

Auditor Engagement Policy Including Auditor Independence and Non-Audit Fees

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1. Overview and scope

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

2. 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. 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, the UK Financial Reporting Council (FRC) released a Revised Ethical Standard 2019 in December 2019, effective from March 2020. It sets out a list of permitted non-audit services and these have been built into the policy (see section 4). In the event of any discrepancy between this policy document and the Ethical Standard it is the Ethical Standard that prevails.

3. Appointment of auditors

The initial period of an audit engagement shall be ten years calculated from the first financial year covered by the Audit Engagement Letter. On or before the expiry of the 10-year period the Audit and Risk 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 to be run in accordance with FRC latest guidance to ensure best practice and take no more than 12 months to complete. To conclude the tender process the Audit and Risk Committee makes a recommendation to the Board for the appointment of the most suitable auditor.

4. Non-audit fees

4.1 Permitted services

In line with the FRC's revised Ethical Standard 2019, the external auditor is prohibited from providing anything but the following non-audit services. These are split 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 £130,000, pre-approval is required from the Audit and Risk Committee. For any proposed non-audit engagement where the fees are in excess of £40,000 alternative quotes from other service providers should also be obtained.

A cumulative annual cap of £400,000 is set in respect of non-audit services provided by the auditor above which all individual engagements must be pre-approved by the Audit and Risk Committee. The Audit and Risk Committee, on a regular basis, receives notification of all fees, audit and non-audit, payable to external auditors.

5. Hiring of former external auditor employees

To ensure that the Group's hiring practices do not impair the independence of the external auditor or the Group and to avoid any conflict of interest, actual or apparent, or breach of another prohibition under any applicable laws or regulations, the Group 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 Group. 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 Group or any of its subsidiaries, unless the start date of the role is after the end of the specified cooling off period.

The time periods set out below meet or exceed the minimum cooling-off requirements for key audit partners and other key audit team members involved in the Spirax Group audit under the Ethical Standard.

	Spirax Group senior statutory auditor	Key Spirax Group audit partner	Other key Spirax Group audit team member	Other auditor employee
Definition:	Refers to the lead audit partner responsible for the signing of the Spirax Group Financial Statements.	Refers to audit partners working on any aspect of the annual audit of the Company, Group or any subsidiary's Financial Statements, outside of the senior statutory auditor. For example, the risk and controls partner, IT, treasury and any tax partners.	Refers to 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.	Refers to any other individual in the Spirax Group audit team or other partner not working on Spirax Group audit.
Role at Spirax Group:				
Key management position (Finance Leadership Team member (or equivalent) or above) or non-Executive Director	Five year cooling off period	Two year cooling off period	One year cooling off period	One year cooling off period
Any other role	Five year cooling off period	Two year cooling off period	Three months cooling off period	Must cease activity on the audit (if they are a working employee on this) immediately on tendering resignation to the firm. No cooling off period required.

In addition:

- the Group shall not hire the spouse, spousal equivalent, parent, dependant, non-dependent child or sibling of any key audit partner for a position with the Group 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 Audit and Risk Committee on the profile of the preceding year's hires from the external auditor; and
- the Group shall notify a key audit partner prior to making a formal offer to a prospective auditor employee.