

# INDEPENDENCE AND THE PROVISION OF NON-AUDIT SERVICES

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This policy is based on provisions of the EU Audit Directive and Regulation, as well as the 2016 FRC Revised Ethical Standards on non-audit services and fall within the scope of the Company's voluntary compliance with the requirements related to EEA public interest entities ("PIE").

The policy shall be read in conjunction with other Corporate Governance policies of Polymetal International plc (together with its subsidiaries, including JSC "Polymetal" – "Polymetal", the "Company", or the "Group"), including, but not limited to Audit & Risk Committee Terms of Reference and Schedule of Matters Reserved for the Board.

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, the half year review 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 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 and restricted (see 3); and
- Non-audit services requiring pre-approval if above a value limit, individually or in aggregate (see 5).

## 3. Prohibited and restricted non-audit services

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 Company;
- a mutuality of interest is created; or
- the external auditor is put in the role of advocate for the Company.

The audit firm or any member of the network to which the audit firm belongs, shall not directly or indirectly provide to the Company 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 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.

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

- 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 Company;
- bookkeeping or other services related to the accounting records or financial statements of the Company and its subsidiary undertakings;
- 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;
- services linked to the financing, capital structure and allocation, and investment strategy of the Company, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the Company;
- 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.

The following restricted services

- 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.

may 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.

#### 4. Transitional provisions

By way of derogation from the provisions of this policy on the prohibited and restricted non-audit services, the services contracted by the Company before 1 January 2017 can continue to be provided under a threats and safeguards approach.

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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.

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### 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 Kazakh and Armenian business entities respectively, and the Director of Cyprus office of Polymetal International plc 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.

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 Company 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 Company and of the consolidated financial statements of the Group of undertakings; and
- (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 Company and of the consolidated financial statements of the Group of undertakings.

The following permitted types of non-audit work may be undertaken by the auditors without prior referral to the Committee where the cost of the individual engagement is US\$20,000 or less, up to a cumulative annual value of US\$100,000. However, recognising that the cumulative value of non-audit fees may also be a threat to independence, work that is incremental to the pre-approved value would be subject to approval by the Committee in further tranches of US\$100,000. In case cumulative value of non-audit fees exceeds \$500,000, a separate approval of the Committee is required explaining why there is no threat to independence.

#### Audit related services

- reporting accountants' reports and comfort letters in connection with shareholder circulars, listing particulars or bond issues;
- accountants' reports;
- audit of carve-out financial statements;
- audit of completion accounts;
- advice on design and implementation of policies, controls and security arrangements, except as prohibited above;
- advice and assistance on treasury matters and debt;
- advice and assistance on pension matters;
- secondment of staff with the approval of the Chief Financial Officer;
- provision of company secretarial and administration support services relating to the drafting of documents, but excluding the maintenance of registers and minutes;
- internal/external benchmarking, offshore and outsourcing evaluations, process/best practice reviews relating to business and financial processes and administration;

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<sup>2</sup> Interim reviews will be included as non-audit services in the calculation of the cap as they do not form part of the statutory audit fee; transaction work will vary as some elements (historic financial information, proforma, profit forecast (if any)) are required by law and therefore uncapped and other elements (comfort letters, long form reporting, working capital etc) are not required by law and therefore capped. 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.

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- assistance with the preparation of non-financial information, or financial information which does not form part of the statutory records, and the subsequent analysis of that information.

No services provided by the audit firm should be the subject of a contingent fee without the express prior approval of the Audit and Risk Committee. Other types of non-audit work may be undertaken with prior agreement on a case-by-case basis by the Committee.

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;
- 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.