SMITHS GROUP PLC REMUNERATION POLICY

The remuneration policy for Directors, which shareholders approved at the AGM held on 14 November 2018 is effective for a period of up to three years from this date. Subsequent to the AGM a number of investors and investor advisers introduced new guidelines for executive remuneration. The policy report below sets out where account of these new guidelines has already been taken and where the policy will be reviewed prior to the next shareholder approval of the policy.

REMUNERATION POLICY FOR THE EXECUTIVE DIRECTORS

Operation	Opportunity	Performance measures	Response to shareholder feedback and subsequent policy guideline updates
Base salary			
To attract, motivate and retain Executive Directors with the required skills and expertise to deliver the Group's objectives.			
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) has been changed to 1 October as part of a Group-wide consolidation.	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	None required
Benefits			
To provide market-competitive benefits to Executive Directors.			
Benefits comprise car benefit, 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. It is not anticipated that the costs of benefits provided will increase significantly in the financial years over which this policy will apply, although 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	None required

Operation	Opportunity	Performance measures	Response to shareholder feedback and subsequent policy guideline updates
Pensions			
Enables Executive Directors to save for their retirement in a cost-efficient manner.			
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 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.	Pension contributions (or cash allowances in lieu thereof) are set at a level that the Committee considers appropriate having regard to prevailing market practice at other FTSE 100 companies of similar market capitalisation, revenues and complexity. Pension arrangements for current Executive Directors are set out in the Annual Report on Remuneration. The maximum level of pension contribution (or allowance in lieu thereof) for new Executive Directors will be in line with the contribution level for the wider workforce in the relevant country.	Not applicable	New maximum level of contribution introduced for any new Executive Directors, in line with general workforce. The employment contracts of the two Executive Directors provide for a cash allowance of 25% of base salary in lieu of pension provision. Both Executive Directors have agreed, for FY2020, to freeze the monetary value of the allowance at the FY2019 level, reducing the level of benefit to 24.4% of base salary for FY2020.
Annual bonus			
Incentivises short-term priorities in line with the Group's business strategy.			
Annual bonus payments are determined based upon performance against measures and targets set by the 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 payable in cash 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. Cash payments will be subject to clawback and deferred share bonuses awarded will be subject to malus for a period of three years from the end of the relevant performance year, in case of misconduct or material misstatement in the published results of the Group.	The maximum annual bonus opportunity for Executive Directors is up to 180% 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 25% of maximum opportunity occurs on achievement of threshold performance and 60% 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 sales growth and cash measures.	Performance against annual bonus targets will now be reported in the report relating to the fiscal year (previously performance was reported the following year). A review of how dividends accrued on deferred bonus awards are payable (shares or cash) will be undertaken as part of the next Policy review. Withholding and recovery provisions have been reviewed and updated to provide a consistent policy across all share plans.

Operation	Opportunity	Performance measures	Response to shareholder feedback and subsequent policy guideline updates
Long-Term Incentive Plan (LTIP)			
Incentivises long-term value creation for shareholders, sustainable growth and effective management of the balance sheet.			
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. For awards made in FY2019 onwards, vested shares will be subject to a two year post vesting holding period. Details of such holding period will be disclosed in the Annual Report on Remuneration for the year in which the relevant award is made. 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 paid in cash 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 case of misconduct or material misstatement in the published results of the Group.	The maximum LTIP award opportunity for Executive Directors is up to 400% of salary. For awards made from FY2019 onwards, the award will be a fixed number of shares. In FY2019 this fixed number of shares was equivalent to 300% of salary for the Chief Executive and 250% of salary for the Chief Financial Officer. 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 FY2019. 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 FY2019 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 on a straight-line basis 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).	A review of how dividends accrued on LTIP awards are payable (shares or cash) will be undertaken as part of the next Policy review. Withholding and recovery provisions have been reviewed and updated to provide a consistent policy across all share plans.

Operation	Performance measures	Response to shareholder feedback and subsequent policy guideline updates
Sharesave		
Encourages ownership of shares in the Company and alignment with shareholder interests.		
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 or five 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.	Not applicable	None required
Shareholding guidelines		
Encourages ownership of shares in the Company and alignment with shareholder interests.		
Executive Directors must build a minimum shareholding of 250% (for the Chief Executive) or 200% (for other Executive Directors) of base salary within five years of appointment to the Board. 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.	Not applicable	Position on post-employment shareholding guidelines to be kept under review over the life of this Policy.

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' strategy and to reinforce the key drivers of value creation and growth highlighted elsewhere in this Annual Report: earnings per share, cash conversion, organic sales growth and delivering sustainable return on capital.

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' 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 are aligned with the interests of shareholders.

The linkage of the performance measures to business strategy is set out in the At A Glance section on page 102.

