2017

CONSOLIDATED ANNUAL REPORT OF ECHO INVESTMENT GROUP

ECHO investment

CONTENTS

Dear Shareholders, Partners and Clients,

Echo Investment has had a very good year. I am pleased to provide you with our financial report in which we describe our work and its results.

The scale of our Company's activity has been growing rapidly in the recent years, which is why we devote a lot of energy to strengthening our business functions, efficiency and streamlining procedures. We hired over 100 employees in 2017 due to the greater number of projects under construction. Our management spent substantial time meeting shareholders and potential investors, reporting improvements and educatingthe capital market. The Company is constantly working on improving our compliance system, establishing internal audit function, reviewing procedures and routines. This will positively affect the transparency of operations, facilitate decision-making and reduce risks.

Echo Investment effectively implements its strategy of profitable growth. We have focused on the largest cities in Poland, we sell investment projects successfully. Being the leader among retail and office developers we are dynamically growing in the residential sector. We established advantageous partnerships with EPP at the Galeria Młociny shopping centre and the Towarowa 22 multifunctional project in Warsaw, to be present on the strongest consumer market in Poland. We are also extremely pleased about the first 'destination' projects that we started last year: large, city-forming, multifunctional piece of cities such as Browary Warszawskie and Moje Miejsce in Warsaw. Echo Investment is the only Polish developer with great experience from three sectors of the real estate market: office, retail and residential, so we are uniquely positioned to create such 'destination' projects in Łódź, Kraków and Wrocław, where we already have bought proper plots. Furthermore, the construction of such projects reflects how Echo Investment understands responsibility for co-creating a friendly urban space.

2017 was the first full year in which the results were generated in accordance with our new strategy, almost exclusively from development activities. Our Group generated a net profit of PLN 312 mln. This is the result of delivering 1,006 apartments to our clients and fair value gains on our investment properties by PLN 234 mln, mainly coming from Libero in Katowice, Sagittarius Business House in Wrocław and O3 Business Campus II in Kraków. The results were also influenced by the recognition of the market value of our EPP's shareholding and the remuneration received for the development of Outlet Park and Galaxy in Szczecin as well as leasing of Q22 in Warsaw.

Our profitable growth strategy objective was successfully implemented in 2017 in the office sector. We concluded preliminary contracts for the sale of pre – leased buildings in Wrocław i.e. Sagittarius and West Link, which will be completed in 2018. Furthermore, we have finalized the sale of three other office buildings completed in 2017. Renowned tenants such as L'Oréal Polska, Nokia Networks, EY, Philips Lighting Poland and HCL decided to locate their offices in our buildings. We successfully cooperate with the dynamically developing sector of shared services (BPO/SSC). That is reflected in the Outsourcing Stars 2016 award which we received last year.

Echo Investment effectively implements its strategy of profitable growth. We have focused on the largest cities in Poland, we sell investment projects successfully. Being the leader among retail and office developers we are dynamically growing in the residential sector. We established advantageous partnerships with EPP at the Galeria Młociny shopping centre and the Towarowa 22 multifunctional project in Warsaw, to be present on the strongest consumer market in Poland. We are also extremely pleased about the first ‘destination’ projects that we started last year: large, city-forming, multifunctional piece of cities such as Browary Warszawskie and Moje Miejsce in Warsaw. Echo Investment is the only Polish developer with great experience from three sectors of the real estate market: office, retail and residential, so we are uniquely positioned to create such ‘destination’ projects in Łódź, Kraków and Wrocław, where we already have bought proper plots. Furthermore, the construction of such projects reflects how Echo Investment understands responsibility for co-creating a friendly urban space.

The retail department completed the extension and rental of Outlet Park and Galaxy projects in Szczecin, pre – sold to EPP. Both projects were completed with results better than budgeted. The results of the leasing of Libero in Katowice and Galeria Młociny in Warsaw are also excellent. Libero is over 90% leased and it will be opened for customers already in Q3 2018. In Galeria Młociny our retail specialists designed a new leisure and gastronomy concept. I am convinced that this area will be very attractive and exciting for the future visitors.

The highest growth dynamics we recorded in the residential sector. In 2017 we sold 1,427 units – 54% more than in 2016. Thanks to this result, Echo Investment has entered 9th position on the list of biggest residential developers in Poland. This brings us closer to the strategic goal of becoming the market leader.

Building our future, in 2017 we have acquired plots for over 120,000 sqm of apartments and 240,000 sqm of offices at similar prices as the average prices of the historical land plots we own. A significant part of it will be designed for ‘destination’ projects. Such projects allow us to reach a better land price, use the resources optimally and generate the effect of scale.

A low level of indebtedness is a positive factor that allows us to look confidently at the future of Echo Investment. It provides us with great comfort when choosing the optimal sources of project financing. Last year we continued cooperation with major Polishbanks in terms of lending and we placed over PLN 600 mln in listed corporate bonds sold toindividual and institutional investors, which makes us one of the largest issuers of corporate bonds in Poland. In February 2018 the Management Board adopted a resolution on launching another PLN 400 mln bond programme for individual investors.

I encourage you to read our report in detail.
Yours sincerely,

Nicklas Lindberg
President of Echo Investment

CHAPTER 1

CONSOLIDATED FINANCIAL STATEMENT OF ECHO INVESTMENT GROUP FOR 2017

ECHO investment

CONSOLIDATED STATEMENT OF FINANCIAL POSITION [PLN '000]

	NOTE	as at 31.12.2017	as at 31.12.2016– re-stated
ASSETS			
Non-current assets			
Intangible assets	2	242	295
Property, plant and equipment	3	11 162	8 672
Investment property	4	6 117	248 037
Investment property under construction	5	1 281 230	539 797
Investment in associates and joint ventures	28	215 891	564 363
Long-term financial assets	8	86 560	78 692
Deferred tax asset	30	64 714	91 810
		1 665 916	**1 531 666**
Current assets			
Inventories	9	682 436	660 251
Current tax assets		3 426	736
Other taxes receivable	10	58 192	20 403
Trade and other receivables	10	292 406	270 443
Short-term financial assets	8	80 247	24 544
Derivative financial instruments	13	2 410	154
Restricted cash	14	54 766	27 070
Cash and cash equivalents	14	676 334	636 359
		1 850 217	**1 639 960**
Assets held for sale	**6**	**119 985**	**198 166**
Financial assets held for sale	**29**	**243 273**	**-**
Total assets		**3 879 391**	**3 369 792**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION CONT. [PLN '000]

	NOTE	as at 31.12.2017	as at 31.12.2016–restated
EQUITY AND LIABILITIES			
Equity			
Equity attributable to equity holders of the parent		1 587 750	1 533 894
Share capital	15	20 635	20 635
Supplementary capital	15	1 192 117	1 128 096
Revaluation reserve	29	(49 676)	-
Retained earnings		435 150	393 345
Foreign currency translation reserve		(10 476)	(8 182)
Non-controlling interest		(107)	(100)
		1 587 643	**1 533 794**
Provisions			
Long-term provisions	16	85 028	68 522
Short-term provisions	16	141 963	75 333
Deferred tax liabilities	30	49 193	41 541
		276 184	**185 396**
Long-term liabilities			
Debt liabilities	17	1 026 830	760 981
Derivative financial instruments	13	-	39
Deferred income	9	16 073	9 331
		1 042 903	**770 351**
Short-term liabilities			
Debt liabilities	17	528 939	220 940
Income tax payable		7 500	2 338
Other taxes liabilities	18	35 404	245 225
Trade payable	18	179 252	163 930
Dividend liabilities	15	-	66 030
Other liabilities	18	138 079	80 019
Deferred income	9	83 487	85 428
		972 661	**863 910**
Liabilities directly associated with assets classified as held for sale	19	**-**	**16 341**
Total equity and liabilities		**3 879 391**	**3 369 792**
Book value		1 587 750	1 533 894
Number of shares		412 690 582	412 690 582
Book value per one share (in PLN)		3,85	3,72

CONSOLIDATED PROFIT AND LOSS ACCOUNT [PLN '000]

	NOTE	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016 – restated
Revenues	20	621 862	480 075
Cost of sales	21	(472 435)	(263 308)
Gross profit (loss)		**149 427**	**216 767**
Profit (loss) on investment property	22	233 497	555 214
Administrative costs associated with project implementation		(34 822)	(14 140)
Selling expenses		(27 973)	(31 611)
General and administrative expenses		(85 880)	(90 156)
Other operating income	23, 29	87 516	21 340
Other operating expenses	24	(46 980)	(45 761)
Operating profit		**274 785**	**611 653**
Financial income	25	144 641	47 721
Financial cost	26	(100 549)	(412 394)
Profit (loss) on FX derivatives	13	4 025	(96)
Foreign exchange gains (losses)	27	(6 869)	(98 016)
Share of profit (loss) of associates and joint ventures	28, 29	47 322	47 722
Profit (loss) before tax		**363 355**	**196 590**
Income tax	31	(51 191)	196 748
current tax		(16 443)	(20 565)
deferred tax	30	(34 748)	217 313
Net profit (loss), attributable to:		**312 164**	**393 338**
Equity holders of the parent		312 171	393 345
Non-controlling interest		(7)	(7)
Equity holders of the parent		312 171	393 345
Weighted average number of ordinary shares (in '000) without own shares held		412 691	412 691
Profit (loss) per one ordinary share (in PLN)		0,76	0,95
Diluted profit (loss) per one ordinary share (PLN)		0,76	0,95

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME [PLN '000]

	NOTE	01.01.2017–31.12.2017	01.01.2016 – 31.12.2016 – restated
Profit for the year		**312 164**	**393 338**
Other comprehensive income:			
exchange differences on translation of foreign operations		(2 294)	2 620
revaluation gains	29	(49 676)	–
Other comprehensive income for the year, net of tax		**(51 970)**	**2 620**
Total comprehensive income for the year, including:		**260 194**	**395 958**
Comprehensive income attributable to shareholders of the parent company		260 201	395 965
Comprehensive income attributable to non-controlling interest		(7)	(7)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY [PLN '000]

	Share capital	Supplementary capital	Revaluation capital	Accumulated retained earnings	Currency translation differences	Equity attributable to equity holders of the parent	Capital of non-controlling interests	Equity Total
for the period from 1 January 2017 to 31 December 2017								
Opening balance	**20 635**	**1 128 096**	**-**	**387 711**	**(8 182)**	**1 528 260**	**(100)**	**1 528 160**
Changes in accounting principles	–	–	–	5 634	–	**5 634**	–	**5 634**
Opening balance, restated	**20 635**	**1 128 096**	**-**	**393 345**	**(8 182)**	**1 533 894**	**(100)**	**1 533 794**
Distribution of previous years' profit/loss	–	270 366	–	(270 366)	–	**-**	–	**-**
Dividend paid	–	(206 345)	–	–	–	**(206 345)**	–	**(206 345)**
Other comprehensive income	–	–	–	–	(2 294)	**(2 294)**	–	**(2 294)**
Results of financial investment's revaluation	–	–	(49 676)	–		**(49 676)**	–	**(49 676)**
Profit (loss) for the period	–	–	–	312 171	–	**312 171**	(7)	**312 164**
Closing balance	**20 635**	**1 192 117**	**(49 676)**	**435 150**	**(10 476)**	**1 587 750**	**(107)**	**1 587 643**
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	–	(1 660 789)	–	(514 091)	–	**(2 174 880)**	–	**(2 174 880)**
Advanced dividend	–	(350 787)	–	–	–	**(350 787)**	–	**(350 787)**
Other comprehensive net income	–	–	–	–	2 620	**2 620**	–	**2 620**
Net profit (loss) for the period	–	–	–	387 711	–	**387 711**	(7)	**387 704**
Closing balance	20 635	1 128 096	–	387 711	(8 182)	**1 528 260**	(100)	**1 528 160**
Changes in accounting principles	–	–	–	5 634	–	**5 634**	–	**5 634**
Closing balance, restated	**20 635**	**1 128 096**	–	**393 345**	**(8 182)**	**1 533 894**	**(100)**	**1 533 794**

CONSOLIDATED CASH FLOW STATEMENT [PLN '000]

	NOTE	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016 – restated
A. Operating cash flow – indirect method			
I. Profit (loss) before tax		**363 355**	**196 590**
II. Total adjustments			
Share in net (profit) loss of associates and joint ventures		(47 322)	(47 722)
Depreciation of PP&E	21	2 829	3 105
Foreign exchange (gains) losses		1 104	100 930
Interest and profit sharing (dividends)		21 264	66 042
(Profit) loss on revaluation of assets and liabilities		(433 942)	(387 299)
(Profit) loss on revaluation of assets and liabilities		(1 667)	53 859
		(457 734)	**(211 085)**
III. Changes in working capital			
Change in provisions		66 795	145 598
Change in inventories		(55 780)	(63 138)
Change in receivables		3 477	(255 576)
Change in short–term liabilities, except for loans and borrowings		(154 571)	283 867
Change in restricted cash		(27 696)	62 377
		(167 775)	**173 128**
IV. Net cash generated from operating activities (I+II+III)		**(262 154)**	**158 633**
Income tax paid		(13 970)	(15 828)
V. Net cash generated from operating activities		**(276 124)**	**142 805**
B. Cash flows from investing activities			
I. Inflows			
Disposal of intangible assets and tangible fixed assets		443	1 858
Sale of investments in property	34	508 621	3 512 985
From borrowings and financial investments		188 703	38 880
Dividend of associates and joint ventures		12 173	-
		709 940	**3 553 723**
II. Outflows			
Purchase of intangible assets and PP&E		(5 270)	(2 199)
Investment property		(523 608)	(851 528)
On loans and financial investments		(227 306)	(325 718)
		(756 184)	**(1 179 445)**
III. Net cash flow from investing activities (I+II)		**(46 243)**	**2 374 278**

CONSOLIDATED CASH FLOW STATEMENT CONT. [PLN '000]

	NOTE	01.01.2017–31.12.2017	01.01.2016–31.12.2016
C. Cash flow from financing activities	35		
I. Inflows			
Loans and borrowings		500 222	1 210 461
Issue of debt securities	17	722 008	100 000
		1 222 230	**1 310 461**
II. Outflows			
Dividends and other payments to equity holders		(272 375)	(2 459 636)
Repayment of loans and borrowings		(318 393)	(1 182 768)
Redemption of debt securities	17	(207 100)	(225 000)
Due to FX derivatives		-	(53 859)
Interest paid		(62 020)	(90 936)
		(859 888)	**(4 012 199)**
III. Net cash flow from financing activities (I+II)		**362 342**	**(2 701 738)**
D. Total net cash flows (A.III+B.III+C.III)		**39 975**	**(184 655)**
E. Change in the balance of cash in consolidated statement of financial position, including:		**39 975**	**(184 947)**
– change in cash due to foreign exchange gains/losses		-	292
F. Cash and equivalents at the beginning of the period		**636 359**	**821 305**
G. Cash and equivalents at the end of the period (F+D)		**676 334**	**636 359**

CHAPTER 2

EXPLANATORY NOTES

Explanatory notes to the consolidated financial statement

NOTE 1

OFF-BALANCE SHEET ITEMS [PLN '000]

	31.12.2017	31.12.2016
Contingent liabilities for other parties:		
– due to guarantees and sureties granted	1 014 508	840 476
– due to court proceedings	181	150
Total contingent liabilities	**1 014 689**	**840 626**

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.

SURETY AGREEMENTS BY ECHO INVESTMENT S.A. AS AT 31.12.2017 [PLN '000]

For	Value	Validity	Description
Warburg-HiH Invest Real Estate GmbH	20 855	until 31.05.2019	Surety bond for liabilites of Sagittarius – Projekt Echo – 113 Sp. z o.o. Sp.K. resulting from the lease concluded on 20.07.2017.
HPO AEP Sp. z o.o. Sp.J.	10 427	Until acquisition of an occupancy permit for the projects but no later than 07.12.2031.	Surety bond for liabilites of Echo – Browary Warszawskie Sp. z o.o. Sp.K. and Dellia Investments – Projekt Echo – 115 Sp. z o.o. Sp. K. as a collateral of liabilites resulting from the lease concluded on 07.12.2016. Mutual surety issued in EUR.
Bletwood Investments Sp. z o.o.	1 403	Entire validity period of the lease and three months following its termination date	Surety bond for liabilities of Cogl II Poland Limited Sp. z o.o. as a collateral of the liabilites resulting from the lease concluded on 06.11.2015. Issued in EUR.
Total	**32 685**		

ECHO INVESTMENT GUARANTEE AGREEMENTS AS AT 31.12.2017 [PLN '000]

For	Value	Validity	Description
IREEF – Stryków Propco Sp. z o.o.	420 000	until 15.12.2019	Construction work quality gurantee related to Q22 in Warsaw.
IREEF – Stryków Propco Sp. z o.o.	144 066	until 15.12.2021	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.
IB 6 FIZAN and GPF 3 FIZAN	90 788	31.10.2021	Peformance bond concerning liabilites of Rosehill Investments Sp. z o.o. resulting from programme agreement of 31.08.2017.
BZ WBK S.A. and Bank BGŻ BNP Paribas S.A.	55 244	until credit conversion from construction into investment loan	Surety bond for cost overrun in construction of the Galeria Libero retail project in Katowice.
State Treasury	43 045	until 22.05.2018	Peformance bond concerning liabilites of Outlet Park – Projekt Echo – 126 Sp. z o.o. Sp.K.
BZ WBK S.A., PKO BP S.A. and Bank Gospodarstwa Krajowego	42 668	until credit conversion from construction into investment loan	Surety bond for cost overrun in construction of the Galeria Młociny project in Warsaw and liabilities of Berea Sp. z o.o. subsidiary resulting from loan agreement of 17.10.2017. Issued in EUR.
Nobilis – Projekt Echo – 117 Sp. z o.o. Sp.K.	40 000	until 31.10.2026	Construction work quality gurantee related to Nobilis office building in Wrocław.
City of Katowice	36 548	until 15.02.2018	Peformance bond concerning liabilites of Galeria Libero – Projekt Echo – 120 Sp. z o.o. Sp.K. resulting from agreement of 31.08.2017, regarding road construction.
PKO BP S.A.	25 700	until 30.09.2020	Surety bond for construction cost overrun concerning the Sagittarius Business House office building in Wrocław.
Skua Sp. z o.o.	25 025	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.

Horta Sp. z o.o.	20 855	until 02.07.2020	Performance bond concerning the execution of the final sales agreement concerning the Acquarius Business House I office building in Wrocław. Issued in EUR.
mBank S.A.*	14 777	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.
Bank Millenium S.A.	7 300	until project complation, no longer than 30.06.2019	Surety bond for cost overrun of construction of the West Link office building in Wrocław and liabilities of West Gate II – Projekt Echo – 114 Sp. z o.o. Sp.K. resulting from loan agreement of 23.03.2017
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.
BGŻ BNP Paribas S.A.	5 101	until project complation date	Surety bond for cost overrun and liabilities resulting from debt service in the period of construction of the Symetris II office building in Łódź. Issued in EUR.
Agentia Nationala de Administrare Fiscala	2 099	31.08.2018	Guarantee concerning failure to execute liabilities of S.C. Echo Investment Project 1 S.R.L.
Ventry Investments Sp. z o.o. Sp.K.	1 160	until 9.04.2027	Guarantee for liabilities of City Space – GP Sp. z o.o. Sp.K. due to lease agreement of 12.10.2016
Echo – Park Rozwoju Sp. z o.o. Sp.K.	738	until 28.02.2027	Guarantee for liabilities of Projekt 133 – City Space – GP Sp. z o.o. Sp.K. due to lease agreement of 04.11.2016
Nobilis – Projekt Echo – 117 Sp. z o.o. Sp.K.	738	until 31.07.2027	Guarantee for liabilities of Projekt 137 – City Space – GP Sp. z o.o. Sp.K. due to lease agreement of 28.02.2017
IREEF – Stryków Propco Sp. z o.o.	482	until 01.08.2018	Guarantee for liabilities of Echo Investment S.A. due to lease agreement of 24.10.2016
Total	**981 823**		

* Guarantees were terminated due to sale of Nobilis office building.

