

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

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

The audit report on the annual financial statements

We have audited the accompanying annual financial statements for the year ended 31 December 2017 of Echo Investment S.A. ('the Company') located in Kielce at Al. Solidarności 36, containing the statement of financial position as at 31 December 2017, the statement of financial result, the statement of comprehensive income, the statement of changes in equity, the 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 financial statements').

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

The Company's Management is responsible for the preparation, based on properly maintained accounting records, and fair presentation of the 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 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 financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our objective was to express an opinion on whether the accompanying financial statements give a true and fair view¹ of the financial position and results of the operations of the Company 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.

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

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight ('Act on Statutory Auditors'),

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

- 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 financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the 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 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 financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

The scope of the audit does not include assurance on the future profitability of the audited Company nor effectiveness of conducting business matters 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 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 Company 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 financial statements based on the Company's Supervisory Board resolution dated 15 July 2016. We have been auditing the 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 financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

<i>Description of the nature of the risk of material misstatement (key audit matters)</i>	<i>Audit procedures in response to the identified risk</i>
<p>1. <u>Inventory valuation</u></p> <p>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</p>	<p>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</p>

<p>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.</p> <p>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.</p> <p>The Company's disclosure about significant judgements and estimates related to inventory valuation is discussed in the note 7 "<i>Material estimates of the company's management board</i>" of the company's financial statements.</p> <p>The Company's disclosures regarding inventory were also presented in note 8 of the Company's financial statements.</p>	<p>comparing these assumptions to similar projects in the market and the actual results of the net realizable value calculations on individual projects.</p> <p>We have also assessed the adequacy of the related disclosures in the financial statements.</p>
<p>2. <u>Revenue recognition with respect to sale of residential units</u></p> <p>Revenues arising from sale of residential units represent 67% share in total revenues of the Company. Revenue from sale of residential units is recognized by the Company 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 deed 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</p>	<p>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.</p> <p>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.</p> <p>We have also assessed the adequacy of the related disclosures in the financial statements.</p>

<p>financial statements, we have identified it as a key audit matter.</p> <p>The Company's disclosure about revenue recognition with respect to sale of residential units are included in note 19 of the Company's financial statements.</p>	
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Opinion

In our opinion, accompanying financial statements:

- give a true and fair view of the financial position of the Company 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,
- have been prepared based on properly maintained accounting records, in accordance with chapter 2 of Accounting Act,
- 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 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 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 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 financial statements. Moreover, based on our knowledge of the Company and its environment obtained during the audit of the accompanying 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 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 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 financial statements.

Warsaw, 23 March 2018

Key Certified Auditor

Przemysław Orlonek
certified auditor
no in the register: 10059

on behalf of
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