



PETROPAVLOVSK

PETROPAVLOVSK PLC

(company)

AUDIT COMMITTEE

(committee)

TERMS OF REFERENCE

Adopted by the board of directors (**board**) of the company on 21 May 2021

1. Purpose

The primary role of the committee is to oversee, on behalf of the board, the group's financial reporting process, the integrity of its financial statements, its external and internal audit processes, its systems of internal control and for the identification and management of risks and the group's arrangements in relation to certain other areas of compliance. Changes to these terms of reference shall only be effective if approved by the board.

2. Membership

- 2.1 The committee shall comprise at least three members, all of whom shall be independent non-executive directors. At least one member shall have recent and relevant financial experience and the committee, as a whole, shall have competence relevant to the sector in which the company operates. The chairman of the board shall not be a member of the committee.
- 2.2 Members of the committee shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chairman of the committee. Appointments shall be for a period of up to three years which may be extended for two additional three-year periods, provided the relevant director continues to be independent.
- 2.3 Only members of the committee have the right to attend committee meetings. The chairman of the board, Chief Executive Officer, Chief Financial Officer, Group Head of Internal Audit, representatives of the external auditor and other members of the board shall be invited to attend meetings of the committee on a regular basis, with other individuals invited to attend all or part of any meeting as and when appropriate.
- 2.4 The board shall appoint the committee chairman. In the absence of the committee chairman and/or an appointed deputy at a committee meeting, the remaining members present shall elect one of themselves to chair the meeting.
- 2.5 On at least one occasion in each financial year, the committee shall meet with the external auditor and, separately, with the Group Head of Internal Audit without any executive directors or management being present.



3. Secretary

The company secretary or their nominee shall act as the secretary of the committee.

4. Quorum

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.

5. Frequency of meetings

- 5.1 The committee shall meet at least four times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 5.2 Outside of the formal meeting programme, the chair of the committee shall maintain a dialogue with key individuals involved in the company's governance, including the chairman of the board, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner and the Group Head of Internal Audit.

6. Notice of meetings

- 6.1 Meetings of the committee shall be called by the secretary of the committee at the request of the committee chair or any of its members, or at the request of the external or internal auditor if he/she considers it necessary.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date shall be forwarded to each member of the committee and any other person required to attend before the meeting. The agenda of items to be discussed and any supporting papers shall be sent to committee members and other attendees, as appropriate.

7. Minutes of meetings

- 7.1 The secretary shall minute the proceedings and decisions of all meetings of the committee, including recording the names of those present and in attendance.
- 7.2 Draft minutes of committee meetings shall be circulated to all members of the committee and, once approved, to all other members of the board, save where inappropriate to do so.

8. Engagement with shareholders

The chairman of the committee shall attend the company's annual general meeting to answer any shareholder questions on the committee's activities and shall seek engagement with the company's shareholders on significant matters related to the committee's area of responsibility, where



appropriate.

9. Duties

The committee's duties extend to the company and the group as a whole. The 'group' shall mean the company and each and all of its direct and indirect subsidiaries from time to time.

9.1 Financial reporting

The committee shall:

- 9.1.1 monitor the integrity of the group's financial statements, including its annual, half-year and quarterly reports, preliminary announcements and any other announcements relating to financial performance (together and individually, the 'financial statements') and review and, if thought fit, recommend to the board the approval of the financial statements, reporting to the board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.
- 9.1.2 In particular, the committee shall review and challenge where necessary:
- a) the application, consistency of, and any changes to, significant accounting policies both on a year-on-year basis and across the company and the group;
 - b) the methods used to account for significant or unusual transactions where different approaches are possible;
 - c) whether the company and the group has adopted appropriate accounting policies and standards, and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;
 - d) the clarity and completeness of disclosure in the financial statements and the context in which statements are made;
 - e) all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management;
 - f) compliance with accepted accounting standards and with relevant regulatory requirements; and
 - g) the assumptions or qualifications in support of the going concern statement, including any material uncertainties as to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements and the longer-term viability statement, including an assessment of the prospects of the company and the group looking forward over an appropriate and justified period.



Where the committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the board.

