



**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**

Document approved by the Audit Committee according to the resolution No. 2/2018 dated 23 March 2018.

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1. Purpose and scope of the document

The purpose of this document is to stipulate a policy to be followed by the Supervisory Board and the Audit Committee in appointing an Audit Firm to perform a Statutory Audit of the annual financial statements of Echo Investment S.A., of the annual consolidated financial statements of the Echo Investment S.A. Group and of financial statements of Group Entities, which according to the decision of the Audit Committee are to be audited by the same Audit Firm as the Parent entity (Echo Investment S.A.). There are also entities in the Group that are not subject to these policies.

These policies were developed by the Audit Committee of Echo Investment S.A. and they comply with the requirements of:

- a) Regulation no. 537/2014 on specific requirements regarding statutory audits of financial statements of public-interest entities;
- b) Act on Statutory Auditors, Audit Firms and on Public Oversight dated 11 May 2017 .

Following the implementation of the above regulations, the Audit Committee is obliged, among other things, to:

- a) Design a policy for appointing an Audit Firm to perform a Statutory Audit;
- b) Determine an Audit Firm appointment procedure;
- c) Present the Supervisory Board with recommendations on the appointment of an Audit Firm.

The Supervisory Board acting on the basis of the Audit Committee's recommendations is responsible for implementing and complying with the policies. These policies were developed by the Audit Committee, approved by the Audit Committee on 23 March 2018 and adopted and approved by the Supervisory Board.

In the case of doubts as to the interpretation of these policies, they should be reported to the Audit Committee. Some of the tasks related to implementation and application of policies set forth in this document can be delegated by the Audit Committee to the Group Financial Director, The Group Chief Accountant or the Auditor Selection Team nominated by the Audit Committee.

2. Definitions

For the purpose of this document, the terms stipulated 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 higher-level 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, 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 of Echo Investment S.A. having their 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;

Group – means the Echo Investment S.A. group, i.e. the Parent Entity and other Group Entities;

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. The Company holds up-to-date list of Group Entities;

Group Entities that are to be audited by the same audit firm as Parent entity (Echo Investment S.A) – The list of such entities defined by the Audit Committee is presented in the Schedule 1.;

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 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 Oversight dated 11 May 2017 (Journal of Laws of 2017, item 1089);

Accounting Act – the Accounting Act of 29 September 1994 (Journal of Laws of 2016, 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);

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 entity'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;

Supervisory Board – is a supervising body that operates in accordance with the articles 213-222 of the Polish Commercial Law and the Company's articles of association;

Auditor Selection Team – team nominated by the Audit Committee, whose role is to support the Audit Committee in the process of Audit Firm selection;

Financial Supervision Authority – means the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego), the financial regulatory authority for Poland. Its responsibilities include oversight over banking, capital markets, insurance, pension scheme and electronic money institutions;

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

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

Key registered auditor – registered auditor that supervises the audit team and signs audit opinion, as defined in Art. 2, point 2 of the Act;

Audit team – team of people designated by the Audit Firm in order to conduct an audit;

Management letter – letter from the Audit Firm to the management of the audited entity containing observations, problems and recommendations regarding accounting systems of the audited entity suggested by the Audit Firm.

3. Policies on appointing an Audit Firm

3.1. General principles

The persons indicated in point 1 of this policy, appointed to enforce these policy, have appropriate background and qualifications and actively participate in the Audit Firm appointment process. Documents prepared in accordance with these policies provide transparency with respect to actions taken in order to appoint the Audit Firm.

3.2. Auditor appointment time and period

In accordance with the guidelines introduced by the new Act and by the Regulation, the Company as a Public-Interest Entity is governed by regulations on the minimum and maximum periods for which an Audit Firm may be appointed. In accordance with article 66 section 5 of the Accounting Act, the first audit contract should be executed for a period not shorter than 2 years, with an option to be extended by subsequent, at least 2-year period, that is however not longer than 3-year period. The maximum period during which the same Audit Firm or another firm from its network can provide audit services is 5 consecutive years. This period covers both, the first contract term and its subsequent extensions.

After this period, the same Audit Firm or another firm from its network, cannot be reappointed during the next 4 years (the “Waiting Period”). The Waiting Period does not apply when an audit carried out by the to-date Audit Firm lasts less than the maximum 5 year period specified in the Act. The Audit Committee is responsible for monitoring the Waiting Period. A register of Audit Firms and a list of services provided will be kept, preventing the reappointment of a disallowed firm during the Waiting Period.

The Supervisory Board will appoint an Audit Firm for the Parent Entity by 30 October of the year preceding the first financial year to which it is appointed. The newly appointed Audit Firm starts to perform its engagement from a review of the semi-annual consolidated and stand-alone financial statements in the first financial year to which it was appointed. A detailed schedule is presented in point 3.14 of this document.

