

**Vesuvius plc**  
(the “Company”)  
**Approval of Non-Audit Services Policy**  
(Approved by the Board on 7 December 2016)

The UK Corporate Governance Code requires the Company’s Audit Committee to develop and implement a policy on the engagement of the Company’s statutory external auditor(s) (the “External Auditor”) to supply non-audit services, taking into account relevant ethical guidance. The primary ethical standard upon which this policy is based is the UK Financial Reporting Council’s Revised Ethical Standard 2016, (the “Standard”). This policy will apply from 1 January 2017 to the audit of the financial year ending 31 December 2017, and for financial years thereafter.

Management retaining outside advisors are at all times responsible for ensuring that the advisor being used is most appropriate for their needs, taking into account quality, resources, fee levels and delivery timings. There may be occasions when the External Auditor is best placed to undertake non-audit services further to their work on the statutory audit of Group Companies, due to their knowledge of the group. Should the Company or any of its subsidiaries (together “Group Companies”) require a service which is included in the list of “prohibited non-audit services” below, which is not subject to a permitted derogation, they must source the service from a provider other than the External Auditor. In addition, all audit and permissible non-audit services proposed to be carried out for any Group Company worldwide by its External Auditor must be pre-approved before an engagement is agreed. Any assignment proposed to be carried out by the External Auditor must have cleared the External Auditor’s own internal pre-approval process, to assess the firm’s ethical ability to do the work.

**Prohibited non-audit services (“PNA”)**

The External Auditor is specifically prohibited from providing the following non-audit services under paragraph 5.167R of the Standard: -

- a) Provision of tax services relating to preparation of tax forms\*; payroll tax; customs duties; identification of public subsidies and tax incentives, unless support from the statutory auditor or audit firm in respect of such services is required by law\*; support regarding tax inspections by tax authorities, unless support from the statutory auditor or audit firm in respect of such inspections is required by law\*; calculation of direct and indirect tax and deferred tax\*; provision of tax advice\*;
- b) Services that involve playing any part in the management or decision making of the audited entity;
- c) Bookkeeping and preparing accounting records and financial statements;
- d) Payroll services;
- e) Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or financial information technology systems;
- f) Valuation services, including valuations performed in connection with actuarial services or litigation support services\*;
- g) Legal services, with respect to provision of general counsel; negotiating on behalf of the Group Companies; acting in an advocacy role in the resolution of litigation
- h) Services related to the Company’s internal audit function;
- i) Services linked to the financing, capital structure, and allocation, and investment strategy of Group Companies, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the Group Companies;

- j) Promoting, dealing in, or underwriting shares in Group Companies;
- k) Human resources services with respect to management in a position to exert significant influence over the preparation of the accounting records or financial statements, which are the subject of the statutory audit, where such services involve: searching for or seeking out candidates for such positions or undertaking reference checks of candidates for such positions; structuring the organization design; and cost control.

Those provisions marked with an asterisk\* are subject to a derogation under 5.168R of the Standard, and may be provided by the External Auditor if the following requirements are complied with:

- a) they have no direct or, in the view of an objective, reasonable and informed third party, would have an inconsequential effect, separately or in the aggregate on the audited financial statements;
- b) the estimation of the effect on the audited financial statements is comprehensively documented and explained in the additional report to the audit committee;
- c) the principles of independence laid down in Section 1 of the Standard<sup>1</sup> are complied with; and
- d) for the purposes of the statutory audit of the financial statements, the audit firm would not place significant reliance on the work performed by the audit firm in performing these services.

For the purposes of this policy, prohibited non-audit services subject to derogations shall be called "Derogated PNA".

### **Permitted Non-Audit Services**

As defined in the Standard, there are audit-related, non-audit / additional services that may be provided by the External Auditor:

- i) **"Audit Related Services"** - Audit Related Services are non-audit services specified the Standard that are largely carried out by members of the audit engagement team, and where the work involved is closely related to the work performed in the audit, and the threats to auditor independence are considered within the Standard to be clearly insignificant. A list of Audit Related Services is attached as Appendix 1.
- ii) **"Other Non-audit Services"** – Services other than 'Audit Related Services' for which it is generally accepted that the external Auditor of the entity is an appropriate provider. A list of examples of other non-audit services is attached as Appendix 2.

### **Pre-approval and monitoring of approved non-audit services from the External Auditor**

For each non-audit service assignment where management consider it essential that the External Auditor be used, specific approval must be obtained as follows:

- Any assignment involving Derogated PNA, of any value, must be approved by the Chief Financial Officer and the Chairman of the Audit Committee.

