Remuneration Policy Report

The Remuneration Policy for Directors, which shareholders approved at the AGM held on 17 November 2021 is effective for a period of up to three years form this date.

Remuneration Policy for the Executive Directors

Operation	Opportunity	Performance measures

Base salary

To attract, motivate and retain Executive Directors with the required skills and expertise to deliver the Group's objectives.

Operation	Opportunity	Performance measures
Salaries are reviewed (but not necessarily adjusted) annually and benchmarked against comparable roles at companies of similar market capitalisation, revenues and complexity. The review also takes into account individual performance and experience, the relative performance of the Company and the Remuneration Policy operated across the Group as a whole. The salary increase date (if applicable) is 1 October.	Base salaries are adjusted according to the outcome of the annual review and will be disclosed in the Annual Report on Remuneration. Salary increases for the Executive Directors will normally be in line with those awarded to Smiths wider employee population. Where increases are awarded in excess of this, for example if there is a material change in the responsibility, size or complexity of the role, or a significant change in the market competitiveness of salary, the Committee will provide the rationale in the relevant year's Annual Report on Remuneration.	Not applicable

Benefits

To provide market-competitive benefits to Executive Directors.

Operation	Opportunity	Performance measures
Benefits comprise car benefit, driver for business purposes, life assurance and private healthcare insurance, and other such benefits as the Committee may from time to time determine are appropriate. These include, but are not limited to, relocation allowances, as well as any other future benefits made available either to all employees globally or all employees in the region in which the Executive Director is employed.	Benefits vary by role and individual circumstances. Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration. The Committee retains discretion to approve a higher cost in exceptional circumstances (e.g. to facilitate recruitment, relocation, expatriation, etc.) or in circumstances where factors outside the Group's control have changed materially (e.g. market increases in insurance costs).	Not applicable

Operation	Opportunity	Performance measures

Pensions

Enables Executive Directors to save for their retirement in a cost-efficient manner.

Operation	Opportunity	Performance measures
Executives may choose either to participate in the Company's defined contribution pension plan or to receive a pension allowance in lieu thereof (and thus arrange their own pension provision). Pension allowances for the employee population are reviewed periodically to ensure market competitiveness. Base salary is the only element of remuneration that is taken into account when determining pension contributions or allowances.	The maximum level of pension contribution (or allowance in lieu thereof) for new Executive Directors will be aligned to the rates available to the wider UK workforce in the Executive Director's local market. The retirement allowance for the incumbent Chief Financial Officer is 23.7 % of salary with effect from 1 October 2021. The allowance will reduce to the contribution level available for the wider workforce no later than 31 December 2022	Not applicable

Annual bonus

Incentivises short-term priorities in line with the Group's business strategy.

Operation	Opportunity	Performance measures
Annual bonus payments are determined based upon performance against measures and targets set by t he Committee at the start of each financial year. After the end of the financial year, to the extent that the performance criteria have been met, up to 67% of the earned annual bonus is paid in cash. The balance is deferred into shares and released after a further period of three years, without further performance or other conditions. Dividends accrue and are normally payable in shares at the end of the deferral period. The Committee may use its discretion to adjust payout of the annual bonus to Executive Directors, within the range of the minimum to maximum opportunity, including reducing it down to zero. Such discretion will only be used where the Committee believes that performance against the prescribed targets does not accurately reflect the Company's underlying performance. In addition, cash and deferred share bonuses awarded will be subject to malus and/or clawback for a period of three years from the end of the relevant performance year in case of misconduct, serious reputational damage, corporate failure or material misstatement in the published results of the Group.	The maximum annual bonus opportunity for Executive Directors is up to 200% of salary. The annual bonus opportunities for the year under review and the coming year are disclosed in the Annual Report on Remuneration. Under the financial element of the annual bonus, threshold performance must be exceeded before any annual bonus becomes payable. The percentage payout then increases according to the level of achievement against targets. Payment of up to 25% of maximum opportunity occurs on achievement of threshold performance and 50% of maximum opportunity on achievement of on-target performance.	Based on a combination of financial and non-financial performance measures linked to short-term objectives. Financial performance will account for no less than 70% of the bonus opportunity and may include, but is not limited to, profit, organic revenue growth and cash measures.

