts with the possibility of conducting the process within the time limit referred to in § 7 section 5 or carrying out activities covered by the agreement with the Authorized Entity. If the documents and declarations are not received within the time limit referred to in the previous paragraph, as well as in the case of offers which indicate that the bidder does not meet the requirements set out in this Procedure, they are subject to rejection and the bidders are not admitted to the procedure. With the consent of the Audit Committee, the Company may withdraw from the procedure of supplementing the documentation, in particular in a situation where the number of correctly submitted offers meeting the requirements referred to in the Selection Policy was, in the opinion of the Audit Committee, sufficient to select the Authorized Entity in accordance with the Selection Policy.
3. The process of substantive selection of the Authorized Entity by the Company's Supervisory Board is initiated by the Audit Committee.
4. The Audit Committee provides the Company's Supervisory Board with a list of entities authorized to audit Financial Statements that meet the criteria referred to in this Procedure and the Selection Policy from among all offers submitted to the Company by entities interested in carrying out financial audit activities in LPP S.A. In the case of the Emergency Selection Mode, the above the statement is submitted immediately, not later than within 3 business days from the date of closing the process of collecting and possibly supplementing the offers.
5. Subject to section 2 above, the Audit Committee provides the Company with guidelines on obtaining from the entities included in the list referred to in section 4, any additional information and explanations, if such information is necessary to evaluate the offer submitted by such entity. The activities referred to in the previous sentence may also be performed directly by the Audit Committee. In the case of the Emergency Selection Mode, the above additional explanations are provided by the candidates for the Authorized Entity within one day of receiving the application in this matter.
6. If in the procedure for the selection of the Authorized Entity only one valid offer was received, submitted by:
 - a) the existing Authorized Entity - the proceedings are continued provided that the Audit Committee does not find any premises preventing the extension of the contract for the audit of financial statements with the existing Authorized Entity. If the existence of the premises referred to in the previous sentence is found, the supplementary procedure referred to in section 6 letter b) below;
 - b) new Authorized Entity - supplementary proceedings are carried out, in which the Audit Committee provides the Company with guidelines on arranging direct contact with indicated alternative candidates for the statutory audit in order to obtain offers, or takes such actions directly. The provisions of § 2 section 7 and 8 and § 3 section 1-5 shall apply accordingly. The time limit for submitting bids in supplementary proceedings is determined by the Audit Committee, taking into account the requirement referred to in § 3 section 2.
7. If the Audit Committee issued guidelines to the Company referred to in section 5 above, the Company, after obtaining additional information and explanations from the bidders, immediately provides the Audit Committee with feedback on the information obtained.

§ 5

[Recommendation of the Audit Committee]

1. On the basis of the offers received and possible explanations, as well as conclusions and findings from the audits carried out by the Polish Audit Oversight Agency, subject to section 3, the Audit Committee presents the Company's Supervisory Board with a recommendation which:
 - a) indicates the audit firm to which it proposes to entrust the statutory audit;
 - b) declares that the recommendation is free from third party influence;
 - c) states that the audited public interest entity has not concluded any agreements containing the clauses referred to in Article 66 section 5a of the Act of September 29, 1994 on accounting;
 - d) indicates the mode referred to in § 2 section 9, under which the recommendation was issued.
2. A report is drawn up from the proceedings, which is signed by all members of the Audit Committee participating in the proceedings.
3. If the Audit Committee has any doubts as to the certainty of the possibility of performing the contract by the candidate for auditing the financial statements, in particular as to retaining authorizations for the time necessary to perform the audit of the financial statements and submit them to the Company within the agreed period, the Audit Committee will communicate its doubts to the Supervisory Board, and in situations which the Audit Committee deems justified, it will refrain from recommending a given audit firm and recommend another entity as to which no similar doubts have arisen.

§ 6

[Selection of a new Authorized Entity]

1. Subject to section 2 below, if the selection of the Authorized Entity does not concern the extension of the contract for the audit of financial statements, the recommendation of the Audit Committee referred to in § 5 above:
 - a) contains at least two options for selecting an audit firm, along with a justification and an indication of the audit committee's justified preference for one of them, in accordance with the criteria adopted in the Selection Policy.
 - b) is prepared in accordance with sections 3-7 below.
2. If, as a result of the supplementary proceedings referred to in § 4 section 6 letter b) above, the Audit Committee may present only one option to choose an audit firm, the recommendation of the Audit Committee should include information on the actions taken by the Audit Committee to find an alternative candidate to conduct the audit.
3. The Audit Committee assesses entities authorized to audit financial statements that may be recommended and then selected for the purpose of performing financial audit activities in LPP S.A., in particular with regard to a possible violation of Article 17(3) of Regulation No. 537/2014.
4. The Company performs the final evaluation of the offers submitted in accordance with the selection criteria set out in the Selection Policy, and then prepares a report containing conclusions from the selection procedure, which is approved by the Audit Committee. In the case of the Emergency Selection Mode, the report referred to in the previous sentence shall be prepared within three days from the date of completion of the offer collection process, taking into account possible additional days for collecting information referred to in § 4 section 5.
5. As part of the Authorized Entity Selection procedure, it is permissible for the Company to conduct direct negotiations with interested bidders.

