

Smiths Group plc

Terms of Reference of the Audit Committee

Constitution

1. The Board has established a committee known as the Audit Committee (the “Committee”).
2. These Terms of Reference are defined by the Board and may be amended by the Board at any time. The proceedings of the Committee shall be regulated by the Company’s Articles of Association.

Chair

3. The Board shall appoint an independent Non-executive Director as Chair of of the Committee. In the absence of the Chair of the Committee, the members present at any meeting shall elect one of themselves to chair the meeting.

Membership

4. All members of the Committee must be independent Non-executive Directors and the Committee shall comprise at least three members, appointed by the Board on the recommendation of the Nomination Committee and in consultation with the Committee Chair. The Chair of the Board shall not be a member of the Committee.
5. Appointments to the Committee shall be for a period of three years, extendable by two additional three-year periods, provided that the member remains independent and any second extension may only occur after a rigorous review by the Board. Any further extension shall be determined by the Board in consultation with the Chair of the Nomination Committee after a special review, having regard to the member’s performance, suitability and independence. A Director shall automatically cease to be a Board Committee member on ceasing to be a Director.
6. At least one member shall have significant recent and relevant financial experience. The Committee as a whole shall have a range of skills, experience, knowledge and competence relevant to the sectors in which the Company operates.

Quorum

7. The quorum shall be two members. Any member shall abstain from voting on resolutions of the Board Committee in relation to which any potential conflict of interest exists.

Secretary

8. The Company Secretary, or his or her nominee, shall act as Secretary to the Committee and shall ensure members receive notice, information and papers in a timely manner to enable full and proper consideration to be given to the issues.

Attendance at meetings

9. Only Committee members shall have the right to attend Committee meetings. If there is an equality of votes, the Chair of the Committee shall have a casting vote.
10. Unless otherwise indicated by the Chair of the Committee, all Directors who are not Committee members, plus the Company Secretary, General Counsel, Financial Controller, Director of Internal Audit and the Company's external auditors may be invited to attend if appropriate.

Frequency of meetings

11. The Committee shall meet at least three times a year and as otherwise required by the Chair of the Committee. The Committee shall approve the annual calendar of its meetings to coincide with key dates within the financial reporting and audit cycle.
12. Outside of Committee meetings, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer and the external and internal auditors.

Notice of meetings

13. Meetings shall be called by the Company Secretary at the request of the Chair of the Committee.

Minutes of meeting

14. Once approved by the Chair of the Committee, minutes shall be circulated to all Committee members, the Chair of the Board, and, unless the Chair of the Committee considers it inappropriate to do so, to the other Directors, the General Counsel and the Company Secretary.

Authority

15. The Board authorises the Committee, at the Company's expense, to use internal resources and/or to obtain external professional advice (including any independent third party review of internal audit effectiveness and processes), as appropriate. The Committee shall have exclusive responsibility for

appointing, retaining and terminating the services of any external advisers and approving their fees and retention terms.

16. The Committee is authorised to seek any information it requires from any employee of the Group and to call any employee to be questioned at a Committee meeting as and when required. All employees are directed to co-operate with any request made by the Committee.

Annual General Meeting

17. The Chair of the Committee shall attend the Annual General Meeting prepared to answer any shareholder questions on the Committee's activities.

Financial Reporting

18. The Committee shall monitor the integrity of the annual and interim financial statements of the Company, preliminary announcements of results, and any other formal statements relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain, having regard to matters communicated to it by the external or internal auditor.
19. The Committee shall review any other statements requiring Board approval which contain financial information first, and where the Committee is not satisfied with any aspect of proposed financial reporting by the Company it shall report its views to the Board.
20. The Committee shall review and challenge where necessary:
 - (a) the consistency of accounting and treasury policies (and any changes to them) both on a year on year basis and across the Group;
 - (b) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditors;
 - (d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
 - (e) the effectiveness of the Company's financial reporting procedures; and
 - (f) all material information presented with the financial statements of the Company, such as the strategic report, the operating and financial review and the corporate governance statements relating to audit and risk management.

