Spirax-Sarco Engineering plc

UK CORPORATE GOVERNANCE CODE 2018

Statement of compliance

2022

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The Company is subject to the UK Corporate Governance Code 2018, published by the Financial Reporting Council and available on their website (https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code).

Our Governance Report (see pages 93 to 165 of the Annual Report 2021), which can be found on the Group's website: https://www.spiraxsarcoengineering.com, explains how the Group has applied the principles and complied with the provisions of the UK Corporate Governance Code 2018 (Code). We are fully compliant with the requirements of the Code and have been throughout 2021 other than in respect of Code provision 38 (Executive Director pension contributions) where full compliance will be achieved by the end of 2022.

We have addressed each Code principle, as summarised in the table below.

1. Board leadership and company purpose

	Code of Best Practice: Principles & Provisions	Group Compliance Statement
Principles		
A.	A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	
B.	The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	
C.	The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	
D.	In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	
E.	The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	
Provisions		
1	"The board should assess the basis on which the company generates and preserves value over the long-term. It should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how its governance contributes to the delivery of its strategy."	We recognise the importance of operating in a way that delivers long-term sustainable value for our stakeholders. We engineer sustainable value creation as we manage relationships in a way that reflects our Values; effectively manage financial, human and natural resources; understand our associated risks and opportunities; and implement our strategy for growth (Annual Report, p. 22-25). Our Company Purpose is to create sustainable value for all our stakeholders as we engineer a more efficient, safer and sustainable future. Our Purpose is therefore closely aligned with Provision 1 of the Code. The Board is focused on long-term corporate and strategic plans. It engaged in a review and assessment of medium-term plans for all three Businesses during 2021 and in addition, reviewed our corporate strategy (Annual Report, p. 99).

2	"The board should assess and monitor culture. Where it is not satisfied that policy, practices or behaviour throughout the business are aligned with the company's purpose, values and strategy, it should seek assurance that management has taken corrective action. The annual report should explain the board's activities and any action taken. In addition, it should include an explanation of the company's approach to investing in and rewarding its workforce."	We have over 8,700 Company employees across 68 countries worldwide. Our Company Purpose and Values unite our employees, guide our decisions, provide the guiding principles on which we operate and shape our culture. In 2021, we focused on culture, with the launch of our Group Inclusion Plan, 'Everyone is Included'. New strategies for Digital and Sustainability as well as significant investment in our future growth will accelerate our performance and support our path towards achieving leadership in industrial sustainability (Annual Report, p. 95). During 2021, despite ongoing travel restrictions, we spoke directly to a wide range of colleagues at all levels of the organisation. Board employee engagement activities are becoming embedded as part of the Group's engagement approach, are complementary to the role of the Group Executive Committee and add real value to the Board and executive thinking (Annual Report, p. 104-107). We had a record 91% response rate to our third bi-annual employee engagement survey, with engagement scores up compared to previous years and above global benchmarks (Annual Report, p. 31). We invest extensively in the professional development of our people and remunerate them fairly for the work that that do, recognising that they are our most important asset. The reward policies and practices for our workforce as a whole follow those set for the Executive Directors, including the Group Chief Executive. The Remuneration Committee has responsibility for setting and making any changes in remuneration for the senior management. This includes the reviewing of policies and practices for our workforce and consideration of shareholders' and other stakeholders' views as part of designing the Remuneration Policy and its operation for the Executive Directors (Annual Report, p. 148-149). We achieve compliance with our anti-bribery and corruption programmes, whistle-blowing service and management codes, taking corrective action where appropriate.
3	In addition to formal general meetings, the chair should seek regular engagement with major shareholders in order to understand their views on governance and performance against the strategy. Committee chairs should seek engagement with shareholders on significant matters related to their areas of responsibility. The chair should ensure that the board as a whole has a clear understanding of the views of shareholders.	In developing and reviewing the Company's Remuneration Policy for Executive Directors and other senior executives, the Remuneration Committee seeks and takes into account the range of views of shareholder advisers. The Committee Chair actively engages with major shareholders and institutional shareholder advisers when appropriate and takes into account their views when reviewing and implementing the Company's Remuneration Policy. The Committee considers shareholder feedback received in relation to the AGM each year and guidance from institutional shareholder advisers more generally. This feedback, plus any additional feedback received during the year at meetings with shareholders, is considered as part of the Company's annual Remuneration Policy review (Annual Report, p. 160). The Chair and Senior Independent Director meet and communicate with shareholders on a regular basis.
4	When 20 per cent or more of votes have been cast against the board recommendation for a resolution, the company should explain, when announcing voting results, what actions it intends to take to consult shareholders in order to understand the reasons behind the result. An update on the views received from shareholders and actions taken should be published no later than six months after the shareholder meeting.	n/a

