OUR BOARD OF DIRECTORS

A DIVERSE BOARD

ROBERTO QUARTA (68)
Chairman

Joined the Board in December 2013 and appointed Chairman following election by shareholders at the 2014 Annual General Meeting. He was also appointed Chairman of the Nomination & Governance Committee and a Member of the Remuneration Committee on that day.

Career and experience
Roberto is a graduate and a former Trustee of the College of the Holy Cross, Worcester (MA), US. He started his career as a manager trainee at David Gessner Ltd, before moving on to Worcester Controls Corporation and then BTR plc, where he was a divisional Chief Executive. Between 1985 and 1989 he was Executive VP of Hitchiner Manufacturing Co., Inc. He returned to BTR plc in 1989 as Divisional Chief Executive, where he was appointed to the main board. From here he moved to BBA Aviation plc, as CEO and then as Chairman, until 2007. He has held several board positions, including NED of Powergen plc, Equant N.V., BAE Systems plc and Foster Wheeler AG. His previous Chairmanships include Italtel SpA, Rexel S.A., IMI plc and SPIE SA. He is currently Chairman of WPP plc. He is a partner at Clayton Dubilier & Rice and a former member of the Investment Committee of Fondo Strategico Italiano S.p.A.

Skills and competencies
Roberto’s career in private equity brings valuable experience to Smith & Nephew, particularly when evaluating acquisitions and new business opportunities. He has an in-depth understanding of differing global governance requirements having served as a director and chairman of a number of UK and international companies. Since his appointment as Chairman in April 2014, he has conducted a comprehensive review into the composition of the Board and its Committees, and conducted the search for new Non-Executive Directors, resulting in the appointment of Vinita Bali in 2014, Erik Engstrom and Robin Freestone in 2015, Angie Risley and Marc Owen during 2017, and Roland Diggelmann so far in 2018.

Nationality
American/Italian

OLIVIER BOHUON (59)
Chief Executive Officer

Joined the Board and was appointed Chief Executive Officer in April 2011. Olivier has announced his intention to retire by the end of 2018.

Career and experience
Olivier holds a doctorate in Pharmacy from the University of Paris and an MBA from HEC, Paris. He started his career in Morocco with Roussel Uclaf S.A. and then, with the same company, held a number of positions in the Middle East with increasing levels of responsibility. He joined Abbott in Chicago as head of their anti-infective franchise with Abbott International before becoming Pharmaceutical General Manager in Spain. He subsequently joined GlaxoSmithKline plc, rising to Senior Vice President & Director for European Commercial Operations. He then re-joined Abbott as President for Europe, became President of Abbott International (all countries outside of the US), and then President of their Pharmaceutical Division. He joined Smith & Nephew from Pierre Fabre, where he was Chief Executive.

Skills and competencies
Olivier has extensive international healthcare leadership experience within a number of significant pharmaceutical and healthcare companies. His global experience provides the skillset required to innovate a FTSE 100 company with a deep heritage and provide inspiring leadership. He is a NED of Virbac Group and Shire plc, where he is also a member of the Remuneration Committee and the Nomination & Governance Committee and will be appointed Senior Independent Director on 25 April 2018.

Nationality
French

GRAHAM BAKER (49)
Chief Financial Officer

Joined the Board as Chief Financial Officer on 1 March 2017 and elected by shareholders on 6 April 2017.

Career and experience
Graham holds an MA degree in Economics from Cambridge University and qualified as a Chartered Accountant and Chartered Tax Adviser with Arthur Andersen. In 1995, he joined AstraZeneca PLC where he worked for 20 years, holding multiple senior roles, including Vice President Finance & Chief Financial Officer, North America (2008-2010), Vice President, Global Financial Services (2010-2013) and Vice President, Finance, International (2013-2015) with responsibility for all emerging markets. Most recently, Graham was Chief Financial Officer of generic pharmaceuticals company Alvogen.

Skills and competencies
Graham has deep sector knowledge and has had extensive exposure to established and emerging markets which is extremely relevant to his role at Smith & Nephew. He has a strong track record of delivering operational excellence and has relevant experience across major finance roles and geographic markets, leading large teams responsible for significant budgets.

Nationality
British

Nationality
American/Italian
VINITA BALI (62)
Independent Non-Executive Director
Appointed Independent Non-Executive Director in December 2014 and Member of the Remuneration Committee and Ethics & Compliance Committee.

Career and experience
Vinita holds an MBA from the Jamnalal Bajaj Institute of Management Studies, University of Bombay and a BA in Economics from the University of Delhi. She commenced her career in India with a Tata Group Company, and then joined Cadbury India, subsequently working with Cadbury Schweppes plc in the UK, Nigeria and South Africa. She has held a number of senior global positions in marketing and general management at The Coca-Cola Company based in the US and South America, becoming President of the Andean Division in 1999 and VP, Corporate Strategy in 2001. In 2003, she joined Zyman Group, LLC, a US based consultancy, as Managing Principal. Vinita was MD and CEO of Britannia Industries Limited, a leading Indian publicly listed food company from 2005 to 2014. Currently, Vinita is NED of Syngene International Limited, Titan Company Ltd, Bunge Limited and CRISIL India (a Standard & Poor Company). She is also Chair of the board of Global Alliance for Improved Nutrition and a member of the Advisory Board of PwC India.

Skills and competencies
Vinita has an impressive track record of achievement with blue-chip global corporations in multiple geographies including India, Africa, South America, US and UK, all key markets for Smith & Nephew. Additionally, her strong appreciation of customer service and marketing brings deep insight as we continue to develop innovative ways to serve our markets and grow our business.

Nationality
Indian

IAN BARLOW (66)
Independent Non-Executive Director
Appointed Independent Non-Executive Director in March 2010, Chairman (now Member) of the Audit Committee in May 2010, Member of the Ethics & Compliance Committee in October 2014 and Senior Independent Director and Member of the Nomination & Governance Committee on 6 April 2017.

Career and experience
Ian is a Chartered Accountant with considerable financial experience both internationally and in the UK. He was a Partner at KPMG, latterly Senior Partner, London, until 2008. At KPMG, he was Head of UK tax and legal operations. Previously he was Chairman of WSP Group plc, and is currently NED and Chairman of the Audit Committees of The Brunner Investment Trust PLC, Foxtons Group plc and Urban&Civic plc.

Skills and competencies
Ian’s longstanding financial and auditing career and extensive board experience add value to his role as a member of the Audit Committee. As a member of the Ethics & Compliance Committee, he has managed to co-ordinate an oversight role of both Committees. This has been invaluable when commencing his role as Senior Independent Director with effect from 6 April 2017. Ian’s first board evaluation is discussed in the corporate governance statement.

Nationality
British

THE RT. HON BARONESS VIRGINIA BOTTOMLEY OF NETTLESTONE DL (69)
Independent Non-Executive Director
Appointed Independent Non-Executive Director in April 2012 and Member of the Remuneration Committee and Nomination & Governance Committee in April 2014.

Career and experience
Virginia gained her MSc in Social Administration from the London School of Economics following her first degree. She was appointed a Life Peer in 2005 following her career as a Member of Parliament between 1984 and 2005. She served successively as Secretary of State for Health and then Culture, Media and Sport. Virginia was formerly a Director of Bupa and AkzoNobel NV. She is currently a Director of International Resources Group Limited, member of the International Advisory Council of Chugai Pharmaceutical Co., Chancellor of University of Hull and Sheriff of Hull and Trustee of The Economist Newspaper. She is the Chair of Board & CEO Practice at Odgers Berndtson.

Skills and competencies
Virginia’s extensive experience within Government, particularly as Secretary of State for Health, brings a unique insight into the healthcare system both in the UK and globally, whilst her experience on the board of Bupa brings an understanding of the private healthcare sector and an insight into the needs of our customers. Her experience running the board practice at a search firm gives her a valuable skillset as a member of the Nomination & Governance Committee and Remuneration Committee. Her long association with Hull, the home of many of our UK employees, also brings an added perspective.

Nationality
British
ERIK ENGSTROM (54)
Independent Non-Executive Director
Appointed Independent Non-Executive Director on 1 January 2015 and Member of the Audit Committee.

Career and experience
Erik is a graduate of the Stockholm School of Economics (BSc) and of the Royal Institute of Technology in Stockholm (MSc). In 1988, he graduated with an MBA from Harvard Business School as a Fulbright Scholar. Erik commenced his career at McKinsey & Company and then worked in publishing, latterly as President and COO of Random House Inc. and as President and CEO of Santam Doubleday Dell, North America. In 2001, he moved on to be a partner at General Atlantic Partners, a private equity investment firm. Between 2004 and 2009, he was CEO of Elsevier, the division specialising in scientific and medical information and then from 2009 CEO of RELX Group.

Skills and competencies
Erik has successfully reshaped RELX Group’s business in terms of portfolio and geographies. He brings a deep understanding of how technology can be used to transform a business and insight into the development of new commercial models that deliver attractive economics. His experience as a CEO of a global company gives him valuable insights as a member of our Audit Committee.

Nationality
Swedish

ROBIN FREESTONE (59)
Independent Non-Executive Director
Appointed Independent Non-Executive Director and Member of the Audit Committee and the Remuneration Committee on 1 September 2015 and Chairman of the Audit Committee on 6 April 2017.

Career and experience
Robin graduated with a BA in Economics from The University of Manchester and later qualified and commenced his career as a Chartered Accountant at Deloitte. He has held a number of senior financial positions throughout his career, including at ICI plc, Henkel Ltd and at Amersham plc. Robin was the Deputy CFO and then later the CFO of Pearson plc between 2006 and August 2015, where he was heavily involved with the transformation and diversification of Pearson. He was previously NED at eChem Ltd, Chairman of the 100 Group and Senior Independent Director and Chairman of the Audit Committee of Cable & Wireless Communications plc. Robin is a NED and Chairman of the Audit Committee at Moneysupermarket.com Group plc and Michael Kors Holdings Ltd. Robin became Chair of the ICAEW Corporate Governance Advisory Group in 2017.

Skills and competencies
Robin has been a well-regarded FTSE 100 CFO who has not only been heavily involved with transformation and diversification, but also the healthcare industry at Amersham, where his acquisition experience will be of value to Smith & Nephew as it continues to grow globally and in different markets. He brings financial expertise and insight as Chairman of the Audit Committee and an understanding of how to attract and retain talent in a global business as a member of the Remuneration Committee.

Nationality
British

MICHAEL FRIEDMAN (74)
Independent Non-Executive Director
Appointed Independent Non-Executive Director in April 2013 and Chairman of the Ethics & Compliance Committee in August 2014.

Career and experience
Michael graduated with a Bachelor of Arts degree, magna cum laude from Tulane University and a Doctorate in Medicine from the University of Texas Southwestern Medical Center. He completed postdoctoral training at Stanford University and the National Cancer Institute, and is board certified in Internal Medicine and Medical Oncology. In 1983, he joined the Division of Cancer Treatment at the National Cancer Institute and went on to become the Associate Director of the Cancer Therapy Evaluation Program. Michael was most recently CEO of City of Hope in California, and also served as Director of the institution’s cancer centre and held the Irell & Manella Cancer Center Director’s Distinguished Chair. He was formerly Senior VP of research, medical and public policy for Pharmacia Corporation and also Deputy Commissioner and Acting Commissioner at the US Food and Drug Administration (FDA). He has served on a number of boards in a non-executive capacity, including Rite Aid Corporation. Currently, Michael is a NED of Celgene Corporation, MannKind Corporation and Intuitive Surgical, Inc.

Skills and competencies
Michael understands the fundamental importance of research, which is part of Smith & Nephew’s value creation process. His varied experience in both the public and private healthcare sectors have given him a deep insight and a highly respected career. In particular his work with the FDA and knowledge relating to US compliance provides the skillset required to Chair the Ethics & Compliance Committee.

Nationality
American
MARC OWEN (58)
Independent Non-Executive Director

Appointed Independent Non-Executive Director and Member of the Audit Committee on 1 October 2017. To be appointed Member of the Ethics & Compliance Committee on 1 March 2018.

Career and experience
Marc graduated from Oxford University with a BA and BCL in Law. In 1984 he was called to the Bar, following four years at Corpus Christi College Cambridge as a fellow and director of studies in law. He decided upon a corporate career and undertook an MBA at Stanford University. Marc commenced his healthcare and technology career at McKinsey & Company where he progressed to senior partner and eventually a founding partner of McKinsey’s Business Technology Office. In September 2001, Marc joined McKesson Corporation and served as Executive Vice President and member of the Executive Committee. He delivered strategic objectives and led over 40 acquisitions and divestments over a 10-year period. In late 2011 he headed Mckesson Specialty Health, which operates over 130 cancer centres across the US and provides services including market intelligence, supply chain services, patient access to therapy, provider and patient engagement and clinical trial support. His final executive role came in 2014 where he was appointed Chairman of the European Management Board at Celesio AG. He retired in March 2017 once he had improved operations, set the strategy and recruited his successor.

Skills and competencies
Marc is a proven leader with an astute, strategic vision, capable of building significant international healthcare businesses. He has strong commercial healthcare expertise which the Board values deeply following the pending retirement of Joseph Papa at the 2018 Annual General Meeting.

Nationality
British

ANGIE RISLEY (59)
Independent Non-Executive Director

Appointed Independent Non-Executive Director and Chairman Elect of the Remuneration Committee on 18 September 2017.

Career and experience
After graduating from Exeter University, and completing a 1-year personnel management programme, Angie joined the United Biscuits graduate scheme. After working in various different HR roles she joined Pizza Hut (UK) Ltd as Human Resources Director, a joint venture between PepsiCo and Whitbread plc. After five years she joined Whitbread, becoming Executive Director on the plc board responsible for HR and Corporate Social Responsibility in 2004. Between 2007–2013 she was the Group HR Director for Lloyds Banking Group, joining J Sainsbury plc as Group HR Director in January 2013. Over the years, Angie has been a member of the Low Pay Commission and has held a number of non-executive directorships with Biffa plc, Ariva plc and Serco Group plc. She was a member of the Remuneration Committees at Ariva plc and Biffa plc and Chairman of the Remuneration Committee at Serco Group plc. She is also a NED on the Sainsbury’s Bank Board.

Skills and competencies
Angie is a well-regarded FTSE 100 Human Resources Director, proven NED and Remuneration Committee Chairman. She has gained experience in a wide range of sectors, including a regulated environment. This diversity of experience is welcomed by the Board and the Remuneration Committee. Angie is also additional resource and sounding board for our own internal Human Resources function.

Nationality
British

ROLAND DIGGELMANN (51)
Independent Non-Executive Director

To be appointed Non-Executive Director and Member of the Audit Committee on 1 March 2018.

Career and experience
Roland studied Business Administration at the University of Berne. In 1995, he joined Sulzer AG as Manager Strategic Planning and progressed into further senior roles over the years until his appointment as Executive Vice President, Sales Europe and Asia Pacific from 2002 to 2004 for Sulzer Medica (later known as Centerpulse). Roland joined Zimmer Group in 2004, in the role of Managing Director of Zimmer Japan and then later in 2006 as Senior Vice President, EMEA until 2008. Roland joined Roche Diagnostics in 2008 as president of Asia Pacific before his current appointment as the Chief Executive Officer of the Diagnostics Division of F. Hoffmann-La Roche Ltd.

Skills and experience
Having spent his whole career in medical devices, with 12 years at Sulzer and Zimmer, Roland brings an in-depth knowledge of the medical device industry and healthcare environment which will be of great value to Smith & Nephew, in particular following the retirement of Joseph Papa from the Board at the Annual General Meeting on 12 April 2018.

Nationality
Swiss

SUSAN SWABEY (56)
Company Secretary

Appointed Company Secretary in May 2009.

Nationality
British

Skills and experience
Susan has over 30 years’ experience as a Company Secretary in a wide range of companies including Prudential plc, Amersham plc and RMC Group plc. Her work has covered board support, corporate governance, corporate transactions, group risk management, share registration, listing obligations, corporate social responsibility, pensions, insurance and employee and executive share plans. Susan is a member of the CBI Companies Committee and is a frequent speaker on corporate governance and related matters. She is also Chairman of the Board of Trustees of ShareGift, the share donation charity and a member of the Financial Reporting Council Lab Steering Group.
OUR LEADERSHIP

A STRONG TEAM

Olivier Bohuon is supported in the day-to-day management of the Group by a strong team of Executive Officers.

Graham Baker (49)
Chief Financial Officer

Joined the Board as Chief Financial Officer on 1 March 2017. Graham holds an MA degree in Economics from Cambridge University and qualified as a Chartered Accountant and Chartered Tax Adviser with Arthur Andersen. He is based in London, UK.

Skills and competencies
Graham has deep sector knowledge and has had extensive exposure to established and emerging markets which is extremely relevant to his role at Smith & Nephew. He has a strong track record of delivering operational excellence and has relevant experience across major finance roles and geographic markets, leading large teams responsible for significant budgets.

Nationality
British

Glenn Warner (55)
President, US

Joined Smith & Nephew in June 2014 with responsibility for Advanced Wound Management’s global franchise strategy, marketing and product development, as well as its US commercial business. With effect from 1 January 2016, Glenn became the President of Smith & Nephew’s US business responsible for all the US commercial business. He is based in Fort Worth, US.

Skills and experience
Glenn has a broad-based background in pharmaceuticals and medical products including extensive international experience, having served most recently as AbbVie Vice President and Corporate Officer, Strategic Initiatives, where he was responsible for the development and execution of pipeline and asset management strategies. Prior to that he was President and Officer, Japan Commercial Operations in Abbott’s international pharmaceutical business and Executive Vice President, TAP Pharmaceutical Products, Inc.

Nationality
American

Rodrigo Bianchi (58)
President, International Markets

Joined Smith & Nephew in July 2013 with responsibility for Greater China, India, Russia, Asia, Middle East and Africa, focusing on continuing our strong momentum in these regions. With effect from 1 January 2016, Rodrigo also became responsible, for the Latin American, Australian, New Zealand and Japanese markets. His role was further expanded in May 2017, when he became responsible for oversight of the markets in Europe and Canada. He is based in Dubai, UAE.

Skills and experience
Rodrigo’s experience in the healthcare industry includes 26 years with Johnson & Johnson in progressively senior roles. Most recently, he was Regional Vice President for the Medical Devices and Diagnostics division in the Mediterranean region and prior to that President of Mitek and Ethicon, Inc. He started his career at Procter & Gamble Italy.

Nationality
Italian

Brad Cannon (50)
Chief Marketing Officer

Joined Smith & Nephew in 2012 and became President, Europe and Canada in March 2016. On 1 September 2017, he became Chief Marketing Officer. He is based in Andover, US.

Skills and experience
Brad was most recently President, Europe and Canada, where he successfully led the commercial business in those regions. Before that, he was President of Global Orthopaedic Franchises, leading Smith & Nephew’s Reconstruction, Endoscopy, Trauma and Extremities businesses. Prior to Smith & Nephew, Brad worked in Medtronic’s Spine and Biologics division. From 2009, he was responsible for Medtronic’s Spine International division and held positions heading US sales and global commercial operations. Brad is a graduate of Washington and Lee University, and the Wharton School of Business at the University of Pennsylvania.

Nationality
American
CATHY O’ROURKE (45)
Chief Legal Officer

Joined Smith & Nephew in February 2013 as Assistant General Counsel – Litigation & Investigations and became Chief Legal Officer in May 2017. Cathy heads up the Global Legal function and is based in Andover, US.

Skills and experience
Prior to joining Smith & Nephew, Cathy spent 11 years of her career with Davis Polk & Wardwell LLP. Cathy earned her Juris Doctorate in Law from Harvard University.

Nationality
American

MATTHEW STOBER (50)
President, Global Operations

Joined Smith & Nephew in October 2015 with responsibility for global manufacturing, supply chain, distribution, quality assurance, regulatory affairs, direct procurement, and manufacturing IT optimisation. He is based in Andover, US.

Skills and experience
Matt has more than 25 years’ experience in healthcare manufacturing operations for global companies including Merck & Co., Inc. and GlaxoSmithKline plc. Most recently, he served as Senior Vice President, Corporate Officer and member of the Executive Committee at Hospira Pharmaceuticals. As a senior pharmaceutical operations executive with extensive technical and cross functional experience in start-up and complex challenging environments, Matt has led global and multi-company development projects, new product launches, critical quality-related turnarounds, network rationalisations and organisational transformations. He also has extensive experience working directly with external regulatory bodies, such as the US Food and Drug Administration.

Nationality
American

VASANT PADMANABHAN (51)
President of Research & Development

Joined Smith & Nephew in August 2016 and is responsible for Research and Innovation, New Product Development, Safety Affairs, Clinical Affairs, Medical Device/Pharmacovigilance and Clinical Operations. He is based in Andover, US.

Skills and experience
Vasant brings extensive experience in R&D and technology. Prior to Smith & Nephew, Vasant was Senior Vice President of Technical Operations at Thoratec Corporation, a leader in mechanical circulatory support solutions for the treatment of heart failure. In this role, he provided leadership to a 600 member team, with responsibility for global R&D, Program Management, Operations and Quality. Prior to Thoratec, Vasant had an 18-year career at Medtronic, starting as a Staff Scientist and, progressing through more senior roles, ultimately becoming Vice President of Product Development for the Implantable Defibrillator Business. Vasant holds a Ph.D degree in Biomedical Engineering from Rutgers University, USA and an MBA degree from the Carlson School of Management, Minnesota.

Nationality
American

CYRILLE PETIT (47)
Chief Corporate Development Officer and President, Global Business Services

Joined Smith & Nephew in May 2012 and leads the Corporate Development function and from October 2015 the Global Business Services. He is based in London, UK.

Skills and experience
Cyrille spent the previous 15 years of his career with General Electric Company, where he held progressively senior positions beginning with GE Capital, GE Healthcare and ultimately as the General Manager, Global Business Development of the Transportation Division. Cyrille began his career in investment banking at BNP Paribas and then Goldman Sachs.

Nationality
French

ELGA LOHLER (50)
Chief Human Resources Officer

Joined Smith & Nephew in January 2002 and became Chief Human Resources Officer in December 2015. Elga leads the Global Human Resources, Internal Communication and Sustainability Functions. She is based in London, UK.

Skills and experience
Prior to being appointed as Chief Human Resources Officer, Elga held progressively senior positions in Human Resources at Smith & Nephew in Wound Management, Operations, Corporate Functions and Group. Elga has more than 25 years’ Human Resources experience.

Nationality
American/South African
LEADERSHIP
The Board sets the tone at the top of the Company through:
- A clear definition of the roles of the individual members of the Board.
- A comprehensive corporate governance framework.
- Defined processes to ensure the independence of Directors and the management of conflicts of interest.

Read more about our Board’s Leadership on pages 57–60

EFFECTIVENESS
The Board carries out its duties through:
- Regular meetings focusing on the oversight of strategy, risk (including viability) and succession planning.
- An annual review into the effectiveness of the Board.
- A comprehensive programme of development activities throughout the year.

Read more about our Board’s Effectiveness on pages 61–65

ACCOUNTABILITY
The Board delegates some of its detailed work to the Board Committees:
- Each Committee meets regularly and reports back to the Board on its activities.
- The terms of reference of each Committee may be found on the Company’s website at www.smith-nephew.com.
- A report from the Chairman of each Committee is included in this Annual Report.

Read more about our Board’s Accountability on pages 66–78

REMUNERATION
The Remuneration Committee ensures that there is a formal and transparent process for determining and reporting on the pay of our Executive Directors:
- The Remuneration Policy was approved by shareholders at the 6 April 2017 Annual General Meeting.
- The Committee ensures that performance measures are linked to our strategic priorities; there is alignment between executive and shareholder interests; and our arrangements are simple to understand.

