CONSOLIDATED ANNUAL REPORT OF ECHO INVESTMENT GROUP

2016

ECHO investment

Contents

Dear Shareholders, Partners and Clients,

I am sending you Echo Investment's financial report for 2016. It was a time of significant changes in the functioning of the company as well as a considerable acceleration with regard to projects under construction. The presented financial data show that the Group's financial standing is stable and the Group is very well prepared for further expansion of its operations.

Last year we recorded PLN 605 mln of operational profit, most of which comes from the sales of EPP's shares Q22 and 3 office buildings in regional cities, as well as valuation of our properties. It is also observed, that the residential part of our business contributes to the results more significantly than in 2015, as we delivered 451 apartments to the clients, which is a 13% increase.

With the strategy of profitable growth adopted last year, Echo Investment is well on its new way. The Company has become a pure developer that builds and sells projects when they are fully leased and constitute an optimal investment product, in order to invest the money generated in subsequent projects. The strategy has also changed the structure of the Group's assets. Now, it is properties under construction that constitute the main part of the assets. The aim of the Company is to take the dominant position in each sector we operate in: office, retail and residential. This is how we continue our journey of being one of the biggest players on the Polish real estate market.

Last year we started projects with a combined leasable and sales area of nearly 200,000 sqm i.e. twice as much as in 2015. We completed projects with a combined area of over 160,000 sqm, including our flagship project – the Q22 office building in Warsaw. It was also twice as much as in 2015. Our office leasing department signed leases for almost 100,000 sqm, which constitutes nearly double growth compared to 2015 while the retail team signed leases concerning 79,000 sqm i.e. 30% more compared to the previous year. Nearly all commercial properties under construction have already been contracted by their ultimate buyers – confirming our efficiency and high quality of our projects. Our sales team encouraged clients to buy 925 apartments, which is 56% more compared to the previous year. Those numbers confirm that Echo Investment is on the right way to fulfil the assumptions of the strategy of profitable growth.

More projects involve more work – this is why we have been systematically increasing employment. Echo's team is very stable and its size has not changed much over last few years. New employees help us to develop next projects and contribute the experience they gained at other places. At the same time, we have introduced new, more effective and easier systems of building site and lease monitoring as well as a transparent remuneration system. Last year we also introduced some changes in our construction department, specifically in the area of ordering and supervising over projects. This strengthens the team, optimises its capacity and positively influences risk and cost control, as well as the quality of the product. In order to strengthen our corporate culture we have also launched the Code of Conduct and the Whistleblower Procedure.

Our strategy of profitable growth envisages fast capital rotation and that's why we have been enlarging our land bank. A considerable part of the plots held by the Group was prepared for the launch of projects last year. Although we have land to serve 2017-2018 and partially 2019 investment program, we are securing the land bank for projects to be developed beyond 2018. In 2016 we purchased

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properties, which will be used to develop 73,000 sqm of residential and office space. Together with Echo Polska Properties we have acquired a retail and leisure project at 22 Towarowa Street in Warsaw and we are in the process of purchasing another one – Galeria Młociny. We have been systematically finalizing acquisitions of subsequent areas that would enable us to build over 500,000 sqm. These activities secure our investment plan for the next few years.

Our 2016 results were partly generated in line with the business model involving a considerable part of the revenue coming from the lease of commercial properties. 2017 will be the first full reporting period showing the results being generated almost exclusively by our development activities. We believe in the success of the new Echo and this is why we will be regularly sharing our profits with shareholders. I am convinced that it will additionally increase the attractiveness of investment in Echo Investment's shares.

I encourage you to read our 2016 financial report in detail.

Yours sincerely,

Nicklas Lindberg
President of the Management Board

I

Consolidated financial statement of Echo Investment Group for 2016

01

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSIOTIONS [PLN '000]

	NOTE	31.12.2016	31.12.2015
ASSETS			
1. Non-current assets			
1.1. Intangible assets	2	295	160
1.2. Property, plant and equipment		8 672	17 645
1.3. Investment property	4	248 037	63 342
1.4. Investment property under construction	5	536 692	1 398 628
1.5. Investment in associates and joint ventures	28	564 363	-
1.6. Long-term financial assets	8	78 692	14 065
1.7. Deferred tax asset	9	93 131	78 682
		1 529 882	**1 572 522**
2. Current assets			
2.1. Inventory	10	656 401	595 460
2.2. Income tax recoverable		736	6 391
2.3. Other taxes recoverable	12	20 403	44 664
2.4. Trade and other receivables	12	270 443	41 641
2.5. Short-term financial assets	8	24 544	23 381
2.6. Derivative financial instruments	11	154	1 175
2.7. Restricted cash	13	27 070	89 447
2.8. Cash and cash equivalents	13	636 359	821 305
		1 636 110	**1 623 464**
3. Non-current assets held for sale	6	**198 166**	**5 192 965**
Total assets		**3 364 158**	**8 388 951**

CONSOLIDATED STATEMENT OF FINANCIAL POSIOTIONS
[PLN '000]

	NOTE	31.12.2016	31.12.2015
EQUITY AND LIABILITIES			
1. Equity			
1.1. Equity attributable to equity holders of the parent		1 528 260	3 663 596
1.1.1. Share capital	14	20 635	20 635
1.1.2. Supplementary capital	14	1 128 096	3 139 672
1.1.3. Equity shares purchased	14	-	-
1.1.4. Accumulated profit		387 711	514 091
1.1.5. Foreign currency translation		(8 182)	(10 802)
1.2. Non-controlling interest		(100)	(93)
		1 528 160	**3 663 503**
2. Provisions			
2.1. Long-term provisions	15	68 522	4 006
2.2. Short-term provisions	15	75 333	10 592
2.3. Deferred tax liabilities	9	41 541	245 726
		185 396	**260 324**
3. Non current liabilities			
3.1. Loans and borrowings	16	760 981	3 707 943
3.2. Derivatives	11	39	1 580
3.3. Security deposits and advances received		9 331	65 919
		770 351	**3 775 442**
4. Current liabilities			
4.1. Loans and borrowings	16	220 940	331 822
4.2. Derivatives	11	-	129 489
4.3. Income tax payable		2 338	3 256
4.4. Other taxes payable	17	245 225	3 372
4.5. Trade payables	17	163 930	112 643
4.6. Dividend liability		66 030	-
4.7. Other payables	17	80 019	37 352
4.8. Security deposits and advances received		85 428	71 748
		863 910	**689 682**
5. Liabilities of assets held for sale	18	**16 341**	**-**
Total equity and liabilities		**3 364 158**	**8 388 951**

CONSOLIDATED PROFIT AND LOSS ACCOUNT [PLN '000]

	NOTE	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Revenues from operations	19	480 075	586 055
Cost of operations	20	(255 903)	(300 319)
Gross profit (loss) on sales		**224 172**	**285 736**
Profit (loss) on investment property	21	560 071	751 270
Selling expenses		(53 586)	(35 494)
Administration expenses		(101 539)	(88 413)
Other operating revenues	22	21 340	17 315
Other operating expenses	23	(45 761)	(19 355)
Operating profit		**604 697**	**911 059**
Finance income	24	47 721	4 874
Finance cost	25	(412 394)	(241 395)
Profit (loss) on FX derivatives	26	(96)	15 074
Foreign exchange differences profit (loss)	27	(98 016)	(5 886)
Share of profit (loss) of associates and joint ventures	28	47 722	(6 047)
Profit (loss) before tax		**189 634**	**677 679**
Income tax	29	198 070	(163 592)
– current tax		(20 565)	(9 741)
– deferred tax		218 635	(153 851)
Net profit (loss), attributable to:		**387 704**	**514 087**
Equity holders of the parent		387 711	514 091
Non-controlling interest		(7)	(4)
Basic earnings per share (PLN)	30	0,94	1,25
Diluted earnings per share (PLN)	30	0,94	1,25

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME [PLN '000]

	NOTE	01.01.2016–31.12.2016	01.01.2015–31.12.2015
Net profit		**387 704**	**514 087**
Other comprehensive income:			
– foreign exchange gains/losses on translation of foreign operations		2 620	(3 129)
Other net comprehensive income		2 620	(3 129)
Comprehensive income for the period, including:		**390 324**	**510 958**
Comprehensive income attributable to shareholders of the parent company		390 331	510 962
Comprehensive income attributable to non-controlling interest		(7)	(4)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

	Note	Share capital	Supplementary capital	Treasury shares	Accumulated current year profit	Currency translation differences	Equity attributable to equity holders of the parent entity	Capital of non-controlling interests	Equity total
For the period from 1 January 2016 to 31 December 2016									
Opening balance		20 635	3 139 672	–	514 091	(10 802)	**3 663 596**	(93)	**3 663 503**
Distribution of previous years' profit/loss		–	–	–	–	–	**–**	–	**–**
Dividend paid	14		(1 660 789)	-	(514 091)	-	**(2 174 880)**	–	**(2 174 880)**
Advanced dividend	14	-	(350 787)	-	-	-	**(350 787)**	–	**(350 787)**
Other comprehensive income		–	–	–	–	2 620	**2 620**	–	**2 620**
Profit (loss) for the period		–	–	–	387 711	–	**387 711**	(7)	**387 704**
Total comprehensive income		–	–	–	387 711	2 620	**390 331**	(7)	**390 324**
Closing balance		20 635	1 128 096	–	387 711	(8 182)	**1 528 260**	(100)	**1 528 160**
For the period from 1 January 2015 to 31 December 2015									
Opening balance		20 635	2 742 257	–	405 149	(7 673)	**3 160 368**	(89)	**3 160 279**
Correction of errors and changes in accounting principles (policy)		–	(6 803)		(931)	–	**(7 734)**	–	**(7 734)**
Balance after adjustment to comparable data		**20 635**	**2 735 454**	**–**	**404 218**	**(7 673)**	3 152 634	**(89)**	3 152 545
Distribution of previous years' profit/loss		–	404 218	–	(404 218)	–	**–**	–	**–**
Dividend paid		–	–	–	–	–	**–**	–	**–**
Advanced dividend		–	–	–	–	–	**–**	–	**–**
Other comprehensive income		–	–	–	–	(3 129)	**(3 129)**	–	**(3 129)**
Profit (loss) for the period		–	–	–	514 091	–	**514 091**	(4)	**514 087**
Total comprehensive income		–	–	–	514 091	(3 129)	**510 962**	(4)	**510 958**
Closing balance		**20 635**	**3 139 672**	**–**	**514 091**	**(10 802)**	3 663 596	**(93)**	3 663 503

CONSOLIDATED CASH FLOW STATEMENT ['000 PLN]

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
A. Operating cash flow – indirect method		
I. Gross profit (loss)	**189 634**	**677 679**
II. Total adjustments		
1. Share in net (profit) loss of companies recognised with the equity method	(47 722)	6 047
2. Depreciation of PP&E	3 105	4 506
	-	-
4. Foreign exchange (gains) losses	100 930	5 886
5. Interest	66 042	94 775
6. (Profit) loss on revaluation of assets and liabilities	(387 299)	(634 156)
7. (Profit) loss on settlement of financial instruments	53 859	(13 418)
8. Other	-	-
	(211 085)	**(536 360)**
III. Movements in working capital:		
1. Movement in provisions	145 598	12 599
2. Movement in inventory	(59 287)	2 154
3. Movement in receivables	(255 576)	6 233
4. Movement in short-term liabilities, excluding loans and borrowings	283 867	56 448
5. Movement in restricted cash	62 377	(34 965)
	176 979	**42 469**
IV. Net operating cash (I+II+III)	**155 528**	**183 788**
1. Income tax paid	(15 828)	(18 926)
V. Net operating cash flows	**139 700**	**164 862**
B. Cash flow from investing activities		
I. Proceeds		
1. Sale of intangible assets, and PP&E	1 858	895
2. Sale of real property investments	3 512 985	20 140
3. From borrowings and financial investments	38 880	30 782
4 . Other investment proceeds	-	-
	3 553 723	**51 817**
II. Expenditures		
1. Purchase of intangible assets and PP&E	(2 199)	(5 718)
2. Real property investments	(848 423)	(600 213)
3. On borrowings and financial investments	(325 718)	(24 774)
4. Dividends paid to minority interest holders	-	-
5. Other capital expenditures	-	-
	(1 176 340)	**(630 705)**
III. Net cash flow from investing activities (I+II)	**2 377 383**	**(578 888)**

CONSOLIDATED CASH FLOW STATEMENT [‘000 PLN]

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
C. Cash flow from financing activities		
I. Proceeds		
1. Net proceeds from issue of shares (interests) and other equity instruments and capital contributions	-	-
2. Loans and borrowings	1 210 461	1 973 501
3. Issue of debt securities	100 000	230 000
4. Dividends received from companies recognised with the equity method	-	6 000
5. Other financial proceeds	-	13 418
	1 310 461	**2 222 919**
II. Expenditures		
1. Purchase of equity shares (interests)	–	–
2. Dividends and other payments to equity holders	(2 459 636)	-
3. Expenditures on profit sharing, other than payments to equity holders	-	-
4. Repayment of loans and borrowings	(1 182 768)	(1 089 519)
5. Redemption of debt securities	(225 000)	(135 000)
6. Due to FX derivatives	(53 859)	-
7. Payment of liabilities under finance lease agreements	-	-
8. Interest	(90 936)	(122 657)
9. Other financial expenditures	-	-
	(4 012 199)	**(1 347 176)**
III. Net cash flow from financing activities (I+II)	**(2 701 738)**	**875 743**
D. Total net cash flow (A.III+B.III+C.III)	(184 655)	461 717
E. Balance sheet movement in cash, including:	(184 947)	458 587
– movement in cash due to foreign exchange gains/losses	(292)	(3 130)
F. Cash at the beginning of the period	**821 305**	**362 718**
G. Cash at the end of the period (F+D)	**636 359**	**821 305**

02

General information

Echo Investment S.A.'s core activity consists in the construction, lease and sale of office and retail buildings, construction and sale of residential buildings as well as trade in real estate.

Echo Investment S.A. (later referred to as Echo or the Company), with its registered office in Kielce, al. Solidarności 36, was registered in Kielce on 23 July 1992. Echo is a Joint Stock Company entered into the National Court Register under no. 0000007025 by the District Court in Kielce, 10th Economic Department of the National Court Register.

Since 5 March 1996, the Company's shares are quoted at the Warsaw Stock Exchange on the regulated market, sector – WIG – Real Estate (former WIG-Developers). The Company was established for an indefinite period of time.

THE MANAGEMENT BOARD OF ECHO INVESTMENT S.A. AS AT 31 DECEMBER 2016

Nicklas Lindberg
President of the Management Board, CEO

Maciej Drozd
Vice-President of the Management Board, CFO

Piotr Gromniak
Vice-President of the Management Board

Artur Langner
Vice-President of the Management Board

Marcin Materny
Member of the Management Board

Rafał Mazurczak
Member of the Management Board

The Management Board of Echo Investment S.A. as at 31 December 2015:

Piotr Gromniak – President of the Management Board, CEO
Maciej Drozd – Vice-President of the Management Board, CFO
Artur Langner – Vice-President of the Management Board
Waldemar Lesiak – Vice-President of the Management Board.

THE SUPERVISORY BOARD OF ECHO INVESTMENT S.A. AS AT 31 DECEMBER 2016

Karim Khairallach
Chairman of the Supervisory Board

Laurent Luccioni
Vice-Chairman
of the Supervisory Board

Maciej Dyjas
Member of the Supervisory Board

Stefan Kawalec
Member of the Supervisory Board meeting the criteria of independence

Przemysław Krych
Member of the Supervisory Board

Nebil Senman
Member of the Supervisory Board

Sebastian Zilles
Member of the Supervisory Board

The Supervisory Board as at 31 December 2015 and 31 December 2016 is composed of the same members.

The Audit Committee as at 31 December 2015 and 31 December 2016 is composed of:
Stefan Kawalec – Chairman of the Audit Committee
Maciej Dyjas – Member of the Audit Committee
Nebil Senman – Member of the Audit Committee.

03

Information on the financial statements

The statements of the Echo Investment S.A. present financial data for the 12-month period ending on 31 December 2016 and comparative data for the 12-month period ending on 31 December 2015.

The reporting currency in the financial statements and the functional currency of Echo Investment S.A. is Polish zloty (PLN). Unless indicated otherwise, all financial data in the Company's financial statements has been presented in thousand PLN.

