

Auditor Engagement Policy

Including Auditor Independence and
Non-Audit Fees

2023

1.0 Scope

This policy sets out how the Company ensures compliance with the ethical standards and regulations governing the appointment of auditors, their term in office and ensuring independence by restrictions on nonaudit services provided. The requirements include mandatory audit firm rotation and initial engagement periods not to exceed ten years.

This Policy sets out the requirements and framework followed to ensure compliance.

2.0 Regulatory Environment

The EU Audit Directive and Regulation came into force in 2016. It requires all Public Interest Entities (PIEs), to rotate their statutory auditor after a maximum period of twenty years, with a mandatory tender at the ten-year midpoint. Our policy in relation to appointment and rotation is set out in section 3 below. The regulations also introduced new restrictions on non-audit services provided by the external auditor. This includes a 70% cap on fees for non-audit services compared to the average statutory audit fee over the previous three years.

In relation to non-audit fees, subsequently the UK Financial Reporting Council (FRC) released a Revised Ethical Standard 2019 in December 2019, effective from March 2020. It sets out a Whitelist of permitted non-audit services and we have built these into our policy (see section 4 below).

3.0 Appointment of auditors

The maximum period of an audit engagement shall be ten years calculated from the date of the first financial year covered by the Audit Engagement Letter. On or before the expiry of the maximum period The Audit Committee supported by executive management will undertake a tender process with the objective of appointing the audit firm that will provide the highest quality, most effective and efficient audit. The tender process is run in accordance with FRC latest guidance to ensure best practice. To conclude the tender process the Audit Committee make a recommendation to the Board for the appointment of the most suitable auditor.

4.0 Non-audit fees

4.1 Permitted services

In line with the FRC's Ethical Standard 2019 revised edition Section 5B, the external auditor is prohibited from providing anything but the following non-audit services. These are split, as per the Ethical Standard, into those services subject to the fee cap and those excluded from it:

Services required by law or regulation and exempt from the non-audit services cap

- Reporting required by a competent authority or regulator under law or regulation for example;
- Reporting to a regulator on client assets;
- in relation to entities regulated under the Financial Services and Markets Act 2000 (FSMA), reports under s166 and s340 of FSMA;
- Reporting to a regulator on regulatory financial statements;
- Reporting on a Solvency and Financial Condition Report under Solvency II.
- In the case of a controlled undertaking incorporated and based in a third country, reporting required by law or regulation in that jurisdiction where the auditor is permitted to undertake that engagement;
- Reporting on internal financial controls when required by law or regulation;

- Reporting on the iXBRL tagging of financial statements in accordance with the European Single Electronic Format for annual financial reports;
- Reports, required by or supplied to competent authorities / regulators supervising the audited entity, where the authority / regulator has either specified the auditor to provide the service or identified to the entity that the auditor would be an appropriate choice for service provider;
- Services which support the entity in fulfilling an obligation required by UK law or regulation, including listing requirements where: the provision of such services is time critical; the subject matter of the engagement is price sensitive; and it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor for the audit of the financial statements is relevant to the service, and where the nature of the service would not compromise independence.

Services subject to the non-audit services cap

- Reviews of interim financial information; and providing verification of interim profits not otherwise required by law or regulation;
- Where not otherwise required by law or regulation, non-audit and additional services, as defined in this Ethical Standard provided as auditor of the entity, or as reporting accountant, in relation to information of the audited entity for which it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the auditor is relevant to the service, and where the nature of the service would not compromise independence;
- Extended audit or assurance work that is authorised by those charged with governance performed on financial or performance information and/or financial or operational controls, in an entity relevant to an engagement or a third-party service provider, where this work is closely linked with the audit work;
- Additional assurance work or agreed upon procedures, authorised by those charged with governance performed on material included within or referenced from the annual report of an entity relevant to an engagement;
- Reporting on government grants;
- Reporting on covenant or loan agreements, which require independent verification, and other reporting to third parties with whom the entity relevant to an engagement has a business relationship in accordance with Appendix C of the Ethical Standard;
- Services which have been the subject of an application to the Competent Authority in accordance with
- Regulation 79 of The Statutory Auditors and Third Country Auditors (Amendment) (EU Exit) Regulations 2019 (SI 2019/177);
- Generic services providing factual updates of changes to applicable law, regulation or accounting and auditing standards.

4.2 Non-audit services approval limits and reporting

Where the fees for any individual engagement in relation to the non-audit services defined above are in excess of £100,000, pre-approval is required from the Audit Committee. For any proposed non-audit engagement where the fees are in excess of £30,000 alternative quotes from other service providers should also be obtained.

A cumulative annual cap of £300,000 is set in respect of non-audit services provided by the auditor above which all individual engagements must be pre-approved by the Audit Committee. The Audit Committee, on a regular basis, receives notification of all fees, audit, and non-audit, payable to external auditors.

5.0 The hiring of former external auditor employees

To ensure that the Company's hiring practices do not impair the independence of the external auditor or the Company and to avoid any conflict of interest, actual or apparent, or breach of another prohibition under any applicable laws or regulations, the Company has adopted the following policy in relation to the hiring of former external auditor employees.

The table below sets out the specified 'cooling off' period which external auditor former employees must have had prior to starting a role with the Company. This also applies to previous external auditors during the two-year period following the expiry of their tenure as auditor. Individuals will not be offered employment, secondment, or a consultancy role by the Company or any of its subsidiaries, unless the start date of the role is after the end of the specified cooling off period.

Role at Spirax-Sarco Engineering	Key Spirax-Sarco Engineering audit partner*	Other key Spirax-Sarco Engineering audit team member**	Other partner not working on Spirax-Sarco Engineering audit, or other employee
<ul style="list-style-type: none"> Key management position (Finance Leadership Team member (or equivalent) or above) former former years 	Two year period*** cooling off	One year off cooling period***	One year period cooling off
<ul style="list-style-type: none"> Non-Executive Director the case of the Engineering audit must be Committee 		Any offer of the auditor after	made to a level within a two years in
		employee (or a key partner) leaving by	five years in the Audit firm
Any other role	Two period period	year Three Must cease activity on the	cooling off cooling off months cooling off
			audit (if they are a working employee on this) immediately on tendering resignation to the firm. No cooling off period required.

* Key audit partners shall be the audit partners working on any aspect of the annual audit of the Company, Group, or any subsidiary's financial statements, including but not limited to the statutory audit partner, the risk and controls partner, IT, treasury, and any tax partners. The Audit Committee may widen the scope of this definition from time to time.

** Other key team members shall be any associate partners, directors or senior managers associated with the auditor working on any aspect of the annual audit of the Company, Group, or any subsidiary's financial statements.

*** The time periods in green are the minimum cooling off periods required for key audit partners and other key team members engaged on the Spirax-Sarco Engineering audit under the FRC Ethical Standard.

In addition:

- The Company shall not hire the spouse, spousal equivalent, parent, dependant, non-dependent child, or sibling of any key audit partner for a position with the Company in an accounting role or a financial reporting oversight role, within the same time period as specified in the table for the key audit partner;
- The Group Chief Financial Officer shall report annually to the Committee on the profile of the preceding year's hires from the external auditor; and
- The Company shall notify a key audit partner prior to making a formal offer to a prospective auditor employee.

In the event of any discrepancy between Section 4.0 and 5.0 of this document and the Ethical Standard or associated erratum and articles it is the Ethical Standard that prevails.