	The board should then provide a final summary in the annual report and, if applicable, in the explanatory notes to resolutions at the next shareholder meeting, on what impact the feedback has had on the decisions the board has taken and any actions or resolutions now proposed.	
5	The board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in section 172 of the Companies Act 2006 have been considered in board discussions and decision-making. The board should keep engagement mechanisms under review so that they remain effective. For engagement with the workforce, one or a combination of the following methods should be used: • a director appointed from the workforce; • a formal workforce advisory panel; • a designated non-executive director. If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.	Engaging with our stakeholders and acting in a way that promotes the long-term success of the Company, while taking into account the impacts of our business decisions on our stakeholders, is central to our strategic thinking and our statutory duty in accordance with Section 172(1) of the Companies Act 2006 (s.172). Pages 101 to 103 of the 2021 Annual Report constitute our s.172 Statement. The Board recognises our shareholders as an important stakeholder group. By providing regular forums for meeting and communicating with shareholders, their advisers and the investment community, we ensure that we understand the views and opinions of our investors and are kept informed of any concerns that may arise. We are also able to give updates on our results and developments within our Businesses. We communicate using a variety of forums including regulatory news announcements, interviews, investor and analyst calls/emails, one-to-one meetings, roadshows, site tours, investor seminars and conferences (Annual Report, p. 101). The Employee Engagement Committee was established in response to and in compliance with the Code, with one Non-Executive Director designated as the Chair of the Committee. The principal remit is to support the Board and to ensure that that the voice of the workforce is considered in all aspects of the Board's thinking and to understand and support colleague engagement activities across the Group. We regularly pose the question. "What would our colleagues think?" whenever we are making important decisions (Annual Report, p. 104).
6	There should be a means for the workforce to raise concerns in confidence and – if they wish – anonymously. The board should routinely review this and the reports arising from its operation. It should ensure that arrangements are in place for the proportionate and independent investigation of such matters and for follow-up action.	Our Employee Engagement Committee ensures that the views and interests of colleagues are considered at Board level (Annual Report, p.102). Any colleague with a concern about potentially unethical behaviour is able to raise it confidentially through a local, independent third-party whistle-blowing hotline, hosted by Safecall. In 2021, 23 cases were raised globally via this hotline, an increase from 2020, which shows that our colleagues are both aware of the hotline and finding it helpful for reporting purposes. All calls were investigated by senior management and action taken if necessary, with summaries of calls and related actions reviewed by the Audit Committee and the Board (Annual Report, p. 51).
7	The board should take action to identify and manage conflicts of interest, including those resulting from significant shareholdings, and ensure that the influence of third parties does not compromise or override independent judgement.	Under the Companies Act 2006 and the provisions of the Company's Articles of Association, the Board is required to consider potential conflicts of interest. The Company has established formal procedures for the disclosure and review of any conflicts, or potential conflicts, of interest which the Directors may have and for the authorisation of such matters of conflict by the Board. To this end the Board considers and, if appropriate, authorises any conflicts, or potential conflicts, of interest as they arise and reviews any such authorisation annually. New Directors are required to declare any conflicts, or potential conflicts, of interest to the Board at the first Board meeting after his or her appointment. The Board believes that the procedures established to deal with conflicts of interest are operating effectively (Annual Report, p. 162).

		No director holds shares in another company that would cause any conflict or compromise judgement.
8	Where directors have concerns about the operation of the board or the management of the company that cannot be resolved, their concerns should be recorded in the board minutes. On resignation, a non-executive director should provide a written statement to the chair, for circulation to the board, if they have any such concerns.	n/a

2. Division of responsibilities

	Code of Best Practice: Principles & Provisions	Group Compliance Statement
	Principles	
F.	The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	
G	The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.	
H	Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	
I	The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	
	Provisions	
9	The chair should be independent on appointment when assessed against the circumstances set out in Provision 10. The roles of chair and chief executive should not be exercised by the same individual. A chief executive should not become chair of the same company. If, exceptionally, this is proposed by the board, major shareholders should be consulted ahead of appointment. The board should set out its reasons to all shareholders at the time of the appointment and also publish these on the company website.	Jamie Pike has been a member of our Board since May 2014. We consider him to have retained his independent status (Annual Report, p. 110). In his tenure to date we consider him to have upheld the responsibility of the Chair as described in the Principle of the Code, such as his independence, ability to work well with others and leadership skills (Annual Report, p. 110).
10	The board should identify in the annual report each non-executive director it considers to be independent. Circumstances which are likely to impair, or could appear to impair, a non-executive director's independence include, but are not limited to, whether a director: • is or has been an employee of the company or group within the last five years; • has, or has had within the last three years, a material business relationship with the company, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;	All our Non-Executive Directors are considered independent (Annual Report, p. 110). Non-Executive Directors are identified on Pages 96-97 of the Annual Report.