21. If requested by the Board, the Committee shall provide advice on whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Risk management and internal controls

22. The Committee shall:
- (a) keep under review the effectiveness of the Company's and the Group's internal financial, operational and compliance controls and the systems established to identify, assess, manage and monitor financial risks;
 - (b) review the Company's internal control and risk management systems and consider whether the level of assurance it has on the risk management and internal control systems is sufficient to assist the Board in satisfying itself that they are operating effectively; and
 - (c) review and recommend to the Board the disclosures to be included in the annual and interim reports concerning internal controls, risk management, the adoption of the going concern basis of accounting and the Board's assessment of the Company's prospects and viability.

Code of Business Ethics and Business Ethics Programme

23. The Committee shall:
- (a) monitor the implementation of the Company's Code of Business Ethics ("Code") and Business Ethics Programme ("Programme") and compliance with their provisions;
 - (b) review the Company's and the Group's arrangements for its workforce and others to raise concerns, anonymously or in confidence and without fear of retaliation, about possible wrongdoing in financial reporting or other matters arising under the Code or the Programme. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and
 - (c) review the Company's and the Group's procedures for detecting fraud and systems and controls for preventing bribery.

Internal audit

24. The Committee shall:
- (a) approve the appointment and removal of the Director of Internal Audit;

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- (b) consider and approve the remit of the internal audit function, ensuring it has unrestricted scope, adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- (c) approve an annual internal audit plan that is aligned to the key risks of the Group;
- (d) review promptly all reports on the Company and the Group from the internal auditors;(e) review and monitor management's responsiveness to the findings and recommendations of the internal auditors;
- (e) monitor and review the Group's internal audit function and carry out an annual assessment of its effectiveness, including the quality, experience and expertise of the function, in the context of the Group's overall risk management system; and
- (f) meet the Director of Internal Audit, at least once a year, without management being present, to discuss the effectiveness of the internal audit function and any issues arising from internal audits carried out. In addition, the Director of Internal Audit shall have direct access to the Chair of the Board and members of the Committee.

External Audit

25. The Committee shall:

Appointment, reappointment and removal

- (a) consider and make recommendations to the Board, to be put to the shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Group's external auditors. If an auditor resigns the Committee shall investigate the reasons for this and decide whether any action is required;
- (b) consider if and when the audit services contract should be put out to tender, taking into consideration any legislative requirements and relevant guidance;
- (c) oversee the selection process when the audit services contract is put out to tender and ensure that all tendering firms have appropriate access to information and individuals during the tendering process, so that the Committee may properly compare the quality and effectiveness of the services provided by the incumbent external

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auditor with those offered by others participating in the tender process;
and

- (d) if the Board does not accept the Committee's recommendation on the appointment, re-appointment or removal of external auditors, prepare a statement explaining the Committee's recommendation. This shall be included in the Annual Report and in any papers recommending appointment, re-appointment or removal, together with the Board's reasons for taking a different position.

Relationship Management

- (e) oversee the relationship with the external auditors including:
- i. approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to facilitate an effective, high quality audit;
 - ii. approval of the scope of the audit and any terms of engagement;
 - iii. influencing the appointment of the individual identified by the external auditor as being primarily responsible for conducting the audit;
 - iv. assessing annually the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditors as a whole, plus any threats to the auditor's independence and the safeguards applied to mitigate those threats, including the provision of any non-audit services;
 - v. satisfying itself that there are no relationships between the auditors and the Company or the Group (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
 - vi. agreeing with the Board a policy on the employment of former employees of the Company's auditors, taking into account the FRC's Ethical Standard and legal requirements, and monitor the implementation of this policy;
 - vii. monitoring the auditor's processes for maintaining independence, and its compliance with relevant UK law, regulation, other professional requirements and the FRC's Ethical Standard, including the guidance on the rotation of audit partner and staff;

