



The Polish original should be referred to in matters of interpretation.
Translation of auditor's report originally issued in Polish.

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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

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

Audit report on the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements of Echo Investment Group (the 'Group'), for which the holding company is Echo Investment S.A. (the 'Company') located in Kielce at al. Solidarności 36, containing: the consolidated statement of financial position as at 31 December 2018, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flows statement for the period from 1 January 2018 to 31 December 2018 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the 'consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 20 March 2019.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'Regulation 537/2014'). Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the Group in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<p><u>Valuation of investment properties and investment properties under construction</u></p> <p>Investment properties and investment properties under construction amount to PLN 1.948 million out of which PLN 1.416 million represents properties measured at fair value as at 31 December 2018 in the consolidated statement of financial position of the Group. The investment properties are measured at fair value in line with IAS 40 <i>Investment property</i>. Investment properties under construction ("IPUC") are measured at fair value, unless their fair value is not reliably measurable then they are measured at cost.</p>	<p>We have gained understanding of the investment property and investment property under construction valuation process, performed a walkthrough of the process and evaluated the design of the controls over this process.</p> <p>We have discussed with the Group's Management the current market conditions in locations in which Echo Group operates.</p> <p>Our analysis of the properties was performed for selected assets of the most significant value, acquired within the audited period and representing the biggest change</p>

The main criteria developed by the Group's Management to guide judgement whether fair value of IPUC is reliably measurable are described in note 6 to these consolidated financial statements "*Main accounting principles*".

We considered the valuation of the investment properties and investment properties under construction to be a key audit matter because the determination of fair value involves significant judgement to be exercised by the management. The valuation of the investment properties is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property. For investment properties under development, factors include forecasted costs to complete and timing until practical completion. To arrive at the ultimate valuation the Group's Management:

- considers account property-specific information such as the current tenancy agreements, vacancy levels and rental income,
- applies assumptions for expected market yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions.

Inputs used to measure fair value of the Group's investment properties are categorized into the second and third levels of the fair value hierarchy.

For residential developments, the residual appraisal method is used, by estimating the fair value of the completed project using a capitalisation method less estimated costs for completion and expected profit margin while discounting using a proper risk premium.

in its carrying value as compared to prior year.

We have analysed properties valuations and assessed that valuation methods applied for the purpose of carrying amount determination in the consolidated financial statements was appropriate. We have also evaluated the competence, capabilities and objectivity of the management and external appraisals with respect to the fair value assessment.

Additionally, we have performed substantive audit procedures on a selected sample by, amongst others:

- assessment of the properties valuation with the use of our own EY real estate specialists to assist us in obtaining an understanding of the management's analyses,
- we evaluated and challenged the key assumptions included in the valuation such as capitalization rate, market rental income, market-derived discount rate, projected net operating income, vacancy levels, estimate of the reversion/terminal value, rent-free periods, letting fees, letting voids and fit-out allowance for vacant space or renewals.

With regard to cases where assumptions were not in line with our expectations or were changes in valuations were unexpected, we have performed additional procedures and, if required, made additional inquiries with the Company's management.

We have analytically reviewed and assessed reasonableness of fair value changes compared to set expectations that we have developed based on current market data and the knowledge gained during our audit.

<p>The Group's disclosures relating to significant judgements and estimates of investment properties and investment properties under construction are included in the note 9 "<i>Material estimates of the Company's management board</i>" of the Group's consolidated financial statements. The Group's disclosures on investment properties and investment properties under construction are also presented in notes 4, 5, 6 and 7 of the Group's consolidated financial statements.</p>	<p>We have also assessed the extent and adequacy of the related disclosures in the financial statements.</p>
<p><u>Rental guarantee provision (masterlease)</u></p> <p>The Group has granted to acquirers of office buildings the rental guarantees. The master lease agreements are usually for a period of up to 3 to 5 years following the sale of the investment property and guarantee that the rent at least in a given amount will be achieved by the buyer from letting out the property. In such cases the fair value of investment property or investment property under construction is calculated based on transaction price less costs to complete and the risk premium.</p> <p>The related master lease provision is recognized, which reflects the obligation to pay rentals for leasable area in the building which remains vacant. Rental guarantee provision, reflects the obligation to pay rent for office area that was not leased yet, leased but no handed over or with respect to which rent free periods were granted compared to rent levels guaranteed by masterlease agreement.</p> <p>As of 31 December 2018 the masterlease provision amounted to PLN 119.9 million.</p> <p>We considered the estimation of the provisions related to master lease obligation to be one of key audit matters because the</p>	<p>We have gained understanding of the masterlease estimation process, performed a walkthrough of the process and evaluated the design of the controls over the process. Our substantive audit procedures included, among others, evaluation of the reasonableness of assumptions used, especially expected dates of free spaces being leased and handed over to tenants as well as expected rental income levels. We tested the calculations to supporting documentation, including agreements with tenants or letters of intent. Where it was not yet possible due to lack of signed lease agreements, we benchmarked inputs used to similar projects and/or similar rental agreements.</p> <p>We have also assessed the extent and adequacy of the related disclosures in the financial statements.</p>