The statements have been prepared in compliance with the International Financial Reporting Standards (IFRS), as adopted by the European Commission. The financial statements have been drawn up in accordance with the historical cost principle with the exception of investment property, which was measured at fair value. To fully understand the financial situation and business results of the Company as the parent company of the Echo Investment Group, these financial statements should be read together with the full consolidated financial statements for the 12-month period ending on 31 December 2016. The consolidated financial statements are available at the Company's registered office in Kielce, al. Solidarności 36. The statements have been drawn up according to the going concern principle as there are no circumstances indicating a threat to continued activity.

The Company's Management Board used its best knowledge in the application of the standards and interpretations, as well as measurement methods and principles for the various items of the separate financial statements.

04

Application of new and amended standards and interpretations

The accounting principles and policies applied during the preparation of this financial report are in compliance with the principles applied in the last annual financial report, except for the new standards, amendments to standards and interpretations issued by the IIFRS [Interpretation of International Financial Reporting Standards] Committee, which are applicable to the Company for the reporting period beginning on January 1, 2016. The following new and amended standards have been applied in this report, all of them effective on January 1, 2016:

- amendments to IAS 19 Defined Benefit Plans: Employee Contributions (published on 21 November 2013),
- changes resulting from the review of IFRS 2010-2012 (published on 12 December 2013),
- amendments to IFRS 11 Settlement of the Acquisition of a Share in a Joint Venture (published on 6 May 2014),
- amendments to IAS 16 and IAS 38 Explanation of Permitted Depreciation Methods (published on 12 May 2014), 19 Condensed Interim Consolidated Financial Statements,
- amendments to IAS 16 and IAS 41 Agriculture: Production Plants (published on 30 June 2014),
- amendments to IAS 27 Equity Method in Separate Financial Statements (published on 12 August 2014),
- changes resulting from the review of IFRS 2012-2014 (published on 25 September 2014),
- amendments to IAS 1 Disclosures (published on 18 December 2014).

The applied amendments have not had a significant impact on the presentation of data and valuation in the financial report.

05

Published standards and interpretations which are not effective yet and have not been adopted by the company

a. IFRS 9 Financial Instruments (published on 24 July 2014) applicable to annual periods beginning on or after 1 January 2018 - not endorsed by the EU until the date of approval of these financial statements. The Company will apply IFRS 9 after its approval by the European Union. The Company has not yet completed its analysis of the impact of the standard on the financial statements.

b. IFRS 14 Regulatory Accruals (published on 30 January 2014) - applicable for annual periods starting on or after 1 January 2016 - in accordance with the European Commission decision, the approval of the preliminary version of the standard will not be initiated prior to disclosure of its ultimate version. Not endorsed by the EU until the date of approval of these financial statements. The Company does not expect the standard to have a significant impact on the financial statements.

c. Amendments to IFRS 11 Settlement of Acquisition of a Share in Joint Ventures (published on 6 May 2014) - applicable for annual periods beginning on or after 1 January 2016. The Company applies the amendment from 1 January 2016. The Company does not expect the change to have a significant impact on the financial statements.

d. Amendments to IAS 16 and IAS 38. Explanation of Permissible Depreciation Methods (published on 12 May 2014) – applicable to annual periods beginning on or after 1 January 2016. The Company applies the amendment from 1 January 2016. The Company does not expect the change to have a significant impact on the financial statements.

e. IFRS 15 Income from Client Agreements (published on 28 May 2014), includes amendments to IFRS 15. Effective date of IFRS 15 (published on 11 September 2015) - effective for annual periods beginning on or after 1 January 2018 or later - not endorsed by the EU until the date of approval of these financial statements. The Company has not yet completed its analysis of the impact of the standard on the financial statements.

f. Amendments to IAS 16 and IAS 41 Agriculture: Production Plants (published on 30 June 2014) – applicable for annual periods beginning on or after 1 January 2016. The Company applies the amendment from 1 January 2016. The Company does not expect that the change will have a significant impact on the financial statements.

g. Amendments to IAS 27 Equity method in separate financial statements (published on 12 August 2014) – applicable for annual periods beginning on or after 1 January 2016. The Company applies the amendment from 1 January 2016. The Company does not expect that the change will have a significant impact on the financial statements.

h. Amendments to IFRS 10 and IAS 28 Sale or Transfer of Assets between Investor and Associate or Joint Venture (published on 11 September 2014) – applicable to annual periods beginning on or after 1 January 2016; the period was initially postponed by the IASB – no decision has been made regarding the date by which EFRAG will carry out the various steps leading to the approval of these changes. Not endorsed by the EU until the date of approval of these financial statements. The Company will apply the amendment upon its approval by the European Union. The Company has not yet completed its analysis of the impact of the Standard on the financial statements.

i. Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Units: Application of Consolidation Exception (published on 18 December 2014) – applicable to annual periods beginning on or after 1 January 2016 - not endorsed by the EU until the date of approval of these financial statements. The Company will apply the amendment upon its approval by the European Union. The Company does not expect that the amendments will have a significant impact on the financial statements.

j. Amendments to IAS 1 Disclosures (published on 18 December 2014) – applicable to annual periods beginning on or after 1 January 2016 – not endorsed by the EU until the date of approval of these financial statements. The Company will apply the amendment upon its approval by the European Union. The Company does not expect that the amendments will have a significant impact on the financial statements.

k. Amendments to IAS 1 Disclosure (published on 18 December 2014) – applicable for annual periods beginning on or after 1 January 2016. The Company applies the amendment from 1 January 2016. The Company does not expect that the change will have a significant impact on the financial statements.

l. IFRS 16 Leases (published on 13 January 2016) – applicable to annual periods beginning on or after 1 January 2019 - not endorsed by the EU until the date of approval of these financial statements. The Company has not yet completed its analysis of the impact of the standard on the financial statements.

06

Main accounting principles

MEASUREMENT OF ITEMS DENOMINATED IN FOREIGN CURRENCIES

The Group's financial statements are presented in the Polish zloty (PLN) – the presentation currency and the functional currency of the parent company. Transactions denominated in foreign currencies are translated into the functional currency at the exchange rate effective on the transaction or measurement day when items are revalued. Gains and losses arising from the settlement of such transactions and measurement of assets and liabilities denominated in foreign currencies are recognised in profit or loss.

The Group comprises entities with a functional currency other than PLN. The reporting data of those companies included in these statements have been converted to PLN in accordance with IAS 21. Balance sheet items are translated at the exchange rate on the balance sheet, the profit and loss account items are translated at the average exchange rate for the period (unless this average is not a reasonable approximation of cumulative effect of the rates effective on the transaction days – in which case income and expenses are translated at the dates of the transaction days). The resulting exchange differences are recognised in other comprehensive income and the cumulative amounts are recognised in a separate component of equity.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include fixed assets owned by the Group.

The composition of the Group's fixed assets include:

- real estate (not leased and not intended for trade) used by the Group,
- plant and machinery,
- vehicles,
- other.

Fixed assets are measured and presented in the statement at cost less accumulated depreciation and impairment losses.

The Group's land is not depreciated, the remaining fixed assets are depreciated on a straight-line basis over their estimated quarterly-revised useful life. The estimated useful lives of assets is as follows:

- buildings and structures – from 17 to 67 years;
- components for plant and machinery – from 2 to 5 years;
- vehicles – from 1.5 to 15 years;
- other equipment – 5 years.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate fixed asset (where appropriate) only when it is probable that the asset will generate economic benefits for the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the profit and loss account during the financial period in which they are incurred.

Property, plant and equipment are tested for impairment if events or changes in circumstances imply that the carrying value may not be possible to realise. Impairment is recognised in the amount by which the carrying amount of an asset or cash-generating unit) exceeds its recoverable amount and is recognised in the profit and loss account. The recoverable amount is the higher of fair value less sale costs or value in use.

Gains and losses on disposal of fixed assets, representing the difference between the sales proceeds and the carrying amount of the fixed asset sold are recognised in the profit and loss account under other operating income / expenses.

INVESTMENT PROPERTIES, INVESTMENT PROPERTIES UNDER CONSTRACTION

Investment properties include leased real estate owned by the Group along with land directly related to the real estate and land purchased and maintained in order to increase the portfolio's value. Investment properties are initially recognised at cost.

In the case of real estate built by the Group, during the construction the Group includes them into investment property under construction, to recognise as investment property once they are available for use.

Following the initial recognition, at each balance sheet date, investment properties are stated at fair value. Fair value is updated every quarter. Gains or losses arising from changes in fair value of investment property are recognised in the profit and loss account in the period in which they arise.

The fair values of land and buildings measured at fair value are updated to the effect of reflecting the market conditions prevailing at the end of the reporting period. The fair value of investment property is the price that would have been received for the sale of an asset or paid for the transfer of a liability in a transaction between market participants carried out on normal conditions at the valuation date. The fair values of the property at least once a year are subject to verification by external real estate appraisers. The values expressed in EUR and USD are converted quarterly at the current exchange rates published by the NBP.

Gains and losses from the measurement of investment property and profits on the sale of investment property are recognised in the profit and loss account as profit (loss) from investment properties.

All costs related to repairs and maintenance of investment property are recognised as an expense in the profit and loss account in the period to which they relate.

Investment property under construction is investments (in progress) carried out by the Group which are intended to be of use in the future as investment property for rental. In the case of investment properties under construction, where a significant part of the risks attendant upon the implementation of the construction process has been eliminated and it is possible to reliably measure those properties are measured at fair value.

The Group established the conditions, the compliance with which initiates the process of analysis, whether significant risks related to investment property under construction have been completely eliminated. These conditions most notably comprise:
- obtaining a building permit,
- contracting construction works with a value of at least 30% of the investment budget,
- leasing at least 20% of the implemented project.

Risk analysis is also to a large extent determined by the option and manner of project financing.

Each investment property under construction is analysed individually in terms of the possibility of obtaining a reliable measurement of fair value, taking into account the overall economic situation, the availability of data for similar properties and expectations of volatility factors underlying the valuation. Once the above conditions have been fulfilled, as long as according to Group's estimates, the significant risks relating to the implementation of investment property under construction has been eliminated, the property is valued at fair value.

In other cases, given the inability to obtain a reliable measurement of fair value, investment properties under construction are measured at cost less any accumulated impairment losses.

While valuating investment property under construction at fair value under the income method, the Group takes into account the degree of implementation of the project at the end of the reporting period and available reliable data on the expected state of the investment property at the time of completion of the construction process. The valuation at cost takes account of costs directly related to the investment in progress. They consist of expenses incurred for the purchase of land, investments in the design and construction of buildings (mainly external services), expenses and other costs incurred during the implementation directly related to the investment.

A change of property user triggers respective reclassification of the property in the financial statements. Transfer of property and disclosure thereof under property, plant and equipment is effected at the carrying value on the transfer date, i.e. previously disclosed fair value.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (or a group for disposal) are classified as held for sale if their carrying amount has been recovered principally through a sale transaction, and the sale is considered highly probable. They are measured at the lower of the following two amounts: their carrying amount and fair value less disposal costs.

INVENTORIES

The item of inventories comprises: semi-finished products and work in process, finished products, goods and advances on deliveries. Given the nature of business, purchased land or incurred fees for perpetual usufruct of land is classified as work in process if the land is designed for development for resale or towards goods if the land is intended for sale. The work in progress includes also the expenses incurred over the process of construction of facilities and sites for sale (design services, construction works, etc. provided by external contractors). Finished products mainly include residential and business premises completed and sold under final sale contracts.

The inventories of tangible items of current assets are measured at the value corresponding to the purchase price of land and the cost of production of developers' business products increased by activated financial costs, being not higher than the net realizable value. This value is collected from information on the active market. Reversal of impairment loss of inventories appears either on the sale of inventories or due to increased net sales price. Both the amount of write-downs of inventories recognised as an expense in the period and the amount of any reversal of any write-downs decreasing the value of inventories recognised in the period as reduction in cost are stated in the profit and loss accounts under sales cost.

The issue of inventories is recognised according to a method of specific cost identification.

FINANCIAL INSTRUMENTS

1) Financial assets or financial liabilities are measured at fair value through profit and loss – including:
   - financial assets for trade. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term,
   - financial assets designated upon initial recognition as at fair value through profit and loss,
   - derivative instruments which fail to meet the conditions for hedge accounting;
2) Investments held to maturity – financial assets other than derivatives, with fixed or determinable payments and fixed maturities that the Group positively intends and is able to hold to maturity;
3) Loans and receivables – financial assets other than derivatives with fixed or determinable payments that are not quoted in an active market,
4) Financial assets available for sale – non-derivative financial assets not classified as financial assets recognised at fair value through profit or loss, loans and receivables and assets held to maturity.

Assets are recognised on the transaction date, and derecognised upon the expiry of the contractual rights to cash flows from the financial asset or where a financial asset is transferred along with all risks and benefits of ownership thereof.

FINANCIAL ASSETS RECOGNISED AT FAIR VALUE THROUGH PROFIT AND LOSS

Assets in this category are classified as current assets if they are held for trade or are expected to be realised within 12 months of the balance sheet date. The Group classifies investments in securities in this category.

Both on initial recognition and at the balance sheet date, financial assets are measured at fair value through profit or loss, whereas the measurement impact is shown in the financial statement.

DERIVATIVES

Derivatives are recognised in the books at the time where the Companies becomes a party to a binding agreement.

The Group takes recourse to derivative instruments to mitigate the risks associated with changes in exchange rates or interest rates.

The Group does not apply hedge accounting. At the balance sheet date, derivatives are measured at fair value. Whereas derivatives with fair value greater than zero are financial assets, those with negative fair value are financial liabilities.

Derivatives in the form of IRS which are closely related with the concluded loan agreement and cause changing variable rates into fixed-rate ones in the scope of contractually-specified interest on credit volume are not separated from the main contract but included in the measurement of loan liabilities at amortised cost (i.e. the loan is considered a loan with a fixed rate). Derivatives in the form of IRS beyond the volume arising under the loan agreement which are not closely related to the loan agreement are considered a separate derivative and measured at fair value through profit or loss separately from debt liability.

The Group recognises profit/loss from valuation and realization of derivative instruments that fail to meet the requirements of hedge accounting as income/expense on operations, income/expenses or financial transactions or 'profits/loss on derivative instruments in foreign currency', as the case may be and according to which the derivative instrument relates, i.e.

- profit / loss on valuation and realization of the IRS concerning. The interest rate used to convert the interest rate of the loan from variable to fixed is recognised in financial costs;
- profit or loss from the valuation and realization of derivative instruments on exchange rates (options, foreign currency forward contracts) is recognised in profit (loss) on foreign currency derivatives.

In the cash flow report, cash flows of this nature are disclosed respectively as investment or financial cash flows.

PURCHASED BONDS, LOANS, TRADE RECEIVABLES AND OTHER RECEIVABLES

Bonds, loans, trade receivables and other receivables which are financial assets come under the category of "Loans and receivables".

Purchased bonds, loans, trade receivables and trade and other receivables which are financial assets are initially recognised at fair value (plus transaction costs if any), and subsequently measured at amortised cost, less the accumulated impairment losses. The value of receivables based on the probability of their payment by revaluation write-off.

Revaluation write-offs on trade and other receivables are created at the end of each quarter, where there is objective evidence that the Group will not be able to collect all amounts arising under the original terms of receivables. The following factors suggest that the receivable is impaired: serious financial problems of the debtor or delay in payments. The amount of the provision is the difference between the carrying value of the receivable and the present value of estimated future cash flows arising thereunder and discounted with the original effective interest rate. The amount of loss is recognised in the profit and loss account as "other operating expenses". Subsequent repayment of previously written-off receivables is recognised in "other operating income" in the profit and loss account.

Advances to suppliers are valued at cash expenditure and according to received VAT invoices in evidence of granting an advance.

FINANCIAL ASSETS AVAILABLE FOR SALE

On the day of recognition, these assets are measured at fair value increased by transaction costs, while at the balance sheet date they are measured at fair value.

Gains or losses arising from changes in the fair value of an asset is recognised directly in other comprehensive income. In the event of impairment, the amounts previously recognised in other comprehensive income is reclassified to profit or loss.

Assets available for sale include stocks and shares in companies other than subsidiaries and associates which are not quoted in an active market, which are current or non-current assets.

In cases where no fair value can be determined, their valuations are carried at cost less accumulated impairment losses, whereas valuation effects are recognised in profit or loss.

CASH AND CASH EQUIVALENTS

Cash at bank and in hand and short-term investments held to maturity and other financial assets (liquid debt instruments readily convertible to cash) are measured at nominal value plus accrued interest.

The same definition of cash shall apply to cashflow report.

