



**Policy of the Echo Investment S.A.
Group on engaging the Group
Auditor and its network firms to
provide non-audit services**

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Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

Table of contents

1. Subject matter, scope and date of entry into effect	3
2. Definitions	4
3. Policy users	6
4. Scope of services covered by the Policy.....	7
5. Group Auditor	7
6. Limitations on the purchase of services - permissible and prohibited services	8
7. The Caps on the value of Non-audit Services acquired.....	14
8. Role of the Audit Committee	19
9. Sanctions arising from failure to observe these policies	20

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

1. Subject matter, scope and date of entry into effect

This policy intends to specify the principles applied by Group Entities for the purchase of Non-audit Services from the Audit Firm appointed to audit stand-alone and consolidated financial statements of the Company. The Company, as a Public-Interest Entity, is subject to a number of regulations applicable to the fulfilment of certain requirements concerning independence of the statutory auditor and avoidance of conflicts of interests.

This document was drawn up by the Audit Committee of Echo Investment S.A., being the parent undertaking in the Echo Investment S.A. Group, based on the following documents:

- a) Regulation no. 537/2014 on specific requirements regarding statutory audit of Public-Interest Entities;
- b) The Act on Statutory Auditors, Audit Firms and on Public Supervision dated 11 May 2017.

The policy drawn up based on the aforesaid documents fulfill all the requirements contained therein, and thus support independence and avoidance of conflicts of interests, as well as the principles of supervision over fulfilment of those requirements by statutory auditors.

This document applies to:

- all the entities of the Group. i.e.:
 - Echo Investment S.A.
 - All the subsidiaries directly and indirectly controlled by Echo S.A., irrespective of the location of the respective subsidiary's registered office.
- and to Parent Entities of Echo Investment S.A.

The principles contained in this Policy do not apply to jointly controlled entities, associates, over which the Company does not have control but has a significant influence, or to the remaining entities, in which the Group only holds investments, however has neither control over them, nor joint control nor exerts a significant influence.

The management of the Company maintains, on an ongoing basis, the register of the Group's entities including: parent, its subsidiaries and, in addition, the higher-level parent entities.

The policy has been prepared and approved by the Audit Committee on 23 March 2018 and adopted and approved by the Supervisory Board. The regulations contained in the document apply from 1 January 2017, except for services for which the policy is retrospective (which services are enumerated in point 6 hereof).

In the case of services connected with designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems, this policy applies retrospectively - as regards those services that are prohibited to be rendered by the Group Auditor starting from the first day of the financial year preceding the financial year being audited. Accordingly, in this case, the Policy applies starting from 1 January 2016. Detailed regulations in this respect are contained in point 6 hereof. If an Audit Firm provided prohibited services in the periods covered by restrictions, such firm cannot be appointed as a statutory auditor of the Group.

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

2. Definitions

For the purposes of this document, the notions below will have the following meanings:

Public-Interest Entity – means a public-interest entity referred to in Regulation (EU) no. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, and in article 2 point 9 of the Act;

Company – the capitalised word “Company” means in this document Echo Investment S.A.;

Parent entity (or controlling entity) – according to article 3 of the Accounting Act this refers to an entity being a commercial partnership or company or a State enterprise, exercising control over a subsidiary entity and, in particular:

- a) an entity holding, directly or indirectly the majority of the total number of votes in the decision-making body of a subsidiary entity, also under agreements with other persons entitled to vote and exercising their voting rights in accordance with the intent of the controlling entity; or
- b) an entity being a shareholder of a subsidiary entity and entitled to manage the financial and operating policy of this subsidiary entity in a direct way or through the persons or entities appointed thereto under a contract concluded with other persons entitled to vote and holding together with the controlling entity, under the company or partnership articles or deed, the majority of the total number of votes in the decision-making body; or
- c) an entity being a shareholder of a subsidiary entity and entitled to appoint and recall a majority of members of the managing, supervising or administering bodies of the subsidiary entity; or
- d) an entity being a shareholder of a subsidiary entity in which more than a half of the members of its managing, supervisory or administering bodies in the preceding financial year, during the current financial year and until drawing up financial statements for the current financial year are persons appointed to fulfill those functions as a result of the controlling entity exercising its voting right in bodies of this subsidiary entity, unless another entity or person has the rights referred to in letters a, c, or e in respect of that subsidiary entity; or
- e) an entity being a shareholder of a subsidiary entity and entitled to manage financial and operating policy of this subsidiary entity under a contract concluded with said subsidiary entity or articles or deed of this subsidiary entity;

In Echo Investment Group the controlling entity is Echo Investment S.A.

Higher-level parent entity (or Parent Entity of the Company) – according to article 3 of the Accounting Act this refers to an entity being a commercial partnership or company or a State enterprise, which is a controlling entity of the lower-level controlling entity; in the context of this Policy, the term “higher-level parent entity” refers to all parents (one or more, whichever is applicable) of Echo Investment S.A. having its registered seat in European Union (except for Chapters 6.6. and 7.5. of “Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services”, where this definition is extended to parents outside EU); the Company maintains and makes available through internet website up-to-date a list of the higher-level parent entities with distinction between parent entities having their registered seat in the European Union and outside of the European Union;

Subsidiary (or controlled undertaking) – according to article 3 of the Accounting Act this refers to an entity being a commercial partnership or company (under the Polish Commercial law) or an entity formed and operating under the provisions of foreign commercial law and controlled directly or indirectly by a controlling entity; for the purpose of this document the term “subsidiary” includes also a closed-end investment fund (FIZ), controlled by the Company (e.g. by the way of holding the majority of issued certificates and other ways of exercising the control);

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

Group – means the Echo Investment S.A. group , i.e. the Company and its subsidiaries;

