

Spirax-Sarco Engineering plc

www.spiraxsarcoengineering.com



Group Taxation Strategy

Year ended 31 December 2018
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Spirax-Sarco Engineering plc – Taxation Strategy

Introduction

Spirax-Sarco Engineering plc's (Spirax-Sarco Group or the Group) tax strategy supports the strategic objectives of the Spirax-Sarco Group and applies equally to both UK and non-UK taxes and to all forms of tax. The Group pays a significant amount of tax to local and national governments, including corporate taxes on profits, social taxes on employment, customs and excise duty on purchases, withholding taxes and environmental taxes. We also collect and remit sales taxes charged to our customers and taxes paid by our employees.

This document sets out how the Group manages its tax affairs in accordance with the following:

1. Approach to tax risk management and governance
2. Attitude to tax planning
3. Acceptable levels of tax risk
4. Relationship with tax authorities; to include Her Majesty's Revenue & Customs

The Spirax-Sarco Group regards that by publishing this document it has fulfilled its duty to comply with Paragraph 16(2), Schedule 19 of the Finance Act 2016 (*Qualifying UK groups: Duty to publish a group tax strategy*) in respect of the year ended 31st December 2018.

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Approach to tax risk management and governance

The Board of Spirax-Sarco Engineering plc and the Audit and Risk Management Committees, who receive regular updates on material tax matters from the Group Chief Financial Officer, the Group Financial Controller and the Group Tax Manager, regularly review the Spirax-Sarco Group tax strategy.

The Spirax-Sarco Group's tax governance framework includes a clear tax policy and a clear policy on the corporate criminal offence of failure to prevent the facilitation of tax evasion. These policies define accountabilities and determine the level of approval that is required for matters that could create material tax risk. Adherence to the policies is monitored through self-assessment and the Internal Audit function, which has a rolling programme that examines areas of the business and the processes that are relevant for tax purposes.

It is acknowledged that the global taxation landscape is complex and constantly evolving. To reflect this we actively monitor, with the assistance of professional advisors, local and international developments and aim to manage the tax costs and tax risks associated with all commercial transactions in the same way as for other commercial costs. This includes considering how changes in tax legislation in the UK and overseas will impact on our effective and cash tax rates. Where appropriate we also consider participating in consultation on future tax law change where we believe it is in the Group's best interests to do so.

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Attitude to tax planning

We actively manage our liabilities across all taxes in the UK and overseas, in a manner that is consistent with our brand reputation, our corporate and social responsibilities, and which reflects the commercial operations of our business. We seek to ensure that we pay the right amount of tax based on the laws, rules and regulations of the territories where we operate.

The Spirax-Sarco Group will seek to reduce its tax liabilities, claiming available allowances, credits, deductions, exemptions, incentives and reliefs where it is beneficial and appropriate to do so. Examples include tax incentives for research and development and the utilisation of patent box regimes for intellectual property. However, we will not enter into tax planning, transactions or structures that are notifiable to tax authorities under mandatory tax avoidance disclosure regimes.

Periodically the Spirax-Sarco Group may use entities outside of the UK to provide finance facilities to the Group's non-UK investments. In doing so we give consideration to the commercial substance of our business and to the legal and economic environment, in the relevant countries.

Our business model recognises that a degree of commercial autonomy is required by the companies within the Spirax-Sarco Group. To achieve this we operate a transfer pricing policy where the transfers of all goods and services between related companies are conducted on an arm's length basis.

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Acceptable levels of tax risk

The Spirax-Sarco Group takes compliance with all relevant tax law in the countries where we operate very seriously. We recognise that tax laws are complex and open to different interpretation. Where ambiguity is considered to exist the Group will, when reviewing its tax filing positions, take appropriate professional advice in order to understand and manage any associated risk.

When considering what constitutes an acceptable level of tax risk, the Spirax-Sarco Group will consider, on a case by case basis, the following factors:

- The legal and fiduciary duties of Directors and employees
- The requirements set out in related internal policies and procedures
- The impact on the Spirax-Sarco Group's business and corporate reputation
- The related financial and operational risks
- The potential impact on our relationship with any tax authorities

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Relationship with tax authorities

The Spirax-Sarco Group is committed to an open and transparent approach to dealing with tax authorities, to include Her Majesty's Revenue & Customs (HMRC), based on the following:

- Acting in a professional and polite manner at all times
- Making accurate and timely disclosures and responding to all enquiries in a timely fashion
- Fostering an open, courteous and transparent relationship
- Actively seeking to resolve any difference of views through dialogue wherever possible.

In the UK we engage with HMRC and are available to meet with our Customer Compliance Manager on a periodic basis. The Group Chief Financial Officer is also the Senior Accounting Officer (SAO) and is responsible for the annual SAO certification to HMRC.

Where we consider that risk or uncertainty could exist and the relevant tax authority offers the possibility of early engagement we will actively engage in dialogue on a real-time or pre-filing basis where it is practical to do so.