

Echo Investment S.A.

Independent statutory auditor's opinion

Financial statements

Management Report

Report from the audit of the financial statements

For the financial year from 1 January to 31 December 2012

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Independent statutory auditor's opinion

prepared by PricewaterhouseCoopers Sp. z o.o.

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prepared by Echo Investment S.A.

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prepared by the Management Board of Echo Investment S.A.

Report from the audit of the financial statements

prepared by PricewaterhouseCoopers Sp. z o.o.



Independent statutory auditor's opinion

For the General Shareholders' Meeting and the Supervisory Board of Echo Investment S.A.

We have audited the enclosed financial statements of Echo Investment S.A. (later referred to as the "Company"), with its registered office in Kielce, Al. Solidarności 36, comprising the statement of financial position as at 31 December 2012, with total assets, liabilities and equity of PLN 1,659,049 thousand, the profit and loss account for the period from 1 January to 31 December 2012 with a net profit of PLN 41,113 thousand, the statement of comprehensive income, the statement of changes in equity, the cash flow statement for the financial year as well as notes on the adopted accounting principles and explanations.

The Company's Management Board is responsible for preparing the financial statements and the management report in line with the applicable laws, and for correctness of the accounting books. The Company's Management Board and Members of the Supervisory Board are obliged to ensure that the financial statements and the management report comply with the requirements of the Accounting Act of 29 September 1994 ("Accounting Act", J.L. of 2013, item 330).

Our task was to audit the enclosed financial statements and to produce an opinion on the statements' compliance, in all material aspects, with the applicable accounting principles (policy) and to verify whether they present, in all material aspects, a true and fair view of the company's economic and financial situation, and the financial result, and to verify the correctness of the accounting books, based on which the statements were prepared.

We have conducted the audit according to:

- a. regulations of chapter 7 of the Accounting Act,
- b. Polish Auditing Standards (KS RF) issued by the National Council of Statutory Auditors (KRBR).

The audit has been planned and conducted in such a way so as to obtain reasonable certainty that the financial statements do not contain any material errors and omissions. The audit covered a verification of a sample of evidence confirming the amounts and information disclosed in the financial statements. The audit also covered an assessment of the accounting principles applied by the Company and material estimates made when preparing the financial statements as well as an overall assessment of the statements' presentation. The audit has given reasonable assurance to express an opinion.

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Independent statutory auditor's opinion

For the General Shareholders' Meeting and the Supervisory Board of Echo Investment S.A. (continued)

In our opinion, the enclosed financial statements, in all material respects:

- a. present a true and fair view of the Company's economic and financial situation as at 31 December 2012 and the financial result for the financial year from 1 January to 31 December 2012, according to the International Financial Reporting Standards approved by the European Union;
- b. comply, in terms of form and content, with the laws binding for the Company and with its Statute;
- c. were prepared based on correctly maintained accounting books, according to the applicable accounting principles (policy).

The information contained in the Company's management report for the financial year from 1 January to 31 December 2012 takes account of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information to be submitted by issuers of securities and conditions for considering as equivalent information required under the law of a non-member state ("Ordinance", J.L. no. 33, item 259), and is consistent with the information contained in the audited financial statements.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., a company registered in the list of entities authorised to audit financial statements under no. 144:

Piotr Wyszogrodzki

Key Statutory Auditor
Registration no. 90091

Warsaw, 23 April 2013

Echo Investment S.A.

**Report from the audit of the financial statements
for the financial year from 1 January to 31 December 2012**

**Report from the audit of the financial statements for the financial year from
1 January to 31 December 2012**

For the General Shareholders' Meeting and the Supervisory Board of Echo Investment S.A.

This report contains 10 pages and comprises the following parts:

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Echo Investment S.A.
Report from the audit of the financial statements
for the financial year from 1 January to 31 December 2012

I. General description of the Company

- a. The registered office of Echo Investment spółka akcyjna ("Company") is in Kielce, Al. Solidarności 36.
- b. The Company's memorandum of association was prepared as a notarial deed in the Civil Law Notary's Office of notary Jacek Frelich in Kielce on 30 June 1994 and registered in Repertory A, No. 4162/94. On 10 April 2001, the District Court in Kielce, 10th Economic Department of the National Court Register, entered the Company into the Register of Entrepreneurs under no. KRS 0000007025.
- c. For the purpose of tax settlement, the Company was assigned the tax identification number NIP 657-023-09-12, and for statistical purposes the Company was assigned the statistical number REGON 290463755.
- d. The Company's share capital, as at 31 December 2012, amounted to PLN 21,000 thousand and was divided into 420,000,000 shares of a par value of PLN 0.05 each. Equity as at that day amounted to PLN 629,204 thousand.
- e. As at 31 December 2012, the Company's shareholders included:

Shareholder	Number of shares held	Nominal value of shares held (PLN)	Type of shares held	% of votes
Michał Sołowow	189,361,930	9,468	ordinary	45.1
ING OFE	44,569,720	2,228	ordinary	10.6
Aviva OFE Aviva BZ WBK	42,958,079	2,148	ordinary	10.2
PZU Złota Jesień OFE	22,011,702	1,101	ordinary	5.3
Other shareholders	121,098,569	6,055	ordinary	28.8
	420,000,000	21,000,000		100.0

As at 31 December 2011, the Company's shareholders included:

Shareholder	Number of shares held	Nominal value of shares held (PLN)	Type of shares held	% of votes
Michał Sołowow	185,286,775	9,264	ordinary	44.1
ING OFE	54,488,467	2,725	ordinary	13.0
Aviva OFE Aviva BZ WBK	36,683,460	1,834	ordinary	8.7
PZU Złota Jesień OFE	21,419,085	1,071	ordinary	5.1
Other shareholders	122,122,213	6,106	ordinary	29.1
	420,000,000	21,000,000		100.0

- f. In the audited period, the Company's core business consisted in the construction and lease of space in commercial, shopping and entertainment, office, hotel and residential buildings as well as trade in real property.

I. General description of the Company (continued)

g. In the financial year, the members of the Company's Management Board were:

- Piotr Gromniak President of the Management Board
- Artur Langner Vice-President of the Management Board

After the balance sheet date, on 21 March 2013, the Supervisory Board of Echo Investment S.A. passed a resolution on appointing Mr. Waldemar Lesiak as the Vice-President of the Parent Company's Management Board.

h. The Company's related parties are entities comprising the Echo Investment S.A. Capital Group as well as other entities controlled directly or indirectly by Mr. Michał Sołowow, who is the Company's main shareholder.

Subsidiaries, jointly controlled entities and associates are presented in note 4D in Notes and explanations to the statements.

i. The Company is an issuer of securities admitted to trading at the Warsaw Stock Exchange. Using the option to choose the accounting principles stipulated by the Act, as of 2005, the Company has prepared financial statements according to the International Financial Reporting Standards (IFRS) approved by the European Union.

By way of Resolution no. 1 of 23 December 2004, the General Meeting made a decision on the preparation of the Company's financial statements according to these standards.

j. The Company, as the parent company of the Capital Group, also prepared consolidated financial statements, dated 23 April 2013, as per the IFRS approved by the European Union. To understand the Company's financial situation and business results as the parent company, the separate financial statements should be read together with the consolidated financial statements.

II. Information on the audit

- a. The audit of the financial statements for the financial year from 1 January to 31 December 2012 has been conducted by PricewaterhouseCoopers Sp. z o.o., with its registered office in Warsaw, Al. Armii Ludowej 14, entered into the list of entities authorised to audit financial statements under no. 144. On behalf of the authorised entity, the audit was supervised by Piotr Wyszogrodzki (reg. no. 90091), the key statutory auditor.
- b. PricewaterhouseCoopers Sp. z o.o. was selected as the Company's statutory auditor by way of Resolution no. 6/V/2011 of the Supervisory Board of 24 May 2011, pursuant to paragraph 13, section 1 of the Company's Statute.
- c. PricewaterhouseCoopers Sp. z o.o. and the key statutory auditor conducting the audit are independent from the audited entity, as stipulated by article 56, section 2-4 of the Act of 7 May 2009 on statutory auditors and their professional association, entities authorised to audit financial statements and on public supervision (J.L. No. 77, item 649, as amended).
- d. The audit was conducted based on the agreement concluded on 20 July 2011 in the period:
 - initial audit from 26 to 30 November 2012
 - final audit 11 March to 23 April 2013

III. Description of the company's results, financial situation and material items of the financial statements

BALANCE SHEET as at 31 December 2012 (selected items)

	31.12.2012 thousands of PLN	31.12.2011 thousands of PLN	Movement thousands of PLN	(%)	Structure 31.12.2012 (%)	31.12.2011 (%)
ASSETS						
Non-current assets	969,253	946,359	22,894	2.4	58.4	59.4
Current assets	689,796	645,594	44,202	6.8	41.6	40.6
Total assets	1,659,049	1,591,953	67,096	4.2	100.0	100.0
EQUITY AND LIABILITIES						
Equity	629,204	588,091	41,113	7.0	37.9	36.9
Provisions	2,000	12,051	(10,051)	(83.4)	0.1	0.8
Long-term liabilities	544,845	670,662	(125,817)	(18.8)	32.9	42.1
Short-term liabilities	483,000	321,149	161,851	50.4	29.1	20.2
Total equity and liabilities	1,659,049	1,591,953	67,096	4.2	100.0	100.0

PROFIT AND LOSS ACCOUNT

for the financial year from 1 January to 31 December 2012 (selected items)

	2012 thousands of PLN	2011 thousands of PLN	Movement thousands of PLN	(%)	Structure 2012 (%)	2011 (%)
Revenue	201,470	418,418	(216,948)	(51.8)	100.0	100.0
Prime cost of sale	(119,212)	(315,890)	196,678	(62.3)	(59.2)	(75.5)
Gross profit on sales	82,258	102,528	(20,270)	(19.8)	40.8	24.5
Net profit	41,113	16,517	24,596	148.9	20.4	3.9

STATEMENT OF COMPREHENSIVE INCOME

for the financial year from 1 January to 31 December 2012 (selected items)

	2012 thousands of PLN	2011 thousands of PLN	Movement thousands of PLN	(%)	Structure 2012 (%)	2011 (%)
Net profit	41,113	16,517	24,596	148.9	20.4	3.9
Other net comprehensive income	-	-	-	-	-	-
Comprehensive income	41,113	16,517	24,596	148.9	20.4	3.9

III. Description of the company's results, financial situation and material items of the financial statements (continued)

Selected ratios describing the Company's economic and financial position and financial results

The Company's business, financial result for the financial year as well as the economic and financial position as at the balance sheet date, in comparison to previous periods, are described by the following ratios:

	2012	2011	2010
Activity ratios			
- debtor days	91 days	64 days	85 days
- inventory days	931 days	365 days	430 days
Profitability ratios			
- net return on sales	20%	4%	10%
- gross return on sales	11%	11%	10%
- overall return on equity	7%	3%	7%
Indebtedness ratios			
- indebtedness rate	62%	62%	60%
- creditor days	73 days	47 days	49 days
	31.12.2012	31.12.2011	31.12.2010
Liquidity ratios			
- current ratio	1.4	2,0	1,7
- quick ratio	0,8	1,0	0,8

The presented ratios have been calculated based on the financial statements.

The audit was not intended to present the company in the context of its business results and ratios. A detailed interpretation of the ratios requires an in-depth analysis of the company's business and its operating environment.

III. Description of the company's results, financial situation and material items of the financial statements (continued)

The financial statements do not account for inflation. The overall indicator of changes in the prices of consumer goods and services (December on December) in the audited year was 2.4% (2011: 4.6%).

The following comments are based on information obtained in the course of auditing the financial statements.

- The Company's core business in the current financial year has been the provision of property development services. Total sales revenue amounted to PLN 201,470 thousand, which means a decrease by PLN 216,948 thousand (i.e. by 51.8%) compared to the previous year. The decrease was mainly due to the previous year's completion of several important investments and the change of the way investments were settled in transactions with special purpose vehicles in the audited year, thus affecting the presentation of sales revenue and resulting in the absence of the comparability of data for 2012 and 2011.
- The largest item in operating expenses were third party services, which amounted to PLN 122,694 thousand in the audited period, and accounted for 73.0% of operating expenses. Compared to the previous year, the costs of third party services decreased by 191,622 thousand, i.e. by 61.0%. The decrease in the prime cost of sale was related to the decrease in sales revenue.
- Profitability measured with the net profit amounted to 20% and exceeded the last year's level by 16 percentage points. The increase was mainly due to the release of materials items of deferred income tax provisions in the audited year, which resulted from the changes in the assumptions for material estimates of the Company's Management Board.
- At the end of the financial year, the Company's assets amounted to PLN 1,659,049 thousand. In the course of the year, the balance sheet total increased by PLN 67,096 thousand, i.e. by 4.2%. The increase was mainly due to the increase in the balance of borrowings granted by PLN 173,807 thousand, offset by the decrease in the balance of cash and cash equivalents by PLN 83,369 thousand and in trade and other receivables by PLN 32,102 thousand. In equity and liabilities, the increase of the balance sheet total resulted mainly from the increase in short-term liabilities due to bank loans by PLN 79,657 thousand, offset by the decrease in trade liabilities by PLN 25,124 thousand.
- Debtor, inventory and creditor days ratios deteriorated, which was due to the decrease in the value of revenue and prime cost of sale as a result of the change of the way investments were settled in transactions with special purpose vehicles in the audited year.
- The Company's payment situation deteriorated slightly. The current and quick ratios in the audited year amounted to 1.4 (2011: 2.0) and 0.8 (2011: 1.0) respectively.

IV. Findings of the independent statutory auditor

- a. In the course of the audit, the Company's Management Board provided the required information, explanations and statements, and submitted a statement saying that all data had been included in the accounting books and all contingent liabilities had been disclosed, and provided information about material events which occurred after the balance sheet date, by the day the statements were submitted.
- b. The scope of the audit was not limited.
- c. The Company has valid documentation in place describing the accounting principles (policy), which is approved by the Management Board. The accounting principles adopted by the Company were modified to suit its needs and ensured the accounting identification of all events that are material for assessing the Company's economic and financial situation, and its financial result, with due observance of the prudence principle. The application of the principles from the previous period was continued in the audited period.
- d. At the end of the previous financial year, the closing balance was, in all material aspects, correctly recorded in the accounting books as the opening balance of the current period.
- e. The inventory taking of assets, equity and liabilities was conducted and settled according to the Accounting Act, and the results of the inventory taking were recorded in the accounting books of the audited year.
- f. The Company's financial statements for the financial year from 1 January to 31 December 2011 were approved by way of Resolution no. 4 of the General Shareholders' Meeting of 6 June 2012, submitted to the National Court Register on 13 June 2012 and published in the Official Gazette Monitor Polski B, no. 2252, on 26 September 2012.
- g. Pursuant to Resolution no. 6 of the General Shareholders' Meeting of 6 June 2012, net profit for the previous year, amounting to PLN 16,517 thousand, was fully allocated to the Company's supplementary capital.
- h. The financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The statutory auditor produced an unqualified opinion.
- i. We have assessed whether the accounting system functions correctly. In particular, we have examined the following:
 - correctness of documentation of business transactions,
 - reliability, accuracy and verifiability of the accounting books, including books maintained using computer technology,
 - methods for securing access to data and the computer system for processing the data,
 - protection of accounting documentation, accounting books and financial statements.

Combined with the audit of reliability of individual items of the financial statements, the assessment provides a basis for expressing a generalised opinion on the statements. The purpose of our audit was not to produce a comprehensive opinion on the functioning of the said system.

IV. Findings of the independent statutory auditor (continued)

- j. The notes present in full all material information required by the International Financial Reporting Standards approved by the European Union.
- k. The information contained in the Company's management report for the financial year from 1 January to 31 December 2012 takes account of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information to be submitted by issuers of securities and conditions for considering as equivalent information required under the law of a non-member state (J.L. no. 33, item 259, as amended), and is consistent with the information contained in the audited financial statements.

V. Conclusion and final remarks

This report was prepared in connection with the audit of the financial statements of Echo Investment SA, with its registered office in Kielce, Al. Solidarności 36. On 23 April 2013, the financial statements were signed by the Company's Management Board and by the person entrusted with bookkeeping.

The report should be read together with the opinion of the independent statutory auditor for the General Shareholders' Meeting and the Supervisory Board of Echo Investment S.A. of 23 April 2013, regarding the aforementioned financial statements. The opinion on the financial statements expresses an overall conclusion of the audit. This conclusion is not a sum of the results from the audit of individual items of the statements or specific issues, but assumes that suitable importance (materiality) has been attached to the findings, taking account of the effect of the findings on a true and fair presentation of the financial statements.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., a company registered in the list of entities authorised to audit financial statements under no. 144:

Piotr Wyszogrodzki

Key Statutory Auditor
Registration no. 90091

Warsaw, 23 April 2013