Read more about our Board’s Remuneration on pages 79–105

The Board is committed to the highest standards of corporate governance and we comply with all the provisions of the UK Corporate Governance Code 2016 (the Code). The Company’s American Depositary Shares are listed on the New York Stock Exchange (NYSE) and we are therefore subject to the rules of the NYSE as well as to the US securities laws and the rules of the Securities Exchange Commission (SEC) applicable to foreign private issuers. We comply with the requirements of the NYSE and SEC and have no significant differences to report between the UK and US corporate governance standards. We shall explain in this Corporate Governance Statement and in the reports on the Audit Committee, the Nomination & Governance Committee, the Ethics & Compliance Committee and the Remuneration Committee, how we have applied the provisions and principles of the Financial Conduct Authority’s (FCA) Listing Rules, Disclosure & Transparency Rules (DTRs) and the Code throughout the year. The Code can be found at https://www.frc.org.uk/getattachment/ca7e94c4-b9a9-49e2-a824-ad76a322873c/UK-Corporate-Governance-Code-April-2016.pdf

COMPOSITION OF BOARD AS AT 31 DECEMBER 2017

We believe the Board’s composition gives us the necessary balance of diversity, skills experience, independence and knowledge to ensure we continue to run the business effectively and deliver sustainable growth.

<table>
<thead>
<tr>
<th>Diversity</th>
<th>Gender</th>
<th>Years of service</th>
<th>Ethnicity</th>
</tr>
</thead>
<tbody>
<tr>
<td>A EXECUTIVE 2</td>
<td>A MALE 9</td>
<td>A LESS THAN ONE YEAR 3</td>
<td></td>
</tr>
<tr>
<td>B NON-EXECUTIVE 9</td>
<td>B FEMALE 3</td>
<td>B ONE TO THREE YEARS 2</td>
<td></td>
</tr>
<tr>
<td>C CHAIRMAN 1</td>
<td></td>
<td>C THREE TO SIX YEARS 4</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>D SIX TO NINE YEARS 2</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>E OVER NINE YEARS 1</td>
<td></td>
</tr>
<tr>
<td>A WHITE 11</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B ASIAN 1</td>
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</tr>
</tbody>
</table>

The Nomination & Governance Committee uses the following matrix when considering succession planning and future Board composition to ensure a balanced Board:

<table>
<thead>
<tr>
<th>CEO</th>
<th>Financial</th>
<th>International</th>
<th>Healthcare/ Medical Devices</th>
<th>Emerging market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5 members of the Board are either current or recent CEOs</td>
<td>5 members of the Board have recent and relevant financial experience</td>
<td>7 members of the Board have international experience</td>
<td>5 members of the Board have different levels of experience within the Healthcare industry. The Board’s medical devices experience will be strengthened with the appointment of Roland Diggelmann</td>
</tr>
<tr>
<td>UK Governance</td>
<td>Remuneration</td>
<td>Gender</td>
<td>Ethnic</td>
<td>Other</td>
</tr>
<tr>
<td>8 members of the Board have considerable experience of working in a UK listed environment and 6 members of the Board have experience of the US listed environment</td>
<td>5 members of the Board have Remuneration Committee experience within a UK listed context</td>
<td>9 members of the Board are male and 3 are female</td>
<td>11 members of the Board are white and 1 is Asian ethnicity</td>
<td>Various Board members bring experiences in a variety of fields including customer focus, investment markets, government affairs, digital and corporate social responsibility</td>
</tr>
</tbody>
</table>

CHANGES TO THE BOARD

During the year to 31 December 2017 and since the year end, there were the following changes to the Board:

- Julie Brown retired from the Board as Chief Financial Officer on 11 January 2017.
- Graham Baker joined the Board as Chief Financial Officer on 1 March 2017.
- Brian Larcombe retired from the Board on 6 April 2017.
- Robin Freestone was appointed Chairman of the Audit Committee, succeeding Ian Barlow on 1 March 2017.
- Ian Barlow was appointed Senior Independent Director, succeeding Brian Larcombe on 6 April 2017.
- Angie Risley was appointed Non-Executive Director and Member and Chairman Elect of the Remuneration Committee on 18 September 2017.
- Marc Owen was appointed Non-Executive Director and Member of the Audit Committee on 1 October 2017. He will become a Member of the Ethics & Compliance Committee on 1 March 2018.
- Roland Diggelmann will join the Board as an additional Non-Executive Director and Member of the Audit Committee with effect from 1 March 2018.
## ROLE OF DIRECTORS

Whilst we all share collective responsibility for the activities of the Board, some of our roles have been defined in greater detail. In particular, the roles of the Chairman and the Chief Executive Officer are clearly defined.

The roles of the Chairman, Non-Executive Directors, Senior Independent Director, Chief Executive Officer, Chief Financial Officer and the Company Secretary are defined as follows:

<table>
<thead>
<tr>
<th>Role</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>Building a well-balanced Board.</td>
</tr>
<tr>
<td></td>
<td>Chairing Board meetings and setting Board agendas.</td>
</tr>
<tr>
<td></td>
<td>Ensuring effectiveness of the Board and enabling the annual review of effectiveness.</td>
</tr>
<tr>
<td></td>
<td>Encouraging constructive challenge and facilitating effective communication between Board members.</td>
</tr>
<tr>
<td></td>
<td>Promoting effective Board relationships.</td>
</tr>
<tr>
<td></td>
<td>Ensuring appropriate induction and development programmes.</td>
</tr>
<tr>
<td></td>
<td>Ensuring effective two-way communication and debate with shareholders and stakeholders.</td>
</tr>
<tr>
<td></td>
<td>Promoting high standards of corporate governance.</td>
</tr>
<tr>
<td></td>
<td>Maintaining appropriate balance between stakeholders.</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>Supporting the Chief Executive Officer in developing and implementing the Group strategy.</td>
</tr>
<tr>
<td></td>
<td>Leading the global finance function, developing key finance talent and planning for succession.</td>
</tr>
<tr>
<td></td>
<td>Ensuring effective financial reporting, processes and controls are in place.</td>
</tr>
<tr>
<td></td>
<td>Recommending the annual budget and long-term strategic and financial plan.</td>
</tr>
<tr>
<td></td>
<td>Maintaining relationships with shareholders.</td>
</tr>
<tr>
<td>Non-Executive Directors</td>
<td>Providing effective challenge to management.</td>
</tr>
<tr>
<td></td>
<td>Assisting in development and approval of strategy.</td>
</tr>
<tr>
<td></td>
<td>Serving on the Board Committees.</td>
</tr>
<tr>
<td></td>
<td>Providing advice to management.</td>
</tr>
<tr>
<td>Senior Independent Director</td>
<td>Chairing meetings in the absence of the Chairman.</td>
</tr>
<tr>
<td></td>
<td>Acting as a sounding board for the Chairman on Board-related matters.</td>
</tr>
<tr>
<td></td>
<td>Acting as an intermediary for the other Directors where necessary.</td>
</tr>
<tr>
<td></td>
<td>Available to shareholders and stakeholders on matters which cannot otherwise be resolved.</td>
</tr>
<tr>
<td></td>
<td>Leading the annual evaluation into the Board's effectiveness.</td>
</tr>
<tr>
<td></td>
<td>Leading the search for a new Chairman, if necessary.</td>
</tr>
<tr>
<td>Company Secretary</td>
<td>Advising the Board on matters of corporate governance.</td>
</tr>
<tr>
<td></td>
<td>Supporting the Chairman and Non-Executive Directors.</td>
</tr>
<tr>
<td></td>
<td>Point of contact for investors on matters of corporate governance.</td>
</tr>
<tr>
<td></td>
<td>Ensuring good governance practices at Board level and throughout the Group.</td>
</tr>
</tbody>
</table>
CORPORATE GOVERNANCE FRAMEWORK

The Board is responsible to shareholders for approving the strategy of the Group, for overseeing the performance of the Group and evaluating and monitoring the management of risk.

Each member of the Board has access, collectively and individually, to the Company Secretary and is also entitled to obtain independent professional advice at the Company’s expense, should they decide it is necessary in order to fulfil their responsibilities as Directors.

The Board delegates certain matters, as follows, to Board Committees, consisting of members of the Board:

Audit Committee
Provides independent assessment of the financial affairs of the Company, reviews financial statements and controls oversight of the risk management process and key risks, such as cyber security. Manages use of internal and external auditors.

Remuneration Committee
Determines Remuneration Policy and packages for Executive Directors and Executive Officers, having regard to pay across the Group.

Nomination & Governance Committee
Reviews size and composition of the Board, succession planning, diversity and governance matters.

Ethics & Compliance Committee
Reviews and monitors ethics and compliance, quality and regulatory matters across the Group.

Ad hoc committees
Ad hoc committees may be established to review and approve specific matters or projects.

The Board delegates the day-to-day running of the business to Olivier Bohuon, Chief Executive Officer, who is assisted in his role by the Executive Committee comprising the Executive Officers who are shown on pages 54–55 and certain other senior executives. The governance framework below outlines the Executive Committee arrangements as follows:

EXECUTIVE COMMITTEE
Recommends and implements strategy, approves budget and three-year plan, ensures liaison between commercial and corporate functions, receives regular reports from sub-committees, reviews major investments, divestments and capital expenditure proposals and approves business development projects.

Commercial Committee
Recommends and implements strategy for global commercial functions and regions, managing sales, marketing, market access and commercial strategy and identifying and executing new processes, systems and practices to improve operational efficiency in commercial regions.

Corporate Functions Committee
Recommends and implements strategy for corporate functions identifying and executing new processes, systems and practices to improve operational efficiency in corporate functions.

Portfolio Innovation Board
Defines portfolio allocation principles, reviewing and challenging current shape of portfolio, identifying gaps and opportunities and re-prioritising segments and geographies.

Regional leadership meetings
Regional management through committees to drive regional performance.

Functional leadership meetings
Functional leadership teams to drive functional performance.

Finance & Banking Committee
Approves banking and treasury matters, guarantees, Group structure changes relating to mergers, acquisitions and disposals.

Disclosures Committee
Approves release of communications to Investors and Stock Exchanges.

Mergers & Acquisitions Council
Oversees Corporate Development Strategy, monitors status of transactions and approves various stages in merger, acquisition and disposal process.

Group Risk Committee
Reviews risk registers and risk management programme.

Group Ethics & Compliance Committee
Reviews compliance matters and country business unit or function compliance reports.

Diversity & Inclusion Council
Implements strategies to promote diversity and inclusion.

Global Benefits Committee
Oversees all policies and processes relating to pensions and employee benefit plans.

Health, Safety & Environment Committee
Oversees health, safety and environmental matters.

IT Governance Board
Oversees IT and cyber security.
INDEPENDENCE OF DIRECTORS

We require our Non-Executive Directors to remain independent from management so that they are able to exercise independent oversight and effectively challenge management. We therefore continually assess the independence of each of our Non-Executive Directors. The Executive Directors have determined that all our Non-Executive Directors are independent in accordance with both UK and US requirements. None of our Non-Executive Directors or their immediate families has ever had a material relationship with the Group. None of them receives additional remuneration apart from Directors’ fees, nor do they participate in the Group’s share plans or pension schemes. None of them serve as directors of any companies or affiliates in which any other Director is a director.

More importantly, each of our Non-Executive Directors are prepared to question and challenge management, to request more information and to ask the difficult questions. They insist on robust responses both within the Boardroom and, sometimes, between meetings. The Chief Executive Officer is open to challenge from the Non-Executive Directors and uses this positively to provide more detail and to reflect further on issues.

MANAGEMENT OF CONFLICTS OF INTEREST

None of our Directors or their connected persons, has any family relationship with any other Director or Officer, nor has a material interest in any contract to which the Company or any of its subsidiaries are, or were, a party during the year or up to 22 February 2018.

Each Director has a duty under the Companies Act 2006 to avoid a situation in which we have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Company. This duty is in addition to the existing duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company.

If any Director becomes aware of any situation which might give rise to a conflict of interest, they must, and do, inform the rest of the Board immediately and the Board is then permitted under the Company’s Articles of Association to authorise such conflict. This information is then recorded in the Company’s Register of Conflicts, together with the date on which authorisation was given. In addition, each Director certifies on an annual basis that the information contained in the Register of Conflicts is correct.

When the Board decides whether or not to authorise a conflict, only the Directors who have no interest in the matter are permitted to participate in the discussion and a conflict is only authorised if the Board believes that it would not have an impact on the Board’s ability to promote the success of the Company in the long term. Additionally, the Board may determine that certain limits or conditions must be imposed when giving authorisation. No actual conflicts have been identified, which have required approval by the Board. However, six situations have been identified which could potentially give rise to a conflict of interest and these have been duly authorised by the Board and are reviewed on an annual basis.

OUTSIDE DIRECTORSHIPS

We encourage our Executive Directors to serve as Non-Executive Directors of external companies. We believe that the work they do as Non-Executive Directors of other companies has benefits for their executive roles with the Company, giving them a fresh insight into the role of a Non-Executive Director. Olivier Bohuon is a Non-Executive Director of Shire plc and of Virbac Group. Olivier Bohuon discussed his external roles with the Chairman prior to accepting these appointments and the Chairman was satisfied that he had the capacity for the time commitment required.

RE-APPOINTMENT OF DIRECTORS

In accordance with the Code, all Directors offer themselves to shareholders for re-election annually, except those who are retiring immediately after the Annual General Meeting. Each Director may be removed at any time by the Board or the shareholders.

DIRECTOR INDEMNITY ARRANGEMENTS

Each Director is covered by appropriate directors’ and officers’ liability insurance and there are also Deeds of Indemnity in place between the Company and each Director. These Deeds of Indemnity mean that the Company indemnifies Directors in respect of any proceedings brought by third parties against them personally in their capacity as Directors of the Company. The Company would also fund ongoing costs in defending a legal action as they are incurred rather than after judgment has been given. In the event of an unsuccessful defence in an action against them, individual Directors would be liable to repay the Company for any damages and to repay defence costs to the extent funded by the Company.

LIAISON WITH SHAREHOLDERS

The Board meets with retail investors at the Annual General Meeting and responds to many letters and emails from shareholders throughout the year.

The Executive Directors also meet regularly with institutional investors to discuss the Company’s business and financial performance both at the time of the announcement of results and at industry investor events. During 2017, the Executive Directors held meetings with institutional investors, including investors representing approximately 48% of the Company’s share capital. Other topics discussed included strategy, market trends, reimbursement and regulatory changes, relevant macro-economic and political impacts on the business and the acquisition of Rotation Medical, Inc.
During the early part of 2017, the Chairman, Roberto Quarta, held 17 meetings and telephone calls with investors holding approximately 22% of the Company’s share capital. They discussed a range of topics including the performance of the Company during 2016, our strategic priorities, the structure of the Board, succession planning at Board and Executive level, diversity, the capital allocation framework and recent acquisitions.

Towards the end of 2017, Joseph Papa, the Chairman of the Remuneration Committee, took the opportunity of introducing Angie Risley, who will be succeeding him as Chairman of the Remuneration Committee on 12 April 2018, to eight of our key institutional shareholders holding around 15% of our share capital. They discussed the changes made to our remuneration policy, which were approved by shareholders at the 2017 Annual General Meeting and how the policy was being implemented. As well as giving shareholders the opportunity to meet Angie Risley, they also discussed the broad structure of remuneration arrangements proposed for the new Chief Executive Officer to be appointed following the retirement of Olivier Bohuon by the end of 2018. At the time of these meetings, there was no specific candidate identified as successor to Olivier Bohuon. They also discussed current trends and developments in executive remuneration.

Members of the Board are always happy to engage with investors, if they have matters they wish to raise with the non-executive team. Please contact the Company Secretary to arrange a suitable time to meet.

A short report on our major shareholders and any significant changes in their holdings since the previous meeting is reviewed at each Board meeting. The Chairman and Non-Executive Directors report back to the Board following their meetings with investors. Olivier Bohuon routinely reports on any concerns or issues that shareholders have raised with him in their meetings. Copies of the analyst reports on the Company and its peers are also circulated to Directors.

**PURCHASE OF ORDINARY SHARES**

In order to avoid shareholder dilution, shares allotted to employees through employee share schemes are bought back on a quarterly basis and subsequently cancelled as stated in Note 19.2 of the accounts on page 157.

**RESPONSIBILITY OF THE BOARD**

The work of the Board falls into the following key areas:

**Strategy**

- Approving the Group strategy including major changes to corporate and management structure.
- Approving acquisitions, mergers, disposals, capital transactions in excess of $50 million.
- Setting priorities for capital investment across the Group.
- Approving annual budget, financial plan, five-year business plan.
- Approving major borrowings and finance and banking arrangements.
- Approving changes to the size and structure of the Board and the appointment and removal of Directors and the Company Secretary.
- Approving Group policies relating to sustainability, health and safety, Code of Conduct and Code of Share Dealing and other matters.
- Approving the appointment and removal of key professional advisers.

**Performance**

- Reviewing performance against strategy, budgets and financial and business plans.
- Overseeing Group operations and maintaining a sound system of internal control.
- Determining the dividend policy and dividend recommendations.
- Approving the appointment and removal of the external auditor on the recommendation of the Audit Committee.
- Approving significant changes to accounting policies or practices.
- Overseeing succession planning at Board and Executive Officer level.
- Approving the use of the Company’s shares in relation to employee and executive share incentive plans on the recommendation of the Remuneration Committee.
### Risk
- Overseeing the Group’s risk management programme.
- Regularly reviewing the risk register.
- Overseeing risk management processes (see pages 40 and 41 for further details).

### Shareholder communications
- Approving preliminary announcement of annual results, the publication of the Annual Report, the half-yearly report, the quarterly Trading Reports, the release of price sensitive announcements and any listing particulars, circulars or prospectuses.
- Approving the Sustainability Report.
- Maintaining relationships and continued engagement with shareholders.

### Providing advice
- Using experience gained within other companies and organisations to advise management both within and between Board meetings.

The Schedule of Matters Reserved to the Board describes the role and responsibilities of the Board more fully and can be found on our website at www.smith-nephew.com.

### BOARD TIMETABLE 2017

#### FEBRUARY

**Early February**

Approval of Preliminary Announcement
- Reviewed the results for the full year 2016 and the preliminary announcement and approved the final dividend to be recommended to shareholders for approval.
- Reviewed and approved the annual risk management report.
- Received updates on the progress of certain acquisitions over the past five years.
- Reviewed the results of the review into the effectiveness of the Board in 2016 and agreed action points for 2017.
- Reviewed and accepted that fees paid to Non-Executive Directors should remain unchanged.

Late February (via voice conference)

Approval of Financial Statements
- Reviewed and approved the Annual Report and Accounts for 2016, having determined that they were fair, balanced and understandable.
- Reviewed and approved the Notice of Annual General Meeting and related documentation.
- Approved the Budget for 2017 and the Strategic Plan for 2017-2021.

#### APRIL

- Received a review of recent acquisitions.
- Received an update on global operations.
- Reviewed the work of the Government Affairs function.
- Approved the Sustainability Report.
- Prepared for the Annual General Meeting to be held later that day.

#### MAY

(via voice conference)

- Reviewed the results for the first quarter 2017 and approved the Q1 Trading Report announcement.

#### JUNE

(via voice conference)

- Approved the appointment of Angie Risley as Non-Executive Director.

#### JULY

(in Hull, UK)

- Reviewed the results for the first half 2017 and approved the H1 announcement, having considered management’s judgement in a number of areas, and approved payment of the interim dividend.
- Received and considered a report analysing the progress in Research and Development.
- Received and discussed the annual review of Group Insurances.
- Discussed the strategy review agenda for September 2017.

#### SEPTEMBER

(in Tokyo, Japan)

Strategy Review
- Reviewed the implications, risks and opportunities of the Medical Devices regulations.
- Approved the renewal of the directors’ and officers’ liability Insurance.

#### NOVEMBER

Early November (in Dubai, UAE)

Approval of Q3 Trading Report
- Reviewed the results for the third quarter 2017 and approved the Q3 Trading Report announcement.
- Received a follow up from Executive Officers from the Strategy Review in Tokyo in September.
- Received an update from Rodrigo Bianchi on the APAC/EM (Asia Pacific and Emerging Markets) business.
- Discussed the annual executive talent review.

Late November

Approval of Budget
- Reviewed the Budget for 2018.
- Received a review of the activities of Global Business Services.
- Received updates from Glenn Warner on the US Business.
In addition various matters were determined by written resolution, including accepting notice of the intention to retire of Olivier Bohuon as Chief Executive Officer and authorising the execution of certain agreements. Since the year end, we have also approved the Annual Report and Accounts for 2017 and have concluded that, taken as a whole, they are fair, balanced and understandable. We have approved the Notice of Annual General Meeting, recommended the final dividend to shareholders and have received and discussed the report on the effectiveness of the Board in 2017. Each meeting was preceded by a meeting between the Chairman and the Non-Executive Directors without the Executive Directors and management in attendance. Unless otherwise stated, meetings are held in London, UK. At each meeting, we approved the minutes of the previous meetings, reviewed matters arising and received reports and updates from the Chief Executive Officer, the Chief Financial Officer, the Chief Corporate Development Officer, the Chief Legal Officer and the Company Secretary. We also received reports from the chairmen of the Board Committees on the activities of these Committees since the previous meeting.

**BOARD AND COMMITTEE ATTENDANCE**

<table>
<thead>
<tr>
<th>Director</th>
<th>Board Member since</th>
<th>Board meetings</th>
<th>Audit Committee meetings</th>
<th>Remuneration Committee meetings</th>
<th>Nomination &amp; Governance Committee meetings</th>
<th>Ethics &amp; Compliance Committee meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roberto Quarta¹</td>
<td>December 2013</td>
<td>9/9</td>
<td>–</td>
<td>6/7</td>
<td>8/8</td>
<td>–</td>
</tr>
<tr>
<td>Olivier Bohuon</td>
<td>April 2011</td>
<td>9/9</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Graham Baker²</td>
<td>1 March 2017</td>
<td>7/7</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Vinita Bali³</td>
<td>December 2014</td>
<td>7/9</td>
<td>–</td>
<td>6/7</td>
<td>–</td>
<td>4/4</td>
</tr>
<tr>
<td>Ian Barlow</td>
<td>March 2010</td>
<td>9/9</td>
<td>7/7</td>
<td>–</td>
<td>6/6</td>
<td>4/4</td>
</tr>
<tr>
<td>Virginia Bottomley</td>
<td>April 2012</td>
<td>9/9</td>
<td>–</td>
<td>7/7</td>
<td>8/8</td>
<td>–</td>
</tr>
<tr>
<td>Erik Engstrom⁴</td>
<td>January 2015</td>
<td>9/9</td>
<td>6/7</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Robin Freestone</td>
<td>September 2015</td>
<td>9/9</td>
<td>7/7</td>
<td>7/7</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Michael Friedman</td>
<td>April 2013</td>
<td>9/9</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>4/4</td>
</tr>
<tr>
<td>Joseph Papa</td>
<td>August 2008</td>
<td>9/9</td>
<td>7/7</td>
<td>7/7</td>
<td>–</td>
<td>4/4</td>
</tr>
<tr>
<td>Marc Owen⁵</td>
<td>1 October 2017</td>
<td>2/2</td>
<td>2/2</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Angie Risley⁶</td>
<td>18 September 2017</td>
<td>3/3</td>
<td>–</td>
<td>3/3</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Brian Larcombe⁷</td>
<td>March 2002</td>
<td>3/3</td>
<td>3/3</td>
<td>3/3</td>
<td>2/2</td>
<td>–</td>
</tr>
</tbody>
</table>

¹ Roberto Quarta missed one Remuneration Committee meeting call convened on short notice. He had signified his approval of the matters being discussed to the Remuneration Committee Chairman prior to the meeting.

