

## **Policy and procedure on selection of an audit firm to audit unconsolidated and consolidated financial statements**

Having regard to the provisions of 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 repealing Commission Decision 2005/909/EC, and the Act of 11 May 2017 on statutory auditors, audit firms and public oversight, including the requirements regarding selection of an audit firm, acting pursuant to Article 130(1)(5) and (7) of the above Act and Section 4.3.7. and 4.3.9. of the Terms of Reference of the Audit Committee, the Audit Committee hereby establishes and adopts this Policy and Procedure.

### **1. DEFINITIONS**

- 1.1. The terms used in this Policy and Procedure shall have the meaning set out below:
  - 1.1.1. Group – a corporate group of the Company within the meaning of the Accounting Act (if the Company creates a Group at any particular time);
  - 1.1.2. Audit Committee – an audit committee appointed from among the members of the Supervisory Board;
  - 1.1.3. Policy and Procedure – this document – policy and procedure on selection of an audit firm to audit unconsolidated and consolidated financial statements of XTPL Spółka Akcyjna, a joint stock company having its registered office in Wrocław (if the Company creates a Group at any particular time);
  - 1.1.4. Policy on Provision of Permitted Services – the policy on provision by the audit firm which conducts an audit, by its affiliates and by members of its network, of permitted non-audit services at the Company, developed by the Company's Audit Committee;
  - 1.1.5. Supervisory Board – the supervisory board of the Company;
  - 1.1.6. 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 and repealing Commission Decision 2005/909/EC;
  - 1.1.7. Company – XTPL Spółka Akcyjna, a joint stock company with its registered office in Wrocław;
  - 1.1.8. Articles of Association – the articles of association of the Company;
  - 1.1.9. Act – the Act on statutory auditors, audit firms and public oversight of 11 May 2017;
  - 1.1.10. Accounting Act – the Accounting Act of 29 September 1994;
  - 1.1.11. Management Board – the management board of Company.
- 1.2. Any terms which are not specified in Section 1.1 shall have the meaning assigned to them in applicable laws, including the Act and the Regulation.

## **2. THE BASIS FOR ADOPTING THE POLICY AND PROCEDURE**

- 2.1. XTPL S.A. with its registered office in Wrocław is a public interest entity.
- 2.2. The Company's financial statements and the Group's consolidated financial statements (if the Company creates a Group at any particular time) are subject to audit and limited review in accordance with the requirements of international financial reporting standards and the Accounting Act.
- 2.3. Pursuant to the Articles of Association, the auditor entrusted to conduct statutory audits shall be selected by the Supervisory Board.
- 2.4. The purpose of the Policy and Procedure is to ensure that the Supervisory Board selects such an audit firm which will carry out a statutory audit for the Company in accordance with the following principles:
  - 2.4.1. impartiality
  - 2.4.2. independence
  - 2.4.3. non-discrimination
  - 2.4.4. professional ethics and standards relating to audits, and
  - 2.4.5. respect for the rights of audit firms included in the list published by the Audit Oversight Commission under Article 91 of the Act.
- 2.5. The purpose of the auditor selection procedure is to define transparent and non-discriminatory rules for the process leading to submission by the Audit Committee, free from any influence by third parties, recommendations regarding the audit firm, and the selection by the Supervisory Board of an independent and competent audit firm to conduct the audit.

## **3. THE POLICY ON SELECTION OF AN AUDIT FIRM**

- 3.1. When selecting an audit firm, the Supervisory Board shall act on the basis of the below criteria and recommendations from the Audit Committee.
- 3.2. In the case of selection of an audit firm to conduct a statutory audit for the Company, except in the situation when the audit engagement referred to in Section 3.3 is extended, the Audit Committee shall present a recommendation to the Supervisory Board:
  - 3.2.1. containing at least two possible choices for the audit engagement and a duly justified preference for one of them indicated to the Audit Committee;
  - 3.2.2. containing a statement that the recommendation is free from any undue influence by third parties;
  - 3.2.3. containing a statement that the Company has not entered into any agreements containing clauses referred to in Article 66(5a) of the Accounting Act;
  - 3.2.4. prepared subsequently to the selection procedure referred to in Section 4.
- 3.3. Where the selection of an audit firm relates to an extension of the audit engagement with the existing audit firm, the Audit Committee shall present a recommendation to the Supervisory Board containing:

