SMITH & NEPHEW PLC
Form 20-F
March 06, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

or

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

or

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-14978

Smith & Nephew plc

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

15 Adam Street, London WC2N 6LA

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name on each exchange on which registered
American Depositary Shares	**New York Stock Exchange**
Ordinary Shares of 20¢ each	**New York Stock Exchange***

*** Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.**

Securities registered or to be registered pursuant to Section 12(g) of the Act: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 903,723,205 Ordinary Shares of 20¢ each

Indicate by check mark if the registrant is a well seasoned issuer, as defined in Rule 405 of the Securities Act Yes No

If this Report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer:

Large Accelerated Filer Accelerated Filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If Other has been checked to the previous question indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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The Strategic Report, which has been prepared in accordance with the requirements of the Companies Act 2006, comprises the above sections and has been approved and signed on behalf of the Board.

The Directors Report comprises pages 33 to 34, 36 to 38, 47 to 75, 102, 110, 112, 114 and pages 169 to 190 of the Annual Report.

OVERVIEW

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Front cover: WEREWOLFâ COBLATIONâ System, our next generation COBLATION platform delivers an unparalleled range of performance capabilities and advanced safety features for soft tissue ablation.

online

www.smith-nephew.com

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We are driven by pushing innovation through the business and into our products. We look to challenge the status quo of how our industry supports a healthcare market facing major economic and social challenges. Every one of us is focused on delivering greater value by finding ways to meet the new needs of our customers. We are all proud of our history of innovation, and excited by our strong portfolio of products and new ways of working.

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CHAIRMAN S STATEMENT

Succeeding in challenging times

In 2016 Smith & Nephew faced and overcame challenges.

DEAR SHAREHOLDER,

A good Board pressure tests strategy, provides leadership on matters of governance and ensures their company is equipped to handle risk. In 2016 Smith & Nephew faced and overcame challenges in all these areas, confirming my strong belief that this is a Company set well to succeed in challenging times.

In early 2016 we announced that our Chief Executive Officer, Olivier Bohuon, had been diagnosed with cancer, and would require treatment across much of the year. We were delighted to welcome him back to work full time in October.

During the intervening months my Board colleagues and I were able to provide additional support to the executive team. I attended the Managing Directors annual meeting, and engaged with various members of the executive team, supporting them on a number of matters. The Board met with numerous commercial and operational leaders across the year. This culminated in a visit to our Andover, Massachusetts site in November where we saw first-hand the exciting progress being made by our Sports Medicine business.

These meetings gave Board members first-hand experience of the high quality team that has been assembled by Olivier to deliver on his strategy to transform Smith & Nephew. Following a number of changes implemented in recent years, the structure of the organisation is fully aligned to the strategic priorities, and the commitment and dedication to the business at all levels was evident for us to see.

FINANCIAL PERFORMANCE

Smith & Nephew s financial performance is shown on these pages.

Although the Group delivered revenue growth in 2016, the outturn is below where we had set our sights at the start of the year. Whilst some geographies and franchises performed well, we were buffeted by trading conditions in the Gulf States and China, as well as a few areas where we believe we can execute better in 2017. We faced a headwind in China entering the year, and it is pleasing to see how management delivered the improvements in this market as they said they would.

The Board continues to have great confidence in the business and is proposing a final dividend for the year of 18.5¢ per share, giving a total dividend distribution for 2016 of 30.8¢. In-line with our dividend policy, the declared dividend is flat year-on-year despite the decline in adjusted earnings per share.

Directors biographies start on page 48

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GOVERNANCE AND CULTURE

Corporate governance, especially Director responsibilities, remuneration and diversity, has been in the spotlight in 2016. The Board has welcomed our discussions with shareholders around such important topics and we are mindful of how the landscape is changing in some areas. The Board is committed to continuing to refine our governance structure and practices to reflect what is in the best interests of all stakeholders.

Culturally, we believe that openness and transparency, accountability and responsibility should run throughout the Company. The Board takes matters of ethics and compliance very seriously, and aims to set a tone at the top which pervades throughout the organisation. We review processes and practices and oversee quality and regulatory matters. We take great interest in how we attract, retain and develop talent and the work underway to make Smith & Nephew a great place to work for all employees.

Our Chief Financial Officer, Julie Brown, left the Company in January 2017. We are grateful for her contribution during her four years at Financial Officer on 1 March 2017 when he will also be appointed to the Board as an Executive Director. Having held multiple senior roles at AstraZeneca and elsewhere, I have no doubt that he will successfully ensure effective financial stewardship and I welcome him to Smith & Nephew.

Brian Larcombe will be retiring from the Board at the Annual General Meeting on 6 April 2017. Brian has served Smith & Nephew for many years, as our Senior Independent Director since 2014, and as a member of the Audit, Nomination & Governance and Remuneration Committees. I am personally grateful that he agreed to stay on one extra year to provide continuity while Olivier was receiving treatment. We will miss his great wisdom and experience. On behalf of the whole Board I thank him for his service. We are fortunate that Ian Barlow has agreed to become Senior Independent Non-Executive Director. Ian has been a Non-Executive Director since 2010, and has been a diligent Chair of our Audit Committee. Robin Freestone will be appointed Chairman of the Audit Committee in his place.

Finally, Joe Papa has graciously agreed to stay on beyond his nine-year term as we undertake a search for a new Chair of the Remuneration Committee. As we make this, and indeed all appointments, we are conscious of the need to continue to seek individuals who bring diversity in its broadest sense, including background, thinking and gender.

In conclusion, 2016 has been a year where we have continued to make progress in the face of a number of headwinds. As a result, I believe we enter 2017 as a stronger business. There is no doubt that the world is facing a period of greater geo-political risk and companies need to be robust. The Board takes its responsibilities very seriously, to ensure that we perform financially, strategically and ethically against this changing and challenging backdrop. We thank you for your continued support and look forward to serving you in 2017.

Yours sincerely,

Smith & Nephew and wish her well in her new career at Burberry plc. Graham Baker will join as Chief

Roberto Quarta

Chairman

Financial review page 39

$4,669m +1% +2%

Revenue Reported Underlying[1]

Group revenue was $4,669 million, up 1% on a reported basis and 2% on an underlying basis. Reported growth includes a foreign exchange headwind of -1%, whilst acquisitions added 1% and disposals 1%.

30.8¢ 0%

Dividend per share

In-line with our dividend policy, the declared dividend is flat year-on-year despite the decline in adjusted earnings.

$801m +28%

Operating profit

Operating profit margin of 17.2% is before one-off $326 million gain from Gynaecology disposal.

$1,020m -7%

Trading profit[1]

Trading profit margin of 21.8% reflects previously disclosed transactional FX headwind, loss of leverage from lower sales growth and investment in Blue Belt, offset by efficiencies.

88.1¢ +92%

Earnings per share EPS

The increase in EPS is mainly due to benefit from the 2016 Gynaecology disposal and the absence of a 2015 legal metal-on-metal charge.

82.6¢ -3%

Adjusted Earnings per share EPSA[1]

5%

R&D expenditure

The reduction in EPSA from the prior period reflects the reduction in adjusted attributable profit.

To drive innovation, we maintain our investment in R&D at around 5% of Group revenue.

1 The non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

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CEO REVIEW OF STRATEGY

Innovative products and deep customer relationships

We now have the right structure and capability in place and are focused on improving execution across the Group.

DEAR SHAREHOLDER,

In 2016 I was pleased with our performance in areas such as Sports Medicine and Knee Implants, where we maintained strong momentum. However, whilst we delivered growth in 2016, it was not at the level we had wanted. Market conditions in China and the Gulf States together shaved more than a percentage point of growth off the Group in the year.

As we enter 2017, I am confident we now have the right structure and capability in place and are focused on improving execution across the Group, with a clear set of actions underway. As a result, I expect us to deliver a stronger performance in 2017.

COMMERCIAL PROGRESS

In our Established Markets, 2016 highlights included the performance across Sports Medicine, where we continue to reap the benefits of the acquisition of ArthroCare. PICO[à], our novel single-use Negative Pressure Wound Therapy (NPWT) system, is transforming the use of this therapy option. Our world class Knee Implant portfolio was further strengthened by the acquisition of NAVIO[à], an exciting robotics-assisted surgery platform, from which we delivered more than 50% revenue growth in 2016.

We have spent the last five years reshaping Smith & Nephew to make the Company more agile, stronger, more efficient and simpler. We are proud of what we have done.

Directors Biographies start on page 48

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Most of our Emerging Markets businesses generated double-digit growth as we benefited from our investments in recent years. In China, the slow-down in end-markets seen since mid-2015 was compounded by destocking in the distributor channel. By the end of the year most franchises had returned to positive growth as the level of stock in the channel was adjusted. In the oil-dependent Gulf States we also saw difficult trading conditions. As a matter of course we expect to see some volatility in the Emerging Markets, but we continue to see significant long-term growth potential and are very well positioned in our chosen markets.

DELIVERING INNOVATION

We continue to innovate for value with new product launches and disruptive business models. A number of important new platforms were introduced in 2016. In Sports Medicine we successfully launched our new LENSà Surgical Imaging System and the WEREWOLFà COBLATIONà System for resecting soft tissue. We also introduced the ULTRABUTTONà Adjustable Fixation Device which provides advanced fixation strength for soft tissue to bone fixation in ACL/PCL repair and reconstruction.

FOCUSED ON EXECUTION

Over the last few years we have undertaken a fundamental restructuring of Smith & Nephew to improve both our ability to serve our customers in market, and our efficiency. This has included changing the management structure and teams in every market to bring them under a single country managing director, a process we completed in 2016. This has not been without disruption, partly caused by some office re-locations, but now the new teams are bedding into their new roles. We now have the appropriate structure to succeed and are focused on serving our customers without any distractions in 2017.

We are also developing the tools to support better execution. In 2016 we strengthened our commercial platform by creating a global commercial organisation under a newly created role of Chief Commercial Officer. Tasked with driving commercial performance across the Group, this organisation includes our commercial regions and the global marketing teams for our product franchises. It also includes a Commercial Excellence team which is focused on bringing material improvements in

We are well set to deliver a stronger performance, generating higher revenue growth and a better trading profit margin in the future.

THANK YOU

As you know I undertook medical treatment during 2016 and I want to thank shareholders and employees who sent me their best wishes during this time. Moreover, I want to thank all of our employees who continue to strive to deliver on our commitments, embodying a Smith & Nephew culture immersed in our values of innovation, trust and performance. It is good to be back at work full-time amongst such inspiring people.

We have spent the last five years reshaping Smith & Nephew to make the Company more agile, stronger, more efficient and simpler. We are proud of what

In Knee Implants we began limited market release of our JOURNEY à II XR, an innovative bi-cruciate retaining knee and the newest addition to the JOURNEY II Active Knee family. We also conducted the first total knee procedures on the NAVIO platform in 2016. In Hip Implants we added to the REDAPT à Revision System with a new Acetabular Fully Porous Cup designed for cases where compromised bone makes implant fixation and stability more difficult.

In 2016 we also delivered significant efficiencies. Our Group Optimisation programme realised the expected $120 million of savings one year ahead of schedule.

And we created compelling value when we divested our Gynaecology business for $350 million. We returned the proceeds to shareholders through a $300 million share buy-back.

areas such as pricing strategy and sales force excellence across the Group, starting in 2017.

We are targeting an increase in disruptive innovation. In 2016 I appointed a President of Research and Development, reporting directly to me, to lead a newly formed single global R&D organisation. In addition to executing our technology pipeline, this leader will be responsible for driving breakthrough innovation and defining a clear path from concept to market. In 2017 the team is focused on increasing productivity, improving processes and better leveraging our resources and expertise.

A more aligned organisation has also allowed us to centralise our approach to developing evidence that demonstrates the clinical and economic benefits of our products, supporting our commercial teams in positioning our products more effectively.

Finally, we will continue to drive efficiency, with programmes underway to optimise global manufacturing, strengthen our supply chain, upgrade our IT infrastructure and deliver shared business services across the Group.

See our strategic update

on the following pages

we have done. 2017 will see a strong emphasis on execution. Beyond this, with our innovative products and deep customer relationships, we are well set to deliver a stronger performance, generating higher revenue growth and a better trading profit margin in the future.

I am energised by our prospects and I look forward to updating you on our progress during the year.

Yours sincerely,

Olivier Bohuon

Chief Executive Officer

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WHO WE ARE

One global business

selling nine product franchises

	Revenue	% of Group
KNEE IMPLANTS	$932m	
Smith & Nephew offers an innovative range of products for specialised knee replacement procedures. Knee replacement surgery involves replacing the worn, damaged or diseased portion of a knee with an artificial joint.	Reported +6%	Underlying[1] +4%
HIP IMPLANTS	$597m	
Our Hip Implant franchise offers a range of specialist products for reconstruction of the hip joint. This may be necessary due to conditions such as arthritis, causing persistent pain, and/or as a result of hip fracture.	Reported -1%	Underlying[1] -1%

SPORTS MEDICINE JOINT REPAIR **$587m**

We offer surgeons a broad array of instruments, technologies and implants necessary to perform minimally invasive surgery of the joints, including the repair of soft tissue injuries and degenerative conditions of the knee, hip and shoulder.

Reported	Underlying[1]
+7%	+8%

ARTHROSCOPIC ENABLING TECHNOLOGIES **$631m**

Products in this franchise are often used in conjunction with products from Sports Medicine Joint Repair to facilitate access to joint spaces, visualise the patient s anatomy, resect degenerated or damaged tissue and prepare the joint for a soft tissue repair.

Reported	Underlying[1]
+0%	+2%

TRAUMA & EXTREMITIES **$475m**

Our Trauma & Extremities franchise supports healthcare professionals with pioneering solutions used by surgeons to stabilise severe fractures, correct bone deformities, treat arthritis and heal soft tissue complications.

Reported	Underlying[1]
-4%	-4%

OTHER SURGICAL BUSINESSES **$214m**

The Other Surgical Businesses franchise includes our Ear, Nose & Throat (ENT) business and the NAVIOâ robotic surgical business, acquired at the start of 2016. It included our Gynaecology business until its disposal in August 2016.

Reported	Underlying[1]
+5%	
	+15%

ADVANCED WOUND CARE **$719m**

The Advanced Wound Care franchise consists of several groups of brands, including exudate management, infection management and our cornerstone ranges of products.

	Reported	Underlying[1]
	-5%	-3%

ADVANCED WOUND BIOACTIVES **$342m**

Our Advanced Wound Bioactives franchise comprises novel, cost-effective biopharmaceuticals that provide a unique approach to debridement, dermal repair and tissue regeneration.

	Reported	Underlying[1]
	-1%	0%

ADVANCED WOUND DEVICES **$172m**

Our Advanced Wound Devices franchise is comprised of our Negative Pressure Wound Therapy (NPWT) and surgical debridement businesses.

	Reported	Underlying[1]
	+3%	+5%

1 The non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

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BUSINESS MODEL

How we create value

Smith & Nephew aims to bring together the sharpest minds in the industry to create and supply the most exciting and differentiated products and services to our customers, supporting them in the most noble of missions: to improve the lives of patients worldwide.

Resources

A key differentiator is our drive to push innovation throughout the business

RESEARCH & DEVELOPMENT

Innovation is part of our culture and we invest 5% of our revenue to develop new products that will help improve people s lives.

OUR VALUE PROPOSITION

Our mission is to support healthcare professionals by providing advanced medical devices that they use in their daily efforts to improve the lives of their patients.

PIONEERING APPROACH

We take a pioneering approach to the design of our products and services.

ETHICS & COMPLIANCE

We are committed to doing business the right way and apply strict business principles to the way we deal with our clients and partners.

MANUFACTURING & QUALITY

We operate our global manufacturing efficiently, and at the highest possible standards, to ensure product quality at sensible pricing.

TRAINING & EDUCATION

Every year, thousands of healthcare professionals attend our training courses around the world. Education is a fundamental part of our vision.

SALES & MARKETING

We support our customers in over 100 countries. Our commercial teams are highly specialised with an in-depth knowledge across the full range of product franchises.

OUR PEOPLE

Engaging, developing and retaining our 15,000+ employees is important to us and we work hard to be a great place to work as well as a responsible corporate citizen.

OUR VALUES AND HOW WE ACT

Our resources section starts on page 27

Our values shape everything that we do as a business and form the basis of our relationships with all our stakeholders.

Our values are included in our people section on page 33

PERFORMANCE

Performance means being responsive to the needs of our customers, setting ourselves clear goals and standards and achieving them.

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Outputs

ENSURING WIDER ACCESS

We strive to secure wide access to our diverse technologies for more customers globally.

ENABLING BETTER OUTCOMES

We enable better outcomes for patients and healthcare systems.

FINANCIAL PERFORMANCE

Targeting higher revenue growth and a better trading profit margin.

$4,669m

Revenue

$801m
Operating Profit

$1,020m[1]
Trading Profit

CAPITAL ALLOCATION FRAMEWORK

Prioritising the use of cash and ensuring an appropriate capital structure.

$279m
Dividend

$300m
Share buy-back

IMPROVED QUALITY OF PATIENT LIVES
Providing our advanced medical devices in more than 100 countries.

100+ countries

TRAINING AND EDUCATION
Supporting HCPs and ensuring the safe and effective use of our products.

40,000 surgeon training instances

GREAT PLACE TO WORK
Supporting and encouraging employees to live our values.
15,000+ employees

A SUSTAINABLE BUSINESS
Working in a sustainable, ethical and responsible manner everywhere we operate.

160+ years of proud history

INNOVATION TRUST

Innovation means being energetic, creative and passionate about everything we do, anticipating customers needs and overcoming barriers and developing opportunities.

Trust is something we understand that we have to earn and we strive to operate with integrity and take an ethical approach to business.

1 The non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

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STRATEGIC PRIORITIES

Maximising

our performance

Smith & Nephew has a clear vision to build a successful, sustainable business. This vision is encapsulated in our corporate value proposition supporting healthcare professionals by taking a pioneering approach to the design of our advanced medical products and services, by securing wider access to our diverse technologies for more customers globally, and by enabling better outcomes for patients and healthcare systems.

Moreover, we are focused on transforming the growth profile of the business while delivering this proposition. We are working to rebalance the Group towards higher growth. Over the last five years, Smith & Nephew has materially improved the mix of higher growth potential to lower growth businesses, shifting from one-third higher growth to over 50% today.

OUR STRATEGIC PRIORITIES

BUILD A STRONG POSITION

IN ESTABLISHED MARKETS

Build on existing strong positions, win market share through greater product and commercial innovation and drive efficiencies to liberate resources.

FOCUS ON

EMERGING MARKET

Our strategic priorities, introduced in 2011, guide our actions in delivering these twin aspirations of supporting healthcare professionals and transforming our growth profile.

Deliver leadership in the Emerging Markets by building strong, direct customer relationships, widening access to our premium products and developing portfolios designed for the economic mid-tier population.

INNOVATE FOR VALUE

Deliver pioneering products and business models that improve clinical and economical outcomes and widen access across geographies and patient groups.

SIMPLIFY AND IMPROVE

OUR OPERATING MODEL

Pursue maximum efficiency in everything we do, streamline our operations and manufacturing, remove duplication and build strong global functions to support our commercial teams.

SUPPLEMENT ORGANIC

GROWTH WITH ACQUISITIONS

Build our platform by acquiring complementary technologies, manufacturing and distribution capabilities in the Emerging Markets and complementary

products or businesses in our higher growth segments.

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Build a strong position in Established Markets

We delivered 4% reported and 3% underlying growth in the United States, our largest market.

Established Markets for Smith & Nephew are Australia, Canada, Europe, Japan, New Zealand and the US.