Operation	Opportunity	Performance measures

Long-Term Incentive Plan (LTIP)

Incentivises long-term value creation for shareholders, sustainable growth and effective management of the balance sheet

Operation	Opportunity	Performance measures
Awards of conditional shares are granted annually and vest after a performance period of at least three years, subject to the achievement of performance targets set by the Committee at the start of each cycle. Vested shares are subject to a two-year post vesting holding period. To the extent that the performance targets are not met over the performance period, awards will lapse. No retesting of awards under any performance condition is permitted. Dividends accrue and are normally paid in shares at the end of the vesting period, on shares that vest. The Committee may use its discretion to adjust payout of the LTIP to Executive Directors, within the limits of the Plan rules. Such discretion will only be used where the Committee believes that performance against the prescribed targets does not accurately reflect the Company's underlying performance. Awards will be subject to malus over the vesting period and clawback from the vesting date for a period of five years from the date of grant in the case of misconduct, serious reputational damage, corporate failure or material misstatement in the published results of the Group.	The maximum LTIP award opportunity for Executive Directors is up to 400% of salary. Awards of a fixed number of shares will be made in respect of the relevant financial year. For awards made in respect of FY2022 onwards, this fixed number of shares will be equivalent to 300% of salary for the CEO and 250% of salary for the CFO. In future years for which this policy applies it is intended that the Executive Directors will each be awarded the same fixed number of shares as in respect of FY2022. In the event that the Company share price increases by more than 33% during the three-year policy period, the fixed number of shares awarded will be restricted so that the value of the award is no more than 33% greater than the value of the FY2022 award at the date of grant. This will ensure that the maximum LTIP award opportunity is not exceeded. LTIP award sizes for the year under review and the coming year are disclosed in the Annual Report on Remuneration. At threshold performance against each measure, up to 25% of the award subject to that measure vests, increasing to 100% for achieving stretch targets.	Based on measures of performance that are aligned with the Group's strategy. To ensure continued alignment with the Company's strategic priorities, the Committee may, at its discretion, vary the measures and their weightings from time to time (but will consult shareholders before making significant changes to the performance measures).

Sharesave

Encourages ownership of shares in the Company and alignment with shareholder interests.

Operation and opportunity	Performance measures
All UK employees (including Executive Directors) may save up to a maximum monthly savings limit (as determined by UK legislation, or other such lower limit as the Committee may determine at its discretion) for three years. At the end of the savings period, participants may use their savings to exercise options to acquire shares, which may be granted at a discount of up to 20% to the market price on grant.	None required

Shareholding guidelines

Encourages ownership of shares in the Company and alignment with shareholder interests.

Operation and opportunity	Performance measures
Executive Directors should build a minimum shareholding equivalent to the fixed number of shares awarded in respect of FY2022 under the LTIP within five years. 50% of any net vested share awards (after sales to meet tax liabilities) must be retained until the minimum shareholding requirements are met. Shareholding guidelines also exist below Executive Director level. Executive Directors are required to hold shares equivalent to their full in-employment shareholding guideline, or actual holding if lower, for two years post-employment.	Not applicable

Existing grants or entitlements

It is the Company's intention to honour all pre-existing commitments at the date of this Report and to honour all future obligations entered into, consistent with the approved Remuneration Policy in force at that time. In the case of internal promotion to the Board, the Committee intends to honour any pre-existing commitments made prior to becoming a member of the Board, including where these differ from the approved Remuneration Policy.

Performance measure selection and approach to target setting

Annual bonus measures are selected to reflect the Company's short-term financial and non-financial priorities. At its discretion, the Committee may vary these measures at the start of each financial year to maintain close alignment between executive incentives and the annual operating plan.

The measures used in the Long-Term Incentive Plan are selected to reflect Smiths Group strategy and to reinforce the key drivers of value creation and growth highlighted elsewhere in this Annual Report which may include earnings per share, cash measures, organic revenue growth, delivering sustainable return on capital and measures relating to Environmental, Social and Governance matters.

Annual bonus and LTIP targets are reviewed annually, and take into account the Company's strategic plan, analyst forecasts for Smiths and its sector comparators and external expectations for Smiths Group key markets. The Committee sets targets that it considers to be challenging but attainable and aligned to the Company's business objectives over the short term, as reflected in the annual operating plan, and longer term, consistent with the strategic plan. On top of aligning incentives with strategy, targets are designed to ensure that participants' interests are aligned with the interests of shareholders.

