

# Policy on Independence and Provision of Non-Audit Services

## Introduction

This Policy on Independence and Provision of Non-Audit Services (hereinafter referred to as the “Policy”) of Polymetal International plc (“Polymetal”) and its subsidiaries (together “the Group”, and each individually a “Group Company”) is based on provisions of the EU Audit Directive and Regulation, as well as the 2019 FRC Revised Ethical Standard on non-audit services and fall within the scope of compliance with the requirements related to public interest entities (“PIE”).

## Commitments and provisions

The services provided by the auditor of the Company are categorised as follows:

### 1. Audit Services

Audit services comprise the provision of statutory audit services including the audit of statutory accounts and other services pursuant to legislation.

### 2. Non-Audit Services

Non-audit services are any services other than statutory audit services and typically comprise:

- *Tax services* – including tax compliance, tax consulting and tax planning;
- *Information technology services* – including IT and other control reviews;
- *Corporate finance related services* – including due diligence and transaction support;
- *All other audit related services* – including review of interim financial information; consultation concerning financial accounting and reporting standards; comfort letters, attest services, consents and assistance with and review of documents filed with regulatory bodies, internal control reviews, forensic work, debt advisory and pension advisory work.

The auditors are eligible for selection to provide non-audit services to the extent that their skills and experience make them a competitive and most appropriate supplier of these services.

As described below these non-audit services are classified as follows:

- Prohibited non-audit services (see Section 3); and
- Non-audit services requiring pre-approval if above a value limit, individually or in aggregate (see Section 5).

### 3. Prohibited non-audit services

The Audit and Risk Committee (hereinafter referred to as the “Committee”) should not agree to the audit firm providing a service which may compromise their independence or violate any laws or regulations affecting their appointment as auditors. In considering whether to give approval the Committee should not agree to the audit firm providing a service if the result is that:

- the external auditor audits its own firm’s work;

- the external auditor makes management decisions for the Group;
- a mutuality of interest is created; or
- the external auditor is put in the role of advocate for the Group.

The audit firm or any member of the network to which the audit firm belongs, shall not directly or indirectly provide to the Group any prohibited non-audit services in:

(a) the period between the beginning of the period audited and the issuing of the audit report; and

(b) the financial year (or period if longer than one year) immediately preceding the period referred to in point (a) in relation to 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 and services related to the Group's internal audit function.

The following are the categories of work that may not be undertaken by the statutory auditor in accordance with its auditor independence policy.

- preparation of tax forms; identification of public subsidies and tax incentives and support regarding tax inspections by tax authorities unless support from the audit firm in respect of such services is required by law; calculation of direct and indirect tax and deferred tax; provision of tax advice;
- tax services relating to payroll tax, customs duties and tax advocacy work relating to material matters;
- services that involve playing any part in the management or decision making of the Group;
- bookkeeping or other services related to the accounting records and financial statements of the Group;
- 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;
- payroll services, internal audit services, certain HR services<sup>1</sup> and legal services (relating to provision of general counsel, negotiations and acting in an advocacy role in resolution of litigation); any other service that, locally, is prohibited through regulation;
- valuation services, including valuations performed in connection with actuarial services or litigation support services;
- services linked to the financing, capital structure and allocation, and investment strategy of the Group, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the Group;
- advice on the quantum of the remuneration package or the measurements criteria on which the quantum is calculated for a director or key management position;
- promoting, dealing in, or underwriting shares in the Company.

## 4. Transitional provisions

By way of transitional provisions the following prohibited non-audit services

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<sup>1</sup> Human resources services, with respect to: (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 searching for or seeking out candidates for such position or undertaking reference checks of candidates for such positions; (ii) structuring the organisation design; (iii) cost control; and (iv) recruitment of senior management or executives.

- preparation of tax forms;
- identification of public subsidies and tax incentives and support regarding tax inspections by tax authorities unless support from the audit firm in respect of such services is required by law;
- calculation of direct and indirect tax and deferred tax; and
- provision of tax advice

contracted by the Group before 15 March 2020 can continue to be provided if the following requirements are complied with:

(a) they have no direct or, in the view of an objective, reasonable and informed third party, would have an inconsequential effect, separately or in the aggregate on the audited financial statements;

(b) the estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the audit committee;

(c) the principles of independence are complied with; and

(d) for the purposes of the statutory audit of the financial statements, the audit firm would not place significant reliance on the work performed by the audit firm in performing these services.