² Graham Baker was appointed on 1 March 2017 and attended all his scheduled meetings to 31 December 2017.

³ Vinita Bali missed one Board call and one Remuneration Committee meeting on the same day, due to a prior commitment and one Board call convened on short notice. In each case, she had signified her approval of the matters being discussed to the Chairman prior to the meeting.

⁴ Erik Engstrom missed one Audit Committee meeting in Hull, which clashed with a RELX Board meeting, for which he is the Chief Executive Officer.

⁵ Marc Owen was appointed on 1 October 2017 and attended all his scheduled meetings to 31 December 2017.

⁶ Angie Risley was appointed on 18 September 2017 and attended all her scheduled meetings to 31 December 2017.

⁷ Brian Larcombe retired from the Board at the Annual General Meeting on 6 April 2017.
BOARD EFFECTIVENESS REVIEW

The Board Effectiveness Review in 2017 was internally facilitated by Ian Barlow, Senior Independent Director assisted by the Company Secretary. The 2017 review comprised a questionnaire completed by each member of the Board. This questionnaire focused on the progress made addressing the issues raised in previous Board Evaluations as well as looking into how the Board had handled particular topics throughout the year. Ian Barlow then conducted individual interviews with each Board member. He also chaired a meeting of the Non-Executive Directors specifically to discuss the performance of the Chairman.

In January 2018, he prepared a report, detailing his findings, which he shared with the Chairman. The report was then discussed by the full Board in February 2018.

In discussion, we concluded that the Board worked well with a good breadth of skills, backgrounds and experience, which has been enhanced with the appointments during the past year. The culture was open and collaborative; the cadence of board meetings and the administrative support was broadly welcomed and we covered most of the right topics across the annual cycle. We did however identify some areas for further improvement as follows:

- Some changes could be made to the Board calendar to spread our work more efficiently and effectively throughout the year, with an even greater focus on people issues, R&D and commercial execution.
- We would like to spend more time on our site visits meeting the local teams, their staff, our customers and local hospitals to give us a deeper understanding of our markets, our customers and our competition and to assist in assessing bench strength further down the Company.
- Further improvements could be made to how we monitor performance against our strategic objectives, tracking development and implementation of strategy and lessons learned from our successes and shortfalls.

The areas for attention identified in the 2017 review had been addressed as follows:

<table>
<thead>
<tr>
<th>Actions identified</th>
<th>Action taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gaining a deeper understanding of why our competitors are enjoying superior</td>
<td>During the year, as part of our site visits, the Board met with senior management in different territories and heard about the commercial</td>
</tr>
<tr>
<td>growth rates compared with us so that we can help management identify, acquire,</td>
<td>challenges faced in different markets. Part of the September Strategy Review included a focus on the different categories of customers and the</td>
</tr>
<tr>
<td>and develop the resources they need to compete more effectively in our chosen</td>
<td>pricing and reimbursement drivers which affect different business in different parts of the world. We positively encourage our Non-Executive</td>
</tr>
<tr>
<td>markets.</td>
<td>Directors to spend time with our sales representatives in order to experience the challenges they face first-hand.</td>
</tr>
<tr>
<td>Gaining a better understanding of the changing market dynamics in our chosen</td>
<td>The Board reviews detailed succession plans on an annual basis. The Board also meets with potential successors to members of the management</td>
</tr>
<tr>
<td>markets, focusing on identifying the different categories of customer and the</td>
<td>team during site visits and as part of Board presentations. During the year, Non-Executive Directors have assisted in the interview process for</td>
</tr>
<tr>
<td>pricing and reimbursement drivers which are in play, so that we can support and</td>
<td>some senior management positions and have acted as a sounding board for the executive team, when considering succession plans in key areas.</td>
</tr>
<tr>
<td>challenge management more effectively when they seek approval for projects to</td>
<td></td>
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<tr>
<td>address these changing conditions.</td>
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<tr>
<td>Playing a more active role in supporting management develop robust succession</td>
<td>Dashboards have been developed throughout the year, which are reviewed at each Board meeting. These dashboards track progress against defined</td>
</tr>
<tr>
<td>plans for senior executive positions.</td>
<td>metrics with both a long-term and a short-term focus aligned to our Strategic Priorities, covering a wide range of business areas, including R&amp;D, HR,</td>
</tr>
<tr>
<td>Encouraging management to develop metrics and dashboards on a wider range of</td>
<td>the commercial and operating organisations, M&amp;A and legal and compliance.</td>
</tr>
<tr>
<td>issues beyond financial metrics, particularly in the areas of Human Resources and</td>
<td></td>
</tr>
<tr>
<td>R&amp;D and ensuring that we regularly monitor progress against these metrics.</td>
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</table>

The last externally facilitated Board Effectiveness Review was carried out in 2015 by Belinda Hudson of Independent Audit. The 2018 review will also be facilitated externally.
BOARD DEVELOPMENT PROGRAMME

Our Board Development Programme is directed to the specific needs and interests of our Directors. We focus the development sessions on facilitating a greater awareness and understanding of our business rather than formal training in what it is to be a Director. We value our visits to the different Smith & Nephew sites around the world, where we meet with the local managers of our businesses and see the daily operations in action. Meeting our local managers helps us to understand the challenges they face and their plans to meet those challenges. We also take these opportunities to look at our products and in particular the new products being developed by our R&D teams. This direct contact with the business in the locations in which we operate around the world helps us to make investment and strategic decisions. Meeting our local managers also helps us when making succession planning decisions below Board level.

All Non-Executive Directors are encouraged to visit our overseas businesses, if they happen to be travelling for other purposes. Our local management teams enjoy welcoming Non-Executive Directors to their business and it emphasises the interest the Board takes in all our operations. The Chairman regularly reviews the development needs of individual Directors and the Board as a whole.

The following development sessions covering both the Smith & Nephew business and wider market issues were held during the year:

July
- Visit to the Company’s site in Hull to take part in activities celebrating our 160th anniversary on the site. The Board toured the manufacturing and research facility and received presentations from members of the workforce involved in community focused activities as part of the Hull City of Culture 2017.
- Presentation from our Auditor, KPMG LLP (KPMG), on External Reporting trends, covering changing accounting standards and updates on financial reporting, the SEC and corporate governance changes relating to Audit Committees and Auditors.

September
- Presentations from the entire executive team as part of the Board’s Strategy Review, covering the whole business and including a discussion on Risk.
- Visit to the Company’s offices in Tokyo and meetings with our senior leaders in Japan, with presentations on the business and challenges faced in Japan.

November
- Visit to the Company’s offices in Dubai, the head office for our Emerging Markets businesses. The Board received presentations on our businesses in Saudi Arabia, India and Chile and met with the local General Managers in these countries.
- Presentation on the Emerging Markets business, including deep dives into Brazil, China and our Mid-Tier portfolio of products.
- Presentation on the US business discussing the opportunities and challenges faced by our different franchises across the US.

December
- Opportunities for our UK based Non-Executive Directors to go on the road with some of our London based sales representatives and for Vinita Bali to meet with representatives in Bangalore.

During the course of the year, we also received updates at the Board and Committee meetings on external corporate governance changes likely to impact the Company in the future.

INDUCTION PROGRAMME FOR NEW DIRECTORS

During 2017, Graham Baker, Angie Risley and Marc Owen joined the Board and each received tailored induction programmes relevant to their skills and experiences and their roles on the Board. These induction programmes, which are ongoing include:

- One-to-one meetings with senior executives to understand the roles played by our senior employees and specifically how we do things at Smith & Nephew;
- Visits to our sites local to the Director to get a feel of how our research and manufacturing operations are run;
- Opportunities to accompany our sales representatives on the road to better understand the daily challenges they face; and
- Meetings with our external advisers for example Freshfields, our Corporate lawyers, KPMG, our Auditor and Willis Towers Watson, our Remuneration Committee adviser to explain the legal and regulatory background to their role on our Board and how these issues are approached at Smith & Nephew.

By order of the Board, on 22 February 2018

Roberto Quarta
Chairman
DEAR SHAREHOLDER,
I am pleased to present the 2017 report of the Nomination & Governance Committee.

ROLE OF THE NOMINATION & GOVERNANCE COMMITTEE
Our work falls into the following two areas:

Board Composition
- Reviewing the size and composition of the Board.
- Overseeing Board succession plans.
- Recommending the appointment of Directors.
- Monitoring Board diversity.

Corporate Governance
- Overseeing governance aspects of the Board and its Committees.
- Overseeing the review into the effectiveness of the Board.
- Considering and updating the Schedule of Matters Reserved to the Board and the terms of reference of the Board Committees.
- Monitoring external corporate governance activities and keeping the Board updated.
- Overseeing the Board Development Programme and the induction process for new Directors.
- Identifying and monitoring any conflict of interests of the Board.

The terms of reference of the Nomination & Governance Committee describe our role and responsibilities more fully and can be found on our website: www.smith-nephew.com

ACTIVITIES OF THE NOMINATION & GOVERNANCE COMMITTEE IN 2017 AND SINCE THE YEAR END
In 2017, we held five physical meetings and three via teleconference. Each meeting was attended by all members of the Committee. The Company Secretary, Chief Executive Officer and Chief Human Resources Officer also attended all or some of the meetings by invitation and other Non-Executive Directors were invited to join the meetings to discuss the search for a new Chief Executive Officer. In between each meeting, various discussions were held between members of the Nomination & Governance Committee and the external search agent.

Our programme of work in 2017 was as follows:

Early February

Activities related to the year end
- Considered and approved the re-appointment of Directors who had completed three or six years' service and the annual appointment of Directors serving in excess of nine years.
- Recommended the appointment of Ian Barlow as Senior Independent Director to the Board following the retirement of Brian Larcombe and the appointment of Robin Freestone to replace Ian Barlow as Chairman of the Audit Committee.
- Reviewed and approved the Schedule of Matters Reserved to the Board and the terms of reference of the Board Committees.
- Discussed the search for two additional Non-Executive Directors.

2018 focus
- Appointment of new Chief Executive Officer to succeed Olivier Bohuon.
- Consider how best to ensure that the Board has considered different stakeholders in accordance with the proposals from the Government and the Financial Reporting Council.

NOMINATION & GOVERNANCE COMMITTEE

Membership

<table>
<thead>
<tr>
<th>Member since</th>
<th>Meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roberto Quarta (Chairman)</td>
<td>April 2014</td>
</tr>
<tr>
<td>Virginia Bottomley</td>
<td>April 2014</td>
</tr>
<tr>
<td>Ian Barlow1</td>
<td>April 2017</td>
</tr>
<tr>
<td>Brian Larcombe1</td>
<td>April 2011</td>
</tr>
</tbody>
</table>

1 Ian Barlow joined the Committee following the Annual General Meeting on 6 April 2017 on his appointment as Senior Independent Director. Ian replaced Brian Larcombe, who retired from the Board and the Nomination & Governance Committee following the Annual General Meeting on 6 April 2017.

DEAR SHAREHOLDER,
I am pleased to present the 2017 report of the Nomination & Governance Committee.

ROLE OF THE NOMINATION & GOVERNANCE COMMITTEE
Our work falls into the following two areas:

Board Composition
- Reviewing the size and composition of the Board.
- Overseeing Board succession plans.
- Recommending the appointment of Directors.
- Monitoring Board diversity.

Corporate Governance
- Overseeing governance aspects of the Board and its Committees.
- Overseeing the review into the effectiveness of the Board.
- Considering and updating the Schedule of Matters Reserved to the Board and the terms of reference of the Board Committees.
- Monitoring external corporate governance activities and keeping the Board updated.
- Overseeing the Board Development Programme and the induction process for new Directors.
- Identifying and monitoring any conflict of interests of the Board.

The terms of reference of the Nomination & Governance Committee describe our role and responsibilities more fully and can be found on our website: www.smith-nephew.com

ACTIVITIES OF THE NOMINATION & GOVERNANCE COMMITTEE IN 2017 AND SINCE THE YEAR END
In 2017, we held five physical meetings and three via teleconference. Each meeting was attended by all members of the Committee. The Company Secretary, Chief Executive Officer and Chief Human Resources Officer also attended all or some of the meetings by invitation and other Non-Executive Directors were invited to join the meetings to discuss the search for a new Chief Executive Officer. In between each meeting, various discussions were held between members of the Nomination & Governance Committee and the external search agent.

Our programme of work in 2017 was as follows:

Early February

Activities related to the year end
- Considered and approved the re-appointment of Directors who had completed three or six years' service and the annual appointment of Directors serving in excess of nine years.
- Recommended the appointment of Ian Barlow as Senior Independent Director to the Board following the retirement of Brian Larcombe and the appointment of Robin Freestone to replace Ian Barlow as Chairman of the Audit Committee.
- Reviewed and approved the Schedule of Matters Reserved to the Board and the terms of reference of the Board Committees.
- Discussed the search for two additional Non-Executive Directors.
In the light of the departure of Brian Larcombe and Joseph Papa, the Nomination & Governance Committee analysed the skills and experiences required by the Board going forward to provide the necessary support and challenge to the executive team to execute against our Strategic Priorities. We used a matrix (see page 57) to compare these required skills and experiences against those already held by members of the Board and determined that we need to focus on:

- Increasing the diversity at Board level.
- Finding a replacement for Joseph Papa as Chairman of the Remuneration Committee.
- Replacing the investment knowledge and experience of Brian Larcombe.
- Reinforcing the Board with specific healthcare and Medical Devices experience.

During the year, we were advised by Zygos, who prepared a longlist of candidates for us and then worked with us to select a shortlist of candidates, who were interviewed by me and a number of other Non-Executive Directors. As a result of this process, we recommended to the Board that Angie Risley be appointed Non-Executive Director and Chairman Elect of the Remuneration Committee on 18 September 2017 and Marc Owen be appointed Non-Executive Director and member of the Audit Committee on 1 October 2017.

Angie Risley is a well-regarded FTSE 100 Human Resources Director and proven Non-Executive Director and Remuneration Committee Chairman with experience across a wide range of sectors, including a regulated environment. She will bring to the Board valuable experience of leading a Remuneration Committee as well as providing additional resource and sounding for our Human Resources function.

Marc Owen is a proven leader with an astute strategic vision, and experience of building significant international healthcare businesses. He has strong commercial healthcare expertise and general business experience, which will be of great value to the Company.

The appointment of Roland Diggelmann on 1 March 2018 will bring additional Medical Devices experience to our Board.

**CHIEF EXECUTIVE OFFICER**

In September 2017, Olivier Bohuon announced his intention to retire by the end of 2018. He chose to give us notice of this in order to give us time to find his successor. The Nomination & Governance Committee initiated a search in September 2017 advised by both Zygos and Russell Reynolds. Zygos does no other work for the Company other than advising on recruitment of Board members. Russell Reynolds also advises the Company on executive recruitment and appointments. This process is ongoing.

**NON-EXECUTIVE DIRECTORS**

Brian Larcombe retired as Senior Independent Director at the 2017 Annual General Meeting and Ian Barlow was appointed in his place. Ian Barlow has served on our Board as Chairman of the Audit Committee since 2010. He knows the Company well and has a sound understanding of the governance and regulatory requirements of the Board. He has also met some of our shareholders in his previous role as Chairman of the Audit Committee.

Robin Freestone took over the role of Chairman of the Audit Committee from Ian Barlow with effect from 1 March 2017. Robin had served as a Non-Executive Director of the Board and member of the Audit Committee and the Remuneration Committee for a period of 18 months. Prior to his appointment to the Board, he was a well-regarded FTSE 100 Chief Financial Officer who has brought relevant expertise and insight to the Audit Committee. His appointment as Chairman of the Audit Committee was designed to coincide with the appointment of Graham Baker to enable the Chief Financial Officer and Chairman of the Audit Committee to build a constructive working relationship together.

As we announced in the 2016 Annual Report, Joseph Papa will be retiring from the Board at the 2018 Annual General Meeting after more than nine years’ service, seven of which as Chairman of the Remuneration Committee.
DIVERSITY
We aim to have a Board which represents a wide range of backgrounds, skills and experiences. We also value a diversity of outlook, approach and style in our Board members. We believe that a balanced Board is better equipped to consider matters from a broader perspective, understanding the views of our stakeholders as well as our shareholders and therefore come to decisions that have considered a wider range of issues and perspectives than would be the case in a more homogenous Board. Diversity is not simply a matter of gender, ethnicity or other easily measurable characteristics. Diversity of outlook and approach is harder to measure than gender or ethnicity but is equally important. A Board needs a range of skills from technical adherence to governance or regulatory matters to understand the business in which we operate. It needs some members with a long corporate memory and others who bring new insights from other fields. There needs to be both support and challenge on the Board as well as a balance of gender and commercial and international experience. When selecting new members for the Board, we take these considerations into account, as well as professional background. A new Board member needs to fit in with their fellow Board members, but also needs to provide a new way of looking at things.

In 2012, we stated that our expectation would be that by 2015, 25% of our Board would be female and at the beginning and the end of 2017, we met this expectation, although the various Board changes during the year meant that this percentage fluctuated throughout the year. Looking forward, we shall work towards a Board with 33% female representation in-line with the Hampton-Alexander Review. We will also look to increase ethnic diversity on the Board following the Parker Review as appropriate. We will continue to appoint our Directors on merit, valuing the unique contribution that they will bring to the Board, regardless of gender, ethnicity or any other diversity measure.

In order to ensure that our Board remains diverse, we analyse the skills and experiences we require against the skills and experiences on our Board using the matrix on page 57. We review this matrix regularly to ensure that it is refreshed to meet the changing needs of the Company.

GOVERNANCE
During the year, the Nomination & Governance Committee also addressed a number of governance matters. We received updates from the Company Secretary on new developments in corporate governance and reporting in the UK (and Europe). We reviewed the independence of our Non-Executive Directors, considered potential conflicts of interest and the diversity of the Board and made recommendations concerning these matters to the Board.

We have reviewed the proposals in the Government’s Green Paper on corporate governance particularly in relation to enhancing the stakeholder voice. As a Board, we have identified our key stakeholders and during the course of 2018, we will be considering the best ways of ensuring that the voices of these different stakeholders are heard within the Boardroom.

SMITH & NEPHEW’S BROAD STAKEHOLDERS

<table>
<thead>
<tr>
<th>EMPLOYEES</th>
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<td>NGOS</td>
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Roberto Quarta
Chairman of the Nomination & Governance Committee
DEAR SHAREHOLDER,

I am pleased to present the 2017 report of the Ethics & Compliance Committee.

ROLE OF THE ETHICS & COMPLIANCE COMMITTEE

Our work falls into the following two general areas:

Ethics & Compliance
- Overseeing ethics and compliance programmes, strategies and plans.
- Monitoring ethics and compliance process improvements and enhancements.
- Reviewing compliance performance based on monitoring, auditing and internal and external investigations data.
- Reviewing allegations of significant potential compliance issues.
- Receiving reports from the Group’s Ethics & Compliance Committee meetings and from the Chief Compliance Officer and the Chief Legal Officer.

Quality Assurance and Regulatory Affairs (QARA)
- Overseeing the processes by which regulatory and quality risks relating to the Company and its operations are identified and managed.
- Receiving and considering regular functional reports and presentations from the President of Global Operations, SVP of Quality Assurance and other Officers.

The terms of reference of the Ethics & Compliance Committee describe our role and responsibilities more fully and can be found on our website: www.smith-nephew.com

ACTIVITIES OF THE ETHICS & COMPLIANCE COMMITTEE IN 2017 AND SINCE THE YEAR END

In 2017, we held four physical meetings. Each meeting was attended by all members of the Committee. The Company Secretary, the Chief Legal Officer, the Chief Compliance Officer, the SVP of Quality, and the President of Global Operations also attended all or part of the meetings by invitation.

Our programme of work in 2017 included the following:

**February**
- Reviewed various quality metrics including the level of complaints, the number and nature of field actions and the results of US Food and Drug Administration (FDA) inspections.
- Noted the progress made on the Global Compliance Programme Plan for 2016 and noted the plan of action for 2017.

**April**
- Reviewed various quality metrics and approved the Global Quality Plan for 2017, noting the additional work to be done in implementing the EU Medical Devices Regulation (MDR).
- Reviewed the actions taken to mitigate risk in new business ventures.

**Membership**

<table>
<thead>
<tr>
<th>Member since</th>
<th>Meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michael Friedman (Chairman)</td>
<td>August 2014 4/4</td>
</tr>
<tr>
<td>Vinita Bali</td>
<td>April 2015 4/4</td>
</tr>
<tr>
<td>Ian Barlow</td>
<td>October 2014 4/4</td>
</tr>
<tr>
<td>Joseph Papa(^1)</td>
<td>April 2008 4/4</td>
</tr>
</tbody>
</table>

\(^1\) Joseph Papa will be retiring from the Board and the Committee at the Annual General Meeting to be held on 12 April 2018.

\(^2\) Marc Owen will join the Committee on 1 March 2018.

2018 focus
- Continue to monitor the impact of the EU General Data Protection Regulation (GDPR) and the EU Regulations for Medical Devices (MDR).
- Conduct select reviews of the compliance programme in key markets.
- Continue to monitor progress against key compliance and quality metrics.
July (in Hull, UK)
- Reviewed various quality metrics including the results of inspections by the FDA and Notified Bodies, progress on handling complaints and in preparing for the MDR.
- Reviewed the progress being made to address findings identified by the Internal Audit function.
- Received an update regarding the Company’s readiness for the new EU General Data Protection Regulation (GDPR).

November (in Dubai, UAE)
- Reviewed various quality metrics including the results of inspections by the FDA and Notified Bodies, progress on handling complaints and preparations for the implementation of the MDR.
- Reviewed the progress against the 2017 Compliance Plan of Action and the follow up actions to findings identified in compliance audits.

At each meeting we noted and considered the activities of compliance and enforcement agencies and investigation of possible improprieties. At every meeting a report on the Quality Assurance Regulatory Assurance (QARA) function was provided along with updates of product complaint trends regularly discussed in 2017. We also reviewed a report on the activities of the Group’s Ethics & Compliance Committee and reviewed the progress of the Global Compliance Programme.

OVERSIGHT OF QUALITY & REGULATORY
Product safety is at the heart of our business. Regulatory authorities across the world enforce a complex series of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. During the year, we oversaw the quality and regulatory activities of our business. At each meeting, we received a report on quality and regulatory matters from the SVP Quality and the President of Global Operations.

We reviewed the results of inspections carried out by the FDA and other regulators and monitored the progress of improvements following some of these inspections, using a dashboard, which highlighted progress being made. We also monitored the work being undertaken to help our manufacturing sites to prepare for future inspections.

We requested an in-depth report from management into our complaint handling process. This report explained our approach to complaint handling including, how we categorised different complaints, how we trained our staff to recognise and escalate complaints received by the business appropriately, and our planned and ongoing process enhancements.

We reviewed the results of quality audits undertaken during the year, approved follow up actions and monitored progress made to address these actions.

OVERSIGHT OF ETHICS & COMPLIANCE
‘Doing the right thing’ is part of our licence to operate. Business practices in the healthcare industry are subject to increasing scrutiny by government authorities in many countries. During the year, we oversaw the ethics and compliance activities of our business. At each meeting we received a report on ethics and compliance matters from the Chief Compliance Officer and a legal update on these matters from the Chief Legal Officer.

We regularly review our compliance programme as it relates to healthcare professionals and third party sellers (such as distributors and sales agents), particularly in higher risk markets. For healthcare professionals, this includes policies, training and certification, as well as pre-approval of consulting services and grants and fellowships. For third parties, our programme includes due diligence, contracts with compliance terms, compliance training and certification, and site assessments to check compliance controls and monitoring visits to review books and records.