9.2 Narrative reporting

Where requested by the board, the committee shall review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

9.3 On-going viability

Where requested by the board, the committee shall provide advice on how, taking into account the company's position and principal risks, the company's prospects have been assessed, over what period and why the period is regarded as appropriate. The committee shall also advise on whether there is a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions, as necessary.

9.4 External audit

The committee shall:

- 9.4.1 consider and make recommendations to the board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the external auditor of the company;
- 9.4.2 develop and oversee the selection procedure for the appointment of the external audit firm, ensuring that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- 9.4.3 ensure that at least once every ten years the audit services contract is put out to tender to enable the committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms;
- 9.4.4 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 9.4.5 oversee the relationship with the external auditor, including:
 - a) approving their remuneration, including both fees for audit and non-audit services, ensuring that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
 - b) approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;



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- c) assessing annually the external auditor's independence and objectivity taking into account relevant regulatory and professional requirements and standards, the group's relationship with the auditor as a whole and any threats to the auditor's independence, such as the provision of any non-audit services;
- d) monitoring the auditor's process for maintaining independence, its compliance with relevant regulatory and professional requirements and standards, including any regulation or guidance on the rotation of audit partners and staff;
- e) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company or the group (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- f) agreeing with the board a policy on the employment of former employees of the company's auditor and monitor the application of this policy;
- g) monitoring the level of fees paid by the company and the group to the external auditor compared to the overall fee income of the firm, office and partner and taking account of any relevant regulatory or professional requirements or standards;
- h) assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- i) seeking to ensure co-ordination of the external audit with the activities of the internal audit function;
- j) evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the committee and considering whether this should include an assessment of the risk of the company's external audit firm withdrawing the provision of their audit services from the market;
- k) developing, recommending to the board and keeping under review a policy on the provision of non-audit services by the auditor, requiring prior approval of non-audit services by the committee, specifying the types of non-audit service to be pre-approved, and giving consideration to:
 - threats to the independence and objectivity of the external auditor and any safeguards in place;
 - the nature of the non-audit services;
 - whether the external audit firm is the most suitable supplier of the non-audit service;
 - the fees for the non-audit services, both individually and in aggregate, relative to



the audit fee; and

- the criteria governing compensation.

9.4.6 discuss with the external auditor before the external audit commences the nature and scope of the external audit and the factors that could affect audit quality and review and, if thought fit, approve the annual audit plan, ensuring that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;

9.4.7 review the reports and presentations of the external auditor and management's response to major findings of the audit, including (but not limited to):

- a) any major issues which arose during the audit;
- b) the auditor's explanation of how the risks to audit quality were addressed;
- c) key accounting and audit judgements;
- d) the auditor's view of their interactions with senior management; and
- e) levels of errors identified during the audit; and

9.4.8 review any representation letter(s) requested by the external auditor before it is (or they are) signed by management; and

9.4.9 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the committee.

9.5 Internal audit

The committee shall:

9.5.1 approve the appointment and removal of the Group Head of Internal Audit;

9.5.2 review and approve the role and mandate of the group's internal audit function, monitoring and reviewing the effectiveness of its work and that its size and composition is appropriate for the needs of the group;

9.5.3 review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business and receive regular reports on work carried out, ensuring co-ordination between the internal audit function and the external auditor and approving any material changes to the plan;

9.5.4 ensure internal audit has unrestricted scope and the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between



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different functions and that the internal audit function has appropriate standing in the company and is equipped to perform in accordance with appropriate professional standards for internal auditors;

- 9.5.5 ensure that the Group Head of Internal Audit is given direct access to the chairman of the board and to the committee chairman, providing independence from the executive, and is accountable to the committee, and ensure the function has adequate standing and is free from management or other restrictions;
- 9.5.6 carry out a regular assessment of the effectiveness of the internal audit function and as part of this assessment:
- a) meet with the Group Head of Internal Audit without management present to discuss the effectiveness of the function;
 - b) receive a report on the results of the internal auditor's work;
 - c) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
 - d) review the actions taken by management to implement the recommendations of internal audit and to support effective working of the internal audit function.
- 9.5.7 consider whether an independent, third party review of internal audit is appropriate.