FINANCIAL LIABILITIES (INCLUDING TRADE)

Financial liabilities include loans, borrowings, debt securities, trade payables and other financial liabilities. Financial liabilities (including trade payables) are initially measured at fair value less transaction costs. Following the initial recognition, long-term liabilities are measured at amortised cost. In cases where the difference between that value and the calculated value of the amount payable has no significant impact on the Group's financial results, such obligations are measured at the amount due.

The advances for the purchase of goods and services take into account both invoiced (including apartments) and non-invoiced advances received.

CONTRACTS OF ISSUED FINANCIAL GUARANTEES

Contracts of issued financial guarantees are recognised initially at fair value (equal to the premium received or estimated using valuation techniques), then the higher of two values:

- amount of provision determined based on estimates of the amount of probable expenditure required to settle the obligation arising from the guarantee agreement
- initial value less depreciation.

Financial guarantee contracts are recognised also in liabilities and off-balance sheet receivables. At each balance sheet date, the Group assesses whether there is a likelihood of having to make payments and create reserves.

INCOME TAX

Income tax on the profit or loss for the year includes the tax currently payable and deferred tax. Income tax is recognised in the profit and loss account, except for amounts related to items recognised in other comprehensive income, in which case the income tax is accordingly recognised in other comprehensive income.

The current portion of the income tax is the expected tax on the taxable income for the year, calculated by using tax rates enacted at the balance sheet date, together with any tax adjustments for previous years.

Deferred tax is calculated by using the liability method on temporary differences between the carrying amounts of assets and liabilities and their corresponding tax values used to calculate the tax base.

Deferred tax assets are recognised for all taxable temporary differences except when the difference is due to:

- the initial recognition of goodwill or
- the initial recognition of an asset or liability in a transaction other than a merger of two business operators, provided that at

the time of the transaction it has no impact on the financial result or the tax base.

Deferred tax liabilities are recognised for all deductible temporary differences to the extent that it is probable that profit will be taxable, which will provide for deduction of negative temporary differences. The exception is that, when this difference arises from the initial recognition of an asset or liability in a transaction other than a merger of two business operators, provided that at the time of the transaction it has no impact on the financial result or the taxable base.

Deferred tax assets arising from tax losses and negative temporary differences created to the amount for which it is probable that tax income will be achieved in the future providing for the settlement of these differences and losses.

For the calculation of deferred income tax the tax rate is applied which will apply in the periods in which the assets will be realised or the liability settled.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority on the same taxable entity, or when the entities of the Group hold a legally enforceable right to set off.

No deferred tax is created on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates where the Group controls the reversal of such differences and it is probable that they will not reverse in the foreseeable future.

Deferred income tax is recognised in profit or loss or in other comprehensive income depending on where the position was entered to which the tax applies.

UNCERTAINTY CONNECTED WITH TAX SETTLEMENTS

The regulations concerning the tax on goods and services, corporation tax and social security charges are subject to frequent changes. These frequent changes lead to the absence of relevant benchmarks, inconsistent interpretations and a few established precedents that might be applicable. Existing regulations also contain ambiguities that cause differences in opinions as to the legal interpretation of the tax legislation, between state authorities as well as state bodies and businesses.

Tax settlements and other areas of activity (for example customs or foreign exchange) may be subject to inspection by the authorities that are entitled to impose high penalties and fines as well as any additional tax liability resulting from checks must be paid with a high interest. These conditions make the tax risk in Poland higher than in the countries with more mature tax systems.

Consequently, the amounts presented and disclosed in the financial statements may change in the future as a result of the final decision of the tax auditing authority.

On 15 July 2016 changes were introduced to the Tax Code in order to reflect the provisions of the General Anti-Avoidance Rule (GAAR). GAAR is designed to prevent the creation and use of artificial legal structures developed in order to avoid paying taxes in Poland. GAAR defines tax evasion as an act primarily for the purpose of obtaining a tax advantage, contradictory in given circumstances to the subject matter and purpose of the provisions of the tax law. According to GAAR, an operation like that does not result in a tax advantage if the mode of operation was artificial. Any occurrence of:

– unreasonable division of operations,
– involvement of intermediaries despite the lack of economic or economic justification,
– elements that are mutually abrasive or compensatory and
– any other actions of similar effect to the aforementioned, may be treated as a premise of the existence of artificial operations subject to GAAR regulations.

The new regulations will require much greater judgment when assessing tax consequences of individual transactions.

The GAAR clause should apply to transactions closed after it enters into force and to transactions that were closed before the GAAR clause entered into force, for which advantages were or still are being achieved after the date of the clause's entry into force. The implementation of the above provisions will allow Polish tax authorities to question the legal arrangements and agreements such as restructuring and reorganization of the group.

EQUITY CAPITAL

The share capital is measured at nominal value shown at the National Court Register. The differences between the fair value of the payment received and the nominal value of shares are recognised in the reserve fund as capital from sales of shares above their nominal value.

The supplementary capital consists of the surplus of the issuance above the nominal value of shares and the consolidated profits of companies approved at the Ordinary AGM. The share issue costs incurred by increasing the share capital reduce the company's supplementary capital to the amount of surplus issue value above the nominal value of shares.

RESERVE

The provisions are recognised when the Group is under a present obligation resulting from past events, it is probable that fulfillment of this obligation will cause an outflow of resources representing economic costs and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the costs estimated in accordance with the best knowledge of the management of the Group, the incursion of which is required to settle the present liability at the balance sheet date.

OPERATING PROFITS

Revenues from sales of goods and products are recognised at the fair value of consideration received or receivable, net of discounts, rebates and sales taxes and are recognised at the time the goods and products are released and the risks and benefits of ownership of the goods and products is transferred to the buyer and the amount of revenue can be measured reliably.

In particular, revenues from the sale of the Group's residential and service premises are recognised in accordance with IAS 18 at the time of transfer of ownership of these premises under a sale agreement after the completion of the facility and obtaining the right of use of premises.

Revenues from the lease of residential and commercial properties are recognised on a straight-line basis during the term of the agreements.

Revenues from the construction of buildings under long-term contracts are recognised in accordance with IAS 11 according to the stage of completion. The stage of completion is determined as the ratio of work performed to date as compared to the whole of the work to be done (in terms of costs incurred).

Other revenues from sales of services are recognised in the period in which the services were provided.

SALES COST

Sales cost is measured at production cost by taking recourse to the method of detailed identification of the real costs of sold assets or percentage share of, e.g.: sold area of land, sold shares, etc. In particular, the cost of sold premises and land is determined in proportion to its share in the total cost of construction of the facility and in all the land constituting a project.

CONSOLIDATION OF SUBSIDIARIES

These financial statements of Echo Investment Group include the separate financial statements of Echo Investment S.A. and its subsidiaries. Subsidiaries are all entities over which the Group exercises control, which usually occurs when the Company:

- exercises authority over the entity,
- is exposed to changing financial results or holds rights to variable financial results,
- is capable of using the authority exercised over the entity in which the investment was made to influence the amount of their financial results.

Subsidiaries are consolidated from the date of extending authority over them to the time of losing it.

At the date of acquisition of subsidiary (taking control) the assets and liabilities of the acquired entity are measured at their fair value. The excess of the purchase price plus the fair value of previously held shares and value of non-controlling shares over the fair value of the identifiable net assets acquired is recognised in the balance sheet as goodwill. If the purchase price plus the fair value of previously held shares and value of non-controlling shares is lower than the fair value of the identifiable net assets acquired, the difference is recognised as profit in the income statement in the period in which the acquisition took place. The share of non-controlling shareholders is presented at an appropriate fair value of net assets or at fair value.

The most important role in the structure of the Group is played by Echo Investment SA, which is the owner of units of the Group, supervises, co-participates and provides funds for the implementation of ongoing developer's projects. The companies included in its composition have been established or acquired in order to carry out specific investment tasks and mostly do not engage in business operations other than that which would result from the process of execution pf specific project, and next from the provision of services of lease assets already completed or other services.

The process of consolidation eliminates all intra-group transactions and accounting balances. Elimination also extends to the value of shares held by the Company and other consolidated entities in subsidiaries which represents the share of the Company and other Group entities subject to consolidation in the equity of subsidiaries. Jointly controlled entities are consolidated in accordance with the equity method.

INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

Associates are the companies which the parent company has a direct or indirect (through subsidiaries) influence on yet are not its subsidiaries or joint ventures.

Joint ventures are contractual arrangements whereby two or more parties undertake a business which is subject to co-control.

The financial year of associates, joint ventures and the parent company is the same.

The Group's investments in associates and joint ventures are accounted for in the consolidated financial statements using the equity method. Under the equity method, the investment in an associate or joint venture is initially recognized at cost and subsequently adjusted to take account of the Group's interest in the financial result and other comprehensive income of the associate or joint venture. If the Group's share of losses in an associate or joint venture exceeds its share in the entity, the Group ceases to recognize its share of further losses. Additional losses are recognized only to the extent consistent with legal or customary liabilities assumed by the Group or to payments made on behalf of an associate or joint venture.

An investment in an associate or joint venture is accounted for using the equity method from the date on which the entity acquired the status of a joint venture or associate. On the date of investing in an associate or joint venture, the amount by which the investment costs exceed the Group's share of the net fair value of the identifiable assets and liabilities of that entity is recognized as goodwill and included in the balance value of the investment. The amount by which the Group's share of net fair value in identifiable assets and liabilities exceeds investment costs is recognized directly in profit or loss in the period in which the investment was made.

The requirements of IAS 39 apply when assessing the need to recognize impairment of a Group's investment in an associate or joint venture. If necessary, the entire investment balance sheet is tested for impairment under IAS 36 "Impairment of Assets" as a single asset, comparing its recoverable amount with the balance value. Impairment recognized is part of the balance value of the investment. Reversal of this impairment is recognized in accordance with IAS 36 to a degree corresponding to a subsequent increase in the recoverable amount of the investment.

The Group ceases to apply the equity method on the date a given investment ceases to be its associate or joint venture and when it is classified as earmarked for sale. The difference between the balance value of an associate or joint venture at the date of discontinuance of the equity method and the fair value of retained interests and proceeds from the disposal of a portion of the interest in that entity is taken into account when calculating the gain or loss on disposal of an associate or joint venture.

If the Group reduces its share in an associate or in a joint venture but it continues to settle it using the equity method, it transfers to the financial result any portion of profit or loss previously recognized in other total income, corresponding to the share reduction, provided that the profit or loss is subject to reclassification to the financial result at the time of the disposal of related assets or liabilities.

REPORTING BY SEGMENTS

The Group's business segments are presented in accordance with data from internal management reporting and analyzed by the key operational decision maker. The key operating decision maker, which is responsible for the allocation of resources and the assessment of operating segments' results, is the Management Board of Echo Investment S.A.

In the Group, the following reporting segments were identified, which are identical to operating segments defined on the basis of the type of projects implemented:

- residential areas (rental and sale of residential and service areas),
- shopping centres (rental),
- office buildings (rental),
- others (services for external clients – accountancy, leasing, development).

Principles for determining revenues, costs, segment's result measurement, asset valuation and segment's liabilities are the accounting policies adopted for the preparation and presentation of the Group's consolidated financial statements, as well as accounting policies that specifically relate to segment reporting.

The operating segment profit margin is measured as ‘gross profit / loss on sales’.

Segment financial data are included in notes 31A – 31E to the financial statements.

07

Material estimates of the Group's Management Board

The preparation of financial statements requires the Group's Management to make estimates and assumptions that are reflected in these statements. Actual results may differ from these estimates. The main areas in which estimates of the Management Boards have a significant impact on the financial statements include:

INVESTMENT PROPERTY/ INVESTMENT PROPERTY UNDER CONSTRUCTION/ NON-CURRENT ASSETS HELD FOR SALE

Investment properties are buildings rented by Group companies, grouped together because of the risks and valuation method in two classes of investment property (shopping centres and office buildings). The fair value of investment property is classified at Level 2 of the fair value hierarchy.

The fair value of properties yielding fixed income is determined by appraisers. Whereas most of the lease agreements entered into by the Group are denominated in euros, the valuation of investment properties has been prepared in EURO and converted into PLN as per the average exchange rate at the balance sheet date.

According to the valuations prepared by the Group, the total value of investment properties as at 31 December 2016 amounted to PLN 248,037 thousand (PLN 192,032 thousand is the value of office buildings assessed according to the income-based method, PLN 52,569 thousand is the value of investment land and PLN 3,436 thousand is the value of other investment real estate).

As at 31 December 2015, the value of investment real estate amounted to PLN 63,342 thousand (PLN 53,152 thousand is the value of an office building, PLN 7,273 thousand is the value of investment land and PLN 2,917 thousand is the value of the real estate). Capitalization rates used to estimate the fair value for shopping centres as at 31 December 2015 ranged from 6.5% to 8.5% and for office buildings they ranged from 7.0% to 8.4%. The capitalization rates used to estimate the fair value for office buildings as at 31 December 2016 ranged from 7.25% to 7.75%. Investment property under construction as at 31 December 2016 was characterized by risks related to the execution process at levels which, according to the Management Board, prevented a reliable estimate of the fair value of all properties. The value of investment properties under construction as at 31 December 2016 amounted to PLN 536,692 thousand. Real estate is valued according to the expenditure incurred in the amount of PLN 536,692 thousand.

As at 31 December 2015, the Group held one office property under construction, which was assessed according to the income-based method – its value amounted to PLN 609,218 thousand.. The value of other investment properties under construction as at 31 December 2015 (presented according to the expenditure incurred) amounted to PLN 789,410 thousand. Capitalization rates used to estimate the fair value for office buildings as at 31 December 2015 ranged from 7.0% to 8.4%.

As at 31 December 2016 the Group did not recognize the fair value of office real estate under construction.

As part of assets earmarked for sale the Group presents the real estate which was earmarked for sale within 12 months. This item includes both completed projects and investment land. As at 31 December 2016 the value of assets earmarked for sale amounted to PLN 198,166 thousand (PLN 97,405 thousand is the value of an office building, PLN 100,761 thousand is the value of land properties). As at 31 December 2015, the value of assets earmarked for sale amounted to PLN 5,192,965 thousand (PLN 1,123,761 thousand is the value of office buildings, PLN 3,927,139 is the value of shopping centres and PLN 142,065 thousand is the value of land properties).

As at 31 December 2016 and 31 December 2015 the real estate included in assets earmarked for sale was assessed at fair value.
As at 31 December 2016, in its consolidated financial statement the Group recognized estimated reserve liabilities amounting to PLN 134.2 mln and resulting from the agreements entered into. Its future liabilities of PLN 100.6 mln concern investment property sold i.e. O3 Business Park (Stage I) in Krakow, Tryton in Gdańsk, Symetris (Stage I) in Łódź and Q22 in Warsaw.

The remaining PLN 33.6 mln concerns other investment real estate which the Group plans to sell within 12 months.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The fair value of financial instruments (included in the fair value hierarchy level 2) which are not traded on an active market is determined in accordance with valuation techniques (income method). The Company is guided by common sense in the selection of valuation methods and assumptions based on market conditions existing at each balance sheet date. In particular, agreements of forward agreements options and instruments IRS are valued on the basis of valuations provided by banks (note 11A and 11B), which in their calculation use such data as the current fluctuations of exchange rates, historical volatility and interest rates on deposits (WIBOR, EURIBOR).

INVENTORIES

Estimating the amount of revaluation write-downs of inventories held by the Company at the balance sheet date involves analysing data from an active market for the expected sales prices and current market trends and information arising from the Company's preliminary sales contracts. The assumptions used in the calculation of impairment and write-down mainly relate to the property market prices applicable in a given market segment or are based on the sale contracts. In the case of land included in inventories, the values of write-downs result from estimated by the Management Board suitability of the land (to be used) for the needs of current and future operations of the Company.

DEFERRED INCOME TAX

The Management Boards of the Group companies are required to assess the likelihood of realization of deferred tax asset. As part of the process of preparing the financial statements, the Company estimates the value of deferred tax provision and assets, among other things, based on the value of future levels of charges of income tax. The process involves an analysis of the current charges levels of current income tax and the temporary differences resulting from the different treatment of transactions in terms of tax and accounting, which give rise to deferred tax assets and provisions.

In the process of the above assessment a number of assumptions is adopted for determining the value of deferred tax assets and provision. These estimates take into account tax projections, historical value of the tax burden, currently available strategies for planning operations of the Company and completion dates of individual temporary differences. Whereas these estimates are subject to change due to external factors, the Company may periodically adjust the value of deferred tax assets and provision which in turn may affect the Company's financial situation and results.