<p>amount of the provision is significant to the Group's consolidated statement of financial position and the determination of the provision at each balance sheet date is dependent on a number of uncertainties and involves significant judgement to be exercised by the management, specifically including:</p> <ul style="list-style-type: none"> • expected timing of vacant areas to be leased and handed over to tenants which will cease the guarantee payments, • expected rental income for vacant areas, • expected rental incentives and fit-outs required by tenants in the future. <p>The Group's disclosure about significant judgements and estimates related to the masterlease provision are included in the note 9 "<i>Material estimates of the Company's management board</i>" of the Group's consolidated financial statements. The Group's disclosures on the masterlease provision were also presented in note 16 of the Group's consolidated financial statements.</p>	
<p><u>Inventory valuation</u></p> <p>Inventory is the second largest position in the Group consolidated statement of financial position making up 19.4% of total assets as at 31 December 2018. Inventories consist of multi-family residential real estate projects in predevelopment process, under construction or already developed. Inventory is measured at the lower of cost and net realizable value. The cost of inventory includes, amongst others, land or leasehold rights for land, construction costs, planning and design costs, perpetual usufruct fees and real estate taxes, borrowing costs and professional fees directly attributable to the project and</p>	<p>We have gained understanding of the net realisable value estimation process, performed a walkthrough of the process and evaluated the design of the controls over the process.</p> <p>We evaluated the analysis of the management, including the competence, with respect to the net realizable value assessment.</p> <p>Additionally, we performed substantive audit procedures by, amongst others, extensive discussions with the Company's management with respect to the net realizable value method applied,</p>

<p>construction overheads and other directly related costs.</p> <p>The Company assesses internally the net realizable value of the inventory and decreases the value when the net realizable value is lower than the cost. The net realizable value calculation depends on the estimates like, amongst others, the estimated sales prices per m² (PUM), the estimated construction costs and the expected timing of sales of the units. While estimating the net realizable value the Management takes into account information derived from preliminary / final agreements with customers and expected sales prices as well as current market trends when estimating net realizable value of inventory. Management assesses possible write-downs on inventory for each project separately.</p> <p>As the value of inventory is significant to the financial statements and significant estimates are involved in the assessment of net realizable value, we have concluded that it is a key audit matter.</p> <p>The Group's disclosure about significant judgements and estimates related to inventory valuation is discussed in the note 9 "<i>Material estimates of the Company's management board</i>" of the consolidated financial statements.</p> <p>The Group's disclosures regarding inventory were also presented in note 9 of the Group's consolidated financial statements.</p>	<p>assumptions used, including comparing these assumptions to similar projects in the market and the actual results of the net realizable value calculations on individual projects.</p> <p>We used our own EY real estate valuation specialists to assist us in obtaining an understanding of the management's analyses.</p> <p>We have also assessed the adequacy of the related disclosures in the financial statements.</p>
<p><u>Revenue recognition with respect to sale of residential units</u></p> <p>Revenues arising from sale of residential units in the year ended 31 December 2018 amounted to PLN 393.5 million which represents 55.2% share in total revenues of the Group. During the audited period, the</p>	<p>We have gained understanding of the revenue recognition process (including the implementation of IFRS15) with respect to sale of residential units,</p>

<p>Group applied IFRS 15 "Revenues from contracts with customers" for the first time.</p> <p>Revenue from sale of residential units is recognized by the Group when performance obligations are satisfied and when the customer obtains control of the good (residential unit). The control is considered as obtained by the buyer when the residential units have been substantially constructed, the occupancy permit for the property has been issued, an apartment has been accepted by the customer (hand-over protocol has been signed between the buyer and the Company) and the full amount resulting from the sale agreement has been paid by the buyer. Taking into consideration the significance of revenue recognition to the financial statements, we have identified it as a key audit matter.</p> <p>The Group's disclosures regarding revenue recognition, including the impact of new IFRS 15 standard, were presented in note 19 of the Group's consolidated financial statements</p>	<p>evaluated the design of the controls over the process and tested identified controls.</p> <p>Additionally, we have performed substantive audit procedures by, amongst others, detailed margin analyses, tests of details and tests of transactions to assess the correctness and completeness of recognition of sales revenue from multi-family residential real estate projects and related cost of sales, including the proper cut-off.</p> <p>We have also assessed the adequacy of the related disclosures in the financial statements.</p>
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Responsibilities of the Company's Management and members of the Supervisory Board for the financial statements

The Company's Management is responsible for the preparation, based on properly maintained accounting records, the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, The Company's Management is responsible for assessing the Group's (the holding company and significant components') ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless The Company's

Management either intends to liquidate the Group (the holding company or significant components) or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the 'Accounting Act'). The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

In accordance with International Auditing Standard 320, section 5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

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

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,
- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Group to cease to continue as a going concern,
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation,
- we obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2018 to 31 December 2018, the representation on the corporate governance as a separate element of the Directors' Report (jointly 'Other Information').

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

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

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

Auditor's responsibility

Our opinion on the consolidated financial statements does not include the Other Information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the consolidated financial statements.

In addition, we are required to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the consolidated financial statements.

Moreover, based on our knowledge of the Group and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Group has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which have been provided to the Group, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Group in the audited period, have been disclosed in the Directors' Report.



Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of the Supervisory Board from 2 July 2015 and reappointed based on the resolution from 30 April 2018. The consolidated financial statements of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2015, i.e. for the past 4 consecutive years.

Warsaw, March 20, 2019

Key Certified Auditor

Przemysław Orłonek
certified auditor
no in the register: 10059

on behalf of:
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