Letter from the Chair

The 2018 UK Corporate Governance Code continues to be implemented and this will proceed throughout 2020. As a Board we’re thinking about our purpose and culture pillars with every decision we make, including the appointment of our new Chief Executive Officer.

Dear Shareholder,

I am pleased to present the governance section of our Annual Report, which includes details about the Board and an explanation of our individual roles and responsibilities. We also summarise the activities of the Board and the Chair of each Board Committee discusses the activities of that Committee during the past year.

One of the Board’s key decisions in 2019 was the appointment of Roland Diggelmann as Chief Executive Officer. In October 2019, we announced that Namal Nawana was leaving by mutual agreement to pursue opportunities outside the UK and Roland was appointed the Company’s new Chief Executive Officer, effective 1 November 2019. I wish Namal well in his next role and thank him for the seamless handover he provided to Roland up to his departure as an employee on 31 December 2019.

Roland Diggelmann had been a potential candidate to replace Olivier Bohuon following his retirement in May 2018. He was at that time unavailable due to his executive duties, but we were so impressed with his medical devices

Statement of Compliance

The Board is committed to the highest standards of corporate governance. We comply with all the provisions and principles of the UK Corporate Governance Code 2018 (2018 Code), except that we recognise we have not complied fully with Provision 41 to engage with the workforce on the alignment of executive pay with the wider company pay policy. The Board will address this in 2020 at their Board Listening Sessions, described on page 85. Nor did we comply with Provision 38 in 2019 in aligning Executive Director pension payments with the wider workforce. This will be addressed in 2020 as described on pages 87 and 91.

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 and 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 US and UK corporate governance standards.

We explain in this ‘Governance in Action’ section how we comply with and have applied the 2018 Code during the year. The 2018 Code can be found at www.frc.org.uk/getattachment/88bd8e45-50ea-4841-95b0-d2f4f480962a/2018-UK-Corporate-Governance-Code-FINAL.pdf. We also explain how we have complied with the Financial Conduct Authority’s (FCA) Listing Rules, Disclosure & Transparency Rules (DTRs) throughout the year.
knowledge and character that the Board invited him to be a Non-Executive Director. From our Board evaluation in 2017 we had identified a skills gap in medical devices and he fulfilled this requirement. Not only did he have 18 months insight into the Company as a Non-Executive Director but he has approved and genuinely believed in the work on culture, strategy, people, markets and geographies undertaken by the Executive Team during his time as a Non-Executive Director. He has developed a strong link with the Executive team already from his medical devices market knowledge and understanding of their own pressures and requirements.

Roland spent 12 years at Zimmer Group, in the role of MD of Zimmer Japan and then later as Senior Vice President, EMEA. The next 10 years of his career were spent at Roche Diagnostics where he was both MD of Asia Pacific and CEO of Diagnostics. Here, he led 34,000 people to beat market growth over a 10 year period. He has the appetite to be a Chief Executive Officer in a UK and US listed company and understands the principles of governance and remuneration in a UK listed environment. Roland is motivated by his interest in medical devices and I was proud to announce him as our new Chief Executive Officer.

**Governance**

The publication by the Financial Reporting Council in 2018 of the new UK Corporate Governance Code (the ‘Code’) and the Guidance on Board Effectiveness caused us to reconsider some aspects of how we operate as a Board. We now focus even more on our purpose, culture pillars and stakeholders. As explained on page 2, our strategy is derived directly from our purpose and culture. We have thought carefully about how to formalise our consideration of the impact our decisions have on our key stakeholders and section 172 duties under the Companies Act 2006. See pages 84 and 85.

All Board papers requiring a Board decision are required to include a specific section discussing the impact of that decision on our employees, customers, suppliers, investors, governments and regulators, where relevant. This is discussed further on pages 84 and 85 and elsewhere throughout the report. We feel as a Board our decision to not appoint an employee representative or a designated single director was the right decision for Smith+Nephew. The Compliance & Culture Committee comprises Non-Executive Directors based in Europe, US and Asia, which enables a greater global reach to all our international employees.

The Compliance & Culture Committee conducted its first meeting on 10 April 2019, with Marc Owen as Chair Elect. It has reviewed the results from our culture survey and reported these results to the Board, who also had access to the findings. With this information the Board has been able to ensure that policy and practices are aligned throughout the business to the Company purpose: Life Unlimited. For us, this model is working well. The Board has built on the work Namal and his team did in 2018 to listen effectively through town halls and other means of engagement and respond to the employee voice. Roland has continued this with the induction that he has undertaken during Q4 2019 as your new Chief Executive Officer. This programme will be developed further by the expanded Compliance & Culture Committee and will be in addition to the engagement we currently have with employees when we undertake site visits as part of our Board programme. We visited our Memphis site in June and were pleased to report on the changes the Executive team made to such an important manufacturing plant, to our business and the positive impact this is already having on our staff. Further information about some of our stakeholders we met as a Board when visiting a hospital in Switzerland, last September is also reported by Marc Owen, the Chair of the Compliance & Culture Committee. As you will read later, the Remuneration Committee, like many other FTSE companies, has been busy this year, meeting shareholders to discuss our new proposed Remuneration Policy and ensuring shareholders were able to engage. We hope the feedback they provided can be shown in our reporting and they continue to fully support our proposals outlined in our 2020 Remuneration Policy.

**Changes to the Board in 2019**

During the year to 31 December 2019, there were the following changes to the Board:

1. Ian Barlow, after nine years’ service retired from the Board as Senior Independent Director at the Annual General Meeting on 11 April 2019 and Robin Freestone, Chair of the Audit Committee and member of the Remuneration Committee was appointed as Senior Independent Director in his place.
2. Michael Friedman retired from the Board as Chair of the Ethics & Compliance Committee on 11 April 2019. Marc Owen, member of the Audit Committee became Chair of the now Compliance & Culture Committee on that date and the first meeting took place on 10 April 2019.
3. Namal Nawana resigned as Chief Executive Officer on 31 October 2019 and was succeeded by Roland Diggelmann.

We would like to thank both Ian and Michael for their outstanding contribution to the Company through periods of change. These few changes have provided relative stability to the Board during a time of change of Chief Executive Officer and development of a new Remuneration Policy.

Roberto Quarta
Chair
Board of Directors

Committee key

A  Member of the Audit Committee
C  Member of the Compliance & Culture Committee
N  Member of the Nomination & Governance Committee
R  Member of the Remuneration Committee

Rolando Diggelmann (52)
Chief Executive Officer
Appointed Independent Non-Executive Director and Member of the Audit Committee on 1 March 2018 until 21 October 2019, when the Company announced Roland would be appointed Chief Executive Officer with effect from 1 November 2019. He was re-elected by shareholders at the 2019 Annual General Meeting (AGM) and will stand for re-election as Chief Executive Officer at the AGM on 9 April 2020. Roland is based in Zug, Switzerland.

Career and experience
Rolando studied Business Administration at the University of Berne. In 1995, he joined Sulzer Medica 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 AG (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 starting as president of Asia Pacific before assuming the role of Chief Executive Officer of the Diagnostics Division of F. Hoffmann-La Roche Ltd from 2012 until September 2018.

Other current appointments
– Director of Igenomix.
– Director of HeartForce AG.
– Director of Accelerate Diagnostics, Inc., which is listed on NASDAQ (Nasdaq: AXDX).

Skills and competencies
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 is of great value to Smith+Nephew.

Nationality
Swiss

Roberto Quarta (70)
Chair
Joined the Board in December 2013 and appointed Chair following election by shareholders at the 2014 Annual General Meeting.

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 Chair, until 2007. In 2001, he joined Clayton Dubilier & Rice (CD&R) as Partner and is currently Chair of CD&R Europe.

He has held several board positions, including Non-Executive Director 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. Roberto was also a former member of the Investment Committee of Fondo Strategico Italiano S.p.A.

Other current appointments
– Chair of WPP plc.
– Partner at CD&R.
– Chair of CD&R Europe.

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 chair of a number of UK and international companies.
Since his appointment as Chair 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 in 2018. Roberto also conducted the search resulting in the appointment of Namal Nawana as our CEO in 2018.

Nationality
American/Italian

Nationality
American/Italian

Board Leadership and Purpose

Governance

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Graham Baker (51)
Chief Financial Officer
Appointed in March 2017.
Graham is based in Watford, UK.

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.

Other current appointments
– N/A.

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

Vinita Bali (64)
Independent Non-Executive Director
Appointed in December 2014.

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 also 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 Zyma 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.

Other current appointments
– NED of Syngene International Limited.
– NED of Bunge Limited.
– NED of CRISIL India
(a Standard & Poor company).
– Member of the Advisory Board of PwC India.
– NED of Cognizant Technology Solutions Corporation.

Skills and competencies
Vinita has an impressive track record of achievement with blue-chip global corporations in multiple roles and multiple geographies including India, Africa, South America, US and UK, all key markets for Smith+Nephew. Her CEO experience together with strong appreciation of customer service and marketing adds deep insight as Smith+Nephew continues to develop innovative ways to serve our markets and grow our business.

Nationality
Indian

The Rt. Hon Baroness Virginia Bottomley of Nettlestone DL (71)
Independent Non-Executive Director
Appointed in April 2012.

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.

Other current appointments
– Director of International Resources Group Limited, where she is Chair of Board & CEO Practice at Odgers Berndtson.
– Member of the International Advisory Council of Chugai Pharmaceutical Co.
– Chancellor of University of Hull.
– Sheriff of Kingston upon Hull.
– Trustee of The Economist Newspaper.

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 (56)  
Independent Non-Executive Director  
Appointed in January 2015.

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 Bantam 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.

Other current appointments  
– Member of Bonnier Group’s Board.  
– 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 and Nomination & Governance Committees.

Nationality

Swedish

Robin Freestone (61)  
Independent Non-Executive Director  
Appointed in September 2015.  
Robin was appointed Senior Independent Director following the Annual General Meeting on 11 April 2019.

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, Chair of the 100 Group and Senior Independent Director and Chair of the Audit Committee of Cable & Wireless Communications plc. Robin was also previously Chair of the Audit Committee of MoneySupermarket.com plc.

Other current appointments  
– NED and Chair of the Audit Committee at Capri Holdings Ltd, (formerly Michael Kors Holdings Ltd).  
– Chair of the ICAEW Corporate Governance Committee.  
– Chair of the Board at MoneySupermarket.com plc as well as Chair of their Nomination Committee.

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 is of value to Smith+Nephew as it continues to grow globally and in different markets. He brings financial expertise and insight as Chair 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

Marc Owen (60)  
Independent Non-Executive Director  
Appointed in October 2017.  
Appointed Chair of the Compliance & Culture Committee in April 2019.

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 Speciality 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 Chair 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.

Other current appointments  
– N/A.

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 and makes him ideally placed to Chair the Compliance & Culture Committee.

Nationality

British
Angie Risley (61)
Independent Non-Executive Director
Appointed in September 2017.

Career and experience
After graduating from Exeter University, Angie joined United Biscuits followed by 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 HRD and a member of their Operating Board 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, Arriva and Serco Group plc, and now Smith+Nephew. At Serco she was the Chair of the Remuneration Committee. Previously she has attended Remuneration Committees of Whitbread, Lloyds Banking Group, Arriva and now J Sainsbury plc.

Other current appointments
– J Sainsbury plc Group HRD and member of their Operating Board.

Skills and competencies
Angie is a well-regarded FTSE 100 Human Resources Director, proven Non-Executive Director and Remuneration Committee Chair. 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 an additional resource and sounding board for Smith+Nephew’s own internal Human Resources function.

Nationality
British

Susan Swabey (58)
Company Secretary
Joined Smith+Nephew in May 2009 as Company Secretary with responsibility for board support and corporate governance, employee and executive share plans and subsidiary governance. She is based in Watford, UK.

Other current appointments
– Chair of the CBI Companies Committee.
– Chair of ShareGift, the share donation charity.
– Member of the Financial Reporting Council Lab Steering Group.

Skills and experience
Susan holds an MA from Corpus Christi College Oxford in Literae Humaniores and is a Fellow of The Chartered Governance Institute.

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, remuneration, corporate transactions, group risk management, share registration, listing obligations, corporate social responsibility, pensions, insurance and employee and executive share plans. Susan is a frequent speaker on corporate governance and related matters.

Nationality
British
Executive team

Roland Diggelmann is supported in the day-to-day management of the Group by Graham Baker, Chief Financial Officer, and a strong team of Executives.

Our commercial model

Brad Cannon (51)
President, Sports Medicine & ENT
Joined Smith+Nephew in 2012 and has since been the President of Smith+Nephew's Europe and Canada business, the Company's Chief Marketing Officer, and now serves as the President of the Global Sports Medicine and Ear, Nose and Throat business. He is based in Andover, US.

Skills and experience
Brad was most recently the Chief Marketing Officer and prior to that the President of Europe and Canada, where he successfully led the commercial business in those regions. He has also served as the 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
Phil Cowdy (52)
Chief Business Development and Corporate Affairs Officer
Joined Smith+Nephew in 2008 as Director of Investor Relations. From 2010 his responsibility expanded as Head of Corporate Affairs, including media, investor relations, global brand and government affairs, together with Strategic Planning. Between 2015 and 2018 he was also responsible for IT. In 2018 he took on additional responsibility for Business Development. He is based in Watford, UK.

Skills and experience
Prior to joining Smith+Nephew, Phil served as a Senior Director at Deutsche Bank and predecessor firms for 13 years, providing corporate finance and equity capital markets advice to a variety of UK-based companies. He qualified as a chartered accountant with EY.

Nationality
British

Myra Eskes (48)
President, Asia Pacific
Joined Smith+Nephew in May 2019 with responsibility for Asia Pacific. Myra is based in Singapore.

Skills and experience
Myra is a strong and highly respected leader with deep cross-cultural experience bringing more than two decades of enterprise-wide experience in finance, manufacturing, operations, sales and marketing. Most recently, Myra was President and CEO of GE Healthcare Southeast Asia, Korea, Australia and New Zealand, reporting directly to the CEO as part of the global management team. In this role, she was responsible for the diagnostic and interventional imaging, patient monitoring, healthcare digital and life sciences businesses. Prior to this, Myra led the GE Life Sciences business for the Eastern & African growth markets, covering Turkey, the Middle East, Africa and Russia/Commonwealth of Independent States (CIS) countries. There, she drove growth in the region by working with customers who were investing in life sciences technologies and research, including pharmaceutical diagnostics, bioprocessing, services and in-vitro diagnostics. In addition to her diverse operational experience in complex and broad-based businesses around the world, Myra has a proven track record of driving strong revenue growth and increasing profitability. She has created high performing teams to deliver innovative medical devices and life sciences solutions on three continents and has a true passion for customers and improving access to quality healthcare.

Nationality
Dutch

Simon Fraser (52)
President, Advanced Wound Management
Joined Smith+Nephew in January 2019 with commercial leadership responsibility for Advanced Wound Management in the US and global marketing for the Advanced Wound Management Franchise. Simon is based in Fort Worth, US.

Skills and experience
Simon brings to this role more than 25 years’ of experience across medical devices, pharmaceuticals and diagnostics, including wound management. Importantly, he is a purpose-driven and accomplished business leader who has successfully managed large, global commercial organisations with full P&L responsibility while growing business and earning market share. Prior to joining Smith+Nephew Simon was Group Vice President of Dentsply-Sirona’s Dental Implant Global Business Unit. Prior to this Simon was Vice President, US Commercial Infectious Diseases including corporate accounts at Abbott Laboratories. Simon joined Abbott following the acquisition of Alere where he had three successful years as the President of Latin America. Prior to these roles, Simon had a 15-year career with Johnson & Johnson, where he held increasingly senior commercial roles spanning surgical devices, wound management, implants and pharmaceuticals including both global strategic marketing and P&L responsibilities.

Nationality
American/Canadian
Executive team continued

Mark Gladwell (44)
President, Global Operations and Global Business Services
Joined Smith+Nephew in August 2018 with responsibility for Global Manufacturing, Global Supply Chain, Global Procurement, Global Engineering and Global Operational Excellence, and all Operational Strategy and programmes including APEX projects related to Global Operations. From 2019 Mark also took responsibility for Global Business Services. Mark is based in Watford, UK.

Skills and experience
Mark joined Smith+Nephew from QIAGEN, a provider of sample and assay technologies for molecular diagnostics, applied testing, academic and pharmaceutical research. There he was Senior Vice President of Global Operations responsible for global manufacturing, supply chain, quality assurance and control, regulatory affairs, and global customer service. Mark is a seasoned operational leader bringing more than 20 years’ of experience in progressively senior operations roles across global organisations including DuPont, AGFA Medical Imaging, Johnson & Johnson, and Alere Inc. Mark has experience of working and living in Europe and the US and operating global manufacturing and supply chain organisations with a significant focus and track record in delivering operational excellence transformation programmes.

Nationality
British

Melissa Guerdan (45)
Chief Quality and Regulatory Affairs Officer
Joined Smith+Nephew in July 2018 with responsibility for Quality and Regulatory Affairs and assumed additional responsibility in 2019 for the Portfolio Compliance organization, inclusive of the Group EU MDR. Melissa is based in Andover, US.

Skills and experience
Melissa brings more than 20 years’ of leadership experience in Quality and Regulatory Affairs spanning the pharmaceutical, medical device and biologics industries. Melissa has deep compliance and operations knowledge and has progressed through senior leadership roles in global organisations including Pfizer, Baxter, Covidien and Alere. Most recently, Melissa was Senior Vice President, Quality and Regulatory for Alere where she had executive responsibility for establishing enterprise vision, strategy and direction for all aspects of quality, compliance and regulatory affairs. Melissa is adept at inspiring diverse global organisations to achieve common goals and has consistently delivered material value at the enterprise level through transformational quality and regulatory improvement programmes.

Melissa holds a BA degree in Biology and Psychology, and holds an MBA from DePaul University.

Nationality
American

Skip Kil (45)
President, Orthopaedics
Joined Smith+Nephew in November 2018 with global responsibility for the Orthopaedics franchise which includes Reconstruction, Trauma, Extremities and Robotics. Skip is based in Memphis, US.

Skills and experience
Skip is a seasoned leader who brings a wealth of global experience from diverse medical technology companies, and importantly, significant global experience in Orthopaedics markets over an extended period. Prior to joining Smith+Nephew, Skip was most recently responsible for all Global Commercial Operations at NuVasive and member of the senior executive leadership team. Prior to this, Skip spent three years with Alcon, a division of Novartis Corporation, based in Geneva, Switzerland, where he served as Surgical Head, Europe, Middle East, Africa and Russia. While at Alcon, Skip led the successful commercial transformation of its $1.1bn surgical business across both developed and emerging growth markets. Before joining Alcon, Skip had a successful 12-year career with Stryker Corporation, beginning in sales and holding progressively senior positions in commercial leadership in the US as well as in global marketing. Skip also had general management experience in Japan, as well as group leadership responsibilities in Europe where he held the role of Vice President and General Manager of its Medical Surgical Group.

Nationality
American
Elga Lohler (52)
Chief Human Resources Officer
Joined Smith+Nephew in January 2002 as Director of HR and has since held progressively senior positions in Wound Management, Operations, Corporate Functions and Group. Elga became Chief Human Resources Officer in December 2015 and leads the Global Human Resources, Internal Communication and Sustainability Functions. Elga is based in Fort Worth, US.

Skills and experience
Elga has more than 25 years’ Human Resources experience. Prior to joining Smith+Nephew, Elga held Human Resources roles at Transnet, Sensormatic (now Tyco) and Advanced Tissue Sciences, which was acquired by Smith+Nephew in 2002. Through these roles, Elga has developed deep expertise in strategy planning and development, organisational design and effectiveness, restructuring and integration and transformational change in support of business objectives. In her current role, Elga is responsible for driving Smith+Nephew’s human capital strategy across the enterprise in support of the Company’s overall business plan and strategic direction.

Elga holds an undergraduate degree in Psychology and a Master’s degree in Organizational Psychology, both from the University of Witwatersrand in South Africa.

Nationality
American/South African

Catheryn O’Rourke (47)
Chief Legal and Compliance Officer
Joined Smith+Nephew in February 2013 and became Chief Legal Officer in May 2017 and Chief Legal and Compliance Officer in July 2018. Catheryn heads up the Global Legal and Compliance functions and is based in Andover, US.

Skills and experience
Prior to being appointed Chief Legal and Compliance Officer, Catheryn had various responsibilities within Legal as Assistant General Counsel – Litigation and Investigations. Prior to joining Smith+Nephew, Catheryn spent 11 years of her career with Davis Polk & Wardwell LLP.

Catheryn is a graduate of Princeton University and Harvard Law School.

Nationality
American

Vasant Padmanbhan (53)
President, 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. Vasant 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, Programme 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, US and an MBA degree from the Carlson School of Management, Minnesota.

Nationality
American
Division of Responsibilities

Roles and composition

Whilst we all share collective responsibility for the activities of the Board, some of our roles have been defined in greater detail below.

Chair

- Building a well-balanced Board.
- Chairing Board meetings and setting Board agendas.
- Ensuring effectiveness of the Board and enabling the annual review of effectiveness.
- Encouraging constructive challenge and facilitating effective communication between Board members.
- Promoting effective Board relationships.
- Holding meetings with Non-Executive Directors in the absence of Executive Directors.
- Ensuring one-to-one discussions with each Board Member.
- Ensuring appropriate induction and development programmes.
- Ensuring effective two-way communication and debate with shareholders and stakeholders.
- Promoting high standards of corporate governance.
- Maintaining appropriate balance between stakeholders.

Senior Independent Director

- Chairing meetings in the absence of the Chair.
- Acting as a sounding board for the Chair on Board-related matters.
- Acting as an intermediary for the other Directors where necessary.
- Available to shareholders and stakeholders on matters which cannot otherwise be resolved.
- Leading the annual evaluation into the Board’s effectiveness.
- Leading the search for a new Chair, if necessary.

Chief Executive Officer

- Developing and implementing Group strategy.
- Recommending the annual budget and long-term strategic and financial plan.
- Ensuring coherent leadership of the Group.
- Managing the Group’s risk profile and establishing effective internal controls.
- Regularly reviewing organisational structure, developing executive team and planning for succession.
- Ensuring the Chair and Board are kept advised and updated regarding key matters.
- Maintaining relationships with shareholders and advising the Board accordingly.
- Setting the tone at the top with regard to culture, compliance and sustainability matters.
- Day-to-day running of the business.