Group Entity – Echo Investment S.A. or a commercial partnership or company or an entity formed and operating under the Polish Commercial law or commercial law of a foreign country, directly or indirectly controlled by Echo Investment S.A.; for the purpose of this document the term “Group Entity” includes also a closed-end investment fund (FIZ), controlled by the Company (e.g. by the way of holding the majority of issued certificates and other ways of exercising the control); the Company holds up-to-date list of Group Entities;

Exercising control over another entity – according to article 3 of the Accounting Act this refers to the ability of an entity to manage the financial and operating policy of another entity, directly or indirectly, in order to derive economic benefits from the activity thereof;

Audit Committee – is a body that operates in accordance with Chapter 8 of the Act and under the Company's articles of association;

Audit Firm – means an audit firm authorised to perform statutory audits and enrolled on the list of audit firms entitled to perform audit and financial revision activities carried by the National Chamber of Statutory Auditors (also interchangeably: "auditor");

Act – the Act on Statutory Auditors, Audit Firms and on Public Supervision dated 11 May 2017 (Journal of Laws of 2017, item 1089);

Accounting Act – the Accounting Act of 29 September 1994 (Journal of Laws of 2012, item 1047, as amended);

Regulation – Regulation (EU) no. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (EU OJ L 158 of 2014);

Group Auditor – means the Audit Firm and entities belonging to the same Audit Firm's network appointed to perform the audit of the consolidated financial statements of the Group;

Audit Firm's Network – according to the Act means a structure:

- a) intended for co-operation, to which the statutory auditor or the Audit Firm belongs and,
- b) intended for division of profits and/or costs, or which functions within shared ownership relationships, or which has its a shared control system or management, or which has a shared quality control policy and procedures, or which has a shared business strategy, or which uses a shared name or a considerable part of resources;

Statutory Financial Statements – means the undertaking's annual stand-alone and consolidated financial statements referred to in article 45 and 55 of the Accounting Act, respectively;

Statutory Audit – an audit of the annual consolidated financial statement of a group or an audit of an annual financial statement, which must be carried out under article 64 of the Accounting Act;

Review of a Financial Statement - a review of a semi-annual consolidated or stand-alone financial statement carried out in accordance with the requirements of the Minister of Finance Regulation of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions of acknowledging equivalence of information required under the law of a non-member state;

Financial Information System – means any IT system that aggregates or generates source data for the purpose of financial statements. A financial information system also covers systems that are part of the management control over financial reporting and comprises automatic and manual processes, procedures, inspections, data, computer hardware and software, and personnel supporting the system operation and maintenance of its functions. A financial information system comprises one or more applications used for the following purposes:

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

- obtaining, processing, maintaining, transferring and reporting data concerning business (financial) events that affect the company's accounting books and/or financial statements,
- supporting actions connected with budgeting and/or financial planning, which are used by the company managers to formulate accounting opinions and estimates and cause entries in the books to be made (e.g. provisioning updates),
- collecting and reporting cost information used for reporting financial results being the subject of an audit,
- endorsing journal entries, preparing notes or a financial statement.

Legal Services – means any services, the provider of which must hold authorisations to act before courts in the legal system in which those services are to be provided, or was appropriately prepared and authorised to practise as a lawyer. Legal Services may cover a broad and diverse range of fields, including services concerning the undertaking's corporate and commercial services, such as assistance in conclusion of contracts, management of court actions, legal advisory and support in mergers and acquisitions, as well as assistance for customers' internal legal departments;

Non-audit Services – means any services other than the services of statutory audits of financial statements, acquired from the Group Auditor;

Permissible Services – services other than statutory audit of financial statements, provision of which is permitted by the statutory auditor or Audit Firm to the Public-Interest Entity, referred to Section 6.3 of this Policy;

Prohibited and Non-Prohibited Services – services, which according to the Regulation cannot be provided to the Public-Interest Entity by its statutory auditor or Audit Firm to the Public-Interest Entity, referred to in Art. 5, Section 1 of the Regulation and Section 6.2 of this Policy;

Statutory (Registered) Auditor – a person entered in the register of statutory auditors, who meets the criteria listed in Art. 4 of the Act;

Audit Oversight Commission – means the Polish Audit Oversight Commission (Komisja Nadzoru Audytowego), as defined in Art. 11 of the Act.

3. Policy users

The policies contained herein are addressed primarily to persons in management positions in Group Entities, who take decisions on engaging Audit Firms, consultants, lawyers, business and tax advisors, and experts in other similar fields to provide services. The understanding and use of these policies is not limited to the above entities only - other employees who may come into direct contact with external advisors, or recruiters for management positions, should also understand and comply with the regulations of these policies.

Management boards of Group Entities are responsible for implementing and applying the rules contained in the policy, irrespective of whether particular implementation actions will be delegated to lower-level personnel or not. The Group Entities' management boards should develop effective control tools ensuring that business actions taken comply with this policy with no exceptions.

The supervision over the use of this Policy is exercised by the Audit Committee, which within the tasks assigned by the Supervisory Board is responsible for monitoring independence of the Statutory Auditor and of an entity entitled to audit financial statements – in accordance with article 3.1.d of the By-laws of Echo Investment S.A. Audit Committee. The Director of the Financial Department is a person supporting the Audit Committee in the performing its supervision over the application of this Policy.

The consequences of failures to comply with this Policy are described in point 9 below.

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

4. Scope of services covered by the Policy

This document applies to any Non-audit Services purchased by the Group Entities from the Audit Firm or the Audit Firm Network. The Act indicates a closed list of Permissible Services that can be purchased from the Group Auditor. Other services, which are not placed on the Permissible Services list, cannot be purchased by Group Entities.