We ensure that comprehensive due diligence is carried out prior to an acquisition and we ensure that following acquisitions new businesses are integrated rapidly into the Smith & Nephew compliance programme. During the year, we received a report from management on the ethics and compliance lessons learned from our mergers and acquisitions process over the last five years.

We oversee the employee compliance training programme, ensuring that all new employees are trained on our Code of Conduct, which sets out our basic legal and ethical principles for conducting business. We are updated on significant calls made to our whistle-blower line, which enables employees and members of the public to contact us anonymously through an independent provider (where allowed by local law) and are updated on allegations of potentially significant improprieties and the Company’s response.

Michael Friedman
Chairman of the Ethics & Compliance Committee
AUDIT COMMITTEE

Membership

<table>
<thead>
<tr>
<th>Member</th>
<th>Member since</th>
<th>Meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robin Freestone (Chairman)</td>
<td>September 2015</td>
<td>7/7</td>
</tr>
<tr>
<td>Ian Barlow</td>
<td>May 2010</td>
<td>7/7</td>
</tr>
<tr>
<td>Erik Engstrom</td>
<td>January 2015</td>
<td>6/7</td>
</tr>
<tr>
<td>Brian Larcombe</td>
<td>January 2003</td>
<td>3/3</td>
</tr>
<tr>
<td>Marc Owen</td>
<td>October 2017</td>
<td>2/2</td>
</tr>
<tr>
<td>Joseph Papa</td>
<td>February 2011</td>
<td>7/7</td>
</tr>
</tbody>
</table>

1 Robin Freestone was appointed Chairman of the Audit Committee on 1 March 2017, succeeding Ian Barlow, who remained as a member of the Committee and became the Senior Independent Director with effect from 6 April 2017.
2 Designated financial experts under the SEC Regulations or recent and relevant financial experience under the UK Corporate Governance Code.
3 Erik Engstrom missed one Audit Committee meeting in Hull, which clashed with a RELX board meeting for which he is the Chief Executive Officer.
4 Brian Larcombe retired from the Board and Audit Committee at the Annual General Meeting on 6 April 2017.
5 Marc Owen was appointed to the Board and the Audit Committee with effect from 1 October 2017.
6 Joseph Papa will retire from the Board and the Audit Committee at the Annual General Meeting to be held on 12 April 2018.
7 Roland Diggelmann will join the Audit Committee on 1 March 2018.

2018 focus

– To provide assurance over the next phase of the Group’s NAPO system (our SAP Enterprise Resource Planning (ERP) implementation in North America).
– To extend the breadth of the assurance activities to include other risk areas such as product risk linking into the Group’s top risk items.
– Monitoring the progress made on cyber security, one of our principal risks identified in 2017.
– To provide assurance over the Accelerating Performance and Execution (APEX) programme, which will streamline manufacturing, warehouse and distribution, use systems to provide general administration more efficiently and increase sales force effectiveness whilst maintaining customer focus.

DEAR SHAREHOLDER,

I’m pleased to write to you for the first time as your new Chairman of the Audit Committee. I must take this opportunity to thank Ian Barlow for his excellent chairmanship over the past seven years and wish him well in his new role as Senior Independent Director, whilst retaining his invaluable experience and expertise as he remains a member of the Audit Committee. I’d also like to thank Brian Larcombe, who stepped down on 6 April 2017, for his many years of wise counsel on this Committee.

Your Audit Committee has had another busy year, meeting seven times. Of course, the usual matters we expect to cover every year were dealt with, but as with all years there were other matters as well. Indeed there have been a number of personnel changes directly or indirectly affecting the Committee this year which I should reference:

We welcomed Graham Baker as our new Chief Financial Officer, with effect from 1 March 2017. Graham’s profile can be read in the section about Directors on page 50 and he is an excellent appointment to the Board, including strong executive oversight of the Company’s controls framework.

Marc Owen has also joined the Audit Committee. His background in healthcare, based in the US and European markets, provides the experience which will be missed by the anticipated retirement of Joe Papa in 2018. I’d like to welcome Marc to the Committee and look forward to working with him.

We welcomed Steve Humphries, our new SVP Internal Audit. Steve comes from a rich industry background. He was previously Chief Internal Auditor for SABMiller plc, another manufacturing firm, and brings strong insight. He has previously held positions at Wolseley plc, Avery Dennison Inc. and Néstle UK Ltd.

Finally, we welcomed our new Chief Information Officer, Chris Bayley, who has a strong background in cyber security from TUI plc. The work he has commenced has given the Committee the opportunity to review and challenge the IT architecture in the Company and its future-proofing to the ever present threat of cyber attack.

Moving onto our auditor, KPMG. They have completed their third year’s audit and continue to provide robust challenge and suggest areas of improvement within our internal control framework. We have negotiated fees that will continue to be reviewed for good market practice. KPMG and the SVP Internal Audit’s team continued to highlight areas where improvements are required. Further detail of the work undertaken can be found in the report below.
The main non-routine matters we dealt with during the year were:

– Monitoring the improvements made in our risk management, led by Susan Swabey, Company Secretary, who is responsible for our risk management assessment. Susan has worked closely with our Senior Director of Internal Audit to develop our processes for risk management, our approach to risk appetite and improving alignment between the Board’s assessment of risk and the underlying risk registers generated by management. This work accelerated in 2017 with deep dives to examine risk through the lens of our products and also considering risks from a cross-functional perspective.

– Monitoring the Company’s Minimum Acceptable Practices (MAPs) for internal controls. We have set a goal of 97% compliance with these practices (currently 95% as self-assessed by management) and expect this to be achieved during 2018.

– Updates from our SVP Treasury, Tax and Finance Operations Functions. The SVP Tax reported on US tax reform.

– Monitoring the Finance Transformation project, which is planned to deliver significant cost savings and improvements to internal control and update on the service provided by our outsourced finance facility.

– Monitoring the progress of the implementation of our NAPO system (our SAP ERP implementation in North America).

– Assessing new accounting standards IFRS 9, 15 and 16.

– Update from Smith & Nephew’s Chief Information Officer including cyber risk, IT risk as a whole and incident management reporting.

Robin Freestone
Chairman of the Audit Committee
ACTIVITIES OF THE AUDIT COMMITTEE IN 2017 AND SINCE THE YEAR END

In 2017, we held five physical meetings and two meetings via voice conference. All except one meeting were attended by all appointed members of the Audit Committee. The Chairman, the Chief Executive Officer, the Chief Financial Officer, the SVP Internal Audit, the external auditor, and key members of the finance function, the Company Secretary and Deputy Company Secretary also attended by invitation. We also met with the external auditor and the SVP Internal Audit without management present. Our programme of work in 2017 was as follows:

Early February

Approval of Preliminary Announcement
- Reviewed the results for the full year 2016 and the preliminary announcement and recommended them for adoption by the Board.
- Reviewed a draft of the 2016 Annual Report.
- Reviewed the effectiveness of financial controls and of the Risk Management process and identified areas for improvement in 2017.
- Received a progress report from the SVP Internal Audit and approved the Internal Audit Plan for 2017.
- Received the Quality Assurance Report and approved the Quality Assurance work programme for 2017.
- Received the Viability Statement and confirmed that the Company is a viable entity for the assessed forthcoming three-year period.
- Held a private meeting with external auditor, KPMG.

Late February (via voice conference)

Approval of Financial Statements
- Reviewed and approved the Annual Report and Accounts for 2016, having agreed that they were fair balanced and understandable, and recommended them for adoption by the Board.
- Considered the effectiveness and independence of the external auditor and concluded that their work had been effective and independent.

April

- Reviewed the control themes and observations of the external auditor and concluded that they had met expectations.
- Received a progress report from the SVP Internal Audit.
- Approved the Sustainability Report and its verification process.
- Received a corporate governance update for 2018 corporate reporting.
- Reviewed the annual report process and recommended improvements for 2017.
- Risk management update, including heat maps from the Company Secretary and Senior Director of Internal Audit.
- Held a private meeting with the external auditor, KPMG.

May (via voice conference)

Approval of Q1 Trading Report
- Reviewed the Q1 2017 Trading Report and approved the Q1 announcement.
- Approved the Company’s policy and report on Conflict Minerals for submission to the NYSE.

Since the year end, we have also reviewed the results for the full year 2017, the preliminary announcement, Annual Report and Accounts for 2017 and have concluded that taken as a whole, they are fair, balanced and understandable and have advised the full Board accordingly.

July (in Hull, UK)

Approval of H1 Results
- Reviewed the results for the first half 2017 and approved the H1 announcement.
- KPMG reviewed and provided findings on H1 2017.
- Reviewed and approved the external auditor’s Integrated Audit Plan for 2017.
- Received a progress report from the SVP Internal Audit.
- Received a report from the Group Treasurer, including an update on pension matters.
- Approved the definitions for trading/non-trading for annual reporting purposes.
- Received an update regarding the implementation of IFRS 9, 15 and 16.
- Held private meetings with external auditor, KPMG and the SVP Internal Audit.

Early November (in Dubai, UAE)

Approval of Q3 Trading Report
- Reviewed the Q3 2017 Trading Report and approved the Q3 announcement.
- Reviewed the progress reports from the external auditor on Q3 2017 and from Internal Audit on their work.
- Received an update on new reporting, regulatory and governance requirements.
- Received an update on Sarbanes-Oxley (SOx) and MAPs progress.
- Received a progress report from the SVP Internal Audit, focusing on fraud.
- Held private meetings with external auditor, KPMG.

Late November

Review of Functional Reports
- Received a report from the SVP Internal Audit focusing on the 2018 Internal Audit plan.
- Reviewed and approved the layout and design of the Annual Report 2017.
- Considered and approved critical accounting policies and judgements in advance of the 2017 year end.
- Received an update from KPMG on the external audit and preliminary SOx control findings.
- Received and discussed reports on Tax, Risk Management, Finance Transformation and Cyber Risk.
- Held private meetings with external auditor, KPMG and the SVP Internal Audit.
SIGNIFICANT MATTERS RELATED TO THE FINANCIAL STATEMENTS

We considered the following key areas of judgement in relation to the 2017 accounts and at each half-year and quarterly trading report, which we discussed in all cases with management and the external auditor:

Valuation of inventories
A feature of the Orthopaedic Reconstruction and Trauma & Extremities franchises (whose finished goods inventory makes up approximately 60% of the Group total finished goods inventory) is the high level of product inventory required, some of which is located at customer premises and is available for customers’ immediate use. Complete sets of products, including large and small sizes, have to be made available in this way. These sizes are used less frequently than standard sizes and towards the end of the product life cycle are inevitably in excess of requirements. Adjustments to carrying value are therefore required to be made to orthopaedic inventory to anticipate this situation. These adjustments are calculated in accordance with a formula based on levels of inventory compared with historical usage. This formula is applied on an individual product line basis and is first applied when a product group has been on the market for two years. This method of calculation is considered appropriate based on experience, but it does involve management estimation of customer demand, effectiveness of inventory deployment, length of product lives, phase-out of old products and efficiency of manufacturing planning systems.

Our action
At each quarter end, we received reports from, and discussed with, management the level of provisioning and material areas at risk. The provisioning level was 19% at 31 December 2017 (20% as at 31 December 2016). We challenged the basis of the provisions and concluded that the proposed levels were appropriate and have been consistently estimated.

Liability provisioning
The recognition of provisions for legal disputes is subject to a significant degree of estimation. Provision is made for loss contingencies when it is considered probable that an adverse outcome will occur and the amount of the loss can be reasonably estimated. In making its estimates, management takes into account the advice of internal and external legal counsel and uses third party actuarial modelling where appropriate. Provisions are reviewed regularly and amounts updated where necessary to reflect developments in the disputes. The ultimate liability may differ from the amount provided depending on the outcome of court proceedings and settlement negotiations or if investigations bring to light new facts.

Our action
As members of the Board, we receive regular updates from the Chief Legal Officer. These updates form the basis for the level of provisioning. The Group carries a provision relating to potential liabilities arising on its portfolio of modular metal-on-metal hip products of $157 million as of 31 December 2017. We received detailed reports from management on this position, including the actuarial model used to estimate the provision, and challenged the key assumptions, including the number of claimants and projected value of each settlement. The legal judgements have decreased by $35 million during the year, primarily due to settlements of a number of metal-on-metal matters that were provided for within the actuarially determined provision. There have been some smaller movements from cases having been resolved and some new matters arising. We have determined that the proposed levels of provisioning at year end of $190 million included within ‘provisions’ in Note 17.1 in 2017 ($225 million in 2016) were appropriate in the circumstances.

Impairment
In carrying out impairment reviews of acquisition intangible assets a number of significant assumptions have to be made when preparing cash flow projections. These include the future rate of market growth, discount rates, the market demand for the products acquired, the future profitability of acquired businesses or products, levels of reimbursement and success in obtaining regulatory approvals. If actual results should differ or changes in expectations arise, impairment charges may be required, which would adversely impact operating results.

Our action
We reviewed management’s reports on the key assumptions with respect to acquisition intangible assets – particularly the forecast future cash flows and discount rates used to make these calculations. We noted the reduction in headroom relating to the coblation technology asset acquired with ArthroCare in 2014 and challenged the assumptions used for future revenue growth of products using this technology. We concluded that the carrying value of this asset is appropriately supported by the cash flow projections. We have also considered the disclosure surrounding these reviews, and concluded that the review and disclosure were appropriate.
Taxation
The Group operates in numerous tax jurisdictions around the world. Although it is Group policy to submit its tax returns to the relevant tax authorities as promptly as possible, at any given time the Group has unagreed years outstanding and is involved in disputes and tax audits. Significant issues may take several years to resolve. In estimating the probability and amount of any tax charge, management takes into account the views of internal and external advisers and updates the amount of provision whenever necessary. The ultimate tax liability may differ from the amount provided depending on interpretations of tax law, settlement negotiations or changes in legislation.

Our action
We annually review our processes and approve the principles for management of tax risks. We review quarterly reports from management evaluating existing risks and tax provisions, which has included a detailed impact assessment of US tax reforms in the year end report from management. Based on a thorough report from management of tax liabilities and our challenge of the basis of any tax provisions recorded, we concluded that the levels of provisions and disclosures were appropriate.

OTHER MATTERS RELATED TO THE FINANCIAL STATEMENTS
As well as the identified significant matters, other matters that the Audit Committee considered during 2017 were:

Business combinations
During 2017, we acquired Rotation Medical, Inc. We received a report from management setting out the significant assets and liabilities acquired, details of the provisional fair value adjustments applied, an analysis of the intangible assets acquired, the assumptions behind the valuation of these acquired intangible assets and the proposed useful economic life of the intangible asset acquired. During 2017, we also considered and concurred with management that there had been no changes to the provisional fair values recognised in the 2016 acquisition of Blue Belt Technologies, Inc.

Post Retirement Benefit Pensions
The Group has post retirement defined benefit pension schemes, which require estimation in setting the assumptions. We received a report from management setting out their proposed assumptions for the UK and US schemes and concurred with management that these assumptions were appropriate.

EXTERNAL AUDITOR
Independence of External Auditor
Following a competitive tender in 2014, KPMG was appointed external auditor of the Company in 2015. We are satisfied that KPMG are fully independent from the Company’s management and free from conflicts of interest. Our Auditor Independence Policy, which ensures that this independence is maintained, is available on the Company’s website.

We believe that the implementation of this policy helps ensure that auditor objectivity and independence is safeguarded. The policy also governs our approach when we require our external auditor to carry out non-audit services, and all such services are strictly governed by this policy.

The Auditor Independence Policy also governs the policy regarding audit partner rotation with the expectation that the audit partner will rotate at least every five years. Stephen Oxley has been in tenure for three years as our Audit Partner. The Audit Committee confirms it has complied with the provision of the Competition and Markets Authority Order.

Effectiveness of external auditor(s)
We conducted a review into the effectiveness of the external audit as part of the 2017 year end process, in line with previous years. We sought the views of key members of the finance management team, considered the feedback from this process and shared it with management.

During the year, we also considered the inspection reports from the Audit Oversight Boards in the UK and US and determined that we were satisfied with the audit quality provided by KPMG.

The Audit Committee regularly receives feedback from KPMG, including at each meeting where management present their summary of critical accounting estimates as at each quarter end.

Overall therefore, we concluded that KPMG had carried out their audit for 2017 effectively.

The Audit Committee continues to review not only the effectiveness of the external auditor, KPMG but also its market competitiveness.

Appointment of External Auditor at Annual General Meeting
Resolutions will be put to the Annual General Meeting to be held on 12 April 2018 proposing the re-appointment of KPMG as the Company’s auditor and authorising the Board to determine its remuneration, on the recommendation of the Audit Committee in accordance with the Competition and Markets Authority (CMA) Order 2014.

Disclosure of Information to the Auditor
In accordance with Section 418 of the Companies Act 2006, the Directors serving at the time of approving the Directors’ Report confirm that, to the best of their knowledge and belief, there is no relevant audit information of which the Auditor, KPMG, is unaware and the Directors also confirm that they have taken reasonable steps to be aware of any relevant audit information and, accordingly, to establish that the Auditor is aware of such information.
Non-Audit Fees Paid to the Auditor

Non-audit fees are subject to approval in-line with the Auditor Independence Policy which is reviewed annually and forms part of the terms of reference of the Audit Committee.

The Audit Committee recognise the importance of the independence of the external auditor and ensures that the Auditor’s independence should not be breached. The Audit Committee ensures that the Auditor does not receive a fee from the Company or its subsidiaries that would be deemed large enough to impact its independence or be deemed a contingent fee. The total fees for permitted non-audit services shall be no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audits of the Company and its subsidiaries. In light of the Financial Reporting Council’s revised Ethical Standards and SEC Regulations, we have revised our Auditor Independence Policy.

Any pre-approved aggregate, individual amounts up to $25,000 may be authorised by the Senior Vice-President Tax and Senior Vice-President Group Finance respectively and amounts up to $50,000 by the Chief Financial Officer. Any individual amount over $50,000 must be pre-approved by the Chairman of the Audit Committee. If unforeseen additional permitted services are required, or any which exceed the amounts approved, again pre-approval by the Chairman of the Audit Committee is required.

The following reflects the non-audit fees incurred with KPMG in 2017, which were approved by the Chairman of the Audit Committee:

<table>
<thead>
<tr>
<th>Service Description</th>
<th>2017 (million)</th>
<th>2016 (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax fees and compliance services</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Pension advice</td>
<td>–</td>
<td>0.5</td>
</tr>
<tr>
<td>Assistance with tax compliance in Singapore only.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advice on the impact of changes to pension benefits for the UK defined benefit scheme.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The ratio of non-audit fees to audit fees for the year ended 31 December 2016 was 0.15. The ratio of non-audit fees to audit fees for the year ended 31 December 2017 is 0.02.

Audit Fees paid to the Auditor

Fees for professional services provided by KPMG, the Group’s independent auditor in each of the last two fiscal years, in each of the following categories were:

<table>
<thead>
<tr>
<th>Category</th>
<th>2017 (million)</th>
<th>2016 (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit fees</td>
<td>4.4</td>
<td>4.0</td>
</tr>
<tr>
<td>Audit-related fees</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>4.4</td>
<td>4.0</td>
</tr>
</tbody>
</table>

INTERNAL AUDIT

The Internal Audit team, which reports functionally to the Audit Committee, carries out risk-based reviews across the Group. These reviews examine the management of risks and controls over financial, operational, IT and transformation programme activities. The audit team, led by the SVP Internal Audit, consists of appropriately qualified and experienced employees. Third parties may be engaged to support audit work as appropriate.

The SVP Internal Audit has direct access to, and has regular meetings with, the Audit Committee Chair and prepares formal reports for Audit Committee meetings on the activities and key findings of the function, together with the status of management’s implementation of recommendations. The Audit Committee has unrestricted access to all internal audit reports, should it wish to review them.

During the year, the team completed over 40 audits and reviews across the Group. These included reviews of: the roll-out of SAP across the North America business; IT operations including cyber status; inventory, financial reporting and credit management processes across multiple markets; Treasury operations; Manufacturing operations in China and Costa Rica; Shared Services operations in China, India and Poland; ERM effectiveness; and readiness for complying with e-commerce with key customers (GS1-GDSN) and Global Data Protection Requirements (GDPR).

A periodic review of the Internal Audit function is undertaken, most recently in 2014, by an independent external consultant in accordance with the guidelines of the Institute of Internal Auditors. In addition a structured questionnaire was introduced this year, allowing Non-Executive and Executive and senior management, plus the external auditor, to comment on key aspects of the function’s performance. The Audit Committee, which re-approved the function’s charter in November 2017, has satisfied itself that adequate, objective internal audit standards and procedures exist within the Group and that the Internal Audit function is effective.

RISK MANAGEMENT PROGRAMME

Whilst the Board is responsible for ensuring oversight of strategic risks relating to the Company, determining an appropriate level of risk appetite, and monitoring risks through a range of Board and Board Committee processes, the Audit Committee is responsible for ensuring oversight of the processes by which operational risks, relating to the Company and its operations are managed and for reviewing financial risks and the operating effectiveness of the Group’s Risk Management process.

During the year, we reviewed our Risk Management processes and progress was discussed at our meetings in February, April and November. We approved the Risk Management Programme for 2017 and monitored performance against that plan specifically reviewing the work undertaken by the risk champions across the Group, identifying the risks which could impact their areas of our business.

During May and June, a new risk management policy and manual was rolled out with one-to-one training provided to risk champions. From May 2017, this allowed risk reporting to commence in-line with the strategy of a bottom up approach. This was revisited again in November. The Enterprise Risk Management (ERM) approach commenced and included interviewing individual members of senior management and the Board throughout Q3 2017, to discuss principal risks and concerns they had. These interviews were also used to understand the individual Board members’ risk tolerance.
Later in July, the ERMA structure was aligned with that of the Internal Audit function to assess the mitigating actions in place for our key products.

In November, it was reported that deep dives had concluded for ALLEVYN, Total Knees, Compliance EUCAN (Europe and Canada) and PICO, with key themes noted by the Committee. The 2017 Annual Report disclosure was also discussed.

Since the year end, we have reviewed a report from the SVP Internal Audit into the effectiveness of the Risk Management Programme throughout the year. We considered the principal risks, the actions taken by management to review those risks and the Board risk appetite in respect of each risk.

We concluded that the Risk Management process during 2017 and up to the date of approval of this Annual Report was effective. Work will continue in 2018 and beyond to continue to enhance the process.

See pages 40–49 for further information on our Risk Management Process.

**VIABILITY STATEMENT**

We also reviewed management’s work in conducting a robust assessment of those risks which would threaten our business model and the future performance or liquidity of the Company, including its resilience to the threats of viability posed by those risks in severe but plausible scenarios. This assessment included stress and sensitivity analyses of these risks to enable us to evaluate the impact of a severe but plausible combination of risks. We then considered whether additional financing would be required in such eventualities. Based on this analysis, we recommended to the Board that it could approve and make the Viability Statement on pages 48–49.

**GOING CONCERN**

The Group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the ‘Financial review and principal risks’ section on pages 36–49. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 38–39.

In addition, the Notes to the Group accounts include the Group’s objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources and its customers and suppliers are diversified across different geographic areas. As a consequence, the Directors believe that the Group is well placed to manage its business risk successfully despite the ongoing uncertain economic outlook.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis for accounting in preparing the annual financial statements.

Management also believes that the Group has sufficient working capital for its present requirements.

**EVALUATION OF INTERNAL CONTROLS**

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a–15(f) and 15d–15(f) under the US Securities Exchange Act of 1934.