Chief Financial Officer

- Supporting the Chief Executive Officer in developing and implementing the Group strategy.
- Leading the global finance function, developing key finance talent and planning for succession.
- Ensuring effective financial reporting, processes and controls are in place.
- Recommending the annual budget and long-term strategic and financial plan.
- Maintaining relationships with shareholders.

Company Secretary

- Advising the Board on matters of corporate governance.
- Supporting the Chair and Non-Executive Directors.
- Point of contact for investors on matters of corporate governance.
- Ensuring good governance practices at Board level and throughout the Group.

Non-Financial Reporting Regulations

In accordance with The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016 information can be found on the following pages of this 2019 Annual Report relating to the environment (pages 32–35 of this report and the 2019 Sustainability Report), social (pages 24–27 of this report and the 2019 Sustainability Report), anti-corruption and anti-bribery matters (pages 34–35), employees (pages 24–25 and 84–85) and human rights (page 26).
Corporate governance framework

The Board is responsible to shareholders and stakeholders 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 cybersecurity. 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 our workforce. Ensures alignment with our purpose, values and long-term strategy.
- **Nomination & Governance Committee**
  Reviews size, skills, experience, knowledge and composition of the Board, succession planning, diversity and governance matters.
- **Compliance & Culture Committee**
  Reviews and monitors ethics and compliance, quality and regulatory and related legal matters across the Group. Role was expanded in 2019 to include oversight of culture, sustainability and stakeholder relationships.
- **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. Reviews whether communications are inside information.
- **Ad hoc committees**
  Ad hoc committees may be established to review and approve specific matters or projects.
- **Executive Committee**
  Recommends and implements strategy, recommends budget and three-year plan to the Board for approval, ensures liaison between commercial and corporate functions, receives regular reports from sub-committees, monitors succession planning and talent pipeline below Board level, reviews major investments, divestment and capital expenditure proposals and approves business development projects.

The Board delegates the day-to-day running of the business to Roland Diggelmann, Chief Executive Officer, who is assisted in his role by the Executive Committee comprising the Executive team shown on pages 58–61. The governance framework below outlines the Executive Committee arrangements as follows:

- **Monthly Operating Review**
  Wider group of senior commercial and financial leaders reviews monthly commercial and marketing and operating results against budget, identifying gaps and agreeing remedial actions.
- **Franchise, Functional and Regional Leadership Meetings**
  Senior management meetings to drive performance across each franchise, function and region.
- **Portfolio Innovation Board**
  Defines portfolio allocation principles, reviewing and challenging current shape of portfolio, identifying gaps and opportunities and re-prioritising segments and geographies.
- **Health, Safety & Environment Committee**
  Oversees health, safety and environmental matters.
- **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.
- **Group Ethics & Compliance Committee**
  Reviews compliance matters and country business unit or function compliance reports.
- **Mergers & Acquisitions Investment Committee**
  Oversees Corporate Development Strategy, monitors status of transactions and approves various stages in the merger, acquisition and disposal process.
- **Sustainability Council**
  Monitor Sustainability strategy and deliver agreed plan.
### Division of Responsibilities continued

#### Responsibilities of the Board

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Early February</th>
<th>Late February</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Approving the Group strategy including major changes to corporate and management structure.</td>
<td>Reviewed capital allocation policies.</td>
<td>Reviewed report on post acquisitions reviews.</td>
</tr>
<tr>
<td>– Approving acquisitions, mergers, disposals, capital transactions in excess of $50 million.</td>
<td>Approval to pursue acquisition of Osiris Therapeutics, Inc. considering the impact on employees, customers and patients.</td>
<td>Approval to pursue the acquisition of Brainlab’s OJR business considering the impact on employees, customers and patients.</td>
</tr>
<tr>
<td>– Approving annual budget, financial plan, three-year business plan.</td>
<td>Approving the use of the Company’s shares in relation to employee and executive share incentive plans on the recommendation of the Remuneration Committee.</td>
<td>Approving the appointment and removal of the external auditor on the recommendation of the Audit Committee.</td>
</tr>
<tr>
<td>– Approving major borrowings and finance and banking arrangements.</td>
<td>Approving the appointment and removal of key professional advisers.</td>
<td>Determining the dividend policy and dividend recommendations.</td>
</tr>
<tr>
<td>– Approving changes to the size and structure of the Board and the appointment and removal of Directors and the Company Secretary.</td>
<td>Overseeing succession planning at Board and Executive Officer level.</td>
<td>Approving the use of the Company’s shares in relation to employee and executive share incentive plans on the recommendation of the Remuneration Committee.</td>
</tr>
<tr>
<td>– Approving the appointment and removal of the external auditor on the recommendation of the Audit Committee.</td>
<td>Approving the use of the Company’s shares in relation to employee and executive share incentive plans on the recommendation of the Remuneration Committee.</td>
<td>Approving changes to the size and structure of the Board and the appointment and removal of Directors and the Company Secretary.</td>
</tr>
<tr>
<td>– Approving significant changes to accounting policies or practices.</td>
<td>Approving the appointment and removal of key professional advisers.</td>
<td>Approving Group policies relating to sustainability, health and safety, Code of Conduct and Code of Share Dealing and other matters.</td>
</tr>
<tr>
<td>– Overseeing succession planning at Board and Executive Officer level.</td>
<td>Approving the appointment and removal of key professional advisers.</td>
<td>Approving Group policies relating to sustainability, health and safety, Code of Conduct and Code of Share Dealing and other matters.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Performance</th>
<th>Early February</th>
<th>Late February</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Reviewing performance against strategy, budgets and financial and business plans.</td>
<td>Reviewed financial performance.</td>
<td>Received update on Orthopaedics Franchise.</td>
</tr>
<tr>
<td>– Overseeing Group operations and maintaining a sound system of internal control.</td>
<td>Received update on Orthopaedics Franchise.</td>
<td>Considered payment of final dividend.</td>
</tr>
<tr>
<td>– Approving the appointment and removal of the external auditor on the recommendation of the Audit Committee.</td>
<td>Approved and noted Board and Committee membership changes.</td>
<td>Approved and noted Board and Committee membership changes.</td>
</tr>
<tr>
<td>– Approving significant changes to accounting policies or practices.</td>
<td>Approving changes to the size and structure of the Board and the appointment and removal of Directors and the Company Secretary.</td>
<td>Approving the appointment and removal of key professional advisers.</td>
</tr>
<tr>
<td>– Overseeing succession planning at Board and Executive Officer level.</td>
<td>Approving the appointment and removal of key professional advisers.</td>
<td>Approving Group policies relating to sustainability, health and safety, Code of Conduct and Code of Share Dealing and other matters.</td>
</tr>
<tr>
<td>– Approving the use of the Company’s shares in relation to employee and executive share incentive plans on the recommendation of the Remuneration Committee.</td>
<td>Approving changes to the size and structure of the Board and the appointment and removal of Directors and the Company Secretary.</td>
<td>Approving the appointment and removal of key professional advisers.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shareholder communications</th>
<th>Early February</th>
<th>Late February</th>
</tr>
</thead>
<tbody>
<tr>
<td>– 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.</td>
<td>Approved Preliminary Announcement 2018.</td>
<td>Approved the Annual Report for 2018. Notice of the 2019 Annual General Meeting.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk</th>
<th>Early February</th>
<th>Late February</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Overseeing the Group’s risk management programme.</td>
<td>Received Annual Risk Management Update.</td>
<td></td>
</tr>
<tr>
<td>– Regularly reviewing the risk register.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Overseeing risk management processes (see pages 40–41 for further details).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Early February</th>
<th>Late February</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Overseeing and maintaining relationships with stakeholders including shareholders, employees, customers, suppliers, regulators and governments.</td>
<td>Considered update on planning for Brexit and the impact on employees and our ability to continue to supply our worldwide customer base.</td>
<td>Sustainability Report 2018. Modern Slavery Statement 2018.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Providing advice</th>
<th>Early February</th>
<th>Late February</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Using experience gained within other companies and organisations to advise management both within and between Board meetings on an ad hoc basis.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other matters</th>
<th>Early February</th>
<th>Late February</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Using experience gained within other companies and organisations

Overseeing and maintaining relationships with stakeholders including

Overseeing risk management processes (see pages 40–41 for further details).

Regularly reviewing the risk register.

Maintaining relationships and continued engagement with shareholders.

Approving the Sustainability Report.

Approving preliminary announcement of annual results, the publication

Overseeing succession planning at Board and Executive Officer level.

Approving significant changes to accounting policies or practices.

Approving the appointment and removal of the external auditor on the

Approving the appointment and removal of key professional advisers.

Approving Group policies relating to sustainability, health and safety,

Approving changes to the size and structure of the Board and the

Approving major borrowings and finance and banking arrangements.

Approving annual budget, financial plan, three-year business plan.

Setting priorities for capital investment across the Group.

Approving acquisitions, mergers, disposals, capital transactions

Approving the Group strategy including major changes to corporate

Risk

Shareholder communications

Stakeholders

Performance

Strategy

Other matters

Providing advice to advise management both within and between Board meetings

considered update on planning for

Considered changes to the structure of Product Liability Insurance.

In addition there were three meetings held in September and October to discuss the position of the Chief Executive Officer.

Considered succession and development plans.

April

Annual General Meeting

May

Q1 2019

Approved and declared payment of interim dividend.

Reviewed financial performance.

Received updates on the progress of the Global Operations Plan, including the new manufacturing plant in Malaysia.

Received updates on Advanced Wound Management and the ENT franchise.

Prepared for the Annual General Meeting to be held later that day.

Approved Q1 2019 Trading Report.

Approved H1 2019 Results Announcement.

October

Q3 2019

Considered and approved Chief Executive Officer changes.


Considered succession and development plans.

November

Strategic Planning

Reviewed financial performance.

Received business updates for the APAC, EMEA and DACH regions.

Received updates on Sports Medicine and the ENT franchise.

Reviewed financial performance.

Approved Q3 2019 Trading Report.

Reviewed the leadership teams in the APAC, EMEA and DACH cluster for succession planning.

Reviewed the impact the new manufacturing plant in Malaysia would have on employees, suppliers and customers.

Received an operational update on the progress made in embedding the new cultural pillars and in particular the positive reaction from our employees.

Considered the proposed new brand identity and purpose.

Reviewed results of internal board effectiveness review and agreed follow up actions.

Smith+Nephew Annual Report 2019
Responsibilities of the Board

Board and committee attendance

<table>
<thead>
<tr>
<th>Total meetings</th>
<th>Board</th>
<th>Audit &amp; Remuneration</th>
<th>Nomination &amp; Governance</th>
<th>Committee &amp; Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11</td>
<td>8</td>
<td>8</td>
<td>5</td>
</tr>
<tr>
<td>Roberto Quarta</td>
<td>December 2013</td>
<td>11/11</td>
<td>–</td>
<td>8/8</td>
</tr>
<tr>
<td>Namal Nawana</td>
<td>May 2018</td>
<td>7/10</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Graham Baker</td>
<td>March 2017</td>
<td>10/11</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Vinita Bali</td>
<td>December 2014</td>
<td>11/11</td>
<td>–</td>
<td>7/8</td>
</tr>
<tr>
<td>Ian Barlow</td>
<td>March 2010</td>
<td>2/3</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Virginia Bottomley</td>
<td>April 2012</td>
<td>11/11</td>
<td>–</td>
<td>8/8</td>
</tr>
<tr>
<td>Roland Diggelmann</td>
<td>March 2018</td>
<td>11/11</td>
<td>6/6</td>
<td>–</td>
</tr>
<tr>
<td>Erik Engstrom</td>
<td>January 2015</td>
<td>11/11</td>
<td>8/8</td>
<td>–</td>
</tr>
<tr>
<td>Robin Freestone</td>
<td>September 2015</td>
<td>11/11</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Michael Friedman</td>
<td>April 2013</td>
<td>3/3</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Marc Owen</td>
<td>October 2017</td>
<td>11/11</td>
<td>8/8</td>
<td>–</td>
</tr>
<tr>
<td>Angie Risley</td>
<td>September 2017</td>
<td>11/11</td>
<td>–</td>
<td>8/8</td>
</tr>
</tbody>
</table>

1 Namal Nawana missed three Board meetings held after his departure as Chief Executive Officer had been announced.
2 Graham Baker missed one meeting at which the departure of the Chief Executive Officer was considered.
3 Vinita Bali attended all meetings except for one Remuneration Committee convened on short notice, when she had an unavoidable prior commitment.
4 Ian Barlow retired from the Board at the Annual General Meeting on 11 April 2019, having completed nine years’ service.
5 Roland Diggelmann attended all meetings prior to the announcement of his appointment as Chief Executive Officer,
6 Erik Engstrom and Robin Freestone joined the Nomination & Governance Committee on 11 April 2019.

In advance of the Board and Committee meetings, the Chair met with the Non-Executive Directors in the absence of Executive Directors. In addition, the Chair held one-to-one discussions with each Board Member throughout the year.

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.

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 14 February 2020.

Each Director has a duty under the Companies Act 2006 to avoid a situation in which they 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, 6 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. Roland Diggelmann is also a Non-Executive Director of Accelerate Diagnostics, Inc. listed on the NASDAQ. Roland discussed his external role with the Chair prior to his appointment and the Chair and the Board 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 judgement 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.

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 Group accounts on page 178.
Composition, Succession and Evaluation

Board effectiveness review

The Board effectiveness review in 2019 was internally facilitated by Robin Freestone, Senior Independent Director, assisted by the Company Secretary. The 2019 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, being mindful of the promotion of true diversity within the Code, as well as looking into how the Board had handled particular topics throughout the year. Robin Freestone then conducted individual interviews with each Board member, where he also specifically discussed the performance of the Chair. In November 2019, he prepared a report, detailing his findings, which he shared with the Chair. The report was then discussed by the full Board in November 2019.

In discussion, we concluded the Board operated effectively, with a good breadth of skills, backgrounds and experience. The culture was open and collaborative and visits to different markets were welcomed. We did identify four key areas of improvement and the following recommendations were made:

Recommendation 1
The recent change in Chief Executive Officer, after a relatively short period of tenure had highlighted the need for increased oversight at Board level of Executive Succession Planning.

Recommendation 2
The full Board would welcome more involvement in the appointment of additional Non-Executive Directors. It was noted that the Nomination & Governance Committee would arrange this for the upcoming recruitment of an Audit Chair Elect and an additional Non-Executive Director with Medtech and International experience.

Recommendation 3
Positive feedback had been received on the Board site visits in 2019 to Memphis and to the Schulthess Klinik in Switzerland and more visits such as these would be welcomed.

Recommendation 4
Whilst good progress had been made during the year in enhancing Board oversight of Stakeholder relationships, particularly with employees in Memphis and customers in Switzerland, it was recognised that this could be further enhanced through greater workforce engagement on-site visits and by members of the Compliance & Culture Committee between meetings. The Compliance & Culture Committee Chair would work with the Committee and the Chief Executive Officer to further develop an employee engagement programme for 2020.

The areas for attention identified in the 2018 review have been addressed as follows:

<table>
<thead>
<tr>
<th>Actions identified</th>
<th>Action taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Board will need to ensure that it continually reviews and ensures alignment of its appetite for risk against the changing landscape and revised Strategic Imperatives, particularly as the Company continued to evolve. This will require continued monitoring of Board composition and succession planning.</td>
<td>The Board is mindful of the continually evolving environment and has taken this into account both when considering Board composition and when reviewing changes to the management team and discussing succession planning.</td>
</tr>
<tr>
<td>Performance management will need to evolve to monitor alignment with the new strategy, with an increased emphasis on a globally consistent culture and purpose.</td>
<td>During the year, the performance management system was re-aligned with the new corporate strategy and culture pillars.</td>
</tr>
<tr>
<td>The workload, composition and support of the Board Committees will be reviewed to ensure a more even balance of workload and greater diversity on each Committee.</td>
<td>The composition of the Board Committees was reviewed in February, which led to additional members of the Compliance &amp; Culture Committee and the Nomination &amp; Governance Committee.</td>
</tr>
<tr>
<td>The Chair and Chief Executive Officer will agree shared priorities for Board site visits at the beginning of each year, so that individual and group site visits could be arranged within those agreed parameters rather than on an ad hoc basis.</td>
<td>The Board undertook a successful visit to two of our sites in Memphis, US. The visit focused on two key areas agreed between the Chair and the Chief Executive Officer; the implementation of our new culture pillars in the workplace; and the new technologies being developed and acquired.</td>
</tr>
</tbody>
</table>

The last externally facilitated Board Effectiveness Review was carried out in 2018 by Dr Tracy Long. The review in 2020 will again be facilitated internally and led by the Senior Independent Director and the Company Secretary. The 2021 review will be facilitated externally.
Board development

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 and stakeholders 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 effective 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 Chair regularly reviews the development needs of individual Directors and the Board as a whole.

The Board visited two of our key sites in Memphis, Tennessee in June 2019 with a two-fold purpose. Firstly to listen to the employee voice at one of our largest manufacturing sites, meeting employees and hearing about recent improvements to their working environment and secondly to review the next generation of products currently being developed by engineers who were on hand to talk us through our programme of innovation.

Timetable 2019

<table>
<thead>
<tr>
<th>June</th>
<th>September</th>
<th>October</th>
<th>November</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board Development</strong></td>
<td><strong>Visit to Switzerland</strong></td>
<td><strong>Presentations from the entire Executive team</strong></td>
<td></td>
</tr>
<tr>
<td>The Board visited our Memphis facility, including a manufacturing site and a product development building. The Board met employees and saw first-hand the improvements made to employees’ facilities and welfare following the Chief Executive Officer’s first impressions in 2018.</td>
<td>to meet a local hospital and understand our customers perspective better.</td>
<td>as part of the Board’s annual Strategy Review, covering the whole business.</td>
<td></td>
</tr>
</tbody>
</table>

Induction for new Directors
During 2019, the Directors continued to receive tailored induction programmes relevant to their skills and experiences and their roles on the Board. These induction programmes included:
- 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 in UK, US and Switzerland to get a feel of how our research and manufacturing operations are run;
- Opportunities to accompany our sales representatives in the US on the road to better understand the daily challenges they face; and
- Meetings with our external advisers for example Slaughter and May, our Corporate lawyers, KPMG LLP, our Auditor and Deloitte LLP, 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.

Induction programme for new Chief Executive Officer
- On 1 November 2019, Roland Diggelmann became the Chief Executive Officer of Smith & Nephew plc. He had previously received a tailored induction when he became a Non-Executive Director on 1 March 2018.
- In the first few months of his tenure he has travelled extensively to many of our sites: Croxley and Hull in the UK, Baar in Switzerland, Pittsburgh, Fort Worth, Memphis and Andover in the US. Later in his induction he visited our Washington DC office and our 2019 acquisition Osiris in Baltimore. In Asia, he visited Singapore, Shanghai, Beijing and Tokyo.
- At these sites he met employees and visited the factory floor learning about our products and manufacturing facilities. He held town halls with local employees, where he welcomed and answered questions. He was recorded or photographed and information added to the Smith+Nephew intranet site for all our employees to enjoy.
- Roland was able to better understand the trajectory of where the culture of Smith+Nephew is moving from these visits, which can be used to galvanise this change.
- Roland is well known to the Executive Committee having already met many members in his previous role as Non-Executive Director.
- He is also known to many of our advisers, those he is yet to meet will be completed in 2020.
Nomination & Governance Committee report

Ensuring the Board evolves to align with the new Strategic Imperatives and with the developing external regulatory environments.

Membership

<table>
<thead>
<tr>
<th>Member</th>
<th>Meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roberto Quarta (Chair)</td>
<td>April 2014 5/5</td>
</tr>
<tr>
<td>Ian Barlow¹</td>
<td>April 2014 1/1</td>
</tr>
<tr>
<td>Erik Engstrom²</td>
<td>April 2019 4/4</td>
</tr>
<tr>
<td>Robin Freestone²</td>
<td>April 2019 4/4</td>
</tr>
<tr>
<td>Virginia Bottomley</td>
<td>April 2014 5/5</td>
</tr>
</tbody>
</table>

¹ Ian Barlow retired from the Board and the Committee at the Annual General Meeting on 11 April 2019, having completed nine years' service.
² Erik Engstrom and Robin Freestone joined the Nomination & Governance Committee on 11 April 2019.

The Terms of Reference for the Nomination & Governance Committee describe the role and responsibilities of this Committee more fully and can be found on our website at www.smith-nephew.com.

In 2019, we held five meetings. In addition to members of the Committee, the Company Secretary, Chief Executive Officer and Chief Human Resources Officer also attended all or some of the meetings.

Since the year end, we have also discussed the future structure of the Board and its committees and completed our year end governance processes.

Appointment of Chief Executive Officer

The appointment of Roland Diggelmann as our new Chief Executive Officer was one of the key activities of the Nomination & Governance Committee during the year. The Board and the executive team knew Roland well as he had been a Non-Executive Director since March 2018 and had approved the new strategic direction of the Company. Roland had originally been considered as Chief Executive Officer in 2017, but at that stage was unable to take up the position and joined the Board in a Non-Executive capacity. When it was decided that Namal Nawana would be leaving the Company, by mutual agreement, to pursue opportunities outside the UK, the Nomination & Governance Committee then re-considered Roland for the role. We were advised on this process by Russell Reynolds who undertook a rigorous analysis in respect of his appointments as Chief Executive Officer. Russell Reynolds do not undertake any services for the Company other than assisting with Board appointments.

Non-Executive Directors

The Committee has reviewed the composition of the Board and its Committees to ensure that it evolves to align with the new Strategic Imperatives and with the developing external regulatory environment.

The Committee have identified the need for a Non-Executive Director with recent and relevant financial experience to chair the Audit Committee, replacing Robin Freestone, who will continue in his role as Senior Independent Director. We have also identified the need for a Non-Executive Director with international medical devices experience following the appointment of Roland Diggelmann as Chief Executive Officer. Russell Reynolds is advising the Committee on both these appointments. In both these appointments we shall be considering a diverse range of candidates.

During 2020, the Committee will continue to review the balance and composition of the Board and consider whether any additional appointments will be required.

Diversity

We aim for our Board to have 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 stronger and 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.

“We aim for a balanced Board with a wide range of backgrounds, skill and experiences and a diversity of outlook.”

Roberto Quarta
Chair of the Nomination & Governance Committee
Nomination & Governance Committee report continued

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. 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 above. We review this matrix regularly to ensure that it is refreshed to meet the changing needs of the Company.