Smith & Nephew delivered 85% of its revenue from these Established Markets in 2016. Within this, we delivered 4% reported growth and 3% underlying revenue growth in the United States, our largest market. Reported Growth was down -1% and underlying growth was flat across our other Established Markets. Overall, reported revenue growth was 1% and underlying revenue growth was 2% across all our Established Markets.

The Sports Medicine franchises continue to perform strongly as we build on our broad portfolio of joint repair products, instruments and enabling technologies. It is now two years since we completed the acquisition of ArthroCare. The expected benefits are coming through and we are on track to deliver the expected $85 million of sales synergies by the end of 2017.

Our Reconstruction business continues to have good momentum, driven by our Knee Implant franchise. The Knee Implant portfolio was further strengthened by the acquisition of NAVIO, an exciting robotics platform, from which we delivered more than 50% revenue growth in 2016, in line with previous guidance.

In early 2016 we undertook further changes to our organisational structure, creating a single Commercial Organisation led by Mike Frazzette, Chief Commercial Officer, who is overseeing all commercial activities (sales, marketing, market access, and commercial strategy) across the Group for our full line of business. Its mission is to define and drive best practice in commercial execution across our geographies and in marketing across the franchises.

IMPROVING PATIENT OUTCOMES

Unplanned readmissions are costly to hospitals, surgeons and patients and, in the US, can result in significant financial implications for hospitals and other healthcare organisations under the Comprehensive Care for Joint Replacement Model (CJR) and Bundled Payments for Care Improvement (BPCI) initiative. For patients, an unplanned readmission can complicate and extend the recovery period and the resumption of normal activities. For hospitals and surgeons focused on value, as defined by quality outcomes achieved through efficiency, unplanned readmissions can

negatively influence overall quality scores.

We also brought all of our US franchises under one leader, completing the roll-out of our single managing director (MD) model globally. The single MD model is enabling us to improve our customer focus, commercial agility and operating efficiency.

In response, Smith & Nephew pioneered its Episode of Care Assurance Program (eCAP), an innovation designed to mitigate risk for our customers. It pairs together Smith & Nephew s entire line of primary total hip and knee reconstructive systems with two of its most innovative wound care products: PICOà Single Use NPWT and ACTICOATà Flex 7 Silver-coated Antimicrobial Barrier Dressing. Smith & Nephew warrants that the products will perform as expected, based on the product labels. If a patient is readmitted within 90 days following a procedure for a surgical site infection or to revise the implant due to a failure of a Smith & Nephew product, we will pay a hospital s unreimbursed costs for the readmission up to the aggregate purchase prices of the implant, PICO and ACTICOAT Flex 7.

$3,978m
Revenue from Established Markets

+1%
Reported

+2%
Underlying[1]

85%
Of Group revenue

Why is the KPI important?

Track the relative strength of our position in these markets.

How have we performed?

Whilst we grew in 2016, we did not grow as fast as we wanted and underperformed the market.

1 The non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

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STRATEGIC PRIORITIES

Focus on Emerging Markets

Our Emerging Markets represent 15% of Smith & Nephew s revenue, up from 8% in 2010.

Our Emerging Markets represent those outside the Established Markets, including the BRIC group of Brazil, Russia, India and China. These countries represent 15% of Smith & Nephew s revenue, up from 8% in 2010.

In the Emerging Markets revenue was down -3% on a reported basis and flat on an underlying basis. Most of our Emerging Markets businesses continue to generate double-digit growth as we benefit from our investments in our business platform in recent years.

through 2016, Sports Medicine returned to growth and Trauma followed. We expect Advanced Wound Management to continue to be impacted in the first half of 2017. Strategically, the growth prospects in China remain very attractive and we believe current end-market growth rates are solid double-digit. We are confident that we have taken all necessary measures and that China remains a very attractive market in which we are committed to building our business.

ANTHEMà TOTAL KNEE LAUNCHES IN EMERGING MARKETS

2016 saw the commercial launch of the ANTHEM Total Knee System. This platform

In China, the slow-down in end-markets first seen in mid-2015 was compounded by destocking in the distributor channel during 2016. We first saw this in Sports Medicine, subsequently followed by Trauma and Advanced Wound Management. The effect was not so visible in the more mature Reconstruction market, where stock levels were not geared to a rapid market expansion. As we progressed

In the oil-dependent Gulf States we saw very difficult trading conditions, particularly in our tender business, which are likely to persist.

As a matter of course we expect to see some volatility in the Emerging Markets, but we continue to see significant long-term growth potential and are very well positioned in our chosen markets.

was developed specifically to address the needs of patients and surgeons across Asia, the Middle East, Africa and Latin America. The unique design creates a knee offering fit for all ethnicities based on both intraoperative measurements and the analysis of CT images from patients across the world.

ANTHEM utilises the ORTHOMATCH[à] instrumentation platform which reduces weight, footprint and unnecessary cost without compromising on quality or clinical outcomes.

Smith & Nephew has partnered with Touch Surgery to develop a surgical simulation app for the ANTHEM Total Knee System, providing surgeons and healthcare professionals with a virtual training platform to learn, simulate and rehearse the knee replacement procedure in a 3D operating room environment. ANTHEM, ORTHOMATCH and Touch Surgery together provide an advanced and globally relevant knee implant that is accessible to all orthopaedic surgeons and patients in the Emerging Markets.

$691m	**-3%**	**0%**	**15%**
Revenue from Emerging Markets	Reported	Underlying[1]	Of Group revenue

Why is the KPI important?

Track underlying growth of Emerging Markets to global growth.

How have we performed?

Double digit growth across most markets was offset by China and the Gulf States.

1 The non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

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Innovate for value

In 2016 we took a significant step to increase our disruptive innovation.

We continue to innovate for value with new product launches and disruptive business models. A number of exciting new platforms were introduced in 2016.

In Sports Medicine we introduced our new LENS™ Surgical Imaging System and WEREWOLF™ COBLATION™ System for resecting soft tissue. We also launched the ULTRABUTTON™ Adjustable Fixation Device which provides advanced fixation strength for soft tissue to bone fixation in ACL/PCL repair and reconstruction.

In Knee Implants we began limited market release of our JOURNEY™ II XR, an innovative bi-cruciate retaining knee and the newest addition to the JOURNEY II Active Knee family. We are augmenting our own work with acquisitions, such as the purchase of NAVIO™, which has given us an exciting robotics platform with opportunities across the spectrum of knee reconstruction. We conducted the first total knee procedures using our NAVIO surgical robotics platform in 2016.

In Hip Implants we added to the REDAPT™ Revision System with a new Acetabular Fully Porous Cup designed for cases where compromised bone makes implant fixation and stability more difficult.

In 2016 we took a significant step to increase our disruptive innovation, appointing a President of Research and Development, Vasant Padmanabhan, to lead a newly formed single global R&D organisation. In addition to executing our technology pipeline, this leader will be responsible for driving breakthrough innovation and defining a clear path from concept to market. In 2017 the team is focused on increasing productivity, improving processes and better leveraging our resources and expertise. A more aligned organisation has also allowed us to centralise our approach to developing evidence that demonstrates the clinical and economic benefits of our products, supporting our commercial teams in positioning our products more effectively.

$230m
R&D expenditure

4.9%
Of Group revenue

Why is the KPI important?

Through this KPI we monitor our underlying investment in R&D.

How have we performed?

We met our target to keep investment in R&D at around 5% of Group revenue.

INNOVATING IN

THE OPERATING ROOM

Developed in-house and launched in 2016, the LENS™ Integrated Visualisation System provides integrated three in one design, incorporating a Console (which consists of the Camera Control Unit, LED Light Source and Image Management System), Camera Head (1080p broadcast grade image technology), and iPad® Application.

Employing the latest in CMOS chip technology, the LENS System captures High Definition images and produces clear live video. The Camera Head is autoclavable, durable and ergonomic, and the Smith & Nephew proprietary iPad® application takes media management and versatility to a whole new level.

New innovations such as LENS and the WEREWOLF™ COBLATION™ System are vital components to advance our operating room (OR) tower strategy. A tower is made up of visualisation or camera system, COBLATION resection controllers, mechanical resection or blade controllers and fluid management or pump components. Customers look at a tower as a solution to complete an arthroscopic procedure and Smith & Nephew is well positioned with our new products and established strength in DYONICS™ Shaver Blades and GoFLO™ Pumps.

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STRATEGIC PRIORITIES

Simplify and improve

our operating model

Focusing on efficiencies has

realised annual savings of $120 million.

In 2016 we continued to simplify and improve our operating model and delivered significant efficiencies. In Manufacturing, our Global Operations leadership team is focused on supporting the Group s strategic priorities by ensuring our footprint and expertise are ready to respond to geographical growth, new product development, greater external regulatory scrutiny and the commercial pressure to be ever more efficient. We made good progress across these areas in the year. Highlights included the opening of a new state-of-the-art facility in Costa Rica, which will provide a more efficient operation for current products as well as valuable capacity for future growth. We also created more than 100 positions for newly qualified graduate engineers across facilities in the US and elsewhere.

Quality has always been paramount to Smith & Nephew. We have a unified Quality Assurance and Regulatory Affairs team to ensure

consistency across our country business units. Requirements of global regulatory agencies have become more stringent in recent years and we expect them to continue to do so. We are continuing to expand our portfolio globally through new product development and by registering our existing products in new markets. In order to meet the expectations of regulators and support this added complexity we continued to invest in our Quality and Regulatory

expertise in 2016.

The Group Optimisation Plan was announced in May 2014 with a stated savings target of annualised benefits of $120 million by the end of 2017. We delivered ahead of plan and reached our target at the end of 2016. These savings have been driven by our focus on efficient procurement, the greater agility of the single country managing director model and rationalisation of our facility footprint in a number of countries.

Operating Profit

17.2%

Operating Profit Margin

Operating profit increased by $173m from $628m in 2015 to $801m in 2016. This movement in 2016 was primarily driven by the absence of costs recognised in 2015 relating to anticipated and settled metal-on-metal hip claims.

Trading Profit[1]

21.8%

Trading Profit Margin[1]

Why is the KPI important?

We use this KPI to track our underlying profit growth and trading profitability.

How have we performed?

2016 Trading profit margin reflects transactional FX headwind, loss of leverage from lower sales growth and investment in Blue Belt, offset by efficiencies.

NEW MANUFACTURING FACILITY OPENS

In 2016 we opened a new manufacturing facility in Costa Rica. The new plant will support the global demand for Smith & Nephew s COBLATION® technology. COBLATION is an arthroscopic procedure that involves the creation and application of an energy field, which is used for the precise removal of soft tissue with minimal damage to untargeted tissue.

Smith & Nephew s position within the global sports medicine market was strengthened significantly in 2014, with the acquisition of ArthroCare Corporation. The transaction added highly complementary products to the existing portfolio, as well as manufacturing expertise in Costa Rica.

1 The non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

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Supplement organic

growth with acquisitions

Our two largest acquisitions are

delivering good returns.

In recent years we have undertaken a number of acquisitions, strengthening both our technology and product portfolio and our Emerging Markets business. We have delivered good returns with the success of our two larger acquisitions, Healthpoint and ArthroCare, establishing a strong track record in Mergers and Acquisitions (M&A).

With Healthpoint Biotherapeutics, acquired in 2012 for $782 million, our third year return on capital has exceeded our expectations. ArthroCare, acquired in 2014 for $1.5 billion, is performing in line with our expectations. We are ahead of our plan to deliver $85 million of synergies by 2017 and have achieved almost all our targeted cost savings.

In 2016, we continued to invest in acquisitions. The acquisition of Blue Belt Technologies, completed in January, has given us a leading position in the fast growing area of robotics-assisted orthopaedic surgery. Its NAVIOâ surgical system provides robotics-assistance in partial knee replacement surgery and we intend to expand it into total knee, bi-cruciate retaining knee and revision knee implants, potentially delivering further upside. The expansion of our NAVIO robotics platform is progressing at pace, with the first total knee completed in 2016.

In addition, we created compelling value by selling our Gynaecology business for $350 million (2015 revenue: $56 million) in August 2016. We had built this business rapidly on the back of Smith & Nephew s resection technology and expertise. We completed the associated $300 million share buy-back programme in December 2016, returning the value created directly to shareholders.

The Board periodically reviews acquisitions to evaluate longer-term performance and capture lessons learned to help improve strategy and process. As you would expect, some of our recent smaller acquisitions have out-performed our initial expectations, whereas others have underperformed. Collectively we are pleased with the performance of the technology and Emerging Markets acquisitions we have made.

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OUR MARKETPLACE

Our marketplace is driven by longer-term trends

The major trends that drive the markets in which Smith & Nephew operates have remained consistent for many years. Ageing populations, together with obesity, diabetes and other lifestyle diseases (often linked with increased prosperity), all contribute to rising demand for healthcare.

According to the World Health Organisation (WHO), between 2015 and 2050 the proportion of the world s population over 60 years will nearly double from 12% to 22%. In 2014, the WHO estimated that more than 1.9 billion adults were overweight. Of these, over 600 million were classified as obese, a major risk factor for diseases such as diabetes and musculoskeletal disorders.

organisations funded by tax revenues. In the US, our major customers are public and private hospitals, which receive revenue from private health insurance and government reimbursement programmes. Medicare is the major source of reimbursement in the US for knee and hip reconstruction procedures and for wound treatment regimes. In the Emerging Markets, demand is driven by self-pay patients.

New commercial purchasing models are being adopted by health systems as a solution to improving resource allocation. One notable trend is the greater focus on payment-for-outcomes rather than fee-for-service reward models, particularly in the US where the Comprehensive Care

Pricing of products is largely influenced in most developed markets by governmental reimbursement programmes. Initiatives sponsored by government agencies, legislative bodies and the private sector to limit the growth of healthcare costs are ongoing and include price regulation, excise taxes and competitive pricing. Governments and healthcare providers are increasingly requesting health economic data to justify the pricing of products and procedures or reimbursement requests. More collaboration between industry and data research institutions is emerging as a result.

REGULATORY STANDARDS AND COMPLIANCE IN THE

Additionally, the WHO estimates that by 2020, people aged 60 years and older around the world will outnumber children younger than five. This changing dynamic will decrease the level of funds available for healthcare raised through taxes. As a result governments and healthcare providers are under pressure to look for ways to reduce their overall healthcare expenditure, while at the same time maintaining the quality of care and treatment provided. Healthcare reform therefore is near the top of many national agendas.

CUSTOMERS

Our customers include surgeons, nurses, healthcare payers and administrators, and healthcare systems and procurement groups.

In certain parts of the world, including the UK, much of Continental Europe, Canada and Japan, healthcare providers are often government

for Joint Replacement (CJR) model began on 1 April 2016. The CJR model aims to drive better and more efficient care by incentivising hospitals, physicians, and post-acute care providers to work together through a bundled payment system.

There is also a desire for more patients to be treated in an outpatient or community setting. Treatment in hospitals, often entailing operating room time and overnight stays, is expensive. New models such as ambulatory care centres now offer outpatient orthopaedic treatment and there is pressure for more wound care to be provided in the community setting.

Product innovation remains of vital importance with increasing focus on products which simplify and increase the efficiency of procedures as well as robotics which increase precision and enhance procedure outcomes.

Pricing pressures also remain pertinent. In many cases, highly regulated markets employ various controls on pricing.

HEALTHCARE INDUSTRY

Alongside healthcare provision and payment becoming more complex, the regulation of the medical device industry is also intensifying. Regulatory requirements are important in determining whether substances and materials can be developed into effective products in an environmentally sustainable way.

National regulatory authorities administer and enforce a complex series of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. They also review data supporting the safety and efficacy of such products. Of particular importance is the requirement in many countries that products be authorised or registered prior to their placement on market and that such authorisation or registration be subsequently maintained. The industry is focusing its resources on meeting the increased regulatory pressure around the world.

600 million **2020** **22%**

Obese adults in 2014, a major risk factor for diseases such as diabetes and musculoskeletal disorders (WHO).

The WHO estimates that by 2020, people aged 60 years and older around the world will outnumber children younger than five.

Proportion of the world s population over 60 years will nearly double from 12% to 22% by 2050 (WHO).

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The major regulatory agencies for Smith & Nephew s products include the Food and Drug Administration (FDA) in the USA, the Medicines and Healthcare products Regulatory Agency in the UK, the Ministry of Health, Labour and Welfare in Japan, the China Food and Drug Administration and the Australian Therapeutic Goods Administration.

In general, with the aforementioned industry trends, safety standards and regulations in the medical device industry are becoming more stringent. Regulatory agencies are intensifying audits of manufacturing facilities and the approval time for new products has lengthened. Regulation for marketing medical devices in the European Union will tighten with the introduction of the Medical Device Regulations (MDR), a draft of which was published in June 2016 and is expected to be fully implemented by late 2019.

Legislation covering corruption and bribery, such as the UK Bribery Act and the US Foreign Corrupt Practices Act, also applies to all our global operations. We are committed to ensuring regulatory compliance and to doing business with integrity and we welcome the trend towards higher standards in the healthcare industry. We and other companies in the industry are subject to regular inspections and audits by regulatory agencies and notified bodies, and in some cases remediation activities have required and will continue to require significant financial and resource investment.

SEASONALITY

Orthopaedic and sports medicine procedures tend to be higher in the winter months when accidents and sports related injuries are highest. Elective procedures tend to slow down in the summer months due to holidays. Due to the nature of our product range, there is little seasonal impact on our Advanced Wound Management franchises.

In the US out-of-pocket costs for health insurance plans are tied to medical expenses in a calendar year. As a result, households who have reached their deductible (or out-of-pocket) cap may find that accessing care later in the year comes at a lower cost, which can encourage more of them to try and schedule any required treatments or procedures in the final months of any given year.

$5bn +6%

Market size **Sports Medicine**[1]

	Range
A SMITH & NEPHEW	20-24%
B ARTHREX	29-33%
C DEPUY (MITEK) [2]	12-16%
D STRYKER	9-13%
E OTHERS	Balance

$15bn +3%
Market size **Hips & Knees (Recon)**

	Range
A SMITH & NEPHEW	9-11%
B ZIMMER BIOMET	34-36%
C DEPUY SYNTHES [2]	20-22%
D STRYKER	19-21%
E OTHERS	Balance
$8bn	+4%
Market size **Advanced Wound Management**	

	Range
A SMITH & NEPHEW	14-18%
B ACELITY	17-21%
C MOLNLYCKE	9-13%
D CONVATEC	5-9%
E OTHERS	Balance

$5bn
Market size **Trauma & Extremities**

+3%

		Range
A	SMITH & NEPHEW	6-10%
B	DEPUY SYNTHES [2]	44-48%
C	STRYKER	23-27%
D	ZIMMER BIOMET	9-13%
E	OTHERS	Balance

Data: 2016 estimates generated by Smith & Nephew based on publicly available sources and internal analysis.

1 Representing access, resection and repair products.

2 A division of Johnson & Johnson.

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THE PRODUCTS WE TAKE TO MARKET

SMITH & NEPHEW HAS NINE GLOBAL PRODUCT FRANCHISES

Revenue by product

A	KNEE IMPLANTS	$932m
B	HIP IMPLANTS	$597m
C	SPORTS MEDICINE JOINT REPAIR	$587m
D	ARTHROSCOPIC ENABLING TECHNOLOGIES	$631m
E	TRAUMA & EXTREMITIES	$475m

F	OTHER SURGICAL BUSINESSES	$214m
G	ADVANCED WOUND CARE	$719m
H	ADVANCED WOUND CARE BIOACTIVES	$342m
I	ADVANCED WOUND DEVICES	$172m

KNEE IMPLANTS

$932m **Revenue**	**+6%** Reported	**+4%** Underlying[1]

Smith & Nephew offers an innovative range of products for specialised knee replacement procedures. Knee replacement surgery involves replacing the worn, damaged or diseased portion of a knee with an artificial joint. Every year more than two million patients receive total, partial or revision knee replacements.

