

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

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

Audit report on the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements 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 Street, containing: the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the statement of changes in consolidated equity, the consolidated statement of cash flows for the period from 1 January 2019 to 31 December 2019 and additional notes and other information to the financial statements (the 'consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2019 to 31 December 2019 in accordance with required applicable rules of International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 20 March 2020.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards 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 Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), 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 Code of ethics. 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 Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<u>Valuation of investment properties and investment properties under construction</u>	
<p>Investment properties and investment properties under construction in the consolidated statement of financial position of the Group as at 31 December 2019 amounts to 2 460 million Polish zlotys, while 1 892 million Polish zlotys of that amount were valued at fair value. According to IAS 40 <i>Investment property</i> investment properties are measured at fair value. Investment properties under construction are measured at fair value, unless their fair value is not reliably measurable then they are measured at purchase price or at cost.</p> <p>The main criteria developed by the Management to guide judgement whether fair</p>	<p>During the audit of the consolidated financial statements we familiarized ourselves with valuation of investment properties and investment properties under construction process, we documented our understanding of the process, assessed the design and operating effectiveness of controls conducted by the Group to that process.</p> <p>We discussed with the Management Board of the Company the current market situation in places where the Group operates.</p> <p>The analysis of the properties was made for chosen, highest-valued assets, acquired in audited period and with significant change comparing to previous year.</p>

<p>value of investment properties under construction is reliably measurable are described in note 6 “information on the financial statements – main accounting principles”.</p> <p>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 rental revenues from that particular property. For investment properties under construction, factors include projected costs to complete and timing until practical completion. To arrive at ultimate valuation the Group’s Management:</p> <ul style="list-style-type: none"> • considers property-specific information such as the current tenancy agreements and actual rental income; • applies assumptions for projected incomes and estimated market rent, which are influenced by prevailing market prices and comparable market transactions. <p>Information used to estimate properties fair-value of the Group were categorized to the third level of fair value hierarchy.</p> <p>For investment properties under construction, the residual appraisal method is used, by estimating the fair value of the completed project using a capitalization method less estimated costs to completion and a risk premium and profit margin.</p> <p>Disclosures concerning investment properties and investment properties under construction concerning judgement and estimations are</p>	<p>We analyzed valuation of properties prepared by the company and assessed whether the used method of valuation was correct for consolidated financial statement. We also assessed competences, abilities and objectivity of Management Board and external experts in the process of fair value estimations. Moreover, on selected sample, we carried out tests, which contained:</p> <ul style="list-style-type: none"> • assessment of properties valuation with the support of our experts in order to understand analysis made by the Management Board, • evaluation and discussing key matters of valuation, like capitalization rate, market’s rentals, discount rate, projected net operating revenues, level of unleased space, rent-free period, rental fees, rent-free periods not generating rental revenues, additional payments for tenants (rebates/discounts) for equipment or renovating free rooms. <p>In case, when assumption were unusual or valuation showed unexpected value change, we performed additional verification and, if needed, we discussed it with Management Board.</p> <p>Moreover we made an analysis of properties fair values and estimated validity of their changes based on current market’s information and our knowledge gained through the audit.</p> <p>We also assessed the scope and relevance of disclosures in consolidated financial statements of the Group.</p>
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<p>presented in note 9 "Information on the financial statement – Material estimates of the group's management board" of the consolidated financial statements of the Group.</p> <p>Disclosures concerning investment properties and investment properties under construction are also presented in notes 4, 5, 6 and 7 in the consolidated financial statements.</p>	
<p><u>Master Lease Provisions</u></p>	
<p>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 to the buyer that the rent at least a given amount will be achieved by the buyer from letting out the property. The related master lease provision is recognized, which reflects the obligation to pay rentals for leasable area in the building which remains vacant on for which tenant received rebate/discount in relation to the amounts guaranteed by the contract. 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. As of 31 December 2019 master lease provision amounted to 20 million Polish zlotys.</p> <p>We considered the valuation of the provisions related to master lease obligation to be significant to the audit 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:</p>	<p>During the audit we familiarized ourselves with master lease provisions estimation process, documented our understanding of the process, assessed the design and operating effectiveness of controls conducted by the Group to that process. Our procedures included checking rationality of assumptions used, especially the one concerning dates of providing places to tenants and the level of forecasted rental revenues. We confirmed assumptions with reference documentation, including agreements with tenants or signed letters of intent and we discussed them with Management Board. If it was not possible due to unsigned rental agreements, we checked it with comparable data with similar projects and/or similar rental agreements.</p> <p>We also assessed the scope and relevance of disclosures in consolidated financial statement.</p>