9.6 Internal controls and risk management

The committee shall:

- 9.6.1 review annually the key risks inherent and emerging in the business and the robustness and effectiveness of the group's systems of internal control and risk management to identify, assess, classify, monitor, manage and mitigate such risks;
- 9.6.2 monitor the effectiveness of the group's systems of risk management and internal controls, receiving regular reports from management and seeking assurance that:
- a) the group maintains an effective system to identify, assess, manage, prioritise and report risks material to the achievement of the group's purpose strategy and plans;
 - b) emerging or heightened risks and any material changes to existing risks are escalated in a timely manner;
 - c) the group maintains adequate insurances in respect of its risks;
 - d) key risks are appropriately managed and mitigated; and
 - e) the internal audit plan takes into account key areas of risk for the group.



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- 9.6.3 review and, if thought fit, recommend to the board for approval the statements to be included in the company's annual report concerning internal control and risk management, including the assessment of principal and emerging risks;
- 9.6.4 review financial and tax risks and receive inputs from the board's safety, sustainability and workforce committee on risks relevant to its area of responsibility to be taken into account by the committee in discharging its responsibilities; and
- 9.6.5 provide such other advice or assistance in relation to the identification, assessment, management or monitoring of risk as the board may request from time to time.

9.7 Compliance, speaking-up and fraud

The committee shall

- 9.7.1 review the adequacy and security of the group's arrangements for its employees, contractors and external parties to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- 9.7.2 review the company's procedures for detecting fraud.
- 9.7.3 review the company's systems and controls for the prevention of bribery and receive reports on non-compliance.
- 9.7.4 review the adequacy and effectiveness of the company's compliance function and anti-money laundering systems and controls.

10. Reporting responsibilities

- 10.1 The committee chairman shall report to the board on its proceedings after each meeting on all matters within its scope, including how it has discharged its responsibilities.
- 10.2 The committee shall make such recommendations to the board it deems appropriate.
- 10.3 The committee shall compile a report on its activities to be included in the company's annual report. The report should describe the work of the audit committee, including:
 - 10.3.1 the significant issues that the committee considered in relation to the financial statements and how these were addressed;
 - 10.3.2 an explanation on how the committee has addressed the independence of the external auditor, the approach taken to appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans and the effectiveness of the external



audit process; and

- 10.3.3 an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services; and
- 10.4 In the compiling of the reports referred to in 10.1 and 10.3, the committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the board's assessment of whether the company is a going concern and the inputs to the board's viability statement.

11. Other matters

The committee shall:

- 11.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for advice and assistance as required;
- 11.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 11.3 give due consideration to all relevant laws and regulations, the provisions of the UK Corporate Governance Code 2018 and published guidance, the requirements of the UK Listing Authority's Listing, Prospectus Rules and the Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate;
- 11.4 oversee any investigation of activities which are within its terms of reference and act as a court of the last resort to the extent applicable;
- 11.5 work and liaise as necessary with all other board committees and the board;
- 11.6 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval; and
- 11.7 ensure that these terms of reference shall be supplied to the external auditor.

12. Authority

- 12.1 The committee is authorised:
 - 12.1.1 to seek any information it requires from any employee in order to perform its duties;
 - 12.1.2 to obtain, at the company's expense, independent legal, accounting or other professional advice on any matter if it believes it necessary to do so, within its terms of reference;



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- 12.1.3 to call any employee to be questioned at a meeting of the committee as and when required; and
- 12.1.4 to have the right to publish in the company's annual report details of any issues that cannot be resolved between the committee and the board. If the board has not accepted the committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the committee's recommendation and the reasons why the board has taken a different position.
- 12.2 In the event that any director of the company or any of its subsidiaries shall indicate to the committee that he requires independent legal or other professional advice in relation to his duties as such director, the committee may authorise the obtaining at the company's expense of such advice by such director on such terms as the committee may think fit.
- 12.3 The committee shall inform the chairman of the board or the Chief Financial Officer of any expenses of the kind referred to in 12.2 above which it has incurred or approved as soon as it is appropriate in the particular circumstances for the committee to do so.

Reviewed by the audit committee on 21 May 2021

Approved and adopted by the board on 21 May 2021