



Intelligent
Energy

Intelligent Energy Holdings plc (the “Company”)

Policy for the provision of non-audit services by the external auditor

Approved by the Audit & Risk Committee of the Board on 30 September 2016

1.0 Background

- 1.1 The Financial Reporting Council’s (“FRC’s”) document titled ‘*Guidance on Audit Committees*’ (the “**FRC Guidance Document**”) explicitly states that the audit committee is responsible for approving non-audit services. The FRC goes on to set out the objective of audit committees, which should be to ensure that the provision of such services does not impair the external auditor’s independence or objectivity.
- 1.2 The FRC Guidance Document also confirms that an audit committee should set and apply a formal policy specifying the types of non-audit service for which use of the external auditor is pre-approved, and that pre-approval beyond the basic scope of audit services for the Company and its Group subsidiaries should only be in place for matters that are ‘*clearly trivial*’.

2.0 Non-audit services policy

- 2.1 The Audit & Risk Committee (the “**Committee**”) has determined that in order to maintain external auditor independence, the following policy shall be adhered to when considering whether it is appropriate for the external auditor to be appointed by the Company and in particular to undertake work outside of the scope of their usual and specific annual audit.
- 2.2 For the avoidance of doubt, any non-audit services agreed by the Committee prior to 30 September 2016 will continue to be provided through to the Company’s satisfactory completion, in accordance with the terms of the previous non-audit fees policy adopted by the Committee, and which was approved by the Board in November 2015, subject to any restrictions enforced by the external auditor independence rules below.
- 2.3 The Committee notes the requirements for Public Interest Entities (“**PIE’s**”), of which the Company is classed, under the EU Audit Reform Directive, and which came into force for financial years beginning on or after 17 June 2016, in relation to an annual cap to be applied to non-audit fees. As such, with effect from 1 October 2016 any Additional Permitted Services (as defined below) provided by the external auditor (and its network of associated firms) that the Committee may approve from time to time, will be subject to a cap of 70% of the average of the Annual Audit Fees (defined below) in the last three consecutive financial years.

During the first three years of this policy the 70% cap will be calculated based on the relevant Annual Audit Fee for that particular year only. During the fourth year (and

subsequent years), an averaging figure will be applied, based on average Annual Audit Fees from the previous three year period.

3.0 Annual Audit Fees

3.1 This constitutes services that the external auditor would be normally be expected to undertake as part of their annual external audit programme for the Company (and its Group subsidiaries) and to which would, in the normal course of business, be included within their standard terms of engagement; to include the audit of the financial statements of the Company (and any Group subsidiaries), operating and financial review and governance disclosures, the Annual Report, preliminary results announcements (full and half year) and any other formal announcements relating to financial performance. ("**Annual Audit Fees**").

3.2 Prior Committee approval will be required with regard to the Annual Audit Fees of the Company, via agreement of the external auditor terms of engagement (which will include audit scope and fee structures). Approval of the Annual Audit Fee for the Group's subsidiary companies (that are not already included within the external auditor terms of engagement for the Company) will be agreed separately by the Chief Financial Officer, rather than the Committee.

4.0 Prohibited Services

4.1 Described below are the services that are prohibited in law from being provided to the Company by its external auditor (the "**Prohibited Services**"), as they have the potential to impair, or appear to impair, the external auditor's independence.

4.2 Such Prohibited Services relate to:

4.2.1 Tax Services

- i) preparation of tax forms*
- ii) payroll tax
- iii) customs duties
- iv) identification of public subsidies and tax incentives unless support from the audit firm in respect of such services is required by law*
- v) support regarding tax inspections by tax authorities unless support from the statutory auditor or audit firm in respect of such inspections is required by law*
- vi) calculation of direct and indirect tax and deferred tax*
- vii) provision of tax advice*

4.2.2 Services that involve playing a part in the management or decision-making of the Company

4.2.3 Book-keeping and preparing accounting records and financial statements

4.2.4 Payroll services

4.2.5 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 (such services are Prohibited Services in the financial year prior to the year subject to audit, and defined as the 'cooling in' period)