<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>Four members of the Board are either current or recent Chief Executive Officers.</td>
<td>Two members of the Board have recent and relevant financial experience.</td>
<td>Six members of the Board have international experience.</td>
<td>Five members of the Board have different levels of experience within the Healthcare industry.</td>
<td>Two members of the Board have Emerging Market experience.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>UK Governance</th>
<th>Remuneration</th>
<th>Gender</th>
<th>Ethnic</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five members of the Board have considerable experience of working in a UK listed environment and three members of the Board have experience of the US listed environment.</td>
<td>Five members of the Board have Remuneration Committee experience within a UK listed context.</td>
<td>Six members of the Board are male and three are female.</td>
<td>Eight members of the Board are white and one of Asian ethnicity.</td>
<td>Various Board members bring experiences in a variety of fields including customer focus, investment markets, government affairs, sustainability and digital.</td>
</tr>
</tbody>
</table>

Diversity is not simply a matter of gender, ethnicity, social 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 understanding the business in which we operate and the needs of our stakeholders. 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, ethnicity, industry, 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 should also provide a new way of looking at things.

During 2019, following the retirement of Ian Barlow and Michael Friedman and the resignation of Namal Nawana, 33.3% of our Board were female. Looking forward, we would intend to maintain this gender balance in-line with the Hampton-Alexander Review. Following the Annual General Meeting on 11 April 2019, 20% of our Board were of non-white ethnicity, although this has fallen to 11% following the resignation of Namal Nawana.

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.

Succession planning
Since the appointment of Namal Nawana as Chief Executive Officer in May 2018, we have initiated substantial changes to our structure to move to a franchise-led model. Throughout the year, the Board and Nomination & Governance Committee have monitored the consequent changes to the organisational structure and approved changes to key leadership roles. Individual directors have acted as a sounding board for the executive team when considering succession plans in key areas. In November, the Board as a whole reviewed succession plans for Executives below Board level. These plans included consideration of diversity in the Executive pipeline.

Pages 58–61 gives details of the members of the Executive Committee, 25% of whom are female, with one member of Asian ethnicity. The Committee will continue to monitor diversity in the Executive pipeline.

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.

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.

Roberto Quarta
Chair of the Nomination & Governance Committee

Looking forward
During 2020 our focus will include:

- Monitoring the implementation of the revised Board and Committee structure to ensure that the Company continues to comply with the UK Corporate Governance Code.
- Commence search for additional Non-Executive Director with international medical devices experience.
## Responsibilities of the Nomination & Governance Committee

### Timetable 2019

<table>
<thead>
<tr>
<th></th>
<th>Early February</th>
<th>July</th>
<th>September</th>
<th>October</th>
<th>November</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board composition</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Reviewing the size and composition of the Board.</td>
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<tr>
<td>- Overseeing Board succession plans.</td>
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<tr>
<td>- Recommending the appointment of Directors.</td>
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<td></td>
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<tr>
<td>- Monitoring Board diversity.</td>
<td></td>
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<tr>
<td></td>
<td>Approval of Directors who had completed three or six years’ service and the annual appointment of Directors serving in excess of six years.</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Approved the re-appointment of Directors who had completed three or six years’ service and the annual appointment of Directors serving in excess of six years.</td>
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<tr>
<td></td>
<td>Considered candidates for the role of Non-Executive Director with recent and relevant financial experience.</td>
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<tr>
<td></td>
<td>The Senior Independent Director provided an update to the Board on the progress of the appointment of a Non-Executive Director with recent and relevant financial experience.</td>
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<td></td>
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<tr>
<td></td>
<td>Accepted the resignation of Namal Nawana with effect from 31 October 2019 and approved the appointment of Roland Diggelmann with effect from 1 November 2019.</td>
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<tr>
<td></td>
<td>The Senior Independent Director provided a further update on the progress of the appointment of a Non-Executive Director with recent and relevant financial experience.</td>
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<tr>
<td><strong>Corporate Governance</strong></td>
<td></td>
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<tr>
<td>- Overseeing governance aspects of the Board and its Committees.</td>
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<tr>
<td>- Overseeing the review into the effectiveness of the Board.</td>
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<tr>
<td>- Considering and updating the Schedule of Matters Reserved to the Board and the Terms of Reference of the Board Committees.</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>- Monitoring external corporate governance activities and keeping the Board updated.</td>
<td></td>
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<tr>
<td>- Overseeing the Board Development Programme and the induction process for new Directors.</td>
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</tr>
<tr>
<td></td>
<td>Reviewed and approved the Schedule of Matters Reserved to the Board and the Terms of Reference of the Board Committees.</td>
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<tr>
<td></td>
<td>Agreed the commencement of the Board effectiveness review.</td>
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<tr>
<td></td>
<td>Received an update on the progress of the Board effectiveness review.</td>
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</tbody>
</table>
Audit Committee report

2019 was another busy year for the Audit Committee, which met eight times during the year.

Membership

<table>
<thead>
<tr>
<th>Member from</th>
<th>Meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robin Freestone (Chair)</td>
<td>September 2015 8/8</td>
</tr>
<tr>
<td>Ian Barlow</td>
<td>May 2010 2/3</td>
</tr>
<tr>
<td>Roland Diggelmann</td>
<td>March 2018 6/6</td>
</tr>
<tr>
<td>Erik Engstrom</td>
<td>January 2015 8/8</td>
</tr>
<tr>
<td>Marc Owen</td>
<td>October 2017 8/8</td>
</tr>
</tbody>
</table>

1. Designated financial experts under the SEC Regulations or recent and relevant financial experience under the UK Corporate Governance Code.
2. Ian Barlow retired from the Board and the Committee at the Annual General Meeting on 11 April 2019, having completed nine years' service. He missed one Audit Committee meeting on 20 February 2019 due to a funeral.
3. Roland Diggelmann resigned as Non-Executive Director and became Chief Executive Officer on 1 November 2019. He resigned from the Committee on 21 October 2019.

In addition to discharging its role in accordance with its Terms of Reference, the Committee has met its commitments to provide assurance in respect of various non-routine matters. Areas of scrutiny for the Committee in 2019 have included:

- Reviewing the new franchise-based organisational structure which came into effect from January 2019 and has appeared to work well so far. The impact of that was to move to reportable segments for our three main franchises: Orthopaedics, Sports Medical & ENT and Advanced Wound Management to provide our investors and other stakeholders additional information. This franchise-based structure will continue under Roland’s leadership. The Committee has continued to monitor this move and review the updated reporting provided to the Committee and of course the half-year results.
- Reviewed accounting matters and judgements relating to various acquisitions during the year.
- Continued vigilance over our IT control environment and cybersecurity.
- Monitoring the Principal Risks identified in the 2018 Annual Report and approving two additional risks identified by management for 2019: Supply and Financial.

In 2019 the Committee oversaw the implementation of the new IFRS 16 Leases standard. A detailed analysis of the impact of this new standard including due diligence to ensure all leases were captured resulted in the initial recognition of right-of-use assets and lease liabilities of $164 million on the balance sheet on 1 January 2019.

The Committee has received regular updates from the Company Secretary regarding the 2018 Corporate Governance Code even though there have been few changes affecting the Audit Committee. In 2020 we will consider the impact of the Brydon Review, which was published at the end of 2019.

KPMG have now completed their fifth year’s audit and continued to provide robust challenge to both management and the Committee.

The Committee challenged management on matters such as field-based assets in the Orthopaedics franchise, intangible assets, segmental reporting and accounts receivable, which KPMG also challenged. KPMG also provided challenge on cybersecurity matters, which like many companies, received increased vigilance during 2018 and 2019. Management provided additional updates to ensure the Committee was appropriately satisfied.

We have negotiated fees that will continue to be reviewed for good market practice. We have also agreed arrangements for rotation of the senior partner in accordance with recommendations set out in the Financial Reporting Council’s (‘FRC’) Guidance for Audit Committees 2016 and as required by the Securities Exchange Commission (‘SEC’).

Finally, we were pleased to see the improved results from the Financial Reporting Council following its review of KPMG’s audit of FTSE companies financial statements for 2018. This gave the Committee further comfort on KPMG’s audit quality.

Our focus for 2020 will include:

- Group’s restructuring programmes.
- Risk management process – aligned to the new strategy and organisational structure.
- Monitor the two new principal risks set out in our risk report: Supply and Finance.
- Ensuring that we review and consider all UK governance changes – such as the Brydon Review.

Robin Freestone
Chair of the Audit Committee

The Terms of Reference of the Audit Committee describe the role and responsibilities more fully and can be found on our website at www.smith-nephew.com
Significant matters related to the financial statements
We considered the following key areas of judgement in relation to the 2019 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 Orthopaedics franchise (whose inventory makes up approximately 60% of the Group total 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 16% at 31 December 2019 (18% as at 31 December 2018). 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 and Compliance 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 metal-on-metal hip products of $315 million as of 31 December 2019. 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 claim. The provisions for legal matters have increased by $138 million during the year, primarily due to an increase in the metal-on-metal provision and provisions recognised on acquisitions. There have been some smaller movements from other cases having been resolved. We have determined that the proposed levels of provisioning at year end of $355 million included within ‘provisions’ in Note 17.1 in 2019 ($217 million in 2018) 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 concluded that the carrying value of these assets 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 and is subject to factors that may affect future tax charges. At any given time the Group has unagreed years outstanding in various countries and is involved in tax audits and disputes, some of which may take several years to resolve. Management considers the specific circumstances of each tax position and takes external advice, where appropriate, to assess the range of potential outcomes and estimate additional tax that may be due. The ultimate liability may differ from the amount provided depending on interpretations of tax law or settlement negotiations.

Our action
We annually review policies and approve the principles for management of tax risks. We review quarterly reports from management evaluating existing tax profile, tax risks and tax provisions. 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.

Business combinations
The Group initially recognises the fair value of identifiable assets acquired, the liabilities assumed and the consideration transferred in a business combination. Management is required to estimate the fair value of acquired intangible assets which involves, but is not limited to, forecasting revenue growth rates and determining the appropriate royalty rate.

Our action
The Group completed five business combinations in 2019, the most significant of which was Osiris Therapeutics, Inc. for $660 million. We reviewed management’s provisional fair value of consideration transferred, assets acquired and liabilities assumed and challenged the values of assets and liabilities that have been recognised. We also considered the useful economic lives of intangible assets acquired and whether they are appropriate. We also reviewed the disclosure of business combinations in Note 21 and considered them reasonable.
Audit Committee report continued

Regular private meetings have taken place between the Audit Committee and the external auditor (KPMG) and the Audit Committee and the Group Head of Internal Audit.

Other matters related to the financial statements
As well as the identified significant matters, other matters that the Audit Committee considered during 2019 were:

Post Retirement Benefits
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.

Since the year end
Since the year end we have also reviewed the results for the full year 2019, Annual Report and Accounts for 2019, and have concluded that they are fair, balanced and understandable. In coming to this conclusion, we have considered the description of the Group’s strategy and key risks, the key elements of the business model, which is set out on pages 16–17, risks and the key performance indicators and their link to the strategy.

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 five years as our Audit Partner. It was therefore agreed that Kamran Zulfikar Walji would become the Company’s Audit Partner with effect from 1 January 2019. The Audit Committee confirms it has complied with the provision of the Competition and Markets Authority Order.

Effectiveness of external auditor
We conducted a review into the effectiveness of the external audit as part of the 2019 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 Board in the UK 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 2019 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 9 April 2020 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 recognises 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.

Any pre-approved aggregate, individual amounts up to $25,000 may be authorised by the Group Treasurer 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 2019, which were approved by the Chair of the Audit Committee:

<table>
<thead>
<tr>
<th>Service</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit related services</td>
<td>0.3</td>
<td></td>
</tr>
</tbody>
</table>
The ratio of non-audit fees to audit fees for the year ended 31 December 2019 is 0.04. The ratio of non-audit fees to audit fees for the year ended 31 December 2018 was 0.00.

Full details are shown in Note 3.2 of the Notes to the Group accounts.

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></th>
<th>2019 $ million</th>
<th>2018 $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit fees</td>
<td>6.5</td>
<td>6.0</td>
</tr>
<tr>
<td>Audit related fees</td>
<td>0.3</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>6.8</td>
<td>6.0</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 Group Head of Internal Audit, consists of appropriately qualified and experienced employees. Third parties may be engaged to support audit work as appropriate.

The Group Head of 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 40 risk-based audits and reviews across the Group. These included Financial and Operational Market-based reviews covering the EMEA, APAC, US and LATAM Regions; Global Operations, including supply chain, IT and various programme assurance reviews ranging from SAP security, Brexit readiness, GDPR compliance, and further work on EU MDR preparedness. Key issues noted during reviews included the need for systems user access rights to be automated. Management has taken swift action to implement Internal Audit’s recommendations.

A periodic review of the Internal Audit function is undertaken by an independent external consultant, in accordance with the guidelines of the Institute of Internal Auditors. Finally, the performance of the function is assessed using a structured questionnaire, 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 2019, 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, July and November. We approved the Risk Management Programme for 2019 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.

The Risk Management programme in 2019 followed the updated risk management policy and manual rolled out across the Company in 2019. This programme combines a ‘bottom-up’ approach (whereby risks are identified within business areas by local risk champions working with their leadership teams), with a top-down approach (when the Executive Committee meets as the Risk Committee to consider the risks facing the Group at an enterprise level).

Throughout the year, the Audit Committee maintained oversight of this programme. We reviewed the principal risks identified and the heat maps prepared by management showing how these risks were being managed. We considered the two new principal risks and those risks where the risk profile was changing.

Since the year end, we have reviewed a report from the Group Head of 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 2019 and up to the date of approval of this Annual Report was effective. Work will continue in 2020 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 page 50–51.
## Responsibilities of the Audit Committee

### Timetable 2019

<table>
<thead>
<tr>
<th>Early February</th>
<th>Late February</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 Preliminary Results</td>
<td>2018 Financial Statements and Notice of Annual General Meeting</td>
</tr>
</tbody>
</table>

### Financial accounting and reporting
- Reviewing significant financial reporting judgements and accounting policies and compliance with accounting standards.
- Ensuring the integrity of the financial statements and their compliance with UK and US statutory requirements.
- Ensuring the Annual Report and Accounts are fair, balanced and understandable and recommending their adoption by the Board.
- Monitoring announcements relating to the Group’s financial performance.

<table>
<thead>
<tr>
<th>Financial accounting and reporting</th>
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<tbody>
<tr>
<td>Reviewed Q4 2018 reporting matters and accounting.</td>
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<tr>
<td>Noted draft 2018 results and Preliminary announcement.</td>
</tr>
<tr>
<td>Report from KPMG on 2018 results, audit and Sarbanes-Oxley (SoX).</td>
</tr>
<tr>
<td>Reviewed draft 2018 Annual Report including report of the Audit Committee.</td>
</tr>
<tr>
<td>Assessed compliance with UK and US governance requirements.</td>
</tr>
<tr>
<td>Approved the Annual Report and Accounts for 2018 including report of the Audit Committee – confirming fair, balanced and understandable.</td>
</tr>
<tr>
<td>Report from KPMG on 2018 statements – Unqualified Opinion.</td>
</tr>
<tr>
<td>Approved letter of representation for 2018.</td>
</tr>
<tr>
<td>Confirmed Going Concern and Viability Statement.</td>
</tr>
</tbody>
</table>

### Internal audit
- Agreeing Internal Audit plans and reviewing reports of Internal Audit work.
- Monitoring the effectiveness of the Internal Audit function.
- Receiving reports on the processes in place to prevent fraud and to enable whistle-blowing.
- If significant, receive and review reports of potential fraud or whistle-blowing incidents. Reviewed Internal Audit Report on Fraud.

<table>
<thead>
<tr>
<th>Internal audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reviewed Year end Report.</td>
</tr>
<tr>
<td>Reviewed effectivesness of Internal Audit including the collation of senior stakeholder’s views.</td>
</tr>
<tr>
<td>Confirmed effective system of risk management in place.</td>
</tr>
</tbody>
</table>

### Risk management
- On behalf of the Board, reviewing and ensuring oversight of the processes by which risks are managed, through regular functional reports and presentations and reporting any issues arising out of such reviews to the Board.
- Reviewing the process undertaken and deep-dive work required to complete the Viability Statement and recommending its adoption to the Board.
- Regularly reviewing the risk register.

<table>
<thead>
<tr>
<th>Risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Management Update Review of principal risks through endorsement of Viability Statement.</td>
</tr>
<tr>
<td>Confirmed effective system of risk management in place.</td>
</tr>
</tbody>
</table>

### Internal controls
- Monitoring the effectiveness of internal controls and compliance with the UK Corporate Governance Code 2018 and the Sarbanes-Oxley Act, specifically sections 302 and 404.
- Receiving reports on the processes in place to prevent fraud and to enable whistle-blowing.
- If significant, receive and review reports of potential fraud or whistle-blowing incidents. Reviewed Internal Audit Report on Fraud.

<table>
<thead>
<tr>
<th>Internal controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Considered SoX and MAPs Update.</td>
</tr>
<tr>
<td>Reviewed effectiveness of Internal Controls over financial reporting and SoX.</td>
</tr>
<tr>
<td>Reviewed S302 and 5906 certifications.</td>
</tr>
</tbody>
</table>

### Fraud & whistle-blowing
- Receiving reports on the processes in place to prevent fraud and to enable whistle-blowing.
- If significant, receive and review reports of potential fraud or whistle-blowing incidents. Reviewed Internal Audit Report on Fraud.

<table>
<thead>
<tr>
<th>Fraud &amp; whistle-blowing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confirmed independence of KPMG.</td>
</tr>
<tr>
<td>Reviewed effectiveness and independence and concluded their effectiveness.</td>
</tr>
</tbody>
</table>

### External auditor
- Overseeing the Board’s relationship with the external auditor.
- Monitoring and reviewing the independence and performance of the external auditor and evaluating their effectiveness.
- Making recommendations to the Board for the appointment or re-appointment of the external auditor.
- Monitoring and approving the external auditor’s fees.

<table>
<thead>
<tr>
<th>External auditor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confirmed independence of KPMG.</td>
</tr>
<tr>
<td>Reviewed effectiveness and independence and concluded their effectiveness.</td>
</tr>
</tbody>
</table>

### Other matters
- Noted consulting fees for 2018.

<table>
<thead>
<tr>
<th>Other matters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approved Terms of Reference.</td>
</tr>
<tr>
<td>Reviewed Project reports including APEX.</td>
</tr>
<tr>
<td>Reviewed Brexit updates.</td>
</tr>
<tr>
<td>Noted consulting fees for 2018.</td>
</tr>
<tr>
<td>April</td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
<td>Annual General Meeting</td>
</tr>
<tr>
<td>Considered Sarbanes-Oxley (SoX) and MAPs Planning for 2019.</td>
</tr>
</tbody>
</table>
Responsibilities of the Audit Committee continued

**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 on pages 36–48.

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on page 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 and group function is responsible for the establishment, maintenance and review of effective financial controls within their business unit or function.
- The Group’s IT organisation is responsible for the establishment of effective IT controls within the core financial systems and underlying IT infrastructure.
- The Financial Controls & Compliance Group has responsibility for the review of the effectiveness of controls operating in the countries, functions and IT organisation, either by performing testing directly or reviewing testing performed in-country.
- The Group Finance Manual sets out financial and accounting policies, and is updated regularly. The Group’s Minimum Acceptable Practices (‘MAPs’) continued to be developed in 2019 including adding controls for leasing following the implementation of IFRS 16 and further alignment with our key Sarbanes-Oxley controls. The business is required to self-assess their level of compliance with the MAPs on a regular basis and remediate any gaps.
- MAPs compliance is validated through spot-checks conducted by the Financial Controls & Compliance Group and during both Internal Audit and external audit visits. Development of a technology solution to facilitate the real time monitoring of the operation and testing of controls has been undertaken in 2019, with a view to implementation in 2020.
- There are clearly defined lines of accountability and delegations of authority.
- 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 & Compliance, Taxation and Treasury functions.
- The Audit Committee reviews regular reports from the Financial Controls & Compliance Group 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.
- Following acquisition in April 2019, Osiris Therapeutics, Inc. (‘Osiris’) has been excluded from the scope of our assessment of internal controls as at 31 December 2019 as permitted by guidance provided by the staff of the U.S. Securities and Exchange Commission in the year of acquisition. Osiris represented 2% of the Group’s Revenue in 2019 and less than 1% of the Group’s Total Assets.
- 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, or the Finance & Banking 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 is reviewed by the Audit Committee on behalf of the Board.
- The Audit Committee reviews the Group whistle-blower procedures to ensure they are effective.
- The Audit Committee continued to receive and review reports on the progress of the Finance Transformation element of the APEX programme during 2019 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.

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 2019 and up to the date of approval of this Annual Report. No concerns were raised with us in 2019 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 its Internal Audit function, reviews the adequacy and effectiveness of internal control procedures and identifies any significant weaknesses and ensures these are remediated within agreed timelines. The latest review covered the financial year to 31 December 2019 and included the period up to the approval of this Annual Report. The main elements of this 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 2019.
– Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management assessed the effectiveness of the Group’s internal control over financial reporting as at 31 December 2019 in accordance with the requirements in the US under section 404 of the Sarbanes-Oxley Act. In making that assessment, they used the criteria set forth by the Committee of Sponsoring Organisations of the Treadway Commission in Internal Control-Integrated Framework (2013). Based on their assessment, management concluded and reported that, as at 31 December 2019, 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 2019.

**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 substantive amendments to the Code during 2019 or up until 20 February 2020. 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, conducted internally by the Senior Independent Director.

The review by the Audit Committee found the following and the below action will be taken during 2020:

<table>
<thead>
<tr>
<th>Composition</th>
<th>Performance &amp; Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>An additional member of the Committee with recent and relevant financial experience will be appointed.</td>
<td>The Audit Committee is well chaired, with a clear role, an efficient use of time and high quality information.</td>
</tr>
</tbody>
</table>
Compliance & Culture Committee report

Oversight of culture in addition to our focus on compliance and quality.

Membership

<table>
<thead>
<tr>
<th>Member</th>
<th>From</th>
<th>Meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marc Owen (Chair)</td>
<td>March 2018</td>
<td>4/4</td>
</tr>
<tr>
<td>Michael Friedman1</td>
<td>August 2014</td>
<td>2/2</td>
</tr>
<tr>
<td>Vinita Bali</td>
<td>April 2015</td>
<td>4/4</td>
</tr>
<tr>
<td>Ian Barlow2</td>
<td>October 2014</td>
<td>2/2</td>
</tr>
<tr>
<td>Virginia Bottomley3</td>
<td>April 2019</td>
<td>3/3</td>
</tr>
<tr>
<td>Roland Diggelmann4</td>
<td>April 2019</td>
<td>2/2</td>
</tr>
</tbody>
</table>

1 Michael Friedman retired from the Board and the Committee at the Annual General Meeting on 11 April 2019.
2 Ian Barlow retired from the Board and the Committee at the Annual General Meeting on 11 April 2019, having completed nine years’ service.
3 Virginia Bottomley joined the Compliance & Culture Committee on 11 April 2019.
4 Roland Diggelmann joined the Committee on 11 April 2019. He resigned as a Non-Executive Director and became Chief Executive Officer on 1 November 2019.