	• has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme; has close family ties with any of the company's advisers, directors or senior employees; • holds cross-directorships or has significant links with other directors through involvement in other companies or bodies; represents a significant shareholder; or • has served on the board for more than nine years from the date of their first appointment. Where any of these or other relevant circumstances apply, and the board nonetheless considers that the non-executive director is independent, a clear explanation should be provided.	
11	At least half the board, excluding the chair, should be non-executive directors whom the board considers to be independent.	During 2021, in compliance with the Code, the number of Non-Executive Directors was always equal to or more than the number of Executive Directors (excluding the Chair). At the time of publication, our Board comprises of two Executive and seven Non-Executive Directors (excluding the Chair). This ensures that no one person or group of individuals dominates the Board's decision-making (Annual Report, p. 110).
12	The board should appoint one of the independent non-executive directors to be their senior independent director to provide a sounding board for the chair and serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance, and on other occasions as necessary.	Richard Gillingwater was appointed as Senior Independent Director in July 2021. Richard has strong investment, financial and non-executive experience, combined with international business experience. Richard brings competencies that will greatly assist the development of the Group. The Senior Independent Director conducted a review of the performance of the Chair as required by the Code and the review concluded that the Chair's performance was outstanding (Annual Report, p. 110).
13	Non-executive directors have a prime role in appointing and removing executive directors. Non-executive directors should scrutinise and hold to account the performance of management and individual executive directors against agreed performance objectives. The chair should hold meetings with the non-executive directors without the executive directors present.	Non-Executive Directors hold a prime role in appointing and removing Executive Directors and scrutinise and hold to account the performance of management and individual Executive Directors against agreed performance objectives (Annual Report, p. 109). The Nomination Committee, comprising the Chair and Non-Executive directors, makes appropriate recommendations to the Board for the appointment, re-appointment or replacement of Directors (Annual Report, p.113). The Chair holds meetings with Non-Executive Directors without Executive Directors present (Annual Report, p.109).
14	The responsibilities of the chair, chief executive, senior independent director, board and committees should be clear, set out in writing, agreed by the board and made publicly available. The annual report should set out the number of meetings of the board and its committees, and the individual attendance by directors.	Responsibilities of the Chair: • Leads the Board • Responsible for overall effectiveness in directing the Company • Demonstrates objective judgement • Promotes a culture of openness and debate • Facilitates constructive Board relations • Facilitates effective contribution of all Non-Executive Directors • Ensures Directors receive accurate, timely, information • Holds meetings with Non-Executive Directors, without Executive Directors present

		Responsibilities of the Chief Executive: • Responsible for the day-to-day running of the Group's business and performance and the implementation of strategy • Leads the Executive Group • Represents management on the Board Responsibilities of the Senior Independent Director: • Provides a sounding board to the Chair • Serves as an intermediary for the other Directors and shareholders • Leads an annual meeting of Non-Executive Directors to appraise the Chair's performance (Annual Report, p. 109) The Board is collectively responsible for the long-term success of the Company. The business of the Company is managed by the Board who may exercise all of the powers of the Company. The Board has a formal schedule of matters reserved for the Board's decision-making which is available on the Group's website https://spiraxsarcoengineering.com. This was recently updated to clarify that the Board is directly responsible for the oversight of Environmental, Social and Governance (ESG) matters. Although the Board retains overall responsibility, it delegates certain matters to the Board Committees and the detailed implementation of matters approved by the Board and the day-to-day operational aspects of the business to the Group Executive Committee (Annual Report, p. 108).
15	When making new appointments, the board should take into account other demands on directors' time. Prior to appointment, significant commitments should be disclosed with an indication of the time involved. Additional external appointments should not be undertaken without prior approval of the board, with the reasons for permitting significant appointments explained in the annual report. Full-time executive directors should not take on more than one non-executive directorship in a FTSE 100 company or other significant appointment.	Directors are permitted to hold external directorships in order to broaden their experience, to the benefit of the Company. Such appointments are subject to approval by the Board and the Director may retain any fees paid in respect of such directorships. The Board ensures compliance by Directors with Code provision B.3 (Annual Report, p. 156). The Board meets as often as is necessary to discharge its duties. In 2021, the Board met eight times. All Directors are expected to attend all Board meetings and relevant Committee meetings unless prevented by prior commitments, illness or a conflict of interest. Directors unable to attend specific Board or Committee meetings are sent the relevant papers and asked to provide comments in advance of the meeting to the Chair of the Board or Committee. In addition, all Board and Committee members receive the minutes of meetings as a matter of course. External appointments held by our Non-Executive Directors and full-time Executive Directors are set out on pages 96 to 97 of the 2021 Annual Report. The Board is confident that the Non-Executive Directors have sufficient time to meet their Board responsibilities (Annual Report, p. 110). External appointments of Executive Directors comply with the Code provision.
16	All directors should have access to the advice of the company secretary, who is responsible for advising the board on all governance matters. Both the appointment and removal of the company secretary should be a matter for the whole board.	The Group General Counsel and Company Secretary and the Assistant Secretaries, support the Chair and the Committee Chairs in making sure members are equipped for informed decision-making and that they appropriately allocate their time to subjects. All Directors have access to the advice of the Group General Counsel, who is responsible for advising the Board on all governance matters. Both the appointment and removal of the Group General Counsel is a matter for the whole Board (Annual Report, p. 110).

