



AUDYTORIUM
BIEGLI REWIDENCI

INPRO SA

**Audit report supplementing the opinion
on the financial statements
for the operating period
from 1st January 2014 to 31st December 2014**

A translation from the Polish original



Audit Report
for the Shareholders and Supervisory Board
INPRO S.A.
for the period from 1st January 2014 to 31st December 2014

This report, supplementing the opinion, was prepared as a result of an audit of the separate financial statements of INPRO S.A. based in Gdańsk, 8 Jacka Rybińskiego Street.

The audited financial statements consist of:

- (a) statement of the financial position ended on 31st December 2014 presenting total assets and liabilities of **PLN 334.863 thousand**,
- (b) statement of comprehensive income for the operating period from 1st January 2014 to 31st December 2014 presenting the net profit of **PLN 7.620 thousand**,
- (c) statement of changes in equity for the operating period from 1st January 2014 to 31st December 2014 presenting an increase in equity of **PLN 3.616 thousand**,
- (d) statement of cash flow for the operating period from 1st January 2014 to 31st December 2014 presenting an increase in cash of **PLN 23.905 thousand**,
- (e) notes to the financial statements.

The financial statements were signed by the Company's Management Board and the person responsible for the bookkeeping on 23rd of March 2015. This report should be read together with the auditor's opinion to the Shareholders and Supervisory Board of the Company, signed on 23rd of March 2015, concerning the above mentioned financial statements.

This report contains 13 consecutively numbered pages and consists of:

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Arkadiusz Grabowski
Auditor
Registered Auditor No. 9706

Carrying out the audit on behalf of
Audytorium Biegli Rewidenci
Grabowski, Pigoń Sp. P.
based in Gdańsk
9 Świętopełka Street

Gdańsk, 23rd of March 2015

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Audit Report on the Financial Statements

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I. GENERAL PART

The identity of the Company:

- INPRO S.A., hereinafter called Company, runs its operations on the basis of the Commercial Code. Company's head office is located in Gdańsk, 8 Opata Jacka Rybińskiego Street.
 - The articles of the Company was concluded in the form of the Notary Deed – Repertory A No 825/1987 signed at the State Public Notary in Gdańsk on 6th of April 1987. After the change of the legal form of a limited liability company into joint-stock company on 29th of May 2008 the District Court in Gdańsk VII Commercial Division decided to enter Company into the National Register Court with the reference No. 0000306071. From the year 2011 Company's shares are traded on the parallel market of Warsaw Stock Exchange in Warsaw.
 - The main activity of the Company is the construction and sale of residential and commercial properties.
 - The Company has received the tax identity number NIP 589-000-85-40 and statistic number REGON 008141071.
 - The Company's registered equity on the balance sheet date was 4.004 thousand PLN and divided into 40.040 thousand shares with the nominal value 0,10 PLN each. As at the balance sheet day the Company's equity equals 203.609 thousand PLN.
 - As at the balance sheet day 31st December 2014 shareholding structure was:
 - Piotr Stefaniak – 8.460 thousand shares from series A, which represents 21,13% of the share capital,
 - Zbigniew Lewiński – 9.460 thousand shares from series A, which represents 23,63% of the share capital,
 - Krzysztof Maraszek – 10.010 thousand shares from series A, which represents 25,00% of the share capital,
 - ING Otwarty Fundusz Emerytalny – 7.178 thousand shares from series A and B, which represents 17,93% of the share capital,
 - Shareholders of less than 5% - total 4.932 thousand shares from series B, which represents 12.31% of the share capital.
- Percentage of share capital corresponds to the percentage of votes at the General Shareholders Meeting.
- During the audited financial period to the date of the opinion on the Company's financial statements there were no changes in the shareholding structure.
- General Shareholders Meeting, Supervisory Board and the Board of Directors are the authorities of the Company.

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- At the balance sheet date the members of the Board of Directors were:
 - Piotr Stefaniak – President of the Board,
 - Zbigniew Lewiński – vice President of the Board,
 - Krzysztof Maraszek – vice President of the Board.