Smith & Nephew s knee systems include the LEGION GENESIS à II Total Knee System, a comprehensive system designed to allow surgeons to address a wide range of knee procedures, and our JOURNEY à II family of Active Knees. JOURNEY II has been engineered to empower patients with a renewed active lifestyle by breaking through traditional knee replacement barriers and delivering function, motion and durability through PHYSIOLOGICAL MATCHING à.

In 2016 we began limited market release of our JOURNEY II XR product, an innovative bi-cruciate retaining knee implant, which is designed to retain the anterior and posterior cruciate ligaments (ACL/PCL) and deliver normal proprioception and muscle control[2].

These systems also feature VERILAST à Technology, our advanced bearing surface. The LEGION à Primary Knee with VERILAST Technology has been laboratory-tested to 30 years of simulated wear. While lab testing is not the same as clinical performance, the tests showed significant reduction in wear compared to conventional technologies.

Our knee systems utilise our VISIONAIRE™ Patient-Matched Instrumentation, whereby a patient s MRI and X-rays are used to create customised cutting guides that allow the surgeon to achieve optimal alignment of the new implant.

In 2016 we launched the ANTHEM™ Total Knee System. This was designed from both intraoperative measurements and the analysis of CT images from patients, to create a knee offering fit for all ethnicities. ANTHEM utilises the ORTHOMATCH™ instrumentation platform, reduces weight, footprint and unnecessary cost without compromising on quality or clinical outcomes.

During 2015, we acquired the Zimmer® Unicompartmental High Flex Knee (ZUK) system in the US market, giving us a strong position in the attractive partial knee joint reconstruction segment.

In early 2016 we completed the acquisition of Blue Belt Technologies, securing a leading position in the fast-growing area of orthopaedic robotics assisted surgery. Blue Belt s NAVIO® surgical system provides robotics assistance in partial knee replacement surgery. We anticipate significant upside from a range of new product launches that will expand into indications beyond partial knees, the first of which is the total knee application with the first procedures being completed in 2016.

1 The non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

2 Moro-Oka, Taka-Aki, Marc Muenchinger, Jean Pierre Canciani, and Scott A Banks. Comparing in Vivo Kinematics of Anterior Cruciate-retaining and Posterior Cruciate-retaining Total Knee Arthroplasty . Knee Surgery, Sports Traumatology, Arthroscopy 15.1. (2007):93:99 Web.

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HIP IMPLANTS

$597m	**-1%**	**-1%**
Revenue	Reported	Underlying[1]

Smith & Nephew s Hip Implant franchise offers a range of specialist products for reconstruction of the hip joint. This may be necessary due to conditions such as arthritis, causing persistent pain, and/or as a result of hip fracture. Every year more than two million patients worldwide undergo total, resurfacing and revision hip replacement procedures.

For Hip Implants, Smith & Nephew has developed a range of primary hip systems. Core systems include the ANTHOLOGY à Hip System, SYNERGY à Hip System, the POLARSTEM à Femoral Hip System, the R3 à Acetabular System and the POLARCUP à Dual Mobility Hip System. This diversity exemplifies our commitment to providing surgeons with implant and instrumentation options that meet the specific demands of their patients and preferred surgical approach, most notably the direct anterior or posterolateral approach. We also market the BIRMINGHAM HIP à Resurfacing (BHR) System, an important option for surgeons treating suitable patients.

1 The non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

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THE PRODUCTS WE TAKE TO MARKET

HIP IMPLANTS continued

TRAUMA &
EXTREMITIES

Smith & Nephew s portfolio includes the new REDAPT Revision Femoral System. The need to perform a revision can occur for a variety of reasons including infection, dislocation, or failure of the implants to achieve biologic fixation. REDAPT is designed to turn such complex hip revisions into efficient, reproducible surgeries, allowing surgeons to effectively recreate a patient s unique functionality, while quickly and easily addressing issues such as poor bone quality. The REDAPT Revision Femoral System comprises a monolithic stem and a Fully Porous Shell. The use of additive manufacturing (also called 3D printing) to create a titanium shell, with first to market features that improve intraoperative usability and greatly enhance implant stability, was received with great enthusiasm amongst hip surgeons.

Making good technology spectacular

The REDAPT[à] Fully Porous Acetabular Cup with CONCELOC[à] Technology was launched in 2016. To allow ingrowth, an additive, or 3D printing, manufacturing process is used to produce an entirely porous implant that mimics the structure of cancellous bone. New variable-angle locking screws can be used to enhance implant stability and minimise micromotion after surgery, which when coupled with placement of hole patterns, optimises surgical flexibility and access, particularly in difficult to reach areas of revision cases.

The 3D printing method allows for complex design geometries that would be difficult, expensive or impossible to achieve with traditional manufacturing methods. For example, solid reinforcements can be built directly into the porous structure to provide extra strength in precise locations.

$475m	**-4%**	**-4%**
Revenue	Reported	Underlying[1]

Our Trauma & Extremities franchise supports healthcare professionals by pioneering solutions for surgeons to stabilise severe fractures, correct bone deformities, treat arthritis, and heal soft tissue complications. Performance in 2016 in this franchise was held back by the destocking in our China business and reduced tender activity in the Gulf States.

For Trauma, the principal internal fixation products are the TRIGEN[à] family of intramedullary (IM) nails (TRIGEN META-NAIL[à] System, TRIGEN Humeral Nail System and TRIGEN INTERTAN[à]), EVOS[à] Plating System and the PERI-LOC[à] Plating System. In 2016 we unveiled new evidence showing that the TRIGEN INTERTAN hip fracture system allows patients to experience lower risk of implant failure and re-operation; faster time to fracture union; and a high return to pre-fracture status[2].

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SPORTS MEDICINE JOINT REPAIR

The EVOS Mini Fragment Plate and Screw System is a dedicated Trauma mini fragment system. This is a stainless steel highly versatile system with a multitude of plate geometries and longer screw lengths than standard mini fragment systems. Complementing this is our VLPâ MINI-MODâ Small Bone Plating System for the fixation of small bones and small bone fragments, specifically designed to match the contour of small bones needed in treating hand, wrist, elbow, foot and ankle fractures.

For extremities and limb restoration, we offer the TAYLOR SPATIAL FRAMEâ Circular Fixation System as well as a range of plates, screws, arthroscopes, instrumentation, resection and suture anchor products for orthopaedic surgeons including foot and ankle and hand and wrist specialists, and trauma surgeons. This year, TAYLOR SPATIAL FRAME External Fixator celebrated its 20 year anniversary, and we conducted a systematic review of the clinical outcomes. The results showed post-operative success in more than 99% of patients[3].

2016 saw the first implantation of the ATLAS HF Nail in South Africa and India. It is the first Smith & Nephew nail specifically designed for the Emerging Markets.

$587m	+7%	+8%
Revenue	Reported	Underlying[1]

Our Sports Medicine Joint Repair franchise offers surgeons a broad array of instruments, technologies and implants necessary to perform minimally invasive surgery of the joints, including the repair of soft tissue injuries and degenerative conditions of the knee, hip and shoulder. Our franchise operates in a large, growing market where unmet clinical needs lend room for procedural and technological innovation. Smith & Nephew is well positioned both to innovate and to reach customers globally.

We produced double-digit growth in the US in 2016, driven by the benefits of our combined portfolio following the 2014 acquisition of ArthroCare. Our overall performance was held back by conditions in China in the first half of the year, where we saw a slowdown in capital and consumable sales compounded by de-stocking in our distribution channel.

Key products in this franchise include the FAST-FIX™ family of meniscal repair systems, the ENDOBUTTON™ family for knee ligament reconstruction, HEALICOIL™ PK, FOOTPRINT™ PK and TWINFIX™ Suture anchors for repairs of the hip and rotator cuff. The open architecture of the HEALICOIL™ PK Suture Anchor allows for new bone to fill the fenestrations between threads and into the central channel. The SUTUREFIX™ Ultra soft suture anchor is an attractive option for procedures in which anatomic space is very limited[4] while still delivering high fixation strength[5-7].

Smith & Nephew also offers products made from REGENESORB™, an advanced biocomposite shown to be absorbed and completely replaced by bone within 24 months in pre-clinical studies[8,9].

Smith & Nephew markets a suite of products for Rotator Cuff Repair (RCR), one of the most common sports medicine procedures. These include ULTRATAPE™, a suture that provides greater tendon-to-bone contact when compared to traditional #2 suture, and may enhance repair[10]; FIRSTPASS™ ST, a sterile-packaged retrograde suture passer that eliminates the steps of loading and unloading needles and cartridges; and MULTIFIX™ S, an all-PEEK knotless screw-in anchor. All these recently launched products can be used together or in conjunction with existing products from the Smith & Nephew portfolio in a single procedure, significantly expanding the breadth of our RCR Solutions. The Q-FIX™ All-Suture Anchor is ideal for a variety of arthroscopic shoulder and hip repairs, offering fixation performance superior to commonly used all-suture anchors and traditional anchors[11,12].

1 The non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

2 05036 V1 INTERTAN Claims Brochure 0616.

3 07037 V1 Bone & Joint Outcome. The TAYLOR SPATIAL FRAME for External Fixation. A Systematic Literature Review Following 20 Years of Clinical Outcomes. 1016.

4 Smith & Nephew Evaluation Reports 15002113, 15002112, 15002117.

5 Smith & Nephew 2011. Validation REPORT ULTRABRAID II SUTURE BIOCOMPATIBILITY 15001076.

6 Smith & Nephew 2013. Competitive Claims REPORT, SutureFix 15002059.

7 Smith & Nephew 2013. Validation REPORT, Hip Suturefix XL 15001076.

8 Data on File, Smith & Nephew report 15000897.

9 Results of in vivo simulation have not been shown to quantitatively predict clinical performance.

10 Potter L, Moore C. Increased contact area utilizing the ULTRATAPE Suture for rotator cuff repair. Bone&JointScience: Our Innovation in Focus. 2014;4(3):1-4. Lit no: 02056.

11 ArthroCare Report #P/N 54231-01 Rev. A; ArthroCare Report #P/N 49193-01 Rev. A; ArthroCare Report #P/N 51963-01 Rev. A.

12 Douglass NP, Behn AW, Safran MR. Cyclic and Load to Failure Properties of All-Suture Anchors in Synthetic Acetabular and Glenoid Cancellous Bone. Arthroscopy. 26 January 2017.

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ARTHROSCOPIC ENABLING TECHNOLOGY

OTHER SURGICAL BUSINESSES

$631m	**0%**	**+2%**
Revenue	Reported	Underlying[1]

Our Arthroscopic Enabling Technologies (AET) franchise offers a high performance array of minimally invasive surgery-enabling systems and devices.

AET platforms work in concert to facilitate access to various joint spaces, visualise the patient s anatomy, resect degenerated or damaged tissue and prepare the joint for a soft tissue repair. Products in this franchise are often used in conjunction with products from our Sports Medicine Joint Repair franchise.

Systems include high definition imaging solutions, industry leading energy based and mechanical resection platforms, fluid management and access portfolios, along with anatomic repair-aiding limb positioners and holders.

1 The non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

Key products include the LENS[à] Integrated system which provides an integrated three in one design incorporating the Console (CCU, LED Light Source and Image Management System), Camera Head and iPad app. Also, WEREWOLF[à] and Quantum 2[à] COBLATION[à] controllers and a wide range of high performance COBLATION Technology radio frequency (RF) wands ablate, resect and coagulate soft tissue and enable haemostasis of blood vessels.

We also market the DYONICS[à] Shaver blades, handpiece, and controller, which provide superior resection due to their sharpness and reduce clogging with their debris evacuation capabilities, GoFLO[à] and DoublePump fluid management consoles that distend joint space while providing haemostasis and a medium to perform arthroscopic

procedures, SPIDER2à/T-MAX procedure-enabling limb positioning systems, and ACUFEXà Hand Held Instruments.

Within an operating room our AET products are typically kept in tower, often comprising a visualisation or camera system, COBLATION or energy based resection controllers, mechanical resection or blade controllers and fluid management or pump components. Our customers often think about a tower solution to complete an arthroscopic procedure more than the individual components that make up this tower. Our strategy is to showcase our industry leading tower components, such as COBLATION wands and DYONICS shaver blades, when selling the LENS camera system and GoFLO Pump. We articulate this through our Own the Tower strategy.

$214m	+5%	+15%
Revenue	Reported	Underlying[1]

The Other Surgical Businesses franchise includes our Ear, Nose & Throat (ENT) business and the NAVIOà robotic surgical business, acquired at the start of 2016. This franchise included our Gynaecology business sold in August 2016.

Within ENT we offer a wide variety of products including our COBLATION Technology for tissue removal and haemostasis, various articulating instruments and implants for sinus surgery such as balloon sinuplasty, and our RAPID RHINOà Carboxymethylcellulose (CMC) Technology which is featured in both dissolvable and removable nasal and sinus dressings, and epistaxis treatment products. Our NASASTENTà Dissolvable Nasal Dressing is a structural intranasal splint used to minimise bleeding and prevent post-operating adhesions after sinus surgery. Unlike other nasal dressings which fragment as they degrade, once the NASASTENT dressing absorbs sufficient nasal fluid, it converts into hydrocolloidal gel that simply drains from the cavity as part of the natural outflow.

The acquisition of Blue Belt Technologies was announced in October 2015 and completed in January 2016. This has given us a leading position in the fast growing area of robotics-assisted orthopaedic surgery. Its NAVIO surgical system provides robotics-assistance in partial knee replacement surgery through a unique hand-held, bone-shaping device. NAVIO and our own partial knee implant portfolio form a strong combined business from which to accelerate growth in this attractive area of surgery. Additionally, we intend to expand NAVIO into total knee, bi-cruciate retaining knee and revision knee implants, delivering significant further upside.

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THE PRODUCTS WE TAKE TO MARKET

ADVANCED WOUND CARE

Consistent and accurate results

In July we announced the first surgical case for our robotics-assisted total knee replacement procedure. The new approach can use the NAVIO® Surgical System to implant the JOURNEY® II BCS and CR total knee systems.

During a total knee replacement surgery, the NAVIO system is designed to deliver consistent and accurate results through the utilisation of a robotics-assisted hand piece, navigation and NAVIO specific cut guides, all of which enable better patient outcomes. The NAVIO intraoperative planning software uses 3D surface capture and kinematic registration to predict joint laxity, enable precise implant positioning, and define a patient specific surgical plan. Unlike other robotics-assisted platforms, the NAVIO system does not require a pre-operative CT scan.

This new indication has the potential to increase system utilisation, as approximately 80% of global knee replacement procedures are primary total knee replacements, compared to less than 10% for partial knee replacements.

$719m	-5%	-3%
Revenue	Reported	Underlying[1]

The Advanced Wound Care (AWC) franchise consists of several groups of brands, including exudate management, infection management and our cornerstone range of products. Performance in this franchise in 2016 reflected the effect of destocking in China and weakness in a couple of European countries, which more than offset the performance in the US.

Exudate management products focus on providing appropriate wound fluid absorption and evaporation properties to promote optimal wound healing environment. This will reduce the burden a wound has on the patients and help them to get on with their lives and at the same time diminish costs for materials and nursing time.

Our key growth brand in this space is ALLEVYN à Life, an innovative dressing designed to improve the quality of life for patients with chronic wounds, as well as helping healthcare professionals reduce the costs of frequent dressing changes. During the year we announced the publication of a new research paper showing how a comprehensive ulcer prevention programme which included the use of ALLEVYN Life can significantly decrease hospital-acquired pressure ulcers (HAPUs) by 69% in an adult intensive care unit[2].

Two core technologies drive our infection management portfolio: silver and iodine.

Our silver-based products (ACTICOAT à, DURAFIBER à Ag and ALLEVYN Ag) provide clinicians a range of solutions to address individual patient needs in managing wound infection. ACTICOAT is very well positioned to address the need for highly effective, fast-acting local antimicrobials in the care of serious wound infection on a wide range of wounds including surgical incisions and chronic wounds.

Our iodine based product, IODOSORB à, has a unique mode of action to deliver low level, slow release elemental iodine without cytotoxic effects.

Smith & Nephew s cornerstone range offers a wide selection of wound care products, which means we have one of the most comprehensive ranges of wound care solutions in the industry. These products include our film and post-operative dressings, skincare products and gels.

OPSITE à is one of our most successful and pioneering products and has become the global standard of care in post-operative dressings. IV3000 à, a specialist premium dressing for intravenous lines, continues to perform well. SECURA à is a proven preventative skin care product which helps maintain and protect skin integrity.

1 The non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

2 Swafford K, Culpepper R, Dunn C. Use of a Comprehensive Program to Reduce the Incidence of Hospital-Acquired Pressure Ulcers in an Intensive

Care Unit. Am J Crit Care. 2016;25(2):152-5.

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ADVANCED WOUND BIOACTIVES

No idea in wound management is bigger than aiming to get closer to zero pressure ulcer incidence, zero delay in wound healing, zero surgical site complications, zero venous ulcer recurrence, zero diabetic amputations, zero waste of healthcare resources. Zero is the only target worth aiming for, and we strive to help our customers get closer to it.

This is why in 2016 we introduced Closer to Zero , our new communication platform for the wound business, which demonstrates how these franchises contribute towards our overall corporate vision of supporting healthcare professionals. Closer to Zero was launched at the World Union of Wound Healing Societies global meeting in Florence, Italy, in October 2016.

$342m **Revenue**	**-1%** Reported	**0%** Underlying[1]

Our Advanced Wound Bioactives (AWB) franchise focuses on the development and commercialisation of novel, cost-effective biopharmaceuticals to provide a unique approach to debridement, dermal repair and tissue regeneration.

Currently, our Advanced Wound Bioactives products on the market include Collagenase SANTYL® Ointment (the only FDA-approved biologic enzymatic debriding agent for chronic dermal ulcers and severe burns), OASIS® Wound Matrix and Ultra Tri-Layer Matrix (a naturally-derived, extracellular matrix replacement products indicated for the management of both chronic and traumatic wounds) and REGRANEX® (becaplermin) Gel 0.01% (an FDA-approved platelet-derived growth factor for the treatment of Diabetic Foot Ulcers).

Our most significant product by sales is SANTYL Ointment, which plays an integral role in removing necrotic or dead tissue in chronic dermal ulcers (such as pressure ulcers, diabetic ulcers, and venous ulcers) and severely burned patients. In 2016 we continued to see significant growth in the use of SANTYL Ointment by office-based physicians while we experienced some challenges in the long-term care market as patients experienced shorter stays in nursing homes and transitioned to care in home health. We are concentrated on further establishing the value of SANTYL Ointment in treating patients despite the shift of cost from insurers to the patients. This is being supported through cost-effectiveness data focused on patient outcomes and overall treatment costs. This information is assisting us to further educate physicians, patients, and payers on the critical role that SANTYL Ointment plays in moving the healing process forward.

The wound bioactives market growth has been impacted by changes in the reimbursement landscape that are driving increases in co-pay, deductibles and access in general across the sites of care.

The US is the largest market and represents the current focus for our AWB franchise. SANTYL Ointment is also available in Canada. OASIS is accessible in a number of other Established Markets.

1 The non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

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THE PRODUCTS WE TAKE TO MARKET

ADVANCED WOUND DEVICES

$172m	+3%	+5%
Revenue	Reported	Underlying[1]

Our Advanced Wound Devices (AWD) franchise is comprised of our Negative Pressure Wound Therapy (NPWT) and surgical debridement businesses.