NOTE 2

CHANGES IN INTANGIBLE ASSETS BY TYPES [PLN '000]

For the period 01.01.2017 – 31.12.2017	Purchased permits, patents, licences and similar assets	Other intangible assets	Total intangible assets
Gross value of intangible assets at the beginning of the period	**6 472**	**16**	**6 488**
Change due to:			
– purchase	133	-	133
Gross value of intangible assets at the end of the period	**6 605**	**16**	**6 621**
Accumulated amortisation at the beginning of the period	**6 190**	**3**	**6 193**
Remission for the period due to:			
– amortisation	183	3	186
Accumulated amortisation at the end of the period	**6 373**	**6**	**6 379**
Net value of intangible assets at the end of the period	**232**	**10**	**242**

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**
Change due to:			
– purchase	337	14	351
– sale	(26)	–	(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**
Remission for the period due to:			
– amortisation	215	1	216
– sale	(26)	–	(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**

NOTE 3

CHANGES IN PP&E – BY TYPES [PLN '000]

For the period 01.01.2017 – 31.12.2017	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	**265**	**3 593**	**7 754**	**5 707**	**5 778**	**23 097**
Increases, due to:						
– purchase	92	558	933	33	3 728	5 344
Decreases due to:						
– sale	-	-	(264)	(3 378)	(602)	(4 243)
Gross PP&E at the end of the period	**357**	**4 151**	**8 423**	**2 362**	**8 904**	**24 198**
Accumulated depreciation at the beginning of the period	**4**	**635**	**5 772**	**3 829**	**4 185**	**14 425**
Deprecation for the period						
depreciation	2	113	863	734	931	2 643
correction due to sale	-	-	(261)	(3 179)	(593)	(4 033)
Accumulated depreciation at the end of the period	6	748	6 375	1 384	4 523	13 036
Accumulated depreciation at the end of the period	**351**	**3 403**	**2 048**	**978**	**4 381**	**11 162**

CHANGES IN PP&E – BY TYPES [PLN '000]

For the period 01.01.2017 – 31.12.2017	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
– inventories taking	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:						
– depreciation	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
Accumulated depreciation at the end of the period	**261**	**2 958**	**1 982**	**1 878**	**1 593**	**8 672**

NOTE 4

CHANGES IN INVESTMENT PROPERTY [PLN '000]

	31.12.2017	31.12.2016
Value at the beginning of the period	**248 037**	**63 342**
Increases due to:		
– investment properties under construction taking	-	1 226 575
– taking from assets held for sale	-	47 027
– expenditure on investments	9 908	10 537
– revaluation of property	-	129 839
	9 908	**1 413 978**
Decreases due to:		
– sale	(177 964)	-
– revaluation of property	(27 717)	9 026
– FX	(2 253)	575
– taking to assets held for sale	(43 894)	1 219 682
	(251 828)	**1 229 283**
Value of property investments at the end of the period	**6 117**	**248 037**

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

The total value of investment properties as at 31.12.2017 (PLN 6 117 thousand) contains of values of properties located in Radom, Pamiątkowo and Zabrze.

In the reclassification to assets held for sale, the Group presents changes related to the planned sale of investment property in Budapest (Hungary).

As at 31.12.2016, the Group classified seven investment properties located in Poland and Hungary in the item of 'investment property', amounted to PLN 248,037 thousand.

Decreases in investment property item are related to sale of Babka Tower in Warsaw and Nobilis Business House in Wrocław.

On the fair value hierarchy, investment properties are classified at level 3.

NOTE 5

CHANGES IN INVESTMENT PROPERTY UNDER CONSTRUCTION [PLN '000]

	31.12.2017	31.12.2016 - restated
Value at the beginning of the period – restated figures	**539 797**	**1 398 628**
Increases due to:		
– purchase	256 475	36 000
– expenditure on investments	270 729	508 243
– revaluation of property	364 113	285 443
– inventory taking	90 997	3 440
– FX	-	275
	982 314	**833 401**
Zmniejszenia z tytułu:		
– investment properties taking	-	(1 226 575)
– sale	(150 272)	(209 815)
– revaluation of property	(5 466)	(44 231)
– inventory taking	(62 645)	
– FX	-	(446)
– taking to assets held for sale	(22 498)	(211 166)
	(240 881)	**(1 692 232)**
Value of property under construction at the end of the period	**1 281 230**	**539 797**

Expenses incurred for project construction concerned the continuation of the implementations started in 2016 and new investment projects, located in Kraków, Łódź, Gdańsk and Warsaw.

The Group purchased land in Łódź (value of PLN 61,436thousand), Gdańsk (value of PLN 17,181 thousand), Warsaw (value of PLN 61,217 thousand) and Wrocław (value of PLN 116,115 thousand), on which office projects will be built.

Due to the fulfilment of the conditions enabling the fair value valuation of the investment property under construction, the Group recognized the result from the first update of the value of the office buildings: O3 Business Campus phase II in Kraków (PLN 71,899 thousand), Sagittarius Business House in Wrocław (PLN 71,739 thousand)), West Link in Wrocław (PLN 25,497 thousand), Browary Warszawskie phase J in Warsaw (PLN 41,122 thousand), Symetris Business Park phase II in Łódź (PLN 16,054 thousand) and the Galeria Libero shopping centre in Katowice (PLN 137,802 thousand). The total amount of the revenue recognized from the valuation amounted to PLN 364,113 thousand. Valuation gains was decreased by PLN 124,597 thousand as future costs of rental guarantees and profit share.

On 28 December 2017, the Group concluded a contract concerning the sale of real estate located on Opolska Street and 29 Listopada Avenue in Kraków i.e. O3 Business Campus phase II. The value of the property as at the day of sale amounted to PLN 150,272 thousand.

Due to intention of sale within 12 months, in 2017 the Group reduced the value of investment property under construction by transferring to assets held for sale land property located in Warsaw, Taśmowa str., amounted to PLN 22,498 thousand.
As at 31 December 2017, the Group presented investment property under construction with a total value of PLN 1,281,230 thousand. The closing balance of this item consists of i.a. Libero shopping centre and following office facilities: O3 Business Campus phase III in Kraków, Moje Miejsce (Beethovena) phases I and II in Warsaw, Browary Warszawskie in Warsaw, Sagittarius Business House and West Link w Katowice, as well as Symetris II in Łódź.

In accordance with IAS 23, the Group activates the part of financial costs which are directly related to the acquisition and production of property components recognized as investment properties under construction. In the case of tied financing, incurred for the implementation of the project, the amount of financial costs reduced by the revenue obtained from temporary depositing of cash (i.e. the amount of interest on bank deposits with the exception of deposits resulting from blocking of accounts, letters of credit agreements) is activated. In the case of general financing, the financing costs subject to capitalization are determined according to the weighted average value of all borrowing costs in relation to the expenditures incurred for a given component of assets.

The activated amount of borrowing costs for investment property under construction in 2017 was PLN 1,590 thousand (the average effective cost of financing of 3.76%) while in 2016 it was PLN 9,585 thousand (the average effective cost of financing of 3.63%).

On the fair value hierarchy, investment properties under construction are classified at level 3.

NOTE 6

CHANGES IN ASSETS HELD FOR SALE [PLN '000]

	31.12.2017	31.12.2016 – restated figures
Value at the beginning of the period	**198 166**	**5 192 965**
Increases due to:		
– investment properties under construction taking	22 498	211 166
– investment properties taking	43 894	1 219 682–
– inventory taking	4 564	-
– expenditure on investments	9 746	223 309
– FX changes	-	2 509
	80 702	**1 656 666**
Decreases due to:		
– sale	(156 944)	(6 592 416)
– taking from investment property	-	(47 027)
– revaluation of property	-	(12 022)
– FX changes	(1 938)	-
	(158 883)	**(6 651 465)**
Assets held for sale at the end of the period	**119 985**	**198 166**

As at 31 December, 2016 the Group in the asset held for sale item presented land properties in Koszalin, Słupsk, Brasov (Romania) and Kiev (Ukraine) with a total value amounted to PLN 100,761 and investment property – A4 Business Park phase III in Katowice.

The decrease in assets held for sale is related to the sale of the A4 Business Park III office building in Katowice (on 26 April 2017). The value of the property amounted to 107,151 thousand as at the day of the sale. Furthermore, on 20 December 2017 the Group sold the Kirkor investment real estate with the value of PLN 8,000 thousand, located in Warsaw.

Within 12 months from the balance sheet date, the Group plans to sell its property located in Budapest (Hungary) with its value amounted to PLN 40,458 thousand, and the land property in Warsaw, Taśmowa str., with its value amounted to PLN 22,498 thousand.

Remaining part of the balance as at 31.12.2017 include land properties in Koszalin and Słupsk with a total value of PLN 20.888 thousand and the property located in Brasov (Romania) with amounted to PLN 29.029 thousand, which was sold in Q12018.

On the fair value hierarchy, investment properties held for sale are classified at level 3.

NOTE 7

AMOUNTS REGARDING PROPERTIES INCLUDED IN PROFIT AND LOSS ACCOUNT [PLN '000]

	31.12.2017	31.12.2016
Rental income from investment property	8 735	204 731
Direct operating costs (including repair and maintenance costs) related to investment property which generated rental income in a given period	(5 395)	(87 722)
Direct operating costs (including repair and maintenance costs) related to investment property which did not generate any rental income in a given period	–	(164)

NOTE 8

FINANCIAL ASSETS [PLN '000]

	31.12.2017	31.12.2016
– short-term loans granted (with interests)	79 760	24 011
– long-term loans granted (with interests)	84 315	18 484
– long-term sureties	2 245	2 262
– other securities	487	533
– other long-term securities	–	57 927
Assets at the end of the period	**166 807**	**103 217**
– long-term	86 560	78 673
– short-term	80 247	24 544

The loans were granted to legal entities and natural persons in PLN, with an interest rate of WIBOR + margin and in EUR – with a fixed interest rate. The total value of loans, converted into PLN, amounted to PLN 82.4 mln as at the balance sheet date. The loans equal to PLN 82.4 were granted to entities from the EPP Group (PLN 82,4 mln repaid before the publication of these financial statements). A loan of PLN 2.6 mln was granted to an affiliated entity. Loans granted to the entities accounted for using the equity method amounted to PLN 68.7 mln as at the balance sheet date. Other loans to legal persons and natural persons totalled PLN 10.3 mln in the balance sheet.

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 3 in the hierarchy of fair value.

The granted loans are not past due or impaired.

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 13,1 mln are presented. As of balance sheet date it is an equivalent of PLN 57,9 mln. As at 31 December, 2017 this receivables are presented in the item of „trade and other receivables", due to its maturity within 12 months from the balance sheet day.

NOTE 9

INVENTORIES [PLN '000]

	31.12.2017	31.12.2016 – restated figures
semi-finished products and work-in-progress	562 939	540 102
finished products	113 495	93 481
goods	6 003	26 665
materials	-	3
Total inventories	**682 436**	**660 251**

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 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 in connection with inventory sales with a price above the item current net value. 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 sales' item in the income statement.

In accordance with IAS 23, the Group activates the portion of financial costs directly related to the acquisition and production of assets presented as inventories. 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.

The activated amount of borrowing costs for inventories in 2017 amounted to PLN 1,020 thousand (the yield of 3.76%) whereas in 2016 it amounted to PLN 3,751 thousand (the yield of 3.63%).

In the 'deferred income' item the Group presents payments received from clients for residential projects in progress, which have been released from fiduciary accounts. As at 31 December 2017 the amount of payments released was PLN 99,560 thousand (as at 31 December 2016 they amounted to PLN 94,759 thousand), including long-term, amounted to PLN 16,073 thousand (as at 31 December 2017 amounted to 9 331 thousand).

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

	1.01.2017-31.12.2017	1.01.2016-31.12.2016
Amount of inventories recognised as an expense in the period	467 546	148 220
Impairment losses on inventories recognised in the period as cost	(6 449)	(1 289)
Reversal of impairment losses which decreases the value of inventories recognised in the period as income	22 663	18 550

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 is presented in the income statement as 'cost of sales'. In 2017 it amounted to PLN 16,214 thousand, while in 2016 it amounted to 17,261 thousand.

The reversal of write-downs in 2017 concerned mainly residential projects located in Wrocław (Grota-Roweckiego) and Warsaw (Las Młociński), in relation to transaction concluded.

NOTE 10

SHORT-TERM RECEIVABLES [PLN '000]

	31.12.2017	31.12.2016
Trade receivables:		
– up to 12 months	80 646	84 621
– over 12 months	4	-
Total financial assets:	**80 650**	**84 621**
Receivables related to sale of EPP's shares	142 326	94 319
Receivables related to sale of Q22 office building	24 850	62 220
Receivables related to sale of shares (Nobilis)	2 095	-
Other receivables	36 623	24 256
Prepayments	5 862	5 027
Total non-financial assets:	**211 756**	**185 822**
Receivables due to VAT tax	58 192	20 403
Receivables due to other taxes	**58 192**	**20 403**
Total net short-term receivables	**350 598**	**290 846**
Impairment losses on receivables	2 480	3 228
Total gross-short-term receivables	**353 078**	**294 074**

Receivables on account of deliveries and services result from rental of commercial space and residential space. There is no significant concentration of trade receivables in the Echo Investment Group. The company controls the condition and payment capacity of its tenants on an ongoing basis. Payments are secured with deposits or guarantees.

As at 31.12.2017, in the item of „receivables related to sale of EPP shares" the Group presented unsettled part of receivable due to sale of interests in Echo Polska Properties NV. At the balance sheet day value of the receivable amounted to PLN 142.326 thousand, out of which PLN 57.927 thousand was as at 31.12.2016 r. presented as long-term financial assets.

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 11

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

	31.12.2017	31.12.2016
Opening balance	**3 228**	**9 858**
Increase due to:		
– establishment of an impairment loss	289	2 602
	289	**2 602**
Decrease due to:		
– reversal of a provision	(403)	(7 203)
– discontinuance of enforcement proceedings	(432)	(8)
– sale of entities	(202)	(2 021)
	(1 037)	**(9 232)**
Impairment losses on short-term receivables at the end of the period	**2 480**	**3 228**

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 12

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

	31.12.2017	31.12.2016
up to 1 month	8 243	3 832
1 – 3 months	3 285	1 176
3 – 6 months	1 296	456
6 – 1 year	407	103
over 12 months	2 355	2 893
Total (gross) overdue trade receivables	**15 586**	**8 460**
write-downs on trade receivables	(2 480)	(3 228)
Total (net) overdue trade receivables	**13 106**	**5 232**

NOTE 13

FINANCIAL INSTRUMENTS – ASSETS [PLN '000]

	31.12.2017	31.12.2016
Interest Rate Swap	70	154
FX fowards	2 340	-
Total financial investments in derivatives	**2 410**	**154**
With maturities:		
– up to 1 year	2 378	154
– 1 – 3 years	32	-

On the fair value hierarchy, derivates are classified at level 2.

FINANCIAL INSTRUMENTS – EQUITY AND LIABILITIES [PLN '000]

	31.12.2017	31.12.2016
Interest rate swap	-	39
Total financial investments in derivatives	**-**	**39**
With maturities:		
– 1 – 3 years	-	39

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

	1.01.2017-31.12.2017	1.01.2016-31.12.2016
- profit/loss on settlement of forwards	1 667	(903)
- income/costs due to revaluation of forwards	2 358	807
Total profit (loss) on FX derivatives	**4 025**	**(96)**

NOTE 14

CASH – FINANCIAL ASSETS [PLN '000]

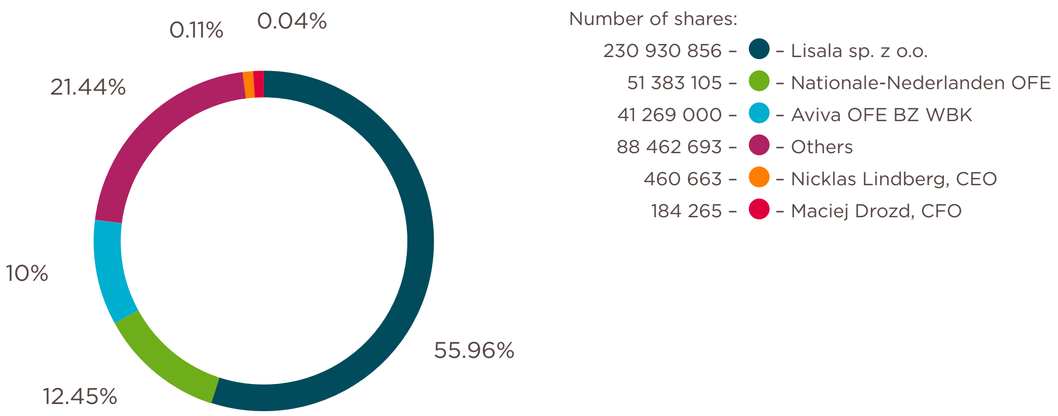
	31.12.2017	31.12.2016
cash in hand and at bank	731 100	663 429
Total cash and other monetary assets	**731 100**	**663 429**
Including restricted cash:		
securing the repayment of interest and principal instalments	508	694
securing the refund of security deposit	21	1 508
proceeds from residential customers released by the bank in the course of the progress of investment	54 238	24 868
	54 766	27 070

The Group deposits its cash surplus with PKO BP, Alior Bank, BZ WBK and DNB Nord.

The maximum credit risk of cash is equivalent to the carrying amount of cash.

NOTE 15

SHAREHOLDERS OF ECHO INVESTMENT S.A. AS AT 31.12.2017



DESCRIPTION OF SHARES

The share capital of Echo Investment S.A. 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 all the shares amounts to PLN 20,635 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.

The securities issued by Echo Investment S.A. do not provide their owners with any special controlling powers. Echo Investment S.A. does not have any information on limitations in exercising the voting right or transferring ownership rights by owners of its securities.

SHAREHOLDING STRUCTURE

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

Data concerning the shareholding structure as at 31 December 2017 result from information about shareholders who held minimum 5% of the total number of votes at the Extraordinary General Meeting of Echo Investment S.A. of 16 October 2017 and notifications sent to the Company by shareholders on 25-30 October 2017.

SUPPLEMENTARY CAPITAL [PLN '000]

	31.12.2017	31.12.2016
From share premium	100 943	100 943
Created out of profits	1 041 961	977 940
Reserve fund	49 213	49 213
Total	**1 192 117**	**1 128 096**

The net profit generated by Echo Investment S.A. in 2016, amounting to PLN 275,523 thousand was earmarked for covering losses from previous years (in the amount of PLN 5,157,000) and for distribution between the Company's shareholders (PLN 270,366 thousand) by a resolution of the General Meeting of Shareholders of 29 June 2017.

The total profit earmarked for distribution was determined at PLN 557,132 thousand by the GMS in a resolution of 29 June 2017 and it consisted of the net profit for 2016 amounting to PLN 270,366 thousand and PLN 80,421 thousand from the reserve fund as well as 206,345 thousand from the supplementary capital.