In 2019, we held four physical meetings. Each meeting was attended by all members of the Committee. The Company Secretary, the Chief Legal & Compliance Officer and the Chief Quality & Regulatory Affairs Officer, Chief HR Officer and Deputy Company Secretary also attended all or part of the meetings by invitation.

During 2019, the Terms of Reference and name of the Committee changed from the Ethics & Compliance to Compliance & Culture Committee. The Terms of Reference of the Compliance & Culture Committee describe the role and responsibilities more fully and can be found on our website at www.smith-nephew.com.

This decision was taken by the Board in 2018 as we felt that a Committee dedicated to compliance, culture, sustainability and our stakeholders and comprising Non-Executive Directors for the US, Europe and Asia would be able to focus more effectively on listening to the views of our employees and our stakeholders globally than some of the other alternatives under the 2018 Code.

At each meeting we continued to note and considered the activities of compliance and enforcement agencies (an important stakeholder of Smith+Nephew) and investigation of possible improprieties. At every meeting a report on the Quality and Regulatory Affairs (Q/RA) function was provided along with updates of product complaint trends. We also reviewed a report on the activities of the Group’s Ethics & Compliance Committee and reviewed the progress of the Global Compliance Programme, including the roll-out of the new Code of Conduct and Business Principles. In addition, from April 2019 our Human Resources function provided the Committee with further information on our culture, which we will use next year to take our programme forward. The Sustainability Strategy and framework, which now focuses on the key areas of People, Planet and Products. Sustainability is now the responsibility of Mark Gladwell, President of Operations and Global Business Services.

Oversight of quality & regulatory matters

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 received summary reports and provided oversight regarding the general quality and regulatory activities of our business. At each meeting, we received a report on quality and regulatory matters from the Chief Quality and Regulatory Affairs Officer.

We reviewed the results of external regulatory inspections and audits conducted by the FDA and other regulatory agencies. We also reviewed results of internal quality audits and metrics associated with critical quality processes. We monitored the work being undertaken to prepare our manufacturing and design sites for future inspections, including those associated with the EU Medical Device Regulation. During the year we also reviewed progress in areas of focus such as vigilance reporting, acquisition integrations and supplier quality management.

“Broadening our scope to oversee culture in addition to our focus on compliance and quality.”

Marc Owen
Chair of the Compliance & Culture Committee
Oversight of ethics & compliance
The sustainability of our business depends on ‘Doing the right thing’. 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 Legal & Compliance 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 for employees and sales agents, as well as approval of consulting services and grants and fellowships. For distributors and other high risk third parties, our programme includes screening, contracts with compliance terms, compliance training and certification for employees and sales agents, as well as approval of consulting services and grants and fellowships.

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.

We oversee the employee compliance training programme, ensuring that all new employees are trained on our Code of Conduct and Business Principles, which sets out our basic legal and ethical principles for conducting business. During the year, we reviewed and approved updates to our Code of Conduct, including integration of our culture pillars of Care, Collaboration and Courage into the Code.

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.

Oversight of culture
During 2019, the Company established its core purpose of Life Unlimited, and with this, supporting culture pillars of Care, Collaboration and Courage. Together with our new strategic imperatives, these have created greater alignment across our business and stronger understanding by employees of their role in supporting our collective success.

During the Board visit to our sites in Memphis in June 2019, members of the Compliance & Culture Committee met a wide range of employees who worked in one of our largest manufacturing operations. Some of these employees had worked for the Company for over 30 years, whilst others had only joined us in the past few months. Meeting and talking directly to these employees gave the members of the Compliance & Culture Committee and the full Board a deeper insight into the employee experience working for Smith+Nephew in one of our key sites.

In particular, we reviewed improvements made to the working conditions at our Memphis manufacturing site in the past 12 months. These included a fundamental facility improvement programme, which has led to a healthier, safer and more caring working environment for employees both within the factory and the immediate environment. Workflow processes and floor layouts had also been improved leading to increased efficiencies. We also saw how there was an increased sense of pride in work and a feeling of camaraderie amongst employees who had actively collaborated in the improvement programme. As a result of these improvements, the Board has seen staff turnover levels reducing and diversity levels improving. During our visit to the product development areas we observed how the teams were working together with key external stakeholders to better understand their needs and translate those needs into innovative new products.

Live global employee webcasts led by our Chief Executive Officer and members of the Executive Committee have been well-received. These forums provide employees with a greater understanding of our company performance and strategy and the role they play in it, as well as an opportunity to directly interact with senior leadership and voice questions or comments. Conducted in an informal and open style, these webcasts further reinforce our culture. Both employees and senior leadership have benefited from the insights shared during the webcasts. The Board as a whole are mindful that we too would like similar or further interaction with employees directly and this will be a focus for 2020.

Feedback is gathered more formally on an annual basis through our employee engagement survey. This year for the first time, Smith+Nephew moved to the Gallup survey as its measurement tool for its direct correlation between engagement and business performance. This allows us to benchmark against similar companies in our industry, and more importantly, provides direct tools and resources to increase engagement at the point of highest impact: between manager and employee. We were delighted to receive feedback from 84% of our employees. Managers have access to a wide variety of resources and tools to help them build on strengths and address areas of opportunity within their teams, further supporting our culture pillars. Together with their teams, managers have reviewed the results from the annual survey and are implementing actions to address these results. This will continue into 2020 and we will again measure engagement and identify areas of progress and opportunity through the annual survey process.
Compliance & Culture Committee report continued

Our focus for 2020 will include:

- Develop a programme of Board listening sessions to enable the Board to further monitor and assess the corporate culture.
- Review employee feedback gathered through the annual survey and other mechanisms to ensure the Board is aware of and able to ensure that opportunities are leveraged and any issues resolved.
- Ensure oversight of the Company’s Sustainability programme and relationships with key stakeholders.
- Provide Committee Members with expanded opportunities to receive direct employee feedback at multiple sites globally.

For specific issues where employees may not feel comfortable articulating their views we have a whistle-blowing policy and confidential hotline.

This was my first report as Chair of the Compliance & Culture Committee. In 2019 we laid the foundations for further work to be completed in 2020 that will allow the Board to focus on culture, the employee voice and our stakeholders.

Marc Owen
Chair of the Compliance & Culture Committee
## Responsibilities of the Compliance & Culture Committee

### Timetable 2019

<table>
<thead>
<tr>
<th>Compliance</th>
</tr>
</thead>
</table>
| - Overseeing ethics and compliance programmes, strategies and plans.  
- Monitoring ethics and compliance process improvements and enhancements.  
- Assessing 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 Legal and Compliance Officer.  |
| February |
| April |
| June |
| July |
| November |
| Noted the Code of Conduct & Business Principles would be updated to reflect the new purpose and culture pillars.  
Received an update on Compliance Validation Assignments.  |
| Reviewed a progress report on the changes being made to the Code of Conduct.  
Reviewed the due diligence and integration processes in respect of recently announced acquisitions.  
Approval of the Modern Slavery Statement for the year ended 31 December 2018.  |
| Reviewed significant findings from monitoring auditing, and progress on Corrective and Preventative Actions.  
Reviewed a report on the integration of Osiris.  |
| Noted feedback received on the Code of Conduct launched in August.  
Received an update on the audit of the Compliance Validation assignment Programme.  |

<table>
<thead>
<tr>
<th>Culture</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Oversight of our relationship with stakeholders, including the employee voice and sustainability.</td>
</tr>
<tr>
<td>April</td>
</tr>
<tr>
<td>June</td>
</tr>
<tr>
<td>July</td>
</tr>
<tr>
<td>August</td>
</tr>
</tbody>
</table>
| Approved updated Terms of Reference.  
Noted the changes in the 2018 UK Corporate Governance Code, 2018 Board Effectiveness Guidelines and employee voice.  
Update from management on activities, including brand purpose and Culture pillars, dashboards used and engagement/survey.  |
| Prepared for the Board visit to Memphis to hear the employee voice.  |
| Received an update on the Company’s culture transition.  
Reviewed the Engagement Survey results and noted the focus for the next steps.  
Reviewed the Valuing Difference Programme and Sustainability Programme.  
Noted the Board’s engagement at the Memphis site in June.  |
| Received an update on the actions undertaken in respect of the culture transition process.  
Endorsed the new strategy and framework to be incorporated into the Sustainability Policy, to be put forward to the Board for approval in 2020.  |

<table>
<thead>
<tr>
<th>Quality and Regulatory Affairs (Q/RA)</th>
</tr>
</thead>
</table>
| - Overseeing the processes by which regulatory and quality risks relating to the Company and its operations are identified and managed.  
- Receiving and assessing regular functional reports and presentations from the Chief Quality and Regulatory Affairs Officer or the SVP Quality Operations.  |
| April |
| June |
| July |
| August |
| Reviewed Quality and Regulatory report noting status of various Quality and Regulatory metrics and initiatives.  
Received an update on the plans to address the potential impact on the Group of both the EU Medical Device Regulations (EU MDR) and Brexit.  |
| Reviewed Quality and Regulatory report noting status of various Quality and Regulatory metrics and initiatives including updates on Regulatory Agency and Notified Body interactions.  |
| Reviewed Quality and Regulatory report noting status of various quality and regulatory metrics and initiatives including updates on field actions, complaints.  |
| Global Quality Report which included updates in respect of FDA inspection readiness, supplier quality management and EU MDR. |
Stakeholder Statement

Our approach to stakeholders

Directors’ duties
The Board is mindful of Smith+Nephew’s key stakeholders listed below and has taken them into consideration in accordance with the Code. The Board, advised by the Company Secretary is, mindful of its section 172 duties, when it determines the impact of decisions upon all stakeholders under the Companies Act. Out of that Section 172 duty, the principal stakeholders of Smith+Nephew and the impact we have upon them is discussed below. Please read the Sustainability Report at www.smith-nephew.com for more information on the Board and Smith+Nephew’s work on community and environment.

<table>
<thead>
<tr>
<th>Stakeholder Group</th>
<th>Their concerns</th>
<th>How we engage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>- That the Board ensure that when making strategic decisions the impact upon our employees is fully considered.</td>
<td>The Board regularly takes the opportunity to meet with staff at all levels in the organisation when making site visits across our operations. Regular staff surveys are undertaken, which the Board reviews and follows up on outcomes. The Compliance &amp; Culture Committee reviews certain workplace policies and whistle-blowing incidents, ensuring that appropriate follow up is implemented as necessary.</td>
</tr>
<tr>
<td>Customer &amp; suppliers</td>
<td>- Prompt and fair payment. &lt;br&gt; - Listening to their requirements. &lt;br&gt; - Quality and Regulatory.</td>
<td>Board meeting updates from the management team and Compliance &amp; Culture Committee on relationships with our key customers and suppliers and how these relationships are evolving as we respond to different market conditions and environments.</td>
</tr>
<tr>
<td>Investors</td>
<td>- Strategy. &lt;br&gt; - Performance. &lt;br&gt; - Leadership. &lt;br&gt; - Succession Planning. &lt;br&gt; - Remuneration.</td>
<td>The Board meets with retail investors at the Annual General Meeting and responds to letters and emails from shareholders throughout the year. Members of the Board are always happy to engage with investors, if they have matters they wish to raise with the non-executive team. The Chair and other Board members report back to the Board following their meetings with investors. A short report on our major shareholders and any significant changes in their holdings since the previous meeting is reviewed at each Board meeting. Copies of the analyst reports on the Company and its peers are also circulated to Directors.</td>
</tr>
<tr>
<td>Government &amp; regulators</td>
<td>- Product safety. &lt;br&gt; - Competition issues. &lt;br&gt; - Compliance with local legal regulatory requirements. &lt;br&gt; - Social and economic concerns.</td>
<td>We operate in a heavily regulated industry and our businesses across the world are regulated by many different authorities in different jurisdictions.</td>
</tr>
</tbody>
</table>
2019 Highlights
- The Board considered the impact on current and prospective employees when making strategic decisions, including the acquisition of Osiris, Leaf and Brainlab.
- The Board met with a wide cross section of employees at two of our major sites in Memphis (US). We observed the positive changes being made to the Memphis factory to improve both the operational performance and the working environment for our employees and listened to employees view as we walked the floor.
- The Compliance & Culture Committee assumed responsibility for overseeing our corporate culture and workplace policies and reported back regularly to the Board. It was felt three NEDs from the US, Europe and Asia concentrating on this topic as part of the Committee worked better for us than one nominated NED or an employee appointed representative on the Board.

2020 Actions
- Programme of employee engagement will be developed and implemented further during 2020.
- Board Listening sessions to include discussion on executive pay.

2019 Highlights
- We met with the Chief Executive Officer, the Head of Procurement and the Chief Medical Officer at Schultess Hospital in Zurich, Switzerland, the largest Orthopaedics hospital in Europe. This gave us a better understanding of the requirements of the surgeons who use our products and the considerations of the procurement function as one of our major customers.
- The Compliance & Culture Committee assumed responsibility for overseeing relationships with our key stakeholders including customers and suppliers.

2020 Actions
- Brexit plans to be implemented to prioritise the supply of products to our customers and provide all that they require.
- Focus of R&D programme is developing products to benefit the patients of the future.

2019 Highlights
- The Executive Directors held 108 meetings with investors representing 44.1% of the Company’s share capital. They discussed a range of topics including M&A, Robotics, margin, organisational structure and guidance.
- The Chair, Roberto Quarta, held 13 meetings and telephone calls with investors holding approximately 23.5% of the Company’s share capital. They discussed a range of topics including the performance of the Company, the change in Chief Executive Officer and the remuneration of Roland Diggelmann as our new Chief Executive Officer.
- The Chair of the Remuneration Committee, Angie Risley reached out to our top 28 shareholders holding over 50% of the Company’s shares and received responses from 26 shareholders collectively holding 46.8% of the Company’s share capital in connection with the 2020 Remuneration Policy and Roland Diggelmann’s compensation as the newly appointed Chief Executive Officer with effect from 1 November 2019.

2020 Actions
- The Board will continue to receive regular updates at Board meetings on management and Chair meetings with investors and will review regular analyst reports.
- The management team and the Chair and Non-Executive Directors will continue to engage with shareholders. If you have matters to raise with the non-executive team, please contact the Company Secretary.
- Continue to engage on all matters of governance, including Remuneration.

2019 Highlights
- The Compliance & Culture Committee received regular reports from the Quality and Regulatory function on regulatory activities and the results of regulatory inspections.
- The Compliance & Culture Committee received regular reports from the Legal & Compliance function on the activities of key agencies relating to ethics and compliance matters.
- The Compliance & Culture Committee received regular reports regarding the EU MDR, which will become effective in May 2020.
- The Board and the Audit Committee received regular updates relating to the progress towards Brexit and management plans to manage the transition as smoothly as possible.

2020 Actions
- The Compliance & Culture Committee will continue to oversee relationships between the Company and our regulators.
- The Board and the Audit Committee will continue to monitor management preparations and implementation of processes for Brexit.

The Directors Report comprises pages 5, 24–25, 28–29, 32–33, 39, 40–49, 52, 63, 66, 68–70, 74–82, 84–85, 161–162, 184, 189–192, 205–211 and was approved by the Board on 20 February 2020.

Susan M Swabey
Company Secretary

Smith+Nephew Annual Report 2019
Directors’ Remuneration report

Our focus in 2020 will be on implementing the new Remuneration Policy and on continuing to align our remuneration arrangements with the new Strategic Imperatives of the Company.

Membership

<table>
<thead>
<tr>
<th>Member</th>
<th>From</th>
<th>Attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angie Risley (Chair)</td>
<td>September 2017</td>
<td>8/8</td>
</tr>
<tr>
<td>Vinita Bali</td>
<td>April 2015</td>
<td>7/8</td>
</tr>
<tr>
<td>Virginia Bottomley</td>
<td>April 2014</td>
<td>8/8</td>
</tr>
<tr>
<td>Robin Freestone</td>
<td>September 2015</td>
<td>8/8</td>
</tr>
<tr>
<td>Roberto Quarta</td>
<td>April 2014</td>
<td>8/8</td>
</tr>
</tbody>
</table>

1 Vinita Bali attended all meetings except for one, which was convened at short notice, when she had an unavoidable prior appointment.

Review of 2019 Performance
During the year, the Company delivered underlying revenue growth of 4.4% and a 40bps improvement in trading profit margin, excluding the one-off legal gain in 2018 in-line with guidance. Performance improved over the course of the year, with 3.9% underlying revenue growth in the first half and 4.9% in the second half. All three global franchises delivered an improved revenue growth performance over the prior year. Our orthopaedics franchise delivered 4.0% underlying revenue growth (2018: 3%), Sports Medicine & ENT achieved 7.0% (2018: 2%), and Advanced Wound Management delivered 2.2% (2018: 0%). Our Emerging Markets delivered 16.1%, and now account for 19% of Group revenue.

Aligning pay for performance is an important principle in our remuneration strategy. Members of the Audit Committee joined us to consider our results and determine the extent to which performance against the targets in our incentive plans was met. Taking into account this financial performance along with consideration of how our Executive Directors performed against their business performance objectives, the Committee determined that the 2019 Cash Incentive Plan would pay out at 106.7% of salary for Namal Nawana and 102.7% of salary for Graham Baker, resulting in payments of $1,674,653 and £569,606 respectively and an Equity Incentive Award for Namal of 55% and for Graham of 50% of salary.

Remuneration Policy
Smith+Nephew has gained renewed drive and impetus over the last couple of years, with the results being reflected in both our financial performance and shareholders’ view of the Company. The business has a new purpose and culture, a renewed commitment to innovation, and is demonstrating an improved growth trajectory. In developing the new Policy, the Committee wanted to ensure that our remuneration framework harnesses this new energy and continues to align employees with Smith+Nephew’s strategic goals as we look forward.

As a result, we are proposing a number of changes to how we pay our Executive Directors. The changes are intended to ensure that remuneration remains fit for purpose in future years, and is best able to motivate employees to deliver the next phase of Smith+Nephew’s growth. In addition, we have taken the opportunity to make a number of changes to respond to recent governance developments, adopting a best practice approach against the provisions of the UK Corporate Governance Code (the ‘Code’).

“Our new Policy provides a simplified framework that motivates Executives to deliver outstanding performance both in the short and long-term and adopts a best practice approach against the new Code.”

Angie Risley
Chair of the Remuneration Committee
The changes are intended to:
- Increase strategic alignment to drive profitable and sustained growth.
- Simplify and address challenges with the previous framework, including a move from three incentive plans to two.
- Provide a more aspirational incentive framework which motivates and drives outstanding Smith+Nephew performance.
- Ensure any increase in overall opportunity is through long-term performance-related pay and subject to outperformance. To this end we would highlight that:
  • There is no material increase in total remuneration for delivery of below-threshold, threshold or on-target performance;
  • There is no increase in short-term incentive opportunity, and indeed there is a significant reduction in short-term pay for delivery of threshold and on-target performance.
- Continue to respond to governance developments.

Over the course of 2019, we undertook an extensive engagement programme with shareholders. We engaged with holders of nearly 50% of our share capital, along with their representative bodies and proxy voting agencies. I would like to take this opportunity to thank all those we met or spoke to for their constructive challenge and comments.

The overall tone of the feedback was very positive. Shareholders welcomed the increased emphasis on long-term sustainable performance, greater simplicity, and the steps we were taking to address the Code provisions. We listened to, and discussed all feedback received, and as a result made some changes to the initial proposals, including around the pace of pension reduction and the maximum opportunity under the Performance Share Programme.

Full details are given in the Policy Report on pages 90–100, but the key changes in the new Policy are summarised below (for completeness, changes to the performance measures are also shown, although it is recognised these are a change in implementation rather than the Policy itself).

A summary of the new framework and how it compares to the previous one is set out on page 89.

We would ask you to support our new Remuneration Policy, which we believe will continue to ensure that Executive Directors are aligned with our strategic objectives, rewarded for delivering long-term profitable growth, and in doing so to create shareholder value.

Departure of Namal Nawana, CEO
As announced on 21 October 2019, Namal and the Board came to a mutual agreement that he would step down as Chief Executive Officer with effect from 1 November 2019, but continued to be employed until 31 December 2019.

The Committee gave careful consideration to the termination arrangements for Namal, further details of which are provided on page 115 in the Implementation Report. In summary, the following treatment was applied:
- Salary, benefits and pension contributions continued up to 31 December 2019, when Namal ceased to be an employee.
- A payment in respect of salary, benefits and pension contributions for the balance of his 12-month notice period (1 January to 20 October 2020) when he resigned from the Board.
- Entitlement to participate in the 2019 Annual Cash Incentive Plan and receive an Equity Incentive Award in 2020 in respect of performance in 2019 (effectively the deferred element).
- As a result of his departure being mutually agreed, his outstanding 2019 Equity Incentive Award will be preserved and vest on the original vesting dates, while his outstanding 2018 and 2019 Performance Share Programme awards will be pro-rated for service and will vest on their original vesting dates, subject to their performance conditions. The two-year holding period on these awards will continue to apply.
- A 12-month non-compete period, commenced on 1 January 2020.

The Committee considers that this treatment observes Namal’s contractual entitlements and the requirements of US law.

Appointment of Roland Diggelmann
As announced on 21 October 2019, Roland Diggelmann, who had previously been one of our Non-Executive Directors, was appointed Chief Executive Officer on 1 November 2019. Roland is based in Switzerland at our European headquarters and is therefore employed under a Swiss employment contract. He was employed under the terms of the 2017 Remuneration Policy on a base salary of CHF 1,380,000, which was around 10% lower than Namal’s base salary based on an exchange rate of CHF to US$ 1.0063. His next salary review will be in April 2021. He receives pension contributions of 12% of base salary into the Swiss Profond Pension Plan. This is in-line with the wider UK workforce. He did not participate in any short or long-term incentive arrangements in respect of 2019. He will be paid in accordance with the 2020 Remuneration Policy as detailed on pages 90 to 100, subject to its approval by shareholders.

