

Terms of Reference for the Audit Committee

(approved at a meeting of the Board of Directors (the "Board") held on 20th October 2014)

Constitution

1. It is resolved that a Committee of the Board be established, to be known as the Audit Committee.

Membership

2. The Audit Committee shall be appointed by the Board in accordance with the Company's articles of association from amongst the non-executive directors of the Company identified by the Board as independent in accordance with the requirements of the UK Corporate Governance Code. At least one Audit Committee member shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.
3. It shall comprise at least three members, one of whom shall be appointed as the Chairman of the Audit Committee. The Chairman of the Board may not be a member of the Audit Committee.
4. Each member shall hold office as an Audit Committee member for a period of up to three years, which may be extended for two further three year periods, provided that the director continues to be identified as independent by the Board.
5. In the absence of the Chairman of the Audit Committee (and/or an appointed alternate member), the members present at any meeting of the Audit Committee shall elect one of their number to chair the meeting.
6. The Chairman and members of the Audit Committee shall be listed each year in the Company's annual report.
7. The Company Secretary shall be the Secretary of the Audit Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.
8. Each member of the Audit Committee shall disclose in writing to the Audit Committee and the Company Secretary as soon as the member becomes aware of any:
 - 8.1 personal interest, including financial interest (other than as a shareholder) in any matter to be decided by the Audit Committee; or
 - 8.2 potential conflict of interest.Any such member shall abstain from voting on resolutions of the Audit Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so requested by the Board) shall resign from the Audit Committee.

Attendance at Meetings

9. No one other than the Chairman and members of the Audit Committee is entitled to be present or vote at a meeting of the Audit Committee. The Chairman and members of the Audit Committee shall, however, have the discretion to decide if non-members should be invited to attend for a particular meeting or a particular agenda item.

Examples of non-members that may be invited include the Chairman of the Board, Group Chief Executive, Finance Director, other directors, the heads of risk, compliance, IT and internal audit and representatives from the finance function.

10. It is expected that the external audit engagement partner will be invited regularly to attend meetings as well as the Finance Director. At least once a year, the Audit Committee shall meet with the external auditors, without management, to discuss matters relating to its remit and any issues arising from the audit.

Meetings

11. The Audit Committee Chairman, in consultation with the Company Secretary, shall decide the frequency and timing of the Audit Committee's meetings. In any event, meetings shall be held not less than three times a year, to coincide with key dates within the financial reporting and audit cycle. The Company Secretary shall call a meeting as soon as reasonably practicable upon a request for such meeting by the Company's internal or external auditors or any Audit Committee member.
12. The quorum for meetings of the Audit Committee shall be two members present throughout the meeting in person or by telephone or by video conference. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
13. Notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers where appropriate shall be forwarded to each member of the Audit Committee, and all other Board members, no fewer than five working days prior to the date of the meeting. All reasonable efforts shall be made to give notice of meetings of the Audit Committee to all members of it and to arrange such meetings so that members are able to attend them. The Finance Director is primarily responsible for the provision of information to the Committee. Outside the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chairman, the Group Chief Executive, the Finance Director, the external lead audit partner and the head of internal audit.
14. The Secretary shall keep a record of:
 - 14.1 the membership, and the dates of any changes to the membership, of the Audit Committee;
 - 14.2 any non-audit services provided by the external auditor to enable the Company to make the necessary statement in the annual report on safeguarding the auditor's objectivity and independence.
15. The Secretary shall record the proceedings and resolutions of meetings of the Audit Committee.

16. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once approved, to all members of the Board unless it would be inappropriate to do so in the opinion of the Audit Committee Chairman.
17. The Chairman of the Audit Committee shall be available to answer questions about the Audit Committee's activities and responsibilities at the Annual General Meeting of the Company. All members of the Audit Committee shall also attend the Annual General Meeting.
18. The Chairman should ensure that the Company maintains an appropriate dialogue as required by shareholders about the work of the Audit Committee.

Authority and Duties

The Committee should carry out the duties below for Spirax-Sarco Engineering plc, major subsidiary undertakings and the Group as a whole, as appropriate.