- 3.3.1. indication of the audit firm to be reappointed to conduct the audit;
- 3.3.2. a statement that the recommendation is free from any undue influence by third parties;
- 3.3.3. a statement that the Company has not entered into any agreements containing clauses referred to in Article 66(5a) of the Accounting Act.
- 3.4. The Supervisory Board, when selecting an audit firm, and the Audit Committee, when drawing up the recommendation, may take into account the following criteria in particular (details shall be determined in the tender documentation):
  - 3.4.1. the audit firm's prior experience in conducting audits of financial statements and consolidated financial statements of companies, including public companies;
  - 3.4.2. the audit firm's capacity, including in terms of HR and organisation, to ensure full range of services specified by the Company in the request for proposal, taking into account the professional nature of this activity;
  - 3.4.3. the fee proposed by the audit firm;
  - 3.4.4. a possibility to conduct the audit within the time limit specified by the Company in the request for proposal;
  - 3.4.5. the audit firm's impartiality and independence in relation to the Company and the Group, within the meaning of the Act, in particular Article 69–73 of the Act;
  - 3.4.6. having the rights and authority to carry out the audit in accordance with the Act;
  - 3.4.7. satisfying the conditions to be able to issue an unbiased opinion in accordance with the Act;
  - 3.4.8. compliance with the conditions for the rotation of the audit firm and the key statutory auditor in accordance with the Act and the Regulation;
  - 3.4.9. compliance by the audit firm with the standards pertaining to the audit of financial statements;
  - 3.4.10. other justified criteria, indicated at the discretion of the Audit Committee and the Supervisory Board.
- 3.5. When selecting an audit firm, the Supervisory Board shall use the following rules:
  - 3.5.1. the rule of rotating the audit firm, based on which the maximum duration of uninterrupted statutory audit engagements with the same audit firm or an audit firm connected with such audit firm or any member of its network in the EU to which these audit firms belong, may not exceed 5 years;
  - 3.5.2. the rule of a cooling off period, based on which after the maximum period of uninterrupted duration of the audit engagement referred to in Section 3.5.1, the current audit firm shall not carry out any statutory audit for the Company over the following four years;
  - 3.5.3. the rule of rotating the key statutory auditor, based on which the key statutory auditor may not carry out statutory audits at the Company for a period longer than 5 years;
  - 3.5.4. the rule of selecting an audit firm for a minimum period of two years.
- 3.6. The Audit Committee's recommendation shall also be consistent with the Policy on Provision of Permitted Services.

#### 4. THE PROCEDURE ON SELECTION OF AN AUDIT FIRM

- 4.1. An audit firm authorised to carry out a statutory audit of the Company shall be selected by way of a tender, in accordance with the procedure set out below, subject to Section 4.8. The Audit Committee shall supervise the proper conduct of the procedure.
- 4.2. In the case of extension of the audit engagement with the existing audit firm, the procedure indicated in this Section shall not apply.
- 4.3. The audit firm selection process shall meet the following criteria:
  - 4.3.1. The company may invite any audit firms to submit their proposals for a statutory audit provided that:
    - 4.3.1.1. this is not in breach of Article 17(3) of the Regulation, which applies to the maximum duration of an audit engagement with a particular audit firm;
    - 4.3.1.2. organisation of the tender procedure does not preclude the participation in the selection procedure of firms which received less than 15% of the total audit fees from public interest entities in the Member State concerned in the previous calendar year, as specified in the list of audit firms referred to in Article 91 of the Act;
    - 4.3.1.3. this is not in breach of the provisions which are the basis for provision of non-audit services by the audit firm, including Article 5 of the Regulation and Article 136 of the Act, which relate to prohibited services;
  - 4.3.2. In coordination with the Audit Committee, the Company shall prepare tender documentation for invited audit firms. In particular, the documentation shall:
    - 4.3.2.1. include key information allowing those companies to find out about the Company's and the Group's activities;
    - 4.3.2.2. includes an indication of the financial statements to be audited;
    - 4.3.2.3. contains transparent and non-discriminatory selection criteria that are used by the Company to evaluate the proposals submitted by audit firms;
    - 4.3.2.4. indicates the start and end of the deadline for obtaining proposals from audit firms.
  - 4.3.3. When preparing the tender documentation, the Company may specify weights to be allocated to individual selection criteria;
  - 4.3.4. The Company may extend the deadline for submitting proposals, in which case notice shall be given to all the audit firms invited to participation in the tender;
  - 4.3.5. During the selection procedure, the Company may engage in direct negotiations with the applicants;
  - 4.3.6. The Company shall evaluate the proposals submitted by audit firms in accordance with the selection criteria specified in the tender documentation and the Policy and Procedure, and shall prepare a report on the conclusions of the selection procedure, which shall be validated by the Audit Committee.