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<sup>1</sup> Freedom from conditions and relationships which, in the context of an External Auditor engagement, would make it probable that an objective, reasonable and informed third party would conclude that the independence of the External Auditor or its staff members is compromised.

- For individual assignments with fees up to £10,000, approval will be required from the Chief Financial Officer (proposals must be submitted through, and supported by, the Group Head of Tax, for any tax-related work, or the Group Financial Controller, for all other matters).
- For any individual assignment with a fee in excess of £10,000, but limited to £100,000 the Chief Financial Officer will seek pre-approval from the Chairman of the Audit Committee (proposals must be submitted through, and supported by, the Group Head of Tax, for any tax-related work, or the Group Financial Controller, for all other matters). Other than for Audit Related Services, where the work involved is closely related to the work performed in the audit and the threats to auditor independence are considered within the Standard to be clearly insignificant, such assignments can only be awarded to the External Auditor after competitive tender, unless the Chief Financial Officer and Chairman of the Audit Committee agree that a tender process is not appropriate.
- Any individual assignment above £100,000 will be subject to pre-approval by the Audit Committee.

### **Non-audit Services Annual Budget**

An annual budget for non-audit services fees proposed to be paid to the External Auditor in the following year will be presented for pre-approval to the Audit Committee each year. Audit Committee approval is required for expenditure in excess of this approved budget, even where Audit Committee approval isn't required subject to the pre-approval controls above.

The total aggregated fees in one financial year for all non-audit services shall be limited to:

- (i) in respect of each local entity of the External Auditor to which the relevant EU Regulation applies, no more than 70% of the average of its fees received in the previous three consecutive financial years (commencing from 1 January 2017) for the audit it has undertaken on Group Companies; and
- (ii) in respect of each External Auditor and its network, no more than 70% of the average of its fees received in the previous three consecutive financial years (commencing from 1 January 2017) for the audit it has undertaken on Group Companies.

### **Non-audit Services Reporting**

Details of all non-audit services provided by, and fees paid to, the External Auditor will be reported regularly to the Audit Committee, analysed by major category of service.

## **Appendix 1**

### **Audit Related services**

Audit related services are:

- Reporting required by law or regulation to be provided by the auditor;
- Reviews of interim financial information;
- Reporting on regulatory returns;
- Reporting to a regulator on client assets;
- Reporting on government grants;
- Reporting on internal financial controls when required by law or regulation;
- Extended audit work that is authorised by those charged with governance performed on financial information<sup>2</sup> and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.

## **Appendix 2**

### **Other Non-audit Services**

The Standard includes 'other non-audit services' for which it is generally accepted that the External Auditor is an appropriate provider, which are described as including:

- i) reports, that are not 'audit related services', required by the competent authority where the authority / regulator has identified that the External Auditor would be an appropriate choice for service provider;
- ii) audit and other services provided by the External Auditor by which it is probable that an objective, reasonable and informed third party would conclude that the understanding of the entity obtained by the External for the audit of the financial statements is relevant to the service, and where the nature of the service would not compromise independence.

Specific other non-audit services items may include, subject to appropriate tests to ensure the protection of the independence of the External Auditor, but are not limited to the following:

- public reporting on investment circulars;
- private reporting to sponsors or similar parties in connection with investment circulars;
- other services pursuant to legislation not covered above;
- information technology services;
- litigation support services;
- corporate finance services; and
- transaction-related services not covered above.

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<sup>2</sup> This does not include accounting services.

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## **Policy on the employment of former employees of the External Auditor**

(As approved by the Board on 11 December 2015)

On an ongoing basis, the Audit Committee will agree and confirm with the External Auditor which members of its audit team are categorised as the “key audit partners” and “other key team members”. The following rules will be observed in respect of employment of audit team members of the External Auditor by Group Companies:

- Key audit partners will not be offered employment by a Group Company within two years of undertaking any role on the audit.
- Other key team members will not be offered employment by a Group Company within three months of undertaking any role on the audit.
- Other audit team members who accept employment by a Group Company must cease activity on the audit immediately they tender their resignation to the External Auditor.

Any offer of employment to a former employee of the External Auditor, within two years of the employee leaving the audit firm, must be pre-approved by the Audit Committee where the offer is made in respect of a senior executive position. Between meetings, the Audit Committee Chairman will have delegated authority to deal with such appointments at his discretion. Any such interim approval must be ratified at the next meeting of the Audit Committee.