The Regulation indicates a list of services, the purchase of which from an Audit Firm is prohibited, however the same documents show that each member state can modify and broaden that list of prohibited services. In a situation where a member state has not introduced local regulations (did not choose the options available in the Regulation or broaden the list of prohibited services), then the wording of the Regulation applies. Detailed implications of such modifications or lack thereof are described further herein. The Group Entities and Higher-level parent whose registered offices are located in the European Union outside Poland follow the restrictions arising from the Regulation and specific regulations of the given country and are obliged to monitor, on an on-going basis, the local regulations and Company's guidelines in this respect. Those entities inform the Audit Committee of the local requirements concerning limitations on the purchase of Non-audit Services from the Group Auditor.

5. Group Auditor

Importantly, this Policy regulates only the principles connected with Non-audit Services purchased by the Group Entities. The policies concerning the appointment of the Audit Firm for auditing financial statements were set out in a separate document approved by the Audit Committee, named "*Policy on appointing an Audit Firm to audit financial statements of Echo Investment S.A. and Group Entities that are to be audited by the same audit firm as parent entity*". Information on the entity appointed as the Group Auditor is published on the Group's website in the "*Investor Relations*" section. As the Regulation and the Act refer not only to a concrete entity but also to all the entities in the network of the Audit Firm, this document has similar applicability.

The period during which provision of services is prohibited starts usually on the first day of the first period for which the firm performs the audit, however certain regulations have more extensive scope - details can be found in point 6.4 hereof.

This Policy does not regulate the purchase of services from other entities (those not included within the Group Auditor), e.g.:

- statutory auditors or audit firms outside the Group Auditor network, which were engaged to audit subsidiaries' stand-alone financial statements,
- statutory auditors or audit firms outside the Group Auditor network, which were engaged to audit or review subsidiaries' financial (reporting) packages,
- professional advisory firms outside the Group Auditor network,
- Audit Firms that are not the Group Auditor as at the time of service purchase.

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

6. Limitations on the purchase of services - permissible and prohibited services

6.1. General principles for the provision of Non-audit Services by an Audit Firm

The Audit Firm appointed by the Company should first of all fulfil the independence criteria and refrain from participating in decision-making processes both at the Subsidiary, Parent Entity and Higher-Level Parent Entity levels. This arises from the regulations and standards governing the process of auditing financial statements. The Audit Firm is not allowed to perform a statutory audit if any direct or indirect relation occurs - of a financial or business nature, in the form of an employment relationship or of any other type, including a relation involving the provision of additional non-audit services – between the statutory auditor, audit firm and/or its network and the audited entity, based on which an objective, reasonable and informed third party could conclude that the independence of a statutory auditor or an audit firm is threatened.

The prerequisites indicating a threat to the independence of a Statutory Auditor or an Audit Firm can be broken down into two categories:

- a) A threat of drawing one's own benefits – occurs in a situation where a risk exists that potential financial or non-financial benefits affected the opinion of the Statutory Auditor or the Audit Firm;
- b) A threat to self-control – occurs in a situation where the Statutory Auditor or the Audit Firm improperly assesses the services earlier provided to the customer (e.g. a situation where the team members or other network representatives provide the customer with services/advisory that have an impact on the subject matter of an audit);
- c) A threat of promoting the customer's interests – occurs where the Statutory Auditor or the Audit Firm promotes the customer's view to the extent threatening its objectivity;
- d) A threat of excessive familiarity - occurs in the case of a long and/or close co-operation between the Statutory Auditor or the Audit Firm and the customer, where a risk of excessive sympathy with the customer's interests arises, which considerably restricts criticism of the customer's procedures and work;
- e) A threat of intimidation - occurs in a situation where pressure restricting the Statutory Auditor's or the Audit Firm's objectivity is exerted by the customer or a third party.

If prerequisites are identified that may indicate a threat to independence, the Audit Firm is obliged to apply safeguards in order to eliminate them. If a threat to objectivity is significant, the Audit Firm must resign from the audit.

6.2. Prohibited Services

Generally, the term “Prohibited” and “Non-Prohibited Services” would be more applicable for foreign subsidiaries of the Company, based in EU. For the Company and other Group Entities operating in Poland, the concept of Permissible Services is more relevant. The term “Permissible Services” has a different meaning than “Non-Prohibited Services” and has been described in the next chapter.

Article 5 section 1 of the Regulation indicates a list of Prohibited Services that must not be provided by the Group Auditor. The Regulation enables local regulators to broaden the list of Prohibited Services, where they consider it appropriate because the provision thereof may threaten the Statutory Auditor's or Audit Firm's independence.

The prohibition of the provision of services placed on the list applies in the following periods:

- a) From the beginning of the audited period to the issue of an audit report and;

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

- b) During the financial year directly preceding the audited period, with respect to the services of designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.

The list of Prohibited Services is contained in the table below:

Table 1 List of Prohibited Services

Services	
a) tax services relating to:	i. preparation of tax forms
	ii. payroll tax
	iii. customs duties
	iv. identification of public subsidies and tax incentives unless support from the Statutory Auditor or the Audit Firm in respect of such services is required by law
	v. support regarding tax inspections by tax authorities unless support from the Statutory Auditor or the Audit Firm in respect of such inspections is required by law
	vi. calculation of direct and indirect tax and deferred income tax
	vii. provision of tax advice
b)	services that involve playing any part in the management or decision-making of the audited entity ¹
c)	bookkeeping and preparing accounting records and financial statements
d)	payroll services
e)	designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems
f)	valuation services, including valuations performed in connection with actuarial services or litigation support services
g) legal services, with respect to:	i. the provision of general counsel
	ii. negotiating on behalf of the audited entity and
	iii. acting in an advocacy role in the resolution of litigation
h)	services related to the audited entity's internal audit function
i)	services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity
j)	promoting, dealing in, or underwriting shares in the audited entity
k) human resources services, with	i. management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
	a. searching for or seeking out candidates for such position or

¹ Audited entity in the context of the table above is any Group Entity or Parent of the Company, irrespective of whether its statutory financial statements are audited by the Group Auditor or not (see also Example 4 for reference);

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

Services	
respect to:	b. undertaking reference checks of candidates for such positions
	ii. structuring the organisation design and
	iii. cost control

During the period from the Act entering into effect, i.e. 21 June 2017 to 31 December 2017 transitional provisions apply, under which services that are not placed on the list of Prohibited Services may be provided by the Group Auditor if a contract for the provision of such services was concluded before 21 June 2017. However, the final service completion deadline may not be later than 31 December 2017.