3. Composition, succession and evaluation

	Code of Best Practice: Principles & Provisions	Group Compliance Statement
	Principles	
J.	Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.	
K.	The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	
L.	Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	
	Provisions	
17	The board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non-executive directors. The chair of the board should not chair the committee when it is dealing with the appointment of their successor.	The Nomination Committee: • makes appropriate recommendations to the Board for the appointment, re-appointment or replacement of Directors; • reviews the structure and composition of the Board with regard to the overall balance of skills, knowledge and experience against current and perceived future requirements of the Group; • recommends any proposed changes to the Board; and • considers succession planning arrangements for the Directors and, more generally, senior executives. The Nomination Committee comprises of seven independent Non-Executive Directors and the Chair of the Board (Annual Report, p.113). The Chair of the Board will not chair the Committee when it is dealing with the appointment of his successor. Our Board fully complies with the principles of our Diversity and Inclusion Policy which can be found on the Group's website https://spiraxsarcoengineering.com (Annual Report, p.116).
18	All directors should be subject to annual re-election. The board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success.	The Directors stand for election or re-election on an annual basis at each AGM in accordance with the Code. The Board considers that all Directors standing for re-election continue to perform effectively and demonstrate commitment to their roles. In addition, the Board considers that all Directors have the necessary skills and experience, as set out in their biographies on pages 96 to 97 of the Annual Report. The Resolutions are set out in the Circular to Shareholders and Notice of Meeting which is available on our website: https://www.spiraxsarcoengineering.com/investors/shareholder-information/agm-notices.
19	The chair should not remain in post beyond nine years from the date of their first appointment to the board. To facilitate effective succession planning and the development of a diverse board, this period can be extended for a limited time, particularly in those cases where the chair was an existing non-executive director on appointment. A clear explanation should be provided.	At its meeting in May, the Committee discussed the reappointment of Jamie Pike as Chair of the Board. The Chair was recused from this meeting due to the conflict of interest and the Senior Independent Director at the time, Trudy Schoolenberg, chaired the meeting. The Committee considered that the reappointment would be compliant with Provision 19 of the UK Corporate Governance Code 2018 ('the Code'), which allows for an extension beyond nine years' service, as Jamie Pike has been a Non-Executive Director since 2014 but was only appointed as Chair in 2018. Following a detailed discussion, the Committee confirmed the nomination to the Board of the reappointment of Jamie Pike for a further three years effective 13th May 2021 taking his total tenure to ten years (Annual Report, p.114).