The PICO[à] system, our pioneering single-use, canister-free NPWT solution, performed strongly in 2016. PICO brings the effectiveness of traditional NPWT in a modern, small portable system[2]. It is designed for both open wounds and closed incisions and leverages our leading dressing technology. More than one million PICO systems have now been used to treat patients, changing the treatment landscape for NPWT.

A number of new pieces of evidence supporting PICO were published in 2016. This included new clinical evidence highlighting improved patient outcomes when using PICO following orthopaedic surgery[3], as well as evidence and expert opinion highlighting the clinical and aesthetic benefits of PICO in mammoplasty and oncological breast reconstructive surgery[4].

In traditional NPWT, we secured regulatory approval for both RENASYS GO[à] and RENASYS TOUCH[à] in the US and Europe in 2016. RENASYS TOUCH is in a limited launch in Europe and US and we are re-supplying existing US customers with RENASYS GO.

This franchise also includes the VERSAJETâ Hydrosurgery system, a mechanical debridement device used by surgeons to excise and evacuate non-viable tissue, bacteria and contaminants from wound, burns and soft tissue injuries.

More than a million PICO systems

In 2011, Smith & Nephew launched a breakthrough in NPWT the PICO Single Use NPWT System. In 2016, the millionth application of PICO was used to treat a patient.

The revolutionary four-layer multi-function dressing technology makes the PICO System canister-free and disposable. Each layer works together to ensure that negative pressure is delivered to the wound bed and exudate is removed through absorption and evaporation[1].

Today PICO is used in the community and hospitals to treat patients. PICO is as easy to apply as a conventional wound dressing, reducing the need for the staff time, intensive training and administrative paperwork associated with traditional NPWT.

For the patient, the PICO system s one-button pump is easy-to-use and its small size and silent operation provide a discreet, unobtrusive way to carry on daily life with NPWT. For the payer, the PICO system is more affordable than traditional NPWT, and can significantly reduce therapy costs associated with traditional NPWT.

1 Malmsjo, M; Huddleston, E; Martin, R; Biological Effects of a Disposable, Canisterless Negative Pressure Wound Therapy System; Eplasty 2014.

1 The non-IFRS financial measures are explained and reconciled to the most directly commparable financial measure prepared in accourdance with IFRS on pages 175-177.

2 Bullough L, Burns S, Timmons J, Truman P, Megginson S. Reducing C-Section wound complications. Clinical Svcs J 2015;Apr:43-47.

3 Karlakki SL, Hamad AK, Whittall C, Graham NM, Banerjee RD, Kuiper JH. Incisional negative pressure wound dressings (NPWTd) in routine primary hip and knee replacements A randomised controlled trial. Bone Joint Res. 2016;5:328-337.

4 Galiano R, Djohan R, Shin J, et al. The effects of a single use canister-free Negative Pressure Wound Therapy (NPWT) System* on the prevention of postsurgical wound complications in patients undergoing bilateral breast reduction surgery. Poster presented at: British Association of Aesthetic Plastic Surgeons (BAAP s) 30th Annual

Scientific Meeting; September 2014; London, UK.

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THE RESOURCES WE NEED TO DELIVER OUR PRODUCTS

RESEARCH & DEVELOPMENT

RESEARCH & DEVELOPMENT

Innovation is part of our culture and we invest 5% of our revenue to find new products that will help improve people s lives.

See opposite

ETHICS & COMPLIANCE

We are focused on doing business the right way and apply strict business principles to the way we deal with our clients and partners.

More on page 28

MANUFACTURING & QUALITY

We operate our global manufacturing efficiently, and to the highest possible standards, to ensure product quality at sensible pricing.

More on page 30

TRAINING & EDUCATION

Every year, thousands of healthcare professionals attend our training courses around the world. Education is a fundamental part of our vision.

More on page 31

SALES & MARKETING

We support our customers in over 100 countries. Our commercial teams are highly specialised with an in-depth knowledge across the full range of product franchises.

More on page 32

OUR PEOPLE

Engaging, developing and retaining our 15,000+ employees is important to us and we work hard to be a great place to work as well as a responsible corporate citizen.

More on pages 33 to 35

Our Research & Development (R&D) strategy is at the heart of our business model. Through it we strive to deliver innovation that matters, pioneering products and services that bring value to our customers and the Company.

In 2016 we made significant changes to create a single global R&D structure, led by a new President of Global R&D, reporting directly to the Chief Executive Officer. The new global function has moved quickly to sharpen our focus onto the three areas which will accelerate the value created by R&D.

First, we are refining our R&D roadmap to identify and support projects that will make a meaningful difference to our customers and their patients. This includes continuing to invest in incremental innovation to improve existing products in a way that improves outcomes. It also involves driving greater efficiency through innovation, potentially reducing our costs of goods. By making instrument sets more procedure and patient-specific, we will reduce complexity and cost, to the benefit of customers and the Company. Finally, by seeking more meaningfully disruptive products and services, we will harness transformational innovation to provide access to new technologies to people across the world.

Second, the team is challenging itself to execute flawlessly. This means developing the right product at the right cost and quality, supported by clinical evidence, in a timely manner. Our R&D experts in the UK, US, Europe, China and India have extensive customer and sector knowledge, which is augmented by ongoing interaction with our marketing teams. Strict criteria are applied to ensure new products fulfil an unmet clinical need, have a strong commercial rationale, and are technologically feasible. The R&D function works closely with the manufacturing and supply chain management teams to ensure we can produce new products to clinical, cost and time specification.

INVESTMENT IN

RESEARCH &

DEVELOPMENT in 2016

$230m

Finally, we will ensure our pioneering innovations are supported by compelling evidence of clinical and economic value. The global R&D function includes our Medical and Scientific Affairs team, led by the Chief Medical Officer, ensuring that, from conception, plans are developed to support product launches with the evidence increasingly required by our customers both clinicians and payers. Our products undergo clinical and health economic assessments both during their development and post-launch.

Science is at the heart of ensuring our products are safe and efficacious. In 2016 we made important investments to support and develop our scientific expertise. In Hull, UK, we announced plans to invest $10 million in creating a new R&D centre. More than a 100 roles will be based here and the breadth and scale of scientific specialties housed in the new centre will make us one of the most capable and well equipped centres in Europe for Medical Device R&D. The new centre will allow us to strengthen links with regional universities to support research & recruitment activities. The Hull facility will be fully operational by the second quarter of 2017.

We also continue to invest in scouting for new technologies, identifying complementary opportunities in our core and adjacent segments. We also invest in small companies developing compelling technologies in our franchise areas through our incubation fund. In addition to funding, we provide our expertise to help the development process, including supporting clinical studies, and typically secure preferred access to technology as it nears market readiness.

In 2016, we invested $230 million in R&D, in-line with our commitment, set out in 2011, to maintain our investment level at around 5% of revenue. We expect to maintain this proportion going forward, but to realise greater benefit through our new structure and strategic focus.

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THE RESOURCES WE NEED TO DELIVER OUR PRODUCTS

ETHICS & COMPLIANCE

CODE OF CONDUCT AND BUSINESS PRINCIPLES

Smith & Nephew earns trust with patients, customers, healthcare professionals, government authorities and the public by acting in an honest and fair manner in all aspects of its operations.

We expect the same from those with whom we do business, including vendors who provide us with services and distributors and independent agents that sell our products. Our Code of Conduct and Business Principles governs the way we operate to achieve these objectives.

Smith & Nephew takes into account ethical, social, environmental, legal and financial considerations as part of its operating methods. We have a robust whistle-blowing system in all jurisdictions in which we operate. We are committed to upholding our promise in our Code of Conduct that we will not retaliate against anyone who makes a report in good faith.

GLOBAL COMPLIANCE PROGRAMME

Smith & Nephew has implemented a world-class Global Compliance Programme that helps our businesses comply with laws and regulations. Our comprehensive compliance programme includes: Board and executive oversight committees; global policies and procedures; on-boarding and annual training for employees and managers; training for distributors and agents and higher risk vendors; monitoring and auditing processes; reporting channels and recognition for demonstrating our values.

Through our global intranet, we provide resources and tools to guide employees to make decisions that comply with the law, local industry code and our Company Code of Conduct. We conduct review and approval in advance for significant interactions with healthcare professionals or government officials. We regularly assess existing and emerging risks in the countries in which we operate.

Country managing directors are required to complete an annual certification to the Chief Executive Officer to confirm the implementation of required policies. Managers and employees make an annual compliance certification and conflict of interest disclosure, and executive management, managers and employees have a compliance performance objective customised to their role.

New distributors and other higher-risk third parties are subject to screening and are contractually obligated to comply with applicable laws and our Code of Conduct. Compliance training and certifications are included in this process. In 2016, we made compliance resources, including customisable templates for use by our distributors and agents, available via the Smith & Nephew external website. Our third parties can use these resources to develop an appropriate compliance programme based on their company s size and risk areas. We also updated the Additional Compliance Standards, first launched in March 2015, to provide more specific compliance restrictions and requirements. We also continue our oversight of independent agents and distributors with on-site assessments to review compliance controls and audits of books and records.

In 2016 we expanded the Compliance Ambassador Programme into additional markets. This programme is a key part of our strategy to embed ethical values and compliance standards in the business. Respected sales managers are nominated to become Compliance Ambassadors and act as a mentor to their peers and their teams, providing practical solutions to compliance challenges based on real life experience.

We have continued to recognise employees who earn trust with their actions with our Spotlight on Trust Programme, whereby employees nominate their peers for actions that earn trust.

We also began conducting increased follow-up with internal reporters of potential compliance issues. The follow-up process includes several touchpoints with the reporter during the investigation process, as well as a follow-up call with the reporter approximately 60 days after the close of the investigation. The goal of the programme is to ensure that reporters understand their concerns are being actively investigated, and to confirm after the close of the investigation whether the reporter has feedback on the process or any additional concerns to raise.

We had positive feedback on our approach to the annual manager certification, so we followed the same model in 2016. Managers were required to have an ethics/compliance conversation with some of their direct reports. They were given centrally-created materials focusing on the importance of earning trust and then provided with specific, topic-based scenarios to discuss with their staff actions that would demonstrate this core Smith & Nephew value. This model enhanced dialogue on ethics, compliance and the importance of earning trust between managers and staff.

Finally, we continue to improve our controls testing universe. We refreshed our programme to require auditors to dig deeper when they encounter potential risks. We also moved to a new reporting format that allows the auditors to provide more detail about their testing process and the results. We continued with our early warning Local Monitoring Programme, where Regional Compliance Officers test higher-risk activities within their markets.

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THE RESOURCES WE NEED TO DELIVER OUR PRODUCTS

MANUFACTURING & QUALITY

GLOBAL OPERATIONS

Smith & Nephew takes great pride in its expertise in manufacturing products to the highest quality and ensuring they reach our customers in a timely manner. We operate manufacturing facilities in a number of countries across the globe, and a number of central distribution facilities in key geographical areas. Products are shipped to individual country locations which hold small amounts of inventory locally for immediate supply to meet customer requirements.

Manufacturing is a dynamic process and our Global Operation leadership team is focused on successfully supporting delivery of the Group s strategic priorities by ensuring our footprint and expertise is ready to respond to geographical growth, new product development, greater external regulatory scrutiny and the commercial pressure to be ever more efficient.

In 2016 we made good progress across these priorities. Highlights included the opening of a new state-of-the-art facility in Costa Rica which will provide a more efficient operation for current products as well as valuable space for future growth. We also created more than 100 positions for newly qualified graduate engineers across facilities in the US and elsewhere. These individuals, who began their careers with us in 2016, will deliver the pioneering advanced medical devices that enable our healthcare professional customers to continue to improve outcomes for patients during the years to come.

Quality has always been paramount to Smith & Nephew. We have a unified Quality Assurance and Regulatory Affairs team to ensure consistency across our country business units. Requirements of global regulatory agencies have become more stringent in recent years and we expect them to continue to do so. We are continuing to expand our portfolio globally through new product development and by registering our existing products in new markets. In order to meet the expectations of regulators and support this added complexity we continued to invest in our Quality and Regulatory expertise in 2016.

OUR MANUFACTURING FACILITIES

Our largest manufacturing operation is based in Memphis, Tennessee, USA. The Memphis facilities produce key products and instrumentation in our Knee Implant, Hip Implant and Trauma franchises. These include the JOURNEY™ II and LEGION™ knees, the ANTHOLOGY™ Primary Hip System and key Trauma products such as the PERI-LOC™ Ankle Fusion Plating System and TRIGEN™ Intramedullary Nails. In addition to this, Memphis is home to the design and manufacturing process of the VISIONAIRE patient matched instrumentation sets, and OXINIUM™ Oxidised Zirconium, a patented metal alloy available for many of our knee and hip implant systems.

Our Mansfield, Massachusetts, US facility focuses on Sports Medicine related products for minimally invasive surgery including the FAST FIX™ 360 Meniscal Repair System, FOOTPRINT™ PK Suture Anchor, DYONICS Platinum Shaver Blades, ENDOBUTTON™ CL Ultra and the HEALICOIL™ PK suture anchor. Our new Costa Rica facility manufactures COBLATION technology.

The Aarau, Switzerland; Tuttlingen, Germany; Beijing, China; and Devrukh, India facilities manufacture a number of surgical device products including key reconstruction and trauma products, the PLUS™ knee and hip range. The Warwick, UK facility produces the BIRMINGHAM™ Hip Resurfacing System.

Our Oklahoma City, Oklahoma, USA facility produces and services electro/mechanical capital equipment as well as single use sterile devices and also assembles our NPWT devices using components brought in from third parties.

The majority of our wound management products are manufactured at our facilities in Hull, UK; Suzhou, China; and Curaçao.

In Hull we manufacture some of the most high-technology wound care products on the market. Over the last few years we have introduced pioneering products such as PICO, DURAFIBER and ALLEVYN Life, all of which are manufactured in Hull. Since 2011, we have invested approximately £50 million in capital projects at our Hull site. This has included bringing the manufacturing of our complex silver coating technology for ACTICOAT to Hull and installing a Film Extrusion manufacturing line. We run second lines for some of our products in Suzhou, China, and this site also manufactures our wound care products for the mid-tier in the Emerging Markets.

Manufacturing of our Advanced Wound Bioactive products takes place in Curaçao and at various third party facilities in the US.

PROCUREMENT

We procure raw materials, components, finished products and packaging materials from suppliers in various countries. These purchases include metal forgings and castings for orthopaedic products, optical and electronic sub-components for sports medicine products, active ingredients and semi-finished goods for Advanced Wound Management as well as packaging materials across all product ranges.

Suppliers are selected, and standardised contracts negotiated, by a centralised procurement team wherever possible, with a view to ensuring value for money based on the total spend across the Group. On an ongoing basis, we work closely with our key suppliers to ensure high quality, delivery performance and continuity of supply.

We outsource certain parts of our manufacturing processes where necessary to obtain specialised expertise or to lower cost without undue risk to our intellectual property. Suppliers of outsourced products and services are selected based on their ability to deliver products and services to our specification, and adhere to and maintain an appropriate quality system. Our specialist teams work with and monitor suppliers through on-site assessments and performance audits to ensure the required levels of quality, service and delivery.

GLOBAL SUPPLY CHAIN

Our Global Supply Chain function ensures that our products reach our internal and external customers where and when they are needed, in a compliant and efficient manner. Bringing together people, knowledge and expertise helps us meet our objectives and our customers expectations, driving us to become more competitive, responsive and integrated.

We operate three main holding warehouses, one in each of Memphis (Tennessee, US), Baar (Switzerland) and Singapore. These facilities consolidate and ship to local country and distributor facilities. Our distribution hubs for advanced wound products are located in Neunkirchen (Germany), Derby (UK) and Lawrenceville (Georgia, USA).

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TRAINING & EDUCATION

Smith & Nephew is dedicated to helping healthcare professionals improve the quality of care for patients. We are proud to support the development of surgeons and nurses by providing skills training and education on our products and techniques.

Every year, thousands of customers attend our state-of-the-art training centres in the US, UK and China and Smith & Nephew courses at multiple hospitals and facilities around the world.

In 2016, we provided training to more than 40,000 surgeons. Working under expert guidance, attendees learn new techniques and refine skills, to ensure the safe and effective use of our products. These courses are attended by residents, fellows and practicing surgeons who work together to review, discuss and train on current and forward-looking surgical techniques in their areas of clinical expertise. Our courses help up-and-coming surgeons develop trust and gain the experience and confidence

necessary to become experts in their field.

We also support nurses across the world, with many thousands receiving face-to-face training from our representatives every year. For instance, in 2016 we completed our first Wound Care Academy for the Kingdom of Saudi Arabia. The week long intensive course was a theoretical and practical based learning initiative that aimed to enhance the wound care knowledge of local healthcare professionals.

We also support healthcare professionals through our online resources such as the Global Wound Academy, The Wound Institute and, for surgeons, our Education and Evidence website. In 2016 more than 90,000 healthcare professionals trained digitally with Smith & Nephew.

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THE RESOURCES WE NEED TO DELIVER OUR PRODUCTS

SALES & MARKETING

Starting conversations with clinical evidence

In September 2016, Smith & Nephew served as a Diamond Sponsor at the World Union of Wound Healing Societies 2016 (WUHWS) conference held in Florence, Italy. Known as the Olympics of Wound Care , the conference unites the greatest thought-leaders in wound management under one roof every four years.

This year, our Sales & Marketing team combined their efforts with the Scientific & Medical Affairs (SMA) team, conducting hundreds of on-stand product demonstrations as well as three well-attended symposia presented in front of more than 1,000 delegates, each delivering a strong message based on clinical data and evidence. Working together enabled us to engage visitors in evidence-based conversations, reinforcing our position as thought-leaders in wound healing.

Our customers are the providers of medical and surgical treatments and services in over 100 countries worldwide.

We serve our customers through our sales force. Our sales representatives are highly trained and skilled individuals. Becoming a sales representative requires intense training, including passing a strict certification programme, before engaging in discussions with, and ultimately selling products to, customers. Depending on their area of specialism, representatives must be able to demonstrate a detailed knowledge of all the surgical instruments used to implant a device, or have specific understanding of the various surgical techniques a customer might use. In our advanced wound franchises, sales representatives will have a detailed understanding of how patients live with wounds and how

clinicians seek to prevent and treat them, as well as deep knowledge of the clinical and economic benefits of using our products within treatment protocols.

Once a sales representative is certified, they typically spend the majority of their time working directly with and supporting customers, or identifying and contacting new customers. They help to provide in-hospital support to aid in the effective use of our range of advanced medical technologies and techniques.

Our Global Commercial Organisation, led by the Chief Commercial Officer, oversees all commercial activities (sales, marketing, market access, and commercial strategy) across the Group for our full line of business. Its mission is to define and drive best practice in commercial execution across our geographies and in marketing across the franchises.

Our sales force is structured by region, with three commercial organisations serving the US, Europe & Canada, and Asia Pacific and the Emerging Markets. Each is led by a regional President, who reports to the Chief Commercial Officer.

Our US sales forces are specialised by channel. They consist of a mixture of independent contract workers and employees. Sales agents are contractually prohibited from selling products that compete with our products. In most Established Markets outside of the US, country-specific commercial organisations led by the country managing director lead employee sales forces directly. The largest single customer worldwide is the National Health Service (NHS) and associated purchasing groups in the UK,

in the UK, which represent less than 5% of our worldwide revenue in 2016. In our Emerging Markets we operate through direct selling and marketing operations led by country managing directors, and/or through distributors.