In 2016 the Group created and dissolved reserves and assets on account of deferred income tax at a total value of PLN 218,635 thousand, which increased the Group's financial result. A significant factor affecting the amount of the deferred income tax presented in the income statement was a change of the legal form of Group's entities, which were transformed into partnerships and subsequently sold to Redefine Properties Limited under the share sales and subscription agreements of 1 June 2016. As at the balance sheet date the Group held deferred income tax reserves of PLN 41,541 thousand and deferred income tax assets of PLN 93,131 thousand.

FINANCIAL COSTS

Financial costs related to the current period are recognized in the profit and loss account, except for costs subject to activation in accordance with IAS 23. The Group activates the portion of financial costs directly related to the acquisition and production of assets that require a longer preparation time for the intended use or sales recognized as stock and projects commenced. The activation concerns the amount of financial expenses determined using the effective interest rate reduced by the income from the temporary placement of cash (i.e. the interest on bank deposits, except for deposits resulting from blockades of accounts or letters of credit) in the case of targeted financing contracted for a given construction project. In the case of general financing, the overall financing costs subject to capitalization are determined by applying the capitalization rate to the expenditure incurred for a given asset.

CONSOLIDATION OF SUBSIDIARIES AND RECOGNITION OF SHARES IN JOINTLY CONTROLLED COMPANIES.

These financial statements of the Echo Investment Group include the separate financial statements of Echo Investment S.A. and its subsidiaries. Subsidiaries are all entities over which the Group exercises control, which is generally the case when the Company:

- is in charge of the company,
- is subject to exposure to variable financial results or holds rights to variable financial results,
- zhas the ability to use the power over the investee to influence the amount of its financial performance.

Subsidiaries are consolidated from the time when control is acquired until the control is lost.

As at the acquisition date of a subsidiary (acquisition of the control), the assets and liabilities of the company are measured at their fair value. The excess of the acquisition price plus the fair value of the previously held shares and the value of the non-controlling shares over the fair value of the identifiable net assets acquired are disclosed in the balance sheet assets as goodwill. Where the acquisition price increased by the fair value of the previously held equity interest and the value of the non-controlling interests is lower than the fair value of the identifiable net assets acquired, the difference is recognized as profit in the profit and loss account of the period in which the acquisition occurred. The share of non-controlling shareholders is recognized at fair value of net assets or at fair value.

Echo Investment S.A., which, as the owner of the entities belonging to the Group, supervises, co-finances and provides financial resources for execution of ongoing development projects, plays the most important part in the structure of the Group. Its affiliated companies have been established or acquired to perform specific investment tasks and for the most part do not conduct any business activity other than that arising from the implementation of a particular project and subsequent provision of the rental of assets completed or other services.

In the consolidation process, all intra-group transactions and settlement balances are eliminated. The value of shares held by the Company and other entities included in the consolidation in subsidiaries, which relates to the share of the Company and other entities in the Group included in the consolidation in the equity of the subsidiaries, is also eliminated. Jointly-controlled entities are consolidated using the equity method.

As at 31 December 2016, the Group consisted of 140 fully consolidated subsidiaries and three associated entities accounted for using the equity method. On the other hand, as at 31 December 2015, there were 168 fully consolidated subsidiaries, one jointly controlled entity and one associate consolidated using the equity method.

08

Financial risk management

The risk of changes in cash flows and fair value related to interest rate

The Group's exposure to interest rate risk stems from financial assets and liabilities, in particular with loans granted, acquired bonds, bank deposits and bank loans received (taking into account concluded interest rate swaps) and issued bonds. Borrowings, loans, and bonds bear interest at variable rates and make the Company vulnerable to interest rate risk, while loans and advances bear interest at fixed interest rates and expose the Group to fluctuations in fair value of financial instruments. In addition, the Group is exposed to the risk of interest rate fluctuations in the case of borrowing a new loan or refinancing existing debt into long-term financing.

Based on the various scenarios, the Group manages its exposure to changes in cash flows resulting from interest rate changes – using interest rate swaps converting floating rate to fixed rate for the selected loans or individual tranches of loans. The economic effect of the use of such swaps is to convert debt instruments with variable interest rates into fixed-rate instruments. Under the agreements relating to interest rate swaps the Group undertakes, along with other parties, to exchange at specified intervals (usually monthly) the difference between fixed and variable interest rates determined on the basis of an agreed base principal. The Company uses these financial instruments exclusively to hedge risks and not for speculative purposes.

As at 31 December 2016, 4,2% of liabilities on loans and debt securities yielded fixed-rate interest, the remaining part – variable-rate interest. As at 31 December 2015, 31.7% of liabilities on loans and debt securities yielded fixed-rate interest, the remaining part – variable-rate interest. At 31 December 2016 63,7% of borrowings and bonds were yielding variable-rate interest, the remaining part – variable-rate interest. As at 31 December 2015, all borrowings and bonds were yielding variable-rate interest.

Based on the simulations, it was found that the impact of changes in interest rates by 1 p.p net profit would be a maximum increase or decrease, respectively:

INTEREST RATE RISK OF LIABILITIES DUE TO ISSUE OF DEBT SECURITIES [PLN '000]

	Value calculated for the purpose of analysis:	
	as at 31.12.2016	**as at 31.12.2015**
Balance of liabilities due to issue of debt securities	829 556	1 009 835
Financial costs of interest on the issue of debt securities	22 862	46 870
Estimated change of interest rates	+/- 1 p.p.	+/- 1 p.p.
Financial costs of interest on the issue of debt securities	8 296	10 098
Total: effect on the gross result for the period	8 296	10 098
Income tax	**1 576**	**1 919**
Total: effect on the net result for the period	**6 720**	**8 179**

INTEREST RATE RISK – LOAN LIABILITIES [PLN ‘000]

	Value calculated for the purpose of analysis:	
	as at 31.12.2016	as at 31.12.2015
Balance of loan liabilities	62 719	1 783 589
Financial costs of interest on loans	-	45 573
Estimated change of interest rates	+/- 1 p.p.	+/- 1 p.p.
Financial costs of interest on loans taking account of increase/(decrease) in interest rates	627	17 836
Total: effect on the gross result for the period	**627**	**17 836**
Income tax	119	3 389
Total: effect on the net result for the period	**508**	**14 447**

INTEREST RATE RISK – CASH [PLN ‘000]

	Value calculated for the purpose of analysis:	
	as at 31.12.2016	as at 31.12.2015
Balance of cash	663 429	910 752
Other operating revenue from interest	5 542	5 202
Estimated change of interest rates	+/- 1 p.p.	+/- 1 p.p.
Other operating revenue from interest, taking account of changes of interest rates	6 634	356
Total: effect on the gross result for the period	**6 634**	**356**
Income tax	1 261	68
Total: effect on the net result for the period	**5 374**	**288**

INTEREST RATE RISK OF BORROWINGS GRANTED [PLN ‘000]

	Value calculated for the purpose of analysis:	
	as at 31.12.2016	as at 31.12.2015
Balance of borrowings granted	15 080	12 671
Financial revenue from interest on borrowings granted	1 059	304
Estimated change of interest rates	+/- 1 p.p.	+/- 1 p.p.
Financial revenue from interest on borrowings granted, taking account of changes of interest rates	151	127
Total: effect on the gross result for the period	**151**	**127**
Income tax	29	24
Total: effect on the net result for the period	**122**	**103**

Currency risk

The risk of foreign exchange rate fluctuations is related to the loans that investment loans denominated in foreign currencies within the Group (31 December 2016 – EUR 23.441.000, 31 December 2015 – EUR 706.037.000) and lease agreements, where rents are dependent on the PLN/EURO exchange rate. This risk arises on the opportunity of the following types of financial events:

- currency translation of received loans (tranches of loans) and funds from the sale of commercial projects from EURO to PLN: With a view to mitigating the risk associated with currency conversion of loans received, the Group enters into forward contracts on the futures market to the values of cash flows planned this type.
- repayment of loan instalments
- obtaining receivables in respect of property lease
- currency translation of other receivables.

The Group uses natural hedging: contracts with tenants and commercial property buyers are expressed in the currency of the loan that was taken out to finance the investment. Payments are allocated for the repayment of loans. Such linking of funding with sources of income reduces the foreign exchange risk to a minimum or eliminates it completely.

In the years 2013 – 2015 Group, in order to hedge foreign exchange risk made a hedge on the futures market by opening positions in derivatives which hedge the EURO/PLN exchange rate. As a result of open positions at 31 December 2015, the Group remained hedged for a portion of the cash flow in 2016 (EUR 26.5 million -forwards and EUR 150 million – options. The transactions made under contracts concluded with banks were not speculative in nature, and were concluded in the framework of the policy of security (but were treated by the Group as hedge accounting according to IAS 39) in order to protect future levels of cash flows from the currency conversions of tranches of loans in EUR and funds from the sale of commercial projects.

In 2016, the Group did not open new hedging positions on EUR/PLN exchange rate. As at 31.12.2016 all of the positions listed above was executed.

The Group pursues a uniform risk management policy of exchange rate changes and constantly monitors risk areas, while using available strategies and mechanisms to minimise the negative effects of market volatility and cash flow hedges. The Group maintains financial surpluses mostly in the PLN, the amounts held in bank accounts in other currencies are mainly to current transactions. At the end of 2016, 81.7% of cash held by the Group were denominated in PLN, 17.7% – denominated in EUR and 0.6% denominated in other currencies, while at the end of 2015, 97,5% of cash held by the Group were denominated in PLN, 2.3% – denominated in EUR and 0.2% denominated in other currencies.

Based on the simulations, it was found that the impact of change in the EURO/PLN in the amount of 10% on net profit would represent the maximum increase or decrease.

CURRENCY RISK – RECEIVABLES FROM SALES OF PROPERTIES AND OTHERS [PLN '000]

	Value calculated for the analysis:	
	as at 31.12.2016	as at 31.12.2015
Accounts receivable from sales of properties and others in EUR	263 565	-
Estimated change of the EURO exchange rate	+/- 10 p.p.	+/- 10 p.p.
Exchange rate variations due to exchange rate fluctuations	26 357	-
Estimated (deferred) income tax	5 008	-
Net effect on the result	21 349	-

CURRENCY RISK – RECEIVABLES FROM LOANS [PLN '000]

	Value calculated for the analysis:	
	as at 31.12.2016	as at 31.12.2015
Accounts receivable from projects sold and others in EUR	16 571	-
Estimated change of the EURO exchange rate	+/- 10 p.p.	+/- 10 p.p.
Exchange rate variations due to exchange rate fluctuations	1 657	-
Estimated (deferred) income tax	315	-
Net effect on the result	1 342	-

CURRENCY RISK – CREDIT LIABILITIES [PLN '000]

	Value calculated for the analysis:	
	as at 31.12.2016	as at 31.12.2015
Accounts receivable from projects sold and others in EUR	45 454	3 008 775
Estimated change of the EURO exchange rate	+/- 10 p.p.	+/- 10 p.p.
Exchange rate variations due to exchange rate fluctuations	4 545	300 878
Estimated (deferred) income tax	864	57 167
Net effect on the result	3 681	243 711

CURRENCY RISK – BORROWING LIABILITIES [PLN '000]

	Value calculated for the analysis:	
	as at 31.12.2016	as at 31.12.2015
Accounts receivable from projects sold and others in EUR	58 250	-
Estimated change of the EURO exchange rate	+/- 10 p.p.	+/- 10 p.p.
Exchange rate variations due to exchange rate fluctuations	5 825	-
Estimated (deferred) income tax	1 107	-
Net effect on the result	4 718	-

CURRENCY RISK – LIABILITIES ON ACCOUNT OF FORWARD DERIVATIVES [PLN '000]

	Value calculated for the analysis:	
	as at 31.12.2016	as at 31.12.2015
Accounts receivable from projects sold and others in EUR	-	112 930
Estimated change of the EURO exchange rate	+/- 10 p.p.	+/- 10 p.p.
Exchange rate variations due to exchange rate fluctuations	-	11 293
Estimated (deferred) income tax	-	2 146
Net effect on the result	-	9 147

Credit risk

Credit risk arises in the case of cash, granted borrowings, derivative financial instruments and deposits in banks and financial institutions, as well as in relation to clients and tenants of the Group in the form of outstanding receivables. The Group has implemented procedures to assess the creditworthiness of customers and tenants, whereas for the latter hedging in the form of deposits and guarantees are applied as collateral. No significant concentration of risk occurs in relation to any of the customers of the Group. In the case of financial institutions and banks, the Group banks with reputable institutions and funds.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining adequate amount of available cash reserves, using the offer of banking services and reserve credit lines and constantly monitoring forecast and actual cash flows. As at 31 December 2016, out of the PLN 200 mln available under credit lines PLN 135.2 was unused. As at 31 December 2015 out of PLN 255 million available under credit lines, the Group showed the balance of unusued PLN 239 million. Due to the dynamic nature of its business, the Company maintains flexibility in funding by the availability of funds and diversity of funding sources.

The Company holds enough cash to settle all liabilities. Mitigation of liquidity risk in the long term is implemented by the availability of bank loans. The Group can at any time take recourse financing from current funds from bank credit lines.

Analysis of undiscounted financial liabilities of the Group, which will be settled at appropriate intervals, based on the remaining period to the contractual maturity date

ANALYSIS OF UNDISCOUNTED FINANCIAL LIABILITIES AS AT 31.12.2016 [PLN '000]

Period	Loans	Borrowings	Bonds	Derivatives	Trade and other liabilities
Up to 1 year	–	–	214 076	–	163 927
Over 1 to 3 years	6 964	–	639 073	39	3
Over 3 to 5 years	5 332	–	98 073	–	–
Over 5 years	40 743	69 320	–	–	–
Total	**53 039**	**69 320**	**951 222**	**39**	**163 930**

ANALYSIS OF UNDISCOUNTED FINANCIAL LIABILITIES AS AT 31.12.2015 [PLN '000]

Period	Loans	Borrowings	Bonds	Derivatives	Trade and other liabilities
Up to 1 year	147 458	–	246 018	1 910	112 641
Over 1 to 3 years	444 100	–	689 223	641	2
Over 3 to 5 years	1 024 001	–	175 065	939	–
Over 5 years	1 748 723	–	–	–	–
Total	**3 364 282**	**–**	**1 110 306**	**3 490**	**112 643**

Estimated future interest payments were taken into account in the analysis.

09

Capital risk management

The Group's objective in managing capital is to protect the Group's ability to continue its operations, so that it can generate return for shareholders and to maintain an optimal capital structure to reduce its cost. While managing the capital, the Group makes decisions regarding the level of financial leverage, dividend policy, issuance of new shares or purchasing and subsequent redemption or resale of previously issued shares and the possible sale of assets to reduce debt. The Group monitors its capital by such methods as debt ratios. This ratio is calculated as the ratio of net debt to total capital. Net debt is calculated as the sum of loans and borrowings (including current and long-term loans reported in the balance sheet) less cash and cash equivalents. The total capital is calculated as equity shown in the balance sheet inclusive of net debt.

DEBT RATIOS ['000 PLN]

	Note	31.12.2016	31.12.2015
Total loans, borrowings and bonds	16	981 921	4 039 765
Dividend liabilities		66 030	–
Cash, its equivalent and restricted cash	13	(663 429)	(910 752)
Net debt		384 522	3 129 013
Equity		1 528 260	3 663 596
Total capital (net liabilities + equity)		1 912 782	6 792 609
Debt ratio		20,10%	46,06%

The values of the presented ratios are within the financial assumptions of the Group.

10

Material post-balance sheet events

10.1 Establishing of the public bond issue programme

On 27 February, 2017 the Management Board of Echo Investment has passed a resolution on establishing a bond issue programme worth up to PLN 300 mln or its equivalent in euro.

The company has submitted a prospectus at the Financial Supervision Authority. It is planning to introduce the bonds issued on the regulated Catalyst market. All details concerning the issue, including its schedule, the currency of the issue, the redemption date and the interest rate will be stipulated in the prospectus and in the final conditions of a given series of bonds.

10.2 Acquisition of stake in Galeria Młociny project

On March 9th, 2017 companies from the Echo Investment group and the Echo Polska Properties group signed an agreement concerning a joint purchase of 100% shares in Rosehill Investments, which was the indirect owner of the retail and office project Galeria Młociny that is under construction near Zgrupowania AK „Kampinos" Street in Warsaw. The sellers are: Broomfield Investments, Catfield Investments sp. z o.o., Powell Real Estate International B.V., Taberancle Limited, Taberancle Investments Limited and Elsoria Trading Limited. The two companies will pay approximately EUR 104,5 mln for the project (including liabilities of the company being the subject of the transaction). The Echo Investment group will have the share of 30% in the transaction, the part of the price attributable to the Group is approximately EUR 12 mln and its part of acquired liabilities amounts to EUR 19 mln. The purchase price could be changed as a result of an auditor's verification of the values used by the parties to establish the price. The parties are planning to close the deal by June 1st, 2017 at the latest.