There is an established system of internal control throughout the Group and our country business units. The main elements of the internal control framework are:

- The management of each country is responsible for the establishment and review of effective financial controls within their business unit.
- The Group’s IT organisation is responsible for the establishment of effective IT controls within the core financial systems and underlying IT infrastructure. The responsibility for the review of the effectiveness of such controls is split between the IT organisation and the Financial Controls & Compliance Group.
- The Group Finance Manual sets out financial and accounting policies. The Group’s Minimum Acceptable Practices (MAPs) have been enhanced by simplifying and clarifying the requirements as well as broadening their scope. The business is required to self-assess their level of compliance with the MAPs twice a year and remediate any gaps. MAPs compliance is validated through spot checks conducted by the Financial Controls and Compliance function and during both Internal Audit and external audit visits.
- There are clearly defined lines of accountability and delegations of authority.
- During the year, there has been further progress in standardising and simplifying our core financial controls. In 2018, there will be a focus on standardising the controls globally, merging the core financial controls with the MAPs and evaluating technology solutions to operating and testing controls.
- The Internal Audit function executes a risk-based annual work plan, as approved by the Audit Committee.
- The Audit Committee reviews reports from Internal Audit on their findings on internal financial controls, including compliance with MAPs and from the SVP Group Finance and the heads of the Financial Controls and Compliance, Taxation and Treasury functions.
- The Audit Committee reviews regular reports from the Financial Controls and Compliance function with regard to compliance with the Sarbanes-Oxley Act including the scope and results of management’s testing and progress regarding any remediation, as well as the aggregated results of MAPs self-assessments performed by the business.
- Business continuity planning, including preventative and contingency measures, back-up capabilities and the purchase of insurance.
- Risk management policies and procedures including segregation of duties, transaction authorisation, monitoring, financial and managerial review and comprehensive reporting and analysis against approved standards and budgets.
- A treasury operating framework and Group treasury team, accountable for all treasury activities, which establishes policies and manages liquidity and financial risks, including foreign exchange, interest rate and counterparty exposures. Treasury policies, risk limits and monitoring procedures are reviewed regularly by the Audit Committee on behalf of the Board.
- Our published Group tax strategy which details our approach to tax risk management and governance, tax compliance, tax planning, the level of tax risk we are prepared to accept and how we deal with tax authorities, which was reviewed by the Audit Committee on behalf of the Board.
The Audit Committee reviews the Group whistle-blower procedures.

The Audit Committee received and reviewed a report on the progress of the Finance Transformation during 2017 and the mitigation of the associated risks.

This system of internal control has been designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. Because of inherent limitation, our internal controls over financial reporting may not prevent or detect all misstatements. In addition, our projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Entities where the Company does not hold a controlling interest have their own processes of internal controls similar to those of the Company.

We have reviewed the system of internal financial control and satisfied ourselves that we are meeting the required standards both for the year ended 31 December 2017 and up to the date of approval of this Annual Report. No concerns were raised with us in 2017 regarding possible improprieties in matters of financial reporting.

This process complies with the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' on the UK Corporate Governance Code and additionally contributes to our compliance with the obligations under the Sarbanes-Oxley Act and other internal assurance activities. There has been no change during the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting.

The Board is responsible overall for reviewing and approving the adequacy and effectiveness of the risk management framework and the system of internal controls over financial, operational (including quality management and ethical compliance) processes operated by the Group. The Board has delegated responsibility for this review to the Audit Committee. The Audit Committee, through the Internal Audit function, reviews the adequacy and effectiveness of internal control procedures and identifies any weaknesses and ensures these are remediated within agreed timelines. The latest review covered the financial year to 31 December 2017 and included the period up to the approval of this Annual Report.

The main elements of this annual review are as follows:

- The Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the design and operation of the Group’s disclosure controls and procedures as at 31 December 2017. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded on 22 February 2018 that the disclosure controls and procedures were effective as at 31 December 2017.

- Management is responsible for establishing and maintaining adequate internal control over financial reporting.

Based upon their assessment, management concluded and reported that, as at 31 December 2017, the Group’s internal control over financial reporting was effective based on those criteria.

- Having received the report from management, the Audit Committee reports to the Board on the effectiveness of controls.

- KPMG, an independent registered public accounting firm issued an audit report on the Group’s internal control over financial reporting as at 31 December 2017.

CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS

We have adopted a Code of Ethics for Senior Financial Officers, which applies to the Chief Executive Officer, the Chief Financial Officer, the SVP Group Finance and the Group’s senior financial officers. There have been no waivers to any of the Code’s provisions nor have there been any amendments to the Code during 2017 or up until 22 February 2018. A copy of the Code of Ethics for Senior Financial Officers can be found on our website at www.smith-nephew.com

In addition, every individual in the finance function certifies to the Chief Financial Officer that they have complied with the Finance Code of Conduct.

EVALUATION OF COMPOSITION, PERFORMANCE AND EFFECTIVENESS OF THE AUDIT COMMITTEE

The composition, performance and effectiveness of the Audit Committee was evaluated this year in accordance with the EU Audit Reform. Its effectiveness is also reviewed in conjunction with the annual Board evaluation, which this year was conducted by Ian Barlow, in his first year as Senior Independent Director.

The review by the Audit Committee found the following and the below action will be taken during 2018:

<table>
<thead>
<tr>
<th>Finding</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Composition</strong></td>
<td>None</td>
</tr>
<tr>
<td>The composition of the Audit Committee with at least one financial expert and a mix of UK and global experience in the healthcare sector was deemed appropriate.</td>
<td></td>
</tr>
<tr>
<td><strong>Performance</strong></td>
<td>None</td>
</tr>
<tr>
<td>The Committee was considered to have performed effectively with an appropriate balance between challenge and constructive support.</td>
<td></td>
</tr>
<tr>
<td><strong>Effectiveness</strong></td>
<td>None</td>
</tr>
<tr>
<td>The Committee was considered to be effective with a thorough agenda and good papers, which were well presented and debated.</td>
<td></td>
</tr>
</tbody>
</table>
DEAR SHAREHOLDER,

This will be the final time I write to you as your Chairman of the Smith & Nephew plc Remuneration Committee. I have been a member of the Board since 2008 and Chairman of the Remuneration Committee since April 2011. With that longevity in mind, I will retire as Chairman of the Remuneration Committee and as a Director of the Company at the 2018 Annual General Meeting, where I will not stand for re-election. Much of my time during 2017 has been assisting our Chairman to find my replacement and assisting the new Remuneration Committee Chair in settling into her new role. I am very pleased to introduce Angie Risley to you as our Chairman Elect. Angie has vast experience of Human Resources, including remuneration and importantly was an effective member of the Remuneration Committee in her previous non-executive director roles, most recently as Chairman of the Remuneration Committee at Serco plc. Her experience in a wide variety of different sectors will add real value to what is becoming an expanded role for the Remuneration Committee. Proposed Corporate Governance changes indicate that increased employee engagement and oversight of employee remuneration generally will fall under the remit of the Remuneration Committee.

REVIEW OF 2017 PERFORMANCE

During the year, the Group delivered underlying revenue growth of 3% and a 20bps improvement in trading profit margin, in-line with guidance. Highlights included strong growth from Knee Implants and in the Emerging Markets. Trading cash flow improved year-on-year, at $940 million, as did the trading profit to cash conversion ratio of 90%. The tax rate on trading results reduced by 670bps to 17.1%, including a benefit from a one-off US tax settlement. Adjusted earnings per share (EPSA) were up 14%. Our Return On Invested Capital also improved, up 280bps to 14.3%.

These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 178–181. As a result of the financial performance in 2017 and over the three-year period ending 31 December 2017, our Executive Directors received the following awards:

<table>
<thead>
<tr>
<th>Award Type</th>
<th>Olivier Bohuon</th>
<th>Graham Baker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash bonus (as % of salary)</td>
<td>91%</td>
<td>104%</td>
</tr>
<tr>
<td>Equity Incentive Award (as % of salary at date of grant)</td>
<td>50%</td>
<td>55%</td>
</tr>
<tr>
<td>Performance Share Award (at date of grant)</td>
<td>102.6%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The total remuneration paid to Olivier Bohuon and Graham Baker in 2017 is detailed further on page 83. As Graham Baker joined the Company on 1 March 2017, there are no comparative figures for him.

The single total remuneration figure for Mr Bohuon for 2017 increased to $5,032,925 from $3,332,850 in 2016. This was directly related to the stronger Company performance in 2017 and in particular above target performance for trading cash flow and trading profit margin, which collectively led to an increase of $616,009 for the Cash Incentive Plan. Our cumulative free cash flow and Emerging Market results over the three year performance period for our Performance Share Plan also contributed to a total vesting of these awards at 108% of target compared to 16% in 2016.

RETIREMENT OF OLIVIER BOHUON

You will see from the meetings the Remuneration Committee has conducted, 2017 was a busy year relating to Executive Director remuneration. Our Chairman, Roberto Quarta, has already touched on the retirement of Olivier Bohuon as Chief Executive Officer. The Committee has met to approve his retirement arrangements, which are in-line with the Remuneration Policy approved by our shareholders at the 2017 Annual General Meeting.

In summary, Olivier Bohuon will support the transition to the new Chief Executive Officer, when appointed and will continue to receive the same salary and benefits as in 2017. He will participate in the Annual Incentive Plan for the period worked in 2018, but will not receive a 2018 award under the Performance Share Plan. As a good leaver, his Equity Incentive Awards will vest on his leaving date, and his Performance Share Awards will be pro-rated for length of time served since the date of award and will vest subject to the original performance conditions on their original vesting dates in 2019 and 2020. Additionally, his 2017 award will remain subject to a two-year post vesting holding period.

I’d also like to personally thank Olivier for his leadership and improvements achieved during his tenure, and wish him the best for the future.

2017 ANNUAL GENERAL MEETING (AGM)

We were pleased that following the vote against our Remuneration Report (excluding the policy) in 2016, that both our Remuneration Policy and Remuneration Report received over 98% of votes in favour at the 2017 Smith & Nephew plc AGM. This demonstrates the strong support from our shareholders for our remuneration arrangements. We do not plan to make any changes to our remuneration arrangements in 2018.

I’d like to thank those shareholders who engaged with us during 2017 and met with Angie Risley. These shareholders covered nearly 15% of our shares. We welcome your feedback on our remuneration policy and arrangements and actively consider your views in our discussions.

LOOKING FORWARD

The Remuneration Committee will continue to be guided by the principles we have followed in the past:

- Performance measures linked to our strategic priorities;
- Alignment of executive and shareholder interests; and
- Simplicity.

We will ensure that pay remains aligned with performance.

We will also continue to monitor external corporate governance developments and respond accordingly, in particular those relating to expanding the remit of the Remuneration Committee to take greater account of the employee voice.

Joseph Papa
Chairman of the Remuneration Committee
MEASURES IN OUR VARIABLE PAY PLANS

### Financial measures in Annual Incentive Plan

<table>
<thead>
<tr>
<th>Measure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (35%)</td>
<td>Revenue is a key driver of profit growth.</td>
</tr>
<tr>
<td>Trading Profit Margin (25%)</td>
<td>Trading profit margin is a critical measure both for the business and our shareholders and delivering margin improvements is a core commitment under our strategy.</td>
</tr>
<tr>
<td>Trading Cash Flow (15%)</td>
<td>Cash flow from our Established Markets is necessary in order to fund growth in Emerging Markets, innovation, organic growth and acquisitions.</td>
</tr>
</tbody>
</table>

### Business objectives in Annual Incentive Plan

<table>
<thead>
<tr>
<th>Objective</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Process (8.3%)</td>
<td>We need to release resources from the businesses through improved structures, efficiencies and business processes in order to re-invest in our higher growth areas, including Emerging Markets, innovation, organic growth and acquisitions.</td>
</tr>
<tr>
<td>People (8.3%)</td>
<td>We need to attract and retain the right people to achieve our strategy through improving our operating model and drive the right behaviours for all of our people globally.</td>
</tr>
<tr>
<td>Customer (8.3%)</td>
<td>Our mission is to deliver advanced medical technologies that help healthcare professionals, our customers and improve the quality of life of their patients.</td>
</tr>
</tbody>
</table>

### Performance measures in our Performance Share Plan

<table>
<thead>
<tr>
<th>Measure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative TSR (25%)</td>
<td>If we execute our strategy successfully, this will lead to an increased return for our shareholders, whether you invest in the healthcare sector or in the FTSE.</td>
</tr>
<tr>
<td>Cumulative Cash Flow (25%)</td>
<td>Cash flow from our Established Markets is necessary in order to fund growth in Emerging Markets, innovation, organic growth and acquisitions.</td>
</tr>
<tr>
<td>Sales Growth (25%)</td>
<td>Sales growth is a key driver of profit growth.</td>
</tr>
<tr>
<td>Return on Invested Capital (25%)</td>
<td>Return on invested capital is a high priority for our shareholders which will drive better financial discipline and enhanced operating performance.</td>
</tr>
</tbody>
</table>

Detailed further on pages 97–101.
The Remuneration Committee presents the Annual Report on remuneration (the Implementation Report), which will be put to shareholders for an advisory vote at the Annual General Meeting to be held on 12 April 2018.

ROLE OF THE REMUNERATION COMMITTEE
Our work falls into the following three areas:

Determination of Remuneration Policy and Packages
- Determination of Remuneration Policy for Executive Directors and senior executives.
- Approval of individual remuneration packages for Executive Directors and Executive Officers, at least annually, and any major changes to individual packages throughout the year.
- Consideration of remuneration policies and practices across the Group.
- Approval of appropriate performance measures for short-term and long-term incentive plans for Executive Directors and senior executives.
- Determination of pay-outs under short-term and long-term incentive plans for Executive Directors and senior executives.

Oversight of all Company Share Plans
- Determination of the use of long-term incentive plans and overseeing the use of shares in executive and all-employee plans.

Reporting and Engagement with shareholders on Remuneration Matters
- Approval of the Directors’ Remuneration Report ensuring compliance with related governance provisions.
- Continuation of constructive engagement on remuneration matters with shareholders.

The terms of reference of the Remuneration Committee describe our role and responsibilities more fully and can be found on our website: www.smith-nephew.com

ACTIVITIES OF THE REMUNERATION COMMITTEE IN 2017 AND SINCE THE YEAR END
In 2017, we held seven meetings and determined six matters by written resolution. Each meeting was attended by all members of the Committee (except Vinita Bali and Roberto Quarta who each missed one meeting this year). The Chief Executive Officer, the Chief Human Resources Officer and the SVP Global Reward, key members of the finance function and the Company Secretary also attended all or part of some of the meetings, except when their own remuneration was being discussed. We also met with the independent Remuneration Consultants, Willis Towers Watson, without management present. Our programme of work in 2017 can be found in the report below.

2018 focus
- Evaluate remuneration package for a new Chief Executive Officer.
- Review gender pay reports and approve the implementation of a programme designed to reduce the gender pay gap.
- Consider possible response to BEIS Green Paper on Corporate Governance and how best to engage with our employees on remuneration matters.
- Consider the implications of US tax reform.
DIRECTORS’ REMUNERATION REPORT continued

REMUNERATION

Early February
Approval of salaries, awards and payouts in 2017
– Agreed the targets for the short-term and long-term incentive plans for 2017. Introduced global revenue growth and ROIC as long-term performance measurements (defined on page 89). Approved the remuneration strategy for 2017 against the proposed business plan.
– Approved the quantum of cash payments to Executive Directors and Executive Officers under the Annual Incentive Plan and awards under the Equity Incentive Programme and the Performance Share Programme, having considered the 2016 financial results against the performance targets, that were set.
– The Audit Committee joined the Remuneration Committee for both of the above agenda items to answer any questions regarding audited numbers and provide assurance.
– Reviewed the salaries of the Board, Executive Directors and Officers and Chairman.
– Approved the text of the Remuneration Report.

Mid February
Review of Remuneration (via voice conference)
– Discussed the payout under the Annual Incentive Plan and decided to use downwards discretion to adjust outcomes following the performance of the Company in 2016.

Late February
Final approval of the Remuneration Report (via voice conference)
– Approved the final targets for the short-term and long-term incentive plans for 2017.
– Approved the final text of the Remuneration Report.

July (in Hull, UK)
Mid-year Review of Remuneration Arrangements
– Reviewed the shareholder response to the Remuneration Report at the Annual General Meeting and noted shareholders’ feedback that would be addressed in this report.
– Discussed and planned a programme of engagement with institutional investors on remuneration.
– Considered termination arrangements for Executive Directors and Executive Officers.
– Reviewed adherence to shareholding guidelines by Executive Directors, Executive Officers and senior executives.
– Monitored dilution limits and the number of shares available for use in respect of executive and all-employee share plans.
– Approved amendments to the Smith & Nephew ShareSave Plan 2012 rules to reflect regulatory changes.

October
– Approved retirement package for Olivier Bohuon, Chief Executive Officer.

Early November (in Dubai, UAE)
– Prepared for meetings with shareholders to solicit viewpoints and introduce Angie Risley.

Late November
Review of Remuneration Strategy
– Received a report from the Chairman of the Remuneration Committee on recent engagement with shareholders.
– Reviewed and considered the principles for determining payouts under the long-term plans due to vest in 2018.
– Approved the final Remuneration Strategy for 2018.
– Reviewed market data for the Executive Directors and Executive Officers prepared in accordance with the agreed methodology.

Six written resolutions were approved during the year relating to the approval of remuneration arrangements for various Executive Officers.

Since year end, we have also reviewed the financial results for 2017 against the targets under the short-term and long-term incentive arrangements jointly with the Audit Committee, and have agreed the targets for the short-term and long-term incentive plans for 2018. We have also approved increases to the salaries of Executive Directors and Executive Officers and determined cash payments under the Annual Incentive Plan, awards under the Equity Incentive Programme and the Performance Share Programme, and the vesting of awards under the Performance Share Programme granted in 2015. Finally, we approved the wording of this Directors’ Remuneration Report.

During the year, the Remuneration Committee received information and advice from Willis Towers Watson, an independent executive remuneration consultancy firm appointed by the Remuneration Committee in 2011 following a full tender process. They provided advice on market trends and remuneration issues in general, attended Remuneration Committee meetings, assisted in the review of the Directors’ Remuneration Report, provided market benchmark data on compensation design and levels, undertook calculations relating to the TSR performance conditions, assisted in matters relating to the Chief Executive Officer’s retirement, and advised on investor views and engagement. In addition, the Committee received independent advice from Mercer relating to the use of discretion downwards when determining the level of payout in respect of the 2016 annual cash incentive plan. The fees paid to Willis Towers Watson for Remuneration Committee advice during 2017, charged on a time and expense basis, were £98,000 and the fee paid to Mercer was £4,350. Willis Towers Watson also provided other human resources and compensation advice from Mercer relating to the use of discretion downwards when determining the level of payout in respect of the 2016 annual cash incentive plan. The fees paid to Willis Towers Watson for Remuneration Committee advice during 2017, charged on a time and expense basis, were £98,000 and the fee paid to Mercer was £4,350. Willis Towers Watson also provided other human resources and compensation advice to the Company for the level below the Board. Mercer also provided insurance broking, market data, actuarial and investment consulting services both at a global and local level. Both Willis Towers Watson and Mercer comply with the Code of Conduct in relation to Executive Remuneration Consulting in the United Kingdom and the Remuneration Committee is satisfied that their advice is objective and independent.
## Remuneration Implementation Report

### Single Total Figure on Remuneration

The amounts for 2017 have been converted into US$ for ease of comparability using the exchange rates of £ to US$1.2877 and € to US$1.1279 (2016: £ to US$1.349 and € to US$1.106).

<table>
<thead>
<tr>
<th></th>
<th>Olivier Bohuon</th>
<th>Graham Baker</th>
<th>Julie Brown</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Appointed 1 April 2011</td>
<td>Appointed 1 March 2017</td>
<td>Appointed 4 February 2013 (resigned with effect from 11 January 2017)</td>
</tr>
<tr>
<td><strong>Fixed pay</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base salary</td>
<td>$1,330,347</td>
<td>$1,295,017</td>
<td>$21,606</td>
</tr>
<tr>
<td>Payment in lieu of pension</td>
<td>$399,104</td>
<td>$388,505</td>
<td>$6,482</td>
</tr>
<tr>
<td>Taxable benefits</td>
<td>$177,433</td>
<td>$166,465</td>
<td>$637</td>
</tr>
<tr>
<td><strong>Annual variable pay</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Incentive Plan – cash</td>
<td>$1,208,911</td>
<td>$592,902</td>
<td>–</td>
</tr>
<tr>
<td>Hybrid</td>
<td>$665,173</td>
<td>$652,258</td>
<td>–</td>
</tr>
<tr>
<td>Long-term variable pay</td>
<td>$1,251,957</td>
<td>$237,703</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$5,032,925</td>
<td>$3,332,850</td>
<td>$28,725</td>
</tr>
</tbody>
</table>

### Definitions

- **Base salary**: the actual salary receivable for the year.
- **Payment in lieu of pension**: the value of the salary supplement paid by the Company in lieu of a pension.
- **Taxable benefits**: the gross value of all taxable benefits (or benefits that would be taxable in the UK) received in the year.
- **Annual Incentive Plan – cash**: the value of the cash incentive payable for performance in respect of the relevant financial year.
- **Annual Incentive Plan – equity**: the value of the equity element awarded in respect of performance in the relevant financial year, but subject to an ongoing performance test as described on pages 87–88 of this report.
- **Performance Share Plan**: the value of shares vesting that were subject to performance over the three-year period ending on 31 December in the relevant financial year. For awards vesting in early 2018 this is based on an estimated share price of 1,352.140p per share, which was the average price of a share over the last quarter of 2017. The value of the 2014 share awards that vested in 2017 have now been restated with the share price on the date of actual vesting being 1,221.625p per share on 7 March 2017.
- **Total**: the sum of the above elements.

All data is presented in our reporting currency of US$. Amounts for Olivier Bohuon have been converted from EURO and amounts for Julie Brown and Graham Baker from GBP using average exchange rates. Given currency volatility in 2017, this may give the impression of changes that are misleading. Data is presented in local currency in the subsequent sections in the interests of full transparency.
Retirement of Olivier Bohuon

On 9 October 2017, we announced that Olivier Bohuon intended to retire as Chief Executive Officer by the end of 2018.

Up until the date of his retirement, Olivier Bohuon will continue to be paid his salary, pension and benefits and will participate on a pro-rata basis in the 2018 Annual Incentive Plan, which will be delivered entirely as cash. He will not receive a Performance Share Plan in respect of 2018. In line with good leaver provisions in the Plan Rules and Remuneration Policy, the awards granted under the Performance Share Plan in 2016 and 2017 (as detailed in this report) will be pro-rated for length of time held and will, subject to the performance conditions being satisfactorily met, vest on the original vesting dates on the third anniversary of the respective dates of grant. The 2017 award will remain subject to a two-year post-vesting holding period.

FIXED PAY

Base salary

In February 2017, it was agreed that with effect from 1 April 2017, Executive Directors would be paid the following base salaries.

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivier Bohuon</td>
<td>€1,179,490</td>
<td>€1,179,490</td>
</tr>
<tr>
<td>Graham Baker</td>
<td>£510,000</td>
<td>–</td>
</tr>
</tbody>
</table>

In February 2018, we reviewed the base salaries of the Executive Directors, having considered general economic conditions and average salary increases across the rest of the Group, which have averaged at 2% in the UK and the US; 2.6% globally. The Remuneration Committee has agreed that there will be no increase to the base salary of Olivier Bohuon and that Graham Baker’s salary will be increased by 2% to £520,200.

Payment in lieu of pension

In 2017, Olivier Bohuon, Graham Baker and Julie Brown until her resignation on 11 January 2017 received a salary supplement of 30% of their basic salary to apply towards their retirement savings, in lieu of membership of one of the Company’s pension schemes.