19. The Secretary shall provide the Audit Committee with sufficient resources to enable it to undertake its duties.
20. The Audit Committee is authorised by the Board to obtain outside legal, accounting or other independent professional advice and to secure the attendance of third parties with relevant experience and expertise if it considers this necessary, at the Company's expense.
21. The Audit Committee shall have access to the services of the Company secretariat on all Audit Committee matters including (but not limited to) assisting the Chairman in planning the Audit Committee's work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of practical support.
22. The Audit Committee is authorised by the Board to investigate any activity within the scope of its duties.
23. The Audit Committee is authorised to seek any information it requires from any employee of the Group. All employees are directed to co-operate with any request made by the Audit Committee.
24. The Audit Committee is authorised to have the right to publish in the Company's annual report details of any issues that cannot be resolved between the Committee and the Board.
25. The duties of the Audit Committee shall be:

Financial Reporting

- (A) to monitor the integrity of the financial statements of the Company including its annual and half-yearly reports and interim management statements, and any formal announcements relating to the Company's financial performance, and to review the significant financial reporting issues and judgments made in connection with their preparation, and in particular to review and challenge where necessary:
 - critical accounting policies and practices, the consistency of, and any changes in them;
 - decisions requiring a major element of judgement;

- whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - the methods used to account for significant or unusual transactions where different approaches are possible;
 - the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
 - the clarity and completeness of disclosure in the company's financial statements and whether such disclosures are properly set in context;
 - significant adjustments resulting from the audit;
 - the going concern assumption;
 - compliance with accounting standards;
 - compliance with stock exchange and other legal requirements;
 - the Company's statement on internal control processes prior to endorsement by the Board and to review the policies and process for identifying and assessing business risks and the management of those risks by the Company;
 - all material information presented with financial statements, including the operating and financial review, and corporate governance statements relating to the audit and risk management;
- (B) to report its views to the Board if it is not satisfied with any aspect of the proposed financial reporting by the Company;
- (C) to review any other statements containing financial information for which Board approval is required;

Internal Controls

- (A) to review the adequacy and effectiveness of the Company's internal financial controls (that is, the processes established to identify, assess, manage and monitor financial risks) and to review the statement in the annual report and accounts on the Company's internal controls;

Whistle-blowing

- (A) to review arrangements by which employees of the Company and contractors may, in confidence, raise concerns about possible wrongdoing in matters of financial reporting or other matters and ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;
- (B) to review the Company's procedures for detecting fraud;
- (C) to review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;

Risk Management

- (A) together with the Risk Management Committee, review the Company's procedures and/or controls for risk management including:
- detecting fraud;
 - preventing bribery;

- identifying money laundering;
- ensuring compliance with relevant legal and regulatory requirements;

Internal Audit

- (A) to monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management procedures;
- (B) to consider and approve the structure, composition and remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- (C) to review and assess the annual internal audit plan;
- (D) to review internal audit reports addressed to the Audit Committee on a periodic basis and review promptly all key issues on subsidiary companies arising from the internal audit function;
- (E) to review and monitor management's responsiveness to the findings and recommendations of the internal audit function;
- (F) to meet the head of internal audit at least once a year without management being present, to discuss their remit and any issues arising from the internal audits carried out. The head of internal audit shall also be given rights of direct access to the Chairman of the Board and to the Audit Committee;

External Audit

- (A) to make recommendations to the Board, for it to put to the shareholders for their approval in general meeting in relation to the appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditor;
- (B) to oversee the selection of new appointees as external auditors, if the Audit Committee's recommendation is that the Company should consider appointing new auditors;
- (C) to explain to shareholders in the Audit Committee section of the annual report how the Audit Committee reached its recommendation to the Board on the appointment, reappointment or removal of the external auditors;
- (D) if the Board does not accept the Audit Committee's recommendation on the appointment, reappointment and removal of external auditors, to prepare a statement explaining the Audit Committee's recommendation which shall be included in the annual report and in any papers recommending appointment or re-appointment together with the Board's reasons for taking a different position;
- (E) to assess annually the qualification, expertise and resources of the external auditors, and the effectiveness of the audit process including a report from the external auditor on their own internal quality procedures;
- (F) to satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity, taking into account the relevant APB Ethical Standards for Auditors;