20	Open advertising and/or an external search consultancy should generally be used for the appointment of the chair and non-executive directors. If an external search consultancy is engaged it should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors.	The only appointment in 2021 was that of the Senior Independent Director, Richard Gillingwater. Egon Zehnder were appointed in relation to the specification, search and evaluation for the appointment. Egon Zehnder is an independent search and recruitment agency and has no other connection with the Company outside of advising the Nomination Committee.
21	There should be a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors. The chair should consider having a regular externally facilitated board evaluation. In FTSE 350 companies this should happen at least every three years. The external evaluator should be identified in the annual report and a statement made about any other connection it has with the company or individual directors.	During 2021, we undertook a Board effectiveness review in partnership with Egon Zehnder. Its goal was to examine how our highly functioning Board can work most effectively and how it can work best with the Group Executive Committee. Egon Zehnder conducted a comprehensive process including interviews with each individual Director and several follow-up meetings. The review considered the Board's strengths by looking at individual capabilities and contributions, what the Board does and the way in which the Board members work together (Annual Report, p. 94). The next externally facilitated board evaluation should be no later than 2024.
22	The chair should act on the results of the evaluation by recognising the strengths and addressing any weaknesses of the board. Each director should engage with the process and take appropriate action when development needs have been identified.	The key findings were then presented to the Board and actions agreed. The conclusions reflected positively on the diversity of the Board as well as the Non-Executive Directors' confidence in the Executive Directors. It also noted a consistent record of quality decision making as well as a broadening of risk awareness. The review did identify some areas for consideration, which included the Board members spending more time with each other and visiting the Group's sites when possible, having more separation in the reporting by the Group Chief Executive and Chief Financial Officer and more one-to-one contact between the Chair and the Non-Executive Directors (Annual Report, p. 94).
23	The annual report should describe the work of the nomination committee, including: • the process used in relation to appointments, its approach to succession planning and how both support developing a diverse pipeline; • how the board evaluation has been conducted, the nature and extent of an external evaluator's contact with the board and individual directors, the outcomes and actions taken, and how it has or will influence board composition; • the policy on diversity and inclusion, its objectives and linkage to company strategy, how it has been implemented and progress on achieving the objectives; and • the gender balance of those in the senior management and their direct reports.	Egon Zehnder act as external advisers to the Nomination Committee, helping the Committee and the Board to make sure we are well positioned and have proper succession in place for all senior-level appointments across the Group. This ongoing search for the best people includes both internal and external candidates (Annual Report, p. 116). We believe that the Board's perspective and approach is greatly enhanced by gender, age and cultural diversity and we consider overall Board balance and diversity when appointing new Directors. We also undertake reviews each year of the bench strength of all senior executives and make sure that diversity is considered in our succession planning across senior roles. We are committed to improving inclusion and diversity across our Group. During 2021, we participated in the FTSE Women Leaders Review (Hampton Alexander). In addition to ending 2021 with 40% female representation on our Board, our progress includes a significant increase in senior female leaders to 33%, up from 27% in 2020 and 18% at the end of 2018, when we became part of the FTSE 100 Index. This supports us to further advance gender balance in our senior leadership, as we focus on creating the right inclusive environment in a sustainable way, to ensure changes are successful for the long-term. The Group Inclusion Plan is about creating long-term value for all of our stakeholders by empowering an inclusive and equitable working culture where all of our colleagues can be themselves and achieve their full potential. It is built on four pillars – (i) Inclusive Behaviours, (ii) Inclusive Leadership, (iii) Inclusive Processes and (iv) Inclusive Partnerships.

		It has also been designed to support the United Nations' Sustainable Development Goals 3 (Good Health and Wellbeing), 5 (Gender Equality), 8 (Decent Work and Economic Growth), 10 (Reduced Inequalities) and 16 (Peace, Justice and Strong Institutions). Within the Global Inclusion Plan, we have outlined our Group Inclusion Commitments to ensure that wherever we work in the world, we will make our difference for our colleagues (Annual Report, p.115). Our Board fully complies with the principles of our Diversity and Inclusion Policy which can be found on the Group's website. During 2022 we will be updating our Diversity and Inclusion Policy, to better reflect the progress we have made in 2021 (Annual Report, p. 116). For details of the external auditor's board evaluation, please refer to Provision 21.

4. Audit, risk and internal control

	Code of Best Practice: Principles & Provisions	Group Compliance Statement
	Principles	
M.	The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	
N.	The board should present a fair, balanced and understandable assessment of the company's position and prospects.	
O.	The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	
	Provisions	
24	The board should establish an audit committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two. The chair of the board should not be a member. The board should satisfy itself that at least one member has recent and relevant financial experience. The committee as a whole shall have competence relevant to the sector in which the company operates.	The Audit Committee comprises our seven independent Non-Executive Directors. The Chair of the Board is not a member of the Committee (Annual Report, p.118). The Committee Chair has recent extensive and relevant financial experience and the required competence in accounting. Committee members have a depth of financial and commercial experience in various industries, as well as the industrial engineering sector in which the Group operates. A more detailed summary of the qualifications, skills and experience of each Committee member can be found on pages 96 to 97 of the Annual Report.
25	The main roles and responsibilities of the audit committee should include: • monitoring the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, and reviewing significant financial reporting judgements contained in them; • providing advice (where requested by the board) on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy;	This is set out in 'Committee role and responsibilities' and explained more fully in the Audit Committee Report on pages 118 to 126 inclusive of the Annual Report and in the Audit Committee Terms of Reference, which can be found on our website: https://www.spiraxsarcoengineering.com/our-approach/corporate-governance/governance-documents