Together with the conclusion of the contract an entity from the Echo Investment's group provided the SPV company which builds Galeria Młociny with a loan of a maximum value of PLN 70 mln for the repayment of its liabilities towards the general contractor.

Furthermore, Echo Investment also concluded a shareholder agreement with Echo Polska Properties, regulating the corporate governance principles in the acquired companies and a developmet agreement which provides Echo Investment with the function of the building site manager and project leasing agent.

10.3 Sale of West Gate office building in Wrocław and ROFO agreement with Griffin Premium RE

Echo Investment and its subsidiaries concluded a preliminary contract concerning the sale of the West Link office building in Wrocław with entities from the Griffin Premium RE group with its seat in Netherlands. The buyer is a company affiliated with Griffin Real Estate.
The deal is to be closed subject to the following conditions:
1) the receipt of the final, unconditional occupancy permit for the building,
2) leasing minimum 60% of the building's area and the signing of a rental guarantee agreement

for the period of five years, based on which Echo Investment will guarantee the coverage of rent and service charges for vacant premises as well as rent-free periods, costs of finishing the premises and costs related to temporary rent abatements,

3) the first public offering of shares of Griffin Premium on Warsaw Stock Exchange will generate net proceeds of minimum EUR 28 mln for Griffin Premium until June 30th, 2017, (condition fullfilled on 19 April 2017)
4) the Buyer receives the anti-trust consent if it is required by law; and
5) the Supervisory Board of the Company approves the transaction, which was granted on March 14th, 2017.

The sales price of the Shares was established as follows:
- the quotient of NOI (i.e. the difference between the operating income and undeductable operating costs) and 6.873%,
- plus the estimated working capital and cash amount
- and minus the debt amount.

The price will be subject to standard adjustments after the closure of the transaction.

At the same time the Griffin Premium RE and Echo Investment concluded an investment contract concerning the right of the first offer for office projects developed in Warsaw i.e. the Beethovena project stages I and II and Browary Warszawskie stage J. Following the legal due diligence and provided that its results are considered satisfactory by Griffin Premium RE, Griffin Premium RE will invest 25% of the capital which was already invested and the future capital needed for the completion of the construction process and finalization of the project by the acquisition of bonds. The total estimated value of these bonds is EUR 9.9 mln. In connection with the investment in bonds, an entity controlled by Griffin Premium RE will be entitled to a 25%-share in the projects' profits.

According to the ROFO agreement, Griffin Premium RE is entitled to present its first offer to buy the 3 buildings.

DESCRIPTION OF PROPERTIES INCLUDED IN THE ROFO AGREEMENT

Project	GLA [sqm]	NOI [EUR mln]	Launch	Completion
Beethovena I	17 800	3,1	Q4 2017	Q3 2019
Beethovena II	17 400	2,9	Q1 2018	Q4 2019
Browary Warszawskie J	15 000	3,1	Q2 2017	Q3 2018

10.4 Loan facility

On 11 January, 2017, Echo Investment S.A. has concluded a loan agreement with Raiffeisen Bank S.A. Under the agreement, the bank granted to the Company a loan in the amount of PLN 62 mln for current activity financing. The loan is available up to 14 December 2018.

10.5 Loan agreement for construction of West Link

Following the signing of a preliminary sales contract concerning the sale of the West Link office building on March 23rd, 2017, Echo Investment signed a loan agreement with the Millenium Bank for the amount of EUR 16.5 mln for its construction. West Link, which according to the plans presented to the bank should be completed at by early 2018, will have a gross leasable area of over 14,000 sqm.

11

Transactions with affiliated companies

As a result of a transaction with affiliated companies, as at December 31st, 2016 receivables of the Group of Echo Investment S.A. on account of loans accorded by the parent company amounted to PLN 3,599 thousand, on interest sale - PLN 57.928 thousand and trade debts towards the parent company amounted to PLN 3,032 thousand. As at the balance date the Group of Echo Invest¬ment S.A. had receivables on account of loans accorded and trade receivables from affiliated companies which amounted to PLN 1,206 thousand and PLN 2,812 thousand respectively. The group incurred expenditure of PLN 17.717 thousand (transactions with the parent com¬pany) and had the incomings from the parent company amounting to PLN 273 thousand as well as incomings from affiliated companies amounting to PLN 45,245 thousand.

As a result of a transaction with affiliated companies, as at December 31st, 2015 receivables of the Group of Echo Investment S.A. on account of loans accorded by the parent company amounted to PLN 12,711 thousand and trade debts towards a co-controlled company amounting to PLN 203 thousand. The group incurred expenditure of PLN 6,230 thousand (transactions with the parent company) and PLN 165 thousand (transactions with a co-controlled company) as well as incomings from the parent company amounting to PLN 273 thousand.

12

Information on remunerations of the management board and supervisory board

REMUNERATION OF THE MANAGEMENT BOARD [PLN IF NOT INDICATED]

	2016			2015	
	from Echo Investment S.A.		for holding functions or providing services to other companies of the Group	from Echo Investment S.A.	for holding functions or providing services to other companies of the Group
	Basic remuneration	Bonus			
Nicklas Lindberg (appointed on 18.04.2016)	768 742	658 890	369 714 EUR	–	–
Maciej Drozd (appointed on 16.07.2015)	1 097 595	440 780	401 338	734 000	–
Piotr Gromniak	618 000	829 000	135 000	1 399 000	–
Artur Langner	546 000	766 000	120 000	1 238 000	–
Rafał Mazurczak (appointed on 15.09.2016)	60 000	–	365 500	–	–
Marcin Materny (appointed on 15.09.2016)	60 000	–	115 500	–	–
Waldemar Lesiak (resigned on 30.05.2016)	314 491	382 000	969 244	1 238 000	–

The managing officers of Echo Investment S.A. in 2015. received additional bonuses in the total amount of PLN 5.561.000.

BONUS SYSTEM

Nicklas Lindberg's management contract of 18 April 2016 provides for performance-based bonuses:

- standard performance-based bonus, paid for 2016 in the amount specified above,
- additional performance-based bonus described below.

The amount of the additional performance-based bonus depends on the increase of the share price of Echo Investment S.A. above the base value that is determined at the level of PLN 7.5 minus the amount of the dividend per share received by Lisala Sp. z o.o. The contract provides for bonus amount depending on the increase of the share price above the base level.

The contract was signed for 5 years and the remuneration is payable at the end of the term of the contract.

In addition, should the contract be terminated earlier by mutual agreement of the parties, Mr Lindberg is entitled to receive a partial bonus of 1/5 of the entire amount due to him per each year of his work. Estimation of Nicklas Lindberg's incentive program value for accounting purposes on 31 December 2016 amounts to PLN 3,888,193.

Bonuses of the remaining Management Board Members depends on the targets specified for each Board Member individually by the Supervisory Board.

REMUNERATION OF THE SUPERVISORY BOARD [PLN]

	2016		2015	
	from Echo Investment S.A.	for holding functions or providing services to other companies of the Group	from Echo Investment S.A.	for holding functions or providing services to other companies of the Group
Karim Khairallah (appointed on 10.06.2015)		–		–
Maciej Dyjas (appointed on 10.06.2015)	60 000	–	19 000	–
Stefan Kawalec (appointed on 10.06.2015)	180 000	–	31 000	–
Przemysław Krych (appointed on 10.06.2015)	60 000	–	19 000	–
Laurent Luccioni (appointed on 10.06.2015)	–	–	–	–
Nebil Senman (appointed on 10.06.2015)	60 000	–	19 000	–
Sebastian Zilles (appointed on 27.10.2015.)	–	–	–	–
George Graham (acting from 10.06.2015 to 27.10.2015)	–	–	–	–
Wojciech Ciesielski (dismissed on 10.06.2015)	–	–	–	–
Andrzej Majcher (dismissed on 10.06.2015)	–	–	32 000	–
Mariusz Waniołka (dismissed on 10.06.2015)	–	–	32 000	–
Robert Oskard (dismissed on 10.06.2015)	–	–	19 000	–
Karol Żbikowski (dismissed on 10.06.2015)	–	–	19 000	–

13

Agreements concluded with an entity authorised to audit financial statements

Pursuant to §13 section 1 letter b) of the Company's Statute, the Supervisory Board of the Company chose the company entitled to audit its financial reports on July 13th, 2016 in accordance with the professional norms and regulations. It will be Ernst & Young Audyt Polska Sp. z o. o. Sp. K. with its registered office at Rondo ONZ Street in Warsaw, entered in the list of certifying accountants under no. 130. The Supervisory Board empowered the Management Board to conclude a contract with EY Audyt Polska with regard to the audit of the Company's separate financial reports and consolidated financial reports of the Company's Group in the years 2016-2017.

ERNST & YOUNG AUDYT POLSKA SP. Z O.O. SP. K. NET REMUNERATION PAID OR DUE

Subject	Amount (PLN)
Audit and review of the separate and consolidated financial statements for 2015	581 000
Audit and review of the separate and consolidated financial statements for 2016	415 000
Other services – including letter of attestation	234 500

II

Notes

01

Explanatory notes to the consolidated financial statement

NOTE 1

OFF-BALANCE SHEET ITEMS [PLN '000]

	31.12.2016	31.12.2015
1. Contingent receivables		
1.1 From related parties (due to):	-	5 000
b) claims on plots taken over	-	5 000
Total contingent receivables	**-**	**5 000**
2. Contingent liabilities		
2.1 For related parties (due to):		
a) guarantees and sureties granted	840 476	372 359
b) court proceedings	150	150
Total contingent liabilities	**840 626**	**372 509**

Contingent liabilities are presented at a nominal value. The Company believes that the fair value of guarantees and warranties is close to zero, due to their low risk of realization. Detailed description of off-balance sheet items is presented as a following table.

As of 31 December 2016, the Group showed investment liabilities arising from constraction contracts related to investment property in the amount of PLN 123.246.000 (PLN 27.812.000 as at 31 December 2015) and to inventory in the amount of PLN 180.892.000 (PN 140.672.000 as at 31 December 2015). These liabilities are expected to be funded from available cash or external financing.

GUARANTEE AGREEMENTS AS AT 31 DECEMBER 2016

Guarantor	For	Value [PLN '000]	Validity	Description
Echo Investment S.A.	Horta Sp. z o.o.	22 120	until 02.07.2020	Peformance bond concerning execution of the final sales agreement concerning the Acquarius Business House I office building in Wrocław. Issued in EUR.
Echo Investment S.A.	Skua Sp. z o.o.	39 816	until 30.07.2021	Performance bond concerning the execution of the final sales agreement concerning the Acquarius Business House II office building in Wrocław. Issued in EUR.
Echo Investment S.A. / BZ WBK S.A.	Skarb Państwa	40 163	until 22.05.2017	Surety bond concerning liabilites of Outlet Park - Projekt Echo - 126 Sp. z o.o. Sp. K.
Echo Investment S.A.	mBank S.A.	15 674	until fulfillment of suitable financial indexes, no longer than 31.03.2021	Surety bond for liabilities of Nobilis - Projekt Echo - 117 Sp. z o.o. Sp. K. resulting from loan agreement of 16.06.2016. Issued in EUR.
Echo Investment S.A.	mBank S.A.	5 489	until project complation, no longer than 31.03.2018	Surety bond for construction cost overrun concerning the Nobilis office building in Wrocław
Echo Investment S.A.	BGŻ BNP Paribas S.A.	13 030	until project complation date	Surety bond for cost overrun and liabilities resulting from debt service in the period of construction of the Symetris I and II office building in Łódź. Issued in EUR.
Echo Investment S.A	Nokia Solutions and Networks Sp. z o.o.	8 788	until 30.06.2018	Surety bond for liabilities resulting from lease of 29.08.2016. Issued in EUR.
Q22 – Projekt Echo – 128 Sp. z o.o. Sp.k. / Echo Investment S.A.	IREEF – Stryków Propco Sp. z o.o.	420 000	until 15.12.2019	Construction work quality gurantee related to Q22 in Warsaw.
Q22 – Projekt Echo – 128 Sp. z o.o. -Sp.k. / Echo Investment S.A. / BZ WBK S.A.	IREEF – Stryków Propco Sp. z o.o.	58 877	until 15.12.2021	Rent gurantee related to the sale of Q22 office building in Warsaw. The collateral of rent gurantee is a bank gurantee issued by BZ WBK S.A. for Echo Investmtent S.A. The gurantee is issued in EUR.
Echo Investment S.A.	IREEF – Stryków Propco Sp. z o.o.	152 808	until 15.12.2018	Surety bond concerning failure to execute liabilities of Q22 - Projekt Echo - 128 Sp. z o.o. Sp. k. resulting from the sales contract concerning Q22 in Warsaw of 16.12.2016. Issued in EUR.
Echo – Opolska Business Park Sp. z o.o. – Sp. K. / Echo Investment S.A.	Ventry Investments Sp. z o.o. Sp.k.	29 121	until 20.12.2019	Rent gurantee related to the sale of O3 Business Campus I in Kraków. The collateral of rent gurantee is a corporate gurantee issued by Echo Investment S.A. Partly issued in EUR.
Tryton – Projekt Echo – 127 Sp. z o.o. – Sp. K. / Echo Investment S.A.	Emfold Investments Sp. z o.o. Sp. K.	44 349	until 20.12.2019	Rent gurantee related to the sale of the Tryton office building in Gdańsk. The collateral of rent gurantee is a corporate gurantee issued by Echo Investment S.A. Partly issued in EUR.
Symetris – Projekt Echo – 131 Sp. z o.o. Sp. K. / Echo Investment S.A.	Flaxton Investments Sp. z o.o. Sp. K.	18 596	until 20.12.2019	Rent gurantee related to the sale of the Symetris office building in Łódź. The collateral of rent gurantee is a corporate gurantee issued by Echo Investment S.A. Partly issued in EUR.
PZU S.A. / Echo Investment	FTF Columbus S.A.	24 600	until 26.02.2017	Surety bond concerning agreement concluded on 22.06.2015

NOTE 2

CHANGES IN INTANGIBLE ASSETS BY TYPES [PLN '000]

For the period 01.01.2016 – 31.12.2016	Purchased permits, patents, licences and similar assets	Other intangible assets	Total intangible assets
Gross value of intangible assets at the beginning of the period	6 161	2	6 163
Increases			
– due to purchase	337	14	351
– due to sale	-26	0	-26
Gross value of intangible assets at the end of the period	6 472	16	6 488
Accumulated amortisation at the beginning of the period	6 001	2	6 003
Amortisation for the period			
– planned	215	1	216
– due to sale	-26	0	-26
Accumulated amortisation at the end of the period	6 190	3	6 193
Net value of intangible assets at the end of the period	282	13	295

CHANGES IN INTANGIBLE ASSETS BY TYPES [PLN '000]

For the period 01.01.2015 – 31.12.2015	Purchased permits, patents, licences and similar assets	Other intangible assets	Total intangible assets
Gross value of intangible assets at the beginning of the period	6 067	2	6 069
Increases			
– due to purchase	95	0	95
– due to sale	0	0	0
Gross value of intangible assets at the end of the period	6 162	2	6 164
Accumulated amortisation at the beginning of the period	5 594	2	5 596
Amortisation for the period			0
– planned	408	0	408
– due to sale	0	0	0
Accumulated amortisation at the end of the period	6 002	2	6 004
Net value of intangible assets at the end of the period	160	0	160

NOTE 3

CHANGES IN PP&E – BY TYPES (IN PLN '000)

For the period 01.01.2016-31.12.2016	Own land	Buildings and structures	Technical equipment and machines	Means of transport	Other PP&E	Total PP&E
Gross value of PP&E at the beginning of the period	3 669	7 374	9 951	11 607	5 881	38 482
Increases						
– due to purchase	-	45	742	11	615	1 413
– due to transfers from inventories	64	231	-	-	-	295
Decreases						
– due to sale	(3 468)	(4 057)	(2 939)	(5 911)	(718)	(17 093)
Gross PP&E at the end of the period	265	3 593	7 754	5 707	5 778	23 097
Accumulated depreciation at the beginning of the period	6	1 946	7 522	7 322	4 041	20 837
Deprecation for the period						
– planned	1	103	604	1 195	683	2 586
– correction due to sale	(3)	(1 414)	(2 354)	(4 688)	(539)	(8 998)
Accumulated depreciation at the end of the period	4	635	5 772	3 829	4 185	14 425
h) wartość netto środków trwałych na koniec okresu	261	2 958	1 982	1 878	1 593	8 672

