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# **SMITHS GROUP PLC**

## **REMUNERATION COMMITTEE**

### **Terms of Reference**

**The Remuneration Committee shall have the following terms of reference**

#### ***1. Constitution***

- 1.1 The Board has established a committee of the Board known as the Remuneration Committee.
- 1.2 The Terms of Reference for the Committee outlined below are defined by the Board and may be amended by the Board at any time.

#### ***2. Membership and Operation***

- 2.1 The Remuneration Committee shall, unless otherwise determined by the Board, comprise the Company Chairman and three independent Non-Executive Directors. The quorum shall be two Committee members, both independent Non-Executive Directors, present throughout the meeting in person or by telephone, one of whom should be the Committee Chairman, unless he is unable to attend. In the absence of the Chairman of the Committee, the members present at any meeting of the Committee should elect one of their number to chair the meeting. All members of the Committee shall be advised of the business to be transacted at any meeting even if they are unable to be present.
- 2.2 The Board, acting on the recommendation of the Nomination Committee in consultation with the Chairman of the Remuneration Committee and in accordance with the Company's Articles of Association, is the sole authority for the appointment of members and a new Chairman of the Remuneration Committee and for the revocation of any such appointments.
- 2.3 An appointment to the Remuneration Committee shall be for a period of three years, which may be extended for a second three year period and, only after rigorous review by the Board, a further three year period.

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- 2.4 The Chairman of the Committee shall be an independent Non-Executive Director. No one other than the members of the Committee is entitled to be present at Committee meetings. However, the Chief Executive shall normally be invited to attend except when issues regarding his own remuneration are discussed and external advisers may be invited to attend for all or part of any meeting. The Chairman and members of the Committee shall have the discretion to decide who else shall be invited to attend. No Director shall be present when his own remuneration is being discussed nor shall any Director be involved in any decision as to his own remuneration.
- 2.5 The Remuneration Committee shall consult the Chief Executive about his proposals relating to the remuneration of the Executive Directors. The Company Secretary shall act as secretary to the Committee and shall provide notice of the Committee's meetings and produce such papers for and minutes of the meetings as are appropriate, in a timely manner. After approval and signature by the Chairman of the Committee, the secretary shall circulate them to all members of the Committee and, unless otherwise indicated by the Chairman of the Committee, to the Chief Executive and, if not members of the Committee, the other Non-Executive Directors of the Company.
- 2.6 The Remuneration Committee shall be provided with sufficient resources to undertake its duties. The Committee is authorised by the Board to obtain independent legal, remuneration or other professional advice from both inside and outside the group as and when required, at the Company's expense, and to appoint external consultants and advisers if it considers this necessary or desirable. The Committee shall be exclusively responsible for appointing external consultants to provide advice to the Committee.
- 2.7 Each member of the Remuneration Committee shall disclose to the Committee:
- (a) any personal financial interest (other than as a shareholder) in any matter to be decided by the Committee; or
  - (b) any potential conflict of interest arising from a cross-directorship.
- Any such member shall abstain from voting on resolutions of the Remuneration Committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and if so requested by the Board shall resign from the Committee.
- 2.8 The Remuneration Committee is authorised to investigate any activity within its Terms of Reference and to seek any information it requires from any employee of the group. All employees are directed to co-operate with any request made by the Committee.

- 2.9 A member of the Remuneration Committee may participate in a Committee meeting by telephone.
- 2.10 In the event of equality of votes, the Chairman of the Remuneration Committee shall have a casting vote.

### **3. Frequency of meetings**

- 3.1 Meetings of the Remuneration Committee shall be held as necessary but not less than three times a year and at such other times as the Chairman of the Committee shall require.