Benefits

In 2017, Olivier Bohuon, Graham Baker and Julie Brown until her resignation on 11 January 2017 received death in service cover of seven-times basic salary, of which four-times salary is payable as a lump sum, with the balance used to provide for any spouse and dependent persons. They also received health cover for themselves and their families, a car allowance and financial consultancy advice. Olivier Bohuon also received assistance with travel costs between London and Paris. The same arrangements will apply in 2018 for Olivier Bohuon and for Graham Baker. The following table summarises the value of benefits on an element-by-element basis in respect of 2016 and 2017. Julie Brown received these benefits until she retired from the Board on 11 January 2017.

<table>
<thead>
<tr>
<th></th>
<th>Olivier Bohuon</th>
<th>Graham Baker</th>
<th>Julie Brown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health cover</td>
<td>£17,807</td>
<td>£15,672</td>
<td>£1,217</td>
</tr>
<tr>
<td>Car and fuel allowance</td>
<td>£15,000</td>
<td>£18,292</td>
<td>£14,182</td>
</tr>
<tr>
<td>Financial consultancy advice</td>
<td>£34,204</td>
<td>£66,572</td>
<td>£1,925</td>
</tr>
<tr>
<td></td>
<td>£37,736</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Travel costs</td>
<td>£33,703</td>
<td>£23,814</td>
<td>–</td>
</tr>
<tr>
<td>Subscriptions</td>
<td>£4,023</td>
<td>£2,344</td>
<td>–</td>
</tr>
</tbody>
</table>
ANNUAL VARIABLE PAY

Annual Incentive Plan 2017

Cash Element

During 2016, the Remuneration Committee reviewed the operation of the Annual Incentive Plan and the performance measures and weightings which would apply to the cash element of the Annual Incentive Plan. These changes placed a greater emphasis on financial goals reflecting the importance we place on achievement of financial measures. The financial measures comprise 75% of the total award and are split between revenue (35%), trading profit margin (25%), and trading cash flow (15%). These measures were selected because revenue and trading profit margin constitute the key drivers of profit growth, and trading cash flow was a key measure of how efficiently we turn our assets into cash. Trading profit margin is a critical measure both for the business and our investors and delivering margin improvements is a core commitment under our strategy.

The remaining 25% of the total award are individual business objectives, similar to previous years, tied to our strategic priorities. As in previous years, these business objectives fell into the categories of Business Process, People and Customer.

The weighting of the performance measures for 2017 can be summarised as follows:

<table>
<thead>
<tr>
<th>Financial objectives</th>
<th>Business objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>Business process</td>
</tr>
<tr>
<td>Trading profit margin</td>
<td>People</td>
</tr>
<tr>
<td>Trading cash flow</td>
<td>Customer</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>35%</td>
<td>8.33%</td>
</tr>
<tr>
<td>25%</td>
<td>8.33%</td>
</tr>
<tr>
<td>15%</td>
<td>8.33%</td>
</tr>
</tbody>
</table>

The figures for threshold, target and maximum relating to the financial objectives of the cash element of the 2017 Annual Incentive Plan are shown below:

<table>
<thead>
<tr>
<th></th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$4,578m</td>
<td>$4,720m</td>
<td>$4,861m</td>
<td>$4,654m</td>
</tr>
<tr>
<td>Trading profit margin</td>
<td>21.8%</td>
<td>22.3%</td>
<td>22.7%</td>
<td>22.3%</td>
</tr>
<tr>
<td>Trading cash flow²</td>
<td>$801m</td>
<td>$890m</td>
<td>$979m</td>
<td>$940m</td>
</tr>
</tbody>
</table>

1 At constant exchange rates. See page 182.
2 During the year, the trading cash flow target was adjusted upwards to reflect the change regarding the cash funding of closed post-retirement benefit schemes (see pages 150–155).

'Target' was set and approved by the Board in the 2017 Budget. 'Threshold' and 'Maximum' are set at +/-3% from the target for revenue, at +/-45bps for the trading profit margin measure and at +/-10% for the trading cash flow from target.

This resulted in a bonus achievement of 73% of salary in respect of the financial objectives.

<table>
<thead>
<tr>
<th></th>
<th>Weight</th>
<th>Achieved % of target</th>
<th>Award % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>35%</td>
<td>77%</td>
<td>26.9%</td>
</tr>
<tr>
<td>Trading profit margin</td>
<td>25%</td>
<td>107%</td>
<td>26.8%</td>
</tr>
<tr>
<td>Trading cash flow</td>
<td>15%</td>
<td>128%</td>
<td>19.2%</td>
</tr>
</tbody>
</table>

Accordingly, the following amounts have been earned by Olivier Bohuon and Graham Baker under the cash element of the Annual Incentive Plan in respect of their financial objectives.

<table>
<thead>
<tr>
<th>Executive Director</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivier Bohuon</td>
<td>€859,517</td>
</tr>
<tr>
<td>Graham Baker</td>
<td>£371,647</td>
</tr>
</tbody>
</table>

The same measures and weightings will apply to the financial measurements of the cash element of the Annual Incentive Plan 2018. For reasons of commercial sensitivity, we are unable to disclose the precise targets now, but they will be disclosed in the 2018 Remuneration Report at the time of vesting.

Business Objectives

When setting business objectives for the upcoming year, the Board looks not only at the expected financial performance for the year, but also at the actions it expects the Executive Director to carry out in the year to build a solid foundation for financial performance over the longer term. In reviewing performance against these objectives at the end of the year, the Board is mindful that there is not always a necessary correlation between financial performance and the achievement of business objectives.
The table below sets out how Olivier Bohuon and Graham Baker have performed against the business objectives of People, Business Process and Customers.

<table>
<thead>
<tr>
<th>Olivier Bohuon</th>
<th>Graham Baker</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>People</strong></td>
<td><strong>People</strong></td>
</tr>
<tr>
<td>– Delivered 50bps improvement in Group Great Place to Work Trust Index, meeting target of 67%</td>
<td>– Delivered 50bps improvement Finance function Great Place to Work Trust Index, meeting target of 67%</td>
</tr>
<tr>
<td>– Further five countries awarded Great Place to Work Accreditation, ahead of target of two new countries, with nine countries in total now recognised</td>
<td>– Met target to upgrade Finance leadership team through combination of internal moves and external hires. Exceeded targets to retain and develop top Finance talent (80% of critical roles filled internally vs 50% target). Exceeded target on Finance leadership retention, with minimal loss of top-talent against target of less than 10%</td>
</tr>
<tr>
<td>– Made progress against targets for 50% of critical roles filled by top talent (48% achieved); met target to identify internal successors for 50% of critical roles. Target to reduce voluntary turnover of top talent missed (12% against target of less than 10%)</td>
<td>– Met target to hold employees accountable for Finance policies and procedures, with 95% compliance on Minimum Acceptable Practices (MAPs) and deeper checking across all Group countries</td>
</tr>
<tr>
<td>– Clear communication of strategy and implementation plans across the Group through direct and indirect channels to drive alignment and increase engagement</td>
<td>– Finance Transformation plan built, including integrating some back-office services into Global Business Services.</td>
</tr>
<tr>
<td>– Target of delivering $5 million incremental revenue from commercial excellence programme not met with remediation action initiated</td>
<td>– First phase of new IT finance system successfully implemented in North America on time and within budget.</td>
</tr>
<tr>
<td>– Achieved target of all employees and third party sellers completing more than 95% of global compliance on time.</td>
<td>– Established relationships with investors and analysts supporting Group IR programme, receiving excellent feedback from external stakeholders.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Business Process</strong></th>
<th><strong>Business Process</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>– Achieved target of new global R&amp;D model fully operational by first quarter of 2017, including Portfolio Innovation Board to drive strategy and prioritise projects. More than 80% of programme milestones met tracking towards best-in-class standard of 90%, and programme to develop further clinical evidence progressing to plan.</td>
<td>– Maintaining an effective financial control environment.</td>
</tr>
<tr>
<td>– Maintaining an effective financial control environment.</td>
<td>– Met target to provide robust financial modelling to improve business decision-making processes, including improved visibility of R&amp;D portfolio value and completion of acquisition of Rotation Medical, Inc.</td>
</tr>
<tr>
<td>– Met target to hold employees accountable for Finance policies and procedures, with 95% compliance on Minimum Acceptable Practices (MAPs) and deeper checking across all Group countries</td>
<td>– Delivered leadership with Chief Executive Officer in developing APEX programme to improve competitiveness of Smith &amp; Nephew.</td>
</tr>
<tr>
<td>– Finance Transformation plan built, including integrating some back-office services into Global Business Services.</td>
<td>– Met tax targets with tax on trading reduced from 23.8% in 2016 to 17.1% in 2017 reflecting one-off benefit following the conclusion of a US tax audit, further progress in improving our tax rate, tax provision releases following expiry of statute of limitations and a beneficial geographical mix of profits on trading.</td>
</tr>
</tbody>
</table>

Customers

| – Met target to continue to develop new business models including mid-tier portfolio in the Emerging Markets and eCAP in the US | – Met target to provide robust financial modelling to improve business decision-making processes, including improved visibility of R&D portfolio value and completion of acquisition of Rotation Medical, Inc. |
| – Roadmap for mid-tier product development completed in-line with target, with notable successes including ANTHEM Knee and ATLAS HF Nail in Emerging Markets. Mid-tier portfolio revenue growth tracked behind target. | – Delivered leadership with Chief Executive Officer in developing APEX programme to improve competitiveness of Smith & Nephew. |

This resulted in a bonus achievement of 18% of salary in respect of the business objectives.

<table>
<thead>
<tr>
<th>Weight</th>
<th>Achieved % of target</th>
<th>Award % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>People</td>
<td>8.33%</td>
<td>72%</td>
</tr>
<tr>
<td>Business Process</td>
<td>8.33%</td>
<td>100%</td>
</tr>
<tr>
<td>Customers</td>
<td>8.33%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Accordingly, the following amount has been earned by Olivier Bohuon under the cash element of the Annual Incentive Plan in respect of his business objectives.

Olivier Bohuon €212,308

This resulted in a bonus achievement of 31% of salary in respect of the business objectives.

<table>
<thead>
<tr>
<th>Weight</th>
<th>Achieved % of target</th>
<th>Award % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>People</td>
<td>8.33%</td>
<td>120%</td>
</tr>
<tr>
<td>Business Process</td>
<td>8.33%</td>
<td>132%</td>
</tr>
<tr>
<td>Customers</td>
<td>8.33%</td>
<td>120%</td>
</tr>
</tbody>
</table>

Accordingly, the following amount has been earned by Graham Baker under the cash element of the Annual Incentive Plan in respect of his business objectives.

Graham Baker £159,375

The same measures and weightings will apply to the business objectives of the cash element of the Annual Incentive Plan in 2018.
HYBRID

Equity Incentive Award

The individual performance of all employees in the Group is assessed on two bases. The first looks at what has been achieved, namely the extent to which the employee has performed against the financial and business objectives set at the beginning of the year. The second looks at how this performance has been achieved, reflecting the right culture and values in accordance with our critical enablers. Against each, the employee is rated as having performed below, in-line or above expectations.

<table>
<thead>
<tr>
<th>Assessment of what has been achieved</th>
<th>Below expectations</th>
<th>In-line with expectations</th>
<th>Above expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below expectations</td>
<td>No Award</td>
<td>No Award</td>
<td>No Award</td>
</tr>
<tr>
<td>In-line with expectations</td>
<td>No Award</td>
<td>Award of 50% of Salary</td>
<td>Award of 55% of Salary</td>
</tr>
<tr>
<td>Above expectations</td>
<td>No Award</td>
<td>Award of 55% of Salary</td>
<td>Award of 65% of Salary</td>
</tr>
</tbody>
</table>

The Remuneration Committee has considered the performance of Olivier Bohuon and Graham Baker in exactly the same way as other employees in the Group when determining the level of Equity Incentive Award to be made to them. In assessing their performance against the same financial and business objectives used to determine the level of their cash award, the Remuneration Committee has determined that on the first criterion (assessing what they have achieved) Olivier Bohuon and Graham Baker have both performed in-line with expectations throughout the year. On the second criterion (assessing how they have achieved), the Remuneration Committee has determined that Olivier Bohuon has performed in-line with expectations and Graham Baker has performed above expectations. These ratings result in an Equity Incentive Award of 50% of salary for Olivier Bohuon and 55% of salary for Graham Baker.

In summary, as a result of the financial performance described on page 85 and the performance described in the table on page 86, the Remuneration Committee determined that the following awards be made under the Annual Incentive Plan in respect of performance in 2017:

<table>
<thead>
<tr>
<th>Executive Director</th>
<th>Cash Component</th>
<th>Equity Component</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of salary</td>
<td>% of salary</td>
</tr>
<tr>
<td>Olivier Bohuon</td>
<td>91%</td>
<td>50%</td>
</tr>
<tr>
<td>Graham Baker</td>
<td>104%</td>
<td>55%</td>
</tr>
</tbody>
</table>

These figures are converted into dollars and included under Annual Incentive Plan (cash) and (equity) in the single figure table on page 83.

As a result of the 2017 performance assessment for Olivier Bohuon, the first tranche of the Equity Incentive Award made in 2017, the second tranche of the Equity Incentive Award made in 2016 and the third tranche of the Equity Incentive Award made in 2015 will vest. Both the grant and vesting of these awards are subject to Olivier’s performance discussed on page 86. Graham Baker was not employed during 2016 and therefore received no Equity Incentive award in 2017.

<table>
<thead>
<tr>
<th>Director</th>
<th>Date of Grant</th>
<th>Number of shares under award vesting</th>
<th>Number of shares to vest from each grant subject to performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivier Bohuon</td>
<td>7 March 2017 – 1st tranche</td>
<td>13,886</td>
<td>27,779</td>
</tr>
<tr>
<td></td>
<td>7 March 2016 – 2nd tranche</td>
<td>16,717</td>
<td>16,725</td>
</tr>
<tr>
<td></td>
<td>9 March 2015 – 3rd tranche</td>
<td>12,849</td>
<td>0</td>
</tr>
</tbody>
</table>
Details of awards made under the Equity Incentive Programme during 2017

Details of conditional awards over shares, granted as part of the Annual Equity Incentive Programme to Executive Directors under the rules of the Global Share Plan 2010 for their 2016 performance (awarded in 2017) are shown below. The performance conditions and performance periods applying to these awards are detailed above.

<table>
<thead>
<tr>
<th>Date granted</th>
<th>Number of shares under award</th>
<th>Date vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 March 2017</td>
<td>41,665</td>
<td>1/3 on 7 March 2018</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1/3 on 7 March 2019</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1/3 on 7 March 2020</td>
</tr>
</tbody>
</table>

The precise awards granted in 2018 to Olivier Bohuon and Graham Baker in respect of service in 2017 will be announced when the awards are made and will be disclosed in the 2018 Annual Report.

Olivier Bohuon has announced his intention to retire by the end of 2018 and will therefore not be entitled to receive an Equity Incentive Award in 2019 after ceasing to be an employee. He will therefore receive a cash amount equivalent to the Equity Incentive Award he would have received, if any, had he remained employed. This will be disclosed in full in the 2018 Remuneration Report.

The Equity Incentive Award element will operate in 2018 in exactly the same way as in 2017 and previous years. The Remuneration Committee will assess what has been achieved by the Executive Directors against the same financial and business objectives used to determine the level of their cash awards. The Remuneration Committee will assess how the Executive Directors have achieved their objectives by considering the role played by the Executive Directors in establishing an appropriate culture and set of values throughout the organisation. The level of Equity Incentive Award to be made will be determined according to the matrix on page 87.

LONG-TERM VARIABLE PAY

Performance Share Plan

Performance Share Programme – 2017 grants

Performance share awards granted in 2017 were made to Executive Directors under the Global Share Plan 2010 to a maximum value of 190% of salary (95% for target performance). During 2016, the Remuneration Committee reviewed the operation of the Performance Share Programme and made changes to the performance measures and weightings which were included with the Remuneration Policy and approved at the Annual General Meeting on 6 April 2017. The four equally weighted performance measures are relative TSR, return on invested capital, sales growth and cumulative free cash flow. These measures are aligned with our financial priorities and strategies. Performance will be measured over the three financial years from 1 January 2017 and awards will vest subject to performance and continued employment in 2020. Sufficient shares will be sold to cover taxation obligations and the Executive Directors will be required to hold the net shares for a further period of two years.

The two equally weighted peer groups against which the Company’s TSR performance will be measured are defined at the start of each performance period based on constituents of the following:

- A sector-based peer group based on those companies classified as the S&P 1200 Global Healthcare subset comprising Medical Devices, equipment and supplies companies (official industry classifications of ‘Health Care Equipment and Supplies, Life Sciences Tools & Services and Health Care Technology’). This is a broader sector-based peer group than in previous years, so that we maintain a focus on outperforming our broad sector without being impacted by the volatility of a smaller group.
- FTSE 100 constituents excluding financial services and commodities companies. This is in response to shareholders who assess our performance not based on sector, but instead based on the index we operate in.

The Group’s TSR performance and its performance relative to the comparator group is independently monitored and reported to the Remuneration Committee by Willis Towers Watson.

Total Shareholder Return (TSR) performance is relative to two separate indices as follows:

<table>
<thead>
<tr>
<th>Relative TSR ranking</th>
<th>Sector Based Peer Group</th>
<th>FTSE100 Peer Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below median</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Median</td>
<td>5.9375%</td>
<td>5.9375%</td>
</tr>
<tr>
<td>Upper quartile or above</td>
<td>23.75%</td>
<td>23.75%</td>
</tr>
</tbody>
</table>

Awards will vest on a straight-line basis between these points. If the Company’s TSR performance is below median, none of this part of the award will vest.
Return on invested capital (ROIC), adds focus on enhancing operating performance and reducing the under-performing asset base. 25% of the award will vest subject to ROIC:

ROIC will be defined as:

$$\frac{\text{Net Operating Profit} - \text{Adjusted Taxes}}{(\text{Opening Net Operating Assets} + \text{Closing Net Operating Assets})/2}$$

ROIC will be measured each year of the three-year performance period and a simple average of the three years will be compared to the targets below (precise numbers will be included in the Remuneration Report prospectively). The Remuneration Committee will have the discretion to adjust ROIC targets in the case of significant events such as material mergers, acquisitions and disposals and that such adjustment will be consistent with the deal model and approved by the Board at the time of the transaction.

1 Operating profit is as disclosed in the Group income statement in the Annual Report.
2 Adjusted taxes represents our taxation charge per the Group income statement adjusted for the impact of tax on items not included in Operating Profit notably income and expense, other finance costs and share of results of associates.
3 Net Operating Assets comprises net assets from the Group balance sheet (Total assets less Total liabilities) excluding the following items: Investments, Investments in associates, Retirement benefit assets and liabilities, Long-term borrowings, Bank overdrafts and loans, and Cash at bank.

The awards subject to ROIC will vest as follows:

<table>
<thead>
<tr>
<th>Return on Invested Capital</th>
<th>Award vesting as % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Threshold 11.1%</td>
<td>Nil</td>
</tr>
<tr>
<td>Threshold 11.1% [-1.9% of target]</td>
<td>11.875%</td>
</tr>
<tr>
<td>Target 13% (as derived from the Strategic Plan)</td>
<td>23.75%</td>
</tr>
<tr>
<td>Maximum or above 14.9% (+1.9% of target)</td>
<td>47.5%</td>
</tr>
</tbody>
</table>

Awards will vest on a straight-line basis between these points.

Sales growth focuses on growth in both Established Markets and Emerging Markets. 25% of the award will be subject to sales growth and will vest as follows:

<table>
<thead>
<tr>
<th>Sales growth over three-year period commencing 1 January 2017</th>
<th>Award vesting as % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Threshold</td>
<td>Nil</td>
</tr>
<tr>
<td>Threshold [-3% of target]</td>
<td>11.875%</td>
</tr>
<tr>
<td>Target</td>
<td>23.75%</td>
</tr>
<tr>
<td>Maximum or above [+3% of target]</td>
<td>47.5%</td>
</tr>
</tbody>
</table>

It is not possible to disclose precise targets for sales growth as this will give commercially sensitive information to our competitors concerning our growth plans and is potentially price sensitive information. This target however will be disclosed in the 2019 Annual Report, when the Committee will discuss performance against the target.

Cumulative free cash flow is defined as net cash inflow from operating activities, less capital expenditure, less the cash flow input of certain adjusted items. Free cash flow is the most appropriate measure of cash flow performance because it relates to cash generated to finance additional investments in business opportunities, debt repayments and distribution to shareholders. This measure includes significant elements of operational financial performance and helps to align Executive Director awards with shareholder value creation.

It is important as it is derived from increased revenues and healthy trading profits. Having a healthy cash flow will enable us to continue to grow and invest. 25% of the award will be subject to cumulative free cash flow performance and will vest as follows:

<table>
<thead>
<tr>
<th>Cumulative free cash flow</th>
<th>Award vesting as % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $1,482m</td>
<td>Nil</td>
</tr>
<tr>
<td>$1,482m [-13% of target]</td>
<td>11.875%</td>
</tr>
<tr>
<td>$1,703m</td>
<td>23.75%</td>
</tr>
<tr>
<td>$1,924m or more (+13% of target)</td>
<td>47.5%</td>
</tr>
</tbody>
</table>
Performance Share Programme 2018

A performance share award will be made in 2018 to Graham Baker under the Global Share Plan 2010 to a maximum value of 190% of salary (95% for target performance). No performance share award will be made to Olivier Bohuon in 2018.

Performance will be measured over the three financial years commencing 1 January 2018 against the same four equally weighted performance measures as in 2017: relative TSR, return on invested capital, sales growth and cumulative free cash flow. On vesting, sufficient shares will be sold to cover taxation obligations and Graham Baker will be required to hold the net shares for a further period of two years.

**TSR performance** will be measured in the same way as in 2017 as described on page 88 against the same two peer groups.

**Return on invested capital (ROIC)** will be measured in the same way as in 2017, as described on page 89. The targets will be as follows:

<table>
<thead>
<tr>
<th>Return on Invested Capital</th>
<th>Award vesting as % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Threshold 11.6%</td>
<td>Nil</td>
</tr>
<tr>
<td>Threshold 11.6% (-1.25% of target)</td>
<td>11.875%</td>
</tr>
<tr>
<td>Target 12.9% (as derived from the Strategic Plan)</td>
<td>23.75%</td>
</tr>
<tr>
<td>Maximum or above 14.1% (+1.25% of target)</td>
<td>47.5%</td>
</tr>
</tbody>
</table>

Awards will vest on a straight-line basis between these points.

**Sales growth** will be measured in the same way as in 2017, as described on page 89. The targets will be as follows:

<table>
<thead>
<tr>
<th>Sales growth over three-year period commencing 1 January 2018</th>
<th>Award vesting as % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Threshold</td>
<td>Nil</td>
</tr>
<tr>
<td>Threshold [-2.7% of target)</td>
<td>11.875%</td>
</tr>
<tr>
<td>Target</td>
<td>23.75%</td>
</tr>
<tr>
<td>Maximum or above (+2.7% of target)</td>
<td>47.5%</td>
</tr>
</tbody>
</table>

It is not possible to disclose precise targets for sales growth as this will give commercially sensitive information to our competitors concerning our growth plans and is potentially price sensitive information. This target however will be disclosed in the 2020 Annual Report, when the Committee will discuss performance against the target.