Smith & Nephew has three global marketing teams who set the strategic direction of our businesses and develop all the promotional assets and guidance to commercialise our products in Advanced Wound Management, Sports Medicine and Orthopaedics. For that they utilise a variety of traditional and novel means to market to our customers. For example, congresses (educational conferences or trade shows) represent a traditional and efficient way for Smith & Nephew to reach a large number of healthcare professionals at once, often in terms of both advertising/promotion and education. From an awareness perspective, Smith & Nephew displays its latest innovative products and, from an educational standpoint, may also provide satellite symposia or other forms of medical education around these products.

The Global Commercial Organisation also includes a global Commercial Excellence team, who support both the commercial teams and the global marketing teams with several expertise groups. These include strategic planning, business intelligence and market research, digital marketing, pricing, sales force excellence and marketing communications.

We also leverage digital media to connect with our customers. Our digital communications activities have been evolving as technologies and user habits evolve. Content and messaging is currently delivered via global market websites, social media channels and mobile applications. One core use of digital technology to communicate and market to our customers has been Education & Evidence, a membership-driven clinical education website.

What was most pleasing, from a Scientific and Medical Affairs point of view, was the level of spontaneous attendance we received at the booth. The team, comprising both internal and external experts, were challenged with inquisitive questions which led to numerous constructive conversations on improving clinical outcomes.

Vice President of Scientific & Medical Affairs

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OUR PEOPLE

BUILDING CULTURE BY LIVING OUR VALUES

Smith & Nephew is proud of its culture. This culture both endures and evolves, having been shaped by thousands of employees over more than 160 years. Today, it is framed by our values of trust, innovation and performance.

Our Chief Executive Officer, Olivier Bohuon, is responsible for ensuring that we support and encourage our employees to live these values. This includes the multiple programmes and actions that align how we work our culture with what we do our strategy.

VALUE:

We build trust

COMMUNICATION

Building trust requires open and transparent sharing of information through regular and timely communication. We clearly communicate our business goals and performance standards and also provide employees with the training and information that empowers them to succeed. We listen to our employees, holding regular surveys, open dialogue at town hall meetings and focus groups and small group discussions on topics of importance to employees and our business.

Two years ago, Smith & Nephew conducted its biennial employee survey. The Company had recently reorganised to a less siloed but more matrixed structure, moving from Global Business Units to a regional structure with centralised global functions. The results of the survey showed employees wanted a greater feeling of team and connectivity at our major sites. In response to this, site Leadership Councils were formed at our major locations. These councils were dedicated to enhancing the Smith & Nephew culture and making our Company a great place to work. Each council includes representatives from various functional areas across the site location. Each organises site and community events, and takes ownership for ensuring that employees at the site feel informed and engaged.

CODE OF CONDUCT AND BUSINESS PRINCIPLES

Our Code of Conduct and Business Principles defines our expectations for ethical and legal behaviour not only for our employees but to all who conduct business on our behalf. In this way we build trust with our customers, and with each other. All employees review and reaffirm their commitment to the Code of Conduct on an annual basis. The positive impact of clearly defined expectations and regular training has been evident in the results of our Global Employee Survey, which shows employees know and understand the expectations for ethical behaviour and how to report behaviour that does not meet our high standards.

RECOGNITION

To reinforce our core value of trust, we regularly recognise employees who go above and beyond to earn trust through our Spotlight on Trust awards programme. At the same time, we encourage employees to report incidents of noncompliance or misconduct, and ensure they are protected from retaliation. This process applies to all employees, suppliers, agents, contractors and customers alike.

EMPLOYEE WELLNESS

As a Company we are committed to ensuring our employees work in a safe and healthy environment. Smith & Nephew offers wellness programmes which include annual wellness days, fitness support and healthy eating support. For example, the Virgin Pulse programme offered to US-based employees, promotes health and wellness by helping them track their activity, providing fun wellness challenges and allowing them to earn discounts on their healthcare plans. Global Employee Assistance Programmes (EAPs) also support wellness by helping employees manage stress and work/life issues and problems. Through EAP, we provide counselling, webinars and web tools and other resources across many work/life topics. Counselling can span from traditional EAP counselling to financial, legal and everyday family assistance.

VALUE:

We innovate

We view innovation as an essential skill to be demonstrated by all employees. Everyone is empowered to innovate in their job, to question the status quo, to propose new solutions, to continuously improve and to seek the best for the benefit of our customers.

OBJECTIVE SETTING

Innovation is captured formally in the annual objective setting process and employees are encouraged to continuously and pro-actively innovate to improve our costs, processes, services and products.

RECOGNITION

Our annual CEO Award, open to all employees, recognises employees who deliver exceptional results in line with our core values, encouraging innovation and a spirit of continuous improvement at all levels. In 2016 the winners included Bill McGee, who saved the Company $500,000 by suggesting enhancements to our shaver blade manufacturing process in Mansfield, US and Nham Nguyen, who works at our Oklahoma City facility and was instrumental in

improving productivity by 20% in her unit.

Our global employee recognition programme, Going the Extra Mile (GEM), encourages employees to recognise the performance of colleagues and the demonstration of our values of Performance, Innovation and Trust. The GEM programme includes non-monetary and monetary options based on the level of achievement from a simple note of thanks to valuable merchandise. Going the Extra Mile also serves as our platform for a global Long Service Award programme.

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THE RESOURCES WE NEED TO DELIVER OUR PRODUCTS

OUR PEOPLE continued

EXECUTIVE SPONSORSHIP

Each year we hold a CEO Forum for our Top Talent, providing them with the opportunity to work closely with our executive team and with their peers on strategic challenges. One recent output from the Forum has been the creation of the Innovation Task Force to define what innovation looks like in Smith & Nephew and the characteristics that we should seek to embed to encourage innovation across the organisation.

DIVERSITY

We believe that diversity fuels innovation. We are committed to employment practices based on equality of opportunity, regardless of colour, creed, race, national origin, sex, age, marital status, sexual orientation or mental or physical disability unrelated to the ability of the person to perform the essential functions of the job. Our Valuing Difference programme is designed to reinforce this belief and to feature examples of the value of diversity across our business.

Our local Valuing Difference Councils are run by passionate and dedicated people. They meet as a global team quarterly and work to translate strategy to local needs, execute specific actions and share best practice. In 2016 we implemented Communication Toolkits which provide interactive exercises for teams to improve their awareness and education, along with employee case studies placed on the Company s intranet. We also launched an

online development programme for female professionals and eLearning programmes with a specific focus on Valuing Difference.

We recruit, employ and promote employees on the sole basis of the qualifications and abilities needed for the work to be performed. We do not tolerate discrimination on any grounds and provide equal opportunity based on merit. We do not use any form of forced, compulsory or child labour. We support the Universal Declaration of Human Rights of the United Nations. This means we respect the human rights, dignity and privacy of the individual and the right of

employees to freedom of association, freedom of expression and the right to be heard.

VALUE:

We perform

TALENT AND CAPABILITY DEVELOPMENT

Attracting the best talent and developing our employees is critical to achieving our business objectives. We are committed to working with employees to develop each individual s talents, skills and abilities. Employee advancement is merit-based, reflecting performance as well as demonstration of core competencies which include our values, with an emphasis on ethics and integrity. We prioritise the development

and promotion of our existing employees whenever possible.

Each year Smith & Nephew conducts a comprehensive global development and capability review process to identify high-potential employees and ensure they have robust career development plans. Employees are provided with opportunities to develop their skills and career through new assignments and on the job experiences. In addition, the Board reviews succession plans for key executive roles and succession plans are in place for other critical positions across our business.

PERFORMANCE MANAGEMENT

We provide fair recognition and reward based on performance. Our performance management process ensures all employees set objectives which align to our overall business goals and have clear line-of-sight to how their individual contributions benefit the Company. Our performance management system assesses and rewards both performance and behaviour, in line with our Code of Conduct. All employees have a specific annual objective to adhere to the Code of Conduct and to complete training certifying their compliance with this Code.

NUMBER OF EMPLOYEES[1]

11	804	15,644
Board of Directors	**Senior Managers[2] and above in 2016**	**Total employees in 2016**

A	MALE	8	**A**	MALE	594	**A**	MALE	9,230
B	FEMALE	3	**B**	FEMALE	210	**B**	FEMALE	6,414

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For information on the composition of our Board, see page 48

GREAT PLACE TO WORK

Being a Great Place to Work is one of our goals as a Company. To earn this recognition, employees in each country must complete the Great Place to Work Trust Index survey and country management must participate in a Culture Audit. Both evaluate performance on key dimensions of engagement: Credibility, Respect, Fairness, Pride and Camaraderie.

Smith & Nephew uses the Great Place to Work Institute s Trust Index as the basis for our Global Employee Survey. Our last full survey was in 2014, which demonstrated improvement from 2012 across all four areas of focus; understanding of our Strategic Direction improved by 10%, Empowerment by 20%, Cross-business coordination by 12% and Customer focus by 27%. We are conducting our current employee survey in two waves: Wave 1 was completed in some countries in 2016 and all other countries where Smith & Nephew operates will take part in Wave 2 during 2017.

In 2016 Canada, Denmark and Greater China joined Spain and Italy as countries where we have been recognised. As the Great Place to Work Institute did not have an accreditation component in South Africa at that time, we carried out a similar survey there that does have accreditation capabilities Deloitte s Best Company to Work for Survey following which South Africa received a Gold Seal from Deloitte.

In Canada, a winning attitude, improved communications and celebrating successes have created a team spirit based on trust. For Denmark, initiatives such as 30 minutes with management and activities focused on day-to-day employee wellbeing and career development have led to a strong culture. In Greater China, recognition was achieved through initiatives such as regular town halls, a People Development Forum, an employee Juice Club and communicating via the WeChat platform.

A Family Day, quarterly employee town halls and leadership team lunches with new starters, along with a successful graduate internship programme and the day to day focus on employee wellbeing, are examples of why South Africa achieved this recognition.

For Smith & Nephew, being a Great Place to Work means having a workplace where employees are proud and excited to come to work each day because they are making a difference for customers and patients. It is not about programmes or initiatives, it is about people and we believe our people make Smith & Nephew a Great Place to Work.

A place where employees enjoy their work

In the US alone, more than 150 employees volunteer their time to manage Camaraderie Councils. These councils lead and uphold the Smith & Nephew culture through various team and charitable activities. Their primary objective is to make the Company a place where employees enjoy their work, as well as take pride in the work they do.

A critical aspect of the Council is helping our teams support dozens of local non-profit organisations. For example, Smith & Nephew s Fort Worth, Texas site conducted a community clean up event where 20 employees volunteered on a Saturday to paint houses in a local neighbourhood. In Andover, Massachusetts, the site celebrated Volunteer Month in May where employees could choose from a number of scheduled activities or coordinate their own event. The site also hosted its first 5K Fun Run where more than 90 employees, friends and family took part in support of a local children s hospital.

In Austin, Texas, employees volunteered to create a menu, grocery shop, and prepare meals for families staying at the local Ronald McDonald House, a global not-for-profit organisation. Our Memphis, Tennessee employees conducted community focused events every month in 2016 including taking part in a Walk to Cure Arthritis where more than 100 employees attended. The US Field Camaraderie Council manages community outreach events for Smith & Nephew s more than 2,000 sales representatives across the nation. Since inception in June 2016 it has hosted more than 15 events in support of 15 different non-profit organisations. Thanks to the efforts of the US Camaraderie Councils, we improve morale, promote camaraderie and make a positive impact on the communities where we live and work.

1 Number of employees as at 31 December 2016 including part time employees and employees on leave of absence.

2 Senior Managers and above includes all employees classed as Directors, Senior Directors, Vice Presidents and Executive Officers and includes all statutory directors and Directors of our subsidiary companies.

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SUSTAINABILITY

A Future Focus

TAKING SUSTAINABILITY TO THE CORE OF THE BUSINESS

We significantly advanced our commitment to sustainability in 2016 through ratification of a Group Sustainability Strategy which is fully aligned to the Group Business Strategy. The Group Sustainability Strategy both drives and is driven by implementation of the Group Business Strategy, ensuring that all three main aspects of sustainability economic prosperity, social responsibility and environmental stewardship advance as one. This shift in focus communicates clearly that in order to be successful we must advance simultaneously in all three aspects.

This is a summary report of our sustainability activities and progress in 2016. Our annual Sustainability Report, to be published in April 2017, will provide further detail regarding our 2016 progress, describe the Group Sustainability Strategy and its associated goals, and specify targets to move our performance toward these goals.

GROUP SUSTAINABILITY STRATEGY

Smith & Nephew has been committed to working in a sustainable, ethical and responsible manner everywhere we do business. We are proud of our achievements over many years, as witnessed by our recurring inclusion in leading indices such as FTSE4Good and the Dow Jones Sustainability Index.

Sustainability is a journey, and in 2016 we thought deeply about our destination for the longer-term. The result was a new Group Sustainability Strategy. At the heart of this are ten long-term aspirational goals. These encompass all aspects of our business, and will inform and drive our business strategy for years to come. The Board has endorsed these and executive management is behind them. These goals are set out on this page.

The Board has evaluated the social and environmental risks as part of their ongoing risk management duties and has concluded that none of these risks are material in the context of the Group as a whole.

Of course, longer-term goals need medium term SMART targets to ensure we are making the right progress. We are finalising these for the next five years and will provide more detail in our Sustainability Report, due to be published in April 2017.

2016 was not just a year of planning. We continued to focus on delivering improvements across many areas of our business such as health, safety and environment, energy and water consumption and waste management. The highlights are found on the opposite page, and much greater detail will also be included in the 2016 Sustainability Report.

Our ten long-term aspirational goals

Zero work-related injuries and illnesses across the value chain

Water: Total water impacts of our products and solutions are balanced with local human and ecosystem needs

Waste: All materials are either shipped as part of product or returned for beneficial use

Carbon: 80% absolute reduction in total life cycle greenhouse gas emissions by 2050

Ethical Business Practices: All activities are conducted in compliance with applicable International Labour Organisation (ILO) conventions, involve no environmental degradation, and are free from corruption

Zero product-related and service-related patient injuries

Robust social responsibility programmes which contribute to the attraction and retention of top talent

Products and services are aligned to market economic, social and environmental expectations and anticipate future market conditions:

All products have identified and clearly-described sustainability attributes

R&D and New Product Development (NPD) processes deliver environmental-, social-, and healthcare economically-advantaged innovations

Strategic risks and opportunities are understood and business activities are aligned to risk appetite

Environmental, social, and economic impacts of (1) potential acquisitions, (2) technologies to be extended to Emerging Markets, (3) innovative business models, (4) cost of quality reduction initiatives, and (5) manufacturing siting, functional optimisation and site utilisation alternatives are fully understood and appropriately balanced

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2016 SUSTAINABILITY ACTIVITIES AND PROGRESS

Employee safety, wellness and volunteering

A healthy and safe working environment is fundamental to the way we work at Smith & Nephew. We must ensure that the safety of our employees and those who work with us is given the highest priority when we perform our daily activities in our offices around the world, when we visit customers and in our manufacturing environment.

Engagement with the communities in which we operate was significantly extended through employee volunteering and we have strengthened and deepened employee wellness programmes with a focus on enabling healthy lifestyle choices.

In 2016, our employee total incident rate (TIR), or recordable injury rate, reduced by 4% to 0.52, from 0.54 which continues to confirm our position in the top quartile of safety performance in our sector. This was achieved through the implementation of our sustainability management system, an active Internal Audit programme, a number of behavioural based safety campaigns and robust incident reporting and investigation systems across the Group. This was offset by a slight increase in the accident severity as there was an increase in our lost time incident frequency rate (LTIFR) of 15% to 0.23, from 0.20. There were no employee or contractor fatalities.

Our headline safety performance includes all employees and supervised contractors, it excludes unsupervised contractors. We adopt the industry standard USA Occupational Safety and Health Administration (OSHA) system to record incidents of occupational injury and ill-health.

Lost-time incidents are defined as those which result in a person not being able to report for work on the day or shift following the incident. Performance is expressed as a rate of the number of incidents per 200,000 hours worked.

Waste

Growth and acquisitions within the business have resulted in a wider environmental footprint. As a direct result the volume of waste arising from our operations increased by 11% in 2016. We continue to identify recycling opportunities and ways of diverting our waste away from landfill. In 2016, we recycled 74% of our waste, including waste diverted for energy recovery.

Water

Significant progress was made in 2016 to reduce our water consumption, particularly at our Memphis, US manufacturing location where we replaced water-cooled air compressor units with air-cooled radiator units. This investment reduced water consumption by the equivalent of the volume of fifteen Olympic-sized swimming pools, contributing to an annual reduction in water usage across the Group of 11%.

Energy and greenhouse gas emissions

Over the past year our energy use has increased by 5% with a corresponding 5% increase in carbon dioxide equivalent (CO_2e) emissions, driven by organic growth, acquisitions and changes in our manufacturing footprint.

Methodology, materiality and scope

The data reported relates to areas of largest environmental impact including manufacturing sites, warehouses, research and offices. Smaller locations representing less than 2% of our overall emissions are not included. Acquisitions completed before 2016 are included in the data. Each year we work with an independent partner to verify our sustainability data and gain assurance.

All emissions fall within the scope of our consolidated financial statement and we have used the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition) as guidance for this process. Primary data from energy suppliers has been used wherever possible. The acquisitions of Blue Belt Technologies and DC Manufacturing in Russia are included in 2016 for the first time, this is in line with our established policy for integration of acquired assets.

0.52 **-4%**

Total recordable incident rate, TIR

0.23 **+15%**

Lost time incident frequency rate, LTIFR

10,122 +11%

Total waste (t)

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SUSTAINABILITY

Our emissions have been calculated by using specific emissions factors for each country outside the USA and regional factors within the USA. We have used the US EPA Emissions & Generation Resource Integrated Database (eGRID) for US regions and the UK Government DEFRA Conversion Factors for Greenhouse Gas Reporting for elsewhere. The emissions from 2015 were calculated using the most up to date factors available and likewise in 2016.

Direct emissions include fugitive emissions from the manufacturing and research locations and arise from the losses of refrigerant gases, they also include the combustion of fuels on site for the operation of facilities. Indirect emissions include purchased electricity.

	2016	2015	2014
CO_2e Emissions (tonnes) from:			
Direct emissions	9,822	11,011	11,208
Indirect emissions	82,415	77,191	74,178

Total	92,237	88,202	85,386
Intensity ratio			
CO_2e (t) per $m sales revenue	19.6	19.2	19.4
CO_2e (t) per full-time employee	5.9	6.0	6.9

Revenue 2016: $4.7bn; 2015: $4.6bn; 2014: $4.4bn.

Full-time employee data 2016: 15,584; 2015: 14,698; 2014: 12,437.

Notes

2014 data adjusted to exclude ArthroCare.

2015 data adjusted to exclude recent acquisitions in

Russia and Colombia.

2016 data includes all data, including acquisitions since 2015. Direct CO_2e emissions exclude purchased steam at one manufacturing location, which has now been correctly included in indirect emissions.

Target Zero

In 2016, we ran various campaigns to improve employee safety awareness. These included launching an HSE brand to promote health, safety and environmental matters across the business. This was called Target Zero : No Incidents, No Injuries, No Harm. We also provided useful safety posters called safety splashes that could be printed or used at locations on video screens in our buildings for employees, contractors and visitors to read.

682.7 -11%
Water (1,000m^3)

207 **Energy (GWh)**	+5%
92,237 **Greenhouse gas emissions, CO_2e (t)**	+5%

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FINANCIAL REVIEW

Strong platform to build on

REVENUE

Group revenue in 2016 was $4,669 million (2015: $4,634 million), an increase of 1% on a reported basis and 2% on an underlying basis[1].