	• the company's position and performance, business model and strategy; • reviewing the company's internal financial controls and internal control and risk management systems, unless expressly addressed by a separate board risk committee composed of independent non-executive directors, or by the board itself; • monitoring and reviewing the effectiveness of the company's internal audit function or, where there is not one, considering annually whether there is a need for one and making a recommendation to the board; • conducting the tender process and making recommendations to the board, about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor; • reviewing and monitoring the external auditor's independence and objectivity; • reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements; • developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the board on any improvement or action required; and • reporting to the board on how it has discharged its responsibilities.	
26	The annual report should describe the work of the audit committee, including: • the significant issues that the audit committee considered relating to the financial statements, and how these issues were addressed; • an explanation of how it has assessed the independence and effectiveness of the external audit process and the approach taken to the 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; • in the case of a board not accepting the audit committee's recommendation on the external auditor appointment, reappointment or removal, a statement from the audit committee explaining its recommendation and the reasons why the board has taken a different position (this should also be supplied in any papers recommending appointment or reappointment);	The significant issues considered by the Audit Committee in 2021 are set out on pages 122 and 123 of the 2021 Annual Report. During 2021, the Committee reviewed and approved the proposed audit fees and terms of engagement for the 2022 audit and recommended to the Board that it proposes to shareholders that Deloitte LLP be re-appointed as the Group's External Auditor for 2022 at the AGM to be held on 11th May 2022. Whilst it is not required under EU Audit Regulations, as it has only been eight years since the last tender process was undertaken, in light of the significant schedule of work to be undertaken over the forthcoming year (in line with the BEIS Proposals for continuing improvements to internal controls and other areas of assurance which impact future external audit work), the Audit Committee has decided to invite audit firms to tender for the audit of the Group during 2022. The tender process is underway and is expected to complete during 2022. Our intention is that the selected audit firm will be proposed to shareholders at the 2023 AGM and will commence work on the half-yearly review in 2023 and complete the full year audit for 2023 (Annual Report, p.126) The internal audit process is set out on page 124 of the Annual Report. The Committee recognises that the independence of the External Auditor is an essential part of the audit framework and has adopted a policy for determining whether it is appropriate to engage the Group's auditor for non-audit services.

	• where there is no internal audit function, an explanation for the absence, how internal assurance is achieved, and how this affect the work of external audit; and • an explanation of how auditor independence and objectivity are safeguarded, if the external auditor provides non-audit services.	The Auditor Engagement Policy was reviewed and updated during the year, so as to align with the FRC's revised Ethical Standard which became effective in March 2020. A copy of the Auditor Engagement Policy can be found on the Group's website, www.spiraxsarcoengineering.com (under Governance documents). During 2021, the Group spent £0.2 million on non-audit services provided by Deloitte LLP, which included work undertaken on the interim review. These non-audit fees equate to 5% of the average of Group audit fees charged over the past three years. Further details can be found in Note 7 on page 195 of the 2021 Annual Report (Annual Report, p.126).
27	The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.	The Directors acknowledge their responsibility for preparing the 2021 Annual Report. In accordance with the Code, the Directors confirm that they consider the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's financial position, performance, business model and strategy. An overview of the processes involved to achieve this are set out on page 124 of the Annual Report. Please also refer to pages 93 and 165.
28	The board should carry out a robust assessment of the company's emerging and principal risks. The board should confirm in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated.	Risk is an inherent part of our business operations and we approach risk with the same deliberate, strategic consideration as other aspects of the business. The Risk Management Committee monitors our risks, in particular those identified as principal risks, on an on-going basis, while the Board is responsible for the overall stewardship of risk management and internal control. We hold annual reviews, either top-down or bottom-up reviews, that provide information and evaluations that the Risk Committee uses alongside our principal risk appetite ratings to create an effective system for monitoring, planning and developing our Group-wide approach and culture regarding risk (Annual Report, p.85). The process for managing risks is set out in the diagram on page 86 of the 2021 Annual Report, whilst the table on pages 88 to 91 sets out the Group's principal risks and describes the links to strategy, the mitigation measures and the appetite for each risk. During 2021, we reviewed the Group's exposure to risk using a bottom-up approach, where the Group companies inform the Committee of the risks they consider affect their businesses to ensure new or emerging risks are not missed. Following this process, the Committee reviewed and confirmed the robustness of the countermeasures that Group companies have in place to mitigate the principal risks in the Group risk register. In addition, we continued to closely monitor certain changing emerging risks such as the rising cost of inflation and took appropriate mitigating actions through our price management tools including Effective Price Increases and Weighted Average Cost Inflation (Annual Report, p.128). Our principal risks and the results of the 2021 review are set out in the Strategic Report on pages 85 to 87 of the Annual Report.
29	The board should monitor the company's risk management and internal control systems and, at least annually, carry out a review of their effectiveness and report on that review in the annual report. The monitoring and review should cover all material controls, including financial, operational and compliance controls.	In conjunction, the Risk Management and Audit Committees monitor the Company's risk management and internal control systems and review their effectiveness. For further detail, see the Reports of the Risk Management and Audit Committees on pages 128 to 130 of the Annual Report.

