

CAPITAL GROUP
Echo Investment S.A.

LONG-FORM AUDITORS' REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

I. GENERAL NOTES

1. Background

The holding company of the Echo Investment Group (hereinafter 'the Group' or 'the Capital Group') is Echo Investment S.A. ('the holding company', 'the Company').

The holding company was incorporated on the basis of a Notarial Deed dated 30 June 1994. The Company's registered office is located in Kielce at Al. Solidarności 36.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards and, based on the article 55.5 of the Accounting Act dated 29 September 1994 ('the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU. This requirement relates to the consolidated financial statements for the financial year beginning in 2005 and later.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000007025.

The Company was issued with tax identification number (NIP) 6570230912 and statistical number (REGON) 290463755.

The principal activities of the holding company are as follows:

- purchase and sale of real estate;
- realization of construction projects connected with buildings construction;
- construction works connected with construction of residential and non-residential buildings;
- specialistic construction works;
- lease and management of owned and leased real estate.

The scope of activities of the Group's subsidiaries, jointly controlled entities and associates are similar to this of the holding company.

As at 31 December 2016, the Company's issued share capital amounted to 20 635 thousand zlotys. Equity as at that date amounted to 1 528 160 thousand zlotys.

In accordance with transcript from the National Court Register of Echo Investment S.A. as at 25 April 2017, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Lisala Sp. z o.o.	272 375 784	272 375 784	13 617	65,99%
Aviva OFE Aviva BZ WBK	41 269 000	41 269 000	2 061	9,99%
Nationale-Nederlanden OFE	39 625 517	39 625 517	1 981	9,60%
Other Shareholders	59 420 281	59 420 281	2 976	14,42%
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Total	412 690 582	412 690 582	20 635	100,00%
	=====	=====	=====	=====

According to information included in the holding company's Share Register as at 25 April 2017, the following changes took place in the ownership structure of the holding company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

In the Financial Year 2016 the number of shares of the holding company held by Nationale-Nederlanden OFE increased from 35.000.000 to 39.625.517. Thereby Nationale-Nederlanden OFE achieved 9,60% of total number of shares in the Company and 9,60% of total number of votes in the Company.

There were no movements in the share capital in the reporting period.

As at 25 April 2017, the holding company's Management Board was composed of:

Nicklas Lindberg	- President
Piotr Gromniak	- Vicepresident
Artur Langner	- Vicepresident
Maciej Drozd	- Vicepresident
Marcin Materny	- Member
Rafał Mazurczak	- Member

In the reporting period and since the reporting date to the date of opinion the following changes in composition of the Management Board took place:

On 18 April 2016 the Supervisory Board, acting based on § 14 paragraph 1 of Company Statute appointed Mr. Nicklas Lindberg for the President of the Management Board.

On 30 May 2016 Mr. Waldemar Lesiak resigned from the membership in Management Board of the Company effective as of 30 May 2016.

On 15 September 2016 the Supervisory Board, acting based on § 14 paragraph 1 of Company Statute appointed Mr. Rafał Mazurczak and Mr. Marcin Materny for Members of the Management Board.

2. Group Structure

As at 31 December 2016, the Echo Investment Group consisted of 140 subsidiaries (direct or indirect) consolidated using full consolidation method. Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 17 of the Management Board Report from the operations of the Group for the year ended 31 December 2016.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by the Supervisory Board on 5 July 2016 to audit the Group's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009.

Under the contract executed on 5 August 2016 with the holding company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2016.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to

express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an unqualified auditors' opinion dated 25 April 2017, stating the following:

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

Report on the Audit of the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements for the year ended 31 December 2016 of Capital Group of Echo Investment ('the Group'), with parent's company Echo Investment S.A. ('the Company') registered office located in Kielce, Al. Solidarności 36 which comprise consolidated statement of financial position as at 31 December 2016, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flow for the year from 1 January 2016 to 31 December 2016 and other explanatory notes ('the accompanying consolidated financial statements').

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

The Management Board is responsible in accordance with the Accounting Act dated 29 September 1994 ('the Accounting Act'), regulations issued on the basis of the Accounting Act for the preparation of the consolidated financial statements and fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and related Interpretations announced in the form of European Commission regulations ('International Financial Reporting Standards as adopted by European Union') and other applicable laws. The Management Board is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act the Management Board and members of the Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to express an opinion on accompanying consolidated financial statements based on our audit.

We conducted our audit in accordance with chapter 7 of the Accounting Act and National Auditing Standards in the version of International Standards on Auditing as adopted by Resolution no 2783/52/2015 of the National Council of Statutory Auditors dated 10 February 2015 with subsequent amendments ('National Auditing Standards'). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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 and fair presentation 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 overall presentation of the consolidated financial statements.

In accordance with National Auditing Standard 320 point 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.

Opinion

In our opinion the accompanying consolidated financial statements:

- give a true and fair view of the financial position of a Group as at 31 December 2016 and its financial performance and its cash flows for the year from 1 January 2016 to 31 December 2016 in accordance with International Financial Reporting Standards as adopted by European Union and accounting policies;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of consolidated financial statements and the Company's Articles of Association.

Report on Other Legal and Regulatory Requirements

Report on the Directors' Report

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

The Company's Management Board is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition the Company's Management Board and members of the Supervisory Board are obliged to state that the Directors' Report for the period from 1 January 2016 to 31 December 2016 ('Directors' Report') meet the requirements of the Accounting Act.

In connection with the audit of the consolidated financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 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') and whether they are consistent with the information contained in the accompanying consolidated financial statements. Our responsibility was also to report, based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, whether the Directors' Report does not include material misstatements.

