

**Echo Investment S.A.**

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

## I. GENERAL NOTES

### 1. Background

Echo Investment S.A. (hereinafter 'the Company') was incorporated on the basis of a Notarial Deed dated 30 June 1994. The Company's registered office is located in Kielce at Al. Solidarności 36.

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

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

The Company is the holding company of the Echo Investment capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 4D of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for year ended 31 December 2016.

The principal activities of the Company are as follows:

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

As at 31 December 2016, the Company's issued share capital amounted to 20 635 thousand zlotys. Equity as at that date amounted to 1 385 614 thousand zlotys.

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

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Lisala Sp. z o.o.	272 375 784	272 375 784	13 617	65,99%
Aviva OFE Aviva BZ WBK	41 269 000	41 269 000	2 061	9,99%
Nationale-Nederlanden OFE	39 625 517	39 625 517	1 981	9,60%
Other Shareholders	59 420 281	59 420 281	2 976	14,42%
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Total	412 690 582	412 690 582	20 635	100,00%
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According to information included in the Company's Share Register as at 25 April 2017, the following changes took place in the ownership structure of the Company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

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

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

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

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

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

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

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

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

## **2. Financial Statements**

On 23 December 2004 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

### **2.1 Auditors' opinion and audit of financial statements**

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

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

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

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

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the financial statements taken as a whole.

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

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

## **Report on the Audit of the Financial Statements**

We have audited the accompanying financial statements for the year ended 31 December 2016 of Echo Investment S.A. ('the Company') located in Kielce, Al. Solidarności 36, which comprise statement of financial position as at 31 December 2016, the profit and loss account, the statement of financial result and statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year from 1 January 2016 to 31 December 2016 and the additional notes and explanations ('the accompanying financial statements').

### *Responsibilities of the Management Board and members of the Supervisory Board for the financial statements*

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

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

### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In accordance with National Auditing Standard 320 point 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

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

### *Opinion*

In our opinion the accompanying financial statements:

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

### **Report on Other Legal and Regulatory Requirements**

#### *Report on the Directors' Report*

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

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

In connection with the audit of the financial statements, our responsibility was to read the content of the Directors' Report and consider whether the information contained in it take into account the provisions of art. 49 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states ('the Decree on current and periodic information') and whether they are consistent with the information contained in the accompanying financial statements. Our responsibility was also to report, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, whether the Directors' Report does not include material misstatements.

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

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

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

## 2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness<sup>1</sup> of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 25 April 2017, confirming that:

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

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

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

## 2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2015 were audited by Katarzyna Twarowska, key certified auditor no. 11738, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2015. The Company's financial statements for the year ended 31 December 2015 were approved by the General Shareholders' Meeting on 28 June 2016, and the shareholders resolved to appropriate the 2015 net profit as follows:

Dividends for the shareholders	2 174 879 367,14
Reserve capital	783 710 368,72
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	2 958 589 735,86
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<sup>1</sup> Translation of the following expression in Polish: "rzetelność i jasność"

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

The closing balances as at 31 December 2015 were correctly brought forward in the accounts as the opening balances at 1 January 2016.

### 3. Analytical Review

#### 3.1 Basic data and financial ratios

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

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

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total assets</b>	2 999 731	5 288 157	1 678 874
<b>Shareholders' equity</b>	1 385 614	3 635 757	677 167
<b>Net profit/ loss</b>	275 523	2 958 590	26 153
<b>Return on assets (%)</b>	9.2%	55.9%	1.6%
$\frac{\text{Net profit} \times 100\%}{\text{Total assets}}$			
<b>Return on equity (%)</b>	7.6%	436.9%	4.0%
$\frac{\text{Net profit} \times 100\%}{\text{Shareholders' equity at the beginning of the period}}$			
<b>Profit margin (%)</b>	87.4%	1436.9%	12.4%
$\frac{\text{Net profit} \times 100\%}{\text{Sales of finished goods, goods for resale and raw materials}}$			
<b>Liquidity I</b>	0.7	0.8	2.5
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			
<b>Liquidity III</b>	0.05	0.04	0.20
$\frac{\text{Cash and cash equivalents}}{\text{Short-term creditors}}$			