In 2016, we delivered reported revenue growth of 4% and underlying revenue growth[1] of 3% in the United States. Revenue growth on a reported basis was -1% and on an underlying basis[1] was flat across our other Established Markets, although Japan and France delivered strong performances. In our Emerging Markets reported revenue growth was -3% and underlying growth[1] was flat in 2016. Most of our Emerging Markets businesses generated double-digit growth which was offset by weakness in China and the Gulf States. In China, the slow-down in end-markets seen since mid-2015 was compounded by destocking in the distributor channel during 2016. By the end of 2016 most franchises in China had returned to growth as the level of stock in the channel was adjusted, although we expect Advanced Wound Management to continue to be impacted in the first half of 2017. In the oil-dependent Gulf States we saw very difficult trading conditions, particularly in our tender business, which are likely to persist. As a matter of course we expect to see some volatility in the Emerging Markets, but we continue to see significant long-term growth potential and are very well positioned in our chosen markets.

The global product franchise highlights in 2016 included our strong performance across Sports Medicine, where we continue to reap the benefits of the acquisition of ArthroCare. PICO[à], our novel single-use NPWT system, is transforming the use of this therapy option. Our world class Knee Implant portfolio was further strengthened by the acquisition of NAVIO[à], an exciting robotics platform, from which we delivered more than 50% reported revenue growth in 2016.

PROFIT

Operating profit of $801 million (2015: $628 million) includes acquisition and disposal related items, as well as restructuring and rationalisation costs, amortisation and impairment of acquisition intangibles and legal and other items incurred in the year. The 2016 operating profit is before a one-off $326 million gain from the disposal on the Gynaecology business in August 2016. The operating profit margin increased to 17.2% (2015: 13.6%) primarily driven by the costs in 2015 relating to anticipated and settled metal-on-metal hip claims.

Trading profit[1] was $1,020 million (2015: $1,099 million). The trading profit margin[1] was 21.8% (2015: 23.7%). This reduction primarily reflects the significant transactional currency headwind seen in 2016 resulting from the sustained strength of the US Dollar. Additionally, we lost some operational leverage from the lower than anticipated sales

growth and our investment in Blue Belt Technologies was dilutive. These factors were somewhat offset by the Group Optimisation programme.

Selling, general and administrative expenses decreased by $275 million (10%) from $2,641 million in 2015 to $2,366 million in 2016. In 2016, administrative expenses included amortisation of software and other intangible assets of $61 million (2015: $66 million), $62 million of restructuring and rationalisation expenses (2015: $65 million), an amount of $178 million relating to amortisation and impairment of acquired intangibles

(2015: $204 million), $9 million of acquisition related costs (2015: $12 million) and $30 million net credit primarily related to a $44 million curtailment credit on UK post-retirement benefits (2015: $190 million charge for legal and other charges). Excluding the above items, selling, general and administrative expenses were $2,086 million in 2016, a decrease of $18 million from $2,104 million in 2015.

Research and development expenditure as a percentage of revenue remained broadly consistent at 4.9% in 2016 (2015: 4.8%). Actual expenditure was $230 million in 2016 compared to $222 million in 2015. The Group continues to invest in innovative technologies and products to differentiate it from competitors.

PROFIT ON DISPOSAL

The Group realised a profit on the disposal of its Gynaecology business of $326 million. The business had been primarily internally generated and the disposed assets had a net book value of $10 million. The proceeds were $350 million with associated disposal related costs of $7 million and liabilities of $7 million.

TAXATION

Our reported tax rate of 26.2% (2015: 26.7%) includes the one-off benefit of a US tax settlement which is partly offset by the tax rate on the disposal of the predominantly US Gynaecology business.

1 These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177.

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FINANCIAL REVIEW

$4,669m +1%

Revenue

$1,020m -7%

Trading profit[1]

$801m +28%

Operating profit

21.8% -190 bps

Trading profit margin[1]

17.2% +370bps

Operating profit margin

88.1¢ +92%

Earnings per share		
82.6¢		**-3%**
Earnings per share adjusted[1]		

The underlying increase in revenues, by market, reconciles to reported growth, the most directly comparable financial measure calculated in accordance with International Financial Reporting Standards (IFRS), as follows:

					Reconciling items	
	2016 $ million	2015 $ million	Reported growth %	Underlying growth %	Acquisitions/ Disposals %	Currency impact %
US	2,299	2,217	4	3	1	
Other Established Markets	1,679	1,702	(1)			(1)
Emerging Markets	691	715	(3)		2	(5)
Total	4,669	4,634	1	2		(1)

Trading profit reconciles to operating profit, the most directly comparable financial measure calculated in accordance with IFRS, as follows:

	2016 $ million	2016 %	2015 $ million	2015 %
Operating profit	801	17.2%	628	13.6%
Acquisition related costs	9	0.2%	12	0.2%
Restructuring and rationalising costs	62	1.3%	65	1.4%
Amortisation of acquisition intangible and impairments	178	3.8%	204	4.4%
Legal and other	(30)	(0.7)%	190	4.1%
Trading profit	1,020	21.8%	1,099	23.7%

1 The non-GAAP measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 175-177 and page 173.

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CAPITAL RETURNS

The efficient use of capital on behalf of shareholders is important to Smith & Nephew. The Board believes in maintaining an efficient, but prudent, capital structure, while retaining the flexibility to make value enhancing acquisitions. This approach is set out in our Capital Allocation Framework which we used to prioritise the use of cash and ensure an appropriate capital structure.

Our commitment, in order of priority, is to:

1. continue to invest in the business to drive organic growth;

2. maintain our progressive dividend policy;

3. realise acquisitions in-line with strategy; and

4. return any excess capital to shareholders.

This is underpinned by maintaining leverage ratios commensurate with solid investment grade credit metrics.

ENHANCING GROUP EFFICIENCY

In 2016 we continued to simplify and improve our operating model and delivered significant efficiencies. In Manufacturing, our Global Operations leadership team is focused on supporting the Group s strategic priorities by ensuring our footprint and expertise are ready to respond to geographical growth, new product development, greater external regulatory scrutiny and the commercial pressure to be ever more efficient. We made good progress across these areas in the year. The Group Optimisation Plan was announced in May 2014 with a stated savings target of annualised benefits of $120 million by the end of 2017. We delivered ahead of plan and reached our target at the end of 2016. These savings have been driven by our focus on efficient procurement, the greater agility of the single country managing director model and rationalisation of our facility footprint in a number of countries.

SUCCESSFUL ACQUISITION

TRACK RECORD

In recent years we have undertaken a number of acquisitions, strengthening both our technology and product portfolio, and our Emerging Markets business. We have delivered good returns, establishing a strong track record in M&A. With Healthpoint, acquired in 2012 for $782 million, our third year return on capital exceeded our expectations. ArthroCare, acquired in 2014 for $1.5 billion, is performing well. We have achieved our targeted cost savings and are ahead of our plan to deliver $85 million of synergies by the end of 2017.

In 2016, we continued to invest in acquisitions such as Blue Belt Technologies with its NAVIO robotics surgical platform. In addition, we created compelling value by selling our Gynaecology business for $350 million (2015 revenue: $56 million). We had built this business rapidly on the back of Smith & Nephew s resection technology and expertise. We completed the associated $300 million share buy-back programme in December 2016, returning the value created directly to shareholders.

MEASURING PERFORMANCE

In 2016 we have worked to develop Return On Invested Capital (ROIC) as a performance metric for the Group. In response to feedback from investors, this metric is proposed as an element of our Performance Share Plan beginning in 2017.

NEW CFO

Julie Brown was the CFO during 2016 until she left Smith & Nephew in January 2017. During her time at Smith & Nephew the Finance function was refocused as a global function supporting the commercial business and providing excellence in finance operations and specialist areas. From March 2017 the Finance function will be led by Graham Baker who will join Smith & Nephew from Alvogen.

OUTLOOK

We expect the dynamics in our markets to be similar in 2017 to those seen in 2016. Against this backdrop, the Group expects to deliver higher underlying revenue growth and an improved trading profit margin in 2017.

Our reported revenue growth is a combination of underlying revenue growth, impact of acquisitions and disposals and foreign exchange. We expect reported revenue growth in the range of 1.2%-2.2% at prevailing[1] exchange rates. We expect 2017 underlying revenue growth to be in the 3-4% range, reflecting not only the dissipation of the headwinds we faced in China and the Gulf States but also, most importantly, our improving execution.

1 Prevailing exchange rates as at 31 January 2017.

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RISK REPORT

Our approach

to risk

OUR RISK MANAGEMENT PROCESS

The following chart shows how our risk management process is an integral part of our business. Individual risk owners within the business areas carry out day-to-day risk management activities within the framework established by the Group Risk Office, including the identification of risks, undertaking risk assessments and treating them. These activities are reviewed by Internal Audit and other control functions, which provide assurance to the Group Risk Committee chaired by the Chief Executive Officer and then to the Board and its committees.

BOARD OF DIRECTORS AND BOARD COMMITTEES

Responsible for regular oversight of risk management and for annual strategic risk review	Monitors risks through Board processes (Strategy Review, Disclosures, M&A, Investments, Disposals) and Committees (Audit and Ethics & Compliance), management reports and deep dives of selected risk areas	Audit Committee reviews effectiveness with support from Internal Audit

GROUP RISK COMMITTEE

Reviews external/internal environment for emerging risks

Reviews risk register updates from Business Areas

Identifies significant risks and assess effectiveness of mitigating actions

BUSINESS AREA

Carries out day-to-day risk management activities

Identifies and assesses risk

Implements strategy and actions to treat risk within business area

Assigns Risk Owners to lead treatment actions

Assigns Risk Champions to support regular risk register updates

GROUP RISK OFFICE

Establishes risk management framework

Facilitates implementation and coordination through Risk Champions

Provides resources and training to support process

Prepares Board and Group Risk Committee reports based on Business Area and other updates

Assessment of effectiveness of the risk management process

INTERNAL AUDIT AND CONTROL FUNCTIONS

Reviews risk management process periodically

All Control Functions (Legal, Compliance, HSE, Quality & Regulatory) provide independent assurance to management and Board on assertions of risk exposure

OUR RISK APPETITE

The Group operates in global markets with long-term growth potential. We are pursuing ambitious growth targets and are prepared to accept a certain level of risk to remain competitive and to continue operating in an ever-changing world. We are very clear about the specific risks our businesses face and the level of risk that we are prepared to accept in each part of our business. We have put in place robust plans for managing those risks, through elimination, avoidance, sharing or mitigation.

Our approach to each risk varies depending on the circumstances and we accept that, over time, our approach towards each risk might change as our business or the external environment evolves.

During the year, the Board undertook an exercise to evaluate its tolerance for risk, recognising that our appetite for risk varies depending on the category of commercial risk. Even within categories of risk, our tolerance for risk may vary from one to another. Our tolerance for each risk is set out opposite in our table of Principal Risks.

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Our Principal Risks

Our risk management programme has identified a broad range of risks which we believe could seriously impact the profitability or future prospects of the Company. We define our Principal Risks as those risks which could threaten our business model or the future long-term performance, solvency or liquidity of the Company. These are listed below and each is linked to one or more of our Strategic Priorities as detailed below.

PRICING AND REIMBURSEMENT

Our success depends on governments providing adequate funding to meet increasing demands arising from demographic trends. The prices we charge are therefore impacted by budgetary constraints and our ability to persuade governments of the economic value of our products, based on clinical data, cost, patient outcomes and comparative effectiveness.

In implementing innovative pricing strategies, we have a moderate to high tolerance for risk and are willing to accept certain risks in pursuit of new business opportunities.

Link to strategy

Our Strategic Priorities to Build a Strong Position in Established Markets and to Focus on Emerging Markets depends on our ability to sell our products profitably in spite of increased pricing pressures from governments.

Examples of risks

Actions taken by management

Developing innovative economic product and service solutions for both Established and Emerging Markets, such as Syncera[à].

Maintaining an appropriate breadth of portfolio and geographic spread to mitigate exposure to localised risks.

Reduced reimbursement levels and increasing pricing pressures.	Incorporating health economic components into the design and development of new products. Emphasising value propositions tailored to specific stakeholders and geographies through strategic investment and marketing programmes.
Reduced demand for elective surgery.	Holding prices within acceptable ranges through global pricing corridors.
Lack of compelling health economics data to support reimbursement requests.	
Trading margin will be impacted when the currencies in our main manufacturing countries (US, UK, Costa Rica and China) move against the currencies in the rest of the world where our products are sold.	

PRODUCT INNOVATION, DESIGN AND DEVELOPMENT

The medical devices industry has a history of rapid new product innovation. The sustainability of our business depends on finding and developing suitable products and solutions to meet the needs of our customers and patients to support long-term growth.

In acquiring and developing new technologies and products, we have a moderate to high tolerance for risk and are willing to accept certain risks in pursuit of innovation, whilst having a very low tolerance for product safety risk.

Link to strategy	**Actions taken by management**
Our Strategic Priority to Innovate for Value depends heavily on our ability to continue to develop new innovative products and bring them to market.	R&D processes focused on identifying new products and potentially disruptive technologies and solutions.

Examples of risks	Increasing prioritisation and allocation of funds for R&D.
Insufficient innovation due to low R&D investment, R&D skills gap or poor product development execution.	Pursuing business development opportunities, which augment our portfolio.
Competitors introduce disruptive technologies or business models.	Implementing efficient processes to roll out new products to customers.
Inability to prioritise and focus on key projects, investments and strategic initiatives.	Monitoring of external market trends and collation of customer insights to develop product strategies.
	Ensuring that design for manufacture is embedded into product development.

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RISK REPORT

OPERATIONAL RISKS QUALITY AND BUSINESS CONTINUITY

The Company faces a number of operational risks. Many of our products are implanted or used within the human body. Product safety and quality is therefore of critical importance. Our business also depends on smart procurement of materials, efficient manufacturing, controlled inventory management and the timely supply of our products to our customers. Some of our key products are reliant on one production facility or one supplier for raw materials, components, finished products and packaging materials.

In operating our business, managing our suppliers, and managing our facilities, we have a very low tolerance for risk. We aim to be as efficient as possible and adopt a cautious approach, but recognise that we need to accept certain risks in order to take full advantage of the opportunities open to us.

The Company implements and certifies its Quality Management Systems to accepted national and international standards in order to assure the quality of our products. To manage our exposure to disruptive incidents that could threaten business continuity, we operate a comprehensive framework of emergency management, incident management and business continuity management.

Link to strategy

Our Strategic Priority to Simplify and Improve our Business Model requires us to operate effectively and efficiently, to

Actions taken by management

Ensuring that we have comprehensive product quality processes and controls from design to

produce products of quality and to ensure continuity of supply of products and services to customers.	customer supply.
Examples of risks	Ensuring emergency and incident management and business recovery plans are in place at major facilities and for key products and key suppliers.
Defects in design or manufacturing of products supplied to, and sold by, the Company could lead to product recalls or product removal or result in loss of life or major injury and also cause negative financial and reputational impacts.	Validating second sources for critical components or products.
Failure or performance issues at a critical/single source facility or supplier of key products or services may impact revenues or profits.	Undertaking risk based review programmes for critical suppliers.
If a key facility were rendered unusable by a catastrophe, or we lost a number of leaders or employees in a catastrophe, business plans and targets may not be met.	Enhancing travel security and protection programme.

MERGERS AND ACQUISITIONS

As the Company grows to meet the needs of our customers and patients, we recognise that we are not able to develop all the products and services required using internal resources and therefore need to undertake mergers and acquisitions in order to expand our offering and to complement our existing business. In other areas, we may divest businesses which are no longer core to our activities. It is crucial for our long term success that we make the right choices around acquisitions and divestments.

In acquiring new businesses and business models, we have a moderate to high tolerance for commercial risk and are willing to accept certain risks in pursuit of new business. However, we have an extremely low tolerance for regulatory or compliance risk.

We have a well-defined cross-functional process for managing risks associated with mergers and acquisitions that is subject to scrutiny from executive management and the Board of Directors.

Link to strategy	Actions taken by management
Our Strategic Priority to Supplement Organic Growth with Acquisitions depends on our ability to identify the right acquisitions, to conduct thorough due diligence and to integrate acquisitions effectively.	Acquisition activity is aligned with corporate strategy and prioritised towards products, franchises and markets identified to have the greatest long-term potential.
Examples of risks	
Failure to identify appropriate acquisitions or to conduct effective acquisition due diligence.	Clearly defined investment appraisal process based on return on capital, in accordance with Capital Allocation Framework.
Failure to integrate newly acquired businesses effectively.	Undertaking detailed and comprehensive cross-functional due diligence prior to acquisitions.
Inheriting regulatory or compliance risks from previous owners.	Implementing consistent integration processes designed to identify and mitigate risks in the early stages post completion.
Failure to embed Company standards, policies and financial controls quickly enough following acquisition.	Early embedding of our desired standards of compliance with laws, internal policies and controls.
Failure to allocate capital resources effectively.	Comprehensive post-acquisition review programme.
	Proactively clearing new products from competitive patents and monitoring.
	Compliance risks included as part of due diligence reviews, integration plans and reporting for acquisitions.

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LEGAL, REGULATORY AND COMPLIANCE RISKS

The Company operates in an industry which is subject to heavy regulation in multiple jurisdictions. There is increasing public scrutiny of ethics in business and doing the right thing has become part of our licence to operate. We also seek to secure appropriate protection for our intellectual property and defend against claims of infringement by others. National regulatory authorities enforce a complex pattern of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. They also review data supporting the safety and efficacy of such products and may inspect them for compliance with appropriate standards, including those relating to Quality Management Systems or Good Manufacturing Practice regulations.

In complying with laws and regulations, including those relating to bribery and corruption, product safety and patient and employee safety, we have an extremely low tolerance for risk. Despite our efforts, we recognise that, as in any human system, compliance mistakes may occur. We respond to issues as they arise and revise our programme as appropriate.

Link to strategy

Compliance with applicable laws and regulations and doing the right thing is part of our licence to operate and underlies all our Strategic Priorities.

Examples of risks

Failure to act in an ethical manner consistent with our Code of Conduct.

Actions taken by management

Leadership from the top with Ethics & Compliance Committees at Board and executive level overseeing our ethical and compliance practices.

All employees are required to certify compliance on an annual basis with our Code of Conduct and Business Principles.

Violation of anti-corruption or healthcare laws, breach by employee or third party representative.	Training programmes are in place for all employees, and third parties with ethical and compliance responsibilities; plus monitoring and auditing programmes to verify implementation.
Competitors may assert patents or other intellectual property rights against the Company, or fail to respect the Company s intellectual property rights.	Confidential independent reporting channels for employees and third parties to report concerns.
Significant non-compliance with policy, regulations or standards governing products and operations regarding registration, manufacturing, distribution, sales or marketing.	Careful attention to intellectual property considerations.
Failure to obtain proper approvals for new or changed technologies, products or processes.	Standardising and monitoring compliance with quality management and practices through Global Quality Assurance and Regulatory Affairs organisation.
Failure to implement programmes and supporting resources to ensure product quality and regulatory compliance, including analysis of customer complaints and adverse event data.	Incident management teams in place to respond in the event of an incident relating to patient safety.
	Reviewing product safety and complaint data.

OTHER RISKS

Other risks, foreseen or unforeseen, may also threaten the profitability or future prospects of the Company, either in the short-term or like the risks set forth above more profoundly. Following, are examples of other such risks.

Risk	Response

Cyber security	We have analysed the possible impact of a cyber security attack on the Company and recognise that this could cause significant disruption and reputational damage.
Political and economic forces	We have analysed the implications of Brexit, the changing political landscape in the US and political and economic conditions in a number of other countries. Whilst the changing environment in some of these countries could be expected to impact our revenues and profits, we believe that our business is sufficiently geographically diverse.
Talent management	We recognise that people management, effective succession planning and the ability to attract and retain talent is of great importance to the success of our Company.