- 4.4. The Company and the Audit Committee shall take into consideration any findings or conclusions contained in the annual report of the Audit Supervision Commission referred to in Article 90(5) of the Act, which may affect selection of the audit firm, provided that such a report has been published by the Audit Supervision Committee;
- 4.5. At the request of the Polish Financial Supervision Authority, the Company shall indicate that the selection procedure has been carried out in accordance with the requirements referred to in Article 130(2) and (3) of the Act;
- 4.6. Preparation of the tender documentation shall be the responsibility of the person or team appointed by the Management Board. The indicated person or team shall also be responsible for inviting selected firms to submit their proposals; however, in sending the invitations, they must not disregard the entities indicated by the Management Board, the Supervisory Board and the Audit Committee;
- 4.7. When evaluating the proposals submitted by audit firms, the Audit Committee shall use the selection criteria specified in the tender documentation and in the Policy and Procedure. The evaluation shall take into consideration the dates and requirements related to the selection of the audit firm indicated in the Act;
- 4.8. The provisions of Sections 4.3–4.7 shall not apply as long as the Company is a small or medium-sized company or a company with a reduced market capitalisation within the meaning of Article 25 of the Act of 29 July 2005 on public offering and conditions for introducing financial instruments to the organised trading and on public companies;
- 4.9. Having analysed the proposals from audit firms, the Audit Committee shall recommend the selection of an audit firm in writing and shall present the recommendation to the Supervisory Board, adding the statement referred to Section 3.2.2 and the statement referred to in Section 3.2.3;
- 4.10. The Supervisory Board shall select an audit firm based on the proposals and recommendations received from the Audit Committee;
- 4.11. The Management Board shall sign an audit engagement letter with the audit firm in good time to ensure that the audit firm can take part in the inventory of significant assets. In the case of a statutory audit within the meaning of Article 2(1) of the Act, the first audit engagement letter shall be signed with the audit firm for a period of at least two years with the possibility of extending the term by another two or three years;
- 4.12. If the Supervisory Board does not take into account the recommendations of the Audit Committee, the Supervisory Board shall justify the reasons for doing so and shall provide this justification to the General Meeting;
- 4.13. At all stages of the audit firm selection procedure indicated in Section 4 of the Policy and Procedures, the Audit Committee may be involved in all the cases in which the Company is required to follow the Policy and Procedure. The Supervisory Board and the Audit Committee shall also have access to all the Company's documents necessary for the Audit Committee and the Supervisory Board to perform their respective tasks.

## 5. FINAL PROVISIONS

- 5.1. The Policy and Procedure was adopted and became effective on 5 June 2018;
- 5.2. Any changes to the Policy and Procedure, including the adoption of the consolidated text, shall be made using the procedure applicable to the adoption of the Policy and Procedure.
- 5.3. Any matters not regulated by Policy and Procedure shall be governed, in particular, by the Act, the Regulation, the Accounting Act and the Company's internal regulations;
- 5.4. Members of the Supervisory Board and the Audit Committee shall notify the Management Board of any identified breaches of the legal provisions indicated in Section 5.3 to the extent covered by the Policy and Procedure;
- 5.5. Members of the Management Board shall notify the Supervisory Board and the Audit Committee of any identified breaches of the legal provisions indicated in Section 5.3 to the extent covered by the Policy and Procedure;
- 5.6. The Audit Committee shall make binding interpretations of the Policy and Procedure, particularly in the situation where any of its provisions are unclear;
- 5.7. The model declaration and statements referred to in Sections 3.2.2, 3.2.3, 3.3.2 and 3.3.3 shall be attached to this Policy and Procedure.

## Appendix

### **Declaration by the Audit Committee of XTPL S.A. with its registered office in Wrocław (the "Company")**

In connection with the audit firm selection procedure, pursuant to Article 130(2)(2) and (3) of the Act on statutory auditors, audit firms and public oversight of 11 May 2017, the Company's Audit Committee hereby declares as follows:

- a) The recommendation presented to the Company's Supervisory Board is free from any undue influence by third parties;
- a) The Company did not enter into any agreements containing clauses referred to in Article 66(5a) of the Accounting Act of 29 September 1994, i.e. contractual clauses in contracts concluded by the Company, which would limit the possibility of selecting an audit firm by the audit firm selection body, for the purpose of carrying out a statutory audit of the Company's financial statements, to specific categories or lists of audit firms which are not valid by law.

Wrocław, \_\_\_\_\_

Audit Committee of XTPL S.A. with its registered office in Wrocław

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