The linkage of the performance measures to business strategy is set out in the 'Executive remuneration at a glance' section of the Remuneration Report.

Alignment of policy between Executive Directors and other employees

The reward policy for other senior employees is broadly consistent with that for Executive Directors, and the Company does not currently operate any incentive plans in which only Executive Directors participate. The Committee reviews each year the all-employee pay and incentive trends and takes these into account in setting Executive Director remuneration levels. The principles of remuneration packages being market-related, performance-sensitive and driven by business needs are applied at all levels and geographies in the Group and the performance measures used in incentive plans apply generally across all levels of the business.

Alignment with the UK Corporate Governance Code

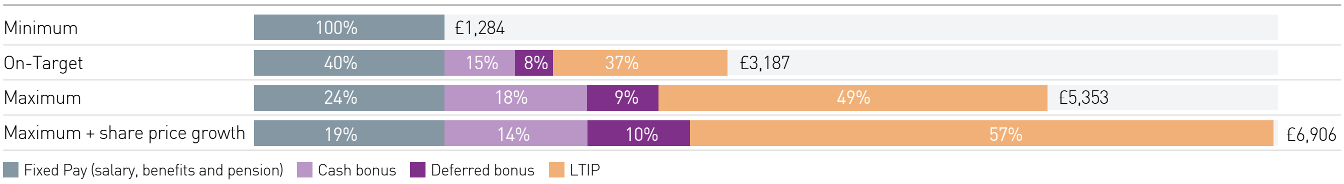
The table below details how the Committee addresses the factors set out within Provision 40 of the UK Corporate Governance Code:

Clarity	– The Committee welcomes transparency and regular engagement with shareholders with regard to executive remuneration. During the review of Remuneration Policy in 2021, the Committee Chairman has consulted with shareholders to fully understand their views on proposed changes. The Committee Chairman has engaged with the wider workforce via live video conference and online Q&A to offer opportunity for further understanding of the role of the Committee, the principles of executive remuneration and how this cascades through the organisation.
Simplicity	– Participants in incentive plans receive annual communications to confirm award levels and performance measures. Supporting guidance documents and instructional videos are available online. The Remuneration Policy for Executive Directors underpins that of the wider workforce and during the 2021 Policy review further simplified the arrangements
Risk	– The Committee considers the effective management of risk throughout the delivery of incentive plans, applying reasonable discretion to override formulaic outcomes if necessary – The Committee considers that the structure of incentive arrangements does not encourage unnecessary risk taking – For Executive Directors, one third of the annual bonus payment is deferred into shares with an additional three years until vesting – Robust malus and clawback provisions are in place for incentive plans and are clearly communicated
Predictability	– Our Policy clearly outlines the maximum award levels and vesting outcomes applicable to annual bonus and LTIP. As stated above under 'risk', the Committee has the ability to apply discretion to formulaic outcomes and clear malus and clawback provisions exist
Proportionality	– There is a robust link between strategic business objectives and performance outcome – Our Policy for our incentive plans outlines threshold, target and maximum opportunity levels, with actual outcomes dependent on performance achieved against robust, pre-determined measures – Through the design of the policy and the discretion of the Committee, poor performance is not rewarded
Alignment to culture	– Smiths Group values of passion, integrity, respect, ownership and customer focus underpin the design and operation of the incentive programmes. The business strategy is supported by these values which are widely communicated across the Company

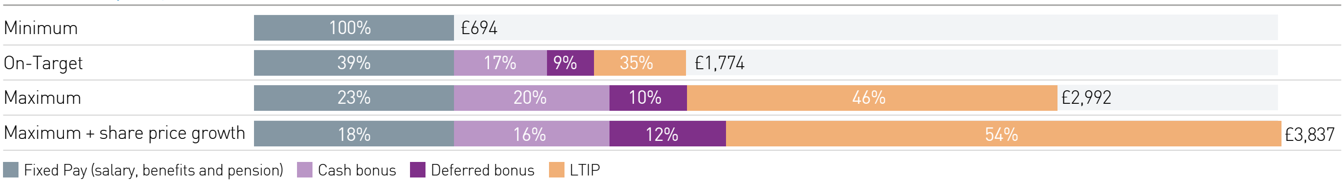
Pay scenarios

The graphs below provide estimates of the potential future reward opportunity for the Chief Executive and the Chief Financial Officer, and the potential mix between the different elements of remuneration under four different performance scenarios: 'Minimum', 'On-Target', 'Maximum' and 'Maximum + Share Price growth' (which assumes a 50% increase in share price over the LTIP vesting period).

