

Smiths Group plc

Terms of Reference of the Remuneration Committee

Constitution

1. The Board has established a committee known as the Remuneration Committee (the “Committee”).
2. 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 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. The Chair of the Board may not be Chair of the Committee.

Membership

4. The Committee shall comprise at least three independent Non-executive Directors, appointed by the Board on the recommendation of the Nomination Committee and in consultation with the Chair of the Committee. The Chair of the Board (provided he or she is considered independent on appointment) can also be a member.
5. Appointments to the Committee shall be for a period of three years, extendable by two additional three-year periods, provided that the director still meets the criteria for membership 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.

Secretary

6. 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.

Quorum

7. The quorum shall be two members who are both independent Non-executive Directors. .

Attendance at meetings

8. Only Committee members shall have the right to attend Committee meetings, but other executives and external advisers may be invited to attend if appropriate. The Chief Executive Officer shall normally be invited to attend Committee meetings except when his or her own remuneration is under discussion.
9. No Committee member or attendee shall be involved in any decision or be present at any meeting where his or her own remuneration is under discussion. Committee members shall declare any potential conflict of interest prior to the discussion of any matter and shall not vote on such matters.
10. If there is an equality of votes, the Chair of the Committee shall have a casting vote.

Frequency of meetings

11. The Committee shall meet at least three times a year and as otherwise required by the Chair of the Committee.

Notice of meetings

12. Committee meetings shall be called by the Company Secretary at the request of the Chair of the Committee.

Minutes of meeting

13. Once approved by the Chair of the Committee, minutes shall be circulated to all Committee members and, unless otherwise indicated by the Chair of the Committee, to the Chief Executive Officer, the Chief Financial Officer and any other Non-executive Directors of the Company.

Authority

14. The Board authorises the Committee at the Company's expense to use internal resources and/or to obtain external professional advice, including from independent remuneration consultants, as appropriate, and to obtain up-to-date, reliable information about remuneration in other companies. The Committee shall have exclusive responsibility for appointing, retaining and terminating the services of any external advisers and approving their fees and retention terms.
15. The remuneration of the Non-executive Directors is a matter for consideration by a sub-committee of the Board, consisting of the Chair of the Board and the Chief Executive Officer, which shall make recommendations to the Board as a whole.

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 and be prepared to answer any shareholder questions on the Committee's activities.

Duties

18. The Committee shall:
- (a) design, determine and agree with the Board the policy for the remuneration, including any pension benefits and compensation payments, of the Chair of the Board, the Chief Executive Officer, the Executive Directors and the senior management. The objective of such policy shall be to attract, retain and motivate executive management of the quality required to run the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders. The remuneration policy should have regard to the risk appetite of the Company and alignment to the Company's long term strategic goals. A significant proportion of remuneration should be structured so as to link rewards to corporate and individual performance and designed to promote the long-term success of the Company. The Committee shall determine which executives are "senior management" for this purpose;
 - (b) recommend and monitor the level and structure of remuneration for senior management;
 - (c) set individual remuneration arrangements for the Chair of the Board, the Chief Executive Officer, the Executive Directors and the senior management, taking into account relevant legal and regulatory requirements and the matters set out in the UK Corporate Governance Code ("the Code"); remuneration trends; individual performance; pay and employment trends and conditions across the Company as a whole; overall market positioning of the remuneration package; individual base salaries and increases; annual and long-term incentive/bonus arrangements, and set the relevant targets for performance related schemes (subject to the rules of the schemes) and other benefits as well as pension arrangements;
 - (d) ensure that all payments to Directors are consistent with the latest shareholder approved remuneration policy or are otherwise approved separately by shareholders;

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- (e) approve the service contracts of all Executive Directors, including termination arrangements, and ensure that any compensation payable (including pension and long term incentive matters) on such termination is fair to the individual and the Company, and that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- (f) approve any benefit, pension and/or incentive scheme entitlement, and any other bonuses and fees of all Executive Directors;
- (g) oversee any major changes in employee benefits structures throughout the Group;
- (h) annually review the on-going appropriateness and relevance of the remuneration policy;
- (i) review the terms of any new share scheme; and
- (j) agree the policy for authorising claims for expenses from the Chair of the Board and Chief Executive Officer.

Share Schemes

19. In respect of the Smiths Group Sharesave Scheme and any successor or similar scheme operating in the UK or elsewhere (the “Sharesave Scheme”) the Committee may:
- (a) make recommendations to the Board, or a duly authorised Committee thereof, as to which employees should be invited to participate in the Sharesave Scheme;
 - (b) periodically determine the appropriate balance between the maximum number of options that may be granted under the Sharesave Scheme and any other relevant option and equity participation schemes and the number of options in existence from time to time and provide the Share Schemes Committee with guidelines on scaling-down options; and
 - (c) exercise the powers of the Board to amend or vary the Sharesave Scheme’s terms, conditions and rules.
20. In respect of the Smiths Group Executive Share Option Schemes, Smiths Group Co-Investment Plan, Smiths Group Long Term Incentive Plans, Smiths Group Share Matching Plan and Restricted Share Plans and any successor schemes (together, the “Executive Incentive Plans”) the Committee shall:
- (a) approve the grant of options and awards under the Executive Incentive Plans to employees selected by, and subject to such conditions as may be approved by, the Committee;

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- (b) exercise the powers of the Board in relation to all matters under the Executive Incentive Plans, including the power to amend or vary the terms, conditions and rules of the Executive Incentive Plans; and
- (c) The Committee is authorised to exercise the discretionary powers of the Board under the rules of the Executive Incentive Plans regarding the remuneration outcome for individuals or groups of individuals within the parameters approved by shareholders in the Directors' Remuneration Policy and the terms or rules of any share or performance related plan or scheme in operation from time to time. For the avoidance of doubt, the Committee may within these parameters amend any previous exercise of discretion if the circumstances or information on which it based that decision are subsequently found to have changed or been incorrect.

21. The Committee shall consider and review the terms of any other equity plans, and give due consideration to laws, regulations, guidelines and recommendations regarding the formation and operation of share schemes.

Other Duties

22. The Committee shall:

- (a) in exercising all duties and responsibilities under these Terms of Reference, including determining the remuneration policy and remuneration arrangements or any payments for loss of office, consider all applicable legal and regulatory requirements, including the Companies Act 2006, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Financial Conduct Authority's Listing, Prospectus and Disclosure Guidance and Transparency Rules and the Code and any other applicable rules;
- (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) liaise as necessary with the Nomination Committee regarding the remuneration packages offered to newly appointed Executive Directors (and ensure they are within the overall policy);
- (d) make recommendations to the Board on any area within its remit where action or improvement is needed;
- (e) ensure, through the Chair of the Board, that the Company maintains contact about remuneration with its principal shareholders;
- (f) undertake any other duties as directed by the Board; and

- (g) be provided with sufficient resources to undertake its duties, including access to the Company Secretariat for assistance as required.

Reporting

- 23. The Chair of the Committee shall report to the Board on the Committee's proceedings and the Committee shall make such recommendations to the Board as it deems appropriate.
- 24. The Committee shall ensure that provisions regarding disclosure of information, as set out in applicable legislation and the Code, are fulfilled and produce a report of the Company's remuneration practices to be included in the Company's Annual Report and ensure each year that it is put to shareholders for approval at the AGM. If the Committee has appointed remuneration consultants, the Annual Report should identify such consultants and state whether they have any other connection with the company.

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).