3.3. Authority entitled to appoint the audit firm

In accordance with article 13 section 1.b of the Company's articles of association, the Audit Committee is responsible for recommending an Audit Firm to be appointed to perform statutory audit of the Company (or to extend an existing statutory audit contract) to the Supervisory Board. Based on the recommendation, in accordance with article 18 section 2.11 of the Company's articles of association, the Supervisory Board appoints an Audit Firm to audit the financial statements of the Company (or to extend an existing audit contract). The same Audit Firm is appointed to audit the consolidated financial statements of the Group.

At the individual Group Entities, the articles of association should stipulate that an Audit Firm is appointed by the general meeting of the respective entity. Schedule 1 lists the Group Entities that are to be audited by the same Audit Firm as Parent company (Echo Investment S.A.)

Pursuant to article 133 of the Act, the Management Board of the Company notifies the Polish Financial Supervision Authority about the Supervisory Board's authorisation under the articles of association to appoint an Audit Firm and of any change in this respect, if there is one.

3.4. Supervisory Board's resolution on launching an Audit Firm appointment process

The Supervisory Board at the Audit Committee's request adopts a resolution on commencing the auditor appointment process, which specifies the criteria and the method to assess the audit proposal used in the process of appointing an Audit Firm to perform statutory audits and reviews of abbreviated semi-annual financial statements of the Company. Together with the resolution, the wording of an announcement containing an invitation to tender for audits is adopted. The Supervisory Board is obliged to adopt a resolution within the period specified in the schedule contained in point 3.14 of this policy.

3.5. Development of tender documentation

The Audit Committee prepares tender documentation including scope of the engagement, conditions for the audit firm and criteria to be used for the assessment of submitted proposals. The Audit Committee can delegate the preparation of tender documentation to the Auditor Selection Team.

3.6. Audit Firms invited to tender

Once the resolution on the commencement of the Audit Firm appointment process is adopted, the Audit Committee initiates the process by one of the following methods:

- a) direct invitation of Audit Firms to submit proposals,
- b) information on the Company's website regarding initiation of auditor appointment process and invitation of Audit Firms to submit proposals.

Elements of the announcement containing the invitation to tender are stipulated in Schedule no. 2 hereto. Noticeably, the organisation of the tender process does not exclude the possibility of proposals being filed by Audit Firms that obtained less than 15% of the total audit fees from Public-Interest Entities in the preceding financial year.

Neither the Company nor any other Group Entity can insert any clauses in contracts executed with third parties, which would in any way limit the possibility for an Audit Firm to be freely appointed by the Supervisory Board or would force the appointment from among an imposed list of Audit Firms. Clauses in question are invalid by force of law and the Management Board is obliged to provide the Audit Committee with a statement on non-application of such provisions.

If a third party makes any attempt to force clauses restricting free selection of an Audit Firm or if it is highly likely that attempts will be made to exert an inappropriate influence on the Supervisory Board, the Company Management Board will be obliged to immediately notify the Financial Supervision Authority of this fact.

3.7. Audit firm appointment criteria

The Supervisory Board appoints an Audit Firm in compliance with the procedures and principles specified in this policy. The following criteria, among others, are applied to this end:

1. Experience and market position, with particular emphasis on qualifications of the team dedicated to the completion of the order;
2. Provision of audit services to public-interest entities;
3. Knowledge of the business sector in which the Company or Group operates, in particular by the key statutory auditor and/or partner responsible for the engagement;
4. The price for a complete service (including the preparation of written audit reports, preparation of a report for the Audit Committee, annual audits and semi-annual reviews, participation in Audit Committee meetings and other elements specified in the request for proposal).

Before a detailed assessment is performed with the use of the above criteria, the Auditor Selection Team verifies, whether submitted proposals satisfy minimum requirements set by the Company towards the future Audit Firm. The minimum requirements may include, among others:

1. Statement from the Audit Firm that it is independent from the Group and that it fulfils the criteria for being the auditor of the Company and the Group (including the statement that the Audit Firm does not provide prohibited services to the Group or to Higher-level parent entities globally);
2. The geographical coverage, which includes a presence of the Audit Firm on markets, where the Group has its operations
3. The intent to provide a permanent team for the audit;

3.8. Evaluation of the submitted proposals

Proposals that are submitted on a timely basis and fulfilling the formal requirements are collected by the Audit Committee. The Audit Committee opens the proposals at the time specified in the schedule set out in point 3.14 hereof. The opened proposals are subject to evaluation in accordance with the criteria adopted by the Supervisory Board. In addition to the criteria set out in point 3.7 of this policy, the analysis also covers the statements made with respect to the statutory auditor's compliance with legal conditions necessary to be met for it in order to express an independent opinion about the audited financial statements. While carrying out the evaluation process, the Audit Committee takes into account all the contracts executed to-date with the bidder from the perspective of potential threats to independence. Based on the evaluation of the submitted proposals the Audit Committee selects at least two Audit Firms that fulfil all the criteria listed in the point 3.7 and invite those Audit Firms to give direct presentation of their proposal to the Audit Committee.