Pursuant to a resolution of the Management Board of 23 November 2016, the amount of PLN 350,787 thousand was allocated to the advance dividend for 2016. The first tranche of the advance dividend of PLN 284,757 thousand was paid on 29 December 2016 and the second tranche of PLN 66,030 thousand was paid on 26 June 2017.

The difference between the total dividend and the advance dividend amounting to PLN 206,345 thousand was paid on 21 July 2017.

BOOK VALUE PER SHARE

	31.12.2017	31.12.2016
Equity attributable to equity holders of the parent entity [PLN '000]	1 587 750	1 528 260
Number of shares (in thous. pieces)	412 691	412 691
Book value per share (in PLN)	**3,85**	**3,70**
Diluted number of shares	412 691	412 691
Diluted book value per share	3,85	3,70

EARNINGS PER SHARE

	1.01.2017-31.12.2017	1.01.2016-31.12.2016
Profit (loss) attributable to the parent entity's shareholders [PLN '000]	312 171	387 711
Weighted average number of ordinary shares (in thousands)	412 691	412 691
Basic profit (loss) per ordinary share (in PLN)	**0,76**	**0,94**
Profit (loss) attributable to the parent entity's shareholders [PLN '000]	312 171	387 711
Weighted average diluted number of ordinary shares (in thousands)	412 691	412 691
Diluted profit (loss) per ordinary share (in PLN)	**0,76**	**0,94**

In 2016 and 2017 the Company did not use diluting instruments.

NOTE 16

CHANGE IN PROVISIONS [PLN '000]

	31.12.2017	31.12.2016
Opening balance		
– provisions on expected 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**
Increases due to:		
– provisions on estimated costs of general administrative (audit, bonuses, leave of absence, etc.)	6	23
– provision for estimated penalties and losses	15 761	16 959
– provision for profit share and master lease	176 663	117 842
	192 430	**134 824**
Utilization due to:		
– incurred costs of general administrative	(23)	-
– incurred penalties and losses	(2 765)	(3 627)
– incurred costs and losses on assets transfer	-	(1 940)
– provision for profit share and master lease	(106 506)	-
	(109 294)	**(5 567)**
Closing balance		
– provisions on estimated costs of general administrative (audit, bonuses, leave of absence, etc.)	6	23
– provision for estimated penalties and losses	36 920	23 924
– provision for estimated costs of warranty repairs, etc.	2 066	2 066
– provision for estimated costs and losses on assets transfer	-	-
– provision for profit share and master lease	187 999	117 842
	226 991	**143 855**
including:		
Long-term provisions	**85 028**	**68 522**
Short-term provisions	**141 963**	**75 333**

Reserves for investment liabilities worth PLN 68,744 thousand were used in the reporting period. They were related to the office buildings sold in 2016: Q22 in Warsaw, Symetris Business Park phase I in Łódź, O3 Business Campus phase I in Kraków and Tryton Business House in Gdańsk.

Furthermore, reserves for investment liabilities of PLN 8,417 thousand were used in the reporting period. They were related to the A4 Business Park phase III office building, which was sold in 2017.
Reserves for rent guarantees and the profit sharing obligation have been divided in accordance with the maturity date from the balance sheet date.

The dates of crystallising of the provisions for penalties and losses, warranty costs and court cases are not possible to be estimated, however, there is a high probability of their implementation within 12 months from the balance sheet date.

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 pay rent for vacant space and maintenance charges related to rent level which is lower than indicated in the contract, as well as to pay part of the profit generated on the sale of the project. The amount of provisions were estimated based on the Company's best knowledge and its experience.

NOTE 17

LIABILITIES DUE TO LOANS AND BORROWINGS [PLN '000]

	31.12.2017	31.12.2016
Loans and borrowings	156 961	102 208
Debt securities	1 398 070	879 140
Interests from loans and borrowings	738	573
Total loans, borrowings and bonds:	**1 555 769**	**981 921**
– of which long-term portion	1 026 830	760 981
– of which short-term portion	528 939	220 940

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

Puropse loans 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 2017, 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 2017 loans of Groups companies and bonds issued by Echo Investment S.A. yielded variable rate interest.

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

As at 31 December 2017 and 31 December 2016, the base of interest rate (WIBOR) for 10.2% of nominal value of issued bonds was secured by IRS transactions (as at 31 December 2016 it was 14.8%).

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 2017, the Group issued bonds with a nominal value of PLN 722 mln (in 2016: PLN 100 mln) and redeemed bonds with a nominal value of PLN 207,1 mln (in 2016: PLN 225 mln).

The fair value of liabilities due to loans and borrowings does not differ materially from the carrying amount.

NOTE 18

TRADE AND OTHER LIABILITIES [PLN '000]

	31.12.2017	31.12.2016
Trade payables maturing:		
– up to 12 months	178 864	163 927
– over 12 months	387	3
	179 251	**163 930**
– security deposits blocked on trust accounts	52 890	23 479
– security deposits from contractors and deposits received	43 496	44 310
– liabilities due to acquisition of shareholdings of Elektrownia	23 251	-
– accruals	17 912	11 689
– other liabilities	530	541
	138 079	**80 019**
– liabilities due to VAT	35 107	241 851
– liabilities due to other taxes	297	3 374
	35 404	**245 225**
Total trade and others liabilities	**352 734**	**489 174**

The fair value of trade payables and other liabilities does not differ significantly from their carrying amount.

NOTE 19

LIABILITIES REGARDING ASSETS HELD FOR SALE [PLN '000]

	31.12.2017	31.12.2016
– rental income security (master lease)	-	10 091
– allocations of profit	-	6 250
	-	**16 341**
– of which long-term portion	-	12 977
– of which short-term portion	-	3 364

As of 31 December 2016, the Group presented liabilities related to office building A4 Business Park phase III in Katowice, sold in April 2017.

NOTE 20

REVENUE FROM SALE [PLN '000]

	1.01.2017-31.12.2017	1.01.2016-31.12.2016
Sale of residential space	465 669	234 129
Construction and lease of office space	101 330	65 961
Lease of retail space	18 786	158 276
Lease of residential space	4 096	1 036
Other services	27 687	19 941
Other sale	4 295	732
Profit from sale of goods and services	**621 862**	**480 075**

NOTE 21

NET COSTS OF SALES [PLN '000]

Cost includes:	1.01.2017-31.12.2017	1.01.2016-31.12.2016
Sale and lease of residential space	(351 882)	(158 827)
Construction and lease of office space	(94 020)	(36 608)
Lease of retail space	(8 140)	(52 494)
Other	(18 393)	(7 974)
Total net operating costs	**(472 435)**	**(255 903)**

COSTS BY TYPE [PLN '000]

Cost includes:	1.01.2017-31.12.2017	01.01.2016 – 31.12.2016 – restated figures
Amortisation	(2 829)	(3 105)
Consumption of materials and power	(14 776)	(60 558)
Outsourced services	(416 530)	(411 513)
Taxes and charges	(17 483)	(34 980)
Payroll	(45 074)	(43 403)
Social security contributions and other benefits	(7 259)	(6 602)
Other costs by type	(186 485)	(23 687)
Value of goods and materials sold	-	(17)
Total costs by type	**(690 437)**	**(583 865)**
Change in inventories, finished products and work in progress	(69 327)	(128 083)
Own work capitalised	-	(56 567)
Administrative expenses related to execution of projects	(34 822)	(14 140)
Selling and distribution expenses	(27 973)	(31 611)
General and administrative expenses	(85 880)	(90 156)
Cost of products sold	**(472 435)**	**(263 308)**

NOTE 22

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

	1.01.2017-31.12.2017	01.01.2016 – 31.12.2016 – restated
Revenue from the sale of property	363 094	1 665 019
Property selling costs (notes 4, 5, 6)	(339 653)	(1 581 351)
Revaluation of property (notes 4, 5, 6)	326 739	636 177
Costs of rental income security (master lease)	(66 033)	(112 306)
Costs of profit share	(50 650)	(52 325)
Net profit (loss) on investment property	**233 497**	**555 214**

In 2017, the Group sold following investment properties: A4 Business Park phase III in Katowice, O3 Business Campus phase II in Kraków, Nobilis Business House in Wrocław, Babka Tower and Kirkor in Warsaw. The transactions are described in the note 34.

NOTE 23

OTHER OPERATING INCOME [PLN '000]

	1.01.2017-31.12.2017	1.01.2016-31.12.2016
– revenues on extension of EPP's buildings	70 907	-
– interests from operating activities (deposits, etc.)	2 831	5 542
– contractual penalties	5 184	210
– termination of reserves and provisions	3 265	3 641
– revaluation of receivable	721	6 711
– profit from sale of non-financial non-current assets	447	1 696
– compensations	-	1 749
– other	4 161	1 791
Total other operating income	**87 516**	**21 340**

Based on an agreement of shareholders in Echo Prime Properties B.V. from 1.06.2016, Echo Investment was entitled to receive additional remuneration from EPP in connection with carrying out 3 extensions of EPP-owned facilities (Galaxy, Outlet III and Outlet IV in Szczecin), after meeting certain conditions (including obtaining occupancy permits), which took place in 2017. The remuneration was presented in the revenue from the expansion of EPP facilities.

NOTE 24

OTHER OPERATING EXPENSES [PLN '000]

	1.01.2017-31.12.2017	1.01.2016-31.12.2016
Loss on sale of non-financial non-current assets	–	(453)
Revaluation of receivable	(2 065)	(3 026)
Donations	(1 756)	(1 831)
Extraordinary damage and losses	(55)	(291)
Transfer of assets	(1 012)	(1 872)
Established provisions	(11 637)	(27 181)
Cost of sold receivables	-	(4 907)
Costs due to rental guarantee	(26 858)	(3 870)
Other	(3 597)	(2 330)
Total other operating expenses	**(46 980)**	**(45 761)**

NOTE 25

FINANCIAL INCOME [PLN '000]

	1.01.2017-31.12.2017	1.01.2016-31.12.2016
– profits due to revaluation of financial assets	113 274	-
– received dividends	11 210	-
– income from interest	4 561	5 489
– profit on sale of investments	13 511	-
– profit on disposal of investments	107	40 110
– income from revaluation of financial instruments (IRS)	-	2 025
– other financial income	1 978	97
Total financial income	**144 641**	**47 721**

In Q2 2017 the method of valuation of the share package held in Echo Polska Properties N.V. was changed. Details are described in note 29.

The result from revaluation to the market value amounting to PLN 111,965 thousand was presented under 'revenue from updating financial assets'.

NOTE 26

FINANCIAL EXPENSES [PLN '000]

	1.01.2017-31.12.2017	1.01.2016-31.12.2016
– interest expense	(44 549)	(77 922)–
– measurement of loans using amortised cost	484	6 723
– commissions	(8 768)	(24 989)
– loss on disposal of investments	(44 923)	(124 211)
– costs of option revaluation – estimated share of profit (Q22 sales option agreement)	-	(183 455)
– costs of financial assets revaluation	(2 703)	(4 368)
– other financial costs	(91)	(4 172)
Total financial costs	**(100 550)**	**(412 394)**

In 2017 the activated amount of borrowing costs was PLN 2,610 thousand (where investment property under construction accounted for PLN 1,590 thousand and inventories – for PLN 1,020 thousand). In 2016 this amount was PLN 11,238 thousand (where investment property under construction accounted for PLN 9,585 thousand and inventories – for PLN 1,653 thousand).

In June 2017 the Group sold 40 mln shares in Echo Polska Properties N.V. for EUR 49 mln. Due to the change in the method of valuation of shares held to their market value, the group recognized a loss on sales. The inflow of cash on transactions amounting to PLN 206,373 thousand was presented in the cash flow statement, in the position of inflows from financial investments. Echo Investment Group realized a total profit of PLN 88.4 mln on sales and revaluation of the EPP share package to the market value.

In the comparative data, the result of updating the options to repurchase the Q22 project in the amount of PLN 183,455 thousand was presented in the item of costs due to revaluation of financial assets.

In accordance with IAS 23, the Group activates the part of financial costs which are directly related to the acquisition and production of property components recognized as investment properties under construction. In the case of tied financing, incurred for the implementation of the project, the amount of financial costs reduced by the revenue obtained from temporary depositing of cash (i.e. the amount of interest on bank deposits with the exception of deposits resulting from blocking of accounts, letters of credit agreements) is activated. In the case of general financing, the financing costs subject to capitalization are determined according to the weighted average value of all borrowing costs in relation to the expenditures incurred for a given component of assets.

The activated amount of borrowing costs in 2017 amounted to PLN 2,610 thousand (including: PLN 1,020 thousand for inventories and PLN 1,590 thousand for investment property under construction). In 2016 this amount was PLN 13,336 thousand (including PLN 3,751 thousand for inventories and PLN 9,585 thousand for investment property under construction).

NOTE 27

GAIN (LOSS) DUE TO EXCHANGE RATE DIFFERENCES [PLN '000]

	1.01.2017-31.12.2017	1.01.2016-31.12.2016
– realised exchange rate differences' losses over gains surplus	(3 471)	(59 698)
– unrealised exchange rate differences' losses over gains surplus	(3 398)	(38 318)
Total loss due to exchange rate differences	**(6 869)**	**(98 016)**

NOTE 28

Joint-ventures

Rosehill Investments Sp. z o.o., Berea Sp. z o.o. (Galeria Młociny)

On 31 May 2017 Echo Investment Group and Echo Polska Properties Group concluded a purchase agreement concerning a property on Zgrupowania AK 'Kampinos' Street in Warsaw. Under the concluded transaction the companies purchased shares in Rosehill Investments Sp. z o.o., which is the owner of Galeria Młociny project by way of holding 100% shares in Berea Sp. z o.o. The sales price of the shares in Rosehill Investments Sp. z o.o., which is an indirect owner of the property, was established as EUR 104.5 mln. As at the day of transaction and the balance date i.e. on 31 December 2017 Echo Investment Group held 30% shares in the project company being the owner of the property and the remaining 70% was held by the Echo Polska Properties Group. Echo Investment S.A. and Echo Polska Properties N.V. are only responsible for their respective parts of the purchase price. The share of the Group in Berea Sp. z o.o. presented in the financial report is estimated according to the equity method.

A summary of financial information in the joint venture is presented below. The carrying value of the investment as at 31 December 2017 amounts to PLN 63,234 thousand.

JOINT VENTURE'S FINANCIAL DATA – GALERIA MŁOCINY SELECTED DATA FROM THE FINANCIAL SITUATION [PLN '000]

	31.12.2017
Current assets	27 778
Fixed assets – investment property	778 290
Other fixed assets	2 033
Total assets	**808 102**
Long-term liabilities	671 904
Short-term liabilities	34 987
Total liabilities	**706 890**
Equity	101 211
Share of the Echo Investment S.A. Group as at 31.12.2017	30,00%
Share of the Echo Investment S.A. Group in net assets as at 31.12.2017	30 363

JOINT VENTURE'S FINANCIAL DATA – GALERIA MŁOCINY SELECTED DATA FROM THE STATEMENT OF COMPREHENSIVE INCOME [PLN '000]

	1.06.2017-31.12.2017
Revenue	4
Operating costs	–
Profits due to revaluation of the property	156 746
General administrative costs	(1 126)
Costs of sales	(516)
Other costs / operating costs	0
Financial income	952
Financial costs	(3 155)
Gross profit (loss)	**152 906**
Income tax	(33 633)
Net profit (loss)	**119 273**
Total comprehensive income	119 273
Share of the Echo Investment S.A. Group in net assets as at 31.12.2017	30,00%
Share of the Group in comprehensive income resulting from Joint Venture	35 782

Projekt Echo – 138 Sp. z o.o. Sp.K. (Towarowa 22)

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 2017 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. As at the balance sheet day, on 31 December 2017 those conditions were not yet fulfilled.

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 the joint venture is shown in the consolidated financial statement and it is estimated using the equity method.
Carrying value of the investment as at 31 December 2017, amounted to PLN 152 657 thousand.

A summary of financial information in the joint venture is presented below.

JOINT VENTURE'S FINANCIAL DATA – TOWAROWA 22
SELECTED DATA FROM THE FINANCIAL SITUATION [PLN '000]

	31.12.2017
Current assets	3 139
Fixed assets – investment property	345 914
Total assets	**349 053**
Long-term liabilities	812
Short-term liabilities	13 615
Total liabilities	**14 427**
Equity	334 641
Share of the Echo Investment S.A. Group as at 31.12.2017	46,26%
Elimination of mutual transactions between unit and the Group	(2 147)
Share of the Echo Investment S.A. Group in net assets as at 31.12.2017	152 662

JOINT VENTURE'S FINANCIAL DATA – TOWAROWA 22
SELECTED DATA FROM THE STATEMENT OF COMPREHENSIVE INCOME [PLN '000]

	1.01.2017-31.12.2017
Revenue	13 370
Operating costs	(15 866)
Selling costs	(687)
General administrative costs	(421)
Financial income	(298)
Financial costs	(529)
Gross profit (loss)	**(4 431)**
Income tax	–
Net profit (loss)	**(4 431)**
Total comprehensive income	**(4 431)**
Share of the Echo Investment S.A. Group as at 31.12.2017	46,26%
Share of the Group in comprehensive income resulting from Joint Venture	(2 050)

NOTE 29

Echo Polska Properties N.V. (EPP)

Echo Investment Group took part in the capital increase of Echo Polska Properties N.V. and, on April 13, 2017, bought 756,757 of new bonds issued by the company. Due to the capital increase, the holding of Echo Investment Group in EPP N.V. fell from 15.34% to 12.86%.

As of May 19, 2017, Maciej Drozd, deputy CEO at Echo Investment S.A. resigned from his seat in the management board of Echo Polska Properties N.V. As a result of this, Echo Investment Group has lost its significant influence over the company. Subsequently, Echo Investment Group has changed valuation method of its block of EPP shares from equity method to fair value method. The result of the revaluation of PLN 111,965,000 was recognized as financial income. The Group's share in the profits of the affiliate for 2017, until the date of loss of significant influence, amounting to PLN 13,567 thousand was recognized in the income statement.

On 22 June 207, Echo Investment Group sold 40 mln EPP shares for EUR 49 mln. Due to the earlier change in the shares valuation method, the Group recognized sale loss. As a result of the sale, Echo Investment Group's holdings in EPP N.V. fell to 7.19%. In total, in the first half of 2017, the Group recorded PLN 88.4 mln gain on EPP shares' operations.

At the end of the period, i.e. on 31 December, 2017, as a result of the revaluation of the remaining EPP shares according to the market value, a share impairment of PLN 49,676 thousand was recognized. The effects of the revaluation were recognized by other total revenue and presented as revaluation capital.

In connection with the intention to sell EPP shares, shares with the value of PLN 243,273 thousand as at the balance sheet date i.e. on 31 December 2017 were classified as 'financial assets held for sale' item. These shares are measured at fair value and its changes are presented in the revaluation capital.
The shares are quoted on the active market, therefore they are classified at level 1 of the fair value hierarchy.