**Cumulative free cash flow** will be measured in the same way as in 2017, as described on page 89. The targets will be as follows:

<table>
<thead>
<tr>
<th>Cumulative free cash flow</th>
<th>Award vesting as % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $1,575m</td>
<td>Nil</td>
</tr>
<tr>
<td>$1,575m -13% of target</td>
<td>11.875%</td>
</tr>
<tr>
<td>$1,810m</td>
<td>23.75%</td>
</tr>
<tr>
<td>$2,046m or more (+13% of target)</td>
<td>47.5%</td>
</tr>
</tbody>
</table>
VESTING OF AWARDS MADE IN 2015

Performance Share Programme 2015

Since the end of the year, the Remuneration Committee has reviewed the vesting of conditional awards made to Executive Directors under the Global Share Plan 2010 in 2015. Vesting of the conditional awards made in 2015 was subject to performance conditions based on TSR, revenue in Emerging Markets and cumulative free cash flow measured over a three-year period commencing 1 January 2015.

25% of the award was based on the Company’s TSR relative to a bespoke group of 12 Medical Devices companies. This group comprised of the following companies: Baxter, Becton Dickinson, Boston Scientific, Coloplast, Conmed, Edwards Life Sciences, Medtronic, NuVasive, Orthofix, Stryker, Wright Medical and Zimmer. The following companies delisted during the period and were therefore removed: Covidien, C R Bard, Nobel Biocare and St Jude Medical. Against this peer group, the Company’s TSR performance ranked below median meaning that this part of the award therefore vested at 0%.

25% of the award was based on revenues in Emerging Markets. The threshold set in 2015 was $2,395 million with a target of $2,818 million. Over the three-year period, the adjusted revenues in Emerging Markets were $2,411 million. These adjustments include translational foreign exchange and Board-approved M&A. This part of the award therefore vested at 13% out of the 25% target.

50% of the award was based on cumulative free cash flow performance. Over the three-year period, the adjusted cumulative free cash flow was $2,024 million which is between target and maximum. These adjustments include items such as Board-approved M&A, including the acquisition of BlueBelt and Board-approved Business Plans such as the metal-on-metal settlements. This part of the award therefore vested at 95%.

<table>
<thead>
<tr>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
<th>Percentage Vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR</td>
<td>Median – Upper Quartile</td>
<td>Below Median</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Emerging Markets Sales</td>
<td>$2,395m</td>
<td>$2,818m</td>
<td>$3,240m</td>
<td>$2,411m</td>
</tr>
<tr>
<td>Cumulative Free Cash Flow</td>
<td>$1,578m</td>
<td>$1,814m</td>
<td>$2,050m</td>
<td>$2,024m</td>
</tr>
</tbody>
</table>

Overall therefore, the conditional awards made in 2015 will vest at 54% of maximum (108% of target) on 9 March 2018 as follows:

<table>
<thead>
<tr>
<th>Director</th>
<th>Date of grant</th>
<th>Number of shares under award at maximum</th>
<th>Number vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivier Bohuon</td>
<td>9 March 2015</td>
<td>133,156</td>
<td>71,904</td>
</tr>
</tbody>
</table>

DETAILS OF OUTSTANDING AWARDS MADE UNDER THE PERFORMANCE SHARE PROGRAMME

Details of conditional awards over shares granted to Executive Directors subject to performance conditions are shown below. These awards were granted under the Global Share Plan 2010. The performance conditions and performance periods applying to these awards are detailed on pages 88 and 89.

<table>
<thead>
<tr>
<th>Date granted</th>
<th>Number of ordinary shares under award at maximum</th>
<th>Date of vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivier Bohuon</td>
<td>9 March 2015</td>
<td>133,156</td>
</tr>
<tr>
<td></td>
<td>7 March 2016</td>
<td>146,620</td>
</tr>
<tr>
<td></td>
<td>7 March 2017</td>
<td>158,328</td>
</tr>
<tr>
<td>Graham Baker</td>
<td>7 March 2017</td>
<td>79,166</td>
</tr>
</tbody>
</table>

1 On 6 February 2018, 44% of the award granted at maximum to Olivier Bohuon lapsed following completion of the performance period.

SUMMARY OF SCHEME INTERESTS AWARDED DURING THE FINANCIAL YEAR

<table>
<thead>
<tr>
<th>Olivier Bohuon</th>
<th>Graham Baker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares</td>
<td>Face value</td>
</tr>
<tr>
<td>Annual Equity Incentive Award (see page 87)</td>
<td>41,665</td>
</tr>
<tr>
<td>Performance Share Award at maximum (see page 91)</td>
<td>158,328</td>
</tr>
</tbody>
</table>

1 Annual Equity Incentive Awards for 2017 were based on performance for 2016, hence Graham Baker received no award.

Please see Policy Table on pages 99 and 100 for details of how the above plans operate. The number of shares is calculated using the closing share price on the day before the grant, which for the awards granted on 7 March 2017 was 1,224p.
**Chairman and Non-Executive Directors**

<table>
<thead>
<tr>
<th>Director</th>
<th>Basic annual fee</th>
<th>Committee Chairman / Senior Independent Director fee</th>
<th>Intercontinental travel fee</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roberto Quarta</td>
<td>£412,000</td>
<td>£409,750</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Vinita Bali2</td>
<td>£36,750</td>
<td>£63,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>£59,780</td>
<td>£9,780</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Ian Barlow</td>
<td>£68,135</td>
<td>£68,135</td>
<td>£20,000</td>
<td>£18,750</td>
</tr>
<tr>
<td>Virginia Bottomley</td>
<td>£68,135</td>
<td>£68,135</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Erik Engstrom</td>
<td>£68,135</td>
<td>£68,135</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Robin Freestone</td>
<td>£68,135</td>
<td>£68,135</td>
<td>£16,667</td>
<td>–</td>
</tr>
<tr>
<td>Michael Friedman</td>
<td>£129,780</td>
<td>£129,780</td>
<td>£35,000</td>
<td>£33,000</td>
</tr>
<tr>
<td>Brian Larcombe³</td>
<td>£20,750</td>
<td>£68,135</td>
<td>£1,277</td>
<td>£18,750</td>
</tr>
<tr>
<td>Marc Owen⁴</td>
<td>£30,000</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Joseph Papa</td>
<td>£129,780</td>
<td>£129,780</td>
<td>£35,000</td>
<td>£33,000</td>
</tr>
<tr>
<td>Angie Risley⁵</td>
<td>£18,173</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

1. The basic annual fee includes shares purchased for the Chairman and Non-Executive Directors in lieu of part of the annual fee, details of which can be found on the table on page 104.
2. Vinita Bali elected to receive the payment of her fee in US$ in August 2017 having previously been in GBP.
3. Brian Larcombe retired from the Board with effect from 6 April 2017.
4. Marc Owen was appointed to the Board with effect from 1 October 2017.
5. Angie Risley was appointed to the Board with effect from 18 September 2017.

**Chairman and Non-Executive Director Fees**

In February 2018, the Remuneration Committee reviewed the fees paid to the Chairman and determined that with effect from 1 April 2018 the fees paid would increase by 2%. The Board reviewed the fees paid to the Non-Executive Directors and determined that with effect from 1 April 2018, the fees paid in GBP would be increased by 2% and the fees paid in US$ would remain unchanged as follows:

- **Annual fee paid to the Chairman**: £420,240 of which £105,060 paid in shares
- **Annual fee paid to Non-Executive Directors**: £69,500 of which £6,500 paid in shares
- **Intercontinental travel fee (per meeting)**: £3,500 or $7,000
- **Fee for Senior Independent Director and Committee Chairman**: £20,000 or $35,000

**Chief Executive Officer’s remuneration compared to employees generally**

The percentage change in the remuneration of the Chief Executive Officer between 2016 and 2017 compared to that of employees generally is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Base salary % change 2017</th>
<th>Benefits % change 2017</th>
<th>Annual cash bonus % change 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>0%</td>
<td>6.6%</td>
<td>103.9%</td>
</tr>
<tr>
<td>Average for all employees</td>
<td>3.3%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The average cost of wages and salaries for employees generally decreased by 10% in 2017 (see Note 3.1 to the Group accounts). Figures for annual cash bonuses are included in the numbers.

The Committee is mindful that the Government now requires quoted companies to publish their Chief Executive Officer’s pay in relation to its workforce. The Committee awaits the Government’s advice on the exact method of calculation, but aims to publish this information in the 2018 Annual Report.
Payments made to past Directors
No payments were made to former Directors in the year, other than base payments made to Julie Brown for the 11 days worked in January 2017, as disclosed on page 83.

Payments for loss of office
No payments were made in respect of a Director’s loss of office in 2017.

Service contracts
Executive Directors are employed on rolling service contracts with notice periods of up to 12 months from the Company and six months from the Executive Director. Further information can be found on page 102 of the Policy Report.

Outside directorships
Olivier Bohuon is a Non-Executive Director of Virbac SA and received €21,000 in respect of this appointment. He is also a Non-Executive Director of Shire Plc and received £107,466 in cash and £24,053 in shares in respect of this appointment. Julie Brown is a Non-Executive Director of Roche Holding Ltd and received a fee of CHF10,849 until 11 January 2017.

Directors’ interests in ordinary shares
Beneficial interests of the Executive Directors in the ordinary shares of the Company are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Ordinary shares</th>
<th>Share options</th>
<th>Performance share awards</th>
<th>Equity Incentive awards</th>
<th>Other awards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivier Bohuon</td>
<td>424,288</td>
<td>–</td>
<td>460,080</td>
<td>96,417</td>
<td>–</td>
</tr>
<tr>
<td>Graham Baker</td>
<td>467,811</td>
<td>–</td>
<td>423,680</td>
<td>87,956</td>
<td>–</td>
</tr>
<tr>
<td>Julie Brown</td>
<td>467,811</td>
<td>–</td>
<td>362,428</td>
<td>87,956</td>
<td>–</td>
</tr>
</tbody>
</table>

1 The latest practicable date for this Annual Report.
2 Graham Baker was appointed to the Board from 1 March 2017.
3 Julie Brown retired from the Board on 11 January 2017.
4 The ordinary shares held by Olivier Bohuon on 16 February 2018 represent 57.6% of his base annual salary and for Graham Baker 0% of his base salary.
5 These share awards are subject to further performance conditions before they may vest, as detailed on pages 88–90.

The beneficial interest of each Executive Director is less than 1% of the ordinary share capital of the Company. In addition, Olivier Bohuon holds 50,000 deferred shares. Following the redenomination of ordinary shares into US$ on 23 January 2006, the Company issued 50,000 deferred shares. These shares are normally held by the Chief Executive Officer and are not listed on any stock exchange and have extremely limited rights attached to them.

Beneficial interests of the Chairman and Non-Executive Directors in the ordinary shares of the Company are as follows:

<table>
<thead>
<tr>
<th>Director</th>
<th>1 January 2017 (or date of appointment if later)</th>
<th>31 December 2017 (or date of retirement if earlier)</th>
<th>16 February 2018</th>
<th>Shareholding as % of annual fee2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roberto Quarta3</td>
<td>24,156</td>
<td>28,261</td>
<td>28,261</td>
<td>87.8</td>
</tr>
<tr>
<td>Vinita Bali4</td>
<td>6,522</td>
<td>6,836</td>
<td>6,836</td>
<td>130.7</td>
</tr>
<tr>
<td>Ian Barlow</td>
<td>18,786</td>
<td>19,009</td>
<td>19,009</td>
<td>357</td>
</tr>
<tr>
<td>Virginia Bottomley</td>
<td>18,473</td>
<td>18,714</td>
<td>18,714</td>
<td>351.4</td>
</tr>
<tr>
<td>Erik Engstrom</td>
<td>15,350</td>
<td>15,547</td>
<td>15,547</td>
<td>292</td>
</tr>
<tr>
<td>Robin Freestone</td>
<td>15,310</td>
<td>15,525</td>
<td>15,525</td>
<td>291.5</td>
</tr>
<tr>
<td>Michael Friedman4</td>
<td>9,476</td>
<td>9,910</td>
<td>9,910</td>
<td>139.4</td>
</tr>
<tr>
<td>Brian Larcombe3</td>
<td>40,718</td>
<td>40,718</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Marc Owen</td>
<td>–</td>
<td>–</td>
<td>7,000</td>
<td>98.5</td>
</tr>
<tr>
<td>Joseph Papa4</td>
<td>13,547</td>
<td>13,860</td>
<td>13,860</td>
<td>195</td>
</tr>
<tr>
<td>Angie Risley</td>
<td>–</td>
<td>–</td>
<td>1,601</td>
<td>30.1</td>
</tr>
</tbody>
</table>

1 The latest practicable date for this Annual Report.
2 Calculated using the closing share price of 1,279.50p per ordinary share and $36.54 per ADS on 16 February 2018, and an exchange rate of £1/$1.4027.
3 All Non-Executive Directors in office since 1 January 2017 held the required shareholding during the year except the Chairman.
4 Vinita Bali, Michael Friedman and Joseph Papa hold some of their shares in the form of ADS.
5 Brian Larcombe retired from the Board on 6 April 2017.

The beneficial interest of each Non-Executive Director is less than 1% of the ordinary share capital of the Company.
Relative importance of spend on pay

The following table sets out the total amounts spent in 2017 and 2016 on remuneration, the attributable profit for each year and the dividends declared and paid in each year.

<table>
<thead>
<tr>
<th></th>
<th>For the year to 31 December 2017</th>
<th>For the year to 31 December 2016</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attributable profit for the year</td>
<td>$767m</td>
<td>$784m</td>
<td>-2%</td>
</tr>
<tr>
<td>Dividends paid during the year</td>
<td>$269m</td>
<td>$279m</td>
<td>-4%</td>
</tr>
<tr>
<td>Share buyback</td>
<td>$52m¹</td>
<td>$368m²</td>
<td>-86%</td>
</tr>
<tr>
<td>Total Group spend on remuneration</td>
<td>$1,157m</td>
<td>$1,227m</td>
<td>-6%</td>
</tr>
</tbody>
</table>

¹ Shares are bought in the market in respect of shares issued as part of the executive and employee share plans.

² Following the disposal of the Gynaecology business in August 2016, the Company commenced a $300m share buy-back programme which completed during 2016. See Note 19.2 for further information.

Total Shareholder Return

A graph of the Company’s TSR performance compared to that of the FTSE 100 index is shown below in accordance with Schedule 8 to the Regulations.

Nine-year Total Shareholder Return
(measured in UK Sterling, based on monthly spot values)

![Graph of Total Shareholder Return](image)

Source: DataStream

Smith & Nephew
FTSE 100

However, as we compare the Company’s performance to a tailored sector peer group of medical devices companies (see page 88), when considering TSR performance in the context of the Global Share Plan 2010, we feel that the following graph showing the TSR performance of this peer group is also of interest.

Nine-year Total Shareholder Return
(measured in US Dollars, based on monthly spot values)

![Graph of Total Shareholder Return](image)

Source: DataStream

Medical Devices comparators that are still trading for awards made since 2012

Smith & Nephew
Medical Devices – Median
Table of historic data
The following table details information about the pay of the Chief Executive Officer in the previous nine years:

<table>
<thead>
<tr>
<th>Year</th>
<th>Chief Executive Officer</th>
<th>Single figure of total remuneration $</th>
<th>Annual Cash Incentive payout against maximum %</th>
<th>Performance shares %</th>
<th>Options %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>Olivier Bohuon</td>
<td>$5,032,925</td>
<td>60.67⁵</td>
<td>54</td>
<td>–</td>
</tr>
<tr>
<td>2016</td>
<td>Olivier Bohuon</td>
<td>$3,332,850⁴</td>
<td>30</td>
<td>8</td>
<td>–</td>
</tr>
<tr>
<td>2015</td>
<td>Olivier Bohuon</td>
<td>$5,342,377</td>
<td>75</td>
<td>33.5</td>
<td>–</td>
</tr>
<tr>
<td>2014</td>
<td>Olivier Bohuon</td>
<td>$6,785,121</td>
<td>43</td>
<td>57</td>
<td>–</td>
</tr>
<tr>
<td>2013</td>
<td>Olivier Bohuon</td>
<td>$4,692,858</td>
<td>84</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td>2012</td>
<td>Olivier Bohuon</td>
<td>$4,956,771</td>
<td>84</td>
<td>N/A</td>
<td>–</td>
</tr>
<tr>
<td>2011</td>
<td>Olivier Bohuon¹,²</td>
<td>$7,442,191</td>
<td>68</td>
<td>N/A</td>
<td>–</td>
</tr>
<tr>
<td>2011</td>
<td>David Illingworth³</td>
<td>$3,595,787</td>
<td>37</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>2010</td>
<td>David Illingworth</td>
<td>$4,060,707</td>
<td>57</td>
<td>70</td>
<td>61</td>
</tr>
</tbody>
</table>

1 Appointed Chief Executive Officer on 1 April 2011.
2 Includes recruitment award of €1,400,000 cash and a share award over 200,000 ordinary shares with a value of €1,410,000 on grant.
3 Resigned as Chief Executive Officer on 1 April 2011.
4 Prior years are restated to reflect amounts not known at the date of signing the previous Annual Report.
5 Calculated as 91% (actual payout) disclosed on page 87 divided by the maximum potential payout of 150%.

Statement of voting at Annual General Meeting held in 2017
At the Annual General Meeting held on 6 April 2017, votes cast by proxy and at the meeting and votes withheld in respect of the votes on the Directors’ Remuneration Report were as follows:

<table>
<thead>
<tr>
<th>Resolution</th>
<th>Votes for</th>
<th>% for</th>
<th>Votes against</th>
<th>% against</th>
<th>Total votes validly cast</th>
<th>Votes withheld</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval of the Directors’ Remuneration Policy</td>
<td>578,383,031</td>
<td>98.30</td>
<td>10,003,885</td>
<td>1.70</td>
<td>588,386,916</td>
<td>1,422,700</td>
</tr>
<tr>
<td>Approval of the Directors’ Remuneration Report</td>
<td>581,873,387</td>
<td>98.85</td>
<td>6,787,211</td>
<td>1.15</td>
<td>588,660,598</td>
<td>1,149,020</td>
</tr>
</tbody>
</table>

The Remuneration Committee is mindful of the Government’s new requirements to engage more with employee stakeholders on all matters of remuneration. The Committee is currently reviewing how best to implement this and will communicate with employees accordingly. Gender pay is also a 2018 focus for the Committee, a programme to ensure women are fully supported in their careers at Smith & Nephew will be part of the Committee’s agenda during this time of improvement as we look to the future.

Senior management remuneration
The Group’s administrative, supervisory and management body (senior management) is comprised for US reporting purposes, of Executive Directors and Executive Officers. Details of the current Executive Directors and Executive Officers are given on pages 50 and 54–55.

Compensation paid to senior management in respect of 2015, 2016 and 2017 was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total compensation (excluding pension emoluments, but including cash payments under the performance-related incentive plans)</td>
<td>$13,573,000</td>
<td>$12,874,000</td>
<td>$13,971,000</td>
</tr>
<tr>
<td>Total compensation for loss of office</td>
<td>$2,711,000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Aggregate increase in accrued pension scheme benefits</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Aggregate amounts provided for under supplementary schemes</td>
<td>$872,000</td>
<td>$1,112,000</td>
<td>$698,000</td>
</tr>
</tbody>
</table>
As at 16 February 2018, senior management owned 720,897 shares and 3,015 ADSs, constituting less than 0.1% of the share capital of the Company. Details of share awards granted during the year and held as at 16 February 2018 by members of senior management are as follows:

<table>
<thead>
<tr>
<th>Share awards granted during the year</th>
<th>Total share awards held as at 16 February 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Incentive awards</td>
<td>306,903</td>
</tr>
<tr>
<td>Performance Share awards at maximum</td>
<td>617,156</td>
</tr>
<tr>
<td>Conditional share awards under the Global Share Plan 2010</td>
<td>190,464</td>
</tr>
<tr>
<td>Options under Employee ShareSave plans</td>
<td>0</td>
</tr>
<tr>
<td>Options under the Global Share Plan 2010</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>319,377</td>
</tr>
<tr>
<td></td>
<td>1,033,315</td>
</tr>
<tr>
<td></td>
<td>197,510</td>
</tr>
<tr>
<td></td>
<td>4,559</td>
</tr>
<tr>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>

### Dilution headroom

The Remuneration Committee ensures that at all times the number of new shares which may be issued under any share-based plans, including all-employee plans, does not exceed 10% of the Company’s issued share capital over any rolling 10-year period (of which up to 5% may be issued to satisfy awards under the Company’s discretionary plans). The Company monitors headroom closely when granting awards over shares taking into account the number of options or shares that might be expected to lapse or be forfeited before vesting or exercise. In the event that insufficient new shares are available, there are processes in place to purchase shares in the market to satisfy vesting awards and to net-settle option exercises.

Over the previous 10 years (2008 to 2017), the number of new shares issued under our share plans has been as follows:

<table>
<thead>
<tr>
<th>Share plans</th>
<th>Number of new shares issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>All-employee share plans</td>
<td>7,275,468 (0.83% of issued share capital as at 16 February 2018)</td>
</tr>
<tr>
<td>Discretionary share plans</td>
<td>33,119,507 (3.79% of issued share capital as at 16 February 2018)</td>
</tr>
</tbody>
</table>

By order of the Board, on 22 February 2018

Joseph Papa
Chairman of the Remuneration Committee
### FUTURE POLICY TABLE – EXECUTIVE DIRECTORS

The following table and accompanying notes explain the different elements of remuneration we pay to our Executive Directors. It was approved by shareholders at the 2017 Annual General Meeting on 6 April 2017.

### BASE SALARY AND BENEFITS

#### Base salary

We are a FTSE 50 listed company, operating in over 100 countries around the world. Our strategy to generate cash from Established Markets in order to invest in growth in higher growth geographies and franchises means that we are competing for international talent and our base salaries therefore need to reflect what our Executive Directors would receive if they were to work in another international company of a similar size, complexity and geographical scope.

<table>
<thead>
<tr>
<th>How the component operates</th>
<th>Maximum levels of payment</th>
<th>Framework in which performance is assessed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries are normally reviewed annually, with any increase applying from 1 April.</td>
<td>The base salary of the Executive Directors with effect from 1 April 2017 will be as follows:</td>
<td>Performance in the prior year is one of the factors taken into account and poor performance is likely to lead to a zero salary increase.</td>
</tr>
<tr>
<td>– Market movements within a peer group of similarly sized UK listed companies;</td>
<td>– Olivier Bohuon €1,179,490.</td>
<td></td>
</tr>
<tr>
<td>– Scope and responsibility of the position;</td>
<td>– Graham Baker £510,000.</td>
<td></td>
</tr>
<tr>
<td>– Skill/experience and performance of the individual Director;</td>
<td>The factors noted in the previous column will be taken into consideration when making increases to base salary and when appointing a new Director.</td>
<td></td>
</tr>
<tr>
<td>– General economic conditions in the relevant geographic market; and</td>
<td>In normal circumstances, base salary increases for Executive Directors will relate to the geographic market and peer group. In addition, the average increases for employees across the Group will be taken into account. The Remuneration Committee retains the right to approve higher increases when there is a substantial change in the scope of the Executive Director’s role. A full explanation will be provided in the Implementation Report should higher increases be approved in exceptional cases.</td>
<td></td>
</tr>
<tr>
<td>– Average increases awarded across the Company, with particular regard to increases in the market in which the Executive is based.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Payment in lieu of pension

In order to attract and retain Executive Directors with the capability of driving our corporate strategy, we need to provide market-competitive retirement benefits similar to the benefits they would receive if they were to work for one of our competitors.

At the same time, we seek to avoid exposing the Company to defined benefit pension risks, and where possible will make payments in lieu of providing a pension.