- (G) to agree a policy for the employment of former employees of the external auditor in accordance with the Ethical Standards for Auditors;
- (H) to monitor the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners and the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- (I) if the external auditor resigns, to investigate the issues leading to such resignation and to consider whether any action is required;
- (J) to review and agree the engagement letter and annual audit plan with the external auditor at the start of each audit; to discuss with the external auditors before the audit commences and keep under review, the scope and results of the audit as well as to satisfy itself that the level of fee payable is appropriate for the provision of those services and that an effective audit can be conducted for such a fee, and ensure co-ordination where more than one audit firm is involved;
- (K) to review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process annually, taking into consideration relevant UK professional and regulatory requirements and the relationship with the external auditor as a whole, including the provisions of any non-audit services;
- (L) to review with the external auditor (in the absence of management if necessary), the results of their work in conducting the annual audit;
- (M) to develop and implement policy on the provision of non-audit services by the external auditor, taking into account relevant ethical guidance; and to report to the Board on the implementation of the policy and identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken (so as to ensure that the provision of such services does not impair the external auditor's independence and objectivity);
- (N) in relation to the provision of non-audit services, to consider:
- the nature and extent of the non-audit services;
 - the fees incurred, or to be incurred, for non-audit services both for individual services and in aggregate, relative to the audit fee;
 - to set and apply a formal policy specifying the types of non-audit service for which the use of the external auditor is pre-approved; for which specific approval from the Audit Committee is required; and from which the external auditor is excluded;
 - compliance with the Audit Committee's policy on the provision of non-audit services and disclosure of the details set out in the FRC Guidance on Audit Committees in relation to each significant engagement;
- (O) to seek to ensure co-ordination between the external auditor and the activities of the internal audit function;
- (P) to meet regularly with the external auditor. The Audit Committee shall meet the external auditor at least once a year, without management being present, to discuss the auditor's remit, any issues arising out of the audit, any significant accounting and audit judgements, levels of errors identified during the audit and the effectiveness of the audit;

- (Q) to review the audit representation letters before signature by management, giving particular consideration to matters where representation has been requested that relates to non-standard issues;
- (R) to review the external auditors' management letter and management's response;
- (S) to review and monitor management's responsiveness to the external auditor's findings and recommendations;
- (T) at the end of the annual audit cycle, to assess the effectiveness of the audit process;
- (U) to consider the major findings of internal investigations and management's response;

Other

- (A) to provide members of the Committee with appropriate and timely training in the form of an induction programme for new members and on an ongoing basis for all members;
- (B) to review the statement by the directors to be included in the annual report on the going concern status of the Company and the Group and any supporting assumptions and qualifications;
- (C) to arrange for the Company to make available these Terms of Reference, explaining the role and the authority delegated to it by the Board, on request and by including the information on the Company's website;
- (D) to assist the Board by preparing an appropriate statement for inclusion in the directors' report (to shareholders as contained in the annual report) describing the role and responsibilities of the Audit Committee and actions taken by the Audit Committee to discharge those responsibilities; as well as listing the names and qualifications of all members of the Audit Committee, the number of Audit Committee meetings and attendance by each member;
- (E) to give due consideration to any applicable laws and regulations, including the provisions of the UK Corporate Governance Code and the requirements of the UKLA's Listing, Prospectus, Disclosure and Transparency Rules and the provisions of the FRC's Guidance on Audit Committees;
- (F) to consider other topics, as defined by the Board;
- (G) in exercising its powers, to take into account the duties of directors under Chapter 2 of Part 10 of the Companies Act 2006 including, in particular, section 172 of the 2006 Act;
- (H) at least once a year, to review its own performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.

Reporting Procedures

26. The Audit Committee Chairman or, as a minimum, another member of the Audit Committee, shall attend the Board meeting at which the accounts are approved. Where, following its review, the Audit Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board. The Audit Committee's duties and activities during the year shall be disclosed in the annual report.

27. The Audit Committee Chairman shall formally report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities particularly noting how it has discharged its responsibilities in relation to the following matters:
- 27.1 review of the significant financial reporting disclosures and judgements made in connection with the preparation of the Company's financial statements, interim reports, preliminary announcements and related formal statements;
 - 27.2 review of the content of the annual report and accounts and advice to the Board on whether, taken as a whole, it is fair, balanced and understandable and provides sufficient information necessary for shareholders to assess the Company's performance, business model and strategy; and
 - 27.3 the Audit Committee shall compile a report to shareholders on its activities to be included in the Company's annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process, the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed; and all other information requirements set out in the relevant UK Corporate Governance Code. The Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant.