

**SMITH & NEPHEW PLC**  
**TERMS OF REFERENCE OF THE REMUNERATION COMMITTEE**

**MEMBERSHIP**

1. Members of the Remuneration Committee shall be appointed by the Board subject to annual re-election by shareholders at the AGM on the recommendation of the Nomination & Governance Committee and, if appropriate, in consultation with the Chair of the Remuneration Committee.
2. The Remuneration Committee shall consist of at least three members, all of whom shall be independent Non-Executive Directors.
3. The Chair of the Board may also serve on the Remuneration Committee as an additional member, if she or he was considered independent on appointment as Chair.
4. The Board shall appoint the Chair of the Remuneration Committee who shall be an independent Non-Executive Director and shall not be the Chair of the Board.
5. The Chair of the Committee shall ordinarily be required to have served as a member of a Remuneration Committee of a UK listed company for a period of at least 12 months prior to their appointment as Chair.
6. Only members of the Remuneration Committee have the right to attend Remuneration Committee meetings. However, other individuals, including, but not limited to, the Chief Executive Officer, the Head of Human Resources, other members of the Board and certain external advisors may be invited to attend for all or part of any meeting as and when appropriate and necessary. These individuals will not attend the part of any meeting where there are any discussions concerning their own remuneration.
7. The Company Secretary or their designate shall be the Secretary of the Remuneration Committee.

**MEETINGS AND THE TRANSACTION OF BUSINESS**

8. Meetings shall usually be held not less than four times a year. Meetings may be held physically or by telephone and additional meetings may be convened as the Chair of the Remuneration Committee shall determine.
9. The quorum for the transaction of business shall be two. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
10. The secretary of the Committee shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
11. Meetings of the Remuneration Committee shall be summoned by the Secretary at the request of the Chair or any of its Members.

12. Unless otherwise agreed with the Chair of the Remuneration Committee, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed shall be forwarded to each member of the Remuneration Committee ordinarily no later than three working days before the date of the meeting together with supporting papers.
13. The Secretary shall minute the proceedings and resolutions of all Remuneration Committee meetings and circulate them to the members of the Remuneration Committee.
14. The Chair of the Remuneration Committee shall report regularly to the full Board on the proceedings of the Remuneration Committee and the minutes of all meetings shall be included in the Board papers for a subsequent Board meeting.
15. The Chair of the Remuneration Committee shall be required to attend the Annual General Meeting of shareholders to respond to any shareholder questions on the activities of the Remuneration Committee. The Chair of the Remuneration Committee shall also be required, if requested, to meet institutional shareholders to discuss any remuneration question they may have at other times.

## **GENERAL DUTIES**

16. The general duties of the Remuneration Committee shall be to:
  - 16.1 Determine on behalf of the Board the Directors' Remuneration Policy for the remuneration of the Company's Chairman, Executive Directors, Executive Officers and the Company Secretary, and the Company's broad remuneration policy for Senior Executives and such other members of the executive management as it is designated to consider. This remuneration policy shall be reviewed from time to time to ensure its on-going appropriateness and relevance;
  - 16.2 Review at least annually the total individual remuneration packages for each Executive Director, Executive Officer and the Company Secretary of the Company, including bonuses, incentive payments, share awards and options, pensions and other benefits;
  - 16.3 Approve appropriate remuneration packages for any new Executive Director, Executive Officer or Company Secretary appointments and any termination packages for Executive Directors, Executive Officers and Company Secretary including contractual terms and pension benefit entitlements, ensuring where relevant that any packages and components thereof are permitted under the latest shareholder approved Directors' Remuneration Policy and if not that, in the case of an Executive Director package, either a revised Directors' Remuneration Policy or the proposed payment are submitted for shareholder approval;
  - 16.4 Determine how the Company's Long Term Incentive Plans, including all plans involving the award of shares or the grant of options, should be operated and the executives and other employees to be included;

- 16.5 Ensure that any payment approved to be made to the Chair, Executive Directors or any other position covered by the Policy, is in line with the latest Directors' Remuneration Policy and if not, that the payment or revised Directors' Remuneration Policy is put to shareholders for approval;
  - 16.6 Ensure that all provisions regarding the public disclosure of remuneration are fulfilled through the annual publication of the Directors' Remuneration Report and continual engagement with institutional shareholders, ahead of the annual vote by the Company's shareholders at the Annual General Meeting;
  - 16.7 Submit for approval by the Board and shareholders a Directors' Remuneration Policy (to be included in the Directors' Remuneration Report as appropriate);
    - 16.7.1 every three years, or
    - 16.7.2 in any year in which there is a change relative to the prior year, or
    - 16.7.3 if shareholder approval was not achieved when last submitted; or
    - 16.7.4 if majority shareholder approval was not achieved on the last submitted Annual Remuneration Report.
  - 16.8 Ensure that the Directors' Remuneration Policy includes the information on directors' remuneration required to be disclosed by the Companies Act (including regulations made thereunder), the UK Corporate Governance Code, the UK Listing Authority's Listing Rules and any other relevant statutory, regulatory or governance codes;
  - 16.9 Submit for approval by the Board and shareholders an Annual Report on Remuneration to be included in the Directors' Remuneration Report, which should include the information on directors' remuneration required to be disclosed by the Companies Act (including regulations made thereunder), the UK Corporate Governance Code, the UK Listing Authority's Listing Rules and any other relevant statutory, regulatory or governance codes;
  - 16.10 Ensure that, in the event that the Directors' Remuneration Report or Policy receives less than 80% of Shareholders' votes at the Annual General Meeting, the Remuneration Committee and chair will then speak to shareholders following that vote to understand why and provide a statement in the next Annual Report to ensure all issues are addressed; and
  - 16.11 Develop a policy on shareholding requirements for Executive Directors, Executive Officers, the Company Secretary and Senior Executives for both during and post-employment.
17. For the avoidance of doubt, the Chair of the Board and the Executive Directors of the Company shall determine the Policy for and remuneration of the Non-Executive Directors.