During the audited financial period to the date of the opinion on the Company's financial statements there were no changes in the structure of the Board of Directors.

- The structure of the Supervisory Board at the balance sheet date was:
 - Jerzy Glanc - President of the Supervisory Board
 - Krzysztof Gąsak - vice President of the Supervisory Board
 - Robert Maraszek - Secretary of the Supervisory Board
 - Szymon Lewiński - Member of the Supervisory Board
 - Wojciech Stefaniak - Member of the Supervisory Board

During the audited financial period to the date of the opinion on the Company's financial statements there were no changes in the structure of the Supervisory Board.

Information on the Financial Statements for the previous financial period and division of financial results:

- The financial statements for the period from 1st January 2013 to 31st December 2013 were audited by Audytorium Biegli Rewidenci Grabowski, Pigoń Sp. P. based in Gdańsk, 9 Świętopełka Street, entity enrolled on the list of entities authorized to audit financial statements under No. 3488. The audit was performed by Anna Pigoń, registered auditor No. 10368. Audited Financial Statements obtained the unqualified audit opinion.
- The financial statements for the previous financial period were approved by the resolution No. 5 passed by the Company's General Annual Meeting of Shareholders on 11st June 2014. According to the resolution No. 9, from the same day, net profit from previous year in the amount of 15.543 thousand PLN, was intended to increase the reserve capital in the amount of 11.539 thousand PLN and to dividend in the amount of 4.004 thousand PLN.
- The financial statement for the previous year was submitted in National Register Court (KRS) on 25th June 2014.

The identity of the auditing company and the auditor:

- The audit was conducted in head office of the Company on the basis of an agreement concluded on 8th April 2014 between the Company and Audytorium Biegli Rewidenci Grabowski, Pigoń Sp. P. – enrolled on the list of entities authorized to audit financial statements conducted by the Polish National Chamber of Statutory Auditors under No. 3488. On behalf of Audytorium the audit was conducted by Arkadiusz Grabowski, registered auditor No. 9706.

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- Audytorium Biegli Rewidenci Grabowski, Pigoń Sp. P. has been chosen as the auditor of the Company by resolution No. 25/2013 passed by Supervisory Board on 6th December 2013.
- The audit was conducted from 16th February 2015 until the date of the issue of the opinion. We were present at the Company's head office from 16th February 2015 to 5 March 2015.
- The auditing company and the auditor are independent from the Company being audited in accordance with paragraph 56. 3 and 4 of the Auditors Act from 7th May 2009 (Polish Law Journal of the year 2009, No. 27 item 649 with supplementary changes).

Availability of information and statements:

- The Company provided all information, explanations, and representations required during the course of the audit and provided a representation on the completeness of the information included in the accounting records, on the inclusion of all contingent liabilities, and post balance sheet events occurring up to date of the representation.
- The Company's Management has signed the letter of representation on 23rd March 2015 concerning the completeness, reliability and correctness of the financial statement presented for audit; disclosure in the additional information all contingent liabilities and non existence of events up to the end of the audit which could materially influence the data presented in the audited financial statements.
- At the same time we declare that that during the audit of the financial statements, there were no limitations on the scope of audit.

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II. Audit summary and financial analysis

The core business of the Company during audited period was the development activities such as construction and sale of houses, residential and commercial flats. In addition, the Company constructed and developed hotel facilities for its subsidiaries under a contract of general contracting.

In the audited period sales revenues amounted to 102.318 thousand PLN and compared to previous year decreased by 45%, that is by 82.492 thousand PLN. Costs of sales amounted to 81.733 PLN thousand and decreased by 47%. As a result, there was an increase in return on sales from 17% for previous year to 20% in audited period. The result on Company's operating activity amounted to PLN 9.080 thousand, and decreased by 52% compared to previous year. The result on financial activity increased by 285 thousand PLN, mainly as a result of income of interest from deposits in bank account increase.

In the final result the Company generated net profit in the amount of PLN 7.620 thousand, which is lower by 51% compared to previous year.

