

Audit Committee

The Audit Committee (the 'Committee') is appointed by the Board from the Non-Executive Directors of the Company. The Chair of the Committee is Chris Morgan.

Audit Committee composition and meetings

Chris Morgan's previous roles have given him senior executive and financial experience working across a number of technology and digital printing sectors and across a number of jurisdictions. Alison Littley, Audit Committee member, also brings a breadth of experience including executive experience in complex, international business operations. Additional information on our skills and experience can be found in the Board biographies set out on page 63.

The Audit Committee met formally on four occasions during the year and details of the attendance at meetings by members of the Audit Committee are set out on page 78. Please see the tables on page 78 for details of the Committee members in the year and the number of Committee meetings attended. At the Committee's request, other members of the Board and senior management may be invited to attend the Audit Committee's meetings based on the meeting agenda.

Report from the Committee Chairman

I am pleased to present the Audit Committee's report describing our work during the past year. Ernst & Young LLP (EY) was reappointed as the Group external auditor at the Annual General Meeting and Ruth Logan is the engagement partner.

The Audit Committee's primary responsibilities are the following:

- To approve and monitor key financial and accounting policies and practices
- To monitor the integrity of the financial statements, announcements and review significant financial reporting judgements contained therein
- To keep under review the adequacy and effectiveness of internal controls
- To review procedures, systems and controls for whistleblowing, fraud detection and bribery prevention
- To review, approve and monitor internal audit activities
- To monitor and review the Group's external auditor's independence, objectivity and effectiveness
- To monitor and approve any non-audit services provided by the external auditor
- To conduct any tender process and make recommendation to the Board on the appointment, remuneration and terms of engagement of the external auditor.

The Committee is not responsible for the identification of key risks or the review of the adequacy of arrangements to mitigate those risks, which remains the responsibility of the Board.

The Committee is required to report its findings to the Board at least annually, identifying any matters on which it considers that action or improvement is needed, to make recommendations on the steps to be taken, and to ensure that the required actions are implemented.

The Committee shall review its terms of reference annually and may recommend to the Board any amendments. The Committee's terms of reference include all matters indicated by Disclosure and Transparency Rule 7.1 and the 2018 UK Corporate Governance Code. The terms of reference of the Committee are available on written request from the Company Secretary.

Significant issues considered by the Committee

The Committee has a work plan that is designed to ensure its responsibilities are fully discharged over the annual reporting cycle. Specific items are added to the agenda for individual meetings as required. There were a number of significant accounting matters considered during the year including:

- Megnajet acquisition
- Impairment of goodwill, intangible assets and PPE
- Alternative performance measures.

Key areas of management judgement

The Committee has reviewed, discussed with and challenged management in respect of the approaches taken for the following areas of key accounting judgement and estimation:

Accounting judgements

Capitalisation of development costs – note 16

The Group capitalises development expenditure as an intangible asset where the criteria under IAS 38 Intangible Assets are met. This requires management to make judgement on when all of the criteria for capitalisation are met and when to cease capitalisation and start amortising the asset. In the current year, £1.7 million of external development costs were capitalised after the initial research phase, which were incurred in 2021 and expensed in the income statement, the feasibility of the project was established and the development work commenced. No internal development costs have been capitalised since most of internal labour was minor administration with clearly trivial time incurred. There were no capitalised development costs for the prior year.

Key areas of management judgement continued

Accounting judgements continued

Revenue recognition – note 5

EPS and FFEI recognise revenue on the stage of completion for some of the customer contract and performance obligations in the manufacture of bespoke machinery and equipment as well as some of the research and development services for delivery to the customer. Each month an assessment is undertaken of the work in progress and stage of completion in both supply of individual components and labour hours allocated to the project against the expected project manufacture costs. The revenue determined is recognised upon the proportion and stage of completion of the performance obligations. This assessment enables an estimate to be undertaken for the expected profitability of the customer contract, costs incurred to date, and costs to complete, but is subject to a level of uncertainty until the work in progress is finalised and the completed machinery and services are available for final delivery and acceptance by the customer. The transaction price allocated to partially satisfied and unsatisfied obligations at 31 December 2022 is set out in note 5.

Estimation uncertainty

Contingent consideration – notes 11 and 22


In November 2021, Stratasys Solutions Limited acquired the remaining 55% of Xaar 3D Limited for an initial consideration of US\$13.5 million or £9.9 million in cash and a milestone consideration and 3% earn-out consideration which are contingent on the achievement of certain milestones in respect of the future revenue stream of Xaar 3D and should be estimated using a statistical simulation model. This contingent consideration is measured at fair value using a Monte Carlo Simulation model and the use of a recognised third party. The Monte Carlo Simulation model uses a number of inputs that require estimation. The key ones are the risk-adjusted discount rate and revenue volatility. The milestone consideration and 3% earn-out consideration are calculated based on the terms of the proposed transaction and by reference to simulated revenue. This is then discounted back to the valuation date using a discount rate over a period commensurate with the year in which payments are payable. The Group considers this model to be appropriate, given the complex conditions associated with the milestone consideration and 3% earn-out consideration. A sensitivity analysis is provided in note 22.

Acquisition of Megnajet Ltd and Technomation Ltd – note 36

There is a high level of judgement surrounding the valuation of goodwill and acquired intangibles for any material acquisitions and this applies to the acquisition of Megnajet and Technomation in the year. An additional judgement was required around the classification of Technomation as an asset purchase rather than a business purchase and was concluded as such as a result of the applied concentration test under IFRS 3:B7(A)a. Management involved a third party valuation expert to estimate the value of the acquired intangibles and goodwill to ensure the judgements are appropriately considered.

Impairment of goodwill and intangibles (estimation uncertainty) – notes 15 and 16

The Group tests goodwill and intangibles annually for impairment or more frequently if there are indications that goodwill might be impaired. Having performed appropriate testing, no impairment has been identified and therefore no impairment loss has been recognised in 2022 (2021: £nil). Management has performed sensitivity analysis on its reasonably worst case scenario for EPS, FFEI and Megnajet and it has been completed on each key assumption in isolation. Reasonably possible change sensitivities are included in note 15.

 **Additional disclosure in relation to key sources of estimation uncertainty and critical accounting judgements is provided in the Group financial statements – note 2 on pages 121 and 122**

Key activities

In discharging its responsibilities, the Committee has completed the following activities:

Financial statements and reports

- Reviewed the Annual Report, financial statements and the half-yearly financial report including disclosures made therein, and confirms that taken as a whole, they are fair, balanced and understandable, and provide the information necessary for shareholders to assess the position, performance, strategy, and business model of the Company
- Reviewed Going Concern and Viability Statements and supporting assessments
- Reviewed reports from the external auditor on their work and findings
- Reviewed the effectiveness of the Group's internal control environment.

Internal controls and compliance

To assist the Board with its responsibilities to effectively determine the nature and extent of the Group's significant risks (as described on pages 52 to 57), the Committee carries out a robust annual assessment of the principal risks and uncertainties facing the Group.

The Board remains ultimately responsible for determining the nature and extent of the effectiveness of the risk management and internal controls systems which mitigate potential impacts on shareholder investments and the Company's assets. The Corporate Risk Register is reviewed and challenged bi-annually by the Audit Committee.

The Committee having performed the annual review of the Group's internal control processes considers the systems to be effective and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting as issued by the FRC. In order to support the growth of the business and the implementation of Company strategies, the Committee recognises the need to continue to review the adequacy and effectiveness of our control framework.

The Committee undertakes this evaluation having:

- Reviewed the internal financial controls and risk management systems
- Reviewed fraud detection and the systems and controls for the prevention of bribery including employee confirmation of abiding by the Code of Conduct, Anti-bribery & Corruption, and Whistleblowing policies

Key activities continued

Internal controls and compliance continued

- The Committee considered the revised internal audit plan which was reviewed and amended during the year. A separate risk, control and audit function has been established headed by the Director of Risk, Control and Audit to oversee the planning and implementation of the Group's internal audit programme. Measures were put in place to co-source the internal audit function with an external specialist to undertake timely internal audits for all the controls which had been formalised and implemented.

Additional attention was given to EPS considering deficiencies identified in past. Due to their prior engagement and accumulated knowledge, RSM was hired to assist the Director of Risk, Controls & Audit with the identification of key controls and gaps for main business cycles within EPS. Whilst full implementation and formalisation of the controls framework is still in progress, all significant deficiencies identified have been addressed.

In addition to the controls work described above, 2022 was the first full year when the new leadership of EPS was present. The finance department of EPS has been supported and peer-reviewed by the Group finance team throughout the year and all discrepancies between Group policies and EPS policies have been identified and brought into alignment. Management has also closely worked with EY, Group auditors, to ensure all findings from the 2021 audit have been addressed. The improvements have been evidenced and acknowledged by the Group auditors as part of their planning and interim procedures. In summary, we believe that all significant deficiencies have been addressed at EPS while still acknowledging continuing work is required to formalise the wider controls framework.

In line with the provisions of the UK Corporate Governance Code 2018, the Committee monitors and reviews the effectiveness of the Company's internal audit function or, where there is not one during a period, considers annually whether there is a need for one. The Committee considered the revised internal audit plan which was reviewed and amended during the year. Measures were put in place to co-source the internal audit function for 2023 with an external specialist to undertake timely internal audits for all the controls which have been formalised and implemented.

The Committee remains of the view that the statement made regarding the Company's viability period continues to be an accurate assessment of the Company's viability as at the date of the report. The Viability Statement can be found in full on pages 69 and 70.

External audit

- The Audit Committee provided a forum for reporting and discussion with the Group's external auditor in respect of the Group's full-year results. The Committee had dedicated time for these activities and reviewed the audit work with emphasis on significant risk areas identified and discussed by the external auditor in their report
- The scope of the audit work to be undertaken by the auditor was reviewed and agreed on 19 December 2022
- The Committee agreed the fees to be paid to the external auditor relating to their services rendered for the annual audit
- The independence and objectivity of the external auditor was assessed by the Committee
- The Chairman of the Audit Committee will be available at the AGM to answer any questions about the work of the Committee.

External auditor

This was the third year for Ernst & Young LLP (EY) as the Company's auditor having first been appointed in July 2019 after a competitive tender. Ruth Logan was appointed as the senior statutory auditor during the year. The Committee has met with the auditor on at least three occasions during the year and it is expected that the Committee will continue to meet with the auditor a minimum of two times each year. The Chief Executive Officer and Chief Financial Officer, and other relevant managers and Board members, may attend these sessions by invitation, except for a period of each meeting where the Committee members may meet with the auditor without any member of executive management present.

The Committee is required to assess the qualifications, expertise, resources, and independence of the external auditor, and the objectivity and effectiveness of the audit process. The Committee reviews the type of work, effectiveness of, and level of fees charged by the auditor on an annual basis and recommends to the Board the appointment, reappointment, term, remuneration, and terms of engagement of the external auditor.

The Committee safeguards auditor objectivity and independence through maintaining a dialogue with the auditor and by monitoring all fees paid. It is the policy of the Group not to engage the statutory auditor in any non-audit related services. This includes tax services. Specifically, the policy states that the preparation of tax forms, payroll tax, calculation of indirect tax and the provision of tax advice cannot be provided by the statutory auditor. Note 2 to the consolidated financial statements includes disclosure of the auditor's remuneration during the year.

The Committee, taking into consideration relevant UK professional and regulatory requirements, regularly considers the independence and objectivity of the auditor. The Committee receives an annual statement from the auditor detailing their independence policies and safeguards, and confirming their independence, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditor.

The Committee considers the effectiveness of the external audit and the Group's relationship with the external auditor on an ongoing basis. In completing the review of the effectiveness of the annual audit in 2022, the Committee was able to conclude the audit undertaken by Ernst & Young LLP was effective. This review consisted of considering a number of key points together with the senior financial management of the Group. A similar exercise will be undertaken following completion of audit procedures on the 2022 results and reported on in next year's Annual Report.

Review of the Audit Committee's effectiveness

The Committee has reviewed and considered the effectiveness of its performance during the year. The review included the views of members of the Committee and of regular attendees at the various meetings (including the Executive Directors).

I am satisfied that the degree of rigour and challenge applied in performing the Committee's responsibilities is appropriate and effective.



Chris Morgan
Chair of the Audit Committee