<b>Debtors days</b>	157 dni	105 dni	127 dni
<u>Trade debtors x 365</u>			
Sales of finished goods, goods for resale and raw materials			
<b>Creditors days</b>	93 dni	40 dni	43 dni
<u>Trade creditors x 365</u>			
Sales cost + selling costs + general administrative expenses			
<b>Inventory days</b>	433 dni	471 dni	796 dni
<u>Inventory x 365</u>			
Sales cost + selling costs + general administrative expenses			
<b>Stability of financing (%)</b>	69.6%	84.1%	85.7%
<u>(Equity + long-term provisions and liabilities) x 100%</u>			
Total liabilities, provisions and equity			
<b>Debt ratio (%)</b>	53.8%	31.2%	59.7%
<u>(Total liabilities and provisions) x 100%</u>			
Total assets			
<b>Rate of inflation:</b>			
Yearly average	-0.60%	-0.90%	0.00%
December to December	0.80%	-0.50%	-1.00%

### 3.2 Comments

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

- Return on assets in 2016 was 9.2% and was lower than in 2015, when it amounted to 55.9% and higher than in 2014, when it was 1.6%;
- Return on equity decreased in 2016 compared to 2015 from 436.9% to 7.6% and increased compared to 2014, when it was 4.0%;
- Profit margin in 2016 decreased compared to 2015 from 1436.9% to 87.4% and increased compared to 2014, when it was 12.4%;
- Liquidity ratio I as of 31 December 2016 amounted to 0.7 and decreased by 0.1 in comparison to value as of 31 December 2015, when it was 0.8 and decreased by 1.8 in comparison to value as of 31 December 2014, when it was 2.5;
- Liquidity ratio III as of 31 December 2016 amounted to 0.05 and was higher than as of 31 December 2015, when it was 0.04 and lower than as of 31 December 2014, when it was 0.20;
- Debtors days in 2016 amounted to 157 days and was higher than in 2015 and 2014, when it amounted to 105 days and 127 days respectively;
- Creditors days in 2016 amounted to 93 days and was higher than in 2015 and 2014, when it amounted to 40 days and 43 days respectively;
- Inventory days in 2016 amounted to 433 days which was less than in 2015 and 2014, when it amounted to 471 days and 796 days respectively;



- Stability of financing as of 31 December 2016 was 69.6% compared to 84.1% as of 31 December 2015 and 85.7% as of 31 December 2014;
- Debt ratio for the year 2016 amounted to 53.8% and was higher than in the year 2015 when it reached 31.2% and lower than in the year 2014 when it reached 59.7%.

### **3.3 Going concern**

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

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

## **II. DETAILED REPORT**

### **1. Accounting System**

The Company's accounts are kept using the IFS computer system, version 7.5 at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 ('the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

### **2. Assets, Liabilities and Equity, Profit and Loss Account**

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2016.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2016.

### **3. Additional Notes and Explanations to the Financial Statements**

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

### **4. Directors' Report**

We have read the Directors' report on the Company's activities in the period from 1 January 2016 to 31 December 2016 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information contained in it take into account the provisions of Art. 49 para 2 of the Accounting Act and the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states. We have also concluded, based on our knowledge of the Company and its environment obtained during the audit of the financial statements, that the Directors' Report does not include material misstatements. We have read also the Company's representation on application of corporate governance which constitutes a separate part of the Directors' Report. We concluded that in the representation the Company included information required by implementing rules issued under art. 60 para. 2 of the Act of 29 July 2005 on public offering and on the terms of introducing financial instruments into an organised trading system

and on public companies. This information is, in all material respects, in accordance with applicable regulations and with the information included in the financial statements.

## **5. Conformity with Law and Regulations**

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

Warsaw, 25 April 2017

Key Certified Auditor

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Przemysław Orłonek  
Certified Auditor  
No. 10059

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