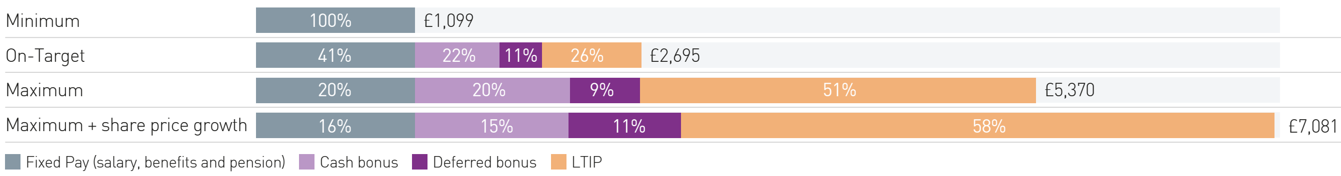
ALIGNMENT OF POLICY BETWEEN EXECUTIVE DIRECTORS AND OTHER EMPLOYEES

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.

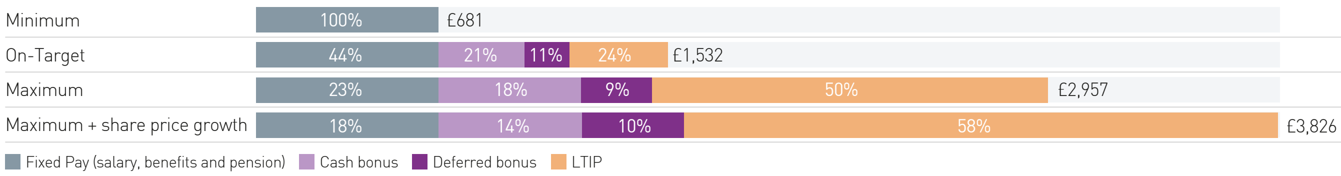
PAY SCENARIOS

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' and 'Maximum' and 'Maximum + Share Price growth' (which assumes a 50% increase in share price over the LTIP vesting period and bonus deferral period).

ANDY REYNOLDS SMITH (£000)



JOHN SHIPSEY (£000)



Potential opportunities illustrated above are based on the Policy, applied to the annualised base salaries in force from 1 October 2019. It should be noted that any awards granted under the LTIP in a year do not normally vest until at least 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		Taxable value of annual benefits provided	
Cash bonus	0% of salary	72% (CEO), 60% (CFO) of salary	120% (CEO), 100% (CFO) of salary
Deferred bonus	0% of salary	36% (CEO), 30% (CFO) of salary	60% (CEO), 50% (CFO) of salary
LTIP	0% of salary	82% (CEO), 68% (CFO) of salary	327% (CEO), 272% (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 Nomination & Governance, Audit & Risk, and Remuneration Committees and to the Senior Independent Director to reflect the additional time commitment of these roles. Additional fees may also be paid to members of the Nomination & Governance, Audit & Risk, and Remuneration Committees. The additional 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 are not eligible for benefits or any pension provision, nor are they eligible for bonuses or participation in share schemes. To reflect the greater time commitments expected of the Non-executive Directors when attending overseas Board meetings, an additional fee is paid to them for each such meeting, and they are reimbursed for actual expenses incurred (transportation, hotels etc.). Modest retirement gifts may be provided for Non-executive Directors in appropriate circumstances.		

APPROACH TO REMUNERATION ON RECRUITMENT AND LEAVING

EXECUTIVE DIRECTORS

The Committee approves the remuneration of each Executive Director on their appointment. In setting the remuneration during the recruitment of external appointments, the Committee will apply the following policy:

Pay element	Policy on recruitment
Salary	Salary on recruitment is determined based on the same principles as the annual salary review, as outlined in the policy table.
Pension	As described in the policy table.
Benefits	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: 180% 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 Committee may make an award in recognition of incentive arrangements forfeited on leaving a previous employer. Any such award will take account of relevant factors including the fair 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. 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 practiced 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 above.

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.

Andy Reynolds Smith is employed under a service contract with the Company dated 6 July 2015 and effective from 25 September 2015. 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
Bruno Angelici	1 July 2010
Olivier Bohuon	1 July 2018
Dame Ann Dowling	19 September 2018
Tanya Fratto	1 July 2012
Bill Seeger	12 May 2014
Mark Seligman	16 May 2016
Noel Tata	1 January 2017
Sir Kevin Tebbit (until 14 November 2018)	14 June 2006

LEAVING AND CHANGE-OF-CONTROL PROVISIONS

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 to be paid after the end of the financial year and deferred bonus awards will be paid out at the normal vesting date. 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. 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 and may pay outplacement and legal fees for support provided to the individual.

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. 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. We do not consult directly with employees regarding Executive Director pay. However, the Committee is regularly, and at least annually, provided with information on pay trends and ratios of the wider employee population across the Group.

CONSIDERATION OF SHAREHOLDER VIEWS

The Committee has taken account of the views expressed by shareholders, both from feedback from the 2018 Policy review and from regular meetings with major shareholders. A number of changes have been implemented in FY2019 and the Committee will keep the Policy and its approach to implementation under review in the context of evolving market practice and investor expectations.