While evaluating the submitted proposals, the Auditor Selection Team also checks on the Audit Oversight Commission's website to see if the firm submitting a proposal has undergone a quality control, and if so - checks the procedure outcome published by the Audit Oversight Commission. If the control result is negative, the Audit Committee considers the potential impact of the control results on the appointment or extension of the cooperation with the Audit Firm. In cases in which, according to Audit Committee, the impact on the audit quality could be significant, the firm will not be considered in the appointment (or extension) process. The Auditor Selection Team is entitled to carry out direct negotiations with the interested offerors, while being unbiased in evaluation of particular proposals.

3.9. Report on appointment process

Once all the tender procedures have been carried out, a report on the appointment process is drawn up by the Auditor Selection Team, to be approved by the Audit Committee. In addition to a detailed description of the appointment process, the report should contain any and all findings and conclusions that result from the undertaking of the appointment process.

3.10. Recommendation of the Audit Committee

The Audit Committee provides the Supervisory Board with its proposal for selection of Audit Firm. The proposal should contain at least two candidates chosen from among the submitted proposals (the "Short List"), and an explicit indication of an Audit Firm recommended for the audit. An exception is possible when the recommendation is made to extend an existing audit contract.

The Audit Committee's recommendation should contain a statement that it is free from any influence from third-parties and that the Company did not conclude any contract containing clauses that are prohibited under article 66 section 5a of the Accounting Act (i.e. contract clauses in the contracts entered into by the audited entity that would narrow the options for choosing an audit firm by the authority entitled to appoint the audit firm, for the purpose of conducting the audit of the statutory financial statements of this entity to selected categories or registers of audit firms). For instance, bank loan

agreement entered into by the Company cannot contain clauses imposed by the bank that would indicate specific audit firms entitled to perform the audit of the financial statements of the Company.

3.11. Extension of audit contract with the same Audit Firm

In case that the cooperation with the current Audit Firm can be extended based on the requirements specified in the Act it will be extended unless the evaluation of cooperation with the Audit Firm suggests that a change of the auditor is in the best interest of the Company or the Group. Before the decision regarding extension of an audit contract with the same Audit Firm, the Audit Committee evaluates previous cooperation with the Audit Firm. The following criteria are assessed:

- a) the quality of the audit procedures, including all results of the controls of the audit firm by the Audit Oversight Commission,
- b) the quality and the frequency of interactions between the Key registered auditor and the Audit team with the Audit Committee,
- c) the quality of information and recommendations described in the Management letters regarding observations, problems and recommendations regarding accounting systems of the audited firm,
- d) prompt completion of services during the previous period of cooperation,
- e) continuity of team members within the audit team of the Audit Firm,
- f) adequate audit team with the appropriate experience and knowledge of the Group's business sector,
- g) threats to the independence of the Audit Firm,
- h) in cases in which the same Audit Firm audits the Group Entities – the quality of cooperation with Group entities,
- i) actual costs of previous audits are in-line with Audit Firm proposals
- j) other factors, which are important from the perspective of continuation of cooperation with the same Audit Firm.

In addition, the Audit Committee requests from the Audit Firm a proposal for the continuation of the audit services (specifying the period for which Audit Committee plans to appoint the Audit Firm). If the evaluation of the services provided by the current Audit Firm and the submitted proposal is positive, the Audit Committee recommends to the Supervisory Board the extension of the audit contract with the current Audit Firm, submitting the results of the evaluation performed and the received audit proposal.

3.12. Appointment of the Audit Firm

Upon the recommendation by the Audit Committee, the Supervisory Board, as the entity authorised to appoint the Audit Firm, adopts a resolution appointing an Audit Firm recommended by the Audit Committee or to extend the contract of an existing Audit Firm.

In justified cases, the Supervisory Board may decide not to follow the recommendation of the Audit Committee. If that is the case, the Supervisory Board presents reasons for its decision to the Company. In such situation the Company in the current report regarding auditor appointment decision, states that the appointment was done against the recommendation of the Audit Committee and provides the reasons of such decision by the Supervisory Board.

3.13. Conclusion of an audit contract

The Management Board is obliged to sign a contract on auditing financial statements with the Audit Firm appointed by the Supervisory Board, within the period stipulated in the schedule contained in point 13.14 of this policy. In the case of other Group Entities contracts are signed by the management boards (the authorized executive organ) of individual companies (entities). A contractual fee, which will comply with the conditions determined by the Supervisory Board in the selected proposal, is incurred by individual companies that are audited.