<table>
<thead>
<tr>
<th>How the component operates</th>
<th>Maximum levels of payment</th>
<th>Framework in which performance is assessed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Executive Directors receive an allowance in lieu of membership of a Company-run pension scheme.</td>
<td>Up to 30% of base salary.</td>
<td>The level of payment in lieu of a pension paid to Executive Directors is not dependent on performance.</td>
</tr>
<tr>
<td>Base salary is the only component of remuneration which is pensionable.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Benefits

In order to attract and retain Executive Directors with the capability of driving our corporate strategy, we need to provide a range of market-competitive benefits similar to the benefits they would receive if they were to work for one of our competitors.

It is important that our Executive Directors are free to focus on the Company’s business without being diverted by concerns about medical provision, risk benefit cover or, if required, relocation issues.

How the component operates
Maximum levels of payment
Framework in which performance is assessed

A wide range of benefits may be provided depending on the benefits provided for comparable roles in the location in which the Executive Director is based. These benefits will include, as a minimum, healthcare cover, life assurance, long-term disability, annual medical examinations, company car or car allowance. The Committee retains the discretion to provide additional benefits where necessary or relevant in the context of the Executive's location.

Where applicable, relocation costs may be provided in-line with Company’s relocation policy for employees, which may include removal costs, assistance with accommodation, living expenses for self and family and financial consultancy advice. In some cases such payments may be grossed up.

The policy is framed by the nature of the benefits that the Remuneration Committee is willing to provide to Executive Directors. The maximum amount payable will depend on the cost of providing such benefits to an employee in the location at which the Executive Director is based. Shareholders should note that the cost of providing comparable benefits in different jurisdictions may vary widely.

As an indication, the cost of such benefits provided in 2016 was as follows:

- Olivier Bohuon £150,511.
- Julie Brown £22,244.

The maximum amount payable in benefits to an Executive Director, in normal circumstances, will not be significantly more than amounts paid in 2016 (or equivalent in local currency). The Remuneration Committee retains the right to pay more than this should the cost of providing the same underlying benefits increase or in the event of a relocation. A full explanation will be provided in the Implementation Report should the cost of benefits provided be significantly higher.

All-employee share plans

To enable Executive Directors to participate in all-employee share plans on the same basis as other employees.

How the component operates
Maximum levels of payment
Framework in which performance is assessed

ShareSave Plans are operated in the UK and 31 other countries internationally. In the US, an Employee Stock Purchase Plan is operated. These plans enable employees to save on a regular basis and then buy shares in the Company. Executive Directors are able to participate in such plans on a similar basis to other employees, depending on where they are located. Executive Directors may currently invest up to £500 per month in the UK ShareSave Plan. The Remuneration Committee may exercise its discretion to increase this amount up to the maximum permitted by the HM Revenue & Customs. Similar limits will apply in different locations.

The potential gains from all-employee plans are not based on performance but are linked to growth in the share price.
ANNUAL INCENTIVES

Annual Incentive Plan – Cash Incentive

To motivate and reward the achievement of specific annual financial and business objectives related to the Company’s strategy and sustained through a clawback mechanism explained more fully in the notes.

The objectives which determine the payment of the annual cash incentive and the level of the annual equity award are linked closely to the Group strategy.

The financial measures of Revenue, Trading Profit Margin and Trading Cash Flow underline our strategy for growth.

The business objectives are also linked to the Group strategy. These change from year to year to reflect the evolving strategy, but will typically be linked to the Strategic Priorities set out in this Annual Report. The Implementation Report each year will explain how each objective is linked to a specific strategic priority.

How the component operates

The Annual Incentive Plan comprises a cash and an equity component, both based on the achievement of financial and business objectives set at the start of the year.

The cash component is paid in full after the end of the performance year.

At the end of the year, the Remuneration Committee determines the extent to which performance against these has been achieved and sets the award level.

Maximum levels of payment

The total maximum payable under the Annual Incentive Plan is 215% of base salary (150% Cash Incentive and 65% Equity Incentive).

In respect of the Cash Incentive:
- 150% salary awarded for maximum performance.
- 100% salary awarded for target performance.
- 50% salary awarded for threshold performance.
- Performance assessed against individual objectives and Group financial targets.

Framework in which performance is assessed

The cash and share awards are subject to malus and clawback as detailed in the notes following this table.

75% of the cash component is based on financial performance measures, which currently include Revenue (35%), Trading Profit Margin (25%) and Trading Cash Flow (15%).

25% of the cash component is based on other business goals linked to the Company’s strategy, which could include financial and non-financial measures.

The Remuneration Committee retains the discretion to adjust the relative weightings of the financial and business components, and to adopt any performance measure that is relevant to the Company.

Annual Incentive Plan – Equity Incentive

To drive share ownership and encourage sustained high standards through the application of a ‘malus’ provision over three years, explained more fully in the notes.

How the component operates

The equity award component comprises conditional share awards (made at the time of the cash award), with vesting phased over the following three years.

The equity component vests 1/3, 1/3, 1/3 on successive award anniversaries, only if performance remains satisfactory over each of these three years; otherwise the award will lapse.

Participants will receive an additional number of shares equivalent to the amount of dividend payable per vested share during the relevant performance period.

Maximum levels of payment

In respect of the Equity Incentive:
- Performance is assessed against individual performance, which includes an element of Group financial targets.
- 65% of salary awarded for maximum performance.
- 50% of salary awarded for target performance.
- 0% of salary awarded for performance assessed to be below target.

Framework in which performance is assessed

The Remuneration Committee will use its judgement of the individual’s performance based both on what has been achieved during the year and how it has been achieved in determining the level of equity award that may be awarded within the range of 0% to 65% of salary.

The equity component will vest in three equal tranches over a three-year period, provided that satisfactory performance is sustained.
LONG-TERM INCENTIVES (AWARDS ACTIVELY BEING MADE)

**Performance Share Programme**

To motivate and reward longer-term performance linked to the long-term strategy and share price of the Company.

The performance measures which determine the level of vesting of the Performance Share Awards are linked to our corporate strategy.

<table>
<thead>
<tr>
<th>How the component operates</th>
<th>Maximum levels of payment</th>
<th>Framework in which performance is assessed</th>
</tr>
</thead>
</table>
| The Performance Share Programme comprises conditional share awards which vest after three years, subject to the achievement of stretching performance targets linked to the Company’s strategy. | Annual awards:  
- 190% of salary for maximum performance.  
- 95% of salary for target performance.  
- 47.5% of salary for threshold performance. | Currently:  
- 25% of the award vests on achievement of a three-year cumulative free cash flow target.  
- 25% of the award vests subject to three-year Total Shareholder Return (TSR) at median performance relative to Global Healthcare companies and to FTSE 100 companies.  
- 25% of the award vests subject to the achievement of return on invested capital targets.  
- 25% of the award vests subject to total sales growth.  
- These measures, the targets and performance against them are described more fully in the Implementation Report.  
- The Performance Share Award will vest on the third anniversary of the date of grant, depending on the extent to which the performance conditions are met over the three-year period commencing in the year the award was made.  
- The Remuneration Committee retains the discretion to change the measures and their respective weightings to ensure continuing alignment with the Company’s strategy.  
- The cash and share awards are subject to malus and clawback as detailed in the notes following this table. | Averages made prior to 2017 were subject to TSR against a sector peer group, cash flow and revenue in Emerging Markets targets. |

Participants will receive an additional number of shares equivalent to the amount of dividend payable per vested share during the relevant performance period.

On vesting, a number of shares are sold to cover the tax liability. The remaining shares are required to be held by the Executive Director for a further two-year holding period.

Currently:
- 25% of the award vests on achievement of a three-year cumulative free cash flow target.
- 25% of the award vests subject to three-year Total Shareholder Return (TSR) at median performance relative to Global Healthcare companies and to FTSE 100 companies.
- 25% of the award vests subject to the achievement of return on invested capital targets.
- 25% of the award vests subject to total sales growth.
- These measures, the targets and performance against them are described more fully in the Implementation Report.
- The Performance Share Award will vest on the third anniversary of the date of grant, depending on the extent to which the performance conditions are met over the three-year period commencing in the year the award was made.
- The Remuneration Committee retains the discretion to change the measures and their respective weightings to ensure continuing alignment with the Company's strategy.
- The cash and share awards are subject to malus and clawback as detailed in the notes following this table.

Awards made prior to 2017 were subject to TSR against a sector peer group, cash flow and revenue in Emerging Markets targets.
ILLUSTRATIONS OF THE APPLICATION OF THE REMUNERATION POLICY 2017

The following charts show the potential split between the different elements of the Executive Directors’ remuneration under three different performance scenarios.

MALUS AND CLAWBACK

The Remuneration Committee may determine that an unvested award or part of an award may not vest (regardless of whether or not the performance conditions have been met) or may determine that any cash bonus, vested shares, or their equivalent value in cash be returned to the Company in the event that any of the following matters is discovered:

- A material misstatement of the Company’s financial results; or
- A material error in determining the extent to which any performance condition has been satisfied; or
- A significant adverse change in the financial performance of the Company; or a significant loss at a general level or at the country business unit or function in which a participant worked; or
- Inappropriate conduct (for example reputational issues), capability or performance by a participant, or within a team business area or profit centre.

These provisions apply to share awards under the Global Share Plan 2010 and cash amounts under the Annual Cash Incentive Plan.

POLICY ON RECRUITMENT ARRANGEMENTS

Our policy on the recruitment of Executive Directors is to pay a fair remuneration package for the role being undertaken and the experience of the Executive Director appointed. In terms of base salary, we will seek to pay a salary comparable, in the opinion of the Committee, to that which would be paid for an equivalent position elsewhere. The Remuneration Committee will determine a base salary in-line with the policy and having regard to the parameters set out in the future policy table. Incoming Executive Directors will be entitled to pension, benefit and incentive arrangements which are the same as provided to existing Executive Directors. On that basis, incentive awards would not exceed 405% of base salary.

We recognise that in the event that we require a new Executive Director to relocate to take up a position with the Company, we will also pay relocation and related costs as described in the future policy table, which is in-line with the relocation arrangements we operate across the Group.

We also recognise that in many cases, an external appointee may forfeit sizeable cash bonuses and share awards if they choose to leave their former employer and join us. The Remuneration Committee therefore believes that we need the ability to compensate new hires for incentive awards they give up on joining us. The Committee will use its judgement in determining any such compensation, which will be decided on a case-by-case basis. We will only provide compensation which is no more beneficial than that given up by the new appointee and we will seek evidence from the previous employer to confirm the full details of bonus or share awards being forfeited. As far as possible, we will seek to replicate forfeited share awards using Smith & Nephew incentive plans or through reliance on Rule 9.4.2 in the Listing Rules, whilst at the same time aiming for simplicity.

Figures as at salary levels in 2017, when the Policy Report was approved by shareholders

<table>
<thead>
<tr>
<th>Chief Executive Officer</th>
<th>Chief Financial Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MINIMUM</strong></td>
<td><strong>TARGET</strong></td>
</tr>
<tr>
<td>Salary</td>
<td>Payment in lieu of pension</td>
</tr>
</tbody>
</table>

Total Remuneration by Performance Scenario for 2017 Financial Year (percentage split)

<table>
<thead>
<tr>
<th>Chief Executive Officer</th>
<th>Chief Financial Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MINIMUM %</strong></td>
<td><strong>TARGET %</strong></td>
</tr>
<tr>
<td>Fixed pay</td>
<td>Annual Incentive (Cash)</td>
</tr>
</tbody>
</table>

Data for the Chief Executive Officer assumes an exchange rate of €1 = £0.820.
If we appoint an existing employee as an Executive Director of the Company, pre-existing obligations with respect to remuneration, such as pension, benefits and legacy share awards, will be honoured. Should these differ materially from current arrangements, these will be disclosed in the next Implementation Report.

We will supply details via an announcement to the London Stock Exchange of an incoming Executive Director’s remuneration arrangements at the time of their appointment.

**SERVICE CONTRACTS**

We employ Executive Directors on rolling service contracts with notice periods of up to 12 months from the Company and six months from the Executive Director. On termination of the contract, we may require the Executive Director not to work their notice period and pay them an amount equivalent to the base salary and payment in lieu of pension and benefits they would have received if they had been required to work their notice period.

Under the terms of the Executive Director’s service contract, Executive Directors are restricted for a period of 12 months after leaving the employment of the Company from working for a competitor, soliciting orders from customers and offering employment to employees of Smith & Nephew. The Company retains the right to waive these provisions in certain circumstances. In the event that these provisions are waived or the former Executive Director commences employment earlier than at the end of the notice period, no further payments shall be made in respect of the portion of notice period not worked. Directors’ service contracts are available for inspection at the Company’s registered office: 15 Adam Street, London WC2N 6LA.

**POLICY ON PAYMENT FOR LOSS OF OFFICE**

Our policy regarding termination payments to departing Executive Directors is to limit severance payments to pre-established contractual arrangements. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the Executive Director, as well as the rules of any incentive plans.

Under normal circumstances (excluding termination for gross misconduct), all leavers are entitled to receive termination payments in lieu of notice equal to base salary, payment in lieu of pension, and benefits. In some circumstances additional benefits may become payable to cover reimbursement of untaken holiday leave, repatriation and outplacement fees, legal and financial advice.

In addition, we may also in exceptional circumstances exercise our discretion to pay the Executive Director a proportion of the annual cash incentive they would have received had they been required to work their notice period. Any entitlement or discretionary payment may be reduced in-line with the Executive Director’s duty to mitigate losses, subject to applying our non-compete clause.

We will supply details via an announcement to the London Stock Exchange of a departing Executive Director’s termination arrangements at the time of departure.

In the case of a change of control which results in the termination of an Executive Director or a material alteration to their responsibilities or duties, within 12 months of the event, the Executive Director would be entitled to receive 12 months’ base salary plus payment in lieu of pension and benefits. In addition, the Remuneration Committee has discretion to pay an Executive Director in these circumstances an annual cash incentive. For Directors appointed prior to 1 November 2012, an automatic annual cash incentive is payable at target.

In the event that an Executive Director leaves for reasons of ill-health, death, redundancy or retirement in agreement with the Company, then the vesting of any outstanding annual cash incentive and equity incentive awards will generally depend on the Remuneration Committee’s assessment of performance to date. Performance share awards will be pro-rated for the time worked during the relevant performance period, and will remain subject to performance over the full performance period.

For all other leavers, the annual cash incentive will generally be forfeited and outstanding equity incentive awards and performance share awards will lapse.

One-off awards granted on appointment will normally lapse on leaving except in cases of death, retirement, redundancy, or ill-health. The Remuneration Committee has discretion to permit such awards to vest in other circumstances and will be subject to satisfactorily meeting performance conditions if applicable.

The Remuneration Committee retains discretion to alter these provisions on a case-by-case basis following a review of circumstances and to ensure fairness for both shareholders and Executive Directors.

We will supply details via an announcement to the London Stock Exchange of an out-going Executive Director’s remuneration arrangements around the time of leaving.
CHANGES TO POLICY
The 2017 Remuneration Policy makes the following changes to the 2014 Remuneration policy:
– Introduction of a two-year holding period for vested Performance shares;
– Flexibility to change measures;
– Increased emphasis on financial objectives in the Annual Incentive Plan, increases from 70% to 75%; and
– Increased shareholding requirement to 300% of salary for the Chief Executive Officer.

Further details can be found in the letter from the Chairman of the Remuneration Committee on pages 79–80 of the 2017 Annual Report.

POLICY ON SHAREHOLDING REQUIREMENTS
The Remuneration Committee believes that one of the best ways our Executive Directors can have a greater alignment with shareholders is for them to hold a significant number of shares in the Company. The Chief Executive Officer is therefore expected to build up a holding of Smith & Nephew shares worth three times their basic salary and the Chief Financial Officer is expected to build up a holding of two times their basic salary. In order to reinforce this expectation, we require them to retain 50% of the shares (after tax) vesting under the equity incentive programmes until this holding has been met, recognising that differing international tax regimes affect the pace at which an Executive Director may fulfil the shareholding requirement. When calculating whether or not this requirement has been met, we will include ordinary shares or ADRs held by the Executive Director and their immediate family. Ordinarily, we would expect this required shareholding to have been built up within a period of five years from the date of appointment.

Furthermore, from awards made in 2017, we require our Executive Directors to retain all the shares (after tax) vesting under the Performance Share Programme for a period of two years after vesting.

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY AND DIFFERENCES TO THE EXECUTIVE DIRECTOR POLICY
All employees across the Group have performance-based pay linked to objectives derived from the strategic priorities, which underpin the performance metrics in the Executive Director Incentive Plans.

Executive Director base salaries will generally increase at a rate in-line with the average salary increases awarded across the Company. Given the diverse geographic markets within which the Company operates, the Committee will generally be informed by the average salary increase in both the market local to the Executive and the UK, recognising the Company’s place of listing, and will also consider market data periodically.

A range of different pension arrangements operate across the Group depending on location and/or length of service. Executive Directors and Executive Officers either participate in the legacy pension arrangements relevant to their local market or receive a cash payment of 30% of salary in lieu of a pension. Senior executives who do not participate in a local Company pension plan receive a cash payment of 20% of salary in lieu of pension. Differing amounts apply for lower levels within the Company.

The Company has established a benefits framework under which the nature of benefits varies by geography. Executive Directors participate in benefit arrangements similar to those applied for employees within the applicable location.

All employees are set objectives at the beginning of each year, which link through to the objectives set for the Executive Directors. Annual cash incentives payable to employees across the Company depend on the satisfactory completion of these objectives as well as performance against relevant Group and country business unit financial targets relating to revenue, trading profit and trading cash, similar to the financial targets set for the Executive Directors.

Executive Officers and senior executives (61 as at 2017) participate in the annual Equity Incentive Programme and the Performance Share Programme. The maximum amounts payable are lower, but the performance conditions are the same as those that apply to the Executive Directors.

No specific consultation with employees has been undertaken relating to Director remuneration. However, regular employee surveys are conducted across the Group, which cover a wide range of issues relating to local employment conditions and an understanding of Group-wide strategic matters. As at 2017, around 5,000 employees in 63 countries participate in one or more of our global share plans.
## Future Policy Table – Chairman and Non-Executive Directors

The following table and accompanying notes explain the different elements of remuneration we pay to our Chairman and Non-Executive Directors. No element of their remuneration is subject to performance. All payments made to the Chairman are determined by the Remuneration Committee, whilst payments made to the Non-Executive Directors are determined by the Directors who are not themselves Non-Executive Directors, currently the Chairman, the Chief Executive Officer and the Chief Financial Officer.

### Annual Fees

<table>
<thead>
<tr>
<th>Basic Annual Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>To attract and retain Directors by setting fees at rates comparable to what would be paid in an equivalent position elsewhere.</td>
</tr>
</tbody>
</table>

A proportion of the fees are paid in shares in the third quarter of each year in order to align Non-Executive Directors' fees with the interests of shareholders.

**How the component operates**

Fees will be reviewed periodically. In future, any increase will be paid in shares until 25% of the total fee is paid in shares.

Fees are set in line with market practice for fees paid by similarly sized UK listed companies.

Annual fees are set and paid in UK Sterling or US Dollars depending on the location of the Non-Executive Director. If appropriate, fees may be set and paid in alternative currencies.

**Maximum levels of payment**

Annual fees are currently as follows:

- £63,000 in cash plus £5,135 in shares; or
- $120,000 in cash plus $9,780 in shares.

Chairman fee:

- £309,000 plus £103,000 in shares.

Whilst it is not expected to increase the fees paid to the Non-Executive Directors and the Chairman by more than the increases paid to employees generally, in exceptional circumstances higher fees might become payable.

The total maximum aggregate fees payable to the Non-Executive Directors will not exceed £1.5 million as set out in the Company’s Articles of Association.

### Fee for Senior Independent Director and Committee Chairmen

To compensate Non-Executive Directors for the additional time spent as Committee Chairmen or as the Senior Independent Director.

**How the component operates**

A fixed fee is paid, which is reviewed periodically.

**Maximum levels of payment**

- £20,000 in cash; or
- $35,000 in cash.

Whilst it is not expected that the fees paid to the Senior Independent Director or Committee Chairmen will exceed the increases paid to employees generally, in exceptional circumstances, higher fees might become payable.

### Intercontinental Travel

To compensate Non-Executive Directors for the time spent travelling to attend meetings in another continent.

**How the component operates**

A fixed fee is paid, which is reviewed periodically.

**Maximum levels of payment**

- £3,500 in cash; or
- $7,000 in cash.

Whilst it is not expected to increase these fees by more than the increases paid to employees generally, in exceptional circumstances, higher fees might become payable.
NOTES TO FUTURE POLICY TABLE
– NON-EXECUTIVE DIRECTORS

Changes to Remuneration Policy
There have been no changes to our Remuneration Policy as it applies to Non-Executive Directors, since the Policy was initially approved by shareholders in April 2014.

Additional duties undertaken by Non-Executive Directors
In the event that the Chairman or a Non-Executive Director is required to undertake significant additional executive duties in order to support the Executive Directors during a period of absence due to illness or a gap prior to the appointment of a permanent Executive Director, the Remuneration Committee is authorised to determine an appropriate level of fees which shall be payable. These fees will not exceed the amounts which would normally be paid to a permanent Executive Director undertaking such duties and shall not include participation in short- or long-term incentive arrangements or benefit plans.

Policy on recruitment arrangements
Any new Non-Executive Director shall be paid in accordance with the current fee levels on appointment, in line with the Policy set out above. With respect to the appointment of a new Chairman, fee levels will take into account market rates, the individual’s profile and experience, the time required to undertake the role and general business conditions. In addition, the Remuneration Committee retains the right to authorise the payment of relocation assistance or an accommodation allowance in the event of the appointment of a Chairman not based within the UK.

Letters of appointment
The Chairman and Non-Executive Directors have letters of appointment which set out the terms under which they provide their services to the Company and are available for inspection at the Company’s registered office: 15 Adam Street, London WC2N 6LA. The appointment of Non-Executive Directors is not subject to a notice period, nor is there any compensation payable on loss of office, for example, should they not be re-elected at an Annual General Meeting. The appointment of the Chairman is subject to a notice period of six months.

The Chairman and Non-Executive Directors are required to acquire a shareholding in the Company equivalent in value to one times their basic fee within two years of their appointment to the Board.

STATEMENT OF CONSIDERATION OF SHAREHOLDER VIEWS
The broad outline of our remuneration arrangements have remained largely unchanged since 2012. As our strategy has evolved, we have altered some of the measures we use in our short- and long-term incentive plans, but the overall structure of our remuneration arrangements has remained the same. Shareholders formally approved the Remuneration Policy in respect of our Executive Directors at the Annual General Meeting in 2014. Joseph Papa, Chairman of the Remuneration Committee, has met with shareholders before the policy was approved and every year since, in order to ascertain shareholder views on our remuneration arrangements.

Ahead of the Annual General Meeting in 2016, Mr Papa held meetings and calls with 28 shareholders holding approximately 33% of the Company’s Share Capital. Although the holders of 53% of our shares voted against the Remuneration Report in 2016, our engagement ahead of the 2016 Annual General Meeting had shown us that shareholders were broadly supportive of our Remuneration Policy and those who opposed the Remuneration Report were primarily voting against the use of discretion rather than any aspect of the Remuneration Policy.

During 2016, following the Annual General Meeting, Mr Papa continued to engage extensively with shareholders. In Autumn 2016, he met with or held telephone calls with 28 shareholders holding around 41% of the Company’s shares. The shareholders he met ranged from some of our top 20 shareholders down to smaller active and engaged shareholders holding fewer than one million shares. He discussed our proposals to continue with the same overall remuneration arrangements, whilst altering the performance measures used in the short- and long-term incentive plans. We found the discussions with shareholders at this time useful in helping to understand the measures and targets which were important to our shareholders, and those which shareholders did not support. As a result of these discussions, some updated performance measures have been incorporated into our incentive plans for 2017 and a two-year holding period will now apply on the vesting of performance shares for our Executive Directors.