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RISK REPORT

RISK MANAGEMENT ACTIVITIES IN 2016

The Board and its Committees undertook a number of risk management activities throughout the year as follows:

IDENTIFICATION OF RISKS

We review risk through two processes:

The bottom-up process undertaken by the Risk Champions in the business areas and functions across the Group to identify and manage the risks in their areas; and

The top-down process undertaken by the members of the executive committee to identify the key risks to the strategic priorities, top products and product platforms.

During the year, the key risks identified through these two processes were mapped against each other and regrouped to produce a revised schedule of Significant

ASSESSMENT OF MANAGEMENT ACTIONS

The effectiveness of actions undertaken by management to address the key risks identified is assessed in a number of ways:

The Risk Champions in the business areas and functions across the Group assess the effectiveness of mitigating actions being undertaken locally and regionally;

All control functions provide independent assurance to management, the Audit Committee and the Board on the effectiveness of management actions and the Internal Audit function periodically reviews the risk management process; and

Risks, which were discussed at the Strategy Review in September. Each Board member was then interviewed to ascertain tolerance for each principal risk.

We have undertaken a number of deep dives at Board and Committee level into the management of the risks being examined (see below).

DEEP DIVES INTO RISKS

We have reviewed at the Board and its Committees a number of different topics during the year relating to risk, including the following areas:

Strategic: R&D presentation to the Board, hands on demonstrations of innovative products at site visits, presentations to the Board and the Audit Committee on China and the Gulf

Operational: Presentations to the Board on inventory and the supply chain, the manufacturing network and dependency on single manufacturing sites, regular reports on quality issues, and complaints to the Ethics & Compliance Committee, pricing and commercial excellence presentation to the Board

Financial: Presentations to the Audit Committee on the tax and treasury functions

IT/cyber: Report to the Audit Committee on IT and cyber security

Compliance and legal: Regular reports on compliance matters and risks to the Ethics & Compliance Committee, covering M&A compliance risk and third party distributors, regular legal reports to the Board including updates on intellectual property and litigation

Talent management: Annual discussion on succession planning at the Board, presentation on culture and values at the Strategy Review.

SINCE THE YEAR END

In February 2017, the Board reviewed the effectiveness of the risk management process, considering the Principal Risks, actions taken by management to manage those risks and the Board s risk appetite in respect of each risk. The Board considered that the risk management process was effective. We recognise that this is an ongoing process and work will continue in 2017 and beyond to ensure that this remains the case.

RISK MANAGEMENT PLAN FOR 2017

In 2017, we shall be further developing our approach of looking at risk management through a product focused lens. We have identified the key products which will drive our multi-year strategic plan and have formed cross functional risk working groups for each of these products and product platforms. Each risk working group consists of members from the commercial, operational, R&D and risk functions and is headed by a senior product risk leader. The risk

working groups will evaluate all the risks which could impact the product or product platform through its life from design and development, sourcing of raw materials, the manufacturing process, product launch, marketing, commercialisation, regulatory, legal and compliance risks. The risk working groups will also ensure that appropriate treatment actions are in place. The Risk Champions will continue their work to ensure that any non-product related risks continue to be appropriately identified and managed. Further work will also be undertaken in reviewing the effectiveness of the risk management programme.

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Our Viability Statement

During the year, the Board has carried out a robust assessment of the Principal Risks affecting the Company, particularly those which could threaten the business model. These risks and the actions being taken to manage or mitigate them are explained in detail on pages 43 to 46 of this Annual Report.

Having assessed the principal risks, the Board has determined that we have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a period of three years from 1 January 2017. In our long term planning we consider horizons of both five and ten years. However, as most of our efforts are focused on the coming three years, we have chosen this period when considering our viability.

In reaching this conclusion, we have undertaken the following process:

significant risks which they believed could seriously impact the profitability and future prospects of the Company and the principal risks that would threaten its business model, future performance, solvency or liquidity.

For the purpose of stress testing the viability of the Company, we have undertaken a robust assessment of the principal risks and some other risks, which could threaten the viability or existence of the Company. The principal and other risks we have identified in this process are:

Pricing and reimbursement pressures or currency exchange volatility (Principal Risk) leading to a major loss of revenues and profits;

Operational risk (Principal Risk):

We have carried out a scenario analysis of these principal and significant risks to evaluate the impact of a severe but plausible combination of these risks actually occurring over the three year period.

We have considered and discussed a report setting out the terms of our current financing arrangements and potential capacity for additional financing should this be required in the event of one of the scenarios modelled occurring.

We are satisfied that we have robust mitigating actions in place as detailed on pages 43-46 of this Annual Report.

We recognise, however, that the long-term viability of the Company could also be impacted by other, as yet unforeseen, risks or that the mitigating actions we have put in

The Audit Committee reviewed the risk management process at their meetings in February, July and November, receiving presentations from the Group Risk function, explaining the processes followed by management in identifying and managing risk throughout the business.

As part of the annual Strategy Review in September, the Board considered and discussed the principal risks which could impact the business model over the next three years and discussed with the management team how these risks were being managed and mitigated.

Throughout the year, a number of deep dives into different risks were conducted by the Board, the Audit Committee and the Ethics & Compliance Committee looking into the nature of the risks and how they were mitigated, as detailed on page 46 of this Annual Report.

Towards the end of the year, a series of detailed one-to one discussions were held with each member of the Board and the Company Secretary and the Group Risk Director. In these discussions, the Directors were asked to consider the

Execution risk meaning that we were unable to launch new products and lose significant market share to the competition;

Product liability claims giving rise to significant claims and legal fees; or

Temporary loss of key production capability meaning that we were unable to manufacture a key product for a period of time;

Legal regulatory and compliance risks (Principal Risk):

Regulatory measures impacting our ability to continue to sell a key product;

Bribery and corruption claims giving rise to a significant fine;

Other risks:

Cyber security for example meaning that we were unable to issue invoices or collect money for a period of time;

Political and economic forces for example political upheaval, which

place could turn out to be less effective than intended. Based on this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Our conclusion is based on our current Strategic Plan approved by the Board in September 2016, having regard to longer-term strategic intentions, yet to be formulated in detail. However, we operate in a changing marketplace, which might cause us to adapt our Strategic Plans. In responding to changing external conditions, we will continue to evaluate any additional risks involved which might impact the business model.

By order of the Board, 22 February 2017

Susan Swabey

Company Secretary

could cause us to withdraw from a major market for a period of time;

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OUR BOARD OF DIRECTORS

ROBERTO QUARTA (67)

CHAIRMAN

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

CAREER AND EXPERIENCE

Roberto is a graduate and a former Trustee of the College of the Holy Cross, Worcester (MA), US. He started his career as a manager trainee at David Gessner Ltd, before moving on to Worcester Controls Corporation and then BTR plc, where he was a divisional Chief Executive. Between 1985 and 1989 he was Executive VP of Hitchiner Manufacturing Co. Inc. He returned to BTR plc in 1989 as Divisional Chief Executive, where he was appointed to the main board. From here he moved to BBA Aviation plc, as CEO and then as Chairman, until 2007. He has held several board positions, including NED of Powergen plc, Equant N.V., BAE Systems plc and Foster Wheeler AG. His previous Chairmanships include Italtel SpA, Rexel S.A. and IMI plc. He was also a Member of the Investment Committee of Fondo Strategico Italiano until 31 March 2016. He is currently Chairman of WPP plc and SPIE SA and a partner at Clayton Dubilier & Rice.

SKILLS AND COMPETENCIES

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

NATIONALITY

American/Italian

OLIVIER BOHUON (58)

CHIEF EXECUTIVE OFFICER

Joined the Board and was appointed Chief Executive Officer in April 2011. He resigned as a Member of the Nomination & Governance Committee on 3 February 2016.

CAREER AND EXPERIENCE

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

SKILLS AND COMPETENCIES

Olivier has extensive international healthcare leadership experience within a number of significant pharmaceutical and healthcare companies. His global experience provides the skillset required to innovate a FTSE 100 company with a deep heritage and provide inspiring leadership. He is a Non-Executive Director of Virbac Group and Shire plc, where he is also a member of the Remuneration Committee.

NATIONALITY

French

GRAHAM BAKER (48)

CHIEF FINANCIAL OFFICER

Joining the Board as Chief Financial Officer in March 2017.

CAREER AND EXPERIENCE

Graham holds an MA degree in Economics from Cambridge University and qualified as a Chartered Accountant and Chartered Tax Advisor with Arthur Andersen. In 1995, he joined AstraZeneca PLC where he worked for 20 years, holding multiple senior roles, including Vice President, Finance, International (2013-2015) with responsibility for all emerging markets, Vice President, Global Financial Services (2011-2013) and Vice President Finance & Chief Financial Officer, North America (2008-10). Most recently, Graham was Chief Financial Officer of generic pharmaceuticals company Alvogen.

SKILLS AND COMPETENCIES

Graham has deep sector knowledge and has had extensive exposure to established and emerging markets which will be 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

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VINITA BALI (61)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed Independent Non-Executive Director in December 2014 and Member of the Remuneration Committee and Ethics & Compliance Committee.

CAREER AND EXPERIENCE

Vinita holds an MBA from the Jamnalal Bajaj Institute of Management Studies, University of Bombay and a BA in Economics from the University of Delhi. She commenced her career in India, and subsequently worked with Cadbury Schweppes plc in the UK, Nigeria and South Africa. She joined the Coca-Cola Company in 1994 and held senior positions in marketing and general management, based in the USA and Latin America, becoming President of the Andean Division in 1999 and VP, Corporate Strategy in 2001. In 2003, she joined Zyman Group, LLC, a US based consultancy, as Managing Principal. From 2005 to 2014 Vinita was MD and CEO of Britannia Industries Limited, a leading Indian publicly listed company. Currently, Vinita is NED of Syngenta AG, Titan Company Ltd and Credit Rating Information Services of India Ltd. She is also Chair of the board of Global Alliance for Improved Nutrition and a member of the Advisory Board of PwC India.

SKILLS AND COMPETENCIES

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

NATIONALITY

Indian

IAN BARLOW (65)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed Independent Non-Executive Director in March 2010, Chairman of the Audit Committee in May 2010 and Member of the Ethics & Compliance Committee in October 2014.

CAREER AND EXPERIENCE

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

SKILLS AND COMPETENCIES

Ian s longstanding financial and auditing career and extensive board experience add value to his role as Chairman of the Audit Committee. His appointment as a member of the Ethics & Compliance Committee has proved useful in coordinating the oversight role of both Committees. His work for a number of international companies gives added insight when reviewing our global businesses.

NATIONALITY

British

THE RT. HON BARONESS VIRGINIA BOTTOMLEY OF NETTLESTONE DL (68)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed Independent Non-Executive Director in April 2012 and Member of the Remuneration Committee and Nomination & Governance Committee in April 2014.

CAREER AND EXPERIENCE

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

SKILLS AND COMPETENCIES

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

NATIONALITY

British

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OUR BOARD OF DIRECTORS

ERIK ENGSTROM (53)

INDEPENDENT NON-

EXECUTIVE DIRECTOR

Appointed Non-Executive Director on 1 January 2015 and Member of the Audit Committee.

CAREER AND EXPERIENCE

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

SKILLS AND COMPETENCIES

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

NATIONALITY

Swedish

ROBIN FREESTONE (58)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed Independent Non-Executive Director and Member of the Audit Committee and the Remuneration Committee on 1 September 2015.

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 held a number of senior financial positions throughout his career, including at ICI plc, Henkel Ltd and at Amersham plc. Robin was the Deputy CFO and then later the CFO of Pearson plc between 2006 and August 2015, where he was heavily involved with the transformation and diversification of Pearson. He was previously NED at eChem Ltd, Chairman of the 100 Group and Senior Independent Director and Chairman of the Audit Committee of Cable and Wireless Communications plc from 2015 until May 2016. Robin is a NED and Chairman of the Audit Committee at Moneysupermarket.com Group plc and a NED at Michael Kors Holdings Ltd. Currently, Robin sits on the advisory panel to the ICAEW s Financial Reporting 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 will be of value to Smith & Nephew as it continues to grow globally and in different markets. He brings financial expertise and insight to the Audit Committee and an understanding of how to attract and retain talent in a global business to the Remuneration Committee.

NATIONALITY

British

MICHAEL FRIEDMAN (73)

INDEPENDENT NON-EXECUTIVE DIRECTOR

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

CAREER AND EXPERIENCE

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

SKILLS AND COMPETENCIES

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

NATIONALITY

American

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JOSEPH PAPA (61)

INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed Independent Non-Executive Director in August 2008 and Chairman of the Remuneration Committee in April 2011, Member of the Audit Committee and Ethics & Compliance Committee.

CAREER AND EXPERIENCE

Joe graduated with a Bachelor of Science degree in Pharmacy from the University of Connecticut and MBA from Northwestern University s Kellogg Graduate School of Management. In 2012, he received an Honorary Doctor of Science degree from the University of Connecticut School of Pharmacy. He began his career at Novartis International AG as an Assistant Product Manager and eventually rose to VP, Marketing, having held senior positions in both Switzerland and US. He moved on to hold senior positions at Searle Pharmaceuticals and was later President & COO of DuPont Pharmaceuticals and later Watson Pharma, Inc. He was previously Chairman and CEO of Cardinal Health Inc. and Chairman and CEO of Perrigo Company plc from 2006 to April 2016. Joe was appointed Chairman and CEO of Valeant Pharmaceuticals International, Inc. in May 2016.

SKILLS AND COMPETENCIES

With over 30 years experience in the global pharmaceutical industry, Joe brings deep insight into the wider global healthcare industry and the regulatory environment. As Chairman and Chief Executive of a significant US company, Joe has a comprehensive understanding both of how to attract and retain global talent and use remuneration arrangements that incentivise performance, leading to maximum returns for investors.

NATIONALITY

American

DIRECTORS WHO SERVED DURING THE YEAR, NOT SEEKING RE-ELECTION

BRIAN LARCOMBE (63)

INDEPENDENT NON-EXECUTIVE DIRECTOR

(Retiring from the Board on 6 April 2017). Appointed Independent Non-Executive Director in March 2002, Senior Independent Director in April 2014, Member of the Audit Committee, Nomination & Governance Committee and Remuneration Committee.

CAREER AND EXPERIENCE

Brian graduated with a Bachelor s of Commerce degree from University of Birmingham. He spent most of his career in private equity with 3i Group plc, becoming Finance Director and then Chief Executive of the Group following its flotation. He has held a number of Non-Executive Directorships and is currently Non-Executive Director of Kodak Alaris Holdings Limited and Cape plc.

NATIONALITY

British

JULIE BROWN (54)

CHIEF FINANCIAL OFFICER

Chief Financial Officer (to 11 January 2017).

CAREER AND EXPERIENCE

Julie is a graduate, Chartered Accountant and Fellow of the Institute of Taxation. She qualified with KPMG before working with AstraZeneca plc, where she served as Vice President Group Finance, and ultimately, as Interim CFO. Prior to that she undertook Commercial and Strategic roles and was Regional VP Latin America, Marketing Company President AstraZeneca Portugal, and Vice President Corporate Strategy and R&D CFO. Julie is a member of the Board of Directors of Roche Holding Ltd and Chair of the Audit Committee. She has also fulfilled two Non-Executive Directorships with the NHS in the UK and the British Embassy.

NATIONALITY

British

SUSAN SWABEY (55)

COMPANY SECRETARY

Appointed Company Secretary in May 2009.

SKILLS AND EXPERIENCE

Susan has 30 years experience as a Company Secretary in a wide range of companies including Prudential plc, Amersham plc and RMC Group plc. Her work has covered Board support, corporate governance, corporate transactions, Group risk management, share registration, listing obligations, corporate social responsibility, pensions, insurance and employee and executive share plans. Susan is joint Vice-Chair of the GC100 Group, a member of the CBI Companies Committee and is a frequent speaker on corporate governance and related matters. She is also a Trustee of ShareGift, the share donation charity.

NATIONALITY

British

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OUR LEADERSHIP TEAM

GRAHAM BAKER (48)

CHIEF FINANCIAL OFFICER

Joining the Board as Chief Financial Officer in March 2017. Graham holds an MA degree in Economics from Cambridge University and qualified as a Chartered Accountant and Chartered Tax Advisor with Arthur Andersen. He will be based in London.

SKILLS AND COMPETENCIES

Graham has deep sector knowledge and has had extensive exposure to established and emerging markets which will be 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

MICHAEL FRAZZETTE (55)

CHIEF COMMERCIAL OFFICER

Joined Smith & Nephew in July 2006 as President of the Endoscopy Global Business Unit. From 2011 to 2015, he headed up the Advanced Surgical Devices division with responsibility for the Orthopaedic Reconstruction, Trauma, Sports Medicin, GYN and ENT Global Franchises, as well as the ASD commercial business in the US. The scope of

Mike s role was expanded in 2014 to include the Latin American commercial business, together with Advanced Wound Management. Mike is based in London.

SKILLS AND EXPERIENCE

Mike has held a number of senior positions within the global medical devices industry. Prior to joining Smith & Nephew, he was President and CEO of MicroGroup, a privately held US manufacturer of medical devices, and he spent 15 years at Tyco Healthcare (Coviden) in various commercial and operating roles including President of the Patient Care and Health Systems divisions. Mike also spent four years serving on the AdvaMed Board of Directors and chaired the Orthopaedic Sector committee.

NATIONALITY

American

BRAD CANNON (49)

PRESIDENT, EUROPE AND CANADA

Joined Smith & Nephew in 2012 and became President, Europe and Canada in March 2016. He is based in Baar, Switzerland.

SKILLS AND EXPERIENCE

Brad was most recently 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 Spine s 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

RODRIGO BIANCHI (57)

PRESIDENT, ASIA PACIFIC AND

EMERGING MARKETS

Joined Smith & Nephew in July 2013 with responsibility for Greater China, India, Russia, Asia, Middle East and Africa, focusing on continuing our strong momentum in these regions. He is based in Dubai. With effect from 1 January 2016, Rodrigo became responsible, not only for the IRAMEA markets, but Latin America, Australia, New Zealand and Japan as well.

SKILLS AND EXPERIENCE

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

NATIONALITY

Italian

GLENN WARNER (54)

PRESIDENT, US

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

SKILLS AND EXPERIENCE

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

NATIONALITY

American

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JACK CAMPO (62)

CHIEF LEGAL OFFICER

Joined Smith & Nephew in June 2008 and heads up the Global Legal function. Initially based in London, he has been based in Andover, Massachusetts since late 2011.

SKILLS AND EXPERIENCE

Prior to joining Smith & Nephew, Jack held a number of senior legal roles within the General Electric Company, including seven years at GE Healthcare (GE Medical Systems) in the US and Asia. He began his career with Davis Polk & Wardwell LLP.

NATIONALITY

American

CYRILLE PETIT (46)

CHIEF CORPORATE DEVELOPMENT OFFICER AND PRESIDENT,

GLOBAL BUSINESS SERVICES

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

SKILLS AND EXPERIENCE

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

Goldman Sachs.

NATIONALITY

French

ELGA LOHLER (49)

CHIEF HUMAN

RESOURCES OFFICER

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

SKILLS AND EXPERIENCE

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

NATIONALITY

American/South African

MATTHEW STOBER (49)

PRESIDENT, GLOBAL OPERATIONS

Joined Smith & Nephew on 1 October 2015 with responsibility for global manufacturing, supply chain, distribution, quality assurance, regulatory affairs, direct procurement, and manufacturing IT optimisation. Initially based in Memphis, Matt is now based in Andover, Massachusetts.