CHANGES IN PP&E – BY TYPES (IN PLN '000)

For the period 01.01.2015 – 31.12.2015	Own land	Buildings and structures	Technical equipment and machines	Means of transport	Other PP&E	Total PP&E
Gross value of PP&E at the beginning of the period	5 858	40 156	9 799	14 107	6 860	76 780
Increases						
– due to purchase	184	728	967	2 059	615	4 553
Decreases						
– due to sale	–	(10)	(453)	(4 559)	(988)	(6 010)
– due to taking to other activities	(2 373)	(33 166)	(340)	–	(408)	(36 287)
– due to liquidation	–	(334)	(22)	–	(198)	(554)
Gross PP&E at the end of the period	3 669	7 374	9 951	11 607	5 881	38 482
Accumulated depreciation at the beginning of the period	5	8 228	7 321	10 065	4 862	30 481
Deprecation for the period						
– planned	28	1 082	751	1 578	659	4 098
– due to liquidation	–	(96)	(22)	–	(113)	(231)
– due to taking to investment activities	(27)	(7 263)	(235)	–	(396)	(7 921)
– correction due to sale	–	(5)	(293)	(4 321)	(971)	(5 590)
Accumulated depreciation at the end of the period	6	1 946	7 522	7 322	4 041	20 837
Net PP&E at the end of the period	3 663	5 428	2 429	4 285	1 840	17 645

NOTE 4

CHANGES IN INVESTMENT PROPERTY [PLN '000]

	Note	31.12.2016	31.12.2015
Value of property investments at the beginning of the period		**63 342**	**4 065 211**
Increases			
– due to purchase		-	–
– due to investment properties under construction taking	5	1 226 575	278 951
– due to taking from assets held for sale	6	47 027	–
– due to expenditure on investments		10 537	96 621
– due to fixed assets taking		-	29 284
– due to inventory taking		-	47 160
– due to revaluation of property		129 839	646 503
– value of rent free		-	7 674
		1 413 978	**1 106 193**
Decreases			
– due to sale		-	16 591
– due to revaluation of property		9 026	–
– due to taking to investment properties under construction	5	-	6 396
– due to inventory taking		-	98
– due to FX		575	–
– due to taking to assets held for sale	6	1 219 682	5 084 977
		1 229 283	**5 108 062**
Value of property investments at the end of the period		**248 037**	**63 342**

The Group evaluates its investment properties at fair value at the end of each calendar quarter.

As at 31 December 2015, the Group classified 6 investment properties located in the cities in Poland in the item of Investment property.

Increase in investment property item results from transfer of properties completed in 2016 from the item "investment property under construction". The amount of increase totalling PLN 1.226.575 thousand consist of following properties Tryton Business House, O3 Business Park I, Q22 and Nobilis Business House.

In increase due to taking from assets held for sale the Group presents change related to investment property in Budapest sale process suspension. Due to intention of sale, the Group transferred investment properties to assets held for sale item. Decreases in investment property item in 2016 by PLN 1.219.682 thousand are linked to Tryton Business House I, O3 Business Park I, Q22 and land property in Lublin.

As at 31 December 2016 in investment property item the Group presents 7 investment properties located in Poland and Hungary, with total value of PLN 248.037 thousand (including Babka Tower in Warsaw and Nobilis Business House in Wroclaw).

NOTE 5

CHANGES IN PROPERTY UNDER CONSTRUCTION [PLN '000]

	Note	31.12.2016	31.12.2015
Value of property under construction at the beginning of the period		**1 398 628**	**1 207 214**
Increases			
– due to purchase		36 000	–
– due to expenditure on investments		505 138	473 320
– due to revaluation of property		285 443	167 476
– due to inventory taking		3 440	714
– due to FX		275	–
– due to investment properties taking	4	-	6 396
		830 296	**647 906**
Decreases			
– due to investment properties taking	4	1 226 575	278 951
– due to sale		209 815	–
– due to revaluation of property		44 231	66 258
– due to FX		446	3 295
– due to taking to assets held for sale	6	211 166	107 988
		1 692 232	**456 492**
Value of property under construction at the end of the period		**536 692**	**1 398 628**

Expenses incurred for project construction concerned the continuation of the implementations started in 2015 and new investment projects, including in particular: the O3 Business Park (Stage 2) and O3 Business Park (Stage 3) buildings in Kraków, Nobilis Business House in Wrocław, Sagittarius in Wroclaw, West Link in Wroclaw, Symetris (Stage 2) in Łódź and Galeria Libero in Katowice.

As a result of obtaining occupancy permits for its office projects, the Group reduced the value of investment properties under construction by PLN 1,226,575 thousand, which concerned: Tryton Business House, Stage 1 - O3 Business Park, Q22 and Nobilis Business House, and classified them as investment properties (Note 4).

In 2016 the company reduced the value of investment property under construction by transferring assets totalling PLN 211,166 such as: completed A4 Business Park (stage 3), a project implemented in Kiev and others connected with the extension of the Galaxy shopping centre, Outlet Park in Szczecin and A4 Business Park in Katowice to assets earmarked for sale within 12 months.

The decrease in the investment property under construction is related to the concluded final agreements concerning the sale of the Symetris office building (Stage 1) and the Cracovia hotel.

As at 31 December 2016, the Group presented investment property remaining under construction with a total value of PLN 536,692 thousand. The expenditure constituting the closing balance of the reporting period was incurred on office facilities (including: Browary Warszawskie Stage2 and O3 Business Park in Krakow, Symetris Stage 2 in Łódź, West Link and Sagittarius in Wroclaw) as well as the Galeria Libero shopping centre in Katowice.

In 2016, the activated borrowing costs related to investment property under construction amounted to PLN 9,585 thousand (PLN 16,913 thousand in 2015).

In 2016 the capitalization rate was 3.63%, in 2015 - 4.44%. The capitalization rate is the weighted average of all borrowing costs related to loans and advances incurred in a given period other than those borrowed specifically for the purpose of acquiring a particular element of assets.

NOTE 6

CHANGES IN ASSETS HELD FOR SALE [PLN '000]

	Note	31.12.2016	31.12.2015
Value at the beginning of the period		**5 192 965**	**–**
Increases			
– due to investment properties under construction taking	5	211 166	107 988
– due to investment properties taking	4	1 219 682	5 084 977
– due to inventory taking		-	5 160
– due to revaluation of property		223 309	–
– due to FX changes		2 509	–
		1 656 666	**5 198 125**
Decreases			
– due to taking from investment property	4	47 027	`
– due to revaluation of property		12 022	–
– due to sale		6 592 416	5 160
		6 651 465	**5 160**
Value at the end of the period		**198 166**	**5 192 965**

As at 31 December 2015 the assets earmarked for sale included 16 investment properties that were subject to a sale and share subscription agreement with Redefine Properties Limited concluded in 2016 and 5 land properties. Other land properties presented in the 'assets earmarked for sale' item were located in Lublin, Słupsk, Koszalin, Brasov and Budapest, totalling PLN 143 mln and were classified as such due to the activities aimed at finding buyers and selling them within up to 12 months.

As at 31 December 2015 the valuation of investment properties was made in EUR and converted into PLN at the exchange rate of the National Bank of Poland on the balance sheet date. The valuation was made in EUR due to the fact that most leases included rental rates denominated in EUR.

In March 2016 the Group sold land in Lublin for PLN 35,000,000.

As a result of the fulfilment of all conditions precedent and the conclusion of a share purchase agreement and subscription of new shares of EPP NV by Redefine Properties Limited, on 1 June 2016 16 investment properties worth PLN 5,227,730 thousand were sold.

During 2016, the assets earmarked for sale decreased as a result of the conclusion of final agreements under which the Group sold investment properties: Tryton in Gdańsk; Q22 in Warsaw and O3 Business Park (stage 1) in Kraków – with a total value of PLN 1,328,534 thousand.

As a result of the suspension of the sales process, the Group has moved the project located in Budapest to investment properties.

Due to starting of the activities related to the planned sale of the project in Kiev within 12 months it was reclassified from the investment property under construction. As at 31 December 2016 the Group presented land properties in Koszalin, Słupsk, Romania and Kiev as well as the A4 Business Park (stage3) investment property as assets available for sale.

NOTE 7

AMOUNTS INCLUDED IN PROFIT AND LOSS ACCOUNT

	31.12.2016	31.12.2015
rental income from investment property	204 731	421 151
direct operating costs (including repair and maintenance costs) related to investment property which generated rental income in a given period	(87 722)	(153 569)
direct operating costs (including repair and maintenance costs) related to investment property which did not generate any rental income in a given period	(164)	(687)

NOTE 8

FINANCIAL ASSETS [PLN '000]

	31.12.2016	31.12.2015
	57 927	-
– other long-term receivable	2 262	13 972
– long term sureties	18 484	62
– long-term loans granted (with interests)	24 011	22 774
– short-term loans granted (with interests)	553	638
Other securities	**103 237**	**37 446**
– short term	78 693	14 065
– long term	24 544	23 381

In the „other long-term receivables" receivables due to sale of block of shares of affiliated entity Echo Polska Properties N.V. in the amount of EUR 12,9 mln are presented. As of balance sheet date it is an equivalent of PLN 57,1 mln.

The loans were granted to business entities and individuals in PLN, the interest rate was determined at WIBOR + margin and EUR with fixed interests. The loans of a total amount of EUR 3,7 mln (as of 31 December 2016 an equivalent of PLN 16,4 mln) was granted to the entity from EPP Group. The loan of PLN 3,5 mln was granted to an affiliated entity. The remaining loans granted to business entities and individuals amount to PLN 22,5 mln.

The maximum value of the credit risk associated with the loans is equal to their carrying value. The estimated fair value of the loans granted is determined using the income approach (expected future discounted cash flows) and is equivalent to the carrying amount of the loans granted. The fair value is classified to level 2 in the hierarchy of fair value.

The granted loans are not secured.

The granted loans disclosed in the balance sheet are not past due or impaired

NOTE 9

CHANGE IN DEFERRED INCOME TAX ASSETS (+) AND DEFERRED TAX PROVISIONS (-) (IN PLN THOUS.)

	31.12.2016	31.12.2015
1. Deferred tax at the beginning of the period		
– measurement of financial instruments	23 312	(380)
– valuation of investment property	(208 469)	(18 404)
– interests in subsidiaries, jointly controlled entities and associates*	-	-
– tax loss	6 085	9 103
– liabilities due to loans and bonds (measurement, FX differences, etc.)	2 295	(2 206)
– liabilities due to borrowings (measurement, FX differences, etc.)	-	-
– other	9 733	(1 306)
	(167 044)	**(13 193)**
2. Change in the period		
– measurement of financial instruments	(23 381)	23 692
– valuation of investment property	205 255	(190 065)
– interests in subsidiaries, jointly controlled entities and associates*	2 855	-
– tax loss	7 647	(3 018)
– liabilities due to loans and bonds (measurement, FX differences, etc.)	(1 666)	4 501
– liabilities due to borrowings (measurement, FX differences, etc.)	(4 043)	-
– other	31 968	11 039
	218 635	**(153 851)**
Total deferred income tax at the end of the period		
– measurement of financial instruments	(69)	23 312
– valuation of investment property	(3 214)	(208 469)
– interests in subsidiaries, jointly controlled entities and associates*	2 855	-
– tax loss	13 732	6 085
– liabilities due to loans and bonds (measurement, FX differences, etc.)	629	2 295
– liabilities due to borrowings (measurement, FX differences, etc.)	(4 042)	-
– other	41 699	9 733
	51 590	**(167 044)**
Including:		
Deferred tax assets	**93 131**	**78 682**
– change during the year	**14 449**	**14 822**
Deferred tax provision	**41 541**	**245 726**
– change during the year	**(204 186)**	**168 673**

*** Estimated tax burden related to the expected changes in the Group's structure resulting from the difference between the tax base and the carrying amount of interests of subsidiaries.**

As at 31 December 2016 the 'other' item includes an asset on account of the deferred tax on the liabilities related to investment projects and excluded margins, which will constitute a cost in the future – amounting to a total of PLN 64,667 thousand as well as a reserve for a deferred tax concerning the perpetual usufruct fee and future yield in connection with a change of the sales price of the Q22 project, amounting to a total of PLN 17,879 thousand.

As at 31 December 2015 the 'other' item includes an asset on account of the deferred tax on the liabilities related to investment projects and excluded margins, which will constitute a cost in the future – amounting to a total of PLN 51,805 thousand as well as a reserve for a deferred tax in connection with a price change and future receivables on account of the completion of a leasable area for sale in the Q22 project, amounting to PLN -11,804 thousand.

NOTE 10

INVENTORIES ['000 PLN]

	31.12.2016	31.12.2015
– materials	3	228
– semi-finished products and work-in-progress	536 252	521 657
– finished products	93 481	48 913
– goods	26 665	24 662
Total inventories	**656 401**	**595 460**

31 December 2016 properties included in the stock, with a value of PLN 65,991 thousand, were encumbered with mortgages amounting to PLN 325,350 thousand; as at 31 December 2015 properties included in the stock, with a value of PLN 64,143 thousand, were encumbered with capped mortgages amounting to PLN 325,350 thousand.

In 2016 the activated amount of borrowing costs was PLN 3,751 thousand; in 2015 – PLN 4,669 thousand.

The 'Finished Goods' item includes completed housing units earmarked for sale.

The 'Half-Finished Goods and Goods in Progress' item mostly includes properties held by the Group and the expenditure on housing projects under preparation and under construction.

The 'goods' item includes land earmarked for residential development for sale.

Inventories are valued no higher than their feasible net sales value. This value is based on information from the active market. Reversal of inventory write-downs occurs either in connection with inventory sales or due to an increase in net sales price.

The amount of inventory write-downs recognized as a cost in the period and reversals of inventory write-downs in the period decreasing the value of inventories in the period as a cost reduction are included in the 'cost of goods sold' item in the income statement.

NOTE 10A

INVENTORIES – IMPACT ON PROFIT/LOSS ['000 PLN]

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
– amount of inventories recognised as an expense in the period	148 220	130 995
– impairment losses on inventories recognised in the period as cost	(1 289)	(31 588)
– reversal of impairment losses which decreases the value of inventories recognised in the period as income	18 550	15 549

Inventory write-downs and reversals refer to residential projects included in the 'finished goods' and 'goods' items presented in Note 10 and they are intended to write down the value to the level of the feasible price.

The change in inventory write-down in 2016 amounted to PLN 17,261 thousand (in the Czarodziejska residential project in Kraków and the Las Młociński project in Warsaw) and it is included in the 'cost of goods sold' item in the income statement; the change in inventory down for the year 2015 was PLN -16,039 thousand and is included in the income statement under 'cost of goods sold'.

Nota 11A

FINANCIAL INSTRUMENTS – ASSETS [‘000 PLN]

	31.12.2016	31.12.2015
Interest Rate Swap	154	72
FX options	-	1 020
FX fowards	-	83
Total financial investments in derivatives	**154**	**1 175**
with maturities:		
– up to 1 year	154	1 175

NOTE 11B

FINANCIAL INSTRUMENTS – EQUITY AND LIABILITIES [‘000 PLN]

	31.12.2016	31.12.2015
Interest Rate Swap	39	1 580
FX options	-	316
FX forwards	-	1 594
estimated share in profit (Q22 option agreement)	-	127 579
Total financial investments in derivatives	**39**	**131 069**
with maturities:		
– up to 1 year	-	129 489
– between 1 and 5 years	39	1 580

IRS instruments concern the conversion of variable into fixed interest rate. As at 31 December 2016, they did not secure the loans.

As at 31 December 2015, they applied to loans with the total nominal value of PLN 355,000 thous.

In particular, the concluded forward contracts, option contracts and IRS instruments are measured based on measurements provided by the banks, which use data such as current and historic exchange rates, and interest rates on deposits (WIBOR, EURIBOR). The fair value of financial instruments is classified at level 2 in the hierarchy of fair value.

As the Q22 office building in Warsaw was sold, in 2016 the Q22 option agreement was executed.