NOTE 30

CHANGE IN DEFERRED INCOME TAX ASSETS (+) AND DEFERRED TAX PROVISIONS (-) [PLN ‘000]

	31.12.2017	31.12.2016 – restated
1. Deferred tax at the beginning 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	40 378	9 733
	50 269	**(167 044)**
2. Change in the period		
– measurement of financial instruments	(298)	(23 381)
– valuation of investment property	(36 122)	205 255
– interests in subsidiaries, jointly controlled entities and associates*	(8 656)	2 855
– tax loss	(1 404)	7 647
– liabilities due to loans and bonds (measurement, FX differences, etc.)	(4 311)	(1 666)
– liabilities due to borrowings (measurement, FX differences, etc.)	(1 568)	(4 043)
– other	17 610	30 646
	(34 749)	**217 313**
Total deferred income tax at the end of the period		
– measurement of financial instruments	(367)	(69)
– valuation of investment property	(39 336)	(3 214)
– interests in subsidiaries, jointly controlled entities and associates*	(5 801)	2 855
– tax loss	12 328	13 732
– liabilities due to loans and bonds (measurement, FX differences, etc.)	(3 682)	629
– liabilities due to borrowings (measurement, FX differences, etc.)	(5 610)	(4 042)
– other	57 989	40 378
	15 521	**50 269**
– including:		
Deferred tax assets	64 714	91 810
– change during the year	(27 096)	15 771
Deferred tax provision	49 193	41 541
– change during the year	7 652	(204 186)

* |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.

Until 2017 the Group did not recognize deferred income tax assets amounting to PLN 27,833 thousand on account of tax losses (PLN 44,529 thousand until 2016).

The expiry dates of the right to income tax reduction fall in the years 2018 (PLN 7,663 thousand), 2019 (PLN 12,029 thousand), 2020 (PLN 18,282 thousand), 2021 (PLN 96,620 thousand) and 2022 (PLN 83, 901 thousand).

NOTE 31

CURRENT INCOME TAX [PLN '000]

	01.01.2017-31.12.2017	01.01.2016-31.12.2016
1. Profit before tax (gross profit)	**363 355**	**196 590**
2. Tax calculated at applicable tax rate for the Parent Company (19%)	69 037	37 352
3. Differences		
Tax effect of non-taxable income	(57 060)	(43 364)
Tax effect of non-deductible costs	29 169	28 154
Utilization of previously unrecognized tax losses	(1 471)	(17 691)
Tax losses for which deferred income tax has not been recognized	15 806	8 446
Income tax for the preceding years	-	(3 419)
Interim result of partnerships	(6 471)	(3 219)
Result of closed-end investment funds	(6 853)	(24 237)
Effect of tax rates change	9 034	-
Release of deferred tax in connection with transformation of companies	-	(178 770)
Differences total	**(17 846)**	**(234 100)**
Charge on the financial result due to income tax	**51 191**	**(196 748)**

The effective income tax rate in 2017 was 14.09% (in 2016 – 104.08% respectively).

The elements which had an influence on the change in the effective tax rate in 2017 were: the revenue from the valuation of EPP shares to fair value (note 29), the revenue from the expansion of EPP facilities (note 23) as well as the change in the income tax rate of the entities being part of the Group from 19% to 15%. The elements which had a decisive influence on the change of the effective tax rate in 2016 were: resolving the deferred tax in connection with the transformation of companies into partnerships and the result of transactions in Forum FIZ 60 with entities from outside the Capital Group.

NOTE 32

SEGMENT REPORTING

ASSIGNMENT OF ASSETS TO SEGMENTS [PLN '000]

	31.12.2017	31.12.2016 – restated
Office	1 169 160	1 340 220
Retail	645 014	183 280
Residential	803 937	703 788
Unallocated	1 261 280	1 142 504
Total	**3 879 391**	**3 369 792**

ALLOCATION OF LIABILITIES TO SEGMENTS [PLN '000]

	31.12.2017	31.12.2016 – restated
Office	547 432	305 605
Retail	83 692	17 496
Residential	165 788	100 826
Unallocated	1 494 836	1 412 071
Total	**2 291 748**	**1 835 998**

Item includes short-term and long-term provisions and liabilities.

ALLOCATION OF GAINS FROM SALE TO SEGMENTS [PLN '000]

	01.01.2017 – 31.12.2017	01.01.2016 – 31.12.2016 – restated
Office	101 330	65 961
Retail	18 786	158 276
Residential	469 765	235 165
Unallocated	31 982	20 673
Total	**621 862**	**480 075**

ALLOCATION OF COST OF SALE TO SEGMENTS [PLN '000]

	01.01.2017 – 31.12.2017	01.01.2016-31.12.2016 – dane przekształcone
Office	(94 020)	(42 273)
Retail	(8 140)	(52 494)
Residential	(351 882)	(160 567)
Unallocated	(18 393)	(7 974)
Total	**(472 435)**	**(263 308)**

ALLOCATION OF GROSS GAIN (LOSS) OF SALE TO SEGMENTS [PLN '000]

	01.01.2017 – 31.12.2017	01.01.2016-31.12.2016 – dane przekształcone
Office	7 310	23 688
Retail	10 646	105 782
Residential	117 883	74 598
Unallocated	13 589	12 699
Total	**149 427**	**216 767**

NOTE 33

Acquisition of subsidiaries

Echo Investment acquired 100% shares in Elektrownia RE Sp. z o.o. with its headquarters in Warsaw. Along with the acquisition of the unit the Group acquired the right to real estate located on Tymienieckiego Street in Łódź. The purchase price of the shares amounted to PLN 35,925 thousand (EUR 8,504 thousand). The remaining obligation to pay the price amounting to PLN 23,236 thousand as at the balance sheet date was settled in Q1 2018. The expenses related to the purchase were disclosed by the Group in the consolidated cash flow statement in the section concerning expenditures from investment activities.

In the consolidated financial statement the Group settled this acquisition as purchase of asset.

ASSETS AND LIABILITIES AT THE ACQUISITION DATE [PLN '000]

	Elektrownia RE Sp. z o.o.
	acquisition-date fair value
Fixed assets	
– properties	36 326
Current assets:	
- short-term liabilities, due to deliveries and services	278
- short-term accruals	**877**
Current liabilities:	
- short-term liabilities, due to deliveries and services	**595**
Assets as at the acquisition date	**36 886**

NOTE 34

Sale of investment properties

A4 Business Park phase III in Katowice

On 26 April 2017 a subsidiary of the Group i.e. Projekt Echo – 135 Sp. z o.o. Sp.K. concluded a final agreement with a subsidiary of Echo Polska Properties N.V. – A4 Business Park – Iris Capital Sp. z o.o. Sp.K.– concerning the sale of real estate located on Górnośląska, Polna and Francuska streets in Katowice, together with the building which is part of the office complex under the name A4 Business Park (phase III) and is located on the plot.

The sale price was PLN 143,236 thousand (EUR 27,500 thousand plus VAT). After considering all costs related to the transaction, the Group recognized the profit of PLN 6,625 thousand on the sale of investment property.

Taking into account additional payments that the seller may receive on the basis of an arrangement contract, the total value of the revenue related to the sale of the real estate may increase by an estimated amount of EUR 970 thousand plus VAT.

The Group disclosed the payment received for the sold real estate amounting to PLN 142,860 thousand in the 'disposal of real estate investment' section, in the part concerning the investment activity in the consolidated cash flow statement. The difference in the value of payment received and the price included in the income was recognized in the position of realized currency exchange differences in the consolidated profit and loss account.

As a result of the agreement on the repayment of the loan (profit participation loan) granted by EPP (Cyprus) 2 Limited – a subsidiary of EPP, the Group paid a due share in the profit on the sale of investment property amounting to PLN 4,997 thousand.

As part of the transaction provided for in the contract, the seller and the buyer have concluded a rental guarantee agreement. The basic provisions of the agreement envisage a guarantee for the benefit of the buyer, which involves the seller covering rent payments and average operating fees for the individual parts of the building which have not been leased to third parties on the day of signing the contract, and those that have been rented but rent reductions or rent-free periods have been applied to them. As at the balance sheet date i.e. on 31 December 2017 the Group recognized a reserve of PLN 4,439 thousand to cover future payments under the contract,.

O3 Business Campus phase II in Krakow

On 26 December 2017 a subsidiary of the Group i.e. Echo-Opolska Business Park Sp. z o.o. Sp.K. concluded a final agreement with a subsidiary of Echo Polska Properties N.V. – Ventry Investments Sp. z o.o. Sp.K. acting as a buyer, with regard to the sale of real estate located on Opolska Street and 29 Listopada Avenue in Kraków – O3 Business Campus (phase II). The sale price amounted to PLN 224,230,000 (EUR 43,500 thousand plus VAT). After considering all costs related to the transaction, the Group recognized the profit on the sale of investment property of PLN 11,878 thousand.

Taking into account additional payments that a seller may receive under an arrangement contract, the total value of the revenue related to the sale of real estate may increase by an estimated amount of EUR 7,300 thsouand plus VAT.

The Group disclosed the payment received for the sold real estate amounting to PLN 223,822 thousand in the 'disposal of real estate investment' section, in the part concerning the investment activity in the consolidated cash flow statement. The difference in the value of payment received and the price included in the income was recognized in the position of realized currency exchange differences in the consolidated profit and loss account.

As a result of the agreement on the repayment of the loan (profit participation loan) granted by EPP (Cyprus) 2 Limited – a subsidiary of EPP, the Group paid a due share in the profit on the sale of investment property amounting to PLN 10,714 thousand.

As part of the transaction provided for in the contract, the seller and the buyer have concluded a guarantee agreement, according to which the seller shall cover rent payments and average operating fees for the individual parts of the building which have not been leased to third parties on the day of signing the contract, and those that have been rented but rent reductions or rent-free periods have been applied to them. As at the balance sheet date i.e. on 31 December 2017 the Group recognized a reserve of PLN 18,053 thousand to cover future payments under the contract,

Nobilis Business House in Wrocław

On 29 December 2017 Echo Investment S.A. and the investment fund FORUM 60 Fundusz Inwestycyjny Zamknięty in which Echo Investment S.A. owns 100% of investment certificates, as a seller, and CCPEPF Poland Intermediate S. à rl with its registered office in Luxembourg controlled by the Catalyst Core Plus Fund European Investment Fund based in Luxembourg, as a buyer, concluded a contract concerning the sale of 100% shares in the companies: Projekt Echo – 117 Sp. z o.o. and Elmira Investments Sp. z o.o., which are the general partner and limited partner of Nobilis – Projekt Echo – 117 Spz o.o. Sp.K. being a perpetual usufructuary of the plot in Wrocław, where the Nobilis Business House investment real estate is located.

The value of the transaction was determined as the quotient of the NOI (i.e. the difference between operating income and non-deductible operating costs) of the building and the yield of 6.672%. The value of the transaction on the date of the share purchase agreement was EUR 40,300 thousand. This amount has been reduced by e.g. the value of rent-free periods, periods with a reduction in rent and the costs of fit-out work, and it was increased by the value of other assets held by the special purpose vehicle. Consequently, the price paid at the closing of the transaction was EUR 35,600 thousand. After considering all costs related to the transaction, the group recognized a loss on the sale of the investment property amounting to PLN 4,664 thousand.

After the price increase, which is conditioned by the takeover of the areas and parking spaces in the building by new tenants, the total maximum estimated value of the transaction may increase by EUR 4,000. Furthermore, the parties have concluded a contract concerning the completion of the fit-out work in some rooms intended for rent. It is estimated that the remuneration will amount to EUR 3,588 thousand plus VAT, where the remuneration for fitting out one square metre of a given area varies depending on the type of area.

As a result of the agreement on the repayment of the loan (profit participation loan) granted by EPP (Cyprus) 2 Limited – a subsidiary of EPP, the Group paid a due share in the profit on the sale of investment property amounting to PLN 8,221 thousand.

As part of the transaction provided for in the contract, the seller and the buyer have concluded a guarantee agreement, according to which the seller shall cover rent payments and average operating fees for the individual parts of the building which have not been leased to third parties on the day of signing the contract, and those that have been rented but rent reductions or rent-free periods have been applied to them. As at the balance sheet date i.e. on 31 December 2017 the Group recognized a reserve of PLN 6,959 thousand to cover future payments under the contract,

Babka Tower in Warsaw

On 21 December 2017 a subsidiary of the Group, Echo – Babka Tower Sp. z o.o. Sp.K. concluded a contract concerning the sale of the right to office premises located in Warsaw.

The sale price of all premises was PLN 40,870 thousand (33,634 thousand plus VAT). After considering all costs related to the transaction, the Group recognized a loss on the sale amounting to PLN 2,993 thousand. The Group disclosed the payment received for the sold real estate amounting to PLN 40,870 thousand in the 'disposal of real estate investment' section, in the part concerning the investment activity in the consolidated cash flow statement.

NOTE 35

CHANGE OF LIABILITIES RESULTING FROM FINANCIAL ACTIVITY [PLN '000]

	liabilities due to loans, borrowings and shares	liabilities due to dividend
opening balance as at 01.01.2017	**981 922**	**66 030**
Cash flows		
- incomes	1 222 230	-
- expenses	(587 512)	(272 376)
Non-cash changes	(60 871)	206 346
- sell of the subsidiary (Nobilis)	(122 849)	-
- accrued interest	53 531	-
- valuation of FX differences	7 102	-
- valuation by effective interest rate	434	-
- dividend approved for payment in 2017	-	206 346
- other	912	-
closing balance as at 31.12.2017	**1 555 769**	**–**

NOTE 36

On December 19th, 2017, the Central Anticorruption Bureau (CBA) seized Przemysław Krych, a member of Echo Investment's supervisory board, and Mikołaj Martynuska, a management board member.

The Company is not a party to the proceedings, hence has no access to the files of the proceeding. According to public releases, both individuals are charged with transferring a donation by Echo Investment to the Foundation for Disabled People. The donation is allegedly linked with the Company's efforts to be able to carry on its development project on the construction site in Cracow, where Cracovia hotel is located. The building is under conservatory protection. These efforts were unsuccessful. The Company has not completed any project on the site. The scope ofconservatory protection has been unchanged. After five years of fruitless efforts, in December 2016, the Company eventually sold the property to the State Treasury (Ministry of Culture and National Heritage), recording a loss.

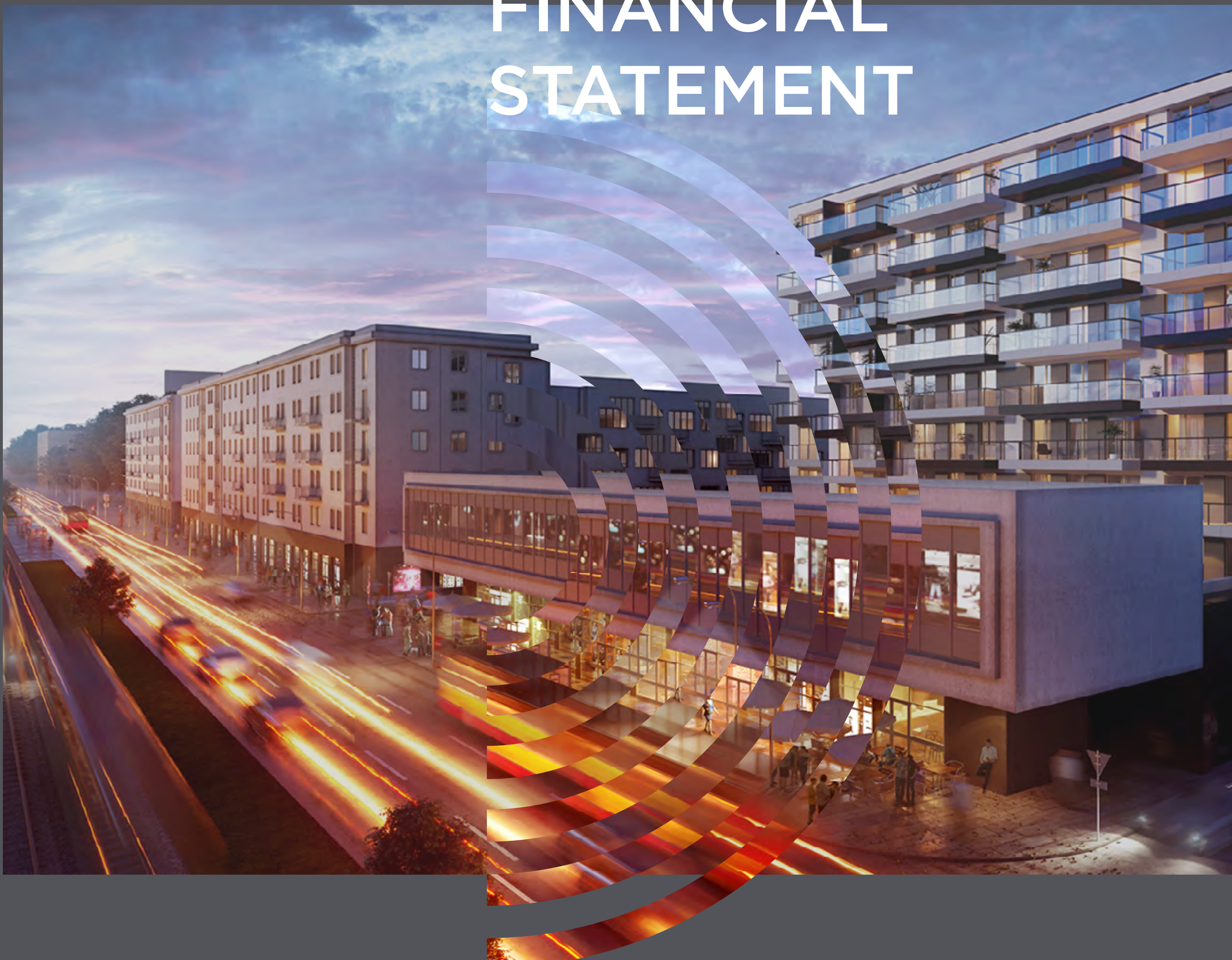
Echo Investment Group takes good care of relationships with its clients, business partners, and contractors, as well as with other stakeholders. As a socially responsible entity, for many years the Company has been involved in charitable events, supported community campaigns, sponsored various events and activities of organizations working for people in need or for local communities. The Foundation for Disabled People is one of many entities which, in recent years, Echo has helped to fulfill animportant mission, what was described in details i.a. in the Management Report for 2017.

Echo Investment declares a full cooperation with the authorities to clarify the situation as soon as possible. In order to protect the company's interest, both Przemysław Krych and Mikołaj Martynuska, immediately after the detention, have resigned from all the positions in the company. At the same time, they issued a statement in which they declared they had not committed the offence they are charged with and that they will prove their innocence in the proceedings.

The ongoing proceedings have no impact on the Company's current activities, including any of its other projects. The company runs its usual business. In the opinion of the management board, the situation doesn't threaten stability nor credibility of the Company and its Group and does not affect, in any way, these financial statements.

CHAPTER 3

INFORMATION ON THE FINANCIAL STATEMENT



General information

01

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., 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. The Company was established for an indefinite period of time.

The Management Board of Echo Investment S.A.

as at 31 december 2017

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

Waldemar Olbryk
Member of the Management Board

The Supervisory Board of Echo Investment S.A

as at 31 december 2017

Karim Khairallach
Chairman

Laurent Luccioni
Vice-Chairman

Mark E. Abramson
Independent Member of the Supervisory Board

Maciej Dyjas
Member of the Supervisory Board

Stefan Kawalec
Independent Member of the Supervisory Board

Nebil Senman
Member of the Supervisory Board

Sebastian Zilles
Member of the Supervisory Board

In 2017 the Supervisory Board confirmed after the inquiry that Mark. E. Abramson and Stefan Kawalec are independent members of the supervisory board.

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 Supervisory Board of Echo Investment S.A.
as at 31 December 2016:

Karim Khairallah – Chairman
Laurent Luccioni – Vice-Chairman
Maciej Dyjas – Member of the Supervisory Board
Stefan Kawalec – Member of the Supervisory Board meeting 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.