SKILLS AND EXPERIENCE

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

NATIONALITY

American

VASANT PADMANABHAN (50)

PRESIDENT OF

RESEARCH & DEVELOPMENT

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

SKILLS AND EXPERIENCE

Vasant brings extensive experience in research & development and technology. Prior to Smith & Nephew, Vasant was Senior Vice President of Technical Operations at Thoratec Corporation, a leader in mechanical circulatory support solutions for the treatment of heart failure. In this role, he provided leadership to a 600 member team, with responsibility for global R&D, Program Management, Operations and Quality.

Prior to Thoratec, Vasant had an 18-year career at Medtronic, starting as a Staff Scientist and, progressing through more senior roles, ultimately becoming Vice President of Product Development for the Implantable Defibrillator Business.

Vasant holds a Ph.D degree in Biomedical Engineering from Rutgers University, USA and an MBA degree from the Carlson School of Management, Minnesota.

NATIONALITY

American

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OVERVIEW

Committed to the highest standards of corporate governance

We maintain these standards through a clear definition of our roles, continuing development and evaluation and accountability through the work of the Board Committees.

LEADERSHIP	EFFECTIVENESS	ACCOUNTABILITY
The Board sets the tone at the top of the Company through:	**The Board carries out its duties through:**	**The Board delegates some of its detailed work to the Board Committees:**
A clear definition of the roles of the individual members of the Board.	Regular meetings focusing on the oversight of strategy, risk, including viability and succession planning.	Each Committee meets regularly and reports back to the Board on its activities.

A comprehensive corporate governance framework.

Defined processes to ensure the independence of Directors and the management of conflicts of interest.

An annual review into the effectiveness of the Board.

A comprehensive programme of development activities throughout the year.

The terms of reference of each Committee may be found on the Company website at www.smith-nephew.com

A report from the Chairman of each Committee is included in this Annual Report.

Read more about our Board s Leadership on pages 55 to 59

Read more about our Board s Effectiveness on pages 60 to 64

Read more about our Board s Accountability on pages 65 to 75

REMUNERATION

Having a formal and transparent procedure for developing policy on remuneration for Executive Directors is crucial. Our Remuneration Policy aims to attract, retain and motivate by linking reward to performance. In this section you will find information on the Remuneration Policy to be presented to shareholders for approval at the Annual General Meeting on 6 April 2017 and how we implemented our Remuneration Policy in 2016 and plan to implement it in 2017.

Read more about our Board s Remuneration on pages 76 to 100

The Board is committed to the highest standards of corporate governance and we comply with all the provisions of the UK Corporate Governance Code 2014 (the Code). The Company s American Depositary Shares are listed on the New York Stock Exchange (NYSE) and we are therefore subject to the rules of the NYSE as well as to the US securities laws

and the rules of the Securities Exchange Commission (SEC) applicable to foreign private issuers. We comply with the requirements of the NYSE and SEC. We shall explain in this Corporate Governance Statement and in the reports on the Audit Committee, the Nomination & Governance Committee, the Ethics & Compliance Committee and the Remuneration Committee, how we have applied the provisions and principles of the Financial Conduct Authority s (FCA) Listing Rules, Disclosure & Transparency Rules (DTRs) and the Code throughout the year. The Code can be found at
https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-April-2014.pdf

In addition, we have reviewed the requests of the UK Corporate Governance Code 2016 and believe that we comply with all the provisions in that code, which will be effective for the next financial year.

The Directors Report comprises pages 33 to 34, 36 to 38, 47 to 75, 102, 110, 112, 114 and pages 169 to 190 of the Annual Report.

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COMPOSITION & ROLES

LEADERSHIP

COMPOSITION OF BOARD

AS AT 31 DECEMBER 2016

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

Diversity		
A	EXECUTIVE	2

B	NON-EXECUTIVE	8
C	CHAIRMAN	1
Gender		
A	MALE	8
B	FEMALE	3

Years of service

A	LESS THAN ONE YEAR	0
B	ONE TO THREE YEARS	3
C	THREE TO SIX YEARS	5
D	SIX TO NINE YEARS	2
E	OVER NINE YEARS	1

Board nationality

5	2	1	1	1	1
BRITISH	AMERICAN	FRENCH	INDIAN	AMERICAN/	SWEDISH

ITALIAN

CHANGES TO THE BOARD

During the year to 31 December 2016, there were no changes to the Board. However, since the end of the year, the following changes have been made or announced:

Julie Brown retired from the Board on 11 January 2017

Graham Baker to be appointed Chief Financial Officer on 1 March 2017

Robin Freestone to be appointed Chairman of the Audit Committee, succeeding Ian Barlow on 1 March 2017

Ian Barlow to be appointed Senior Independent Director, succeeding Brian Larcombe on 6 April 2017

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RESPONSIBILITY & ACTIVITY

LEADERSHIP continued

ROLE OF DIRECTORS

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

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

CHAIRMAN

Building a well-balanced Board.

Chairing Board meetings and setting Board agendas.

Ensuring effectiveness of Board and enabling the annual review of effectiveness.

Encouraging constructive challenge and facilitating effective communication between Board members.

Promoting effective Board relationships.

Ensuring appropriate induction and development programmes.

Ensuring effective two-way communication and debate with shareholders.

Promoting high standards of corporate governance.

Maintaining appropriate balance between stakeholders.

CHIEF EXECUTIVE OFFICER

Developing and implementing Group strategy.

Recommending the annual budget and five-year 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 Chairman 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 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 five-year strategic and financial plan.

Maintaining relationships with shareholders.

NON-EXECUTIVE DIRECTORS

Providing effective challenge to management.

Assisting in development and approval of strategy.

Serving on the Board Committees.

Providing advice to management.

SENIOR INDEPENDENT DIRECTOR

Chairing meetings in the absence of the Chairman.

Acting as a sounding board for the Chairman on Board-related matters.

Acting as an intermediary for the other Directors where necessary.

Available to shareholders on matters which cannot otherwise be resolved.

Leading the annual evaluation into the Board s effectiveness.

Leading the search for a new Chairman, if necessary.

COMPANY SECRETARY

Advising the Board on matters of corporate governance.

Supporting the Chairman 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.

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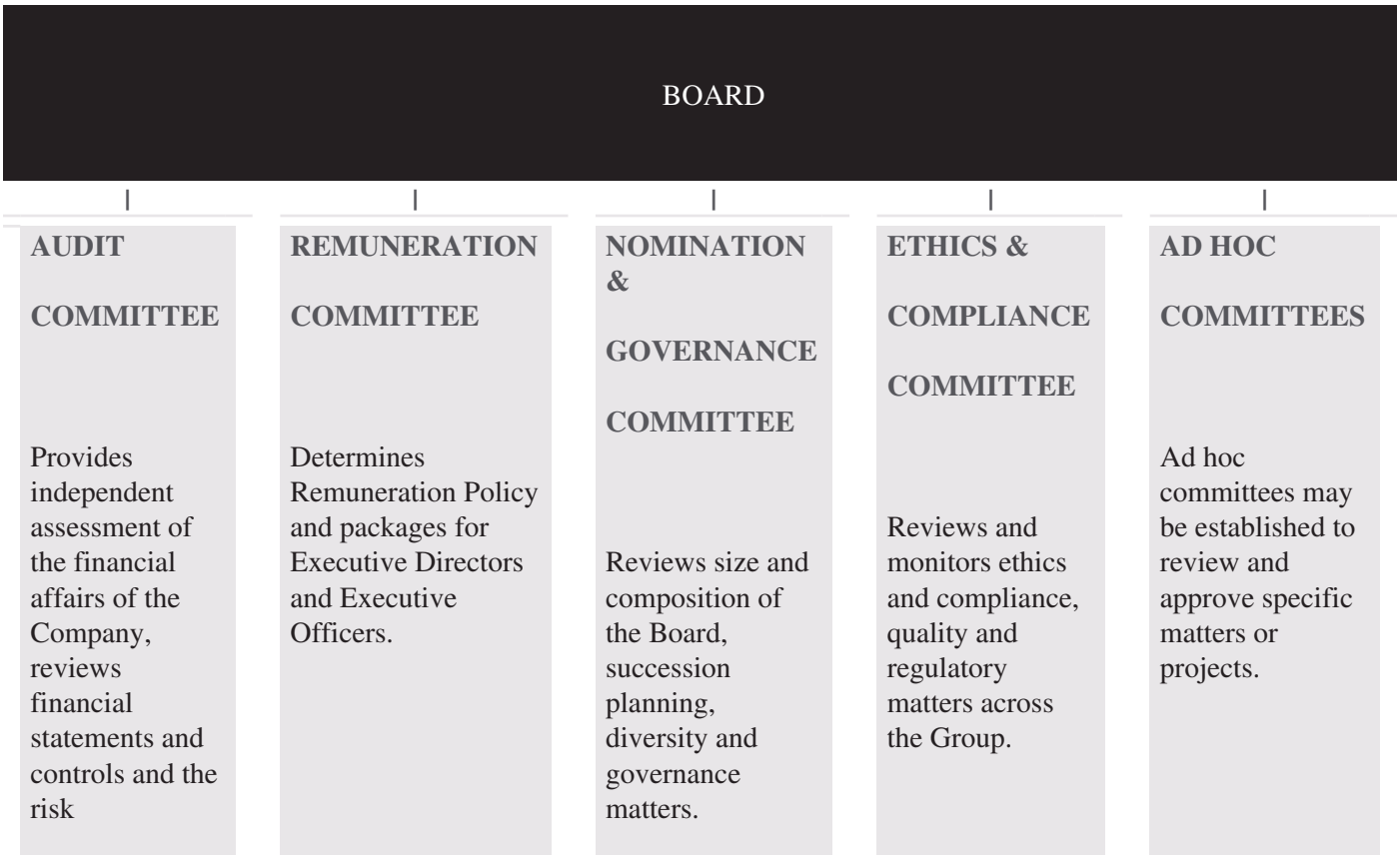
CORPORATE GOVERNANCE FRAMEWORK

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

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

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



management process. Manages use of internal and external auditors. **Read more** See page 69	**Read more** See page 88	**Read more** See page 65	**Read more** See page 67	

The Board delegates the day-to day running of the business to Olivier Bohuon, Chief Executive Officer, who is assisted in his role by the Executive Committee comprising the Executive Officers who are shown on pages 52 to 53 and certain other senior executives. In January 2016, the governance framework below the Executive Committee was rearranged to reflect the new organisational structure as follows:

EXECUTIVE COMMITTEE

nds and implements strategy, approves budget and three-year plan, ensures liaison between commercial and corporate functions, receiv
om sub-committees, reviews major investments, divestments and capital expenditure proposals and approves business development proj

RCIAL **TTEE** nds and implements r global commercial and regions, sales, marketing, cess and commercial nd identifying and new processes, nd practices to perational efficiency rcial regions.	**CORPORATE FUNCTIONS** **COMMITTEE** Recommends and implements strategy for corporate functions identifying and executing new processes, systems and practices to improve operational efficiency in corporate functions.	**PORTFOLIO** **INNOVATION BOARD** Defines portfolio allocation principles, reviewing and challenging current shape of portfolio, identifying gaps and opportunities	**REGIONAL** **STAFF MEETINGS** Regional management through committees to drive regional performance.	**FUNCTIO** **STAFF ME** Functional l teams to dri functional performance

		and re-prioritising segments and geographies.		
E & BANKING **TTEE** banking and treasury uarantees, Group hanges, acquisitions als.	**DISCLOSURES** **COMMITTEE** Approves release of communications to investors and Stock Exchanges.	**MERGERS & ACQUISITIONS** **COUNCIL** Oversees Corporate Development Strategy, monitors status of transactions and approves various stages in acquisition process.	**GROUP RISK** **COMMITTEE** Reviews risk registers and risk management programme.	**GROUP ET** **COMPLIA COMMITT** Reviews co matters and business uni function co reports.
TY & INCLUSION **L** ts strategies to iversity and	**GLOBAL BENEFITS** **COMMITTEE** Oversees all policies and processes relating to pensions and employee benefit plans.	**HEALTH, SAFETY &** **ENVIRONMENT COMMITTEE** Oversees health, safety and environmental matters.	**IT GOVERNANCE** **BOARD** Oversees IT and cyber security.	**CAPITAL GOVERNA** **BOARD** Determines monitors ca expenditure with corpor strategy.

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RESPONSIBILITY & ACTIVITY CONTINUED

LEADERSHIP continued

SPECIAL GOVERNANCE ARRANGEMENTS DURING THE YEAR

During the year, the Chief Executive Officer, Olivier Bohuon, successfully underwent treatment for cancer. During his period of treatment, whilst he remained in touch on a regular basis and was kept advised of all developments in the business, he was unable to travel and to fulfil his full duties for a period. We therefore put in place a governance structure to ensure continued oversight of the business during his period of absence. The Executive Committee continued to meet on a monthly basis and additional Executive Leadership Team meetings were arranged in the intervening weeks so that the executive team could handle matters collectively as they arose. The Chairman, Roberto Quarta, was also in touch with both Olivier Bohuon and other members of the executive team throughout this period of absence, providing advice, guidance and counsel. Whilst the Chairman was available to step into the role as Chief Executive Officer had the need arisen, this contingency was not actually required as Olivier Bohuon was able to remain sufficiently in contact with the executive team to be able to continue to run the business whilst away from the office. Olivier Bohuon returned to work and led the executive team at the Board Strategy Review in September 2016.

INDEPENDENCE OF DIRECTORS

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

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

Brian Larcombe has served as an independent Non-Executive Director for a period of 14 years and will be retiring from the Board at the Annual General Meeting. Throughout 2016, Brian Larcombe continued to maintain an independent view within Board discussions and his experience on the Board, wise counsel and corporate memory was valued by the rest of the Board. We thank Brian for his years of service to the Board and to the Company.

MANAGEMENT OF CONFLICTS OF INTEREST

None of our Directors or their connected persons, has any family relationship with any other Director or Officer, nor has a material interest in any contract to which the Company or any of its subsidiaries are, or were, a party during the year or up to 22 February 2017.

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

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

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

OUTSIDE DIRECTORSHIPS

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

RE-APPOINTMENT OF DIRECTORS

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

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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.

LIAISON WITH SHAREHOLDERS

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

The Executive Directors also meet regularly with institutional investors to discuss the Company s business and financial performance both at the time of the announcement of results and at industry investor events. During 2016, the Executive Directors held meetings with institutional investors, including investors representing approximately 41% of the share capital.

During the year, in line with good practice, an Investor perception survey was undertaken by an independent third party, Investor Perceptions. This survey sought the views of 20 shareholders holding approximately 21.8% of the Company s shares, on a range of topics relating to the Company, its performance and management. These views were shared anonymously with the Chief Executive Officer and the Board and led to refinements in our ongoing investor relations programme.

During 2016, Roberto Quarta met with investors to hear their views of the Company. He held 12 meetings and telephone calls with investors holding just over 20% of the share capital.

Joseph Papa, the Chairman of the Remuneration Committee also met with key institutional investors during 2016. Ahead of the Annual General Meeting in April 2016, he engaged with 24 shareholders holding just under 30% of the share capital. In September and October, he offered to meet with our top 30 shareholders and all institutional shareholders who had contacted us around the time of the Annual General Meeting to discuss the vote on

remuneration. As a result of this offer, he met, held telephone calls and exchanged views by email with 24 shareholders holding just under 40% of the share capital. At these meetings, he presented the Remuneration Committee s proposals for our remuneration arrangements going forward and discussed investor views regarding different performance measures. These discussions have helped to formulate the Remuneration Policy which will be presented to shareholders for approval at the Annual General Meeting in April this year.

Ian Barlow, the Chairman of the Audit Committee, met with investors to discuss audit related matters. He held one meeting with an investor holding approximately 1.5% of the share capital.

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

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

PURCHASE OF ORDINARY SHARES

In order to avoid shareholder dilution, shares allotted to employees through employee share schemes are bought back on a quarterly basis and subsequently cancelled as we stated in Note 19.2 of the accounts on page 152.

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RESPONSIBILITY & ACTIVITY CONTINUED

EFFECTIVENESS

RESPONSIBILITY OF THE BOARD

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

STRATEGY

Approving the Group strategy including major changes to corporate and management structure.

Approving acquisitions, mergers, disposals, capital transactions in excess of $50 million.

Setting priorities for capital investment across the Group.

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

Approving major borrowings and finance and banking arrangements.

Approving changes to the size and structure of the Board and the appointment and removal of Directors and the Company Secretary.

Approving Group policies relating to sustainability, health and safety, Code of Conduct and Code of Share Dealing and other matters.

Approving the appointment and removal of key professional advisers.

PERFORMANCE

Reviewing performance against strategy, budgets and financial and business plans.

Overseeing Group operations and maintaining a sound system of internal control.

Determining the dividend policy and dividend recommendations.

Approving the appointment and removal of the external auditor on the recommendation of the Audit Committee.

Approving significant changes to accounting policies or practices.

Overseeing succession planning at Board and Executive Officer level.

Approving the use of the Company s shares in relation to employee and executive share incentive plans on the recommendation of the Remuneration Committee.

RISK

Overseeing the Group s risk management programme.

Regularly reviewing the risk register.

Overseeing risk management processes (see pages 42 to 46 for further details).

SHAREHOLDER COMMUNICATIONS

Approving preliminary announcement of annual results, the publication of the Annual Report, the half-yearly report, the quarterly financial announcements, the release of price sensitive announcements and any listing particulars, circulars or prospectuses.

Approving the Sustainability Report prior to publication.

Maintaining relationships and continued engagement with shareholders.

PROVIDING ADVICE

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

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

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BOARD TIMETABLE 2016

EARLY FEBRUARY

Approval of Preliminary Announcement

Reviewed the results for the full year 2015 and the preliminary announcement and approved the final dividend to be recommended to shareholders for approval.

Reviewed and approved the annual risk management report.

Reviewed and approved the payment of the dividend.

Approved the Budget for 2016 and the Long-Range Plan for 2016-2020.

Received updates on the business in China and Saudi Arabia.

Reviewed the Group Optimisation Plan.

Reviewed the results of the review into the effectiveness of the Board in 2016 and agreed action points for 2016.

Reviewed and accepted an increase in the fees paid to Non-Executive Director Fees.

LATE FEBRUARY (VIA VOICE CONFERENCE)

Approval of Financial Statements

Reviewed and approved the Annual Report and Accounts for 2015, having determined that they were fair, balanced and understandable.

Reviewed and approved the Notice of Annual General Meeting and related documentation.

APRIL

Received a review of recent acquisitions.

Approved the Sustainability Report.

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

MAY (VIA VOICE CONFERENCE)

Reviewed the results for the first quarter 2016 and approved the Q1 trading statement announcement.

JULY

Reviewed the results for the first half 2016 and approved the H1 announcement, having considered management s judgement in a number of areas, and approved payment of the interim dividend.

Received and considered a report analysing the progress of recent acquisitions against expectations at the time of acquisition.

Received and discussed the annual review of Group Insurances.

Reviewed the North American Process Optimisation Project.

SEPTEMBER (IN NICE, FRANCE)

Strategy Review

Received an update on Corporate Development.

Approved the renewal of the Directors and Officers Liability insurance.

EARLY NOVEMBER (IN BOSTON, MASSACHUSETTS)

Approval of Q3 Trading Statement

Reviewed the results for the third quarter 2016 and approved the Q3 trading statement announcement.

Received an update on Research & Development.

Received an update on the Compliance Programme.

Approved the Sustainability Policy 2020.

LATE NOVEMBER

Approval of Budget

Approved the Budget for 2017.