- viii. assessing annually the qualifications, expertise and resources, of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- ix. seeking to ensure the co-ordination of the external audit with the activities of the internal audit function;
- x. evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- xi. developing and recommending to the Board the Company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit service have a direct or material effect on the audited financial statements. The policy should take regulations and ethical guidance into account and include consideration of the following matters:
 - threats to the independence and objectivity of the external auditor and any safeguards in place;
 - the nature of the non-audit services;
 - whether the external audit firm is the most suitable supplier of the non-audit service;
 - the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - the criteria governing compensation.

Audit Cycle

- (f) meet regularly with the external auditors, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditors at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- (g) discuss with the external auditor the factors that could affect audit quality and review and approve the external annual audit plan and ensure it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;

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- (h) review the findings of the audit with the external auditors. This shall include:
 - i. a discussion of any major issues identified during the audit;
 - ii. any accounting and audit judgements;
 - iii. levels of errors identified during the audit;
 - iv. the effectiveness of the audit process;
 - v. any matters that the external auditors may have raised; and
 - vi. compliance with relevant financial reporting standards and relevant financial and governance reporting requirements;
- (i) in reviewing the effectiveness of the audit at the end of the annual audit cycle:
 - i. assess the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee;
 - ii. obtain information from the auditor about how any known risks potentially affecting the quality of the audit were addressed;
 - iii. assess whether the auditor has met the agreed audit plan and understand the reasons for any changes;
 - iv. obtain feedback about the conduct of the audit from senior management and the external auditor's reliance on the internal audit function;
 - v. review any representation letter(s) requested by the external auditors before they are signed by management;
 - vi. review the external auditor's management letter and related correspondence to assess the external auditor's understanding of the Company and establish whether any recommendations have been implemented or not; and
 - vii. discuss any difficulties, reservations or other matters arising from the external audit (in the absence of management where necessary).

Reporting

- 26. After each Committee meeting the Chair of the Committee shall report to the Board on all matters within its duties and will promptly draw to the Board's attention matters requiring action or improvement. The report shall include the

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Committee's activities related to financial reporting, risk management and internal controls. The Chair will formally report on how the Committee has discharged its responsibilities.

27. The Committee shall compile a report 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, having regard to matters communicated to it by the auditor, and all other information requirements set out in the UK Corporate Governance Code.
28. In compiling the above report, the Committee shall exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but include at least those matters that have informed the Board's assessment of whether the Company is a going concern and the longer term viability statement.

Cyber Security

29. The Committee shall review, at least annually, all risks associated with the internal and external threats to, and the resilience of, the Smiths IT enterprise, information, operations and products relating to "Cyberspace security", including the behaviours of Smiths staff.
30. "Cyberspace" is the complex environment resulting from the interaction of people, software and services on the internet by means of technology devices and networks connected to it, which doesn't exist in physical form. Cyberspace "security" is the preservation of confidentiality, integrity and availability of information in cyberspace.

Other Matters

31. The Committee shall:
 - (a) seek to ensure that shareholder interests are properly protected in relation to financial reporting and internal control;
 - (b) at least annually, review its own performance, constitution and Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval;
 - (c) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;

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- (d) make recommendations to the Board on any area within its remit where action or improvement is needed or desirable;
- (e) work and liaise as necessary with all other Board Committees;
- (f) oversee any investigation of activities which are within its Terms of Reference.
- (g) undertake any other duties as directed by the Board;
- (h) be provided with sufficient resources to undertake its duties, including access to the Company Secretariat for assistance as required; and
- (i) give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code, the requirements of the Financial Conduct Authority's Listing, Prospectus and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate.

These Terms of Reference shall be made available on the Company's website and were last revised on 24 July 2018 (such revisions to take effect on 1 August 2018).