Information on the consolidated financial statement

02

The statements of the Echo Investment S.A. present financial data for the 12-month period ending on 31 December 2017 and comparative data for the 12-month period ending on 31 December 2016. Unless indicated otherwise, all financial data in the Company's financial statements has been presented in thousand PLN.

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.

DECLARATION OF CONFORMITY
The statements have been prepared in compliance with the International Financial Reporting Standards (IFRS), as adopted by the European Commission.

ASSUMPTION OF CONTINUITY IN OPERATIONS
The Groups' consolidated financial statements for 2017 have been drawn up according to the going concern principle as there are no circumstances indicating a threat to continued activity by the Group's companies.

APPROVAL OF THE FINANCIAL STATEMENTS
These consolidated financial statements were approved for publication by the Management Board on 23 March 2018.

As at 31 December 2017 the Capital Group consisted of 139 entities consolidated according to the full method, and four entities consolidated according to the equity method. As at 31 December 2016 it consisted of 140 subsidiaries, presented according to the full method, and three associates consolidated according to the equity method. The composition of the Capital Group as at 31 December 2017 is presented in paragraph 03..

Echo Investment Group

03

3.1. Composition of the Group

Echo Investment S.A. plays the most important role in the structure of the Group, which it supervises, co-executes and provides financial resources for the implementation of development projects. The vast majority of companies being part of the Group were established or purchased in order to execute specific investment tasks, including those resulting from the construction process of a concrete development project. As at 31 December 2017 the Group included 139 subsidiaries presented according to the full method and 3 jointly controlled companies consolidated according to the equity method.

SUBSIDIARIES

No	Subsidiary	Registered office	% of capital held	Parent entity
1	**53 – Grupa Echo Sp. z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
2	**Avatar – Projekt Echo – 119 Sp.z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
3	**Babka Tower– Projekt Echo – 93 Sp. z o.o. Sp.k.**	Kielce	100%	Perth Sp. z o.o.
4	**Barconsel Holdings Ltd**	Nicosia	100%	Echo – SPV 7 Sp. z o.o.
5	**Bełchatów – Grupa Echo Sp. z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
6	**City Space– GP Sp. z o.o.**	Warsaw	100%	Echo Investment S.A.
7	**City Space– SPV 1 Sp. z o.o.**	Warsaw	100%	City Space Management Sp. z o.o.
8	**City Space– SPV 2 Sp. z o.o.**	Warsaw	100%	City Space Management Sp. z o.o.
9	**City Space– SPV 3 Sp. z o.o.**	Warsaw	100%	City Space Management Sp. z o.o.
10	**City Space Management Sp. z o.o.**	Warsaw	100%	Echo Investment S.A.
11	**Cornwall Investments Sp. z o.o.**	Warsaw	100%	Echo Investment S.A.
12	**Cornwall Investments Sp. z o.o. Sp. k.**	Warsaw	100%	Echo Investment S.A.
13	**Dagnall Sp. z o.o.**	Warsaw	100%	Echo Prime Assets BV
14	**Dellia Investments – Projekt Echo – 115 sp. z o.o. Sp.k.**	Kielce	100%	Pudsey Sp z o.o.
15	**Doxent Investments Sp. z o.o.**	Warsaw	100%	Echo Investment S.A.
16	**Duże Naramowice – Projekt Echo – 111 Sp. z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
17	**Echo – Advisory Services Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
18	**Echo – Arena Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
19	**Echo – Aurus Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
20	**Echo – Babka Tower Sp. z o.o.**	Kielce	100%	Echo Investment S.A.

SUBSIDIARIES

No	Subsidiary	Registered office	% of capital held	Parent entity
21	**Echo – Babka Tower Sp. z o.o. – Sp. k.**	Kielce	100%	Gelann Sp. z o.o.
22	**Echo – Browary Warszawskie Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
23	**Echo – Browary Warszawskie Sp. z o.o. Sp. k.**	Kielce	100%	Echo Investment S.A.
24	**Echo – Galaxy Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
25	**Echo – Galaxy Sp. z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
26	**Echo – Klimt House Sp. z o.o. w liwkidacji**	Kielce	100%	Echo Investment S.A.
27	**Echo – Nowy Mokotów Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
28	**Echo – Nowy Mokotów Sp. z o.o. – Sp. k.**	Kielce	100%	Echo Investment S.A.
29	**Echo – Opolska Business Park Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
30	**Echo – Opolska Business Park Sp. z o.o. – Sp. k.**	Warsaw	100%	Perth Sp. z o.o.
31	**Echo – Pod Klonami Sp. z o.o. w likwidacji**	Kielce	100%	Echo Investment S.A.
32	**Echo – Project – Management Ingatlanhasznosito Kft.**	Budapeszt	100%	Echo Investment S.A.
33	**Echo – Property Poznań 1 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
34	**Echo – SPV 7 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
35	**Echo Innovations – City Space GP Sp. z o.o. Sp. K.**	Warsaw	100%	City Space Management Sp. z o.o.
36	**Echo Investment ACC – Grupa Echo Sp. z o.o. Sp. k.**	Kielce	100%	Echo Investment S.A.
37	**Echo Investment Hungary Ingatlanhasznosito Kft.**	Budapest	100%	Echo Investment S.A.
38	**Echo Investment Project 1 S.R.L.**	Brasov	100%	"Echo – Aurus" Sp. z o.o.
39	**Echo Investment Project Management S.R.L.**	Brasov	100%	Echo Investment S.A.
40	**Echo Prime Assets BV**	Amsterdam	100%	Echo Investment S.A.
41	**Elektrownia RE Sp. z o.o.**	Warsaw	100%	Echo Investment S.A.
42	**Elissea Investments Sp. z o.o.**	Warsaw	100%	Echo Investment S.A.
43	**Fianar Investments Sp. z o.o.**	Warsaw	100%	Echo Investment S.A.
44	**Galeria Libero – Projekt Echo 120 Sp. z o.o. S.k.a.**	Kielce	100%	Fianar Investments Sp. z o.o.
45	**Galeria Nova – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	Echo Investment S.A.
46	**Galeria Tarnów – Grupa Echo Sp. z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
47	**Gleann Sp. z o.o.**	Warsaw	100%	60 FIZ Forum
48	**Gosford Investments Sp. z o.o.**	Warsaw	100%	Echo Investment S.A.
49	**GRO Nieruchomości Sp. z o.o.**	Kraków	100%	Echo Investment S.A.
50	**Grupa Echo Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
51	**Kasztanowa Aleja– Grupa Echo Sp. z o.o. Sp. k.**	Kielce	100%	Echo Investment S.A.
52	**Kielce – Grupa Echo Sp. z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
53	**Klimt House – Grupa Echo Sp. z o.o. Sp. k.**	Kielce	100%	Echo Investment S.A.
54	**Malta Office Park – Grupa Echo Sp. z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
55	**Mena Investments Sp. z o. o. w likwidacji**	Kielce	100%	Echo Investment S.A.
56	**Metropolis – Projekt Echo 121 Sp. z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
57	**Oxygen – Grupa Echo Sp. z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
58	**Park Postępu – Grupa Echo Sp. z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
59	**Park Rozwoju III – Projekt Echo – 112 Sp. z o.o. – Sp. k.**	Kielce	100%	Perth Sp. z o.o.
60	**Perth Sp. z o.o.**	Warsaw	100%	60 FIZ Forum

SUBSIDIARIES

No	Subsidiary	Registered office	% of capital held	Parent entity
61	**PHS – Projekt CS Sp. z o.o. – Sp.k.**	Warsaw	100%	Perth Sp. z o.o.
62	**Pod Klonami – Grupa Echo Sp. z o.o. Sp. k.**	Kielce	100%	Echo Investment S.A.
63	**Potton Sp. z o.o.**	Warsaw	100%	60 FIZ Forum
64	**PPR – Grupa Echo Sp. z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
65	**Princess Investment Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
66	**Projekt – Pamiątkowo Sp. z o.o.**	Kielce	100%	Echo – SPV 7 Sp. z o.o.
67	**Projekt 1 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	60 FIZ Forum
68	**Projekt 12 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	60 FIZ Forum
69	**Projekt 13 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	60 FIZ Forum
70	**Projekt 132 – City Space – GP Sp. z o.o. Sp. k.**	Warsaw	100%	City Space Management Sp. z o.o.
71	**Projekt 133 – City Space – GP Sp. z o.o. Sp. k.**	Warsaw	100%	City Space Management Sp. z o.o.
72	**Projekt 137 – City Space – GP Sp. z o.o. Sp. k.**	Warsaw	100%	City Space Management Sp. z o.o.
73	**Projekt 14 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	60 FIZ Forum
74	**Projekt 15 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	Echo Investment S.A.
75	**Projekt 16 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	Echo Investment S.A.
76	**Projekt 17 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	Echo Investment S.A.
77	**Projekt 18 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	Echo Investment S.A.
78	**Projekt 19 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	Echo Investment S.A.
79	**Projekt 20 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	Echo Investment S.A.
80	**Projekt 21 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	Echo Investment S.A.
81	**Projekt 22 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	Echo Investment S.A.
82	**Projekt 5 – Grupa Echo Sp. z o.o. – S.k.a.**	Szczecin	100%	60 FIZ Forum
83	**Projekt Beethovena – Projekt Echo – 122 Sp. z o.o. S.k.a.**	Kielce	100%	60 FIZ Forum
84	**Projekt CS Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
85	**Projekt Echo – 100 Sp z o.o. w likwidacji**	Kielce	100%	Echo Investment S.A.
86	**Projekt Echo – 104 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
87	**Projekt Echo – 108 Sp. z o.o.**	Kielce	100%	60 FIZ Forum
88	**Projekt Echo – 111 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
89	**Projekt Echo – 112 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
90	**Projekt Echo – 113 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
91	**Projekt Echo – 114 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
92	**Projekt Echo – 115 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
93	**Projekt Echo – 116 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
94	**Projekt Echo – 119 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
95	**Projekt Echo – 120 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
96	**Projekt Echo – 121 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
97	**Projekt Echo – 122 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
98	**Projekt Echo – 123 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
99	**Projekt Echo – 127 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
100	**Projekt Echo – 128 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.

SUBSIDIARIES

No	Subsidiary	Registered office	% of capital held	Parent entity
101	**Projekt Echo – 129 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
102	**Projekt Echo – 130 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
103	**Projekt Echo – 131 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
104	**Projekt Echo – 132 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
105	**Projekt Echo – 135 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
106	**Projekt Echo – 135 Sp. z o.o. – Sp. k.**	Kielce	100%	Perth Sp. z o.o.
107	**Projekt Echo – 136 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
108	**Projekt Echo – 136 Sp. z o.o. – Sp. k.**	Kielce	100%	Echo Investment S.A.
109	**Projekt Echo – 137 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
110	**Projekt Echo – 139 Sp. z o.o. – Sp. k.**	Kielce	100%	Echo Investment S.A.
111	**Projekt Echo – 140 Sp. z o.o. – Sp. k.**	Kielce	100%	Echo Investment S.A.
112	**Projekt Echo – 141 Sp. z o.o. – Sp. k.**	Kielce	100%	Echo Investment S.A.
113	**Projekt Echo – 142 Sp. z o.o. – Sp. k.**	Kielce	100%	Echo Investment S.A.
114	**Projekt Echo – 143 Sp. z o.o. – Sp. k.**	Kielce	100%	Echo Investment S.A.
115	**Projekt Echo – 77 Sp. z o.o. w likwidacji**	Kielce	100%	Echo Investment S.A.
116	**Projekt Echo – 93 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
117	**Projekt Echo – 95 Sp. z o.o. w likwidacji**	Kielce	100%	Echo Investment S.A.
118	**Projekt Echo – 96 Sp. z o.o. w likwidacji**	Kielce	100%	Echo Investment S.A.
119	**Projekt Echo – 99 Sp. z o.o.**	Kielce	100%	Echo Investment S.A.
120	**Projekt K-6 – Grupa Echo Sp. z o.o. – S.k.a.**	Kielce	100%	Echo Investment S.A.
121	**Projekt Naramowice – Grupa Echo Sp. z o.o. S.k.a.**	Kielce	100%	Echo Investment S.A.
122	**Projekt Saska Sp. z o.o.**	Kielce	95%	Echo Investment S.A.
123	**Pudsey Sp. z o.o.**	Warsaw	100%	60 FIZ Forum
124	**Pure Systems Sp. z o.o.**	Kraków	100%	Echo Investment S.A.
125	**Q22 – Projekt Echo – 128 Sp. z o.o. – Sp. k.**	Kielce	100%	Potton Sp z o.o.
126	**Sagittarius – Projekt Echo – 113 sp. z o.o. Sp. k.**	Kielce	100%	Doxent Investments Sp. z o.o.
127	**Seaford Sp. z o.o.**	Warsaw	100%	60 FIZ Forum
128	**Selmer Investments Sp. z o.o.**	Warsaw	100%	Echo Investment S.A.
129	**Selmer Investments Sp. z o.o. Sp. k.**	Warsaw	100%	Echo Investment S.A.
130	**Senja 2 Sp. z o.o.**	Warsaw	100%	Echo – Browary Warszawskie Sp. z o.o.
131	**Shanklin Sp. z o.o.**	Warsaw	100%	Echo Prime Assets BV
132	**Stranraer Sp. z o.o.**	Warsaw	100%	Echo Prime Assets BV
133	**Strood Sp. z o.o.**	Warsaw	100%	Echo Prime Assets BV
134	**Swanage Sp. z o.o.**	Warsaw	100%	Echo Prime Assets BV
135	**Symetris –Projekt Echo – 131 Sp. z o.o. Sp. k.**	Warsaw	100%	Gosford Investments Sp. z o.o.
136	**Taśmowa – Projekt Echo – 116 Sp. z o.o. S.k.a.**	Kielce	100%	Echo Investment S.A.
137	**Tryton – Projekt Echo – 127 Sp. z o.o. – Sp. k.**	Warsaw	100%	Perth Sp. z o.o.
138	**Villea Investments Sp. z o.o.**	Warsaw	100%	60 FIZ Forum
139	**West Gate II – Projekt Echo – 114 Sp. z o.o. Sp.k.**	Kielce	100%	Elissea Investments Sp. z o.o.

SUBSIDIARIES

No	Subsidiary	Registered office	% of capital held	Parent entity
1	**Rosehill Investments Sp. z o.o. (Galeria Młociny)**	Warsaw	30%	Echo Prime Assets BV
2	**Berea Sp. z o.o. (Galeria Młociny)**	Warsaw	30%	Rosehill Investments Sp. z o.o.
3	**Projekt Echo – 138 Sp. z o.o. s.k. (Towarowa 22)**	Warsaw	46,26%	Strood Sp. z o.o.
4	**Projekt Echo – 138 Sp. z o.o. (Towarowa 22)**	Warsaw	30%	Echo Prime Assets BV

3.2. Changes in the composition of Echo Investment Group in 2017

The composition of the capital group increased by 7 companies in 2017 as a result of:

- acquisition of 100% shares in 'Elektrownia RE Sp. z o.o.' with its seat in Warsaw on 21 June 2017. The total purchase price was EUR 8,503,400. The share capital of the company is PLN 205,000;
- registration of a newly-established company 'Projekt Echo – 139 Sp. z o.o. – Sp.k.' with its seat in Kielce by the District Court in Kielce on 17 October 2017. The share capital of the company is PLN 5,000;
- registration of a newly-established company 'Projekt Echo – 140 Sp. z o.o. – Sp.k.' with its seat in Kielce by the District Court in Kielce on 16 October 2017. The share capital of the company is PLN 5,000;
- registration of a newly-established company 'Projekt Echo – 141 Sp. z o.o. – Sp.k.' with its seat in Kielce by the District Court in Kielce on 16 October 2017. The share capital of the company is PLN 5,000;
- registration of a newly-established company 'Projekt Echo – 142 Sp. z o.o. – Sp.k.' with its seat inKielce by the District Court in Kielce on 19 October 2017. The share capital of the company is PLN 5,000;
- registration of a newly-established company 'Projekt Echo – 143 Sp. z o.o. – Sp.k.' with its seat in Kielce. The share capital of the company is PLN 5,000;
- acquisition of 100% shares in 'GRO Nieruchomości Sp. z o.o.' with its seat in Kraków on 27 November 2017. The total purchase price was PLN 10,000. The share capital of the company is PLN 5,000.

The composition of the capital group decreased by 5 companies as a result of:

- disposal of 100% shares in 'EI Project Cyprus 1 Ltd' with its seat in Nicosia on 30 March 2017. The share capital of the company was USD 7,000;
- disposal of 100% shares in 'Budivelnuy Soyuz Monolit LLC' with its seat in Kiev on 30 March 2017. The share capital of the company was UAH 52,000;
- disposal of 100% shares in 'Echo Investment Ukraine LLC' with its seat in Kiev on 30 March 2017. The share capital of the company was UAH 1,480,156;
- disposal of 100% of shares in 'Yevrobudgarant LLC' with its seat in Kiev on 30 March 2017. The share capital of the company was UAH 63,000;
- the liquidation of 'GP Development S.a.r.l.' with its seat in Luxembourg on 27 December 2017. The share capital of the company was EUR 12,500.