30	In annual and half-yearly financial statements, the board should state whether it considers it appropriate to adopt the going concern basis of accounting in preparing them, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.	A going concern statement is made in both the half year and annual reports . The 2021 Annual Report going concern statement is set out below and on page 43 of the Annual Report.
31	Taking account of the company's current position and principal risks, the board should explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate. The board should state whether it has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.	In accordance with provision 31 of the UK Corporate Governance Code 2018, the Board has assessed the viability of the Group, taking into account the Group's current financial position, business strategy, the Board's risk appetite and the potential impacts of the Group's principal risks. We set out the eight principal risks we have identified, along with our mitigation measures, in our Risk Management section of the Strategic Report of the 2021 Annual Report, which begins on page 85. Based on this assessment, the Board confirms that it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period to 31st December 2026 (Annual Report, p.130). The Viability Statement is set out in full in our Financial review on page 44 of the Annual Report.

4. Audit, risk and internal control

	Code of Best Practice: Principles & Provisions	Group Compliance Statement
	Principles	
P.	Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.	
Q.	A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	
R.	Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	
	Provisions	
32	The board should establish a remuneration committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two. In addition, the chair of the board can only be a member if they were independent on appointment and cannot chair the committee. Before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months.	The Remuneration Committee comprises our seven independent Non-Executive Directors. The Chair of the Board is not a member of the Committee, however he does attend meetings at the invitation of the Committee Chair. Prior to being appointed Chair of our Remuneration Committee in November 2016, Jane Kingston had served on the Remuneration Committee at National Express Group plc since February 2014 and as Chair of that Committee since May 2015.
33	The remuneration committee should have delegated responsibility for determining the policy for executive director remuneration and setting remuneration for the chair, executive directors and senior management. It should review workforce remuneration and related policies and the alignment of incentives and	The Committee determines the philosophy, principles and policy of Executive and Senior Manager remuneration having regard to the latest legislation, corporate governance, best practices and the FCA Listing Rules. The Committee takes account of workforce remuneration and related policies and the alignment of incentives and rewards with our Group culture.