We have concluded that the information included in the Directors' Report corresponds with the relevant regulations of art. 49 of the Accounting Act and the Decree on current and periodic information and that the information derived from the accompanying consolidated financial statements reconciles with the Directors' Report. Based on our knowledge of the Group and its environment obtained during the audit of the consolidated financial statements, we have not identified material misstatements in the Directors' Report.

In connection with the conducted audit of the consolidated financial statements, our responsibility was also to read the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.'

We conducted the audit of the consolidated financial statements during the period from 14 November 2016 to 25 April 2017. We were present at the holding company's head office from 20 March 2017 to 7 April 2017.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness¹ of the consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 25 April 2017, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete;
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements;

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

At the same time we declare that during the audit of the financial statements, there were no limitations of scope.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by Katarzyna Twarowska, key certified auditor no. 11738, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2015.

¹ Translation of the following expression in Polish: "rzetelność i jasność"

The consolidated financial statements for the year ended 31 December 2015 were approved by the General Shareholders' Meeting on 28 June 2016.

The consolidated financial statements of the Group for the financial year ended 31 December 2015, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 4 July 2016 with the National Court Register.

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Group for the years 2014 – 2016. The ratios were calculated on the basis of financial information included in the financial statements for the year ended 31 December 2014, 31 December 2015 and 31 December 2016.

The ratios for the year ended 31 December 2014 were calculated on the basis of financial information included in the approved consolidated financial statements audited by another auditor acting on behalf of another authorized entity.

	2016	2015	2014
Total assets	3 364 158	8 388 951	6 548 652
Shareholders' equity	1 528 160	3 663 503	3 152 545
Net profit/ loss	387 704	514 087	404 307
Return on assets (%)	11.5%	6.1%	6.2%
$\frac{\text{Net profit} \times 100\%}{\text{Total assets}}$			
Return on equity (%)	10.6%	16.3%	14.7%
$\frac{\text{Net profit} \times 100\%}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	80.8%	87.7%	70.0%
$\frac{\text{Net profit} \times 100\%}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	1.9	2.4	2.6
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
Liquidity III	0.8	1.3	0.9
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			

Capital Group Echo Investment
Long-form auditors' report
for the year ended 31 December 2016
(in thousand zlotys)

	2016	2015	2014
Debtors days	206 dni	26 dni	31 dni
<u>Trade debtors x 365</u>			
Sales of finished goods, goods for resale and raw materials			
Creditors days	146 dni	97 dni	93 dni
<u>Trade creditors x 365</u>			
Sales cost + selling costs + general administrative expenses			
Inventory days	583 dni	512 dni	592 dni
<u>Inventory x 365</u>			
Sales cost + selling costs + general administrative expenses			
Stability of financing (%)	73.8%	91.8%	93.3%
<u>(Equity + long-term provisions and liabilities) x 100%</u>			
Total liabilities, provisions and equity			
Debt ratio (%)	54.6%	56.3%	51.9%
<u>(Total liabilities and provisions) x 100%</u>			
Total assets			
Rate of inflation:			
Yearly average	-0.60%	-0.90%	0.00%
December to December	0.80%	-0.50%	-1.00%

4.2 Comments

The following trends may be observed based on the above financial ratios:

- Return on assets in 2016 amounted to 11.5% and was higher than in 2015 and 2014, when it amounted to 6.1% and 6.2% respectively;
- Return on equity decreased in 2016 to the level of 10.6% compared to 16.3% in 2015 and 14.7% in 2014;
- Profit margin in 2016 decreased in comparison to 2015 from 87.7% to 80.8% and increased in comparison to 2014, when it was 70.0%;
- Liquidity ratio I as of 31 December 2016 amounted to 1.9 and was lower than as of 31 December 2015 and 31 December 2014, when it was 2.4 and 2.6 respectively;
- Liquidity ratio III as of 31 December 2016 was 0.8 and was lower than as of 31 December 2015 and 31 December 2014, when it amounted to 1.3 and 0.9 respectively;
- Debtors days in 2016 amounted to 206 days which was more than in 2015, when it was 26 days and more than in 2014, when it was 31 days;
- Creditors days in 2016 amounted to 146 days which was more than in 2015 and in 2014, when it was 97 days and 93 days respectively;
- Inventory days in 2016 amounted to 583 days which was more than in 2015, when it was 512 days and less than in 2014, when it was 592 days;

This is a translation of a document originally issued in the Polish language.

- Stability of financing as of 31 December 2016 was at 73.8% and was lower than as of 31 December 2015 and as of 31 December 2014, when it amounted to 91.8% and 93.3% respectively;
- Debt ratio decreased from 56.3% as of 31 December 2015 to the level of 54.6% as of 31 December 2016, which was higher than on 31 December 2014, when it was 51.9%;

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2016 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In introduction to the audited consolidated financial statements for the year ended 31 December 2016, the Management Board of the holding company has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2016 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in introduction to the Group's consolidated financial statements for the year ended 31 December 2016.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2016.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method of determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in introduction to the consolidated financial statements.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 100 thousand zlotys as at 31 December 2016. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 14 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2016 and include the financial data for the period from 1 January 2016 to 31 December 2016.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

The effects of the sale of shares of subsidiaries were disclosed in the Group's consolidated financial statements in accordance with the appropriate legal documents and consolidation documentation.

6. Items which have an impact on the Group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2016.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2016 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read the 'Directors' Report for the period from 1 January 2016 to 31 December 2016 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information contained in it take into account the provisions of 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 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 and they are consistent with the information contained in the accompanying financial statements. We have also concluded, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, that the Directors' Report does not include material misstatements. We have read also the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report of the Capital Group. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the consolidated financial statements.

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year.

Warsaw, 25 April 2017

Key Certified Auditor

Przemysław Orłonek
Certified Auditor
No. 10059

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
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