Total assets and liabilities at the end of the audited period amounted 334.863 thousand PLN, and increased by 18% compared to the last year. The main change is assets in inventory increase by 17.059 thousand PLN. It was mainly caused by work in progress, which increased by 28.907 thousand PLN compared to previous year, and amounted to 72.919 thousand PLN. On the balance sheet date the largest item of inventory were land presented as goods for resale. Participation of goods for resale within inventory at the end of audited period amounted to 42% and decreased by 2p% from the end of 2013 year. Also finished goods decreased by 14.549 thousand PLN and on 31st December 2014 amounted to 38.820 thousand PLN.

In the structure of Company's assets the main item were current assets, which at the end of audited period were 73% of total assets, like year before. Cash and cash equivalents amounted to 28.887 thousand PLN which is 9% of total Company's assets. In the fixed assets there was an increase of other long term financial assets. On the balance sheet day this assets increased by 14.102 thousand PLN and amounted to 84.053 thousand PLN which is 25% of total Company's assets.

The Company's assets is financed mainly by equity amounted to 203.609 thousand PLN, which decrease to 61% of the Company's total equity and liabilities. The long term liabilities decrease by 4p% to 8% of total equity and liabilities. The short term liabilities increase by 14p% to 31% of total equity and liabilities. The main item of long term liabilities in amount of 22.383 thousand PLN were bank loans with due date above 12 months from the balance sheet date. The short term liabilities on the 31st December 2014 increased by 117% comparing to the previous year, mainly as a result of increase of short term loans, issued bonds and received advance payments.

The decrease of sales revenue caused decrease of Company's return of total assets and return on equity ratios. Increase of work in progress while operational cost decreased affected on increase of the inventory turnover. The inventory turnover ratio increased from 454 days to 819 days in the year 2014.

The decrease in net profit translated into a lower level of profitability ratios excluding gross margin ratio, which increased from 17% in the previous year to 20% in the current year. The biggest change was in the return on equity ratio that has decreased from 8% to 3,78% in the current year.

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The debts of Company increased from 0,29 at the end of previous period to the level of 0,39 on the 31st December 2014, mainly as a result of 22.610 thousand PLN increase in received advanced payments. The same as at the end of year 2013, the fixed assets were covered by equity.

The increase of short term liabilities, which was bigger than increase of current assets, affected on liquidity ratios: current ratio and quick ratio II. On the 31st December 2014 current assets covered short term liabilities over two times. Quick ratio II decrease from 0,65 in the previous year to 0,51 in the current year. When analyzing the liquidity ratios, specific character of property development activity should be regarded – short term liabilities of prepayments for apartments are settled when the stock is sold. Therefore the liquidity ratios are on the safe level.

The Company's financial statements have been prepared on a going concern basis. The result of the audit of the Company's financial statement and ratio analysis do not indicate any threats for going concern in the nearest 12 months from the balance sheet date.

Based on the audit of the financial statements we issued an unqualified opinion dated 23rd March 2015.

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Statement of the financial position on 31st December 2014 r. (assets)

	A		B		C		Change (A-B) PLN '000	Change (A-B)/B %	Change (B-C) PLN '000	Change (B-C)/C %	End of current period Structure %	End of previous period Structure %	End of two years ago Structure %
	31.12 2014	31.12 2013	31.12 2013	31.12 2012	31.12 2012	31.12 2012							
ASSETS													
Fixed assets													
Property, plant and equipment	5 474	6 786	6 786	7 526	-1 312	-19%	-740	-10%	2%	3%			
Other intangibles	57	79	79	18	-22	-28%	62	352%	0%	0%			
Other financial assets	84 053	69 951	69 951	51 550	14 102	20%	18 400	36%	25%	18%			
Other assets	6	24	24	8	-18	-75%	16	201%	0%	0%			
	89 590	76 840	76 840	59 102	12 750	17%	17 738	30%	27%	21%			
Current assets													
Inventory	191 878	174 819	174 819	206 826	17 059	10%	-32 008	-15%	57%	72%			
Trade and other receivables	13 285	22 127	22 127	10 587	-8 842	-40%	11 540	109%	4%	4%			
Current tax assets	591	0	0	0	591	0%	0	0%	0%	0%			
Other financial assets, incl. loans Uninvoiced receivables from the settlements of long-term contracts	10 549	3 974	3 974	0	6 574	165%	3 974	0%	3%	0%			
Cash and cash equivalents	83	0	0	1 141	83	0%	-1 141	-100%	0%	0%			
	28 887	4 982	4 982	8 727	23 905	480%	-3 745	-43%	9%	3%			
	245 273	205 902	205 902	227 282	39 371	19%	-21 380	-9%	73%	79%			
Total assets	334 863	282 742	282 742	286 383	52 121	18%	-3 642	-1%	100%	100%			



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Statement of the financial position on 31st December 2014 (equity and liabilities)

	A		B		C		Change (A-B)	Change (A-B)/B %	Change (B-C)	Change (B-C)/C %	End of current period Structure %	End of previous period Structure %	End of two years ago Structure %
	31.12 2014	31.12 2013	31.12 2013	31.12 2012	31.12 2012	31.12 2012							
EQUITY AND LIABILITIES	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000	PLN '000							
Equity													
Issued share capital	4 004	4 004	4 004	4 004	4 004	0	0%	0	0%	1%	1%	1%	1%
Reserves	531	534	534	534	534	-4	-1%	0	0%	0%	0%	0%	0%
Retained profits	199 074	195 455	179 912	179 912	179 912	3 619	2%	15 543	9%	59%	69%	63%	63%
	203 619	199 993	184 450	184 450	184 450	3 616	2%	15 543	8%	61%	71%	64%	64%
Long-term liabilities													
Long-term credits and bank borrowings	22 383	10 684	1 414	1 414	1 414	11 699	109%	9 270	655%	7%	4%	0%	0%
Other financial liabilities(lease)	49	218	206	206	206	-170	-78%	12	6%	0%	0%	0%	0%
Debt instrument liabilities	0	19 600	0	0	0	-19 600	-100%	19 600	0%	0%	7%	0%	0%
Deferred income tax provision	2 737	2 228	3 992	3 992	3 992	509	23%	-1 764	-44%	1%	1%	1%	1%
Retirement benefit liabilities (a provision)	147	154	125	125	125	-7	-5%	29	23%	0%	0%	0%	0%
Trade and other liabilities	2 163	2 054	5 689	5 689	5 689	109	5%	-3 635	-64%	1%	1%	2%	2%
	27 479	34 938	11 426	11 426	11 426	-7 460	-21%	23 512	206%	8%	12%	4%	4%
Short-term liabilities													
Credits and borrowings	20 193	2 623	11 719	11 719	11 719	17 570	670%	-9 097	-78%	6%	1%	4%	4%
Other financial liabilities (lease)	170	166	888	888	888	3	2%	-722	-81%	0%	0%	0%	0%
Debt instrument liabilities	20 403	607	0	0	0	19 796	3262%	607	0%	6%	0%	0%	0%
Short-term provisions	2 029	1 242	1 347	1 347	1 347	787	63%	-105	-8%	1%	0%	0%	0%
Current income tax liabilities	0	10	1 236	1 236	1 236	-10	-100%	-1 226	-99%	0%	0%	0%	0%
Trade and other liabilities	60 980	43 163	75 219	75 219	75 219	17 818	41%	-32 057	-43%	18%	15%	26%	26%
Accruals/prepayments relating to long-term contract settlements			98	98	98	0	0%	-98	-100%	0%	0%	0%	0%
	103 775	47 811	90 507	90 507	90 507	55 965	117%	-42 697	-47%	31%	17%	32%	32%
Total equity and liabilities	334 863	282 742	286 383	286 383	286 383	52 121	18%	-3 642	-1%	100%	100%	100%	100%



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Statement of total income for the financial period from 1st January 2014 to 31st December 2014

	A	B	C	Change (A-B) PLN '000	Change (A-B)/B %	Change (B-C) PLN '000	Change (B-C)/C %	End of current period Structure %	End of previous period Structure %
	End of current period PLN '000	End of previous period PLN '000	End of two years ago period PLN '000						
Sales revenue	102 318	184 810	158 751	-45%	26 059	16%	100%	100%	100%
Cost of sales	81 733	153 367	127 147	-47%	26 220	21%	80%	83%	80%
Gross profit (loss) on sales	20 585	31 443	31 604	-35%	-161	-1%	20%	17%	20%
Selling costs	3 720	5 142	4 865	-28%	277	6%	4%	3%	3%
Administrative expenses	7 458	7 360	7 156	1%	204	3%	7%	4%	5%
Other operating revenues	394	303	287	30%	16	6%	0%	0%	0%
Other operating costs	721	171	201	322%	-30	-15%	1%	0%	0%
Profit (loss) on operating activities	9 080	19 073	19 669	-52%	-596	-3%	9%	10%	12%
Financial revenues	1 533	1 382	2 168	11%	-786	-36%	1%	1%	1%
Financial costs	1 168	1 302	256	-10%	1 046	409%	1%	1%	0%
Gross profit (loss)	9 445	19 153	21 581	-51%	-2 428	-11%	9%	10%	14%
Income tax	1 825	3 610	4 114	-49%	-504	-12%	2%	2%	3%
Net profit (loss) from continuing operations	7 620	15 543	17 467	-51%	-1 924	-11%	7%	8%	11%
Other total income – reclassified in relations to the disposal of shares in a subsidiary			-509	0%	509	-100%	0%	0%	0%
Total income	7 620	15 543	16 958	-51%	-1 415	-8%	7%	8%	11%



INPRO S.A.**Audit Report on the Financial Statements****for the financial period from 1st January 2014 to 31st December 2014****The Company's financial standing, result and profitability**

The following ratios describe the Company's activity, its financial performance and profitability for the financial period as well as the Company's financial standing as at the balance sheet date compared to the previous years.

		Unit	Current period	Previous period	Period two years ago
<u>Assets ratios</u>					
- return on total assets	$\frac{\text{sale revenue}}{\text{average total assets}}$		0,33	0,65	0,52
- return on fixed assets	$\frac{\text{sale revenue}}{\text{average fixed assets}}$		1,23	2,72	2,82
- return on equity	$\frac{\text{sale revenue}}{\text{average equity}}$		0,51	0,96	0,88
- debtors turnover	$\frac{\text{average receivable} \times 365 \text{ days}}{\text{sale revenue}}$	days	63	32	19
- inventory turnover	$\frac{\text{average inventory} \times 365 \text{ days}}{\text{operational cost}}$	days	819	454	595
<u>Profitability ratios</u>					
- net profitability of sales	$\frac{\text{net profit/loss}}{\text{sale revenue}}$	%	7,45	8,41	11,00
- gross margin	$\frac{\text{gross profit/loss}}{\text{sale revenue}}$	%	20,12	17,01	19,91
- return on assets	$\frac{\text{net profit/loss}}{\text{average total assets}}$	%	2,47	5,46	5,71
- return on equity	$\frac{\text{net profit/loss}}{\text{average equity}}$	%	3,78	8,09	9,71

