

SPIRAX-SARCO ENGINEERING PLC
TERMS OF REFERENCE FOR THE AUDIT COMMITTEE
(approved at a meeting of the Board of Directors held on 12th May 2009)

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 Combined Code on Corporate Governance dated June 2008. At least one Committee member shall have recent and relevant financial experience.
3. It shall comprise at least three members, one of whom shall be appointed as the Chairman of the Committee.
4. Each member shall hold office as a Committee member for such periods as may be determined by the Board and for so long as members continue to be independent non-executive directors and have the support of 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 Committee shall elect one of their number to chair the meeting.
6. The Chairman and members of the Committee shall be listed each year in the Company's annual report.
7. The Company Secretary shall be the Secretary of the Audit Committee.
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 the interest or the conflict:
 - (a) any personal interest including financial interest (other than as a shareholder) in any matter to be decided by the Audit Committee; or
 - (b) any 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 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.
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. A meeting shall be held as soon as reasonably practicable upon a request for such meeting by the Company's external auditors or any 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.
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 normally to each member of the Audit Committee 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.
14. The Secretary of the Committee shall prepare minutes of any meeting of the Audit Committee and, after approval and signature by the Chairman of the Audit Committee, shall circulate them to all members of the Board and any invited attendees, if applicable.
15. The Chairman of the Audit Committee shall be available to answer questions about the Committee's activities at the Annual General Meeting of the Company. All members of the Audit Committee shall also attend the Annual General Meeting.

Authority and Duties

16. The Audit Committee should be provided with sufficient resources to undertake its duties.
17. The Audit Committee is authorised by the Board to obtain outside legal, accounting or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it reasonably considers this necessary, at the Company's expense.

18. 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.
19. The Audit Committee is authorised by the Board to investigate any activity within the scope of its duties.
20. It 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.
21. The duties of the Audit Committee shall be:
 - (a) to monitor the integrity of the financial statements of the Company including any interim reports, and any formal announcements relating to the Company's financial performance with particular reference to:-
 - critical accounting policies and practices, and any changes in them;
 - decisions requiring a major element of judgement;
 - the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
 - the clarity of disclosures;
 - significant adjustments resulting from the audit;
 - the going concern assumption;
 - compliance with accounting standards;
 - compliance with stock exchange and other legal requirements;
 - reviewing the Company's statement on internal control systems 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;
 - (b) to review the Company's internal financial controls (that is, the systems 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 and risk management framework;

- (c) to review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, so as to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;
- (d) to monitor and review the effectiveness of the Company's internal audit function;
- (e) 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;
- (f) 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 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;
- (g) to assess annually the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process;
- (h) if the external auditor resigns, to investigate the issues leading to such resignation and to consider whether any action is required;
- (i) to review and agree the engagement letter 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 whether the level of fee payable is appropriate for the provision of those services, and ensure co-ordination where more than one audit firm is involved;
- (j) 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;
- (k) 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 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);
- (l) to consider the auditor's work plan for the annual audit and proposed resources in light of the scope of the audit;
- (m) to review with the external auditors (in the absence of management if necessary), the results of their work in conducting the annual audit, including:

- (i) any major issues that arose during the course of the audit;
 - (ii) key accounting and audit judgements;
 - (iii) levels of errors identified during the audit, obtaining explanations from management, and where necessary the external auditors, as to why certain errors might remain unadjusted; and
 - (iv) any reservations that the external auditors may have and other matters that they wish to raise;
- (n) 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;
- (o) to review the external auditors' management letter and management's response;
- (p) at the end of the annual audit cycle, to assess the effectiveness of the audit process;
- (q) to consider the major findings of internal investigations and management's response;
- (r) to review the statement by the directors to be included in the annual accounts on the going concern status of the Company and the group and any supporting assumptions and qualifications;
- (s) 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;
- (t) to assist the Board by preparing a 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 Committee to discharge those responsibilities; as well as listing the names and qualifications of all members of the Committee, the number of Committee meetings and attendance by each member;
- (u) to consider other topics, as defined by the Board; and
- (v) to review annually its Terms of Reference and effectiveness and recommend any changes to the Board for its consideration.

22. In discharging its functions, the Audit Committee shall have regard to the duty of Committee members, as directors of the Company, to promote the success of the Company for the benefit of its members in accordance with the provisions of Section 172 of the Companies Act 2006 and having regard, as appropriate, to the matters specifically referred to in paragraphs (a) to (f) of that section.