INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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

The audit report on the annual consolidated financial statements

We have audited the accompanying consolidated annual financial statements for the year ended 31 December 2017 of Echo Investment Group ('the Group'), for which the holding company is Echo Investment S.A. ('the Company') located in Kielce at Al. Solidarności 36, containing the consolidated statement of financial position as at 31 December 2017, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the period from 1 January 2017 to 31 December 2017 and the summary of significant accounting policies and other explanatory notes ('the accompanying consolidated financial statements').

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

The Company's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission decrees and other applicable laws, as well as the Company's Statute. The Company's Management is also responsible for such internal control as determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act of 29 September 1994 (the 'Accounting Act'), the Company's Management and the members of the Company's Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our objective was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view[1] of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

[1] Translation of the following expression in Polish is 'rzetelny i jasny obraz'.

We conducted our audit of the accompanying consolidated financial statements in accordance with:

◦ Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight ('Act on Statutory Auditors'),
◦ National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 with subsequent amendments,
◦ 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 ("Regulation 537/2014").

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the accompanying consolidated financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the consolidated financial statements as a whole were prepared based on properly maintained accounting records and are free from material misstatement due to fraud or error, and to issue an independent auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with the above mentioned standards will always detect material misstatements. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in aggregate, they could influence economic decisions of the users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not recognizing a material misstatement due to an error, as fraud may involve collusion, falsification, deliberate omissions, misleading or circumventing internal control and may affect every area of law and regulation, not just this directly affecting the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the consolidated financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

The scope of the audit does not include assurance on the future profitability of the audited Group nor effectiveness of conducting business matters of the Group now and in the future by the Company's Management Board.

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, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report to the audit committee issued on the date of this report.

Independence

While conducting our audit, the key certified auditor and the audit firm remained independent of the entities comprising the Group in accordance with the regulations of Act on Statutory Auditors, Regulation 537/2014 and principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

Based on our best knowledge and belief, we declare that we have not provided non-audit services, that are prohibited based on article 136 of the Act on Statutory Auditors and article 5, point 1 of Regulation 537/2014, to the Company.

Appointment of the audit firm

We were appointed to audit the accompanying consolidated financial statements based on the Company's Supervisory Board resolution dated 15 July 2016. We have been auditing the consolidated financial statements of the Company since the audit for the financial year ended 31 December 2015, i.e. for 3 consecutive years.

Most significant assessed risks

In the course of our audit we have identified the below described most significant assessed risks of material misstatement (key audit matters), including due to fraud and we designed appropriate audit procedures in response to those risks. Where we considered to be relevant in order to understand the nature of the identified risk and audit procedures performed we have also included key observations arising with respect to those risks.

These matters were addressed in the context of our audit of the accompanying consolidated financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

Description of the nature of the risk of material misstatement (key audit matters)	*Audit procedures in response to the identified risk*
1. Valuation of investment properties and investment properties under construction Investment properties and investment properties under construction amount to PLN 1.287 million out of which PLN 685 million represents properties measured at fair value as at 31 December 2017 in the consolidated statement of financial position of the Group.	We have gained understanding of the investment property and investment property under construction valuation process, performed a walkthrough of the process and evaluated the design of the controls over this process.

The investment properties are measured at fair value in line with IAS 40 *Investment property*. Investment properties under construction (“IPUC’) are measured at fair value, unless their fair value is not reliably measurable then they are measured at cost. The main criteria developed by the Management to guide judgement whether fair value of IPUC is reliably measurable are described in note 7.1 to these consolidated financial statements “*Main accounting principles*”. We considered the valuation of the investment properties and investment properties under construction to be key audit matter because the determination of fair value involves significant judgement to be exercised by management. The valuation of the investment properties is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property. For investment properties under development, factors include projected costs to complete and timing until practical completion. To arrive at ultimate valuation the Group’s Management: • considers account property-specific information such as the current tenancy agreements and rental income • applies assumptions for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions. For developments, the residual appraisal method is used, by estimating the fair value of the completed project using a capitalisation method less estimated costs to completion and a risk premium and profit margin. The Group’s disclosure about investment properties and investment properties under construction regarding significant judgements and estimates are included in the note 8 “*Material estimates of the management of Group entities”* of the Group’s consolidated financial statements.	We have discussed with management current market conditions in different locations in which Echo Group operates and understood management’s opinion in this respect. Our analysis of properties was performed for selected assets of the most significant value, recently purchased and representing the biggest change in value. We have analysed properties valuations and assessed that valuation methods applied for the purpose of carrying amount determination in the consolidated financial statements was appropriate. We have also evaluated the competence, capabilities and objectivity of management with respect to the fair value assessment. Additionally, we have performed substantive audit procedures on selected sample by, amongst others: • we have used our own EY real estate valuation specialists to assist us in obtaining an understanding of management’s analyses. • we evaluated and challenged the key assumptions included in the valuation such as capitalization rate, market rental income, market-derived discount rate, projected net operating income, vacancy levels, estimate of the reversion/terminal value, rent-free periods, letting fee, letting voids and fit-out allowance for vacant space or renewals. With regard to cases where assumptions were not in line with our expectations or were changes in valuations were unexpected, we have performed additional procedures and, if required made additional inquiries with the management. We have analytically reviewed and assessed reasonableness of fair value changes compared to set expectations that we have developed based on current market data and knowledge gained during audit. We have also assessed the extent and adequacy of the related disclosures in the financial statements.

The Group’s disclosures on investment properties and investment properties under construction were also presented in note 4, 5, 6 and 7 of the Group’s consolidated financial statements.	
2. <u>Rental guarantee provision (masterlease)</u> The Group has granted to acquirers of office buildings the rental guarantees. The master lease agreements are usually for period of up to 3 to 5 years following the sale of the investment property and guarantee that the rent at least a given amount will be achieved by the buyer from letting out the property. In such cases fair value of investment property or investment property under construction is calculated based on transaction price less cost to complete and risk premium. The related master lease provision is recognized, which reflects the obligation to pay rentals for leasable area in the building which remains vacant. Rental guarantee provision, reflects the obligation to pay rent for office area that was not leased yet, leased but no handed over or with respect to which rent free periods were granted compared to rent levels guaranteed by masterlease agreement. As of 31 December 2017 masterlease provision amounted to PLN 132.5 million. We considered the valuation of the provisions related to master lease obligation to be one of key audit matters because the amount of the provision is significant to the Group consolidated statement of financial position and the determination of the provisions value at each balance sheet date is dependent on number of uncertainties and involves significant judgement to be exercised by management, specifically including: • expected timing of vacant areas to be leased and handed over to tenants which will cease the guarantee payments, • expected rental income for vacant areas,	 We have gained understanding of the masterlease estimation process, performed a walkthrough of the process and evaluated the design of the controls over the process. Our substantive audit procedures included, among others, evaluation of the reasonableness of assumptions used, especially expected dates of free spaces being leased and handed over to tenants as well as expected rental income levels. Where possible we tested the calculations to supporting documentation, including agreements with tenants or letters of intent. Where it was not yet possible we benchmarked inputs used to similar projects and/or similar rental agreements. We have also assessed the extent and adequacy of the related disclosures in the financial statements.

• expected rental incentives and fit-outs required by tenants in the future. The Group's disclosure about significant judgements and estimates related to masterlease provision are included in the note 8 "*Material estimates of the management of Group entities*" of the Group's consolidated financial statements. The Group's disclosures on masterlease provision were also presented in note 16 of the Group's consolidated financial statements.	
3. <u>Inventory valuation</u> Inventory is the second largest position in the Group consolidated statement of financial position making up 17.6% of total assets as at 31 December 2017. Inventories consist of multi-family residential real estate projects in predevelopment process, under construction or already developed. Inventory is measured at the lower of cost and net realizable value. The cost of inventory includes, amongst others, land or leasehold rights for land, construction costs, planning and design costs, perpetual usufruct fees and real estate taxes, borrowing costs and professional fees directly attributable to the project and construction overheads and other directly related costs. The Company assesses internally the net realizable value of the inventory and decreases the value when the net realizable value is lower than the cost. The net realizable value calculation depends on estimates like, amongst others, the estimated sales prices per m² (PUM), the estimated construction costs and the expected timing of sales of the units. While estimating the net realizable value the Management takes into account information derived from preliminary / final agreements with clients and expected sales prices as well as current market trends when estimating net realizable value of inventory. Management assesses possible write-downs on inventory for each project separately.	We have gained understanding of the net realisable value estimation process, performed a walkthrough of the process and evaluated the design of the controls over the process. We evaluated the analysis of management, including the competence, capabilities and objectivity of the management, with respect to the net realizable value assessment. Additionally, we performed substantive audit procedures by, amongst others, extensive discussions with management of the Company with respect to the net realizable value method applied, the key assumptions used, including comparing these assumptions to similar projects in the market and the actual results of the net realizable value calculations on individual projects. We used our own EY real estate valuation specialists to assist us in obtaining an understanding of management's analyses. We have also assessed the adequacy of the related disclosures in the financial statements.

As the value of inventory is significant to the financial statements and significant estimates are involved in the assessment of net realizable value, we have concluded that it is key audit matter. The Group's disclosure about significant judgements and estimates related to inventory valuation is discussed in the note 8 "*Material estimates of the management of Group entities*" of the consolidated financial statements. The Group's disclosures regarding inventory were also presented in note 9 of the Group's consolidated financial statements.	
4. <u>Revenue recognition with respect to sale of residential units</u> Revenues arising from sale of residential units represent 75% share in total revenues of the Group. Revenue from sale of residential units is recognized by the Group when the significant risks and rewards of ownership of the residential units have been transferred to the buyer and when the revenue can be measured reliably. The risks and rewards are considered as transferred to the buyer when the residential units have been substantially constructed, the occupancy permit for the property has been issued, the apartment has been transferred to the customer (notary dead is signed) and the full amount resulting from the sale agreement has been paid by the buyer. Taking into consideration the significance of revenue recognition to the financial statements, we have identified it as a key audit matter. The Group's disclosure about revenue recognition with respect to sale of residential units are included in note 20 of the Group's consolidated financial statements.	We have gained understanding of the revenue recognition process with respect to sale of residential units, evaluated the design of the controls over the process and tested identified controls. Additionally, we have performed substantive audit procedures by, amongst others, detailed margin analyses, tests of details and tests of transactions to assess the correctness and completeness of recognition of revenue and related cost of sales, including the proper cut-off. We have also assessed the adequacy of the related disclosures in the financial statements.

Opinion

In our opinion, accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute.

Report on other legal and regulatory requirements

Opinion on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition, the Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report meets the requirements of the Accounting Act.

Our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the Director's Report, was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying consolidated financial statements.

Our responsibility was also to make a statement, on whether based on our knowledge about the Company and its environment obtained during the audit of the accompanying consolidated financial statements we have identified in the Director's Report any material misstatements and to indicate the nature of each of material misstatement.

In our opinion the Directors' Report was prepared in accordance with the relevant regulations and reconciles with the information derived from the accompanying consolidated financial statements. Moreover, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

The Company's Management and members of the Company's Supervisory Board are responsible for preparation of the representation on application of corporate governance in accordance with the applicable laws.

In connection with the conducted audit of the accompanying consolidated financial statements, our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the issuer, obliged to present a representation on application of corporate governance, constituting a separate part of the Director's Report, included in the representation information required by applicable laws and whether the related information is in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 91, section 5, point 4, letter a, b, g, j, k and l of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of deeming information required by the regulations of a non-member country equal (‘Regulation’). Information stipulated in paragraph 91, section 5, point 4 letter c-f, h and i of the Regulation included in the representation on application of corporate governance is in accordance with applicable laws and information included in the accompanying consolidated financial statements.

Warsaw, 23 March 2018

Key Certified Auditor

Przemysław Orlonek
certified auditor
no in the register: 10059

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