Smith+Nephew

Appendix 1

Auditor Independence Policy

Introduction

The Auditor should be considered as equal to all other service providers. The Audit Committee hereby mandates that the Auditor's independence should not be breached.

The Audit Committee will ensure 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.

Audit and Non-Audit fees must be disclosed within the annual report.

Process for approval

The approval of the Group's Audit Committee must be obtained before the external auditor is engaged to provide any permitted non-audit services. The Audit Committee however recognises that the external auditor's internal policies prevent them from carrying out non-audit services.

For permitted non-audit services that are clearly trivial, the Audit Committee has pre-approved the use of the external auditor subject to the following limits:

Value of service requested	Approval required prior to engagement of the external auditor
Up to $25,000	SVP Group Finance, SVP Group Treasurer & Tax
$25,000 to $50,000	Chief Financial Officer
$50,000 to $100,000	Chair of the Group's Audit Committee (or delegate)
$100,000 and above	Group's Audit Committee

Appointment of Ex-employees of the Auditor

KPMG LLP became the External Auditor of the Company with effect from 9 April 2015. The below policy sets out the rules for employing the Auditor's staff who apply for roles at the Company:

- The Company shall not employ any employee of the Auditor at the managerial (VP level), oversight level (SVP level), or above (Executive Director level) who was directly involved with the previous 2 year-end external audits of the Company.
- Any employee of the Auditor who is appointed at the managerial (VP level), oversight level (SVP level) or above (Executive Director level) must receive prior approval from the Chairman of the Audit Committee.

- Any employee at VP/SVP/Executive Director level is required to notify the Compliance Department if any of their connected persons are employed by the Auditor.
- No Non-Executive Director may be appointed to the Board who was employed at any senior level at the Auditor's in the past 2 years. No Non-Executive Director can be appointed if they previously worked on a Smith & Nephew audit within 2 years.
- Any Non-Executive Director whose connected person is currently employed by the Auditor, or has been in the previous 2 years, must disclose this to the Audit Committee and the Nomination & Governance Committee.

This policy must be taken into consideration when completing audit tenders within the scope of clause 14.3.

Permitted audit and audit related services

- Statutory audit of the Group's consolidated financial statements
- Statutory audits of the financial statements of subsidiary companies
- Review of the group's half-year report and interim financial statements
- Reports required by law or regulation to be performed by the auditor
- Reports on government grants

Audit related services (which are the services listed above other than the audit of the financial statements of the Group, parent company and subsidiaries; and services required by legislation to be performed by the auditor), are still considered non-audit services and are subject to the approval requirements set out in this policy. It is expected that these will be approved as part of the Audit Committee review of the external audit plan.

In addition, other non-audit services may be purchased where they are closely aligned to the external audit function or where, for reasons of effectiveness or efficiency, it is advantageous to use the external auditors because of their knowledge and expertise.

Permitted other non-audit services (although it is recognised that the external auditor's internal policies prevent them from carrying out non-audit services)

- Due diligence related to mergers and acquisitions
- Accounting consultations and audits in connection with acquisitions and disposals of businesses or in relation to proposed transactions
- Investment circular reporting accountant engagements, including comfort letters and consents in relation to documents issued in connection with securities offerings
- Employee benefit plan audits
- Attestation in relation to matters not required by statute or law (e.g. controls reports)
- Consultations concerning financial accounting and reporting standards not relating to the audit of the group, parent or subsidiary undertakings
- Other reports required by regulators or assurance services relating to regulatory developments
- Sustainability audits
- IT security audits (where this does not extend to designing and implementing internal control or risk management procedures

- Other non-audit services not prohibited by the Ethical Standard

Prohibited non-audit services

The following non-audit services cannot be provided by the external auditor.

a) Tax services relating to:
   i. preparation of tax forms*
   ii. payroll tax
   iii. customs duties
   iv. identification of public subsidies and tax incentives unless support from the audit firm in respect of such services is required by law*
   v. support regarding tax inspections by tax authorities unless support from the statutory auditor or audit firm in respect of such inspections is required by law*
   vi. calculation of direct and indirect tax and deferred tax*
   vii. provision of tax advice*

b) Services that involve playing a part in the management or decision-making of the audited entity

c) Bookkeeping and preparing accounting records and financial statements

d) Payroll services

e) Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems **

f) Valuation services, including valuations performed in connection with actuarial services or litigation support services*

g) Legal services, with respect to:
   i. the provision of general counsel
   ii. negotiating on behalf of the audit entity
   iii. acting in an advocacy role in the resolution of litigation;

h) Services related to the audit entity's internal audit function

i) Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity

j) Promoting, dealing in, or underwriting shares in the audited entity.

k) Human resources services with respect to:
   i. management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
      a. searching for or seeking out candidates for such positions; or
      b. undertaking reference checks of candidates for such positions.

ii. structuring the organisation design
iii. cost control.

** The services are prohibited in the financial year prior to the year subject to audit (the 'cooling in' period).

* These services are permitted where approved by the audit committee and where:

- they have no direct or, in the view of an objective, reasonable and informed third party, would have an inconsequential effect, separately or in aggregate, on the audited financial statements;
- the estimation of the effect on the financial statements is comprehensively documented and explained in a report to the audit committee (including consideration of the principles of independence set out in the Ethical Standard); and;
- for the purposes of the statutory audit of the financial statements the audit firm would not place significant reliance on the work performed by the audit firm in performing these services.

In considering whether or non-audit services have a direct or not inconsequential effect on the financial statements the Audit Committee will have regard to the level of uncorrected misstatement that is not reported to the Audit Committee by the external auditors (currently $1.8m) and whether the potential impact on the financial statements would influence the economic decisions that users make on the basis of the financial statements. The estimation of the effect on the audited financial statements will be assessed on a prudent basis taking account of the relevant circumstances.