Global Share Plan 2020
Our 2010 Global Share Plan is due to expire this year, so we are seeking approval for a new Global Share Plan 2020. This is an umbrella plan that we use to make awards throughout the business, including to our Executive Directors and Executive Officers. The terms of the new plan are broadly unchanged, but we have taken the opportunity to make some modest amendments to reflect updated wording on malus and clawback, allowing the Remuneration Committee the discretion to reduce an award if the outcome is unjustified and introducing a two-year post vesting holding period for Executive Directors.
Directors’ Remuneration report continued

Other Matters
During the year, we also reviewed a broad range of employee remuneration matters having oversight of company wide remuneration arrangements including gender pay ratio, CEO pay ratio and remuneration arrangements for sales representatives.

I would like to thank my fellow Committee members for their support during what has been a busy year, and look forward to your support at our 2020 AGM.

Angie Risley
Chair of the Remuneration Committee

Looking Forward – Remuneration Committee’s focus for 2020
During 2020, the Remuneration Committee intends to:

- Focus on ensuring that the 2020 Remuneration Policy is implemented effectively.
- Keep under review how the new structure and performance measures bed into the business, to ensure that they are driving the right performance and behaviours not only at Executive Director level, but throughout the Company.
- Continue to oversee remuneration arrangements across the Company as a whole, monitoring wider employee pay initiatives and our gender pay performance.

Compliance statement
We have prepared this Directors’ Remuneration Report (the Report) in accordance with The Enterprise and Regulatory Reform Act 2012–2013 (clauses 81–84) and The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations), The Companies (Directors’ Remuneration Policy and Directors’ Remuneration Report) Regulations 2019 and The Companies (Miscellaneous Reporting) Regulations 2018. The Report also meets the relevant requirements of the Financial Conduct Authority (FCA) Listing Rules. The first part of the Report (pages 90 to 100) is the Directors’ Remuneration Policy Report (the Policy Report) which will be put to shareholders for approval at the Annual General Meeting on 9 April 2020. The Policy Report describes our proposed Remuneration Policy as it relates to the Directors of the Company. All payments we make to any Director of the Company will be in accordance with this Remuneration Policy. This Policy, if approved by shareholders will remain unchanged until 2023 and it is intended that it will next be put to a shareholder vote at the Annual General Meeting to be held in 2023. In the event that the 2020 Remuneration Policy is not approved by shareholders, Executive Directors will be paid in accordance with the Remuneration Policy approved by shareholders in 2017 until such time as a new Remuneration Policy is approved.

The second part of the Report (pages 101 to 120) is the annual report on remuneration (the Implementation Report). The Implementation Report will be put to shareholders for approval as an advisory vote at the Annual General Meeting on 9 April 2020. The Implementation Report explains how the Remuneration Policy was implemented during 2019. The following sections have been audited by KPMG: The Single Figure Tables on Remuneration including related notes (pages 104 to 115); details of awards made under the Performance Share Programme (pages 110 to 112); Summary of Scheme Interests during the year (page 114); Payments to Namal Nawana including loss of office (page 115); Payments made to past directors (page 115); Directors interests in ordinary shares (page 116); and Senior Management Remuneration (page 120).
### Summary of changes between the existing and proposed Remuneration Policy

<table>
<thead>
<tr>
<th>New framework</th>
<th>Rationale for change from previous framework</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pension Contributions</strong></td>
<td></td>
</tr>
<tr>
<td>Chief Executive Officer and Executive Director future appointments – 12% of salary, in-line with what is available to the wider UK workforce. Chief Financial officer – contribution rate will taper down, to 20% of salary in 2020, and 12% of salary in 2021.</td>
<td>Previously, UK-based Executive Directors were entitled to a pension contribution of 30% of salary. Reduction to bring Executive Directors in-line with the wider employee population is aligned with the Code requirements.</td>
</tr>
<tr>
<td><strong>Annual Bonus Plan</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Structure</strong></td>
<td>Cash Incentive Plan and Equity Incentive Plan combined into the single Annual Bonus Plan.</td>
</tr>
<tr>
<td>Simplified structure is more focused, easier for participants and shareholders to understand, and more effective in incentivising the right behaviours.</td>
<td></td>
</tr>
<tr>
<td><strong>Opportunity</strong></td>
<td>Overall maximum opportunity unchanged, while the target opportunity is reduced from 150% to 107.5% base salary.</td>
</tr>
<tr>
<td>Reduced short-term opportunity for target performance allows us to increase the emphasis on incentivising and rewarding sustainable long-term performance.</td>
<td></td>
</tr>
<tr>
<td><strong>Gearing</strong></td>
<td>Proportion paid out for on-target performance reduced from 70% of the maximum opportunity to 50%.</td>
</tr>
<tr>
<td>Brings greater alignment with typical UK practice and external expectations.</td>
<td></td>
</tr>
<tr>
<td><strong>Deferral</strong></td>
<td>Increase in the proportion of the overall bonus deferred from around a third (dependent on performance) to 50%. Deferral timeframe extended from annual release over 3 years to cliff release after 3 years.</td>
</tr>
<tr>
<td>Greater deferral and longer timeframes increase long-term alignment with shareholders and reflect best practice in the market.</td>
<td></td>
</tr>
<tr>
<td><strong>Performance measures</strong></td>
<td>Simplified to focus on key drivers of performance:</td>
</tr>
<tr>
<td>– Revenue – 40%</td>
<td></td>
</tr>
<tr>
<td>– Trading margin – 40%</td>
<td></td>
</tr>
<tr>
<td>– Business objectives – 20%</td>
<td></td>
</tr>
<tr>
<td>Simplifies the previous framework, placing a strong focus on delivering sustainable and profitable growth.</td>
<td></td>
</tr>
<tr>
<td><strong>Performance Share Programme</strong></td>
<td>Increase in the maximum opportunity from 190% of salary to 275%.</td>
</tr>
<tr>
<td>Increased opportunity reflects the shift in emphasis away from short-term to long-term performance with higher reward for significant outperformance.</td>
<td></td>
</tr>
<tr>
<td><strong>Performance measures</strong></td>
<td>Performance measures are considered to remain appropriate and aligned with our strategy, so no major changes are proposed. Relative TSR will be measured on an index rather than ranked basis going forward, to provide a fairer reflection of performance.</td>
</tr>
<tr>
<td>Focus has been on ensuring that we are setting appropriately stretching targets under these measures to recognise the increase in overall opportunity and reflect shareholder feedback in this area. TSR peer groups remain the same with a FTSE 100 peer group and an S&amp;P global healthcare peer group, but the move from a ranked approach to an indexed approach avoids anomalies arising from a small number of outliers in the peer group.</td>
<td></td>
</tr>
<tr>
<td><strong>Post-cessation shareholding guidelines</strong></td>
<td>Post-cessation shareholding guidelines introduced – Executive Directors required to hold their guideline in full (or actual holding if lower) for two years following departure.</td>
</tr>
<tr>
<td>Introduction of post-cessation guidelines extends alignment with shareholders, and adopts a best practice position with regards to the Code requirements in this area.</td>
<td></td>
</tr>
</tbody>
</table>
The Policy report

The following section sets out our Directors’ Remuneration Policy (‘Policy’). This Policy will be submitted as a binding vote to shareholders at the 2020 AGM and will apply to payments made on or after 9 April 2020.

In designing the Policy, the Committee followed a robust process which included discussions on the content of the Policy at four Committee meetings. The Committee considered input from management and our independent advisors, and sought the views of the Company’s major shareholders and other stakeholders, including employees.

Changes to policy
The 2020 Remuneration Policy makes the following changes to the 2017 Remuneration Policy:
- For new appointments and the current Chief Executive Officer, the maximum cash allowance paid in lieu of pension has reduced from 30% to 12% of base salary, to bring it fully into line with the wider UK workforce. For the Chief Financial Officer, the maximum amount will taper over the life of the Policy such that it also reaches 12% of base salary by 1 January 2022, compared to 30% under the previous policy.
- The former Annual Cash Incentive Plan (CIP) and Annual Equity Incentive Plan (EIP) have been simplified and amalgamated into an integrated Annual Bonus Plan, which is structured as a 50% cash bonus and 50% deferred share award:
  - The aggregate maximum opportunity of 215% of base salary is unchanged;
  - The aggregate target opportunity has reduced from 70% of maximum to 50% of maximum;
  - If considering the former Equity Incentive Plan as a form of deferred bonus, for the annual incentive arrangements as a whole the amount deferred into shares has been increased from around a third of the total amount to 50%, with the time period for release lengthened from evenly over three years to all after three years.
- The maximum annual opportunity under the Performance Share Programme has been increased from 190% to 275% of base salary.
- Incorporates post-employment shareholding guidelines, which have been introduced from 1 January 2020.

Future policy table – Executive Directors

Base salary and benefits

<table>
<thead>
<tr>
<th>Base salary</th>
<th>Maximum levels of payment</th>
<th>Framework in which performance is assessed</th>
</tr>
</thead>
</table>
| Core element of remuneration, paid for doing the expected day-to-day job. | The base salary of the Executive Directors with effect from 1 April 2020 will be as follows:  
- Roland Diggelmann CHF 1,380,000.  
- Graham Baker £568,277. | 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. |

Salaries are normally reviewed annually with any increase applying from 1 April. Salary levels and increases take account of:
- Scope and responsibility of position;
- Skill/experience and performance of the individual Executive Director;
- General economic conditions in the relevant geographical market;
- Average increases awarded across the Company, with particular regard to increases in the market in which the Executive Director is based; and
- Market movements within a peer group of similarly sized listed companies.

While there is no maximum salary level, any increases will normally be in-line with the wider employee population within the relevant geographic area.

Higher increases may be made under certain circumstances, at the Committee’s discretion. For example, this may include:
- increase in the scope and/or responsibility of the individual’s role; and
- development of the individual within the role.

A full explanation will be provided in the Implementation Report should higher increases be approved in exceptional cases. In addition, where an Executive Director has been appointed to the Board at a lower than typical salary, larger increases may be awarded to move them closer to market practice as their experience develops.
**Pension and payment in lieu of pension**

Provide Executive Directors with an allowance for retirement planning.

<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>Executive Directors receive a cash allowance in lieu of membership of a Company-run pension scheme. In jurisdictions where the local law requires employees to participate in a Company-run pension scheme, Executive Directors participate in the local pension scheme to the extent of the amount paid in respect of the majority of our UK-based workforce. Base salary is the only component of remuneration which is pensionable.</td>
<td>The current Chief Executive Officer participates in the Swiss pension plan, and the Company contribution is 12% of his base pay in-line with the wider UK workforce. For any newly appointed Executive Directors, the maximum cash allowance payable in lieu of a pension is 12% of base salary. For the current Chief Financial Officer, the maximum cash allowance payable in lieu of a pension over the life of this Policy will be as follows:  – 2020: 20% of base salary.  – 2021: 12% of base salary.</td>
<td>None.</td>
</tr>
</tbody>
</table>

**Benefits**

Provide employees with a market competitive benefits package.

<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>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 Director’s location. Where applicable, relocation costs may be provided in-line with the Company’s relocation policy for senior executives, which may include, amongst other items: removal costs, assistance with accommodation, living expenses for self and family and financial consultancy advice. In some cases, such payments may be grossed up.</td>
<td>While no maximum level of benefits is prescribed, they are set at an appropriate market competitive level, taking into account a number of factors, which may include:  – The jurisdiction in which the individual is based.  – The level of benefits provided for other employees within the Company.  – Market practice for comparable roles within appropriate pay comparators. The actual amount payable will depend on the cost of providing such benefits to an employee in the location at which the Executive Director is based. The Committee keeps the benefit policy and benefit levels under regular review.</td>
<td>None.</td>
</tr>
</tbody>
</table>
The Policy report continued

All-employee arrangements

All-employee share plans

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

<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>ShareSave Plans are operated in the UK and 32 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.</td>
<td>Executive Directors may currently invest up to £500 per month in the UK ShareSave Plan, in-line with UK participants. The Committee may exercise its discretion to increase this amount up to the maximum permitted by HM Revenue &amp; Customs. Similar limits will apply in different locations.</td>
<td>None.</td>
</tr>
</tbody>
</table>

Annual incentives

Annual Bonus Plan

Incentivises delivery of the business plan on an annual basis. Rewards performance against key performance indicators which are critical to the delivery of our business 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>
<tbody>
<tr>
<td>The Annual Bonus Plan is designed to reward performance over the year against financial and business objectives determined at the start of the year. At the end of the year, the Committee determines pay-out levels based on the extent to which performance against these objectives has been achieved. The Committee has full discretion to adjust outcomes under the Annual Bonus Plan where the amount that a participant would/could receive under an Award would result in the participant receiving an amount which the Committee considers cannot be justified or which the Committee considers to be an unfair or undeserved benefit to the Participant. In exercising this discretion, the Committee may consider all circumstances, including (but not limited to): the financial performance of the Company; any changes in the Company’s share price; and the performance, conduct and contribution of the participant. Malus and clawback provisions apply, as detailed in the notes to this table. Half of the award is paid in cash after the end of the performance year and half is deferred into shares under the Deferred Share Bonus Plan (DSBP), which vest after three years.</td>
<td>The maximum opportunity is 215% of base salary. 50% of maximum is payable for on-target performance (107.5% of base salary). 15% of maximum is payable for threshold performance (32% of base salary).</td>
<td>The Committee will determine the appropriate performance measures at the start of each financial year, in order to ensure that the Annual Bonus Plan focuses on key business priorities for the Company. Typically, 80% of the annual bonus will be based on financial performance measures. For 2020, the Committee has determined that these should be Revenue growth (40%) and Trading Profit Margin (40%). The remainder will usually be based on business objectives linked to key areas of strategic focus. The Committee retains the discretion to adjust the relative weightings of the financial and strategic components and to adopt any performance measure that is relevant to the Company. Under whatever measures are chosen, the Committee will set appropriately challenging targets at the start of each year. In doing so, they will take into account a number of internal and external reference points, including the Company’s key strategic objectives for the year. The Committee may amend the performance conditions applicable to an award in accordance with the terms of the performance conditions or if events happen which cause the Committee to consider that it fails to fulfil its original purpose and would result in an unfair benefit for the participant in the reasonable opinion of the Committee.</td>
</tr>
</tbody>
</table>
Long-term incentives

Performance Share Programme

To motivate and reward 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>
<tbody>
<tr>
<td>Awards are granted pursuant to the terms of the Performance Share Programme. Awards are normally made in the form of conditional share awards, but may be awarded in other forms if appropriate, including nil cost options or a combination thereof. Awards vest after three years, subject to the achievement of stretching performance targets linked to the Company’s strategy. The Committee has full discretion to adjust outcomes under the Performance Share Programme where the amount that a participant would/could receive under an Award would result in the participant receiving an amount which the Committee considers cannot be justified or which the Committee considers to be an unfair or undeserved benefit to the Participant. In exercising this discretion, the Committee may consider all circumstances, including (but not limited to): the financial performance of the Company; any changes in the Company’s share price; and the performance, conduct and contribution of the participant. Participants may receive an additional number of shares equivalent to the amount of dividend payable on ordinary shares 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. The Committee may, in the event of any variation of the Company’s share capital, demerger, delisting, or other event which may affect the value of awards, adjust or amend the terms of awards in accordance with the plan rules. Malus and clawback provisions apply as detailed in the notes to this table.</td>
<td>The maximum annual opportunity is 275% of base salary. For on-target levels of performance, 50% of the award vests (137.5% of base salary). For threshold levels of performance, 25% of the award vests (68.75% of base salary).</td>
<td>The Committee aims to align the Performance Share Programme performance measures with the Company’s key long-term strategic objectives. In this manner, strong performance against the measures should lead to long-term sustainable value creation for our shareholders. Measures used will typically include: – Financial measures – to reflect the financial performance of our business and a direct and focused measure of Company success. – Shareholder return measures – a measure of the ultimate delivery of shareholder returns, providing direct alignment. – Strategic measures – aligned with the Company’s long-term strategy. The make-up and weighting of each measure will be determined by the Committee each year to reflect the particular strategic objectives over the relevant performance period. For the 2020 awards, it is proposed to use the following four measures, all equally weighted: – Revenue growth. – Return on Invested Capital. – Cumulative free cash flow. – Total Shareholder Return (TSR) performance against: • An index of Global Healthcare companies; and • The FTSE 100 index. Maximum Payment will only be made for significant outperformance. The Committee may amend the performance conditions applicable to an award in accordance with the terms of the performance conditions or if events happen which cause the Committee to consider that it fails to fulfil its original purpose and would result in an unfair benefit for the participant in the reasonable opinion of the committee.</td>
</tr>
</tbody>
</table>
# Shareholding guidelines

## Within-employment shareholding guidelines

To align Executive Directors with shareholders and the long-term success of the Company.

<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>The Chief Executive Officer is expected to build a shareholding of 300% of base salary and the Chief Financial Officer is expected to build a shareholding of 200% of base salary. The Committee expects Executive Directors to satisfy this requirement within 5 years. Until the relevant shareholding guidelines have been met, Executive Directors are required to hold 50% of any shares vesting from Company incentive plans after tax.</td>
<td>Not Applicable.</td>
<td>None.</td>
</tr>
</tbody>
</table>

## Post-employment shareholding guidelines

To provide extended alignment with shareholders post-departure from the Company.

<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>Executive Directors will normally be required to maintain their within employment shareholding guideline (or their actual holding if lower) for a period following cessation. At the current time, the Committee requires Executive Directors to maintain 100% of their guideline for two years following departure.</td>
<td>Not Applicable.</td>
<td>None.</td>
</tr>
</tbody>
</table>
Notes to future policy table – Executive Directors

Malus and clawback
At any time prior to the vesting of an award or payment of a cash bonus, the Committee may determine that an unvested award or part of an award may not vest, including to zero on the occurrence of a Trigger Event, as defined below (regardless of whether or not the performance conditions have been met). At any time up to three years after the vesting of an award or payment of a cash bonus, the Committee may determine that any cash bonus, vested shares, or their equivalent value in cash be returned to the Company on the occurrence of a Trigger Event. A Trigger Event shall occur if any of the following matter is discovered where:
- there has been a misstatement of the Company’s financial results which has resulted in a material overpayment to participants, which is in the form of Awards under the Plan or otherwise, irrespective of whether the relevant participants are at fault;
- there has been an error in determining the size of the Award or to the extent to which the performance conditions have been satisfied, or erroneous or misleading data, which has resulted in the vesting of an Award which would not otherwise have vested or which would otherwise have vested to a materially lesser extent;
- there has been a significant adverse change in the financial performance or reputation of the Company, including corporate failure and/or any significant loss at a general level or in respect of a global business unit or function in which a participant worked; and/or
- the Committee determines that the conduct, capability or performance of a participant or any team, business area or profit centre warrants a review.

These provisions will apply under the Global Share Plan 2020 and the Annual Bonus Plan 2020.

Legacy matters
The Committee can make remuneration payments and payments for loss of office outside of the Policy set out above where the terms of the payment were agreed (i) before the Policy set out in this report came into effect, provided the terms of the payment were consistent with any applicable policy in force at the time they were agreed; or (ii) at a time when the relevant individual was not an Executive Director of the Company (or other person to whom the Policy set out above applies) and that, in the opinion of the Committee, the payment was not in consideration for the individual becoming an Executive Director of the Company (or such other person). This includes the exercise of any discretion available to the Committee in connection with such payments. For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

The Policy set out above applies equally to any individual who would be required to be treated as an Executive Director under the applicable regulations. The Committee can make remuneration payments and payments for loss of office outside of the Policy set out above if such payments are required by law in a relevant country.

Consideration of employment conditions elsewhere in the Company and differences between arrangements for Executive Directors and workforce as a whole
The Committee discusses, and takes into account pay arrangements across the Company when determining the pay of Executive Directors in the following ways:

Base salary
Increases to Executive Director base salaries are generally in-line with base salary budgets in the geography in which the Executive Director is based, although the Committee will also have oversight of base salary budgets across the Company more generally when making the decision.

Pension contributions and payments in lieu of a pension
A range of different pension arrangements operate across the Group depending on location and/or length of service. Executive Directors either participate in pension arrangements relevant to their local market or receive a cash payment in lieu of a pension.

Benefits
Benefit packages vary across the world depending on local market practice. Executive Directors receive a range of benefits in-line with the standard executive benefits package in the geography in which they are based.

Annual Bonus Plan
Nearly all employees have performance-based pay, primarily in form of the Annual Bonus. Employees at different levels throughout the group participate in Annual Bonus Plans with different payment outcomes. The annual performance objectives are cascaded down to all employees from the objectives set at the beginning of the year for the Executive Directors and Executive Officers, to ensure that the performance of all employees is linked to the Strategic Imperatives. In 2019, 9 Executive Officers and 37 senior executives participated in the Annual Bonus Plan on the same basis as the Executive Directors subject to lower limits.

All Employee Share Plans
We operate two all-employee share plan arrangements depending on the most appropriate arrangement for different geographies. In 2019, in the US, 2,651 employees participated in the Employee Stock Purchase Plan. In 2019, in the UK and 32 other countries, 2,770 employees participated in the ShareSave Plan. Executive Directors, Executive Officers and senior executives participated in these plans depending on where they are located.

Long term incentives
10 Executive Officers and 38 senior executives participate in the Performance Share Programme on the same basis as the Executive Directors subject to lower limits.