The deadline for audit contract conclusion should be such that it enables the Audit Firm to conscientiously plan the audit and to perform a semi-annual review within the time specified in the annual reporting schedule. A newly appointed Audit Firm must also be able to participate in an annual stock-take of the assets.

The audit contract is signed for the entire period determined by the Supervisory Board at the stage of the proposal acceptance, with this reservation that the rules established for the period of first audit contract that are specified in point 3.2 are followed.

In exceptional justified cases, a contract on carrying out statutory audits can be terminated before its end. This is permissible only where justified circumstances occur, including the following:

- a. occurrence of events preventing the fulfilment of the requirements established by the provisions of law regulating audits, principles of professional ethics, requirements of independence and/or national professional standards;
- b. failure to fulfil the contractual conditions other than those giving rise to an audit opinion expressed with reservations, negative opinion, or refusal to express an opinion;
- c. transformation, ownership changes, organisational changes justifying a change of the audit firm, or failure to perform the audit.

Differences of opinions about the application of accounting principles or audit standards are not a justified prerequisite for early termination of an audit contract.

A decision on terminating the contract is made by the Supervisory Board at the request of the Audit Committee or the Management Board. Immediately after such decision is made, it is notified to the Company's Financial Director who then notifies the Financial Supervision Authority and the National Board of Statutory Auditors (*KRBR*), giving appropriate explanations of the reasons for the early contract termination. A draft notification letter is presented as schedule no. 5. The termination of a contract with the audit firm by a Group Entity (it being other than a Public-Interest Entity) is notified to the National Board of Statutory Auditors by the Management Board of the Group Entity.

3.14. Schedule for an Audit Firm appointment process

The schedule of work below constitutes guidelines in respect to the timeframe within which the Audit Firm appointment process should be completed. It is determined by the Supervisory Board. The Company's applicable authorities are responsible for taking actions within the deadlines indicated in the schedule. Some of the tasks indicated in the schedule can be delegated by the Audit Committee to the Auditor Selection Team.

Action	Responsibility	Time <i>(year preceding the audit year)</i>
Audit Committee's evaluation of the cooperation with the Audit Firm and decision whether the appointment of the new auditor is necessary	Audit Committee	by 31 May
Audit Committee's decision on commencement of the auditor selection process and delegating tasks connected with the tender to the Management Board	Audit Committee	by 15 June
Determination of the tender scope, schedule, appointment criteria and procedures	Auditor Selection Team and Audit Committee	by 30 June
Development of tender	Auditor Selection Team	by 15 July

Action	Responsibility	Time <i>(year preceding the audit year)</i>
documentation		
Announcing the tender and sending invitations as well as tender documentation to audit firms	Auditor Selection Team	by 30 July
Receiving proposals of Audit Firms		by 15 September
Evaluation of the received proposals	Auditor Selection Team and Audit Committee	by 25 September
Determination of the offerors Short List	Audit Committee	by 30 September
Presentation of Short List proposals and their evaluation based on the presentation of the proposals	Audit Committee	by 22 October
Verification of the Short List firms' independence	Audit Committee	by 22 October
Report on the appointment process and conclusions	Audit Committee	by 22 October
Providing the Supervisory Board with a justified recommendation on selection of the Audit Firm, including indication of the preferred firm	Audit Committee	by 22 October
Selection of, and resolution on appointing, the Audit Firm	Supervisory Board	By 30 October of the year preceding the audited period

4. Sanctions arising from failure to comply with these policies

These policies must be applied by all the Company's authorities. Failure to apply the principles described in the policies can result even in invalidity of the statutory audit of the Company's financial statements, including consolidated financial statements and financial statements of Group Entities. An audit performed in contravention of regulations governing the maximum uninterrupted period of statutory audit performed by the same Audit Firm and, in the case of Public-Interest Entities, also the waiting periods, is invalid by force of law under the Accounting Act.

The Company, member of its Management Board, Supervisory Board or Audit Committee, and persons related to them, are subject to an administrative penalty for contravention of the Act or Regulation (EU) no. 537/2014 imposed by the Financial Supervision Authority, among others, in the following cases:

1. No audit firm appointment policy is applied;
2. There is no compliance with regulations concerning:
 - the appointment of an audit firm, including the application of prohibited clauses;
 - the conclusion of an audit contract for a period shorter than 2 years or longer than 5 years, including a situation referred to in article 17 section 6 of Regulation no. 537/2014;
 - the mandatory waiting periods;
 - the audit firm appointment process;
 - the obligation to inform the Financial Supervision Authority of the fact that the audit firm is appointed by an authority other than the authority approving the financial statements.