6.3. Permissible Services

In accordance with the Regulation, the national regulator may broaden the list of Prohibited Services, if it finds that the provision thereof threatens Statutory Auditor' independence. In the case of Poland, all services other than auditing financial statements are prohibited, apart from those that the legislator found permissible in the Act. Consequently, beginning with 1 January 2018, all the Group Entities whose registered offices are in Poland are not allowed to purchase from the Group Auditor any services other than audits of financial statements or the services listed in Table 2 below. The services listed in the table below can be provided only when they do not relate to activities concerning the entity's tax policy and once the Audit Committee's consent has been obtained (an impact on the total fees payable to the Auditor in the given period should be analysed, in accordance with the guidelines contained in Chapter 7 hereof). The list of Permissible Services is, in effect, a narrow sub-set of Non-Prohibited Services as referenced in the previous section.

Table 2 Permissible Services

Services	
a)	the services referred to in article 15 section 3 of the Act on the Functioning of Co-operative Banks, their Associations, and Associating Banks, dated 7 December 2000
b)	the services in connection with the audited entity's ² prospectus, provided in accordance with the national standard for related services and consisting in following agreed on procedures, including
c)	assurance services in relation to pro forma financial information, forecast or estimated results being placed in the audited entity's prospectus
d)	examination of historical financial information for a prospectus referred to in the Commission Regulation (EC) no. 809/2004 od 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements

² The same meaning as in the table under section 6.2.

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

	Services
e)	verification of consolidation packages
f)	confirmation of fulfilment of the conditions contained in loan agreements, based on an analysis of financial information from financial statements audited by the Group Auditor
g)	assurance services in relation to corporate governance, risk management and corporate social responsibility reporting
h)	services consisting in evaluating compliance of the information disclosed by financial institutions and investment firms with the requirements applicable to the disclosure of information on capital adequacy and variable remuneration components
i)	confirmations related to financial statements or other financial information intended for supervisory authorities, supervisory board or another supervisory body of the company or its shareholders which exceed the scope of a statutory audit and which are to assist those authorities in fulfilment of their statutory obligations

6.4. Period of the prohibition of the provision of services

The period during which the Group Auditor is not allowed to provide prohibited services in favour of any Group Entity and Parent of the Company starts on the date when the first audited period starts and lasts until the audit report is issued for the last contracted period. This period has been extended until the beginning of the year preceding the first financial year audited, if the services provided refer to procedures of implementing internal control, risk management, and IT systems. An illustrative example follows:

Example 1. The period during which services are prohibited

If the Group appointed the audit firm X as its statutory auditor for the Group for two years, i.e. for the periods from 1 January to 31 December 2018 and from 1 January to 31 December 2019, then none of the Group Entities and Parent of the Company can purchase prohibited services from the audit firm X and any of the entities from the audit firm X's network in the period:

- from 1 January 2018 to 31 December 2019 and
- afterwards, until the audit of the Group's consolidated financial statement for the period ending on 31 December 2019 is complete and a respective audit report is issued
- for services of implementing internal control, risk management, and IT systems - also in the period from 1 January to 31 December 2017 (the preceding year).

In the case of contracts signed before the beginning of the audited period, prohibited services may be provided on a condition that their provision will end before the first day of the period to be audited. In the case of any doubts, the moment of ending the provision of services should be confirmed by appropriate project documentation. Thus, it is not permitted to conclude a contract with the auditor earlier, if the service itself will be provided in the period to be audited. This situation is illustrated in the example below:

Example 2. Prohibited services – termination of contracts before the audited period begins

Entity Z controlled by the Group signed in 2017, with audit firm X, a contract for permanent (monthly) provision of services of foreign employees' payroll tax settlement. One of the firms from the audit firm X's network (firm X1) settles the payroll taxes for each month separately and in addition draws up annual tax statements. The contract was signed for an indefinite term, and in accordance with its provisions can be terminated with a 3-month notice period. On 30 August 2018, the Group appointed audit firm X to be its statutory auditor for the Group's consolidated financial statements in

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

the financial years 2019 and 2020.

In accordance with the list of permissible services presented in point 6.3 of this Policy, tax services related to payroll taxes are not included. Entity Z should terminate the contract on the provision of those services before 30 September 2018, so that those services are ended at the latest on 31 December 2018. The provision of any services connected with the aforesaid contract after 31 December 2018 (e.g. a preparation of the annual settlement for the year 2018 after 1 January 2019) will be excluded. Entity Z should keep documentation confirming that the co-operation with audit firm X1, belonging to the audit firm X's network in respect of tax advisory services ended before 31 December 2018.

An invoice for the services provided until 31 December 2018 may be settled following 1 January 2019, however, it should explicitly show that it refers to a period from before 1 January 2019.

In the case of certain prohibited services, the regulator extended the period during which an audit firm is not allowed to provide such services, by adding the year preceding the audited period (cooling-in period). The following services were covered by the above procedure:

- designing and implementing internal control procedures;
- designing and implementing risk management procedures related to the preparation and/or control of financial information
- designing and implementing financial information technology systems.