Paul Keel (£000)



John Shipsey (£000)



Potential opportunities illustrated above are based on the Policy, applied to the annualised base salaries in force from 1 October 2021. It should be noted that any awards granted under the LTIP in a year do not normally vest until the third anniversary of the date of grant. This illustration is intended to provide further information to shareholders on the relationship between executive pay and performance. Please note, however, that actual pay delivered will further be influenced by factors such as share price appreciation or depreciation and the value of dividends paid. The following assumptions have been made in compiling the above charts:

	Minimum	On-Target	Maximum
Base salary		Annual base salary	
Pension		Company pension allowance	
Other benefits		Value of annual benefits provided	
Cash bonus	0% of salary	67% (CEO), 55% (CFO) of salary	133% (CEO), 110% (CFO) of salary
Deferred bonus	0% of salary	33% (CEO), 28% (CFO) of salary	67% (CEO), 55% (CFO) of salary
LTIP	0% of salary	135% (CEO), 113% (CFO) of salary	300% (CEO), 250% (CFO) of salary

Remuneration policy for the Chairman and Non-executive Directors

Operation	Opportunity	Performance measures
Annual fee		
To attract, motivate and retain Non-executive Directors with the required skills and expertise.		
Fees may be paid in cash or a combination of cash and shares and are reviewed annually (but not necessarily increased) to ensure they compare appropriately to fees payable at companies of similar size and complexity to Smiths. Additional fees are paid to the Chairs of the Audit & Risk and Remuneration Committees and to the Senior Independent Director to reflect the additional time commitment of these roles. Additional fees may be paid for other responsibilities or time commitments. The fee paid to the Chairman of the Board is determined by the Committee, absent the Chairman, while the fees for all Non-executive Directors are agreed by the Executive Directors.	Fees are adjusted according to the outcome of the annual reviews. The basic fee for Non-executive Directors is subject to the maximum aggregate annual fee of £1,000,000, as approved by shareholders in 2017 in the Company's Articles of Association.	Not applicable

Other

The Chairman and Non-executive Directors do not currently receive any benefits and are not eligible for bonuses or participation in share schemes or any pension provision. They may be paid an attendance allowance for each meeting attended outside their home continent in addition to the annual fee. Travel and other reasonable expenses (including fees incurred in obtaining professional advice in the furtherance of their duties) incurred in the course of performing their duties are reimbursed to Non-Executive Directors (including any associated tax liability). The Group may also provide advice and assistance with Board Directors' tax returns where these are impacted by the duties they undertake on behalf of the Group. Modest retirement gifts, with a value of up to a maximum of £2,500 may be provided for Non-executive Directors in appropriate circumstances.

Non-executive Directors are encouraged to build up a shareholding of at least 100% of their annual base fee over the later of five years from their date of appointment or the adoption of this guideline.

Approach to remuneration on recruitment and leaving

Executive Directors

The Committee approves the remuneration of each Executive Director on their appointment. The package should be market competitive to facilitate the recruitment of an individual of sufficient calibre to lead the business. At the same time, the Committee would intend to pay no more than it believes is necessary to secure the required talent. In setting the remuneration during the recruitment of external appointments, the Committee will apply the following policy:

Pay element	Policy on recruitment
BASE SALARY	Salary on recruitment is determined based on the same principles as the annual salary review, as outlined in the policy table.
BENEFITS	As described in the policy table.
PENSION	As described in the policy table.
ANNUAL BONUS	As described in the policy table and typically pro-rated for the proportion of year served. Maximum annual award opportunity: 200% of salary with mandatory deferral of 33% into shares.
LTIP	May be considered for an award under the LTIP on similar terms to other executives. Maximum annual award opportunity: 400% of salary.
OTHER	The structure of the ongoing remuneration package would normally include the components set out in the policy table for Executive Directors. Circumstances in which other elements of remuneration may be awarded include: – an interim appointment being made to fill an Executive Director role on a short term basis; – if exceptional circumstances require that the Chairman or a Non-executive Director takes on an executive function on a short term basis; – if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or LTIP award for that year as there would not be sufficient time to assess performance; subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis. The Committee may make an award to compensate the prospective employee for remuneration arrangements forfeited on leaving a previous employer. Any such award will take account of relevant factors including the form of any forfeited awards (e.g. cash or shares) including the value of awards forfeited, any performance conditions attached, the likelihood of those conditions being met and the proportion of the vesting period remaining. For the purposes of making such awards, but for no other reason, the Committee may avail itself of Listing Rule 9.4.2R. Such awards or payments are excluded from the maximum level of variable remuneration referred to below; however, the Committee's intention is that the value awarded or paid would be no higher than the expected value of the forfeited arrangements. Recruitment awards will normally be liable to forfeiture or "clawback" on early departure (i.e. within the first 12 months of employment). The maximum level of variable remuneration that may be granted to new Directors (excluding buy-out arrangements) is 600% of base salary. The Committee may also make payments to cover reasonable expenses in recruitment and relocation, and any other miscellaneous expenses including but not limited to housing, tax and immigration support.

In cases of appointing a new Executive Director by way of internal promotion, the Policy will be consistent with that for external appointees, as detailed above. Any commitments made prior to an individual's promotion will continue to be honoured even if they would not otherwise be consistent with the policy prevailing when the commitment is fulfilled, although the Company may, where appropriate, seek to revise an individual's existing service contract on promotion to ensure it aligns with other Executive Directors and prevailing market best practice.

Disclosure on the remuneration structure of any new Executive Director (external or internal), including details of any exceptional payments, will be disclosed in the RNS notification made at the time of appointment and in the Annual Report on Remuneration for the year in which the recruitment occurred.

Respecting diversity is woven into everything we do. We ensure that equal opportunities are inherent when interviewing, recruiting and promoting employees with decisions made based on skills and expertise first and foremost.

Non-executive Directors

In recruiting a new Non-executive Director, the Committee will use the policy as set out in the table above.

Remuneration Policy Report continued

Executive Directors' service contracts

The Company's policy is that Executive Directors are normally employed on terms which include a one-year rolling period of notice from the Company and six months' notice from the individual. The contract includes provision for the payment of a predetermined sum in the event of termination of employment in certain circumstances (but excluding circumstances where the Company is entitled to dismiss without compensation). In addition to payment of basic salary, pension allowance and benefits in respect of the unexpired portion of the one-year notice period, the predetermined sum would include annual bonus and share awards only in respect of the period they have served, payable following the end of the relevant performance period and subject to the normal performance conditions.

Paul Keel is employed under a service contract with the Company dated and effective from 25 May 2021. He became an Executive Director with effect from 25 May 2021. John Shipsey is employed under a service contract with the Company dated and effective from 18 October 2017. He became an Executive Director on 1 January 2018.

The service contracts for both Executive Directors may be terminated by 12 months' notice given by the Company or six months' notice given by the Director. The Company may elect to terminate the contract by making a payment in lieu of notice equal to the Director's base salary and benefits (including pension allowance) in respect of any unserved period of notice. The service contracts contain specific provisions enabling a reduction in any phased payments in lieu of notice, in the event that the Director finds alternative employment during the notice period. The service contracts are available for viewing at the Company's Registered Office.

Chairman's and Non-executive Directors' letters of appointment

The Chairman and the Non-executive Directors serve the Company under letters of appointment and do not have contracts of service or contracts for services. Except where appointed at a general meeting, Directors stand for election by shareholders at the first AGM following appointment. The Board has resolved that all Directors who are willing to continue in office will stand for re-election by the shareholders each year at the AGM. Either party can terminate the appointment on one month's written notice and no compensation is payable in the event of an appointment being terminated early. The letters of appointment or other applicable agreements are available for viewing at the Company's Registered Office.