If in compliance with the above requirements, the restricted non-audit services are considered immaterial if below US\$5,000. If the amount of non-audit services on the separate issue is between US\$5,000 and US\$20,000, the amount of tax covered by these restricted services provided within this issue shall not exceed US\$3,000,000.

All newly prohibited non audit services to which transitional provisions apply under this section should cease by 1 January 2021.

## 5. Non-audit services requiring pre-approval if above a value limit, individually or in aggregate

The provision of non-audit services by the external auditor needs the pre-approval of the Chief Financial Officer of JSC Polymetal if the services are provided to a Russian entity, Chief Financial Officers of Kazakhstan entities, and the Director of Cyprus office of Polymetal if the services are provided to the other companies of the Group (if below US\$5,000), Chairman of the Audit and Risk Committee (the "Committee") (if between US\$5,000 and US\$20,000), and Audit and Risk Committee (if above US\$20,000).

In case the external auditor has no obvious competitive advantage in the performance of non-audit services, a contractor must be chosen by way of a tender. No tender is required for contracts below US\$5,000. If no tender was performed for the contracts above US\$5,000, the management is required to justify to the Committee the reason for such decision, including explaining competitive advantages of the current external auditor and why there is no threat to independence.

Subject to the section 3 of this Policy, when the audit firm, or a member of its network, provides non-audit services other than those required by law<sup>2</sup>:

(a) the total fees for such services provided to the Group shall be limited to no more than 70% of the average of the fees paid in the last three consecutive financial years for the audit(s) of the Group and of the consolidated financial statements of the Group; and

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<sup>2</sup> The cap will apply prospectively from the fourth year from the effective date of the regulation in 2016, i.e. during the year ending 31 December 2020.

(b) the total fees for such services provided by the audit firm shall be limited to no more than 70% of the average of the fees paid to the audit firm in the last three consecutive financial years for the audit(s) of the Group and of the consolidated financial statements of the Group.

Subject to the section 3 of this Policy and the pre-approval of the Audit and Risk Committee after it has properly assessed threats to independence and the safeguards applied, the table below indicates where a type of service is expected to fall within or outside the 70% cap on non-audit services under the network calculation explained above. Services not on the list cannot be provided.

Type of non-audit service	Outside cap	Counts towards cap
Reporting required by a competent authority or regulator under the national or UK law or regulation <sup>3</sup> for example: <ul style="list-style-type: none"> <li>• Reporting to a regulator on client assets;</li> <li>• In relation to entities regulated under the Financial Services and Markets Act 2000 (FSMA), reports under s166 and s340 of FSMA;</li> <li>• Reporting to a regulator on regulatory financial statements;</li> <li>• Reporting on a Solvency and Financial Condition Report under Solvency II.</li> </ul>	Yes	
In the case of a controlled undertaking incorporated and based in a third country, reporting required by law or regulation in that jurisdiction where the auditor is required to undertake that engagement.	Yes	
Reporting on internal financial controls when required by law or regulation.	Yes	
Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports.	Yes	
Reports, required by or supplied to competent authorities/regulators supervising the Group, where the authority/regulator has either specified the auditor to provide the service or identified to the Group that the auditor would be an appropriate choice for service provider.	Yes	
Services which support the Group in fulfilling an obligation required by UK law or regulation, including listing requirements where: <ul style="list-style-type: none"> <li>• the provision of such services is time critical;</li> <li>• the subject matter of the engagement is price sensitive; and</li> <li>• it is probable that an objective, reasonable and informed third party would conclude that the understanding of the Group obtained by the auditor for the audit of the financial statements is relevant to the service, and where the nature of the service would not compromise independence.</li> </ul>	Yes	
Reviews of interim financial information; and providing verification of interim profits not otherwise required by law or regulation.		Yes
Where not otherwise required by law or regulation, non-audit and additional services <sup>4</sup> , provided as auditor of the Group, or as reporting accountant, in relation to information of the Group for which it is probable that an objective, reasonable and informed third party would conclude that the understanding of the Group obtained by the auditor		Yes

<sup>3</sup> It is not always clear which services fall within the exemption for services required by EU or national law. Early discussion with the auditor is recommended for such services.