The cooling-in period applies to financial periods starting after 1 January 2017, thus any Group Entity must be sure that it did not purchase from the Group Auditor any of the services specified above in the period from 1 January to 31 December 2016 (the extended applicability period) or during the year for which the consolidated statements will be audited, e.g. 2017 and the subsequent years during which audits will be carried out by the same Audit Firm). The cooling-in period will also apply in the year following the last year for which the consolidated financial statement is audited, until the audit report for that year is issued.

6.5. Services provided outside Poland in the EU

The lists of services contained in Tables 1 and 2 applies only to Group Entities having their registered offices in Poland. The regulations governing the purchase of non-audit services from the Group Auditor may differ between the countries, as their final shape depends on local regulations that may be more liberal than those adopted in the country of the parent undertaking's registered office. Noticeably, under the Regulation, EU countries may permit - in their local regulations - the services presented in Table 1 and referred to in letter a) items i), iv), v), vi) and vii), and the valuation services referred to in letter f), provided that they fulfil the following requirements:

- a) they have no direct or have immaterial impact, separately or in the aggregate, on the audited financial statements;
- b) the estimation of the impact on the audited financial statements is comprehensively documented and explained in the additional report to the Audit Committee and,
- c) the statutory auditor or the Audit Firm comply with the principles of independence laid down in Directive 2006/43/EC.

In light of the above, while applying the policy on acquiring Non-audit Services from the Group Auditor, the Group Entities should take into account the local regulations applicable in the country of the given company's registered office.

If the Group Auditor provides Group Entities with any of the services contained in the Prohibited Service list, as a result of such services being permissible by local regulations of an EU country, the Audit

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

Committee should assess whether the Group Auditor's independence is threatened in connection with the provision thereof. The Audit Committee performs an assessment based on a statement of the service provider, containing an evaluation of threat factors and indicating the safeguards applied in order to keep the requisite degree of the Auditor's independence.

Irrespective of the national regulations, no services should be purchased from the Group Auditor, which considerably affect the Auditor's independence. Nor is it allowed to intentionally change the name of the service in the contract with the potential provider, so that the name does not qualify for the list of Prohibited Services. While examining the given service in terms of its permissibility, its business nature not its name should be analysed. The list of absolutely prohibited (in all the EU states and outside EU) services contains the following services:

- services that involve playing part in the management or decision-making of the audited entity;
- bookkeeping and preparing accounting records and financial statements;
- designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.

Those principles are illustrated by examples 3 and 4:

Example 3. Admissibility of certain services prohibited under local regulations

The Group appointed the audit firm X to be its statutory auditor for the consolidated financial statements for the years 2017 - 2018. The subsidiary Z has its registered office in the country ZED, which is an EU member state. The statutory auditor for the company Z is the firm X1 being a company from the X's audit network. The company Z has had for years a framework contract with X1 for the provision of tax services related to the calculation of corporate income tax liabilities and VAT.

The ZED's country local regulations take advantage of the option to determine principles other than those specified in article 5.1. of the Regulation and permit the provision of tax services related to calculation of direct and indirect taxes.

Is the Group entity allowed to continue the contract with the firm X1 in the years 2017 – 2018?

Solution

Yes. The entity should apply the ZED's country regulations, which in this case are more liberal than the provisions of the Regulation.

Example 4. Subsidiary being audited by a different audit firm vs. prohibited services

The Group appointed the audit firm X to be its statutory auditor for the consolidated financial statements for the years 2017 - 2018. The subsidiary Z has its registered office in the country ZED, which is an EU member state. The statutory auditor for the company Z is the local firm A that does not belong to the firm X's network. The company Z has had for years a framework contract with X1, which is a company from the audit firm X's network, concerning the provision of tax settlements related to customs duties.

The tax settlements related to customs duties are placed on the list of services prohibited under the Regulation, therefore they also apply in the country ZED.

Is the Group entity allowed to continue the contract with the firm X1 in the years 2017 – 2018, in connection with the fact that X1 is not the auditor of the subsidiary Z in the country ZED?

Solution

No. The entity should take into account the fact that X1 is a company belonging to the network of the

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

audit firm X, which, in turn, was appointed as the statutory auditor for the Group's consolidated financial statements for the years 2017 – 2018. As a result, the undertaking Z should end the contract on the provision of advisory services by a network firm, i.e. X1, regarding the customs duties, before 1 January 2017, despite the fact that X1 does not perform statutory audits of the company Z in the country ZED.

6.6. Services provided outside Poland, outside EU

Independence rules regarding Non-Audit Services provided to Group Entities and Higher-level parent, having a seat outside EU are different than those presented in previous chapters.

The list of Prohibited Services, as indicated in Table 1 and list of Permissible Services, as indicated in Table 2, do not apply in territories outside EU. Accordingly, the Group Auditor can provide Non-Audit Services to the Group Entities or Parent of the Company, if such service is not prohibited under the local laws. It is the responsibility of each Group Entity or Higher-level parent to ensure which services are permitted, and which are not under the local laws. Irrespective of the local regulations, no services should be purchased from the Group Auditor, which considerably affect the auditor's independence. Services, which considerably affect the auditor's independence and absolutely cannot be performed by the Group Auditor include the following:

- services that involve playing part in the management or decision-making of the audited entity;
- bookkeeping and preparing accounting records and financial statements;
- designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems.

Before a Non-Audit Service proposal is accepted, an assessment needs to be performed, whether the Group Auditor's independence can be impaired in connection with the given service. If, based on such assessment, independence may potentially be impaired, the issue should be discussed with the Group Auditor. For every service, which may cause any doubts with regards to the auditor's independence the Company should obtain from the Group Auditor a statement with its own assessment of independence in connection with the proposed Non-Audit Service before the service proposal is accepted (See Schedule 5, Statement made in connection with the engagement for Non-audit Services). The statement should contain a list of proposed safeguards, which are adequate to eliminate the risk of independence impairment. The Group Auditor can only provide the Non-Audit Service if it can justify that the service does not have any impact on its objectivity, professional judgment and the auditor's opinion.