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		Unit	Current period	Previous period	Period two years ago
<u>Liability ratios</u>					
- liability ratio	$\frac{\text{total amount of long-term and short-term liabilities}}{\text{total equity and liabilities}}$		0,39	0,29	0,36
- creditors turnover	$\frac{\text{average short-term liabilities. x 365 days}}{\text{operational costs}}$	days	338	165	325
- fixed assets coverage	$\frac{\text{net assets + provisions}}{\text{fixed assets}}$		2,27	2,60	3,12
- stability of the financing structure	$\frac{\text{net assets + provisions + long-term liabilities}}{\text{total equity and liabilities}}$		0,69	0,83	0,68
<u>Liquidity ratios</u>					
- Current ratio	$\frac{\text{total current assets}}{\text{short-term liabilities}}$		2,36	4,31	2,51
- Quick ratio II	$\frac{\text{total current assets - inventory}}{\text{short-term liabilities}}$		0,51	0,65	0,23
- Quick ratio III	$\frac{\text{trade securities + cash}}{\text{short-term liabilities}}$		0,28	0,10	0,10
<u>Capital market ratios</u>					
- profit/loss per share	$\frac{\text{net profit/loss}}{\text{amount of issued shares}}$	PLN	0,19	0,39	0,44
- P/E per share	$\frac{\text{market price per share}}{\text{profit/loss per share}}$		27,53	11,44	8,34
- dividend yield (for public shares)	$\frac{\text{dividend per share}}{\text{market value of single share}}$	%	1,91	0,00	5,49
- dividend payout rate	$\frac{\text{dividend per share}}{\text{net profit per share}}$	%	52,55	0,00	45,85
- equity per share	$\frac{\text{equity}}{\text{amount of issued shares}}$	PLN	5,09	4,99	4,61

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III DETAILED PART

Description of the accounting system:

- The Company possesses the updated accounting policy which are in accordance with Accounting Act. Applicable rules for determining financial results, assets and liabilities valuation and costing are in compliance with International Financial Reporting Standards (IFRS) and related interpretations announces by European Commission, and in unregulated aspects – in accordance with requirements of the Accounting Act and issued implementing regulations.
- The Company's rules of valuations are in compliance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) since the Resolution No. 2 of General Meeting of Shareholders from 21st September 2010.
- The accounting policies are applied in the consistent manner. Closing balance at the end of the previous year was properly brought forward at the opening balance of the current accounting period.
- The audited transactions have been recorded in a complete and clear manner and are properly included in the books of accounts. The audited accounting entries were complete and accurate, and were posted on the basis of accounting documents. The financial statements are based on the books and records of the Company. The accounting documents, books of accounts and financial statements are maintained in a proper manner.
- The books are kept in the computer accounting system in the reliable, faultless and verifiable manner. The methods of accounting data access protection are enough. The accounting documents, books of accounts and financial statements are maintained in a proper manner.
- Stocktaking was carried out properly in the accounting period with the accordance of Accounting Act. The results of the stocktaking were included in the Company's books. The Auditor observed the stocktaking and accepted it as properly conducted.
- Audit of the internal control system and the reliability of particular financial statements data of the Company shows that internal control system secures correct and reliable bookkeeping.



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The valuation of assets, liabilities, financial results and other incomes:

- The Company's assets, liabilities, financial results and other incomes are included in the statement of financial position and statement of total income in accordance with accounting policy and in compliance with requirements of International Financial Reporting Standards (IFRS).
- Shares in subsidiaries shown in separated financial statements are presented in purchase price. Assets, liabilities and financial results in this financial statements relates to INPRO S.A. as a Parent Company in Capital Group INPRO. The Company also prepared consolidated financial statements for the year 2014 with the date 23rd March 2015 which contains total assets and incomes of all entities included in Capital Group INPRO. Consolidated value of Capital Group's assets at the end of 31st December 2014 was 371.326 thousand PLN, consolidated net profit for the year 2014 was 8.172 thousand PLN and consolidated equity was 207.027 thousand PLN.

Assessment of completeness the other components of the Financial Statements:

- Introduction to the financial statements and the notes to the financial statements cover all significant information described by the International Financial Reporting Standards (IFRS), and in unregulated aspects – in accordance with requirements of the Accounting Act and are in a complete and accurate manner.
- Statement of the changes in equity and cash flow statement were in all material aspects prepared properly in accordance with statement of total income, statement of the financial position and accounting books.

Assessment of completeness the Board of Directors' report:

- The Board of Directors' report is complete in accordance to Accounting Act and Regulation of the Minister of Finance dated 19th February 2009 about current and periodic information reported by the issuers of securities and conditions of recognize relevant information demanded by law of country not being member of Union, and contained information are consistent with the audited financial statement for current period.