NOTE 12

SHORT-TERM RECEIVABLES ['000 PLN]

	31.12.2016	31.12.2015
a) trade receivables		
up to 12 months	84 621	18 994
over 12 months	-	-
Total financial assets	84 621	18 994
b) other receivables	180 795	4 171
c) prepayments	**5 027**	**18 476**
Total non-financial assets	185 822	22 647
d) receivables due to VAT tax	20 403	44 656
e) receivables due to other taxes	-	8
Total receivables due to tax	**20 403**	**44 664**
Total net short-term receivables	**290 846**	**86 305**
impairment losses on receivables	**3 228**	**9 858**
Total gross short-term receivables	**294 074**	**96 163**

Trade receivables include part of the receivables resulting among others from the sale of office projects: Q22 in Warsaw, Symetris stage 1 in Łódź, Tryton in Gdansk and O3 stage 1 in Kraków, amounting to EUR 15.2 mln (equivalent of PLN 67.2 mln), not settled as at 31 December 2016.

Other receivables include the outstanding part of receivables resulting from the sale of shares in Echo Polska Properties NV including interests amounting EUR 21,3 mln (equivalent of PLN 94,3 mln) with, with the maturity date within less than 12 months, as well as future receivable resulting from increase of price for Q22 project and fitout works amounting PLN 62,1 mln in total.

The item "other receivables' includes advance payments on supply and future purchase of land plots in total amount of PLN 18,3 mln.

The maximum exposure to credit risk related to trade receivables equals the balance sheet value of each balance group of receivables. Estimated fair value of trade receivables and receivables on account of loans are the values of future expected cash flows discounted by the current market interest rate and equal to the balance sheet value of these receivables. Fair value is classified at level 2 of the fair value hierarchy.

NOTE 12A

CHANGE IN IMPAIRMENT LOSSES ON SHORT-TERM RECEIVABLES [‘000 PLN]

	31.12.2016	31.12.2015
Opening balance	**9 858**	**12 581**
a) increase (due to)		
– establishment of an impairment loss	2 602	2 389
	2 602	**2 389**
b) decrease (due to)		
– reversal of a provision	7 203	4 389
– discontinuance of enforcement proceedings	8	723
– sale of entities – EPP Group	2 021	–
	9 232	**5 112**
Impairment losses on short-term receivables at the end of the period	**3 228**	**9 858**

Impairment of receivables is due to the fact that they are past due by more than 6 months (50% impairment) or 12 months (100% impairment). Receivables for continued lease of commercial space that are past due by more than 3 months imply that receivables may be in 100% impaired.

Impairment losses are recognised after all security deposits have been used up, if there are no other possibilities to collect the receivables.

NOTE 12B

OVERDUE GROSS TRADE RECEIVABLES, WITH REMAINING MATURITY FROM THE BALANCE SHEET DATE [PLN ‘000]

	31.12.2016	31.12.2015
up to 1 month	3 832	10 226
between 1 month and 3 months	1 176	3 640
between 3 months and 6 months	456	1 820
between 6 months and 1 year	103	767
over 1 year	2 893	6 846
Total (gross) overdue trade receivables	**8 460**	**23 299**
write-downs on trade receivables	(3 228)	(9 858)
Total (net) overdue trade receivables	**5 232**	**13 441**

NOTE 13

CASH – FINANCIAL ASSETS ['000 PLN]

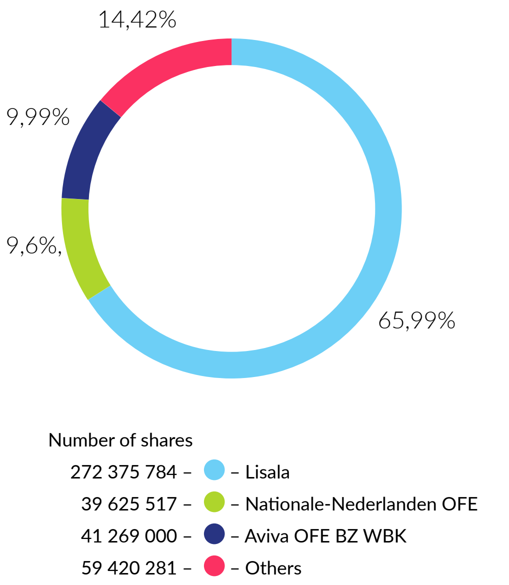
	31.12.2016	31.12.2015
a) cash in hand and at bank	663 429	910 752
b) other cash	–	–
c) other monetary assets	–	–
Total cash and other monetary assets	**663 429**	**910 752**
Including restricted cash:		
– in escrow accounts	–	2 418
– securing the repayment of interest and principal instalments	694	55 849
– securing the payment of renovation costs under loan agreements (according to loan agreements)	–	3 000
– securing the refund of security deposit	1 508	7 855
– proceeds from residential customers released by the bank in the course of the progress of investment	24 868	20 325
	27 070	**89 447**

The Group deposits its cash surplus with reputable banks (mainly PKO BP S.A., BZ WBK, Alior Bank and DNB Nord). The maximum credit risk of cash is equivalent to the carrying amount of cash.

NOTE 14

SHARE CAPITAL

SHAREHOLDERS OF ECHO INVESTMENT S.A. HOLDING MORE THAN 5% OF THE SHARE CAPITAL AS AT 31 DECEMBER 2016



The share capital of Echo Investment SA is divided into 412,690,582 ordinary bearer shares of A, B, C, D, E and F series. None of the shares has limited rights. The Company's share capital i.e. the nominal value of the shares amounts to PLN 20,635,000 and it was paid in cash. The nominal value of one share is PLN 0.05. The number of shares equals the number of votes at the General Meeting of Shareholders.

Lisala Sp. z o.o. is an entity directly controlled by the company Echo Partners B.V. and indirectly by the following funds: Oaktree Capital Management, Pacific Investment Management Corporation (PIMCO) and Griffin Real Estate.

The above figures result from information about shareholders holding, directly or indirectly via subsidiaries, at least 5% of the overall number of votes at the GM of Echo Investment SA as of 19 December 2016.

In the period between the publication of the last financial report, i.e. 28 November 2016, and the date of this report, the Issuer did not receive any notifications of a change in the shareholding of significant shareholders.

SUPPLEMENTARY CAPITAL

	31.12.2016	31.12.2015
a) from share premium	100 943	100 943
b) created out of profits	977 940	2 482 966
c) reserve fund	49 213	555 763
Total supplementary capital	**1 128 096**	**3 139 672**

The net profit generated by Echo Investment S.A. in 2015 which amounts to PLN 2,958,590 thousand was divided in the following way in accordance with a resolution of the General Meeting of Shareholders of 28 June 2016:
- PLN 783,710 thousand was earmarked for the company's supplementary capital;
- PLN 2,174,879 thousand was earmarked to be divided among all company's shareholders as dividend.

On 19 December 2016 an Extraordinary Meeting of Shareholders passed a resolution on the creation of a special purpose reserve fund, according to which:
- It was established that the Company's reserve capital, created out of previous years profits amounted to PLN 1,339,473,794.72
- A special purpose reserve fund was created in order to pay dividend or make an advance payment towards the dividend and PLN 400,000,000 was transferred to the fund from the reserve capital.

Pursuant to a resolution of 23 December 2015, the amount: PLN 590,148 thousand was paid in two tranches (10 February 2016 and 22 April 2016) as a dividend payment. The remaining part of the dividend i.e. PLN 1,584,731 thousand was paid on 8 July 2016.

The profit generated by Echo Investment S.A. in 2016 is proposed to be partly distributed among shareholders.
Pursuant to a resolution of the Management Board dated 23 November 2016, the amount of PLN 350,787 thousand was earmarked for the future dividend for the financial year 2016, to be paid to shareholders of the Company holding shares on 22 December 2016. The first tranche of the dividend advance payment of 284,757 ths. PLN was paid on 29 December 2016; the remaining part i.e. PLN 66.030 thousand will be paid by the end of 2017.

BOOK VALUE PER SHARE

	31.12.2016	31.12.2015
Equity attributable to equity holders of the parent entity ['000 PLN]	1 528 260	3 663 596
Number of shares (in thous. pieces)	412 691	412 691
Book value per share (in PLN)	**3,70**	**8,88**
Diluted number of shares	412 691	412 691
Diluted book value per share	3,70	8,88

NOTE 15

CHANGE IN PROVISIONS [‘000 PLN]

	31.12.2016	31.12.2015
a) opening balance		
– provisions on expected costs of general administrative (audit, bonuses, leave of absence, etc.)	–	–
– provision for estimated penalties and losses	10 592	2 000
– provision for estimated costs of warranty repairs, etc.	2 066	–
– provision for estimated costs and losses on assets transfer	1 940	–
– provision for profit share and master lease		–
	14 598	**2 000**
b) increases (due to)		
– provisions on estimated costs of general administrative (audit, bonuses, leave of absence, etc.)	23	–
– provision for estimated penalties and losses	16 959	8 592
– provision for estimated costs of warranty repairs, etc.	–	2 066
– provision for estimated costs and losses on assets transfer	–	1 940
– provision for profit share and master lease	117 842	–
	134 824	**12 598**
c) utilization (due to)		
– incurred costs of general administrative (audit, bonuses, leave of absence, etc.)	–	–
– incurred penalties and losses	3 627	–
– incurred costs of warranty repairs, etc.	–	–
– incurred costs and losses on assets transfer	966	–
– provision for profit share and master lease	–	–
	4 593	**–**
d) reversal (due to)		
– provisions on estimated costs of general administrative (audit, bonuses, leave of absence, etc.)	–	–
– provision for estimated penalties and losses	–	–
– provision for estimated costs of warranty repairs, etc.	–	–
– provision for estimated costs and losses on assets transfer	974	–
– provision for profit share and master lease	–	–
	974	**–**
e) closing balance		
– provisions on estimated costs of general administrative (audit, bonuses, leave of absence, etc.)	23	–
– provision for estimated penalties and losses	23 924	10 592
– provision for estimated costs of warranty repairs, etc.	2 066	2 066
– provision for estimated costs and losses on assets transfer	–	1 940
– provision for profit share and master lease	117 842	–
	143 855	**14 598**

The provision for penalties covers the value of potential penalties the Company may be charged with under concluded agreements, with probability greater than 50%.

The provision for estimated warranty repairs costs include the value of repairs or compensation associated with sales of premises and projects, with the probability of being charged greater than 50%.

The provision for investment liabilities is a result of the Group's obligation to sell the projects with a certain level of occupancy, below which it is required to pay rent for vacant space as well as to pay part of the profit generated on the sale of the project. The reserves are for office projects sold: Q22, Tryton, Symetris stage I, O3 stage I and the Nobilis office project.

The amounts of the provisions were estimated on the basis of the best knowledge of the Company and on the basis of past experiences. Realization dates of provisions for penalties and losses, guarantee costs and court cases are not possible to estimate, with a high probability that they will be realized within 12 months from the balance sheet date. The provisions for Profit Share and Master Lease in the balance sheet were divided into a long-term and a short-term part.

NOTE 16

LOANS AND BORROWINGS ['000 PLN]

	31.12.2016	31.12.2015
a) loans and borrowings	102 208	3 029 930
b) debt securities	879 140	1 009 835
c) Interests from loans and borrowings	573	–
Total loans, borrowings and bonds	**981 921**	**4 039 765**
– of which long-term portion	760 981	3 707 943
– of which short-term portion	220 940	331 822

Under "loans and borrowings", the Group presents its long-term special-purpose loans and overdraft facilities.

Loan agreements are secured by mortgages established on real estates, assignments of outstanding amounts due to the signed agreements and registered pledges on the interests of subsidiaries. The interest rate on the loans in EUR is based on EURIBOR plus the bank's margin. In 2016, the Group applies interest rate hedges in the form of IRS instruments. Loan facilities in PLN are secured by blank promissory notes, statements on submission to enforcement and authorisations to use bank accounts. The interest rate on the loans is based on WIBOR plus the bank's margin.

As at 31 December 2016, 95,8% of liabilities on loans and debt securities yielded fixed-rate interest, remaining - variable rate interest. As at 31 December 2013, 31.7% of liabilities on loans and debt securities yielded fixed-rate interest, the remaining part – variable-rate interest.

According to the best information and data of the Management Board of the Group, during the financial year and by the date of signing of the financial statements there has been no breach of the loan agreements and agreed covenants.

Under "debt securities", the Group presents issued bonds; in 2016, the Group issued bonds with a nominal value of PLN 100 million (in 2015: PLN 230 million) and redeemed bonds with a nominal value of PLN 225 million (in 2015: PLN 135 million). The interest rate on the bonds is based on WIBOR plus margin.

The fair value of liabilities due to loans and borrowings does not differ materially from the carrying amount. The fair value was determined using the income approach based on cash flows discounted using the current market interest rate. The measurement to fair value was classified to level 2 in the hierarchy of fair value.

NOTE 17

TRADE AND OTHER LIABILITIES ['000 PLN]

	31.12.2016	31.12.2015
a) trade payables maturing:		
– up to 12 months	163 927	112 641
– over 12 months	3	2
	163 930	112 643
b) security deposits and deposits received	44 310	30 418
c) other liabilities for employees	14	80
d) employee benefits fund	10	111
e) accruals	11 689	6 637
f) other liabilities	23 996	106
	80 019	37 352
g) liabilities due to VAT tax	241 851	2 065
h) liabilities due to other taxes	3 374	1 307
	245 225	3 372
Trade and others liabilities	**489 174**	**153 367**

The fair value of trade payables and other liabilities does not differ significantly from their carrying amount. The fair value was determined using the income approach based on cash flows discounted using the current market interest rate. The measurement to fair value was classified to level 2 in the hierarchy of fair value.

NOTE 18

As of 31 December 2016, in "Liabilities of assets held for sale" comprise liabilities resulting from agreements related to A4 Business Park (phase III) amounts to PLN 16.341.000.

NOTE 19

NET SALES ARISING ['000 PLN]

From	1.01.2016–31.12.2016	1.01.2015–31.12.2015
– lease of space in shopping and entertainment centres	158 276	333 398
– sale of residential space	234 129	145 444
– lease of residential space	1 036	1 060
– construction and lease of space in office facilities	65 961	98 010
– other services	19 941	3 776
– other sales	732	4 367
Total	**480 075**	**586 055**

NOTE 20

NET OPERATING COSTS ['000 PLN]

Due to	1.01.2016–31.12.2016	1.01.2015–31.12.2015
– lease of space in shopping and entertainment centres	(52 494)	(103 967)
– sale and lease of residential space	(158 827)	(138 451)
– construction and lease of space in office facilities	(36 608)	(42 672)
– other	(7 974)	(15 229)
Total	**(255 903)**	**(300 319)**

NOTE 20A

COSTS BY TYPE ['000 PLN]

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
– amortisation	3 105	4 506
– consumption of materials and power	60 558	111 836
– outsourced services	418 918	253 942
– taxes and charges	34 980	34 143
– payroll	43 961	41 882
– social security contributions and other benefits	6 602	6 539
– other costs by type	23 687	39 702
– value of goods and materials sold	17	84
Total	**591 828**	**492 634**
Change in inventories, finished products and work in progress	(124 233)	(21 342)
Own work capitalised	(56 567)	(47 066)
Selling and distribution expenses*	(53 586)	(35 494)
General and administrative expenses*	(101 539)	(88 413)
Cost of products sold	**255 903**	**300 319**

* The Company presents costs of employees benefits and depreciation in costs of sales and administrative.

NOTE 21

NET PROFIT (LOSS) ON INVESTMENT PROPERTY ['000 PLN]

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
Revenue from the sale of property	1 665 019	20 140
Property selling costs (Note 4, Note 5, Note 6)	(1 581 351)	(16 591)
Revaluation of property (Note 4, Note 5, Note 6)	476 403	747 721
Net profit (loss) on investment property	**560 071**	**751 270**

„Net profit on investment properties” includes costs potential or actual vacancy and rent free periods of in the following office buildings: Q22, O3 Business Campus I, Tryton Business House, Symetris I, Nobilis I, A4 Business Park III. Result of this item includes EPP’s participation in profit on sale of properties lincluded to ROFO agreement.

NOTE 22

OTHER OPERATING INCOME ['000 PLN]

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
– profit from sale of non-financial non-current assets	1 696	499
– revaluation of receivable	6 711	4 393
– reversal of provisions and write-downs	3 641	169
– interests from operating activity (term deposits etc.)	5 542	5 202
– penalty	210	4 979
– compensations	1 749	430
– other	1 791	1 643
Total	**21 340**	**17 315**

NOTE 23

OTHER OPERATING EXPENSES ['000 PLN]

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
– loss on sale of non-financial non-current assets	(453)	(4)
– revaluation of receivable	(3 026)	(1 060)
– donations	(1 831)	(558)
– extraordinary damage and losses	(291)	(579)
– transfer of assets	(1 872)	(2 481)
– established provisions	(27 181)	(11 633)
– cost of sold reveivables	(4 907)	–
– costs due to rental guarantee	(3 870)	–
– other	(2 330)	(3 040)
Total	**(45 761)**	**(19 355)**

The amount of created reserves includes future costs related to the transaction of purchase land property in Kielce, adjacent to Galeria Echo and future possible liabilities to the Tax Office related to ongoing court proceeding against sold subsidiary, and the Company did oblige to settle the case when selling the subsidiary.