Other changes in the capital group in 2017:

- change of the 'Echo – Klimt House Sp. z o.o. – S.k.' company into 'Klimt House – Grupa Echo Sp. z o.o.- S.k.' (1 March 2017);
- change of the 'Echo – Pod Klonami Sp. z o.o. – S.k.' company into 'Pod Klonami – Grupa Echo Sp. z o.o.- S.k.' (1 March 2017);
- change of the ‚Projekt Naramowice – Projekt Echo 100 Sp. z o.o. – S.k.a.' into 'Projekt Naramowice – Grupa Echo Sp. z o.o. – S.k.a.' (7 June 2017);
- change of the 'Malta Office Park – Projekt Echo 96 Sp. z o.o. – S.k.a.' company into 'Malta Office Park – Grupa Echo Sp. z o.o. – S.k.a.' (17 May 2017);
- change of the 'Kielce – Projekt Echo 129 Sp. z o.o. – S.k.a.' company into 'Kielce – Grupa Echo Sp. z o.o. – S.k.a.'(9 May 2017);
- change of the 'PPR – Projekt Echo 77 Sp. z o.o. – S.k.a.' company into 'PPR – Grupa Echo Sp. z o.o. – S.k.a.' (9 May 2017);
- change of the 'Park Postępu – Projekt Echo130 Sp. z o.o. – S.k.a.' company into 'Park Postępu – Grupa Echo Sp. z o.o. – S.k.a.' (25 April 2017);
- change of the 'Echo Innovations – Projekt Echo 99 Sp. z o.o. – S.k.' company into 'Echo Innovations – City Space GP Sp. z o.o. – S.k.' (4 September 2017);
- change of the general partner: on 1 March 2017 'Projekt Echo 129 Sp. z o.o.' sold rights and obli-

gations of the general partner in 'Kielce – Projekt Echo 129 Sp. z o.o. – S.k.a.' to 'Grupa Echo Sp. z o.o.' with its in Kielce;
- change of the general partner: on 1 March 2017 'Projekt Echo 96 Sp. z o.o.' sold rights and obligations of the general partner in 'Malta Office Park – Projekt Echo – 96 Sp. z o.o. – S.k.a.' to 'Grupa Echo Sp. z o.o.' with its seat in Kielce;
- change of the general partner: on 1 March 2017 'Projekt Echo 95 Sp. z o.o.' sold rights and obligations of the general partner in 'Oxygen – Projekt Echo 95 Sp. from o.o.- S.k.a.' to 'Grupa Echo Sp. z o.o.' with its seat in Kielce;
- change of the general partner: on 1 March 2017 'Pod Klonami Sp. z o.o.' sold rights and obligations of the general partner in 'Echo – Pod Klonami Sp. z o.o. – S.k.' to 'Grupa Echo Sp. z o.o.' with its seat in Kielce;
- change of the general partner: on 1 March 2017 'Projekt Echo 130 Sp. z o.o.' sold rights and obligations of the general partner in 'Park Postępu – Projekt Echo 130 Sp. z o.o. – S.k.a.' to 'Grupa Echo Sp. z o.o.' with its seat in Kielce;
- change of the general partner: on 1 March 2017 'Projekt Echo 100 Sp. z o.o.' sold rights and obligations of the general partner in 'Projekt Naramowice – Projekt Echo 100 Sp. z o.o. – S.k.a.' to 'Grupa Echo Sp. z o.o.' with its seat in Kielce;
- change of the general partner: on 1 March 2017 'Projekt Echo 77 Sp. z o.o.' sold rights and obligations of the general partner in 'PPR – Projekt Echo 77 Sp. z o.o. – S.k.a.' to 'Grupa Echo Sp. z o.o.' with its seat in Kielce;
- change of the general partner: on 1 March 2017 'Echo – Klimt House Sp. z o.o.' sold rights and obligations of the general partner in 'Echo – Klimt House Sp. z o.o. – S.k.' to 'Grupa Echo Sp. z o.o.' with its seat in Kielce;
- change of a shareholder: on 22 May 2017 Echo Investment S.A. sold shares in 'Villea Investments Sp. z o. o.' to 'Forum 60 Closed Investment Fund' with its seat in Kraków;
- change of a shareholder: on 31 May 2017 'Grupa Echo Sp. z o.o.' sold shares in 'Projekt Echo 113 Sp. z o.o.' to Echo Investment S.A. with its seat in Kielce;
- change of a shareholder: on 20 June 2017 Echo Investment S.A. sold to shares in 'City Space Management Sp. z o.o.' to 'City Space GP' with its seat in Warsaw;
- change of a shareholder: on 20 June 2017 Echo Investment S.A. sold shares in 'City Space SPV 1 Sp. z o.o.' to 'City Space GP' with its seat in Warsaw;
- change of a shareholder: on 20 June 2017 Echo Investment S.A. sold shares in 'City Space SPV 2 Sp. z o.o.' to 'City Space GP' with its seat in Warsaw;
- change of a shareholder: on 20 June 2017 Echo Investment S.A. sold shares in 'City Space SPV 3 Sp. z o.o.' to 'City Space GP' with its seat in Warsaw;
- change of a shareholder: on 8 December 2017 'Barconsel Holdings Limited' sold shares in 'GP Development S.a.r.l' to Echo Investment S.A. with its seat in Kielce;
- capital increase: on 19 May 2017 a capital increase was registered in 'Echo – Pod Klonami Sp. z o.o.' by Echo Investment S.A.;
- capital increase: on 28 May 2017 a capital increase was registered in 'Echo – Klimt House Sp. z o.o.' by Echo Investment S.A.;
- capital increase: on 31 May 2017 a capital increase was registered in 'Mena Investments Sp. z o. o.' by Echo Investment S.A.

Application of new and amended standards and interpretations of International Financial Reporting Standards Committee

04

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 change described in paragraph 6 and new standards, amendments to standards and interpretations issued by the IIFRS Committee, which are applicable to the Group for the reporting period beginning on January 1, 2017.

The following new and amended standards have been applied in this report, all of them effective on January 1, 2017:

- Amendments to IAS 7 'Statement of Cash Flows as result of the Disclosure initiative'.
- Amendments to IAS 12 'Income Taxes regarding the recognition of deferred tax assets for unrealised losses'.
- Amendments resulting from Annual Improvements 2014–2016 Cycle.

The changes applied had no significant effect on the presentation of data and the valuation in the financial statements, except for the additional disclosure to the cash flow statement, which was presented in note 35.

Published standards and interpretations of IFRS Interpretations Committee which are not effective yet and have not been adopted by the Company

05

In these consolidated financial statements the Group did not opt for early adoption of the following published standards, interpretations or amendments to the existing standards before their effective date:

1. IFRS 9 'Financial Instruments'

(published on 24 July 2014) applicable to annual periods beginning on 1 January 2018 or later.

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and it contains requirements for the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The new requirements have been in force since 1 January 2018. The Group decided to apply the classification, measurement and impairment rules retrospectively by adjusting the opening balance as at 1 January 2018, without restating the comparative periods.

The new IFRS 9 standard replaces the four categories of classification of financial assets which are included in IAS 39 with three categories i.e. in accordance with IFRS 9 such financial instruments may be classified as measured at fair value (through profit or loss or other comprehensive income) or as measured at amortized cost.

The classification of assets takes place at the moment of initial recognition. It depends on the financial instruments management model adopted by the entity and analysis of the characteristics of contractual cash flows from these instruments. Most of the requirements of IAS 39 concerning the classification and measurement of financial liabilities have been transferred to IFRS 9 in an unchanged form. The key change is the requirement for entities to present the effects of changes in own credit risk from financial liabilities designated for measurement at fair value through profit or loss in the 'Other comprehensiv e income' item. In accordance with IFRS 9 all modifications of financial liabilities that do not result in their removal from the balance sheet are recognized in profit and loss.

The standard also introduces a new approach to impairment estimation, which is based on the determination of expected loss in comparison with the loss model required by IAS 39. Furthermore, the standard contains new guidelines on hedge accounting, aimed at simplifying the current solutions and a better reflection of risk management principles.

FINANCIAL ASSETS – CLASSIFICATION AND VALUATION

After assessing the financial assets held by the Group in terms of their classification and measurement, in accordance with the requirements of IFRS 9, the Group assessed that the majority of assets so far recognized as loans and receivables will continue to be measured at amortized cost as both conditions are met for them: assets are maintained as part of the business model whose purpose is to maintain assets in order to obtain contractual cash flows; and, the contractual terms of these financial assets give rise, at specified times, to cash flows that are solely repayment of principal and interest on the unpaid part of the capital. Other financial assets, including derivative instruments, will be measured at fair value through profit or loss unless an irrevocable decision to include them at fair value through 'Other comprehensive income' is made for the given equity instruments.

As at 31 December 2017 the Group has equity instruments (shares) that are qualified under IAS 39 as 'Financial assets available for sale'. In accordance with IFRS 9, in the case of stocks and shares other than shares and interests in subsidiaries, associates and joint ventures the Group may irrevocably choose to recognize them at their fair value through 'Other comprehensive income' as at the date of implementation of IFRS 9. If the Group chooses to recognize equity instruments at fair value through 'Other comprehensive income', the result from fair value measurement will be recognized in 'Other comprehensive income' and in case of disposal, the profit/loss will not be reclassified to the profit and loss account. The Group decided to apply such a method of valuation for all equity instruments recognized as 'Financial assets available for sale' as at 31 December 2017.

Impairment

The new impairment model will apply to financial assets classified, in accordance with the provisions of IFRS 9, as financial assets assessed at amortized cost or to fair value through other comprehensive income, except for equity instruments. In accordance with IFRS 9, as at each reporting date, the entity estimates the amount of the impairment loss in the amount equal to the expected credit losses:

- until the end of the expected maturity period (the so-called life) of a given financial asset if the credit risk related to a given instrument has significantly increased since the initial recognition of that instrument; or
- in the next 12 months if the credit risk related to a given instrument has not significantly increased since the initial recognition of a given instrument.

While determining the future expected impairment, the entity considers all reasonable and confirmed information, including this that relates to the future. The Group will apply the permitted simplification of measurement of impairment on the basis of expected losses over the whole life for all trade receivables, lease receivables and contracts with customers. As of now the Group assessed the impact of the implementation of IFRS 9 on the value of the impairment write-down as insignificant, therefore the Group does not anticipate a numerical correction of the opening balance 2018 resulting from the implementation of IFRS 9, and the implementation of IFRS 9 will have no numerical impact on the financial statements which will be published in 2018. The Group expects that the implementation of IFRS 9 will affect the scope of disclosures and presentations regarding financial instruments in the financial statements.

Financial liabilities

As a result of implementing the requirements of IFRS 9, the Group does not anticipate changes in the classification of financial liabilities in relation to the previous classification in accordance with IAS 39, which could have a significant impact on the balance sheet and/or the financial result of the Group. Furthermore, the Group analyzed its financial liabilities in terms of their modifications until the implementation of IFRS 9 and did not identify significant cases requiring recognition of a one-off result on modification of these liabilities as at the date of implementation.

Hedge accounting

Due to the fact that the Group did not apply and does not apply hedge accounting, the entry of IFRS 9 into force does not affect the financial statements of the Group.

2. IFRS 15 'Revenues from contracts with customers' and explanations to IFRS 15 'Revenue from contracts with customers'

(published respectively on 28 May 2014 and 12 April 2016), including amendments to IFRS 15 Date of entry of IFRS 15 into force (published on 11 September 2015) – applicable to the annual periods beginning on 1 January 2018 or later.

IFRS 15 'Revenues from contracts with customers' replaces the existing standards of IAS 18 'Revenues', IAS 11 'Construction Contracts' and interpretations related to these standards. The new revenue recognition model required by IFRS 15 applies to all contracts with customers, except for those that fall within the scope of other IFRS (for example leases, insurance and financial instruments). The effective date of the new standard is 1 January 2018.

The Group will begin to apply IFRS 15 and apply a modified approach retrospectively, which results in the aggregation of the effect of applying IFRS 15 as an adjustment to the initial balance of retained earnings in the annual reporting period including the first application date (i.e. 1 January 2018). Under this method, the Group will apply a retrospective approach only to contracts that are not completed as at the date of first application.

Due to the nature of its operations, the entity has separated areas covered by the analysis by grouping contracts with the same commercial purpose (in particular broken down into individual goods or services promised in contracts).

Identification on level of revenues from agreements recognition:

REVENUES RELATED TO PROPERTY DEVELOPMENT (I.E. SALE OF HOUSING UNITS)

The Group recognizes revenues when the obligation to perform the service is fulfilled. The obligation to perform the service is considered fulfilled when control over the goods or services being its subject has been transferred onto the customer (at the moment of signing the notarial deed which transfers the control to the buyer). Agreements included in this group of revenues do not include variable remuneration. Moreover, in the Group's opinion, the concluded agreements do not contain a significant element of financing. The Group incurs additional costs of concluding the contract – these costs arise at the moment of signing the notarial deed which transfers the control over the unit to the purchaser. These costs are recognized by the Group as part of the profit and loss account at the time the revenue is recognized. At first application, adjustment relating to this will amount to PLN 889 thousand – increase of inventory and increase of retained earnings (prior year profits). The analysis of IFRS 15 does not result in the separation of new contractual obligations other than those previously identified in the application of the existing accounting policy.

In the opinion of the Management Board, the principles applied so far comply with the guidelines of IFRS 15 in terms of the moment and amount of revenue recognized.

REVENUES FROM THE SALE OF INVESTMENT PROPERTIES

The Group recognizes the types and numbers of services to which it has committed for the benefit of the buyer under the contract for the sale of real estate, including rent guarantees. As part of the sale of investment properties, the Group recognizes revenue when the obligation to perform the service is fulfilled, i.e. when the notarial deed is signed, which is the moment when the control over the property is transferred to the buyer. The Group recognizes the amount of revenue in the amount of the price resulting from the transaction specified in the contract between the entity and the buyer. Its level is determined at the fair value, taking into account the amount of future liabilities resulting from the economic content of the concluded contract. The variable element occurring in this type of contracts (due to its dependence on future events) is the amount concerning rental guarantee. Despite the uncertainty, the Group is able to reliably estimate the cost that it will have to incur on account of the vacant space in the building in the period specified in the contract at the moment of conclusion of the contract. The Group recognizes the remuneration due to the customer as a reduction of the transaction price, and thus a decrease in revenues – unless the remuneration is due to the customer in return for separate goods or services. The Group recognizes additional costs of concluding a sales agreement as an element of the profit and loss account at the moment of recognizing the revenue from the sale of an asset. The analysis of IFRS 15 does not result in the separation of new contractual obligations other than those previously identified as part of the application of the existing accounting policy.

In the opinion of the Management Board, the principles applied so far comply with the guidelines of IFRS 15 in terms of the moment and amount of revenue recognized.

REVENUE FROM LEASE OF PROPERTY

IFRS15 implementation does not affect lease income recognition. Such revenue is still recognized under IAS17 Leases until the implementation of IFRS16 Leases (that is until 1 January 2019).

REVENUES FROM THE SALE OF INVESTMENT PROPERTIES

The Group recognizes the types and numbers of services to which it has committed for the benefit of the buyer under the contract for the sale of real estate, including rent guarantees. As part of the sale of investment properties, the Group recognizes revenue when the obligation to perform the service is fulfilled, i.e. when the notarial deed is signed, which is the moment when the control over the property is transferred to the buyer. The Group recognizes the amount of revenue in the amount of the price resulting from the transaction specified in the contract between the entity and the buyer. Its level is determined at the fair value, taking into account the amount of future liabilities resulting from the economic content of the concluded contract. The variable element occurring in this type of contracts (due to its dependence on future events) is the amount concerning rental guarantee. Despite the uncertainty, the Group is able to reliably estimate the cost that it will have to incur on account of the vacant space in the building in the period specified in the contract at the moment of conclusion of the contract. The Group recognizes the remuneration due to the customer as a reduction of the transaction price, and thus a decrease in revenues – unless the remuneration is due to the customer in return for separate goods or services. The Group recognizes additional costs of concluding a sales agreement as an element of the profit and loss account at the moment of recognizing the revenue from the sale of an asset. The analysis of IFRS 15 does not result in the separation of new contractual obligations other than those previously identified as part of the application of the existing accounting policy.

In the opinion of the Management Board, the principles applied so far comply with the guidelines of IFRS 15 in terms of the moment and amount of revenue recognized.

3. IFRS 16 'Leases'

(published on 13 January 2016) – applicable to annual periods beginning on 1 January 2019 or later.

IFRS 16 'Leases' replaces the existing leasing arrangements including IAS 17, IFRIC 4, SIC 15 and SIC 27.

IFRS 16 introduces a single lease recognition model to the lessee requiring recognition of assets and liabilities for all lease transactions (unless the lease term is 12 months or less or the asset is of low value) and depreciation of the asset leased separately from interest on the lease liability in the profit and loss account. The lessor's approach remains essentially unchanged compared to the solutions in IAS 17. The classification of leasing as operational or financial is still required. The standard also introduces a new model of assessment whether the concluded contracts constitute leasing introducing the criteria for identifying the asset being the subject of the contract and when the right to control the use of a given asset is transferred.

The Group made a preliminary assessment of the expected impact of the implementation of IFRS 16 on its consolidated financial statements. It shows that the application of the new standard will have an impact on the recognition, presentation, measurement and disclosure of relevant assets and liabilities resulting from operating leases (primarily car leases and perpetual usufruct of land) concluded in the financial statements. The Group is in the process of a detailed analysis of the impact of the implementation of IFRS 16 on the financial statements. The Group plans to implement IFRS 16 on 1 January 2019 using a modified retrospective approach and a standard that results in the recognition of equity adjustments.

4. Amendments to IFRS 4 'Application of IFRS 9 Financial Instruments' together with IFRS 4 'Insurance Contracts' "

(published on 12 September 2016) – applicable to annual periods beginning on 1 January 2018 or later. The Group does not expect the standard will affect its financial statement.

5. Amendments to IAS 28 and IFRS 1 resulting from the annual programme of amendments 2014-2016

(published on 8 December 2016), applicable to annual periods beginning on 1 January 2018 or later. The Group does not expect the standard to have a significant impact on the financial statements.

6. IFRS 14 „Regulatory Deferral Accounts"

(published on 30 January 2014) – applicable to annual periods beginning on 1 January 2016 or later. According to the decision of the European Commission, the process of approving the standard in the preliminary version will not be initiated before the final version appears. Not approved by the EU until the date of approval of these financial statements. The Group does not expect the standard to have a significant impact on the financial statements.

7. IFRS 17 'Insurance Contracts'

(published on 18 May 2017) – not approved by the EU until the date of approval of these financial statements. Applicable for annual periods beginning on 1 January 2021 or later. The Group does not expect the standard to have a significant impact on the financial statements.

8. Amendments to IFRS 2 'Classification and measurement of share-based payment transactions'

(published on 20 June 2016) – applicable to annual periods beginning on or 1 January 2018 or later. Not approved by the EU until the date of approval of these financial statements. The Group does not expect the changes to have a significant impact on the financial statements.

9. Amendments to IFRS 9 'Prepayment features with negative compensation

(published on 12 October 2017) – applicable to annual periods beginning on 1 January 2019 or later. Not approved by the EU until the date of approval of these financial statements. The Group does not expect the changes to have a significant impact on the financial statements.

10. Amendments to IFRS 10 and IAS 28 'Sale or transfer of assets between the investor and its associate or joint venture'

(published on 11 September 2014). The work leading to the approval of these amendments has been postponed indefinitely by the EU, the date of its entry into force has been postponed by the IASB for an indefinite period. Not approved by the EU until the date of approval of these financial statements. The Group will apply the change after its approval by the European Union. The Group has not yet completed the analysis regarding the impact of the changes on the financial statements.

11. Amendments to IAS 28 'Investments in Associates and Joint Ventures

(published on 12 October 2017) – applicable to annual periods beginning on 1 January 2019 or later. Not approved by the EU until the date of approval of these financial statements. The Group has not yet completed the analysis regarding the impact of the changes on the financial statements.

12. Amendments to IAS 40 'Transfer of Investment Property'

(published on 8 December 2016) – applicable to annual periods beginning on 1 January 2018 or later. The Group has not yet completed the analysis regarding the impact of the changes on the financial statements.

13. Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

(published on 7 February 2018) – applicable to annual periods beginning on 1 January 2019 or later. Not approved by the EU until the date of approval of these financial statements. The Group does not expect the changes to have a significant impact on the financial statements.

14. Annual Improvements to IFRS Standards 2014-2016 Cycle

(published on 8 December 2016). Amendments to IFRS 12 apply to annual periods beginning on 1 January 2017 or later while Amendments to IFRS 1 and IAS 28 – to annual periods beginning on 1 January 2018 or later. The Group does not expect the changes to have a significant impact on the financial statements.

15. Annual Improvements to IFRS Standards 2015-2017 Cycle

(published on 12 December 2017) – applicable to annual periods beginning on 1 January 2019 or later. Not approved by the EU until the date of approval of these financial statements. The Group has not yet completed the analysis regarding the impact of the changes on the financial statements.

16. IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

(published on 8 December 2016) – applicable to annual periods beginning on 1 January 2018 or later. Not approved by the EU until the date of approval of these financial statements. The Group does not expect the interpretation to have a significant impact on the financial statements.

17. IFRIC 23 'Uncertainty over Income Tax Treatments'

(published on 7 June 2017) – applicable to annual periods beginning on 1 January 2019 or later. Not approved by the EU until the date of approval of these financial statements. The Group does not expect the interpretation to have a significant impact on the financial statements.

Effects of changing the principles of accounting used – transformations of financial statements for previous periods

06

In 2017 the Company made presentation changes in its separate profit and loss account. The changes result from the application of the updated methodology of assigning costs related to development projects, previously allocated to the 'General & administrative expenses' and 'Costs of sales'.