Non-executive Director	Date of appointment
Sir George Buckley	1 August 2013
Pam Cheng	1 March 2020
Dame Ann Dowling	19 September 2018
Tanya Fratto	1 July 2012
Karin Hoeing	2 April 2020
Bill Seeger	12 May 2014
Mark Seligman	16 May 2016
Noel Tata	1 January 2017

Leaving and change-of-control provisions

When determining leaving arrangements for an Executive Director the Committee takes into account any contractual agreements including the provisions of any incentive arrangements, typical market practice and the performance and conduct of the individual. For those individuals regarded as 'bad leavers' (e.g. voluntary resignation or dismissal for cause), annual bonus awards are forfeited, and outstanding awards under the LTIP automatically lapse. Deferred bonus awards are forfeited on dismissal for cause.

A 'good leaver' will typically remain eligible for a pro-rated annual bonus award, normally to be paid after the end of the financial year. The Committee retains discretion to pay the bonus early and not to apply deferral where it would otherwise apply, but would do so only in compassionate circumstances. Deferred bonus awards shall continue in full and vest on the originally anticipated vesting dates. Alternatively, in compassionate circumstances, the Committee may determine that awards should vest when the participant ceases employment. Awards in the form of options may be exercised in accordance with the rules of the applicable scheme.

LTIP awards will typically vest at the normal vesting date to the extent that the associated performance conditions are met, but will normally be pro-rated on the basis of actual service within the performance period. Any holding period will ordinarily continue to apply. The Committee retains discretion to vest the award before the end of the originally anticipated performance period, and to assess performance accordingly, and to waive the continuation of the holding period or to shorten its application, but would do so only in compassionate circumstances.

Vested LTIP awards which are subject to a holding period will ordinarily continue to be subject to the holding period, although the Committee retains discretion to waive the continuation of the holding period or to shorten its application but would do so only in compassionate circumstances.

In cases of death or disability, individuals are automatically deemed to be good leavers under the plan rules of the LTIP. All other good leavers will be defined at the discretion of the Committee on a case-by-case basis.

In the event of a change of control, LTIP awards will vest to the extent that each of the performance conditions is met based on the Committee's assessment of performance over the performance period to the date of change of control. For internal performance measures, the Committee may exercise its judgement in determining the outcome based on its assessment of whether or not the performance conditions would have been met to a greater or lesser extent at the end of the full performance period. Awards will also normally be pro-rated to reflect the time that has elapsed between the grant of the award and the date of change of control.

The Committee retains discretion to vary these provisions on a case-by-case basis.

In connection with the termination of an Executive Director's contract, the Company may make a payment on account of accrued but untaken leave. The Company has the power to enter into settlement agreements with Directors and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of the termination of an Executive Director, the Company may make a contribution towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements.

External appointments

Subject to the overriding requirements of the Company, the Committee allows Executive Directors to accept one external appointment where it considers that such appointment will contribute to the Director's breadth of knowledge and experience. Executive Directors are not permitted to take on the chairmanship of another FTSE 100 company or equivalent organisation. Directors are permitted to retain fees associated with such appointments. Non-executive Directors must obtain the approval of the Board before accepting any additional appointments once they have joined the Board.

Consideration of employment conditions

The Committee always takes into account pay and employment conditions elsewhere in the Company. When setting remuneration for Executive Directors and the senior management team, the Committee carefully considers wider remuneration across the Group, including salary increases, bonus awards, share plan participation and pay ratios between Executive Directors and other employees. This has been a particular area of focus for the Committee in designing a new policy that is capable of cascade down the organisation.

We are committed to sharing business success across the organisation, with 6,147 employees participating in an annual bonus plan. There is strong alignment of business metrics between the Executive Directors bonus plan and those in which the majority of the workforce participate. In addition, the Group offers an all-employee sharesave plan to eligible employees in the UK.

During the year the Committee has supported the implementation of a global Employee Assistance Programme and the deployment of Smiths standards for core employee benefits in all markets.

Application of the policy will be influenced by the remuneration arrangements for all employees. The Committee Chairman has engaged with the wider workforce via live video conference and online Q&A to offer the opportunity for further understanding the role of the Committee, the principles of executive remuneration and how this cascades through the organisation.

Consideration of shareholder views

The Committee considers best practice developments and publications from institutional investors and shareholder bodies as well as any shareholder views expressed during dialogue. The Committee is committed to maintaining an open and consultative dialogue with Company shareholders and shareholder bodies. During the year a formal shareholder consultation exercise was undertaken as part of the review of the Policy, to provide the major shareholders with the opportunity to provide feedback and engage on our proposals.