- 4.2.6 Valuation services, including valuations prepared in connection with actuarial services or litigation support services*
- 4.2.7 Legal services, with respect to:
 - i) the provision of general counsel;
 - ii) negotiation on behalf of the Company
 - iii) acting in an advocacy role in the resolution of litigation
- 4.2.8 Services related to the Company's internal audit function
- 4.2.9 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
- 4.2.10 Promoting, dealing in, or underwriting shares of the audited entity
- 4.2.11 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 positions; or
 - undertaking reference checks of candidates for such positions
 - structuring the organisational design
 - cost control

5.0 Additional Permitted Services

- 5.1 A potential number of the Prohibited Services (those which are shown above with an asterisks on 4.2.1 to 4.2.11 above), together with those listed in 5.2.1 to 5.2.5 below, may still be provided to the Company by its external auditor (together the "**Additional Permitted Services**"), subject to Committee approvals as detailed in 5.3 and 5.4 below.
- 5.2 Whilst it is difficult to be precise regarding the definition of any other work/services to be provided by the external auditor that may be defined as an Additional Permitted Service, it may include the following (some of which in reality may already be included within the Annual Audit Fee for the Company and/or its Group subsidiaries):
 - 5.2.1 accounting advice, review and provision of comments on accounting policies and review of accounting standards;
 - 5.2.2 review of interim results and other reviews of the Company's accounts for regulatory purposes;

- 5.2.3 assurance work relating to a review of internal policies and procedures, compliance, and corporate governance, including high level controls and regulatory reviews;
 - 5.2.4 certification which is required under loan agreements and/or bond covenants; and/or
 - 5.2.5 training services
- 5.3 Prior to any Additional Permitted Services being carried out by the external auditor in relation to the Additional Permitted Services, they will require Committee approval. As part of the approval process, an assessment of any threats will be carried out. Such approval will only be granted by the Committee if, amongst other considerations, the following requirements are complied with:
- 5.3.1 no direct or clear inconsequential effect, separately or in aggregate, on financial statements;
 - 5.3.2 estimation of the effect on the financials is comprehensively documented and explained in an additional report to the Committee;
 - 5.3.3 is in-line with the principles of independence; and
 - 5.3.4 the audit firm would not place significant reliance for the purposes of the audit on the work performed by the audit firm in performing these services.
- 5.4 In the context of Additional Permitted Services that are not prohibited by law, the Committee should also apply judgement concerning the provision of such services, including assessing:
- 5.4.1 threats to independence and objectivity resulting from the provision of such services and any safeguards in place to eliminate or reduce these threats to a level where they would not compromise the auditor's integrity and objectivity;
 - 5.4.2 the nature of the non-audit services;
 - 5.4.3 whether the skills and experience of the external auditor make it the most suitable supplier of the non-audit services;
 - 5.4.4 the fees incurred, or to be incurred, for non-audit services both for individual services and in the aggregate, relative to the audit fee, including special terms and conditions (for example, contingent fee arrangements); and
 - 5.4.5 the criteria which govern the compensation of the individual performing the audit.
- 6.0 'Clearly Trivial' Services**
- 6.1 As an aside to the Additional Permitted Services mentioned in 5.0 above, other minor matters which the external audit may be asked to get involved in from time to time, and which are of a clearly trivial nature, may be approved by the Chief Financial Officer of the

Company, if i) the value of these services is not greater than £2,000 for each particular matter, or a cumulative value of £10,000 within each financial year and ii) such services are considered against the rules and restrictions as set out in 4.0 and 5.0 of this policy.

7.0 Regular review of non-audit services

7.1 The Committee, in accordance with its Terms of Reference, will regularly review the independence and objectivity of the external auditor, taking into account both professional and regulatory requirements and all relationships between the Company and its external auditor as a whole.

8.0 Company's record-keeping responsibilities

8.1 The Company's 'Head of Financial Reporting', under the instruction of the Chief Financial Officer, will keep a running total of external auditor fees paid in relation to Annual Audit Fees and Additional Permitted Services that they may provide from time to time. Regular updates will be presented to the Committee throughout the year as deemed appropriate by the Chairperson of the Committee.