§ 6¹

[Emergency procedure for selecting a new audit firm during the term of the agreement with the Authorized Entity]

1. The Audit Committee periodically updates information on the audit firm with which the Company currently has an agreement, e.g. to audit the financial statements, in particular, it verifies information on the conclusions and findings of the audits carried out by the Polish Audit Oversight Agency.
2. In the event of any doubts as to the certainty of the submission of the audit report or the report on the review of the financial statements by the audit firm with which the current agreement is concluded, the Audit Committee immediately submits this information to the Supervisory Board. If possible, the Audit Committee also provides the Supervisory Board with recommendations as to possible actions to be taken in order to secure the timely receipt of the audit report or report on the review of the financial statements.
3. In the event that the audit firm loses its authorization to audit or review the financial statements or circumstances occur that may result in the loss of these authorizations at such a time that there is a real risk of losing these authorizations in a way that prevents the audit firm from submitting the audit report or review report within the agreed period and the Company's publication of a periodic report, an emergency procedure for selecting a new audit firm shall be implemented.
4. The emergency procedure for selecting a new audit firm includes mechanisms that allow the audit or review to be completed in time for the publication of the periodic report by the Company in accordance with applicable regulations, including the following activities:
 - a) immediate, i.e. within three business days, collection by the Company of offers from other audit firms, including in particular from the entities referred to in § 3 section 1 letter b);
 - b) in order to ensure the possibility of immediate submission of the offer, together with its submission, it is allowed for the audit firm to submit a general written statement that it meets the formal and substantive requirements set out in the inquiry and that it is able and will provide at a later date all required information, statements, documents, etc. The selection of the offer in this case takes place on the condition that the above-mentioned documents in accordance with the declaration;
 - c) submission by the Company to the Audit Committee of a list of the offers collected;
 - d) joint discussion by the Audit Committee and the Supervisory Board of the collected offers and selection of a new audit firm.
5. In the event that the loss of the audit firm's authorization to audit the financial statements or circumstances that may result in the loss of such authorization occur outside the period of performing financial audit activities, the Audit Committee assesses whether it is necessary to implement the Emergency Mode for selecting a new audit firm. If there is no such necessity, the Regular Mode for selecting an audit firm described in this Procedure is implemented.
6. After selecting a new audit firm, the Audit Committee and the Supervisory Board provide the Management Board with recommendations as to the steps to be taken towards the audit firm with which the original agreement was concluded, in particular and taking into account Article 66 section 7 of the Accounting Act, as to the termination of the agreement and the enforcement of other rights under the agreement.
7. Unless specific solutions specific to the Emergency Selection Mode are reserved in this Procedure, the provisions of the Procedure for the Regular Selection Mode shall apply.

§ 7

[Selection by the Supervisory Board and conclusion by the Company of an agreement with the Authorized Entity]

1. After reviewing the Recommendation of the Audit Committee, the Supervisory Board of the Company, subject to §3 section 3, adopts a resolution on the selection of the Authorized Entity.
2. If the Supervisory Board makes a decision regarding the selection of an audit firm that deviates from the recommendations of the Audit Committee, the Supervisory Board justifies the reasons for not following the recommendation of the Audit Committee and communicates such justification to the General Meeting.
3. Technical and organizational activities related to the organization of the procedure and the conclusion of the contract with the selected Authorized Entity are carried out by the Management Board of LPP S.A.
4. The agreement for the audit of financial statements is concluded on a date enabling the audit firm to participate in the stock-taking of significant assets. The preceding sentence does not apply to the Emergency Selection Mode. In the case of a statutory audit within the meaning of Article 2 section 1 of the Act on auditors, the first contract for the audit of financial statements is concluded with an audit firm for a period of not less than two years, with the possibility of extension for further periods of at least two years.
5. The agreement shall also include the following provisions:
 - a) indication of the need for the certified auditor to participate in meetings of the Supervisory Board of the Company, as well as (if necessary) the General Meeting of the Company,
 - b) obliging the audit firm to provide the Company with periodic information on the occurrence of circumstances that may result in its loss of authorization to conduct the audit, giving rise to the risk of failure to submit the audit report or report on the review of the financial statement on time, respectively, including conclusions and findings from audits carried out by PANA affecting the possibility of continuing the implementation of the agreement,
 - c) obliging the audit firm to submit the Transparency Report to the Audit Committee immediately after its preparation.
6. If the Company uses state aid in a given period, the Supervisory Board of the Company, in its resolution, should take into account the need to extend the scope of the audit to include matters related to the correctness of the state aid received and the implementation of restructuring plans.
7. The costs of the proceedings and the examination are borne by the Company.
8. All doubts regarding the interpretation of this Procedure are resolved by the Company's Supervisory Board.
9. In the event that there is a change in the scope of the body authorized to select the Authorized Entity, the Company shall immediately notify the Polish Financial Supervision Authority of this fact.
10. An integral part of the Procedure are the UKNF Guidelines.