<ul style="list-style-type: none"> • 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, • expected rental incentives (rebates/discounts) and fit-outs required by tenants in the future. <p>Disclosures related to material estimates of Master lease provisions are presented in note 9 "Information on the financial statement – Material estimates of the group's management board".</p> <p>Disclosures related to master lease provisions are described also in note 16 of consolidated financial statements of the Group.</p>	
<p><u>Inventory Valuation</u></p>	
<p>Inventory is the second largest assets position in the consolidated financial statements comprising 22% of the Company's total assets as at 31 December 2019. 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, amortization of right of use assets, borrowing costs incurred during construction process and other directly related costs.</p> <p>The Company estimates net realizable value and a write-down of inventories, if net realizable value is lower than cost.</p> <p>Determining net realizable value of inventories depends on many estimations like: forecasted sales price for 1 square meter, estimated costs of construction and forecasted date of selling the apartments.</p>	<p>During the audit:</p> <ul style="list-style-type: none"> • we documented our understanding of inventory valuation process, including determining net realizable value, • we evaluated analysis of inventory valuation prepared by the Group, including competence of Management Board in the area of determining net realizable value, • we discussed with Management Board adopted key matters and estimates of inventory valuation. We compared this assumptions to similar projects on the market and actual sale prices on particular projects. <p>We also assessed the scope and relevance of certain disclosures in consolidated financial statements.</p>

<p>While estimating net realizable value, Management Board takes into account information from preliminary agreements and final agreements with clients, predicted price sales and actual market's trends. Management Board assesses possible write-downs separately for each project. We assessed that inventory valuation should constitute key audit matter as inventory is a significant balance in consolidated financial statements and its valuation requires significant judgement from the Company's management.</p> <p>Disclosures concerning significant judgement and estimations of inventory valuation are presented in note 9 "Information on the financial statement – Material estimates of the group's management board" to the attached financial statements of the Company.</p> <p>Disclosures regarding inventory are also presented in note 9 of the notes to the financial statements.</p>	
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<u>Revenue recognition with respect to sale of residential units</u>	
<p><i>Revenue recognition with respect to sale of residential units</i></p> <p>Revenues from sales of residential units in the year ended 31 December 2019 amounted to 553 million Polish zlotys, which constitutes 63% of all sales revenues in the Group. The Group recognizes revenues from sales of residential units when performance obligations are fulfilled and when client obtains control over this relevant asset (residential unit/apartment). The Group recognizes that control was transferred to the buyer when construction is in substance finished, occupancy permit is obtained, buyer accepted the apartment (by signing acceptance protocol) and when the full contractual price is paid by the buyer.</p> <p>Taking into consideration the significance of revenue recognition to the financial statements we have identified it as a key audit matter.</p> <p>Disclosures regarding revenues are presented in notes 19 of the attached financial statements.</p>	<p>During the audit of the financial statements we documented our understanding of revenue recognition with respect to sale of residential units process, and we assessed the design of controls for this process and we performed tests of controls of identified controls.</p> <p>Additionally , we performed tests of details which contains i.a. detailed analysis of margins and transactions testing in order to verify the correctness and completeness of revenues and related costs, including assignment to correct periods.</p> <p>During the audit we have also assessed the disclosures in respect of revenue recognition made in the financial statements.</p>

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 the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined 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 Company's Management is responsible for assessing the Group's (the holding 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 Company's Management either intends to liquidate the Group (the holding company or significant components) or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's 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 Company's Supervisory Board are responsible for overseeing the Company's 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 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 it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

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 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 effectiveness of conducting business matters now and in the future by the Company's Management.

Throughout the 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 Company's Management,
- conclude on the appropriateness of the 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, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the 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 Directors' Report for the period from 1 January 2019 to 31 December 2019, the representation on the corporate governance as a separate element of the Directors' Report (jointly 'Other Information').

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

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

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

Auditor's responsibility

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 issue an opinion on whether the Company has included the required information in the representation on application of 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 material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

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 representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which have been provided to the Group, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. 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 Company's Supervisory Board from 2 July 2015 and reappointed based on the resolution from 30 April 2018. The consolidated financial statements of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2015, i.e. for the past 5 consecutive years.

Warsaw, 20 March 2020

Key Certified Auditor

Przemysław Orłonek
certified auditor
no in the register: 10059

on behalf of:
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