

**Smith International, Inc.**

**Compensation and Benefits Committee Charter**

(Effective November 11, 2003)

I. Purpose

The Compensation and Benefits Committee (the "Committee") is appointed by the Board of Directors to discharge the Board's responsibilities relating to compensation of the Company's directors and officers. The Committee has overall responsibility for approving and evaluating the director and officer compensation plans, policies and programs of the Company.

II. Committee Membership and Operations

The Committee shall consist of no fewer than three members. The members of the Committee shall meet the independence requirements of the New York Stock Exchange.

The members of the Committee, including its Chair, shall be appointed by the Board on the recommendation of the Nominating and Governance Committee. Compensation and Benefits Committee members may be replaced by the Board.

The Committee shall meet from time to time, as determined by the Committee Chair or at the request of the Company's Chairman or Chief Executive Officer. The Committee Chair will preside at each meeting of the Committee and shall set the agenda of items to be addressed at each meeting. A majority of members shall constitute a quorum for the transaction of business at a meeting. Members of the Committee may participate in a meeting of the Committee by means of conference call or similar communications system by means of which all persons participating in the meeting can hear each other. In lieu of a meeting, the Committee may act by a written unanimous consent signed by all members of the Committee.

III. Committee Authority and Responsibilities

1. The Committee shall have the sole authority to retain and terminate any compensation consultant to be used to assist in the evaluation of director, CEO or senior executive compensation and shall have sole authority to approve the consultant's fees and other retention terms. The Committee shall also have authority to obtain advice and assistance from internal or external legal, accounting or other advisors.

2. The Committee shall annually review and approve corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals and objectives, and establish the CEO's compensation levels based on this evaluation. In determining the long-

term incentive component of CEO compensation, the Committee will consider the Company's performance and relative shareholder return, the value of similar incentive awards to CEOs at comparable companies, and the awards given to the CEO in past years.

3. The Committee shall annually review and make recommendations to the Board with respect to the compensation of directors and shall annually review and establish the compensation of officers and other key executives, including incentive-compensation plans and equity-based plans.

4. The Committee shall annually review and approve the annual base salary for the CEO and the senior executives of the Company. In addition, on an annual basis the Committee shall review and approve for the CEO, the senior executives and senior management (a) the annual incentive opportunity level, (b) the long-term incentive opportunity level and (c) any perquisite payments or non-financial remuneration and shall recommend to the Board (i) employment agreements, severance arrangements, and change in control agreements/provisions, in each case as, when and if appropriate, and (ii) any special or supplemental benefits.

5. The Committee shall review and approve all equity based compensation plans and awards. The Committee shall also review and monitor benefits under all of the employee savings and retirement plans of the Company.

6. The Committee shall make all decisions or determinations that may be required to be made by the Committee under the Company's compensation or benefit plans or as the Committee determines to be appropriate for the operation of any such plan and the distribution, award or payment of benefits thereunder.

7. The Committee shall review the Company's plans for orderly succession of the officers of the Company (including the Chief Executive Officer and the Chief Financial Officer) and the contingency plans for management succession in the event of the unexpected departure of any senior executive officer.

8. The Committee may form and delegate authority to subcommittees when appropriate.

9. The Committee shall make regular reports to the Board.

10. The Committee is responsible for producing an annual report on executive compensation for inclusion in the Company's proxy statement.

11. The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Committee shall annually review its own performance.