Shareholding requirements
Executive Officers and senior executives who participate in the Annual Bonus Plan and the Performance Share Programme are also required to build a significant shareholding in the Company.
Illustrations of the application of the Remuneration Policy 2020

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

Chief Executive Officer

<table>
<thead>
<tr>
<th>Assumed performance</th>
<th>Fixed pay</th>
<th>Variable pay</th>
<th>Assumptions used for proposed Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum %</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target %</td>
<td>32, 28, 14</td>
<td>26</td>
<td>CHF4,966k</td>
</tr>
<tr>
<td>Maximum %</td>
<td>22, 29, 12</td>
<td>37</td>
<td>CHF7,174k</td>
</tr>
<tr>
<td>Maximum + %*</td>
<td>19, 24, 11</td>
<td>46</td>
<td>CHF8,485k</td>
</tr>
</tbody>
</table>

Proposed

<table>
<thead>
<tr>
<th>Assumed performance</th>
<th>Fixed pay</th>
<th>Variable pay</th>
<th>Assumptions used for proposed Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum %</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target %</td>
<td>32, 30</td>
<td>38</td>
<td>CHF4,966k</td>
</tr>
<tr>
<td>Maximum %</td>
<td>19, 36, 12</td>
<td>45</td>
<td>CHF8,347k</td>
</tr>
<tr>
<td>Maximum + %*</td>
<td>15, 29, 11</td>
<td>56</td>
<td>CHF10,244k</td>
</tr>
</tbody>
</table>

Chief Financial Officer

<table>
<thead>
<tr>
<th>Assumed performance</th>
<th>Fixed pay</th>
<th>Variable pay</th>
<th>Assumptions used for proposed Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum %</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target %</td>
<td>36, 26, 13</td>
<td>25</td>
<td>£2,153k</td>
</tr>
<tr>
<td>Maximum %</td>
<td>25, 28, 12</td>
<td>35</td>
<td>£3,062k</td>
</tr>
<tr>
<td>Maximum + %*</td>
<td>21, 24, 10</td>
<td>45</td>
<td>£3,602k</td>
</tr>
</tbody>
</table>

Proposed

<table>
<thead>
<tr>
<th>Assumed performance</th>
<th>Fixed pay</th>
<th>Variable pay</th>
<th>Assumptions used for proposed Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum %</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target %</td>
<td>34, 29, 37</td>
<td>37</td>
<td>£2,097k</td>
</tr>
<tr>
<td>Maximum %</td>
<td>20, 35, 45</td>
<td>45</td>
<td>£3,488k</td>
</tr>
<tr>
<td>Maximum + %*</td>
<td>17, 28, 55</td>
<td>55</td>
<td>£4,269k</td>
</tr>
</tbody>
</table>

* + 50% share price growth  

Fixed pay

- Consists of total fixed pay, including base salary and pension allowance (as at 1 April 2020) and benefits (as received during 2019).

Variable pay

- No pay-out under the Annual Bonus Plan.
- No vesting under the Performance Share Programme.
- 50% of maximum payout under the Annual Bonus Plan (ie 107.5% of salary)
- 50% vesting under the Performance Share Programme (ie 137.5% of salary)
- 100% of the maximum pay-out under the Annual Bonus Plan (ie 215% of salary).
- 100% vesting under the Performance Share Programme (ie 275% of salary).
- 100% of the maximum pay-out under the Annual Bonus Plan (ie 215% of salary).
- 100% vesting under the Performance Share Programme (ie 275% of salary).
- 50% growth in share price.

Performance Share Programme awards have been shown at face value with no discount rate assumptions.

The charts provide illustrative values of the remuneration package in 2020. Actual outcomes may differ from those shown.

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 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 (or cash payment in lieu of pension), benefits and incentive arrangements aligned with those set out in the Policy table above. On that basis, the aggregate annual opportunity under their incentive arrangements would not exceed 490% 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 may also pay relocation and related costs, in-line with the relocation arrangements we operate across the Group.

For external appointments, the Committee may award compensation for the forfeiture of remuneration awards from a previous employer. In doing so, the Committee would aim to structure the replacement awards in a like-for-like manner to the extent possible, taking into account relevant factors, including:
- The form of the forfeited awards (eg cash or shares);
- Any performance conditions attached to them and the likelihood of these conditions being satisfied; and
- The proportion of the vesting and/or performance period remaining.

The Committee will have regard to the best interests of both Smith+Nephew and its shareholders and is conscious of the need to pay no more than is necessary, particularly when determining buy-out arrangements.
In making buy-out awards to new appointments, the Committee may grant awards under the relevant provision in the Financial Conduct Authority Listing Rules, which allows for the granting of awards specifically to facilitate, in unusual circumstances, the recruitment of an Executive Director, without seeking prior shareholder approval. In doing so, it will comply with the provisions in force at the date of this report.

The overall approach outlined above would also apply to internal appointments, with the proviso that any commitments entered into before promotion which are inconsistent with the Policy will continue to be honoured.

We will aim to provide 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 twelve 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 his or her notice period and pay them an amount equivalent to the base salary, pension contributions (or 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 Directors’ service contracts, 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: Building 5, Croxley Park, Hatters Lane, Watford, Hertfordshire WD18 8YE.

Policy for payment for loss of office
Our policy regarding termination payments to departing Executive Directors is to limit severance payments to pre-established contractual terms. 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 rule 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, pension contributions (or 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, the costs of meeting any settlement agreement, and legal and financial advice.

In the event that an Executive Director dies or leaves for reasons of ill-health, redundancy or retirement in agreement with the Company, or for any other reason for which the Committee determines that good leaver treatment is appropriate:
– They may be eligible to receive an annual bonus on a time pro-rated basis for the period of the year that they have worked. The annual bonus will typically be subject to business and individual performance in the same manner as for the continuing Executive Directors, and paid at the usual time. In-line with Company policy for all our employees, Executive Directors leaving in the last three months of the year may be eligible to receive a full year bonus, while those joining in the last three months of the year may not be eligible to receive any bonus.
– Outstanding Deferred Share Bonus Plan awards will subsist and be released in-line with their original timeframes, unless the Committee determines otherwise. They will not normally be pro-rated.

– Outstanding Performance Share Programme awards will typically be pro-rated for the time worked during the relevant performance period, and tested for performance at the end of the performance period, unless the Committee determines otherwise. The two-year holding period will usually continue to be enforced.
– Any outstanding awards under the Deferred Share Bonus Plan or Performance Share Programme will remain subject to the same terms and conditions (including, malus and clawback) as applied at time of grant.

For participants who leave for any other reason, outstanding Deferred Share Bonus Plan and Performance Share Programme awards will lapse in full.

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

We will supply details via an announcement to the London Stock Exchange of a departing Executive Director’s termination arrangements as soon as is practicable.

Policy on shareholding requirements
The Committee believes that one of the best ways our Executive Directors’ interests can be aligned with that of shareholders is for them to hold a significant number of shares in the Company. The Chief Executive Officer is therefore expected to build a holding of Smith+Nephew shares worth three times his or her base salary and the Chief Financial Officer is expected to build a holding of two times his or her base salary. Executive Directors are required to retain at least 50% of the shares after tax) vesting under Company incentive plans until this shareholding requirement has been met, recognising that differing international tax regimes affect the pace at which Executive Directors may fulfil the shareholding requirement.
The Policy report continued

When calculating whether or not this requirement has been met, Ordinary Shares or ADRs held by the Executive Directors and their immediate family are included, as are unvested awards under the Deferred Share Bonus Plan (on a net-of-tax basis), but not Performance Share Programme awards. Ordinarily we would expect Executive Directors to achieve their shareholding requirement within a period of five years from the date of appointment.

Executive Directors are also required to hold any shares vesting under the Performance Share Programme for a period of two years after vesting.

The 10 Executive Officers and 38 senior executives who participate in the Annual Bonus Plan and Performance Share Programme are also required to build a significant shareholding in the Company, extending the principle of alignment with our shareholders across the senior management team.

Policy on post cessation shareholding

Executive Directors are required to retain any shareholding up to the applicable shareholding requirement (or their actual holding on departure if lower) for a period of two years after cessation of employment.

In order to reinforce this expectation, and to the extent that the shareholding requirement has not been reached, all vested Deferred Share Bonus Plan and Performance Share Programme shares will be held in a Vested Share Account, which will not be accessible until two years post cessation of employment. In addition, former Executive Directors will be required to seek permission to deal during this period.

Consultation with employees relating to Executive Director remuneration

While the Committee does not directly consult with our employees as part of the process of determining executive pay, the Committee does receive feedback from employee surveys and takes this into account when reviewing executive pay. In addition, a significant number of our employees are shareholders and so are able to express their views in the same way as other shareholders.

During 2019, no comments from employees relating to Executive Remuneration were raised during Board site visits.

Statement of consideration of shareholder views

Angie Risley, the Committee Chair, engaged extensively with shareholders during development of the 2020 Remuneration Policy. The feedback received was presented to and discussed at length by the Committee, and informed the final shape of the proposals which are being put to the 2020 AGM.

Angie met with shareholders holding in excess of 38% of the Company’s Share capital, and corresponded with a further 8.5%, meaning that almost half of our register were asked for their views. This included 17 of our top 20 shareholders plus a number of shareholders who, although holding a smaller number of shares, had indicated earlier in the year that they would be interested in engaging with the Company on remuneration matters. In addition, we met with the Investment Association, ISS and Glass Lewis to obtain their input.

Some shareholders were cautious about the increase in maximum opportunity under the Performance Share Programme, and in particular looked for reassurance that maximum vesting under the plan would only be achieved for very stretching performance.

The Committee took all comments received on board during its subsequent discussions. With respect to the latter concern raised by some shareholders, in setting targets for the 2020 Performance Share Programme cycle, the Committee considers that the upper end of the performance ranges will require significant outperformance of internal and external forecasts for performance, as well as of the FTSE 100 and our direct peers. Further information is shown on page 112–113.
**Future policy table – Chair and Non-Executive Directors**

The following table and accompanying notes explain the different elements of remuneration we pay to our Chair and Non-Executive Directors. This Policy is unchanged from 2017. No element of their remuneration is subject to performance. All payments made to the Chair are determined by the Remuneration Committee, whilst payments made to the Non-Executive Directors are determined by those Directors who are not themselves Non-Executive Directors, currently the Chair, Chief Executive Officer and Chief Financial Officer.

### Annual fees

**Basic annual fee**

To attract and retain Directors by setting fees at rates comparable to what would be paid in an equivalent position elsewhere. A proportion of the fees are paid in shares in the third quarter of each year in order to further align Non-Executive Directors’ fees with the interests of shareholders.

<table>
<thead>
<tr>
<th>How the component operates</th>
<th>Maximum levels of payment</th>
</tr>
</thead>
</table>
| Fees will be reviewed on an annual basis. In future, any increase will be paid in shares until 25% of the total fees is paid in shares. Fees are set in-line with market practice for fees paid by similar 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. | Annual fees are currently as follows:  
  – £63,000 in cash plus £6,500 in shares; or  
  – $120,000 in cash plus $9,780 in ADRs.  
  Chair fees:  
  – £315,180 in cash plus £105,060 in shares.  
  Whilst it is not expected to increase the fees paid to the Non-Executive Directors and the Chair 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 £1.5m as set out in the Company’s Articles of Association. |

### Fee for Senior Independent Director and Committee Chair

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

<table>
<thead>
<tr>
<th>How the component operates</th>
<th>Maximum levels of payment</th>
</tr>
</thead>
</table>
| A fixed fee is paid, which is reviewed annually. | – £20,000 in cash.  
  – $35,000 in cash.  
  Whilst it is not expected that the fees paid to the Senior Independent Director or Committee Chairs 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.

<table>
<thead>
<tr>
<th>How the component operates</th>
<th>Maximum levels of payment</th>
</tr>
</thead>
</table>
| A fixed fee is paid, which is reviewed annually. | – £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. |
The Policy report continued

Notes to future policy table – Non-Executive Directors

Additional duties undertaken by Non-Executive Directors
In the event that the Chair or a Non-Executive Director is required to undertake significant 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 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 Chair, fee levels will take account of market rates, the individual’s profile and experience, the time required to undertake the role and general business conditions. In addition, the Committee retains the right to authorise the payment of relocation assistance or an accommodation allowance in the event of the appointment of a Chair not currently based in the UK.

Letters of appointment
The Chair and Non-Executive Directors have letters of appointment which set out the terms under which they provide their services to the Company. These are available for inspection at the Company’s registered office: Building 5, Croxley Park, Hatters lane, Watford, Hertfordshire WD18 8YE, United Kingdom.

The appointment of the 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 Chair is subject to a notice period of six months.

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

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 9 April 2020. 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

Work of the Remuneration Committee in 2019

In 2019, we held eight meetings and determined two further matters by written resolution. Each meeting was attended by all members of the Committee except for one meeting convened at very short notice, which Vinita Bali was unable to attend. The Chief Executive Officer and the Chief Human Resources Officer, 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, Deloitte LLP (Deloitte), who completed their first year as remuneration advisors to the Committee. Three of the additional meetings held during the year were to consider and review the proposed new Remuneration Policy and to discuss shareholder feedback on our proposals. Our schedule of work in 2019 can be found in the table on the next page.

Since year end, we have also reviewed the financial results for 2019 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 2020. 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 vesting of awards under the Performance Share Programme granted in 2017. Finally, we approved the wording of this Directors’ Remuneration Report.

Independent Remuneration Committee Advisors

During the year, the Committee received information and advice from Deloitte. Deloitte is a global firm, which provides many services to the Company, including tax and consultancy services. Deloitte was appointed by the Committee following a full tender process in 2018 to provide remuneration advice to the Committee, independent from management.

During the year, Deloitte provided advice on market trends and remuneration issues in general, attended Committee meetings, assisted in the review of the Directors’ Remuneration Report, undertook calculations relating to the TSR performance conditions, advised on Executive Director and Officer pay and investor views and engagement. Deloitte advised on the views of shareholders and investor bodies relating to different aspects of Executive pay, when reviewing the draft 2020 Remuneration Policy prior to our engagement with shareholders.

The Remuneration Committee also took additional remuneration advice from Pearl Meyer who evaluated whether there was an alternative methodology or structure which could be used in the development of our remuneration model given the difference between US and UK compensation expectations. They also provided further information on the breakdown of our competitor data in the medical technology sector.

The fees paid to Deloitte for advice to the Committee during 2019, charged on a time and expense basis, were £192,075. Deloitte complies with the Code of Conduct in relation to Executive Remuneration Consulting in the United Kingdom and the Committee is satisfied that their advice is objective and independent. The fees paid to Pearl Meyer for remuneration advice during 2019 was $13,000.
**Responsibilities of the Remuneration Committee**

### Timetable 2019

<table>
<thead>
<tr>
<th>February</th>
<th>April</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval of salaries, awards and payouts in 2019</td>
<td>New Remuneration Policy</td>
<td>New Remuneration Policy</td>
</tr>
</tbody>
</table>

### 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 in particular relating to CEO Pay Ratio and Gender Pay.
- 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.

- Approved quantum of cash payments and awards to Executive Directors and Officers under the Annual Incentive Plan, the Equity Incentive Programme and Performance Share Programme.
- Agreed the targets for the short-term and long-term incentive plans for 2019.
- Approved salary increases for 2019.
- Reviewed the schedule of plans and targets made in 2017, 2018 and to be made in 2019.
- Considered and approved changes to the performance rating system for Executive Directors and below.
- Noted the Gender Pay Gap and CEO Pay Ratio Figures.
- Reviewed and approved the proposed 2019 business plan for the Committee.
- Considered appropriate remuneration package treatment for former Executive Officers and Company Secretary.
- Reviewed Chair of the Board’s pay.

### 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.
- Reviewed and approved the Rules of the Global Share Plan 2010, which had been updated to reflect the UK Corporate Governance Code 2018.
- Reviewed adherence to shareholding guidelines for Directors and senior executives.
- Noted share awards made to senior executives.

### Reporting and engagement with shareholders on Remuneration Matters

- Approval of the Directors’ Remuneration Report ensuring compliance with related governance provisions.
- Considered approach to the Code and to guidelines issued by various influential investors and investor agents.
- Approved Remuneration Report.
- Considered external environment and feedback received from constructive engagement with shareholders.
- Continued consideration of constructive engagement on remuneration matters with shareholders.

### Other matters

- Audit Committee in attendance to answer questions related to audited numbers and provide assurance.

### Review of Remuneration Policy

- Reviewed shareholder feedback on remuneration proposals for 2020 and adjusted proposals accordingly.
- Further review of the 2020 Remuneration Policy in respect of process, structure and quantum.
<table>
<thead>
<tr>
<th>July</th>
<th>August</th>
<th>September</th>
<th>October</th>
<th>December</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-year Review of Remuneration Arrangements</td>
<td>New Remuneration Policy</td>
<td>New Remuneration Policy</td>
<td>Chief Executive Officer change</td>
<td>New Remuneration Policy</td>
</tr>
</tbody>
</table>

- Reviewed the schedule of plans and targets for awards made in 2017, 2018 and 2019.
- Reviewed the 2020 Remuneration Policy.
- Noted sign on share awards and share awards made to senior executives.
- Noted an update on performance against the TSR metric.
- Further review of the 2020 Remuneration Policy in respect of process, structure and quantum.
- Review of the 2020 Remuneration Policy in respect of process, structure and quantum.
- Agreed termination arrangements for Namal Nawana and recruitment arrangements for Roland Diggelmann.
- Reviewed shareholder feedback on remuneration proposals for 2020 and adjusted proposals accordingly.

- Noted adherence to shareholding guidelines for Executive Directors and senior executives.
- Monitored dilution limits and the number of shares available for use in respect of discretionary and all-employee share plans.
- Reviewed adherence to shareholding guidelines for Executive Directors and senior executives.
- Reviewed and approved the proposed shareholder engagement programme.

- Reviewed the 2020 Remuneration Policy in respect of process, structure and quantum.
- Reviewed shareholder feedback on remuneration proposals for 2020 and adjusted proposals accordingly.
## Single total figure on remuneration

The amounts for 2019 have been converted into US$ for ease of comparability using the exchange rates of £ to US$1.2757 and CHF to US$1.0063 (2018: £ to US$1.334 and € to US$1.180).

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Fixed pay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Base salary</strong></td>
<td>$231,449 – $1,569,615</td>
<td>$1,006,923 – $490,615</td>
<td>$707,252</td>
<td>$707,628</td>
</tr>
<tr>
<td><strong>Pension payments</strong></td>
<td>$27,775 – $334,923</td>
<td>$222,010 – $147,184</td>
<td>$217,014</td>
<td>$212,302</td>
</tr>
<tr>
<td><strong>Taxable benefits</strong></td>
<td>$6,590 – $47,302</td>
<td>$59,754 – $44,322</td>
<td>$44,322</td>
<td>$29,869</td>
</tr>
<tr>
<td><strong>Annual variable pay</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Incentive Plan – cash element</td>
<td>– – $1,674,653 $1,042,655</td>
<td>– – $455,345 $726,646</td>
<td>– – $353,627 $353,817</td>
<td></td>
</tr>
<tr>
<td>Annual Incentive Plan – equity element</td>
<td>– – $862,881 $552,290</td>
<td>– –</td>
<td>– – $353,627 $353,817</td>
<td></td>
</tr>
<tr>
<td>Long-term variable pay</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance Share Programme</td>
<td>– – $1,067,688 $1,246,116</td>
<td>– – $1,246,116 $864,757</td>
<td>– – $1,246,116 $864,757</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$265,814</strong> – <strong>$4,489,374</strong></td>
<td><strong>$2,883,632</strong> – <strong>$1,067,688</strong></td>
<td><strong>$2,383,582</strong> – <strong>$2,899,165</strong></td>
<td><strong>$1,976,530</strong></td>
</tr>
</tbody>
</table>

1 The amounts shown for Namal Nawana are the amounts paid in respect of the full year to 31 December 2019. This includes the period 1 November 2019 to 31 December 2019 when he had ceased to be Chief Executive Officer of the Company and remained as an employee, ensuring a smooth transition to Roland Diggelmann, who succeeded him as Chief Executive Officer. This totalled $724,331 for those two months.

All data is presented in our reporting currency of US$. Amounts for Roland Diggelmann have been converted from Swiss Francs and Graham Baker from GBP using average exchange rates. Given currency movements in 2019, 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.

---

**Base salary** the actual salary receivable for the year.

**Pension payments** the value of the salary supplement in lieu of pension or contribution to any pension scheme made by the Company.

**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 element** the value of the cash incentive payable for performance in respect of the relevant financial year.

**Annual Incentive Plan – equity element** 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 page 108 of this report.

**Performance Share Programme** 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 2020 this is based on an estimated share price of 1,747.49p per share, which was the average price of a share over the last quarter of 2019. The amount of this award that was attributable to share price increase from the date of grant to 1,747.49p per share was £250,720 for Olivier Bohuon and £203,067 for Graham Baker. The value of the 2016 share awards that vested in 2019 have now been restated with the share price on the date of actual vesting being 1,441.12p per share on 1 March 2019, using the 2018 £:US$ exchange rate of US$1.334.

**Total** the sum of the above elements.
Fixed pay

**Base salary**

In February 2019, it was agreed that with effect from 1 April 2019, Executive Directors would be paid the following base salaries per annum.

<table>
<thead>
<tr>
<th>Name</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Namal Nawana</td>
<td>$1,578,500</td>
<td>$1,540,000</td>
</tr>
<tr>
<td>Graham Baker</td>
<td>£557,134</td>
<td>£520,000</td>
</tr>
</tbody>
</table>

Roland Diggelmann was appointed Chief Executive Officer on 1 November 2019 and as announced on 21 October 2019 was paid an annual base salary of CHF1,380,000. In February 2020, we reviewed the base salaries of the Executive Directors, having considered general economic conditions and average salary increases across the rest of the Company, which have averaged at 3% in the UK. As previously announced, Roland Diggelmann will receive no base pay review until 1 April 2021. Graham Baker’s salary will increase by 2% to £568,277 with effect from 1 April 2020.

**Pension payments**

In 2019, Graham Baker received a salary supplement of 30% of his basic salary to apply towards his retirement savings, in lieu of membership of one of the Company’s pension schemes. This payment has been reviewed as part of the 2020 Remuneration Policy.

Subject to the approval of the 2020 Remuneration Policy by shareholders at the Annual General Meeting on 9 April 2020, the cash payment in lieu of a pension in respect of Graham will be reduced to 20% with effect from 1 January 2020, and to 12% from 1 January 2021 in-line with the wider UK workforce. This is discussed further on page 87 and 91.

Namal Nawana participated in the retirement plans available to our US Executives: Executive Plus Plan, 401k and 401k plus. The Company contribution to these plans was: 20% of base salary to the Executive Plus Plan, standard company match for 401k and standard 401k plus contribution up to the IRS maximum.

Roland Diggelmann participates in the Swiss Profond pension plan. He is employed under a Swiss contract, which is where he is domiciled. During 2019, total Company pension contributions for Roland amounted to CHF 27,601, which is equivalent to 12% of his base salary.

**Benefits**

In 2019, our UK based Executive Director, Graham Baker 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. The same cover is provided to our new Chief Executive Officer, Roland Diggelmann. Namal Nawana participated in the US Life Assurance Program, which in total was capped at $2m. Each Executive Director received health cover for themselves and their families, a car allowance and financial consultancy advice. The same arrangements will apply in 2020 for Roland Diggelmann and Graham Baker. The following table summarises the value of benefits in respect of 2018 and 2019.