In connection with the above change, the following presentation changes have been made in these separate financial statements in comparison to the separate financial statements for the period ended on 31 December 2016:

- Change in the allocation of costs related to the remuneration of employees employed as part of construction teams, project managers and leasing managers, presented so far in the cost of sales line. With regard to the costs related to the residential projects being implemented (incurred during their implementation – before the facility was put into operation) – a change was made consisting in capitalization of these costs in the value of inventories because these costs are part of the definition of the so-called costs of processing inventories as defined in IAS 2.
- Change in the allocation of costs related to the remuneration of employees supporting the operational activity of the Company (including employees of accounting,financial and marketing departments) and administrative costs related to employees (the so-called human resource costs). These costs, due to their indirect connection with the implementation of development projects, have been transferred from the general & administrative expenses to the newly created line in the profit and loss account 'Administrative costs related to projects'. The lack of capitalization of these costs in the value of inventories results from the fact that they are not incurred in order to bring inventories to their current status and place, and are not in line with the definition of production costs of investment property under construction.
- Change in the presentation of some marketing costs, previously presented in the cost of sales line and as part of the cost of sales. Due to the indirect relationship of these costs with the implementation of development projects, they were reclassified to the newly created line in the profit and loss account 'Administrative costs associated with project implementation'. The lack of capitalization of these costs in the value of inventories results from the fact that they are not incurred in order to bring inventories to their current status and place.
- Change in the presentation of costs related to the maintenance of inventories, presented so far in the line of general & administrative expenses. Due to the indirect relationship of these costs with the implementation of development projects, they were reclassified to the newly created line in the profit and loss account 'Administrative costs associated with project implementation'. The lack of capitalization of these costs in the value of inventories results from the fact that they are not incurred in order to bring inventories to their current status and place. The comparative data in these financial statements have been transformed accordingly.

The change made it possible to determine the level of costs related to the implementation of development projects in more detail. It affects the balance sheet items and the result, which is presented below.

The most important changes in the comparative data of 31.12.2016:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION [PLN '000]

	as at 31.12.2016 – restated	as at 31.12.2016 – approved	Change
Assets			
Non-current assets			
Investment property under construction	539 797	536 692	3 105
Deferred tax asset	91 809	93 131	(1 322)
Current assets			
Inventories	660 251	656 401	3 850
Equity and liabilities			
Equity			
Cumulative gain (loss)	393 345	387 711	5 634

CONSOLIDATED PROFIT AND LOSS ACCOUNT [PLN '000]

	as at 31.12.2016 - restated	as at 31.12.2016 – approved	Change
Cost of sales	(263 308)	(255 903)	(7 405)
Gross profit (loss)	**216 767**	**224 172**	**(7 405)**
Profit (loss) on investment property	555 214	560 071	(4 857)
Administrative costs associated with project implementation	(14 140)	-	(14 140)
Selling expenses	(31 611)	(53 586)	21 975
General and administrative expenses	(90 156)	(101 539)	11 383
Operating profit	**611 653**	**604 697**	**6 956**
Profit (loss) before tax	196 590	189 634	6 956
Income tax	196 748	198 070	(1 322)
deferred tax portion	217 313	218 635	
Net profit (loss), attributable to:	**393 338**	**387 704**	**5 634**
Equity holders of the parent	393 345	387 711	5 634
Non-controlling interest	(7)	(7)	-

CHANGES IN INVESTMENT PROPERTY UNDER CONSTRUCTION [PLN '000]

	as at 31.12.2016 - restated	as at 31.12.2016 – approved	Change
Opening balance – restated	**1 398 628**	**1 398 628**	**-**
Increases due to:			
– expenditure on investments	508 243	505 138	3 105
Value of property under construction at the end of the period	**539 797**	**536 692**	**3 105**

INVENTORIES [PLN '000]

	as at 31.12.2016 - restated	as at 31.12.2016 – approved	Change
– semi-finished products and work-in-progress	540 102	536 252	3 850
Total inventories	**660 251**	**656 401**	**3 850**

CHANGE IN DEFERRED INCOME TAX ASSETS (+) AND DEFERRED TAX PROVISIONS (-) [PLN '000]

	as at 31.12.2016 - restated	as at 31.12.2016 – approved	Change
1. Deferred tax at the beginning of the period	**(167 044)**	**(167 044)**	**-**
2. Change in the period			
– other	31 968	30 646	(1 322)
	217 313	**218 635**	**1 322**
3. Total deferred income tax at the end of the period			
– other	40 377	41 699	1 322
	50 268	**51 590**	**1 322**
– including:			
Deferred tax assets	91 809	93 131	1 322
– change during the year	15 771	14 449	(1 322)

Methodology

07

7.1. Main accounting principles

The most important accounting principles applied in the preparation of these financial statements are presented below. These rules were applied in all presented periods in a continuous manner unless stated otherwise.

FUNCTIONAL CURRENCY AND CURRENCY OF PRESENTATION

Items in the financial statements of each Group's entities are presented in the main currency of the economic environment in which given subsidiary operates (functional currency).

The Group's financial statement is 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. In the moment of the foreign entity disposal, its acumulated currency differences recognised in equity are recognised in profit and loss account as profit on disposal.

LEASING

Leasing is classified as a financial leasing when the terms of the agreement transfer all potential benefits and risks resulting from holding the title of the asset to the lessee. Leasing where a significant part of the risk and benefits on account of the ownership remains with the lessor (the financing party) constitutes operating leasing.

Lease payments under operating leasing are recognized as costs (when the Group is the lessee) or revenues (when the Group is the lessor) in the profit and loss account using the straight-line method for the duration of the lease contract.

Benefits received by the lessee and additional parties as an incentive to conclude an operating lease agreement are recognized in the profit and loss account using the straight-line method in the period resulting from the leasing agreement.

In a situation where the specifics of the contract indicate that lease payments will be calculated progressively during the term of the contract, the annual instalments of payments are linearized.

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, including costs of a transaction.

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, taking into account related impact on a deferred tax.

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 are subject to verification by internal Analyse Department in cooperation with the Management Board, based on transaction concluded on active market, offers, preliminary agreements, knowledge and experience. Valuations includes reserves and they are estimated by discounted cash flow method. 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

Tangible assets (or a disposal group) are classified as held for sale if their carrying amount is recovered principally through a sale transaction and not through its further use. This condition is considered to be fulfilled only when the occurrence of the sale transaction is very likely and the asset (or the disposal group) is available for immediate disposal in its current state (in accordance with generally accepted commercial terms). Classification of an asset as held for sale assumes the intention of the company's management to make a sale transaction within one year from the change of classification. They are valued at the lower of the following two amounts: their carrying amount and fair value minus costs of disposal.

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

Financial assets or financial liabilities are measured at the moment of the first presentation 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;
- Investments held to maturity
- financial assets other than derivatives, with fixed or determinable payments
- fixed maturities that the Group positively intends and is able to hold to maturity;
- loans and receivables
- financial assets other than derivatives with fixed or determinable payments that are not quoted in an active market,
- 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. The Group applies the weighted average purchase price as the valid method of expenditure in the area of financial instruments.

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.

Profit or loss on derivative instruments is recognized in financial income or expenses respectively, and in the consolidated cash flow statement as cash flows from investing activities if the acquisition results in the recognition of an asset in the consolidated statement of financial position.

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 HELD 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, (in case of material or long-term drop of fair value of given bond under its cost) 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. According to the Company, restricted cash mostly include funds constituting security for bank guarantees and funds accumulated on open residential fiduciary accounts.

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.

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. Foreign exchange differences on the foreign operations translation include the effect of translation of items in the foreign entities financial statements from foreign currencies into Polish zlotys.

PROVISIONS

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.

7.2 Methods of determining the financial result

Financial results is stated by calculation method.

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.

ADMINISTRATIVE COSTS RELATED TO PROJECTS

Administrative costs related to projects include administrative costs indirectly related to the implementation of development projects which include: land perpetual usufruct tax, real estate tax, maintenance fees, property protection, administrative staff remuneration costs and employee maintenance costs in the part where they are assigned to the project and other costs related to maintaining inventories.

These costs, despite an indirect connection with the implementation of development projects, are not capitalized in the value of inventories/investment properties, because:

- in light of IAS 2, these costs are excluded from the purchase price or the cost of inventories due to the fact that they are not incurred in order to bring inventories to their current status and place;
- IAS 40, which refers in this respect to the provisions of IAS 16, does not permit capitalization of administrative and general management costs in the value of investment property.

EXTERNAL FINANCING COSTS

Borrowing 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 applies the part of financial costs which are directly related to the acquisition and recovery of assets that require a longer period of preparation for their intended use or sale as inventories and projects started. Activation covers the amount of financial costs determined using the effective interest rate minus income received from temporary depositing of cash (i.e. interest on bank deposits with the exception of deposits resulting from the blocking of accounts, accreditation agreements) in the case of targeted financing for a given construction project. In the case of general financing, the general financing costs subject to capitalization are determined using the capitalization rate in relation to the expenditures incurred for a given asset component.

CONSOLIDATION OF 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 in the full method from the date of extending authority over them to the time of losing it.

Financial statements of subsidiaries present data for the same acounting period as the parent company, using consistent acountancy methods.

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.

The most important role in the structure of the Group is played by Echo Investment S.A., 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 of specific project, and next from the provision of services of lease assets already completed or other services.

COMBINATIONS OF ECONOMIC ENTITIES

The Group has subsidiaries which hold real estate. At the time of the acquisition, the Group considers whether the acquisition is the acquisition of an enterprise or the acquisition of an asset. The Group recognizes acquisition as a business combination under which an integrated set of activities was purchased along with investment property.

The acquisition of subsidiaries by the Group, except for the acquisition of entities under common control, is accounted for according to the acquisition method. The payment transferred in the business combination transaction is measured at fair value, calculated as the collective fair value of the Group's assets transferred, liabilities contracted to the previous owners of the acquired entity and capital instruments issued by the Group in exchange for acquisition of control over the acquired entity. The costs related to the acquisition are recognized in the result at the time they are incurred.

Goodwill is valued as the excess of the amount of payment transferred, the amount of non-controlling interest in the acquired entity and the fair value of shares in the acquiree previously held the acquirer over the fair value of identifiable net assets acquired and liabilities measured at the acquisition date. If, after re-verification, the net value of identifiable assets and liabilities valued at the date of acquisition, exceeds the sum of the payment transferred, the value of non-controlling interests in the acquiree and the fair value of shares in that entity previously held by the acquirer, this surplus is recognized directly in the result as a gain on bargain purchase.

Non-controlling shares that form part of ownership interests and entitle owners to a proportionate share in the net assets of the entity in the event of its liquidation can be initially measured at fair value or proportionally to non-controlling interests in the recognized value of identifiable net assets of the acquiree. The selection of the valuation method is made individually for each takeover transaction.

In the event that the acquisition of subsidiaries does not constitute a takeover of the business, it is recognized as the acquisition of a group of assets and liabilities. The acquisition cost is allocated to assets and liabilities acquired based on their relative fair values and no goodwill or deferred income tax is recognized.

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. Joint ventures are joint contractual agreement acording to which co-controlling parts have rights to net assets resulting from the contractual agreement.

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.

Unrealized profits and losses resulting from transactions between the Group and the entity recognized under the equity method are subject to consolidation eliminations in accordance with the Group's share in the equity of the entity recognized using the equity method.

VALUATION TO FAIR VALUE

The Group measures financial instruments such as instruments available for sale as well as derivative instruments and non-financial assets such as investment properties at fair value as at each balance sheet date. Fair value is defined as the price that would have been received from the sale of an asset or paid to transfer a liability in a transaction carried out on the usual terms of asset disposal between market participants on the valuation date under current market conditions. The fair value measurement is based on the assumption that the sale transaction of an asset or liability transfer takes place on the market available for the main market for a given asset or liability, available to the Group, or in the absence of the main market, on the most advantageous market for a given asset or liability.

The fair value of an asset or liability is measured assuming that when determining the price of an asset or liability, market participants act in their best economic interest.

The fair value measurement of a non-financial asset takes into account the market participant's ability to generate economic benefits through the largest possible and best use of the asset or its disposal to another market participant that would ensure the greatest possible and best use of the asset.

The Group applies valuation techniques that are appropriate to the circumstances and for which sufficient data is available to measure fair value, with the maximum use of appropriate observable input data and the minimum use of unobservable input data. All assets and liabilities that are measured at fair value or their fair value is disclosed in the financial statements are classified in the fair value hierarchy as described below based on the lowest input data level that is significant for the fair value measurement taken as a whole:

- Level 1 – Quoted (unadjusted) market prices in an active market for identical assets or liabilities,
- Level 2 – Valuation techniques for which the lowest level of input data, which is significant for the fair value measurement as a whole, is directly or indirectly observable,
- Level 3 – Valuation techniques for which the lowest level of input data, which is significant for the fair value measurement as a whole, is unobservable.

At each balance sheet date, in the case of assets and liabilities occurring at particular balance sheet dates, the Group assesses in the financial statements whether transfers took place between levels of the hierarchy by reassessing the classification to individual levels, guided by the relevance of the input data from the lowest level that is significant for the valuation to fair value treated as a whole.

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 note 32 to the financial statements.

NET PROFIT PER SHARE

The net profit per share for each period is calculated by dividing the net profit for a given period attributable to ordinary shareholders of the parent entity by the weighted average number of shares issued during the period.

CASH FLOW

The cash flow statement is prepared using the indirect method. Liabilities on account of overdraft facilities are denominated as loan debt rather than cash equivalent.

Material estimates of the management of Group entities

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The preparation of the financial statements requires the Management Board of the Company to adopt certain assumptions and make estimates and judgments that affect the figures disclosed in the financial statements. Assumptions and estimates are based on the best knowledge of current and future events and activities, however, actual results may differ from those anticipated. Estimates and related assumptions are subject to ongoing verification. Change in accounting estimates is recognized in the period in which they were changed – if it concerns only this period, or in the current and future period – if the changes concern both the current and future period.

The main fields in which the Management Board's estimates have a material impact on the financial statements and key sources of uncertainty as at the balance sheet date are:

INVESTMENT REAL ESTATE / INVESTMENT REAL ESTATE UNDER CONSTRUCTION / ASSETS INTENDED FOR SALE

Investment real estate includes facilities leased to clients by companies which are part of the Group. The fair value of investment real estate is classified at level 3 in the fair value hierarchy. There were no transfers between the levels.

The fair value of real estate properties which are almost 100% commercialized and generate a fixed income is determined by the unit according to the income method, using simple capitalization technique as the quotient of the project's net operating income (NOI) and the yield, or using the value resulting from external valuation, a preliminary contract for the sale of real estate, a letter of intent or a purchase offer, provided they exist. The net operating income (NOI) is updated quarterly on the basis of existing rental agreements. Values expressed in EUR are calculated every quarter according to the applicable rates published by the National Bank of Poland. For real estate under construction and/or commercialization, valued in accordance with the criteria described in item 5 (Methods of determining the financial result), the property valuation is based on the income method using the technique of discounted cash flows, which takes into account future proceeds from lease (including rent payment guarantees), real estate sales and expenditures to be paid. The yield used to determine residual values recognized in cash flows result from the Management Board's estimates based on preliminary agreements for the sale of real estate, letters of intent, external valuations of appraisers or their familiarity with the market. The rates used also take into account the risk, and the level of risk is assessed individually for each property subject to its status.

According to the valuations prepared by the Group:

The value of investment real estate as at 31 December 2017 amounted to PLN 6,117 thousand and it consisted of the 'other real estate' item (PLN 6,117 thousand). As at 31 December 2016 it amounted to PLN 248,037 thousand and it consisted of office buildings valued using the income method (PLN 192,032 thousand), investment land (PLN 52,569 thousand) and other real estate (PLN 3,436 thousand). The yield used to estimate the fair value for office buildings as at 31 December 2016 ranged from 7.25% to 7.75%.

The value of investment real estate under construction as at 31 December 2017 amounted to PLN 1,281,230 thousand and it consisted of real estate valued at fair value (PLN 677,840 thousand) and

real estate valued at the expenditures incurred (PLN603,390 thousand). The yield used to estimate the value of real estate valued using the income method was:
- for office buildings (4 facilities) from 6.00% to 7.85%;
- for a building from the shopping centre segment 6.50%.

As at 31 December 2016 the value of investment property under construction amounted to PLN 539,737 thousand and it consisted of real estate valued at the expenditures incurred (PLN 539,737 thousand).

Under the 'assets for sale' item the Group presents the properties with reference to which a decision was made to sell them within 12 months. This item includes completed projects as well as ongoing projects and investment plots. As at 31 December 2017 the value of assets for sale was PLN 119,985 thousand and it consisted of investment land (PLN 119,985 thousand). As at 31 December 2016 the value of fixed assets intended for sale was PLN 198,166 thousand and it consisted of office buildings valued at fair value (PLN 97,405 thousand) and land (PLN 100,761 thousand). The yield used to estimate the value of an office building valued using the income method was 7.75%.

SECURING REVENUE FOR RENT-FREE PERIODS (MASTER LEASE)

In accordance with the new strategy, the Echo Group sells projects as soon as the occupancy permit is obtained. Therefore, it occurs that buildings are not fully commercialized at the time of sale. The price is calculated based on the project's projected revenue (NOI) while the Group signs a contract securing the rent-free periods (master lease).

Securing rental proceeds (master lease) is estimated on the basis of information obtained from the office project leasing team, accepted by the Member of the Management Board responsible for this segment of activity, concerning:
- terms of signed lease agreements,
- assumptions for vacant areas,
- such as: expected transfer dates, estimates of rent rates and rental holidays.

The following is calculated on this basis:
- for vacancies: the rent that would be paid by the potential future tenant,
- for signed contracts: rental holidays (if any).

The estimate is made from the balance sheet date for the period of securing rental proceeds. In each calculated month:
- if a vacancy is expected on an area in a given month, the cost of securing rental revenue is a full rent which is provided for on this area;
- if it is expected that a given area will be transferred and the tenant has a rental holiday, the cost of securing the rental proceeds related to this area in a given month is equal to the value of rental holidays;
- if it is expected that the tenants' rental holidays are over in a given month, the cost of securing the rental proceeds is equal to zero.

The basic rent and the maintenance fees are calculated in this way, the exception being that there are no rental holidays on maintenance fees.

The total of these values discounted as at the balance sheet date is the value of the reserve for securing rent-free periods (master lease).

The reserve for securing rent-free periods (master lease) is calculated for projects sold and projects valued using the income method. Therefore, the first reserve for a master lease is created together with the first valuation of the project at fair value.

As at 31 December 2017 the value of reserves created to secure rent-free periods amounted to PLN 132,503 thousand.

As at 31 December 2016 the value of reserves created to secure rent-free periods amounted to PLN 112,306 thousand.

FINANCIAL INSTRUMENTS VALUED ACCORDING TO FAIR VALUE

The fair value of financial instruments (located in the fair value hierarchy level 2) that are not traded on the active market is determined using valuation techniques (the income method). The Company is guided by the judgment in the selection of valuation methods and it adopts assumptions based on market conditions existing at each balance sheet date. In particular, concluded forward contracts and concluded option agreements are valued on the basis of valuations provided by banks, which use such data as current exchange rates, their historical volatility and interest rates on deposits (WIBOR, EURIBOR) when calculating them. As at 31 December 2017 the Capital Group did not change the principles of valuation of financial instruments, there were no changes in the classification or shifting in the levels of the fair value hierarchy of instruments. There is no difference between the carrying amount and the fair value of financial instruments.