	rewards with culture, taking these into account when setting the policy for executive director remuneration.	The Committee's role has expanded under the UK Corporate Governance Code. The Committee now reviews remuneration policy and practices that apply to the Executive Directors, the Group Executive Committee and senior managers. The main role of the Committee is to determine Executive remuneration policies, how they are applied and set targets for short and long-term incentive schemes. It also monitors compliance with the presiding Remuneration Policy (Annual Report, p.131).
34	The remuneration of non-executive directors should be determined in accordance with the Articles of Association or, alternatively, by the board. Levels of remuneration for the chair and all non-executive directors should reflect the time commitment and responsibilities of the role. Remuneration for all non-executive directors should not include share options or other performance-related elements.	The remuneration of the Chair and the Non-Executive Directors is determined by the Board and is reviewed annually (Annual Report, p.137). Fees for the Chair and the Non-Executive Directors reflect the time commitment and responsibilities of the role, UK market levels and the average base salary increase across the wider workforce. Fees do not include share options or other performance-related elements (Annual Report, p. 155).
35	Where a remuneration consultant is appointed, this should be the responsibility of the remuneration committee. The consultant should be identified in the annual report alongside a statement about any other connection it has with the company or individual directors. Independent judgement should be exercised when evaluating the advice of external third parties and when receiving views from executive directors and senior management.	The Committee received external advice from Korn Ferry, who were appointed by the Committee in 2019 and provided material advice to the Committee on various matters such as Executive remuneration levels and structure, performance updates in respect of the PSP, the Remuneration Report and attendance at Committee meetings. In addition, Korn Ferry work with management on other matters relating to remuneration with the approval of the Committee. The Committee is of the opinion that the advice received is objective and independent, given that Korn Ferry are a signatory to the Remuneration Consultants Group Code of Conduct, the manner in which advice is delivered and the separate teams that advise management more generally (Annual Report, p.151).
36	Remuneration schemes should promote long-term shareholdings by executive directors that support alignment with long-term shareholder interests. Share awards granted for this purpose should be released for sale on a phased basis and be subject to a total vesting and holding period of five years or more. The remuneration committee should develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares.	The Committee makes conditional awards of shares, under the Performance Share Plan, to each Executive Director. Annual participation is subject to Committee approval. Measures, targets and their relative weightings are reviewed regularly by the Committee to ensure continuing alignment with strategic objectives. Performance is measured over a three-year period, normally starting at the beginning of the financial year in which awards are granted. An additional two-year post-vesting holding period applies. Vesting is currently based on two performance measures, which have been chosen as they are clearly aligned with our strategic objectives: Total Shareholder Return and Earnings Per Share growth (Annual Report, p.141). As explained on page 155 of the Annual Report, Executive Directors' shareholding guidelines apply for two years post-employment.
37	Remuneration schemes and policies should enable the use of discretion to override formulaic outcomes. They should also include provisions that would enable the company to recover and/or withhold sums or share awards and specify the circumstances in which it would be appropriate to do so.	Under the Performance Share Plan, share awards made from 2012 are subject to clawback and/or malus for up to three years following award and can be applied during a holding period. Circumstances include financial misstatement, erroneous calculations determining bonus payments, gross misconduct, corporate failure and reputational damage (Annual Report. p.141). The Committee retains the ability to adjust awards if the formulaic outcome is not reflective of the business performance (Annual Report, p. 154).

38	Only basic salary should be pensionable. The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce. The pension consequences and associated costs of basic salary increases and any other changes in pensionable remuneration, or contribution rates, particularly for directors close to retirement, should be carefully considered when compared with workforce arrangements.	Under the 2020 Remuneration Policy, the maximum pension contribution for new Executive Directors will be the same basis as what the majority of newly appointed employees receive in the market in which the Executive Director is based. Incumbent Executive Directors' maximum pension to be, by 31st December 2022, the current blended average in the market in which the Executive Director is based (17% of salary in the UK), reducing to the new Executive Director level by 2025. In this respect we are currently not compliant with the Code and will achieve full compliance at the end of 2022. No element other than base salary is pensionable (Annual Report, p.152).
39	Notice or contract periods should be one year or less. If it is necessary to offer longer periods to new directors recruited from outside the company, such periods should reduce to one year or less after the initial period. The remuneration committee should ensure compensation commitments in directors' terms of appointment do not reward poor performance. They should be robust in reducing compensation to reflect departing directors' obligations to mitigate loss.	The notice period for Executive Directors is 12 months and for Non-Executive Directors is one month. The appointment letters for the Chair and Non-Executive Directors provide that no compensation is payable on termination, other than accrued fees and expenses (Annual Report, p.145). Executive Directors' service agreements may be terminated without notice and without payment of compensation on the occurrence of certain events, such as gross misconduct or financial misstatement. Bonus payments are subject to clawback and/or malus for up to three years following payment. Circumstances include financial misstatement, erroneous calculations determining bonus payments, gross misconduct, corporate failure and reputational damage (Annual Report, p. 157).
40	• When determining executive director remuneration policy and practices, the remuneration committee should address the following: • clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce; • simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand; • risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated; • predictability – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy; • proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance; and • alignment to culture – incentive schemes should drive behaviours consistent with company purpose, values and strategy.	The Annual Report on Remuneration 2021 is set out on pages 131 to 151 of the Annual Report. Our Focus on remuneration addressing clarity, simplicity, risk, predictability, proportionality, and alignment to culture is set out in the table on page 131.

41	There should be a description of the work of the remuneration committee in the annual report, including: • an explanation of the strategic rationale for executive directors' remuneration policies, structures and any performance metrics; • reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps; • a description, with examples, of how the remuneration committee has addressed the factors in Provision 40; • whether the remuneration policy operated as intended in terms of company performance and quantum, and, if not, what changes are necessary; • what engagement has taken place with shareholders and the impact this has had on remuneration policy and outcomes; • what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy; and • to what extent discretion has been applied to remuneration outcomes and the reasons why.	The work of the Remuneration Committee during 2021 is set out on pages 131 to 151 of the Annual Report.