<table>
<thead>
<tr>
<th></th>
<th>Roland Diggelmann</th>
<th>Namal Nawana¹</th>
<th>Olivier Bohuon</th>
<th>Graham Baker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health cover</td>
<td>CHF 1,149</td>
<td>–</td>
<td>$9,790</td>
<td>$6,635</td>
</tr>
<tr>
<td>Car and fuel allowance</td>
<td>CHF 5,400</td>
<td>–</td>
<td>$12,700</td>
<td>$8,467</td>
</tr>
<tr>
<td>Financial consultancy advice</td>
<td>–</td>
<td>–</td>
<td>£19,450</td>
<td>£33,485</td>
</tr>
<tr>
<td>Travel costs</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Subscriptions</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

¹ Amounts shown are in respect of the full year ended 31 December 2019.
Annual variable pay

The performance measures and weightings which apply to the cash element of the Annual Incentive Plan are set out in the Remuneration Policy approved by shareholders in 2017 and detailed on page 108 of the 2018 Annual Report.

The weightings of the performance measures and the figures for threshold, target and maximum relating to the financial objectives of the cash element can be summarised as follows:

<table>
<thead>
<tr>
<th></th>
<th>Weighting</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>35%</td>
<td>$4,954m</td>
<td>$5,107m</td>
<td>$5,260m</td>
<td>$5,161m</td>
</tr>
<tr>
<td>Trading Profit Margin</td>
<td>25%</td>
<td>22.2%</td>
<td>22.7%</td>
<td>23.1%</td>
<td>22.7%</td>
</tr>
<tr>
<td>Trading cash flow</td>
<td>15%</td>
<td>$918m</td>
<td>$1,020m</td>
<td>$1,122m</td>
<td>$970m</td>
</tr>
</tbody>
</table>

1 At constant exchange rates. See page 200.

The Committee determined that this performance fairly reflected the overall performance of the Company during 2019 and therefore resulted in a bonus achievement of 77.7% of salary in respect of the financial objectives.

Accordingly, the following amounts have been earned by Namal Nawana and Graham Baker for 2019 under the cash element of the Annual Incentive Plan in respect of their financial objectives. Roland Diggelmann under the terms of his appointment will not receive a Cash Incentive Award for the time he was employed as Chief Executive Officer in 2019.

Namal Nawana $1,219,679
Graham Baker £431,006

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 on page 107 opposite sets out how Namal Nawana and Graham Baker have performed against the business objectives of Growth, People and Business Processes.
## Namal Nawana

### People

- Against objective of embedding new purpose and winning culture to drive sustainable growth and success, achieved above target employee participation in new engagement survey, launched and embedded new Code of Conduct and Winning Behaviours and demonstrated values in practice through employee webcasts and at Leadership meetings. Launched new brand identity as visual demonstration of new purpose and culture pillars.
- Against objective to evaluate and strengthen leadership capabilities across the organisation, filled vacant role on Executive Committee and increased gender diversity from 28% to 33%, and widened nationality-base to help emergence of different points of view.

### Business process

- Against objective to deliver New Product Development from ideation to successful full commercial launch exceeded milestones for top ten programmes including launches in new sports medicine, knee implant and robotics.
- Against objective to develop strategy and plan to simplify organisation to increase efficiencies completed mapping and improvement planning and initiated implementation; expanded global business services to meet evolving business needs.

### Customers

- Against objective to drive stronger customer focus and growth through direct customer connections, deeper understanding of their needs and greater agility to market changes, attended multiple customer meetings and major trade shows and completed and integrated five acquisitions bringing new technologies into portfolio and enhancing R&D capability. Led focused investor engagement including at major industry and investment events.

This resulted in a bonus achievement of 29% of salary in respect of the business objectives.

<table>
<thead>
<tr>
<th></th>
<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>108%</td>
<td>9%</td>
</tr>
<tr>
<td>Business Process</td>
<td>8.33%</td>
<td>124%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Customers</td>
<td>8.33%</td>
<td>116%</td>
<td>9.7%</td>
</tr>
</tbody>
</table>

Accordingly, the following amount has been earned by Namal Nawana under the cash element of the Annual Incentive Plan during 2019 in respect of his business objectives.

Namal Nawana $454,974

Graham Baker

### People

- Against objective to deliver Accelerating Performance and Execution (APEX) programme and Finance, IT and GBS transformations, APEX delivered benefits of around $80 million in 2019 and, when finished, is now expected to deliver annualised benefits of $190 million, $30 million more than originally expected. Functional transformation programmes proceeding to plan, maintaining quality of SoX and MAPs environment and delivering substantial progress in IT security improvement.

### Business process

- Against objective to improve Business Intelligence and Insight to the business, new finance and IT pricing platforms implemented improving pricing & management reporting and new Chief Information Officer hired with relevant experience from leading devices competitor.

### Customers

- Against objective to deliver value-enhancing M&A opportunities to the business, provided high quality finance support in the due diligence, structuring and business case development for the five acquisitions in 2019.

This resulted in a bonus achievement of 25% of salary (pro-rated) in respect of the business objectives.

<table>
<thead>
<tr>
<th></th>
<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>100%</td>
<td>8.33%</td>
</tr>
<tr>
<td>Business Process</td>
<td>8.33%</td>
<td>100%</td>
<td>8.33%</td>
</tr>
<tr>
<td>Customers</td>
<td>8.33%</td>
<td>100%</td>
<td>8.33%</td>
</tr>
</tbody>
</table>

Accordingly, the following amount has been earned by Graham Baker under the cash element of the Annual Incentive Plan during 2019 in respect of his business objectives.

Graham Baker £138,600

Roland Diggelmann will not receive an Annual Incentive Plan award for the time he was employed as Chief Executive Officer in 2019.

Amounts shown in respect of Namal Nawana are in respect of the full year ended 31 December 2019.

As well as considering the monetary outcome of the formulaic calculation of these awards, the Committee considered whether discretion should be applied to override these formulaic outcomes and concluded that the monetary outcomes were aligned with the financial performance of the Company, individual performance and Strategic Imperatives during 2019 and the intention of the Remuneration Policy.
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 culture pillars of Care, Collaboration and Courage. That rating in turn would drive the level of Equity Incentive Award for Executive Directors. The below table outlines how awards will be made in-line with the 2019 assessment of Executive Directors only, in-line with the 2017 Remuneration Policy approved by shareholders on 6 April 2017.

<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>

In assessing their performance against the same financial and business objectives used to determine the level of their cash award, the Committee has determined that on the first criterion (assessing what they have achieved) Namal Nawana exceeded expectations and Graham Baker met expectations throughout the year. On the second criterion (assessing how they have achieved), the Remuneration Committee has determined that Namal and Graham have both met expectations. These ratings result in an Equity Incentive Award of 55% of salary for Namal Nawana and 50% of salary for Graham Baker. In summary, as a result of the financial performance described on page 106 and the individual performance described in the table on page 107, the Committee determined that the following awards be made under the Annual Incentive Plan in respect of performance in 2019:

<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>Amount</td>
</tr>
<tr>
<td>Namal Nawana</td>
<td>106.7%</td>
<td>$1,674,653</td>
</tr>
<tr>
<td>Graham Baker</td>
<td>102.7%</td>
<td>£569,606</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 104.

The precise awards granted in 2020 to Namal and Graham in respect of service in 2019 will be announced when the awards are made and will be disclosed in the 2020 Annual Report. As a result of the 2019 performance assessment for Namal and Graham, the first tranche of the Equity Incentive Award made in 2019 will vest. Both the grant and vesting of these awards are subject to Namal and Graham's performance as discussed on page 107.

Roland Diggelmann will not receive an Annual Incentive Plan award for the time he was employed as Chief Executive Officer in 2019.

<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>Namal Nawana</td>
<td>7 March 2019</td>
<td>9,570</td>
<td>19,142</td>
</tr>
<tr>
<td>Graham Baker</td>
<td>7 March 2019</td>
<td>6,047</td>
<td>12,095</td>
</tr>
</tbody>
</table>

**Equity incentive award from prior years**

The following Equity Incentive awards held by Graham Baker partially vested on 7 March 2019 in accordance with the plan rules:

<table>
<thead>
<tr>
<th>Director</th>
<th>Date of Grant</th>
<th>Number of shares under award vested</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graham Baker</td>
<td>7 March 2018</td>
<td>7,241</td>
</tr>
</tbody>
</table>
Annual variable pay 2020
Subject to approval of the 2020 Remuneration Policy by shareholders at the Annual General Meeting to be held on 9 April 2020, the Annual Cash Incentive Plan and the Annual Equity Incentive Plan will be combined into a single Annual Bonus Plan in order to simplify our remuneration arrangements. The total maximum opportunity will remain at 215% of base salary but the target opportunity reduces from 150% to 108% of base salary in order to focus more on long-term performance under the Performance Share Programme. At the same time the amount deferred increases from around one third at the maximum opportunity to 50% for a period of 3 years rather than 1 to 3 years.

Annual Bonus Plan 2020
The maximum opportunity under the Annual Bonus Plan for Executive Directors will be 215% of base salary, subject to satisfactory performance against the performance measures detailed below. 50% of the award will be paid in cash and 50% will be deferred into shares which will vest after three years and which will be subject to a further two-year holding period.

The performance measures and weightings which will apply to the Annual Bonus Plan are as follows:

<table>
<thead>
<tr>
<th>Performance</th>
<th>% of base salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below expectations</td>
<td>0%</td>
</tr>
<tr>
<td>Partially met expectations</td>
<td>6.4%</td>
</tr>
<tr>
<td>In-line with expectations</td>
<td>21.5%</td>
</tr>
<tr>
<td>Above expectations</td>
<td>43%</td>
</tr>
</tbody>
</table>

For reasons of commercial sensitivity, we are unable to disclose the precise targets for revenue and trading margin for 2020 now, but they will be disclosed retrospectively in the 2020 Annual Report, when performance against these targets are determined.

The revenue target for 2020 is set by reference to our expectations for growth for the year. Threshold is set at 3 percentage points below target and maximum is set at 3 percentage points above target.

The trading margin target is set by reference to our expectations for growth for the year. Threshold is set at 50bps below target and maximum is set 80bps above target.

In determining performance against the Business Objectives, the Executive Directors will be assessed on the same basis as applies to all employees across the Group using a four-point rating scale reflecting both what has been achieved and how it has been achieved. At the beginning of the year, specific business objectives are determined relating to achievement of the corporate strategy. For 2020, these objectives will be Growth, People and Business processes as in 2019. Performance against these business objectives will be considered alongside consideration of how the Executive Director performed in respect of our culture pillars of Care, Collaboration and Courage. This includes consideration of performance against sustainability, compliance and quality metrics. Their overall performance will be assessed according to the extent to which the Executive Director has met the expectations of the Board and the 20% of the Annual Bonus Plan which is attributable to Business Objectives will be paid out as follows:

<table>
<thead>
<tr>
<th>Performance</th>
<th>% of base salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below expectations</td>
<td>Nil</td>
</tr>
<tr>
<td>Partially met expectations</td>
<td>6.4%</td>
</tr>
<tr>
<td>In-line with expectations</td>
<td>21.5%</td>
</tr>
<tr>
<td>Above expectations</td>
<td>43%</td>
</tr>
</tbody>
</table>
Performance Share Programme

Performance Share Programme 2017

Since the end of the year, the Committee has reviewed the vesting of conditional awards made to Executive Directors under the Global Share Plan 2010 in 2017. Vesting of the conditional awards made in 2017 was subject to performance conditions based on equal weighting of 25% TSR, global revenue growth, cumulative free cash flow and return on invested capital measured over a three-year period commencing 1 January 2017.

25% of the award was based on the Company’s TSR relative to two equally weighted peer groups against which the Company’s TSR performance was measured and defined at the start of each performance period (in this case 1 January 2017) 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’). Against this peer group, the Company was 19th in a peer group of 30. Therefore there was 0% payout against this element.
- 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. Against this peer group, the Company was 10th in a peer group of 60. There was therefore a 200% payout against this element.

The total payout against the TSR measure was therefore 25% out of the 25% target.

25% of the award was based on Global Revenue Growth. The threshold set in 2017 was $14,404 million with a target of $14,850 million. Over the three-year period, the adjusted revenues in Global Revenue Growth were $14,332 million. These adjustments include translational foreign exchange and Board approved M&A including Rotation Medical, Ceterix, Leaf Healthcare, Brainlab, Atracsys and Osiris. This part of the award therefore vested at 0% out of the 25% target.

25% of the award was based on cumulative free cash flow performance. The target set in 2017 was $1,703 million with maximum at $1,924 million. Over the three-year period, the adjusted cumulative free cash flow was $2,203 million which exceeded maximum. These adjustments include items such as Board approved M&A, including Rotation Medical, Ceterix, Leaf Healthcare, Atracsys, Brainlab and Osiris and Board-approved Business Plans such as the APEX programme and expenditure to comply with the EU Medical Devices Regulations. This part of the award therefore vested at 50% of the 25% target.

25% of the award was subject to return on invested capital (ROIC). ROIC was defined as:

\[
\text{Operating Profit}^1 \text{ less Adjusted Taxes}^2 \div \left( \text{Opening Net Operating Assets} + \text{Closing Net Operating Assets}\right)^3 \div 2
\]

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 interest 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, borrowings and loans, IFRS 16 lease liabilities and right-of-use assets, and Cash at bank.

The target set in 2017 was 13% with maximum at 14.9%. The adjusted average ROIC measurement for the three years was 12.8%. These adjustments include Board approved M&A including Ceterix, Leaf Healthcare, Brainlab, Atracsys, Osiris and Board-approved Business Plans such as the APEX programme and expenditure to comply with the EU Medical Devices Regulations. This part of the award therefore vested at 23% of the 25% target.

In summary therefore, the Performance Share Award made in 2017 will vest at 98% of target.

<table>
<thead>
<tr>
<th>TSR</th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
<th>Percentage Vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Revenue Growth</td>
<td>$14,404m</td>
<td>$14,850m</td>
<td>$15,296m</td>
<td>$14,332m</td>
<td>25%</td>
</tr>
<tr>
<td>Cumulative Free Cash Flow</td>
<td>$1,482m</td>
<td>$1,703m</td>
<td>$1,924m</td>
<td>$2,203m</td>
<td>50%</td>
</tr>
<tr>
<td>Return on Invested Capital</td>
<td>11.1%</td>
<td>13%</td>
<td>14.9%</td>
<td>12.8%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Even though Olivier Bohuon received no further award after his decision to retire in 2018, the award from 2017 he received whilst in office (pro-rated for the length of time elapsed prior to his retirement) will vest on 7 March 2020 and under the Remuneration Policy he will retain those shares in the Company’s Vested Share Account for a further two years.
Overall therefore, the conditional awards made in 2017 will vest at 98% of target (49% of maximum) on 7 March 2020 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>Graham Baker</td>
<td>7 March 2017</td>
<td>79,166</td>
<td>38,791</td>
</tr>
<tr>
<td>Olivier Bohuon</td>
<td>7 March 2017</td>
<td>97,744</td>
<td>47,894</td>
</tr>
</tbody>
</table>

Pro-rated for length of time elapsed prior to retirement from the Company on 7 November 2018

For awards vesting in early 2020 this is based on an estimated share price of 1,747.49p per share, which was the average price of a share over the last quarter of 2019. The amount of this award that was attributable to share price increase from the date of grant to 1,747.49p per share was £250,720 for Olivier Bohuon and £203,067 for Graham Baker.

As well as considering the monetary outcome of the formulaic calculation of these awards, the Committee considered whether discretion should be applied to override these formulaic outcomes and concluded that the monetary outcomes were aligned with the financial performance of the Company during the performance period and the intention of the Remuneration Policy.

Neither Namal Nawana nor Roland Diggelmann were employed by the Company in 2017 and therefore have no Performance Share Awards to vest on 7 March 2020.

**Performance Share Programme – 2019 grants**

Performance share awards granted in 2019 were made to Graham Baker and to Namal Nawana under the Global Share Plan 2010 to a maximum value of 190% of salary (95% for target performance). The four equally weighted performance measures are relative TSR, return on invested capital, sales growth and cumulative free cash flow. These measures were aligned with our financial priorities and strategies. Performance will be measured over the three financial years from 1 January 2019 and awards will vest subject to performance 2022. The award made to Namal has been pro-rated on his departure from the Company. On vesting, 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. Roland Diggelmann did not receive a Performance share award in 2019.

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 the same sector-based peer group as 2018.
- 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 Company’s TSR performance and its performance relative to the comparator groups is independently monitored and reported to the Remuneration Committee by Deloitte LLP.

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

<table>
<thead>
<tr>
<th>Relative TSR ranking</th>
<th>Sector Based Peer Group</th>
<th>FTSE 100 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 against both indices, 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 measured in the same way as the 2017 grants as described on page 110.

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.
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 11.8%</td>
<td>Nil</td>
</tr>
<tr>
<td>Threshold 11.8% (-1.3% of target)</td>
<td>11.875%</td>
</tr>
<tr>
<td>Target 13.1% (as derived from the Strategic Plan)</td>
<td>23.75%</td>
</tr>
<tr>
<td>Maximum or above 14.3% (+1.3% of target)</td>
<td>47.5%</td>
</tr>
</tbody>
</table>

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

**Revenue 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>Revenue growth over three-year period commencing 1 January 2019</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 2021 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 $1,923m</td>
<td>Nil</td>
</tr>
<tr>
<td>$1,923m (-13% of target)</td>
<td>11.875%</td>
</tr>
<tr>
<td>$2,210m</td>
<td>23.75%</td>
</tr>
<tr>
<td>$2,497m or more (+13% of target)</td>
<td>47.5%</td>
</tr>
</tbody>
</table>

**Long term incentive plan – 2020 remuneration policy**

Subject to the approval of the 2020 Remuneration Policy by shareholders at the Annual General Meeting on 9 April 2020, the maximum opportunity under the Performance Share Programme will increase to 275% of base salary. Shareholders will also be asked to approve the rules of the new Global Share Plan 2020 which replace the former Global Share Plan 2010, which is expiring. Full details of the Global Share Plan 2020 are set out in the Appendix to the Notice of Meeting.

**Performance Share Programme 2020**

As discussed in the 2020 Remuneration Policy on page 93 the maximum value of 275% of salary (137.5% for target performance) will be measured over the three financial years commencing 1 January 2020 against four equally weighted performance measures. Similar to 2019 this will include: Index TSR, return on invested capital, sales growth and cumulative free cash flow. However the maximum payout under each element will only be for significant outperformance. The targets at maximum have therefore been set at higher levels than in previous years. On vesting, 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.

**TSR performance** will be measured using an Index approach rather than a ranked approach to TSR. This is designed to reduce the distorting impact a few companies could have on the overall result and is fairer for both participants and shareholders as the need for discretion is reduced.

The Company’s TSR performance will be measured against two equally weighted peer groups which 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 the same sector-based peer group as 2018 and 2019.
- 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 in which we operate.
The Group’s TSR performance and its performance relative to the comparator groups is independently monitored and reported to the Remuneration Committee by Deloitte LLP.

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

<table>
<thead>
<tr>
<th>Below the index</th>
<th>Sector Based Peer Group</th>
<th>FTSE 100 Peer Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Equalling the index</td>
<td>8.6%</td>
<td>8.6%</td>
</tr>
<tr>
<td>8% above the index</td>
<td>34.4%</td>
<td>34.4%</td>
</tr>
</tbody>
</table>

Awards will vest on a straight-line basis between these points. The maximum has been set significantly above target reflecting the maximum opportunity for outperformance.

**Return on invested capital (ROIC)** will be measured as follows for the 2020 grants:

ROIC will be defined as:

\[
\text{Adjusted Operating Profit}^1 \text{ less Adjusted Taxes}^2 \times \frac{(\text{Opening Adjusted Net Operating Assets} + \text{Closing Adjusted Net Operating Assets})^3}{2}
\]

1. Adjusted Operating Profit is as disclosed in the Group income statement in the Annual Report less amortisation of acquired intangible assets.
2. Adjusted Taxes represents our taxation charge per the Group income statement adjusted for the impact of tax on items not included in Adjusted Operating Profit notably amortisation of acquired intangible assets, interest 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: accumulated amortisation of acquired intangible assets, investments, investments in associates, retirement benefit assets and liabilities, long-term borrowings, bank overdrafts, borrowings and loans, IFRS 16 lease liabilities and right-of-use assets, and cash at bank.

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 10.5%</td>
<td>Nil</td>
</tr>
<tr>
<td>Threshold 10.5% (-1.5% of target)</td>
<td>17.2%</td>
</tr>
<tr>
<td>Target 12.0%</td>
<td>34.4%</td>
</tr>
<tr>
<td>Maximum or above 13.5% (+1.5% of target)</td>
<td>68.8%</td>
</tr>
</tbody>
</table>

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

**Revenue growth** will be measured in the same way as in 2019, as described on page 112. The targets will be as follows:

<table>
<thead>
<tr>
<th>Revenue growth over three-year period commencing 1 January 2019</th>
<th>Award vesting as % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Threshold</td>
<td>Nil</td>
</tr>
<tr>
<td>Threshold (-2% of target)</td>
<td>17.2%</td>
</tr>
<tr>
<td>Target – set by reference to our expectations</td>
<td>34.4%</td>
</tr>
<tr>
<td>Maximum or above (+4% of target)</td>
<td>68.8%</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 2022 Annual Report, when the Committee will discuss performance against the target. The maximum has been set significantly above target reflecting the increased maximum opportunity for outperformance.

**Cumulative free cash flow** will be measured in the same way as in 2019, as described on page 112. 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 $2,057m</td>
<td>Nil</td>
</tr>
<tr>
<td>$2,057m (-10% of target)</td>
<td>17.2%</td>
</tr>
<tr>
<td>$2,285m</td>
<td>34.4%</td>
</tr>
<tr>
<td>$2,742m or more (+20% of target)</td>
<td>68.8%</td>
</tr>
</tbody>
</table>

The maximum has been set significantly above target reflecting the maximum opportunity for outperformance.
## 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 page 110–112.

<table>
<thead>
<tr>
<th>Date granted</th>
<th>Date of vesting</th>
<th>Date granted</th>
<th>Date of vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivier Bohuon</td>
<td>7 March 2020</td>
<td>7 March 2017</td>
<td>7 March 2020</td>
</tr>
<tr>
<td>Graham Baker</td>
<td>7 March 2020</td>
<td>7 March 2018</td>
<td>9 March 2021</td>
</tr>
<tr>
<td>Namal Nawana</td>
<td>7 March 2019</td>
<td>7 March 2019</td>
<td>7 March 2022</td>
</tr>
<tr>
<td>Namal Nawana</td>
<td>7 March 2019</td>
<td>9 May 2018</td>
<td>9 May 2021</td>
</tr>
</tbody>
</table>

1. Pro-rated to reflect Olivier Bohuon’s retirement from the Company on 7 November 2018 and Namal Nawana’s ceasing to be employed on 31 December 2019.
2. On 6 February 2020, 51% of the award granted at maximum to Olivier Bohuon and Graham Baker on 7 March 2017 lapsed following completion of the performance period.