INVENTORIES

When estimating the amount of the write-down revaluating the inventories held by the Group as at the balance sheet date, information from the active market is analyzed regarding expected sales prices and current market trends as well as information resulting from preliminary sales contracts concluded by the Group.

Assumptions used in the calculation of the write-down are mainly based on valid market prices of real estate in a given market segment. In the case of land included in the item of inventories, the value of write-downs results from the suitability of the given land for the needs of the current and future operations of the Group estimated by the Management. Data regarding write-downs updating the value of inventories to the net value possible to obtain and reversing write-downs on this account are presented in note 9.

ASSET FROM DEFERRED INCOME TAX

The Group recognizes deferred tax asset based on the assumption that tax profit will be achieved in the future and it will be possible to use it. This assumption would be unjustified if the tax results deteriorated in the future.

The Management Board verifies the adopted estimates regarding the probability of recovering deferred tax assets based on changes in factors taken into account when making them, new information and past experience. Detailed information on deferred tax assets is presented in note 30.

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 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 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 allowed Polish tax authorities to question the legal arrangements and agreements such as restructuring and reorganization of the group.

Financial risk management

09

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 Group 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.

As at 31 December 2017, 100% of liabilities on loans and debt securities yielded variable-rate interest. As at 31 December 2016, 95.8% of liabilities on loans and debt securities yielded variable-rate interest, the remaining part – fixed-rate interest.

At 31 December 2017, 1,1% of borrowings granted were yielding fixed-rate interest, remaining portion

- variable-rate interest. As at 31 December 2016, 63,7%
- were yielding fixed-rate interest, remaining portion – variable-rate interest.

In 2017 the Group adapted security of interest rates as IFS instruments. As at 31 December 2017, IFS transaction secured 10,2% of bond issued nominal value with interest rate based n WIBOR (as at 31 December 2016 it was 14,8%).

The following data does not take into account IRS instruments.

INTEREST RATES' RISK – LIABILITIES DUE TO DEBT SECURITIES ISSUE [PLN '000]

		Value calculated for the analysis
	as at 31.12.2017	as at 31.12.2016
Balance of liabilities due to debt securities issue	1 401 582	829 556
Financial costs of debt securities issue's interests	(48 787)	22 862
Estimated change in the interest rates	+/- 1 p.p.	+/- 1 p.p.
Financial costs of debt securities issue's interests rates, taking into account increase / (decrease) of interests rates	14 016	8 296
Total impact on the gross results for the period	**14 016**	**8 296**
Income tax	2 663	1 576
Total impact on the net results for the period	**11 353**	**6 720**

INTEREST RATES' RISK – LIABILITIES DUE TO LOANS AND BORROWINGS [PLN '000]

		Value calculated for the analysis
	as at 31.12.2017	as at 31.12.2016
Balance of liabilities due to loans and borrowings	156 961	62 719
Financial costs of interests	2 869	-
Estimated change in the interest rates	+/- 1 p.p.	+/- 1 p.p.
Change of interest as a result of interest rate's change (on a yearly basis)	1 570	627
Total impact on the gross results for the period	**1 570**	**627**
Income tax	298	119
Total impact on the net results for the period	**1 272**	**508**

INTEREST RATES' RISK – CASH [PLN '000]

		Value calculated for the analysis
	as at 31.12.2017	as at 31.12.2016
Balance of cash	731 100	663 429
Other operational income from interests	21 016	5 542
Estimated change in the interest rates	+/- 1 p.p.	+/- 1 p.p.
Other operational income from interests taking into account interests rates' changes	7 311	6 634
Total impact on the gross results for the period	**7 311**	**6 634**
Income tax	1 389	1 261
Total impact on the net results for the period	**5 922**	**5 374**

INTEREST RATES' RISK – LOANS GRANTED [PLN '000]

		Value calculated for the analysis
	as at 31.12.2017	as at 31.12.2016
Balance of granted loans	145 180	15 080
Financial income from granted loans' interests	5 433	1 059
Estimated change in the interest rates	+/- 1 p.p.	+/- 1 p.p.
Financial income from granted loans' interests, taking into account interests rates' changes	1 452	151
Total impact on the gross results for the period	**1 452**	**151**
Income tax	276	29
Total impact on the net results for the period	**1 176**	**122**

CURRENCY RISK

The risk of foreign exchange rate fluctuations is related to the investment loans and borrowings denominated in foreign currencies within the Group (31 December 2017 – EUR 30.909.000, 31 December 2016 – EUR 23.441.000) 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 2017 in order to safeguard from exchange rate risk the Group secured its position by acquiring derivative financial instruments on the forward currency market hedging the exchange rate of EUR to PLN. As a result, as of 31 December 2017 the Group remained hedged for cash flows of EUR 109,86 million, out of which EUR 23,64 million related to subsidiaries and EUR 86,22 million to joint venture in which the Group holds 30%. Transactions were conducted on the basis of bank agreements, not speculatively and were a part of hedging policy (but not treated by the Group as hedge accounting as defined by IAS39) with the intention of securing future cash flows from conversion of loan tranches granted in EUR and funds from the sale of commercial projects.

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 2017, 34.4% of cash held by the Group were denominated in PLN, 64% – denominated in EUR and 1.6% denominated in other currencies, while at the end of 2016, 81,7% of cash held by the Group were denominated in PLN, 17.7% – denominated in EUR. As at the end of 2017, majority of cash was denominated in EUR due to the sales of 2 office buildings – O3 Business Campus in Kraków and Nobilis in Wrocław in the transactions denominated in EUR.

Based on the simulations, it was found that the impact of changes in EUR/PLN interest rates by 10% net profit would be a maximum increase or decrease, respectively:

INTEREST RATES' RISK – RECEIVABLES FROM SALE OF PROJECTS AND OTHER [PLN '000]

		Value calculated for the analysis
	as at 31.12.2017	as at 31.12.2016
Balance of liabilities from sale of projects and other (in EUR)	194 562	263 565
Estimated change of exchange rate (EUR)	+/- 10 p.p.	+/- 10 p.p.
FX difference due to exchange rate's change	19 456	26 357
Estimated (deferred) income tax	3 697	5 008
Impact on the net results	15 759	21 349

INTEREST RATES' RISK – BORROWINGS RECEIVABLES [PLN '000]

	as at 31.12.2017	Value calculated for the analysis as at 31.12.2016
Balance of liabilities from sale of projects and other (in EUR)	73 393	16 571
Estimated change of exchange rate (EUR)	+/- 10 p.p.	+/- 10 p.p.
FX difference due to exchange rate's change	7 339	1 657
Estimated (deferred) income tax	1 394	315
Impact on the net results	5 945	1 342

INTEREST RATES' RISK – BORROWINGS LIABILITIES [PLN '000]

	as at 31.12.2017	Value calculated for the analysis as at 31.12.2016
Balance of liabilities from sale of projects and other (in EUR)	46 435	58 250
Estimated change of exchange rate (EUR)	+/- 10 p.p.	+/- 10 p.p.
FX difference due to exchange rate's change	4 644	5 825
Estimated (deferred) income tax	882	1 107
Impact on the net results	3 762	4 718

INTEREST RATES' RISK – LOANS LIABILITIES [PLN '000]

	as at 31.12.2017	Value calculated for the analysis as at 31.12.2016
Balance of liabilities from loans denominated in EUR	82 483	45 454
Estimated change of exchange rate (EUR)	+/- 10 p.p.	+/- 10 p.p.
Estimated change of exchange rate (EUR)	8 248	4 545
Estimated (deferred) income tax	1 567	864
Impact on the net results	6 681	3 681

INTEREST RATES' RISK – ISSUED BONDS' LIABILITIES [PLN '000]

	as at 31.12.2017	Value calculated for the analysis as at 31.12.2016
Balance of liabilities from sale of projects and other (in EUR)	116 368	-
Estimated change of exchange rate (EUR)	+/- 10 p.p.	+/- 10 p.p.
FX difference due to exchange rate's change	11 637	-
Estimated (deferred) income tax	2 211	-
Impact on the net results	9 426	-

INTEREST RATES' RISK – CASH [PLN '000]

	as at 31.12.2017	Value calculated for the analysis as at 31.12.2016
Balance of liabilities from sale of projects and other (in EUR)	494 434	117 248
Estimated change of exchange rate (EUR)	+/- 10 p.p.	+/- 10 p.p.
FX difference due to exchange rate's change	49 443	11 725
Estimated (deferred) income tax	9 394	2 228
Impact on the net results	40 049	9 497

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.

LOSS OF LIQUIDITY

The risk of losing liquidity is the risk that the Group will not be able to settle its financial liabilities on their due dates. The Group manages the liquidity risk by maintaining the appropriate amount of the available cash reserve, using the offer of banking services and reserve credit lines and by monitoring the forecast and actual cash flows. As at 31 December 2017,out of PLN 262 mln available under the current and working capital credit lines, the Group had PLN 177.9 mln of free limit (the debt results from a PLN 50 mln loan in Alior Bank and PLN 34.1 mln in blockades from guarantees granted by BZ WBK and Raiffeisen Bank). As at 31 December 2016 out of PLN 200 mln available under current and working capital loans, the Group had unused amount of PLN 135.2 mln. Due to the dynamic nature of its operations, the Group retains the flexibility of financing through the availability of cash and the diversity of funding sources.

ANALYSIS OF UNDISCOUNTED FINANCIAL LIABILITIES AS AT 31.12.2017 [PLN '000]

Period	Loans	Borrowings	Bonds	Trade and other payables
Up to 1 year	71 886	5 927	450 429	179 252
1 – 3 years	1 189	6 904	335 253	–
3 – 5 years	61 249	–	577 949	–
5 – 10 years	–	10 544	41 748	–
Total	**134 324**	**23 375**	**1 405 379**	**179 252**

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

Period	Loans	Borrowings	Bonds	Trade and other payables
Up to 1 year	-	-	214 076	163 927
1 – 3 years	6 964	-	639 073	3
3 – 5 years	5 332	-	98 073	-
5 – 10 years	40 743	**69 320**	**-**	**-**
Total	**53 039**	**69 320**	**951 222**	**163 930**

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

Capital risk management

10

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 RATIO [PLN '000]

	Note	31.12.2017	31.12.2016
Total loans, borrowings and bonds	17	1 555 769	981 921
Liability for dividend		-	66 030
Cash and equivalents	14	(731 100)	(663 429)
Net debt		824 669	384 522
Total equity		1 587 750	1 533 894
Total capital		2 412 419	1 918 416
Debt ratio		34,18%	20,04%

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

Major events after the balance sheet date

11

11.1. Third Public Bonds Issue Programme

On 14 February 2018 the Management Board of Echo Investment adopted a resolution on the establishment of the Third Public Bond Issue Programme up to the amount of PLN 400 mln or its equivalent in EUR. The bonds will be offered to retail investors in a public offering, carried out after approval of the prospectus. Detailed terms of the bond issue will be determined prior to the issue of a given series of bonds. The company plans to introduce bonds issued on the basis of the prospectus for trading on the Catalyst regulated market. The company submitted the Prospectus to the Financial Supervision Authority on 28 February 2018.

400 mln PLN

Planned value of bonds for individual investors, which the Company intends to issue based on the prospectus submitted to the Financial Supervision Authority

Transactions with affiliated companies

12

As a result of a transaction with affiliated companies, as at 31 December 2017 receivables of the Group of Echo Investment S.A. had:
- receivables due to borrowings granted amounted to PLN 2.625 thousand,
- receivables due to interest sale amounted to EUR 12.688 thousand,
- liabilities due to bond issued with interest amounted to EUR 28.664 thousand,
- trade liabilities amounted to PLN 2.871 thousand,
- trade receivables amounted to PLN 6.246 thousand.

As a result of transactions concluded with major shareholder the Group incurred cost amounted to PLN 15.894 thousand and received revenue amounted to PLN 5.467 thousand.

As at the balance date the Group of Echo Investment S.A. had receivables on account of borrowings granted and trade receivables from affiliated companies as follows:
- receivables due to borrowings granted amounted to PLN 44.605 thousand and EUR 6.193 thousand,
- trade receivables amounted to PLN 13.017 thousand.

As a result of a transaction with a joint-venturecompany, as at 31 December 2017 the Group exercised revenue amounted to PLN 12.297 thousand.

As a result of transactions with parent companies as at 31 December 2016, Echo Investment SA Group had:
- receivables from loans granted in the amount of PLN 3,599 thousand,
- receivables from the sale of shares with interest in the amount of PLN 57,928 thousand,
- trade liabilities in the amount of PLN 3,032 thousand
- on account of settlements with affiliates, as at the balance sheet date i.e. on 31 December 2016, the Group had:
- receivables from loans granted amounting to PLN 1,206 thousand,
- trade receivables of PLN 2,812 thousand,
- in transactions with parent companies the group incurred costs of PLN 17,717 thousand and it generated the revenue in the amount of PLN 273 thousand, and from affiliates – in the amount of PLN 45,245 thousand.

Furthermore, one of the joint-ventures (Rosehill sp. z o.o.) received the financing from GPF 3 Fundusz Inwestycyjny Aktywów Niepublicznych and IB 6 Fundusz Inwestycyjny Aktywów Niepublicznych amounted to PLN 302,029 thousand as at the balance sheet day. The financing's maturity is 3 years.

Remuneration of the Management Board and Supervisory Board

13

REMUNERATION OF THE MANAGEMENT BOARD [PLN IF NOT INDICATED]

	2017			2016		
	From Echo Investment S.A.		for holding functions or providing services to other companies of the Group	Z Echo Investment S.A.		for holding functions or providing services to other companies of the Group
	Basic remuneration	Bonus		Basic remuneration	Bonus	
Nicklas Lindberg (appointed on 18.04.2016)	1 012 390	4 079 945	1 080 768 PLN 522 054 EUR	768 742	658 890	369 714 EUR
Maciej Drozd	979 511	2 127 660	120 000	1 097 595	440 780	401 338
Piotr Gromniak	240 000	97 000	769 000	618 000	829 000	135 000
Artur Langner	240 000	120 000	756 000	546 000	766 000	120 000
Marcin Materny (appointed on 15.09.2016)	240 000	83 000	629 000	60 000	–	115 500
Mikołaj Martynuska (appointed on 10.10.2017, resigned on 21.12.2017)	54 194	–	58 726	–	–	–
Rafał Mazurczak (appointed on 15.09.2016)	233 619	–	499 032	60 000	–	365 500
Waldemar Lesiak (resigned on 30.05.2016)	–	–	–	314 491	382 000	969 244
Waldemar Olbryk (appointed on 10.10.2017)	158 516	–	–	–	–	–
Total	**3 158 230**	**6 507 605**	**3 912 526 PLN 522 054 EUR**	**3 464 828**	**3 076 670**	**2 106 582 PLN 369 714 EUR**
Total annual remuneration			**13 578 361 PLN 522 054 EUR**			**8 648 080 PLN 369 714 EUR**

THE CEO' BONUS SYSTEM

Nicklas Lindberg's management contract of 18 April 2016 provides for performance-based bonuses:
– annual performance-based bonus, paid for 2017 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 cumulated amount of the dividend per share. 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. According to the amendment for the agreement, in 2017 Nicklas Lindberg received an advanced payment for additional bonus remuneration amounted to PLN 3,392 thousand gross (payment was reduced by an advanced tax liability). This payment will decrease the final amount of total additional bonus payment. 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 2017 amounts to PLN 3,684,457 and on 31 December 2016 – to PLN 3,888,193.

REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD

Members of the Management Board receive remuneration and bonuses in accordance with the remuneration model described in the 'Work Rules of the Management Board' adopted by the Supervisory Board in a resolution of 21 March 2013. The bonus system is based on an agreement in accordance with the MBO methodology (Management by Objectives) and it is related to the company's results. Each Member of the Management Board may receive an annual bonus expressed in a multiple of the basic salary, depending on the key business objectives which he/she has an influence on in the scope of their responsibility. At the same time, all Members of the Management Board have common goals, the execution of which below the expected level will result in a reduction of the bonus. The amount of remuneration and bonuses of Management Board Members is confirmed by a resolution of the Supervisory Board every time.

In 2017, in addition to the specific objectives set for each Member of the Management Board in accordance with their scope of responsibility, the Supervisory Board established four joint objectives for the Management Board, the implementation of which will determine the amount of the bonus:
– development of a system of finishing and equipment standards for development projects,
– implementation of superior standards and safety procedures at construction sites,
– implementation of the project finishing standard and post-sales support,
– development strategy for selected multifunctional projects.

In 2017 and as at 31 December 2016v, there were no agreements between the Company and its managerial staff providing for a compensation if such persons resign or are dismissed from their position without a valid reason or if they are recalled or dismissed as a result of a merger of the Company by acquisition.

REMUNERATION OF THE SUPERVISORY BOARD [PLN]

	2017		2016	
	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 Grouph
Karim Khairallah	–	–	–	–
Laurent Luccioni	–	–	–	–
Mark E. Abramson (appointed on 16.10.2017)	12 581	–	–	–
Maciej Dyjas	60 000	–	60 000	–
Stefan Kawalec	180 000	–	180 000	–
Przemysław Krych	58 226	–	60 000	–
Nebil Senman	60 000	–	60 000	–
Sebastian Zilles	–	–	–	–
Total	**370 807**	–	**360 000**	–

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board is determined in the form of resolutions of the General Meeting of the Company's Shareholders. The resolution which is currently in force is resolution no. 6 of the General Meeting of Shareholders of 27 October 2015, which determines the amount of remuneration for Supervisory Board members as follows:

- monthly remuneration of the Chairman of the Supervisory Board – PLN 10,000 gross,
- monthly remuneration of the Deputy Chairman of the Supervisory Board – PLN 7,000 gross,
- monthly remuneration of a Member of the Supervisory Board – PLN 5,000 gross,
- additional monthly remuneration for the chairmen of the Supervisory Board committees – PLN 10,000 gross.

Members of the Supervisory Board shall also be entitled to reimbursement of costs incurred in connection with the exercise of the function, in particular – travel costs to the place of Supervisory Board meetings and back, costs of individual supervision as well as costs of accommodation and meals.

Agreements concluded with an entity authorised to audit financial statements

14

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 2016	355 000
Additional review of the financial statements for the dividend purpose in 2016	60 000
Audit and review of the separate and consolidated financial statements for 2017	330 000
Additional review of the financial statements and letter of attestation in 2017	288 800

Nicklas Lindberg
President of the Board, CEO

Maciej Drozd
Vice-President of the Board, CFO

Piotr Gromniak
Vice-President of the Board

Artur Langner
Vice-President of the Board

Marcin Materny
Member of the Board

Rafał Mazurczak
Member of the Board

Waldemar Olbryk
Member of the Board

Anna Gabryszewska-Wybraniec
Chief Accountant

Kielce, 23 March, 2018

CHAPTER 4

STATEMENT OF THE MANAGEMENT BOARD

ECHO investment

The Management Board of Echo Investment S.A. declares that, to the best of its knowledge, the annual separate financial statements for 2017 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 2017, 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 Board,
CEO

Maciej Drozd
Vice-President of the Board,
CFO

Piotr Gromniak
Vice-President of the Board

Artur Langner
Vice-President of the Board

Marcin Materny
Member of the Board

Rafał Mazurczak
Member of the Board

Waldemar Olbryk
Member of the Board

Kielce, 23 March, 2018

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Emil Górecki, Echo Investment's Communication and Investor Relations manager is happy to answer your questions regarding this financial statements and the Company's activity.

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