<sup>4</sup> As defined in the Revised Ethical Standard 2019.

is relevant to the service, and where the nature of the service would not compromise independence.	
Extended audit or assurance work that is authorised by the Audit and Risk Committee performed on financial or performance information and/or financial or operational controls, in the Group or a third-party service provider, where this work is closely linked with the audit work.	Yes
Additional assurance work or agreed upon procedures authorised by the Audit and Risk Committee performed on material included within or referenced from the annual report.	Yes
Reporting on government grants.	Yes
Reporting on covenant or loan agreements which require independent verification and other reporting to third parties with whom the Group has a business relationship in accordance with the Revised Ethical Standard 2019 <sup>5</sup> .	Yes
Services which have been the subject of an application to the Competent Authority.	Yes
Generic subscriptions providing factual updates of changes to applicable law, regulation or accounting and auditing standards.	Yes

No services provided by the audit firm should be the subject of a contingent fee.

In respect of each year the Committee will be presented half yearly with a list of the non-audit services provided by the auditors in that calendar year and the fees involved, for their information.

## 6. Auditor confirmation of independence

The auditors are required each year to confirm in writing to the Committee that they have complied with the independence rules of their profession and regulations governing independence, and that they have complied with the requirements of this policy. The external auditor is required to maintain appropriate records to provide reasonable assurance that its independence from the Company is not impaired.

## 7. Report to shareholders

The Committee should produce an annual report to shareholders describing the role and responsibilities of the Committee and the actions taken by the Committee to discharge those responsibilities. Such a report should include that the Committee has reviewed the scope of the annual audit and the objectivity and independence of the auditors and is satisfied that the integrity of the audit has not been compromised and should explain to shareholders how the Committee's policy on the engagement of the external auditors to supply non-audit services provides adequate protection of auditor objectivity and independence.

The audit committee section of the Annual Report should include the following matters:

- if the external auditor provides non-audit services, the committee's policy for approval of non-audit services;
- how auditor objectivity and independence is safeguarded;

<sup>5</sup> Appendix C: The Auditor's Provision of Restructuring Services to Public Interest Entity Participants in Bank Lending or Bond Funded Syndicates.

- the audit fees for the statutory audit of the company's consolidated financial statements paid to the auditor and its network firms for audit related services and other non-audit services, including the ratio of audit to non-audit work; and
- for each significant engagement, or category of engagements, amounting 10% of the total audit fees for the period, explain what the services are and why the audit committee concluded that it was in the interests of the company to purchase them from the external auditor.

## **Policy Implementation**

The Policy should be considered as inseparable from, and viewed in the context of, the principles and approaches described in the Group's other Corporate Governance policies, including, but not limited to Audit and Risk Committee Terms of Reference and Schedule of Matters Reserved for the Board. These documents are available on Polymetal's website.

Group Companies shall retain sole responsibility for implementing and complying with the principles of this Policy. All Group Companies shall implement internal policies and procedures consistent with this Policy so far as they do not contradict the applicable laws and/or other regulatory requirements of the jurisdictions in which they operate.

The internal policies and procedures of Group Companies can be found on the internal networks of the respective companies.

## **Review and monitoring**

The Audit and Risk Committee (hereinafter – the Committee) oversees the Group's compliance with the principles of this Policy and monitors respective reporting.

This Policy is subject to regular review by the Committee to consider if it remains appropriate and consistent with the applicable standards and practices, and report to the Board of Directors on any improvement or action required.

The Management of Group Companies shall conduct regular performance reviews against the principles of the Policy, as well as internal policies and procedures, to ensure that we are fulfilling our commitments. The Financial Department of each Group Company is responsible for monitoring the Policy's implementation.

## **Contacts**

We welcome any queries from our stakeholders. Questions regarding the content and application of this Policy can be forwarded to our specialists in any convenient form, including by phone or via e-mail. Our contact details can be found in the Contacts section on Polymetal's official website.