Roland Diggelmann does not hold any Performance Share Awards.

## Summary of scheme interests awarded during the financial year

<table>
<thead>
<tr>
<th>Number of shares</th>
<th>Face value</th>
<th>Number of shares</th>
<th>Face value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Equity Incentive Award (see page 108)</td>
<td>28,712</td>
<td>£419,913</td>
<td>18,142</td>
</tr>
<tr>
<td>Performance Share Award at maximum (see pages 111–112)</td>
<td>152,130</td>
<td>£2,224,901</td>
<td>70,960</td>
</tr>
</tbody>
</table>

1. Annual Equity Incentive Awards for 2020 were based on performance for 2019.

Roland Diggelmann was not awarded any share awards under incentive plans during 2019.

Please see Policy Table on pages 92 and 93 for details of how the above plans operate. Following the approval of the 2020 Remuneration Policy, no further Annual Equity Incentive Awards will be granted. 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 2019 was 146.25p.

## Single total figure on remuneration

### Chair and Non-Executive Directors

<table>
<thead>
<tr>
<th>Director</th>
<th>Basic annual fee&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Committee Chair/ Senior Independent Director fee</th>
<th>Intercontinental travel fee</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roberto Quarta</td>
<td>£420,240</td>
<td>£418,695</td>
<td>£420,240</td>
<td>£418,695</td>
</tr>
<tr>
<td>Vinita Bali</td>
<td>$129,780</td>
<td>$129,780</td>
<td>$178,780</td>
<td>$171,780</td>
</tr>
<tr>
<td>Ian Barlow&lt;sup&gt;2&lt;/sup&gt;</td>
<td>£20,750</td>
<td>£20,000</td>
<td>£23,623</td>
<td>£89,500</td>
</tr>
<tr>
<td>Virginia Bottomley</td>
<td>£69,500</td>
<td>£69,500</td>
<td>£73,000</td>
<td>£69,500</td>
</tr>
<tr>
<td>Roland Diggelmann&lt;sup&gt;3&lt;/sup&gt;</td>
<td>£59,000</td>
<td>£59,000</td>
<td>£62,500</td>
<td>£59,000</td>
</tr>
<tr>
<td>Erik Engstrom</td>
<td>£69,500</td>
<td>£69,500</td>
<td>£73,000</td>
<td>£69,500</td>
</tr>
<tr>
<td>Robin Freestone&lt;sup&gt;2&lt;/sup&gt;</td>
<td>£69,500</td>
<td>£69,500</td>
<td>£93,000</td>
<td>£89,500</td>
</tr>
<tr>
<td>Michael Friedman&lt;sup&gt;4&lt;/sup&gt;</td>
<td>$38,750</td>
<td>$35,000</td>
<td>$65,115</td>
<td>$206,780</td>
</tr>
<tr>
<td>Marc Owen</td>
<td>$129,780</td>
<td>$129,780</td>
<td>$196,819</td>
<td>$171,780</td>
</tr>
<tr>
<td>Angie Risley</td>
<td>£69,500</td>
<td>£69,500</td>
<td>£89,500</td>
<td>£83,672</td>
</tr>
</tbody>
</table>

1. The basic annual fee includes shares purchased for the Chair and Non-Executive Directors in lieu of part of the annual fee, details of which can be found on the table on page 115.
2. Ian Barlow retired as Senior Independent Director with effect from 11 April 2019. Robin Freestone replaced him as Senior Independent Director.
3. Roland Diggelmann retired as a Non-Executive Director and became Chief Executive Officer – Elect on 21 October 2019. His 2019 fee is from 1 January 2019 to 31 October 2019 and the 2018 comparator from 1 March 2018 to 31 December 2018.
4. Michael Friedman retired as a Non-Executive Director and Chair of the Ethics & Compliance Committee with effect from 11 April 2019. Marc Owen replaced him as Chair of the newly formed Compliance & Culture Committee with effect from that date.
Chair and Non-Executive Director Fees
In February 2020 the Committee reviewed the fees paid to the Chair and determined that with effect from 1 April 2020 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 2020, the fees would remain the same as follows:

<table>
<thead>
<tr>
<th>Fee Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual fee paid to the Chair</td>
<td>£428,645 of which £107,161 paid in shares</td>
</tr>
<tr>
<td>Annual fee paid to Non-Executive Directors</td>
<td>£69,500 of which £6,500 paid in shares</td>
</tr>
<tr>
<td>Intercontinental travel fee (per meeting)</td>
<td>£3,500 or $7,000</td>
</tr>
<tr>
<td>Fee for Senior Independent Director and Committee Chair</td>
<td>£20,000 or $35,000</td>
</tr>
</tbody>
</table>

Payments to Namal Nawana including loss of office
Namal Nawana ceased to be Chief Executive Officer of the Board on 31 October 2019 and an employee of the Company on 31 December 2019. He continued to receive his base salary, pension payments and benefits during the period between 1 November 2019 and 31 December 2019. The base salary of $1,569,615, pension payments of $334,923 and the benefits of $47,302 paid to Namal and disclosed in the Single Figure Table on page 104 and the pension narrative and the benefits table on page 105 were in respect of his service to the Company for the full year ended 31 December 2019. $248,917 of the base salary, $49,783 of pension payments and $2,708 of the benefits were in respect of the period 1 November 2019 to 31 December 2019, when he had ceased to be Chief Executive Officer and remained an employee of the Company ensuring a smooth transition to his successor, Roland Diggelmann.

The cash payment of $1,674,653 and Equity Incentive Award of $862,881 awarded to Namal under the Annual Incentive Plan and disclosed on page 108 were in respect of his service to the Company for the full year ended 31 December 2019. $279,109 of the cash payment and $143,814 of the Equity Incentive Award were in respect of the period 1 November 2019 to 31 December 2019, when he had ceased to be Chief Executive Officer and remained an employee of the Company ensuring a smooth transition to his successor, Roland Diggelmann.

Roland Diggelmann did not receive an Annual Incentive Award for his two months’ service as Chief Executive Officer in 2019. The Committee was therefore comfortable that there was no ‘double counting’ in respect of the annual incentives paid in respect of the Chief Executive Officer role in 2019.

Pursuant to the Global Share Plan 2010 rules, Namal’s outstanding award under the Equity Incentive Plan, which was granted in 2019 will vest on the original vesting dates. His outstanding Performance Share Programme granted to him under the Global Share Plan 2010 on 9 May 2018 and 7 March 2019 were pro-rated for his time employed by the Company. The Remuneration Committee will decide what proportion of that remaining award will vest subject to performance conditions in February 2021 and 2022 respectively.

On 21 February 2020, Namal will receive a payment of $1,626,920 in lieu of salary, health and dental benefits, car allowance and pension contributions in respect of the balance of his notice period from 31 December 2019, in-line with the provisions of his contract.

No other payments were made to former Directors in the year.

Payments made to other past Directors
No payments were made to other past Directors in 2019.

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 97 of the Policy Report.

Outside directorships
Namal Nawana is a Non-Executive Director of Hologic, Inc. and received $66,666 in respect of this appointment for the period to 31 October 2019 when he ceased to be an Executive Director. In March 2019, he also received a share award to the value of $99,986 and share options to the value of $99,998.

Roland Diggelmann was appointed a Non-Executive Director of Accelerate Diagnostics Inc. on 1 November 2019. His remuneration for this role is paid entirely in stock options. In December 2019, he received a stock option in respect of 39,552 shares which will vest and become exercisable in five instalments annually from 2 December 2020 at an option price of $14.94. He also received a stock option in respect of 5,493 shares which will vest and become exercisable in five monthly instalments from 2 December 2019 at an option price of $14.94. 1,098 of these options vested during 2019.
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>Director</th>
<th>1 January 2019 (or date of appointment if later)</th>
<th>31 December 2019 (or date of retirement if earlier)</th>
<th>14 February 2020</th>
<th>Shareholding as % of annual fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roberto Quarta</td>
<td>32,449</td>
<td>59,429</td>
<td>59,429</td>
<td>258.34</td>
</tr>
<tr>
<td>Vinita Bali</td>
<td>7,154</td>
<td>7,394</td>
<td>7,394</td>
<td>136.31</td>
</tr>
<tr>
<td>Ian Barlow</td>
<td>19,291</td>
<td>19,291</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Virginia Bottomley</td>
<td>19,024</td>
<td>19,252</td>
<td>19,252</td>
<td>503.88</td>
</tr>
<tr>
<td>Roland Diggelmann</td>
<td>4,867</td>
<td>6,668</td>
<td>6,668</td>
<td>N/A</td>
</tr>
<tr>
<td>Erik Engstrom</td>
<td>15,796</td>
<td>15,973</td>
<td>15,973</td>
<td>418.06</td>
</tr>
<tr>
<td>Robin Freestone</td>
<td>15,774</td>
<td>15,951</td>
<td>15,951</td>
<td>417.48</td>
</tr>
<tr>
<td>Michael Friedman</td>
<td>10,212</td>
<td>10,212</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Marc Owen</td>
<td>7,290</td>
<td>7,508</td>
<td>7,508</td>
<td>138.41</td>
</tr>
<tr>
<td>Angie Risley</td>
<td>1,960</td>
<td>4,541</td>
<td>4,541</td>
<td>118.85</td>
</tr>
</tbody>
</table>

1 Roland Diggelmann was appointed to the Board as Chief Executive Officer on 1 November 2019.
2 The latest practicable date for this Annual Report.
3 Namal Nawana retired from the Board on 31 October 2019.
4 The ordinary shares held by Roland Diggelmann on 14 February 2020 represent 11.22% of his base annual salary and for Graham Baker 46.38% of his base salary.
5 These share awards are subject to further performance conditions before they may vest, as detailed on pages 110 to 112.
6 Namal Nawana’s performance share awards granted on 9 May 2018 and 7 March 2019 partially lapsed upon the termination of his employment on 31 December 2019 by 36,266 and 101,420 respectively. They will be subject to further review by the Remuneration Committee in February 2021 and 2022 respectively, following the analysis of performance for 2020 and 2021 before vesting.

The beneficial interest of each Executive Director is less than 1% of the ordinary share capital of the Company.

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

<table>
<thead>
<tr>
<th>Director</th>
<th>1 November 2019</th>
<th>31 December 2019</th>
<th>14 February 2020</th>
<th>Shareholding as % of annual fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roland Diggelmann</td>
<td>6,668</td>
<td>6,668</td>
<td>6,668</td>
<td>N/A</td>
</tr>
<tr>
<td>Graham Baker</td>
<td>10,076</td>
<td>14,205</td>
<td>14,205</td>
<td>224,214</td>
</tr>
<tr>
<td>Namal Nawana</td>
<td>224,904</td>
<td>224,904</td>
<td>224,904</td>
<td>224,904</td>
</tr>
</tbody>
</table>

1 Roland Diggelmann was appointed to the Board as Chief Executive Officer on 1 November 2019.
2 The latest practicable date for this Annual Report.
3 Namal Nawana retired from the Board on 31 October 2019.
4 The ordinary shares held by Roland Diggelmann on 14 February 2020 represent 11.22% of his base annual salary and for Graham Baker 46.38% of his base salary.

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

Chief Executive Officer remuneration compared to employees generally

The percentage change in the remuneration of the Chief Executive Officer between 2018 and 2019 compared to that of employees generally was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Base salary % change 2019</th>
<th>Benefits % change 2019</th>
<th>Annual cash bonus % change 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>4.8%</td>
<td>-54.6%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Average for all employees</td>
<td>3.3%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

1 2019 based on the full year’s pay for Namal Nawana when he was Chief Executive Officer (1 January 2019 to 31 October 2019) and when he was an employee (1 November 2019 to 31 December 2019).
2 The average cost of wages and salaries for employees generally decreased by 0.2% in 2019 (see Note 3.1 to the Group accounts). Figures for annual cash bonuses are included in the numbers.
When considering remuneration arrangements for our Executive Directors, the Committee takes into account pay across the Group in the following ways:

Salary levels and increases for all employees including Executive Directors take account of the scope and responsibility of position, the skills, experience and performance of the individual and general economic conditions within the relevant geographical market. When considering increases to Executive Director base salaries, the Committee considers the average pay increases in the market where the Executive Director is based.

All employees including the Executive Directors have performance objectives determined at the beginning of the year which cascade down from the Strategic Imperatives for the Group. The level of variable pay determined for all employees, whether in the form of shares or cash is dependent on performance against these imperatives, both financially and personally.

Executive Directors participate in benefits plans and arrangements comparable to benefits paid to other senior executives in the relevant geography.

Executive Directors participate in the same senior executive incentive plans, (currently the Annual Incentive Programme and the Performance Share Programme) as other Executive Officers and senior executives. The level of award reflects the differing seniority of participants but the same performance conditions apply for all.

**Chief Executive Officer pay ratio**

The regulations provide three options which may be used to calculate the pay for the employees at the 25th percentile, median and 75th percentile. We have used option A (as set out in the Companies (Miscellaneous Reporting) Regulations 2018), following guidance issued by some proxy advisers and institutional shareholders. The ratio has been calculated by comparing against the full-time equivalent pay of all U.K. employees within the group including both our entities Smith & Nephew UK Limited and T.J.Smith and Nephew Limited.

Option A calculates pay for all employees on the same basis as the single figure for remuneration calculated for Executive Directors. The period for which the employee pay has been calculated under Option A is the calendar year 2019. The single figure for remuneration for each employee includes earned salary, annual incentive, allowance, pension and benefits for 2019. Part time employees have been excluded for the purpose of calculations.

Our calculations use the full year’s pay for Namal Nawana, when he was Chief Executive Officer (1 January 2019 to 31 October 2019) and when he was an employee (1 November 2019 to 31 December 2019). This ensures the full year pay, including Annual Incentive Plan award is included.

Comparisons have been made with employees at median (P50), lower (P25) and upper (P75) quartiles. We have used the actual salaries paid to our employees in UK. The values were listed lowest to highest and three percentiles were identified. We are confident this methodology gives us the most reflective pay at the median. The Committee is satisfied that the individuals identified in the employee comparison group appropriately reflect the employee pay profile at those quartiles, and that the overall picture presented by the ratios is consistent with our pay, reward and progression policies for UK employees.

The table below sets out the ratio at the median, lower and upper quartiles:

<table>
<thead>
<tr>
<th>Year</th>
<th>P25 (lower quartile)</th>
<th>P50 (median)</th>
<th>P75 (upper quartile)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>116:1</td>
<td>81:1</td>
<td>51:1</td>
</tr>
</tbody>
</table>

The table below provides the total pay figure used for each quartile employee, and the salary component within this.

<table>
<thead>
<tr>
<th>Component</th>
<th>CEO</th>
<th>P25 (lower quartile)</th>
<th>P50 (median)</th>
<th>P75 (upper quartile)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$1,569,615</td>
<td>$36,604</td>
<td>$55,347</td>
<td>$57,188</td>
</tr>
<tr>
<td>Total pay</td>
<td>$4,489,374</td>
<td>$38,790</td>
<td>$55,347</td>
<td>$87,551</td>
</tr>
</tbody>
</table>

**Relative importance of spend on pay**

When considering remuneration arrangements for our Executive Directors and employees as a whole, the Committee also takes into account the overall profitability of the Company and the amounts spent elsewhere, particularly in returning profits to shareholders in the form of dividends and share buy-backs.

The following table sets out the total amounts spent in 2019 and 2018 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 2019</th>
<th>For the year to 31 December 2018</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attributable profit for the year</td>
<td>$600m</td>
<td>$663m</td>
<td>-10%</td>
</tr>
<tr>
<td>Dividends paid during the year</td>
<td>$318m</td>
<td>$321m</td>
<td>-1%</td>
</tr>
<tr>
<td>Share buy-back†</td>
<td>$63m</td>
<td>$48m</td>
<td>+31%</td>
</tr>
<tr>
<td>Total Group spend on remuneration</td>
<td>$1,435m</td>
<td>$1,330m</td>
<td>+8%</td>
</tr>
</tbody>
</table>

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

However, as we also compare the Company’s performance to a tailored sector peer group of medical devices companies (see page 110), 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.
Table of historic data

The following table details information about the pay of the Chief Executive Officer in the previous 10 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>2019</td>
<td>Roland Diggelmann¹</td>
<td>$265,814</td>
<td>N/A</td>
<td>N/A</td>
<td>–</td>
</tr>
<tr>
<td>2019</td>
<td>Namal Nawana²</td>
<td>$4,489,374</td>
<td>71a</td>
<td>N/A</td>
<td>–</td>
</tr>
<tr>
<td>2018</td>
<td>Namal Nawana</td>
<td>$2,883,632</td>
<td>69</td>
<td>N/A</td>
<td>–</td>
</tr>
<tr>
<td>2018</td>
<td>Olivier Bohuon³</td>
<td>$2,383,582¹</td>
<td>63</td>
<td>46.5</td>
<td>–</td>
</tr>
<tr>
<td>2017</td>
<td>Olivier Bohuon</td>
<td>$5,116,689</td>
<td>61</td>
<td>54</td>
<td>–</td>
</tr>
<tr>
<td>2016</td>
<td>Olivier Bohuon</td>
<td>$3,332,850</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 Bohuon⁶</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 Bohuon⁵,⁶</td>
<td>$7,442,191</td>
<td>68</td>
<td>N/A</td>
<td>–</td>
</tr>
<tr>
<td>2011</td>
<td>David Illingworth⁶</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>
<tr>
<td>2009</td>
<td>David Illingworth</td>
<td>$4,406,485</td>
<td>59</td>
<td>46</td>
<td>59</td>
</tr>
</tbody>
</table>

¹ Appointed Chief Executive Officer on 1 November 2019.  ² Appointed Chief Executive Officer on 7 May 2018 and resigned on 31 October 2019.  ³ Retired as Chief Executive Officer on 7 May 2018.  ⁴ Appointed Chief Executive Officer on 1 April 2011.  ⁵ Includes recruitment award of €1,400,000 cash and a share award of over 200,000 ordinary shares with a value of €1,410,000 on grant.  ⁶ Resigned as Chief Executive Officer on 1 April 2011.  ⁷ Prior years are restated to reflect amounts not known at the date of signing the previous Annual Report.  ⁸ Calculated as 106.7% for Namal Nawana (disclosed on page 108), divided by the maximum potential payout of 150%.

Gender Pay ratio

In 2019, the Committee reviewed our UK Gender Pay ratio. It was noted that today our Gender Pay gap is greater than we would like it to be, but we have seen an improvement in our mean and median pay gap in the UK. The mean pay gap has reduced from 31% (in 2018) to 28% (in 2019) and the median pay gap from 21% to 18% for the same period. We shall continue to review these figures.

Shareholding requirements

The Chief Executive Officer is required to hold three times his salary in the form of shares and the Chief Financial Officer is required to hold two times his salary. Our current remuneration arrangements also require Executive Directors to retain any shares received in respect of Performance Share Awards made in or after 2017 for a period of two years after vesting. Following the review of the Remuneration Policy in 2019 it was decided that not only will Executive Directors hold shares for two years within the Vested Share Account provided by the Company, but also, only in exceptional cases will Executive Directors be permitted to sell any vested shares post tax until their shareholding requirements have been met.

Post cessation shareholding requirements

In addition, subject to the approval of the 2020 Remuneration Policy by shareholders at the Annual General Meeting on 9 April 2020, Executive Directors also state that post cessation, Directors will be expected to hold shares in the Vested Share Account from the Performance Share Programme and Deferred Bonus Shares for two years post vesting on page 94.

Statement of voting at Annual General Meeting

At the Annual General Meeting held on 11 April 2019, votes cast by proxy and at the meeting and votes withheld in respect of the votes on the Directors’ Remuneration Report are noted below. In addition, votes cast by proxy and at the meeting and votes withheld in respect of the votes on the Directors’ Remuneration Policy, which was last approved by shareholders on 6 April 2017 are noted below:

<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 Report (excluding policy)</td>
<td>553,379,288</td>
<td>87.56</td>
<td>78,602,919</td>
<td>12.44</td>
<td>631,982,207</td>
<td>21,970,442</td>
</tr>
<tr>
<td>Approval of the Directors’ Remuneration Policy at the 2017 Annual General Meeting</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>
</tbody>
</table>
Remuneration implementation report continued

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 54–61.

Compensation paid to senior management in respect of 2017, 2018 and 2019 was as follows:

<table>
<thead>
<tr>
<th>Compensation</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total compensation (excluding pension emoluments, but including cash payments under the performance-related incentive plans)</td>
<td>$17,020,000</td>
<td>$15,935,000</td>
<td>$13,573,000</td>
</tr>
<tr>
<td>Total compensation for loss of office</td>
<td>$5,559,000</td>
<td>$433,000</td>
<td>$2,711,000</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>$1,564,000</td>
<td>$1,570,000</td>
<td>$872,000</td>
</tr>
</tbody>
</table>

As at 14 February 2020, senior management owned 238,330 shares and 9,658 ADSs, constituting less than 0.1% of the share capital of the Company. For this purpose, the Group is defined as the Executive Directors, members of the Executive Committee, including the Company Secretary and their Persons Closely Associated. Details of share awards granted during the year and held as at 14 February 2020 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 14 February 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Incentive awards</td>
<td>154,550</td>
</tr>
<tr>
<td>Performance Share awards at maximum</td>
<td>513,598</td>
</tr>
<tr>
<td>Conditional share awards under the Global Share Plan 2010</td>
<td>33,501</td>
</tr>
<tr>
<td>Options under Employee ShareSave plans</td>
<td>2,179</td>
</tr>
</tbody>
</table>

The Smith+Nephew Employee Share Trust
Note 19.2 of these accounts states the movement in Treasury Shares and the Trust during 2019. No more shares are held within the Trust than are required for the next six months’ of anticipated vestings. Any unvested shares held in the Trust are not voted upon at shareholder meetings. No more than 5% of the issued share capital at 31 December 2019 is held within the Trust. At 31 December 2019, 1,251,178 shares were held in the Trust representing 0.14% of the issued share capital.

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 (2010 to 2019), the number of new shares issued under our share plans has been as follows:

| All-employee share plans 2019 | 7,335,423 (0.84% of issued share capital as at 14 February 2020) |
| Discretionary share plans      | 29,978,030 (3.43% of issued share capital as at 14 February 2020) |

By order of the Board, on 20 February 2020

Angie Risley
Chair of the Remuneration Committee