In case Non-Audit Service is performed for a Group Entity or Parent of the Company having a seat outside EU and this entity is a Public Interest Entity, then the Prohibited Services list from Table 3 would apply.

7. The Caps on the value of Non-audit Services acquired

7.1. General guidelines

The provision of Permissible Services listed in Table 2 point 6.3 (and in the case of foreign subsidiaries – the provision of non-prohibited services, described in point 6.2) other than a statutory audit, is limited as to their value (the "Cap"). The audit firm's fees for the provision of services **required** by national and EU regulations (i.e. the services, which are required by law to be performed by a registered auditor), other than prohibited services, is not included in the calculation of the Cap. The examples of such services have been presented in Schedule no. 1.

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

If the Audit Firm provides to the Group Entities or Higher-level parent, Permissible Services (or Non-Prohibited Non-Audit Services, if appropriate) under article 4 of the Regulation, the total fees for such services in a given year will be limited to no more than 70% of the fees paid to the Audit Firm in this year by the Group Entities and its Higher-level parent for the statutory audits.

In addition, if the Audit Firm has been providing for a period of at least three consecutive years, to the Group or its Higher-level parent, Non-Prohibited non-audit services (or Permissible Services, if appropriate), under article 4 of the Regulation, the total fees for such services in the following year will be limited to no more than 70% of the average of the annual fees paid to the Audit Firm in the preceding three consecutive financial years for the statutory audit of the Group Entities and Higher-level parent and of the consolidated financial statements of the Group.

As a result of above for the limit for permissible services (or non-prohibited services, if appropriate) in a particular year would be the lower of: (1) 70% of the current year audit fees and (2) 70% of the average 3-year audit fees for preceding years, if applicable (if Non-Audit Services continued in this period), based on total fees paid by the Group (ie. all Group Entities) and Higher-level parent to the Audit Firm.

These Caps for Non-audit Services apply from 2018.

It shall be noted that permissible services list (contained in Table 2) includes services that in other jurisdictions mostly are classified as audit services and therefore are not subject to limitations as to their value. Having in mind, that provision of attestation services by the Audit Firm could be considered in many cases as a rational solution, which does not necessarily impair the auditor's independence, the Company has adopted the above-mentioned Caps regarding Permissible Services in both cases, at the level of 70% of the audit fee level.

Examples below illustrate the Cap calculation method for non-audit services:

Example 5. Calculation of a cap for non-audit services provided by an audit firm

The statutory auditor X that audits Echo Investment S.A.'s financial statements, its parent's financial statements and the Echo Investment Group's consolidated financial statements for the years 2017-2019 provides at the same time to the Echo Investment Group, during the same period, permissible assurance services in relation to corporate governance, risk management and corporate social responsibility. The amount of fees due to X for the statutory audit of Echo Investment S.A., its parent entity and the Echo Investment Group was in the years 2017-2020, respectively, as follows: PLN 0.8 million, PLN 1 million, PLN 1.2 million and PLN 1.2 million.

As a result of the limitations imposed by the Regulation, Echo Investment S.A. (together with other Group Entities and Parent entity) is not allowed to purchase from the firm X services, other than statutory audit services, for more than:

In year 2017 – PLN 0.56 million (70% x 0.8 million)

In year 2018 – PLN 0.7 million (70% x 1 million)

In year 2019 – PLN 0.84 million (70% x 1.2 million)

In year 2020 – PLN 0.7 million, which is lower of: (1) PLN 0.7 million (70% x (0.8 + 1 + 1.2)/3) and PLN 0.84 (1.2 million x 70%).

Example 6. Calculation of a cap on non-audit services provided by an audit firm's network

The statutory auditor X audits Echo Investment S.A.'s financial statements, its parent's financial statements and the Echo Investment Group's consolidated financial statements for the years 2017-2020. In the year 2017 the firm X provided the company Echo Investment S.A. with permissible assurance services of a value of PLN 120 thousand, which were not continued in the years 2018-2020. In 2018 the firm X provided a subsidiary of Echo Investment S.A. with permissible assurance services of a value of PLN 8 thousand, while in 2019 the firm has provided the parent entity of Echo

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

Investment S.A. with the similar service for PLN 15 thousand

The amount of fees due to X for the statutory audit of Echo Investment S.A. and the Echo Investment Group was in the years 2017-2020 respectively, as follows: PLN 0.8 million, PLN 1 million, PLN 1.2 million and PLN 1.2 million.

The limitations on the value of services purchased from the Group Auditor are considered in the context of services provided to all the Group entities, including parent entity to Echo Investment S.A. A cap on the value of current year audit fee will apply in all periods in 2017-2020. The cap based on 3-year average would apply in 2020, despite the fact that firm X was not rendering specifically services to Echo Investment S.A. in the years 2018-2019. However, in years 2018-2019 minor non-audit services were provided to one of the subsidiaries and to the parent entity. As a result, the following limits shall apply:

- *In year 2017 – PLN 0.56 million (70% x 0.8 million)*
- *In year 2018 – PLN 0.7 million (70% x 1 million)*
- *In year 2019 – PLN 0.84 million (70% x 1.2 million)*
- *In year 2020 – PLN 0.7 million, which is the lower of: (1) PLN 0.7 million (70% x (0.8 million + 1.0 million + 1.2 million)/3) and (2) PLN 0.84 million (70% x 1.2 million).*

Despite the fact that Echo Investment S.A. (standalone entity) did not purchase non-audit services from the audit firm X in 2018-2019, the limit based on average would apply in 2020, since the other entities in the Group continued purchasing such services in these years. So effectively the Group continued purchasing non-audit services in consecutive 3-year period.