NOTE 24

FINANCIAL INCOME ['000 PLN]

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
– income from interest on investing activities (loans, etc.)	5 489	773
– profit on disposal of investments	40 110	1 195
– income from revaluation of financial instruments (IRS)	2 025	2 831
– other financial income	97	75
Total	**47 721**	**4 874**

The investment sale profit item in the amount of PLN 40,110,000, included in the financial income, is mainly related to the disposal of shares in "Zakład Ogrodniczy Naramowice - Pamiątkowo Sp. z o.o." S.k.a. and "Projekt Echo – 133 Sp. z o.o.". The assets held by the two entities at the date of sale included ownership rights to land plots located in Poland.

NOTE 25

FINANCIAL EXPENSES ['000 PLN]

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
– interest expense	(77 922)	(100 559)
– measurement of loans using amortised cost	6 723	13 265
– commissions	(24 989)	(16 862)
– loss on disposal of investments	(124 211)	(4 118)
– costs of revaluation of interest in associates	(3 228)	(1 162)
– costs of revaluation of financial instruments (IRS)	(1 140)	(3 930)
– costs of option revaluation – estimated share of profit (Q22 option agreement)	(183 455)	(127 579)
– other	(4 172)	(450)
Total	**(412 394)**	**(241 395)**

In 2016, the total cost associated with the execution of the option contract to repurchase project Q22 amounted to PLN 236,411,000. The sum of PLN 183,455,000 is the equivalent of the updating cost as of 30 September 2016.

The investment sale loss item (PLN 124,211,000) includes the result of executing the option for project Q22, in the amount of PLN 52,956,000. The remaining amount of PLN 71,255,000 mainly constitutes results relating to the exit of EPP and the subsequent sale of a portion of shares held in Echo Polska Properties N.V. (Note 32).

In 2016, the amount of capitalised amount of borrowing stood at PLN 11.238.000 (with PLN 9.585 thous. for the investment properties under construction and PLN 1.653 thous. for inventory), whereas in 2015 – PLN 21.582 thous. (PLN 16.913 thous. for investment properties under construction and PLN 4.669 thous. for inventories).

The capitalization rate of external financing costs on investment property and inventory amounted to 3,63% in 2016 and to 4,44% in 2015.

NOTE 26

PROFIT (LOSS) ON FX DERIVATIVES ['000 PLN]

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
– profit/loss on settlement of forwards	(903)	13 418
– income/costs due to revaluation of forwards	807	736
– income/costs due to revaluation of FX options	-	920
Total	(96)	15 074

NOTE 27

FOREIGN EXCHANGE GAINS ['000 PLN]

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
– realised foreign exchange gains	–	–
– unrealised foreign exchange gains	–	12 593
– realised foreign exchange losses	(59 698)	(18 479)
– unrealised foreign exchange losses	(38 318)	–
Total	**(98 016)**	**(5 886)**

NOTE 28

SHARE IN ASSOCIATED COMPANIES AND JOINT-VENTURES

1. Projekt Echo – 138 Sp. z o.o S.K.

On 15 September 2016 the Echo Investment Group and the Echo Polska Properties Group concluded a conditional purchase agreement under which they were planning to purchase a property located at 22 Towarowa Street in Warsaw, where a joint investment enterprise is to be developed.

The final purchase agreement was concluded on 23 December 2016. The property sales price was EUR 77.4 mln, however, it will be increased to EUR 119.4 mln upon the fulfilment of conditions stipulated in the agreement. Echo Investment paid EUR 35.82 mln and EPP's contribution amounted to EUR 41.58 mln. Thus, as at the balance date i.e. on 31 December 2016 the Echo Investment Group had 46.26% share in the project company being the owner of the property at 22 Towarowa Street. EPP held the remaining 53.74%.

Upon the fulfilment of all conditions increasing the price the share of Echo Investment in the transaction and the planned enterprise will ultimately amount to 30% and 70% will be held by Echo Polska Properties.

Echo Investment S.A. and Echo Polska Properties N.V. are only responsible for their proportional parts of the price.

The share of the Group in Projekt Echo - 138 Sp. z o.o. S. K. is shown in the consolidated financial statement and it is estimated using the equity method. Projekt Echo - 138 Sp. z o.o. S.K. is treated as joint-venture company.

A summary of financial information in the joint venture, after adjustment to the accounting policy of Echo Investment Group, is presented below:

SUMMARISED STATEMENT OF FINANCIAL POSITION ['000 PLN]

	31.12.2016
Current assets	300 316
Non-current assets	343 510
Total assets	**643 826**
Current liabilities	811
Non-current liabilities	303 929
Total liabilities	**304 740**
Equity	339 086
Proportion of the Group's interest as at 31.12.2016	46,26%
Group's carrying amount of the investment	156 864

EXTRACT FROM STATEMENT OF COMPREHENSIVE INCOME ['000 PLN]

	31.12.2016
Operational income	189
Operational expenses	(100)
Administrative costs	(2 270)
Finance income	299
Finance expenses	(417)
Profit before income tax	**(2 299)**
Income tax expense	1
Net profit	**(2 298)**
Total comprehensive income	(2 298)
Group's share as at 31.12.2016	46,26%
Share of total comprehensive income from joint venture	(1 063)

2. Echo Polska Properties N.V.

As at 31 December 2016 the Group held 15.34% shares in Echo Polska Properties N.V. The operations of the company involve investments in top class properties for rent in order to provide a continuous rate of return to investors. The share of the Group in Echo Polska Properties N.V. is shown in the consolidated financial statement and it is estimated using the equity method.

SUMMARISED STATEMENT OF FINANCIAL POSITION ['000 PLN]

	31.12.2016
Current assets	378 533
Non-current assets	6 241 143
Total assets	**6 619 676**
Current liabilities	3 621 240
Non-current liabilities	296 673
Total liabilities	**3 917 913**
Equity	2 701 763
Proportion of the Group's interest as at 31.12.2016	15,34%
Group's carrying amount of the investment	407 498

EXTRACT FROM STATEMENT OF COMPREHENSIVE INCOME ['000 PLN]

	31.12.2016
Operational income	426 968
Operational expenses	(129 222)
Gain on valuation of investment property	196 096
Sales costs	(2 118)
Administrative costs	(53 321)
Other operataional income/costs	(2 219)
Finance income	42 332
Finance expenses	(108 395)
Shares in the profit of associates	(2 483)
Profit before income tax	**367 638**
Income tax expense	(85 932)
Net profit	**281 706**
Total comprehensive income	281 706
Group's share as at 31.12.2016	15,34%
Share of total comprehensive income from joint venture	48 800

NOTE 29

CURRENT INCOME TAX ['000 PLN]

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
Profit before tax (gross profit)	**189 634**	**677 679**
Tax calculated at national rates	36 247	130 705
Differences:		
– Tax effect of non-taxable income	(43 364)	(40)
– Tax effect of non-deductible costs	27 937	14 342
– Utilization of previously unrecognized tax losses	(17 691)	(2 515)
– Tax losses for which deferred income tax has not been recognized	8 446	8 876
– Tax effect of negative temporary differences arising in the period, for which deferred tax was not recognized	-	(1 703)
– Tax effect of positive temporary differences arising in the period, for which deferred tax was not recognized	-	2 299
– Income tax for the preceding years	(3 419)	2 103
– Interim result of partnerships	(3 219)	-
– Result of closed-end investment funds	(24 237)	-
– Release of deferred tax in connection with transformation of companies	(178 770)	9 525
Differences total	**(234 317)**	**32 887**
Charge on the financial result due to income tax	**(198 070)**	**163 592**

Effective income tax rate in 2016 amount to 104,4% (in 2015 – 24,1%).

Major influence on change of effective income tax rate had reversal of diluted tax provision related to changes of subsidiaries in partnerships and result on transactions between Forum FIZ 60 with external entities.

NOTE 30

EARNINGS PER SHARE

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
Profit (loss) attributable to the parent entity's shareholders (in PLN thous.)	387 711	514 091
Weighted average number of ordinary shares (in thousands)	412 691	412 691
Basic and diluted earnings per ordinary share (in PLN)	**0,94**	**1,25**

In 2016 the Company did not use dilutive instruments.

NOTE 31A

REPORTING BY SEGMENTS

Segments of the Group business are presented in accordance with data from internal management reporting and analysed by the Key Decision Maker, this being the Management Board of Echo Investment S.A., responsible for allocating resources and assessing performance of operating segments.

The following reportable segments were separated in the Group, identical to operating segments, defined on the basis of the type of projects:

- shopping centres (lease and sale of commercial and entertainment space),
- office buildings (lease and sale of space in office buildings),
- residential space (lease and sale of residential and commercial space).

The Group presents services such as development, brokerage, financial, advisory and accountancy for entities from EPP Group with shopping assets or office buildings segments.

ASSIGNMENT OF ASSETS TO SEGMENTS [‘000 PLN]

	31.12.2016	31.12.2015
Shopping centres	183 280	4 251 181
– in Poland	101 522	3 670 652
– in Romania	34 754	64 891
– in Hungary	47 004	50 737
Office	1 337 705	2 739 942
– in Poland	1 295 856	1 663 344
– in Ukraine	41 849	10 221
Residential space	700 669	701 373
Unallocated assets	1 142 504	696 455
Total	**3 364 158**	**8 388 951**

The value of assets outside Poland is insignificant — less than 3,67% of the Group’s assets.

NOTE 31B

ALLOCATION OF LIABILITIES TO SEGMENTS [‘000 PLN]

	31.12.2016	31.12.2015
Shopping centres	17 496	2 285 408
Office	305 605	1 017 141
Residential	100 826	71 313
Unallocated liabilities	1 412 071	1 351 586
Total	**1 835 998**	**4 725 448**

Unallocated assets and liabilities only include data that are not allocated to the Group’s operating segments. The measurement of segment assets and liabilities is the same as the measurement of the Group’s assets and liabilities.

All items of the Group’s assets, liabilities and provisions have been split into segments.

NOTE 31C

ALLOCATION OF OPERATING INCOME TO SEGMENTS [‘000 PLN]

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
Shopping centres	158 276	333 398
Office	65 961	98 010
Residential	235 165	146 504
Unallocated liabilities	20 673	8 143
Total	**480 075**	**586 055**

In 2016 and 2015, there were no transactions between segments.

In 2016, operating income from 10 major counterparties accounted for 11,2% of total operating income (in 2015: 25,2%).

NOTE 31D

ALLOCATION OF OPERATING COSTS TO SEGMENTS [‘000 PLN]

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
Shopping centres	(52 494)	(103 967)
Office	(36 608)	(42 672)
Residential	(158 827)	(138 451)
Unallocated liabilities	(7 974)	(15 229)
Total	**(255 903)**	**(300 319)**

NOTE 31E

ALLOCATION OF GROSS PROFIT/LOSS ON SALES TO SEGMENTS ['000 PLN]

	1.01.2016–31.12.2016	1.01.2015–31.12.2015
Shopping centres	105 782	229 431
Office	29 353	55 338
Residential	76 338	8 053
Unallocated liabilities	12 699	(7 086)
Total	**224 172**	**285 736**

The share of foreign revenue and costs is immaterial.

NOTE 32

On 16 December 2016, the Group concluded the final sales contract concerning the Q22 office project in Warsaw. Furthermore, on 21 December 2016, after the fulfilment of the terms stipulated by the contract, the ROFO (Right of the First Offer) transaction concluded by Echo Investment and EPP, concerning the sale of Tryton Busines House buildings in Gdańsk, O3 Business Park (stage I) in Krakow and Symetris (stage I) in Łódź, was closed.

The Group presented the following results of the sales of investment properties under the 'profit / loss on investment properties' heading in the consolidated profit and loss account.

Building	Amount ['000 PLN]
Tryton Business House in Gdańsk	47 686
Q22 in Warsaw	244 424
O3 Business Park, stage 1 in Kraków	68 021
Symetris, stage 1 in Łódź	20 070
Total	**380 201**

On 13 December 2016, Echo Investment received a statement from FTF Columbus about waiving the rights to acquire Q22, which resulted from an option agreement to sell and distribute a profit. The total amount of cost related to the execution of the option agreement, recognized in 2016, amounted to PLN 236,411 thousand. Due to the nature of the transaction, the Group recognized it in its financial expenses (note 25).

The Q22 office sale result presented in the table above does not include the amount of the executed FTF Columbus option. The gross invoiced value of sales was as follows:

Building	Amount ['000 EUR]	Amount ['000 PLN]
Tryton Business House in Gdańsk	58 537	258 312
Q22 in Warsaw	283 233	1 259 058
O3 Business Park, stage 1 in Kraków	55 724	245 900
Symetris, stage 1 in Łódź	26 456	116 743
Total	**423 950**	**1 880 013**

As of the balance sheet date, the value of PLN 3,512,985,000, disclosed in the item of inflow from real estate investment sales, relates the amount of PLN 1,816,033,000, received as payment for the sale of office buildings Q22, O3 Business Park stage I, Tryton Business House, and Symetris stage I. The remaining amount of PLN 1,696,952,000 includes inflows from the sale of land property, and ones that are associated with the package of 16 commercial properties: A4 Business Park in Katowice (stages I and II), Astra Park in Kielce, Malta Office Park in Poznań, Oxygen in Szczecin, Park Rozwoju in Warsaw (stages I and II), West Gate in Wrocław, Galeria Amber in Kalisz, Galaxy in Szczecin, Galeria Echo in Kielce, Galeria Olimpia in Bełchatów, Outlet Park in Szczecin, Pasaż Grunwaldzki in Wrocław, Centrum Handlowe Echo in Przemyśl, Galeria Sudecka in Jelenia Góra, Galeria Veneda in Łomża and Centrum Handlowe Echo in Bełchatów (EPP transaction).

As at the balance sheet date other outstanding receivables resulting from the sale of office buildings were presented as trade receivables (Note 10).

Future liabilities and receivables related to the sale of investment properties:

- Sales contracts concerning the office projects: Q22, Tryton, Symetris stage I, O3 stage I include additional payments resulting from fit-out contracts. The anticipated value of the transaction will increase to EUR 124.5 mln for the three facilities of the ROFO contract and EUR 273 mln for the Q22 office building.
- Due to concluded contracts concerning the sale of the office buildings: Campus Q22, O3 Business Campus I, Tryton Business House and Symetris I, the Group recognized reserves for investment liabilities. Contracts require the seller to maintain a certain level of rental below which it is required to pay rent for vacant space. As at the balance sheet date, the provisions amounted to PLN 96,797 thousand.
- EPP is a co-investor of all ROFO-funded buildings and funds 25% of these investment projects, therefore it is entitled to a 25% return on their sales. As a result of sales of 3 office buildings, the Group discharged liabilities amounting to PLN 23,198 thousand.

Nicklas Lindberg
President of the Management Board

Maciej Drozd
Vice-President of the Management Board

Piotr Gromniak
Vice-President of the Management Board

Artur Langner
Vice-President of the Management Board

Marcin Materny
Member of the Management Board

Rafał Mazurczak
Member of the Management Board

Anna Gabryszewska-Wybraniec
Chief Accountant

Kielce, 25 April 2017

III

Statement of the Management Board

The Management Board of Echo Investment S.A. declares that, to the best of its knowledge, the annual separate financial statements for 2016 and comparative data have been presented in compliance with the applicable accounting principles, and that they reflect in a true, reliable and transparent manner the economic and financial situation of Echo Investment S.A. and its financial result. The management report of Echo Investment S.A. presents a true view of development, accomplishments and situation of Echo Investment S.A., including a description of fundamental risks and threats.

The Management Board of Echo Investment S.A. declares that the entity authorised to audit financial statements, auditing the annual financial statements for 2016, was selected in accordance with the laws. This entity and the statutory auditors conducting the audit fulfilled the conditions required to express an unbiased and independent opinion on the audited annual financial statements, pursuant to the applicable laws and professional standards.

Nicklas Lindberg
President of the Management Board

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Vice-President of the Management Board

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Vice-President of the Management Board

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Rafał Mazurczak
Member of the Management Board

Kielce, 25 April 2017

ECHO investment