### **4. Duties**

- 4.1 The Remuneration Committee shall:
- i. make recommendations to the Board on the Company's framework of executive remuneration and its cost, giving full consideration to the matters set out in Code Provision B (headed "Remuneration") of, and Schedule A to, the Combined Code on Corporate Governance;
  - ii. recommend and monitor the level and structure of remuneration for senior management. The Committee shall determine which executives are "senior management" for this purpose – as at the date of adoption of these terms this covers all executives who report directly to the Executive Directors;
  - iii. determine and agree with the Board the broad policy for the remuneration of the Company Chairman, the Chief Executive, the Executive Directors, the Company Secretary and the senior management. The Company Chairman shall not participate in any discussions regarding his own remuneration;
  - iv. within the terms of the agreed policy have delegated authority to set individual remuneration arrangements for the Company Chairman, the Chief Executive, the Executive Directors, the Company Secretary and senior management;
  - v. in determining remuneration for those referred to above, review and agree
    - their performance;
    - 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);
    - pension arrangements;

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- vi. oversee any major changes in employee benefits structures throughout the group;
  - vii. agree the policy for authorising claims for expenses from the Company Chairman and Chief Executive.
- 4.2 The Remuneration Committee shall approve the service contracts of the Chief Executive and the Executive Directors, including termination arrangements and any compensation payable (including pension contributions) on the termination of a service contract.
- 4.3 The Remuneration Committee shall approve any benefit, pension and/or incentive scheme entitlement, and any other bonuses and fees, of the Chief Executive and the Executive Directors.
- 4.4 In determining remuneration policy and packages, the Remuneration Committee shall have regard to the Combined Code on Corporate Governance, the UKLA Listing Rules and all other relevant codes, laws and regulations applicable from time to time.
- 4.5 The Remuneration Committee shall, at least once a year, 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.
- 4.6 The Remuneration Committee shall consider and review the terms of any new equity plans.
- 4.7 The Remuneration Committee shall liaise with the Nomination Committee to ensure that the remuneration packages of newly appointed Executive Directors are within the Company's overall policy.
- 4.8 Members of the Remuneration Committee shall meet at least annually without the Company Chairman present to discuss his performance and on such other occasions as are deemed appropriate.

## **5. Share Option Schemes**

### **5.1 Smiths SAYE Share Option Scheme – Grants of Options**

In respect of the Smiths Industries 1982 SAYE Share Option Scheme and any successor scheme the Committee shall:

- make recommendations to the Board on the issue of invitations from time to time to employees to participate in the scheme;
- periodically determine the appropriate balance between the maximum number of options that may be granted under the scheme and any other relevant option schemes and the number of options in existence from time to time and provide the Share Options Committee with guidelines on scaling-down options; and

- exercise the powers of the Board to amend or vary the Scheme's terms, conditions and rules.

## 5.2 Smiths Executive Share Option Scheme and Senior Executive Deferred Share Scheme – Grants of Options.

In respect of the Smiths Industries 1995 Executive Share Option Scheme, Senior Executive Deferred Share Scheme and any successor schemes the Committee shall:

- approve the grant of options under the schemes, in accordance with the rules of the schemes, to employees selected by and to the extent and subject to such conditions as may be approved by the Committee;
- exercise the powers of the Board to amend or vary the Scheme's terms, conditions and rules; and
- consider and make recommendations to the Board on the exercise of the discretionary powers of the Board under the rules of the Executive Share Option Schemes in relation to members of the Board.

## **6. Other Matters**

- 6.1 The Remuneration Committee shall assist the Board in preparing an annual report to shareholders for the purposes of, and in accordance with, Schedule 7A of the Companies Act 1985, paragraph 12.43A(c) of the UKLA Listing Rules, the Combined Code on Corporate Governance and all other relevant codes, laws and regulations applicable from time to time. The report will form part of, or be annexed to, the Company's Annual Report and Accounts. The Chairman and members of the Committee shall be listed in the Annual Report together with a statement of the number of Committee meetings and attendance by each member.
- 6.2 The Chairman of the Remuneration Committee shall be available to answer questions at the Annual General Meeting on remuneration issues with regard to the Board and senior management and generally on remuneration principles and practice.
- 6.3 The Remuneration Committee shall undertake any other duties as directed by the Board.
- 6.4 The Remuneration Committee shall appoint consultants in respect of executive director remuneration and make available the terms of reference of such consultants, together with a statement of whether they have any other connection with the Company, by producing them on request and placing them on the Company's website.

- 6.5 The Remuneration Committee shall make available these Terms of Reference, explaining its role and authority delegated to it by the Board, on request and by including the information on the Company's website.
- 6.6 The fees and other payment arrangements for Non-Executive Directors are matters for consideration by a sub-committee of the Board, consisting of the Company Chairman and the Chief Executive which shall make recommendations to the Board as a whole.

These Terms of Reference were adopted by the Board on 18 May 2004.