The dates of invoice issuance and payment are not relevant from the perspective of the Cap calculation since the accrual principle applies. However, it is important when the service was actually performed. While calculating the Cap, these policies take into account the execution period when the service was performed and in the case of services that are not completed as at the balance sheet date - the status of their completion. In order to carry out reliable estimates, the Group should request from the Group Auditor the estimate of the completion progress of the services being underway as at the end of each period, and monitor on a regular basis the costs of the services purchased, irrespective of the payments made.

An example below illustrates a Cap on fee calculation method in the case where payments are made in a financial period other than that in which the service was actually performed:

Example 7. Calculation of the cap on a fee payable in another financial period

The firm X being the Group Auditor in the years 2017 – 2019 provided the Group with the following non-audit services:

- *in the years 2017 and 2018: assurance services in relation to corporate governance having values of PLN 0.4 million and PLN 0.6 million, respectively;*
- *in the year 2019: the Group ordered from the firm X the attestation services regarding compliance with the covenants contained in loan agreements, based on an analysis of financial information from financial statements audited by the firm X; a draft report confirming the fulfilment of said conditions was sent on 30 December 2019, while the final version of the report and the acceptance protocol were signed on 15 January 2020; an invoice for the entire work was issued after the acceptance protocol was signed.*

In June 2020, the Company held a tender for a comprehensive economic and financial due diligence procedures in connection with a planned issue of shares, to be performed in August - December 2020. The firm X was also invited to participate in the tender.

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

The audit firm X's proposal is as follows:

- fee for the services is PLN 0.8 million
- payment for the services is split into 2 invoices issued in November 2020 (PLN 0.4 million) and in January 2021 (PLN 0.4 million).

The fee for statutory audits over the years 2017-2019 was PLN 0.8 million, PLN 1 million, and PLN 1.2 million, respectively. In 2020 the firm X continues to be an audit firm of the Group and the audit fee is PLN 1.2 million.

Can the Group accept the firm X's proposal regarding financial due diligence procedures in connection with a planned issue of shares?

Solution:

First of all, it must be considered whether in 2020 the Group is subjected to a cap based on 3-year average audit fees, i.e. whether in the consecutive three financial years 2017-2019 it was acquiring non-audit services from the firm X, or whether it is subjected to a cap based on annual audit fees only. Without any doubt, the Company purchased non-audit services in the years 2017 and 2018. However, with respect to work related to the service on loan covenants, requested at the end of 2019, it is important whether this service was provided in 2019 or in 2020, or during both those years. Based on a scenario analysis, it can be concluded that part of the work was certainly performed in 2019 (a draft report), although the work was handed over and invoiced in the year 2020. Therefore, it should be assumed that in the year 2019 the Company also received non-audit services, as a result of which a cap on 3-year average fees should apply in the year 2020.

The cap based on current year audit fee amounts to PLN 0.84 million (PLN 1.2 million of audit fee for 2020 x 70%). So, if we take into account this cap only, the proposal could be accepted. However, the cap based on 3-year average of audit fees is lower and would amount to PLN 0.7 million (70% x (0.8 million + 1.0 million + 1.2 million)/3). The Company shall take the lower of these two amounts, i.e. PLN 0.7 million.

The firm X's proposal for due diligence services assumes a fee of PLN 0.8 million, which exceeds the limit. The allocation of remuneration into two invoices in a situation where the second instalment of PLN 0.4 million is payable in January next year (2021) is not relevant, in a situation where the entire service is performed in accordance with the tender terms before the end of 2020. Thus, in the aforesaid situation, the Group cannot accept the firm X's proposal.

7.2. Services provided by entities from the same network

The Cap on Non-audit Services is calculated only for services provided by the Audit Firm. The services provided by other firms from the Audit Firm's network are not taken into account (Article 4.2 of Regulation refers to Statutory Auditor and Audit Firm only, and not to the entities from the Audit Firm's network). The Cap calculation basis is determined only from the perspective of the fee payable to the Audit Firm.

Example 9. Services provided by entities from the same network

Firm X is an entity appointed for statutory audits of Echo Investment S.A.'s financial statements and the Echo Investment Group's consolidated financial statements for the years 2017-2019. The amount of fees due to X for the statutory audit of Echo Investment S.A. and the Echo Investment Group was in the years 2017-2019, respectively, as follows: PLN 0.8 million, PLN 1 million and PLN 1.2 million.

In 2020, Echo Investment S.A. plans to purchase from the firm X permissible assurance services valued at PLN 0.5 million and assurance services in relation to corporate social responsibility valued at approx. PLN 1 million from the firm X2, which is an advisory firm belonging to the same network as the firm X. The firm X2 does not render statutory audit services to any of the Group companies.

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

The cap on services purchased with respect to the firm X in 2020 amounting to PLN 0.7 million (which is the lower of (1) $70\% \times 1.2 \text{ million} = \text{PLN } 0.84 \text{ million}$ and (2) $70\% \times (0.8 \text{ million} + 1.0 \text{ million} + 1.2 \text{ million})/3 = \text{PLN } 0.7 \text{ million}$) will be relevant only to the services provided by the firm X. The corporate social responsibility services are provided by a separate legal entity, therefore - they are not included in the limit. In view of the above, the Company will not exceed the cap allocated for assurance services.

7.3. Services provided by the Audit Firm to other Group Entities

The basis (denominator) for calculation of a Cap on Non-audit Services that can be provided by the company's Audit Firm comprises aggregated fees for statutory audit services provided by the Audit Firm (i.e. by that specific entity) to the Higher-level parent entity and to Group Entities .