## GENERAL PRINCIPLES

18. In determining Remuneration Policy and individual remuneration packages for Executive Directors, Executive Officers, the Company Secretary and Senior Executives, the Remuneration Committee shall:
  - 18.1 Ensure that there are appropriate incentives to encourage enhanced performance and that Executives are rewarded in a fair and responsible manner for their individual contribution to the success of the Company;
  - 18.2 Review and note remuneration trends across the Group including: pay principles across the Company; base pay; pensions; and incentive arrangements; the ratio of the Chief Executive Officer's pay to the rest of the workforce; and any gender pay difference, and taking into account employee views on remuneration as appropriate and available;
  - 18.3 Obtain reliable, up to date information about remuneration in other comparable companies, commissioning specific reports or surveys if necessary;
  - 18.4 Ensure that contractual terms on termination, and any payments made, are fair both to the Executive and to the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
  - 18.5 Ensure that reputational, behavioural and other risks are identified and mitigated;
  - 18.6 Give due regard to any relevant legal requirements and the provisions and recommendations of the UK Corporate Governance Code, the UK Listing Authority's Listing Rules and associated guidelines and other relevant codes and guidelines;
  - 18.7 Select, appoint and set the terms of reference for any remuneration consultants to advise the Remuneration Committee;
  - 18.8 Exercise judgment within the parameters permitted in the Directors' Remuneration Policy when:
    - 18.8.1 determining appropriate measures and targets for annual and long-term incentive arrangements;
    - 18.8.2 assessing performance against those measures and targets;
    - 18.8.3 determining appropriate remuneration packages for newly appointed Executive Directors;
    - 18.8.4 determining whether a departing Executive Director be treated as a good leaver or a bad leaver; and

18.8.5 subject to delegation of authority by the Board, deciding when and explaining why it would be inappropriate to make certain public disclosures due to commercial sensitivity.

18.9 Exercise discretion within the parameters permitted in the Directors' Remuneration Policy to override formulaic outcomes when;

18.9.1 determining, notwithstanding performance against targets, whether any adjustment upwards or downwards be made to payouts under annual or long-term incentive arrangements taking account of company or individual performance and wider circumstances; and

18.9.2 determining when and explaining why exceptional circumstances apply which would lead to payments or increases above a normal maximum level, taking account of company or individual performance and wider circumstances.

## **INCENTIVE PLANS**

19. In determining how the Group's incentive plans should be operated, the Remuneration Committee shall:

19.1 Approve the design of and determine the targets for any performance related pay schemes (both annual and long-term) operated by the Company for Executive Directors, Executive Officers, the Company Secretary and Senior Executives and approve the total annual payments made under such plans to each Executive Director, Executive Officer and the Company Secretary, ensuring that incentives drive behaviours consistent with the Company's purpose, strategy and cultural pillars;

19.2 Review the design of all share based incentive plans for approval by the Board and Shareholders, including both discretionary and all-employee share based plans;

19.3 Determine each year whether awards will be made under the share based incentive plans, the overall amount of such awards and the individual awards to be made to Executive Directors, Executive Officers and the Company Secretary and the performance targets to be used; and

19.4 Make recommendations to the trustees of the Company's Employee's Trust regarding any distributions or awards of options or shares to participants by the Trustees.

## **ADMINISTRATION**

20. The Remuneration Committee shall appoint independent Remuneration Consultants to advise them on matters of remuneration. When appointing any remuneration consultant, the Committee must understand the nature of other services provided by the prospective advisor, be satisfied that this does not

present a conflict of interest and that the advice will be objective and independent. Such advice shall be independent from management and from time to time the Remuneration Committee may meet with the Remuneration Consultants without a member of management being present;

21. The Remuneration Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure that it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
22. The Remuneration Committee is authorised by the Board to seek any information it requires from any employee of the Company in order to perform its duties and to obtain any outside legal or professional advice at the Company's expense.

Reviewed & Approved: 15 February 2023