Example 10 illustrates the Cap calculation method for services provided by the Audit Firm to Parent entity and other Group Entities:

Example 10. Services provided by the audit firm to other Group entities

Firm X was appointed statutory auditor for Echo Investment S.A.'s financial statements, the Echo Investment Group's consolidated financial statements, financial statements of three subsidiaries and the Echo Investment parent's financial statements for 2020. The firm X's fee for a statutory audit of Echo Investment S.A.'s financial statements was PLN 0.8 million per year in the 2017-2019 period, and the fee for a statutory audit of the Echo Investment Group's consolidated financial statements and the subsidiaries' and parent's financial statements in the years 2017-2019 was, respectively: PLN 0.8 million, PLN 1 million, PLN 1.2 million. The respective audit fees for 2020 amounted to PLN 0.9 million (standalone financial statements) and PLN 1.3 million (consolidated financial statements + subsidiaries' and parent's financial statements). In 2020 the firm X proposed to provide to the Echo Investment Group other permissible assurance services of an approximate value of PLN 1.8 million.

In 2020, a cap of PLN 1.26 million on advisory services rendered to the Group will apply to the statutory auditor, estimated as a lower of (1) the annual average value of statutory audit services provided to all the Group companies and the parent, for which it was engaged as auditor for the past 3 years ($70\% \times (4 \times 0.8 \text{ million} + 1.0 \text{ million} + 1.2 \text{ million})/3 = \text{PLN } 1.26 \text{ million}$) and (2) ($\text{PLN } 1.3 \text{ million} + \text{PLN } 0.9 \text{ million}) \times 70\% = \text{PLN } 1.54 \text{ million}$.

Consequently in 2020, the value of purchased assurance services will have to be lower than proposed, and must not exceed PLN 1.26 million.

7.4. Exemptions and reset

The Cap based on current year audit fees is applicable during the whole period a particular Audit Firm is appointed as the Group's Auditor.

The Cap based on 3-years audit fees average is applicable, when the Audit Firm was uninterruptedly providing to the Higher-level parent or Group Entities the Non-Prohibited or Permissible Non-Audit Services over the 3 consecutive years. In a situation where the Audit Firm does not provide for one year Non-audit Services, this causes "the clock reset", i.e. the three-year period before this particular Cap on additional services applies, starts to be counted anew. However, the Company continues to monitor the first type of Cap, i.e. the one based on current year audit fees, as well as the fees paid for Non-Prohibited or Permissible Non-Audit Services in these years.

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

Example 11. Clock reset for non-audit services

The audit firm X auditing the Echo Investment Group's consolidated financial statement provided the Group with permissible assurance services in the year 2017. In 2018, the Group did not engage it to render any additional services.

Consequently, the Caps based on 3-year audit fees average, applicable for non-audit services would apply to the firm X only in 2022, provided that in each of the years from 2019 to 2021, the Group will be acquiring from X any non-audit services, and that X will be still the statutory auditor of the Echo Investment Group / Company .

Generally, the Group is obliged to observe the limits imposed by the regulator. However, in justified cases, temporary exemption from this limit can be obtained from the Audit Oversight Commission (KNA) for a period of up to 2 years. The exemption is granted to a specific Audit Firm and a specific entity within the Group. The application is filed by the Audit Firm, and it should be preceded with appropriate discussion between the Group Auditor and the Company.

7.5. Services performed to entities outside EU

The Regulation does not require that the Cap is maintained for services performed by the Audit Firm to entities having a seat outside EU. However, the Group decided to apply the same level of Cap to such services. It shall be noted that the Cap relates to services performed by the Audit Firm only (does not apply to network firms of the Audit Firm, similarly, as in case of EU regulations).

8. Role of the Audit Committee

All Non-audit Services that the Group Auditor provides to the Group Entities should be approved in advance by the Audit Committee of the Company.

If some Prohibited Services are permitted under local regulations of an EU member state and are provided to the Group Entities, they will also have to be approved by the Audit Committee. The Audit Committee assesses the threats to and safeguards for the Group Auditor's independence, as required under article 22b of Directive 2006/43/EC.

In particular, the Audit Committee evaluates whether the future (planned) Non-audit Services will influence the Group Auditor's independence and objectivity in terms of threats such as self-review (conflict of interests), self-interest, advocacy, familiarity or trust or intimidation, and evaluates whether the safeguards planned by the Group Auditor are appropriate for the threats.

Where necessary, the Audit Committee issues guidelines to the Group Auditor on the application of safeguards, and approves or conditionally approves (e.g. on a condition that appropriate safeguards are applied) or refuses its approval of the provision of such services.

The Audit Committee also evaluates the execution of these policies by review of annual reports on Non-Audit Services delivered by the Group Auditor (Audit Firm and its network), including services received by the Company, its Higher-level parent and Subsidiaries.

Policy of the Echo Investment S.A. Group on engaging the Group Auditor and its network firms to provide non-audit services

9. Sanctions arising from failure to observe these policies

In accordance with the Accounting Act, an audit of financial statements performed in contravention of the regulations governing the following issues: Prohibited Services, Caps on Permissible Services, and Audit Firm's rotation, is invalid by force of law in the case of Public-Interest Entities. The Accounting Act does not provide for any thresholds of materiality in this respect.

All the Company's authorities and their members are obliged to comply with these policies. Failure to observe the principles described in the policies may give rise to serious consequences for the Company, including invalidity of statutory audits or financial statements. Significantly, the contravention of the regulations by any Group Entity, irrespective of whether its financial statements are examined by the Group Auditor or not, causes invalidity of the audit of the Echo Investment's (the Company's) consolidated financial statements.

Consequently, the Group Entities are obliged to implement effective control procedures preventing any violations of this Policy.