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 is currently Chairman of Imperial Tobacco & 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
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
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 plc from 2006 and August 2015. 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
BRIAN LARCOMBE (63)
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
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

JOSEPH PAPA (61)
INDEPENDENT NON-EXECUTIVE DIRECTOR
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
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

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 also a Trustee of ShareGift, the share donation charity.

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
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 Medicine, 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 (Covidien) 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
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

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

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

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

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

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

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

**RENUMERATION**
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.

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.
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

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Gender

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Board nationality

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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
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.

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.

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.
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:

**BOARD**

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<th>Committee</th>
<th>Description</th>
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<tr>
<td><strong>AUDIT COMMITTEE</strong></td>
<td>Provides independent assessment of the financial affairs of the Company, reviews financial statements and controls and the risk management process. Manages use of internal and external auditors.</td>
</tr>
<tr>
<td><strong>REMUNERATION COMMITTEE</strong></td>
<td>Determines Remuneration Policy and packages for Executive Directors and Executive Officers.</td>
</tr>
<tr>
<td><strong>NOMINATION &amp; GOVERNANCE COMMITTEE</strong></td>
<td>Reviews size and composition of the Board, succession planning, diversity and governance matters.</td>
</tr>
<tr>
<td><strong>ETHICS &amp; COMPLIANCE COMMITTEE</strong></td>
<td>Reviews and monitors ethics and compliance, quality and regulatory matters across the Group.</td>
</tr>
<tr>
<td><strong>AD HOC COMMITTEES</strong></td>
<td>Ad hoc committees may be established to review and approve specific matters or projects.</td>
</tr>
</tbody>
</table>

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**

<table>
<thead>
<tr>
<th>Committee</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>COMMERCIAL COMMITTEE</strong></td>
<td>Recommends and implements strategy for global commercial functions and regions, managing sales, marketing, market access and commercial strategy and identifying and executing new processes, systems and practices to improve operational efficiency in commercial regions.</td>
</tr>
<tr>
<td><strong>CORPORATE FUNCTIONS COMMITTEE</strong></td>
<td>Recommends and implements strategy for corporate functions identifying and executing new processes, systems and practices to improve operational efficiency in corporate functions.</td>
</tr>
<tr>
<td><strong>PORTFOLIO INNOVATION BOARD</strong></td>
<td>Defines portfolio allocation principles, reviewing and challenging current shape of portfolio, identifying gaps and opportunities and re-prioritising segments and geographies.</td>
</tr>
<tr>
<td><strong>REGIONAL STAFF MEETINGS</strong></td>
<td>Regional management through committees to drive regional performance.</td>
</tr>
<tr>
<td><strong>FUNCTIONAL STAFF MEETINGS</strong></td>
<td>Functional leadership teams to drive functional performance.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Committee</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCE &amp; BANKING COMMITTEE</strong></td>
<td>Approves banking and treasury matters, guarantees, Group structure changes, acquisitions and disposals.</td>
</tr>
<tr>
<td><strong>DISCLOSURES COMMITTEE</strong></td>
<td>Approves release of communications to investors and Stock Exchanges.</td>
</tr>
<tr>
<td><strong>MERGERS &amp; ACQUISITIONS COUNCIL</strong></td>
<td>Oversees Corporate Development Strategy, monitors status of transactions and approves various stages in acquisition process.</td>
</tr>
<tr>
<td><strong>GROUP RISK COMMITTEE</strong></td>
<td>Reviews risk registers and risk management programme.</td>
</tr>
<tr>
<td><strong>GROUP ETHICS &amp; COMPLIANCE COMMITTEE</strong></td>
<td>Reviews compliance matters and country business unit or function compliance reports.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Committee</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DIVERSITY &amp; INCLUSION COUNCIL</strong></td>
<td>Implements strategies to promote diversity and inclusion.</td>
</tr>
<tr>
<td><strong>GLOBAL BENEFITS COMMITTEE</strong></td>
<td>Oversees all policies and processes relating to pensions and employee benefit plans.</td>
</tr>
<tr>
<td><strong>HEALTH, SAFETY &amp; ENVIRONMENT COMMITTEE</strong></td>
<td>Oversees health, safety and environmental matters.</td>
</tr>
<tr>
<td><strong>IT GOVERNANCE BOARD</strong></td>
<td>Oversees IT and cyber security.</td>
</tr>
<tr>
<td><strong>CAPITAL GOVERNANCE BOARD</strong></td>
<td>Determines and monitors capital expenditure in line with corporate strategy.</td>
</tr>
</tbody>
</table>
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.
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.
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.

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.

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.

PROVIDING ADVICE

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

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

### 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.
- Received an update relating to the UK Defined Benefit Pension Plan.
- Received an update on Latin America.
- Reviewed the annual Succession Planning Report.
- Reviewed the Report on Sales Force Excellence.

### 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.
RESPONSIBILITY & ACTIVITY CONTINUED

EFFECTIVENESS continued

Since the year end, we have also approved the Annual Report and Accounts for 2016 and have concluded that, taken as a whole, they are fair, balanced and understandable. We have approved the Notice of Annual General Meeting, recommended the final dividend to shareholders and have received and discussed the report on the effectiveness of the Board in 2016.

Each meeting was preceded by a meeting between the Chairman and the Non-Executive Directors without the Executive Directors and management in attendance. Unless otherwise stated, meetings are held in London, UK.

At each meeting, we approved the minutes of the previous meetings, reviewed matters arising and received reports and updates from the Chief Executive Officer, the Chief Financial Officer, the Chief Corporate Development Officer, the Chief Legal Officer and the Company Secretary. We also received reports from the chairmen of the Board Committees on the activities of these Committees since the previous meeting.

BOARD AND COMMITTEE ATTENDANCE

<table>
<thead>
<tr>
<th>Director</th>
<th>Board Member since</th>
<th>Board meetings (8 meetings)</th>
<th>Audit Committee meetings (7 meetings)</th>
<th>Remuneration Committee meetings (6 meetings)</th>
<th>Nomination &amp; Governance Committee meetings (5 meetings)</th>
<th>Ethics &amp; Compliance Committee meetings (4 meetings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roberto Quarta</td>
<td>December 2013</td>
<td>8/8</td>
<td>6/6</td>
<td>5/5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Olivier Bohuon</td>
<td>April 2011</td>
<td>6/8</td>
<td>6/6</td>
<td>5/5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Julie Brown</td>
<td>February 2013</td>
<td>8/8</td>
<td>6/6</td>
<td>5/5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vinita Bali</td>
<td>December 2014</td>
<td>7/8</td>
<td>5/6</td>
<td>4/4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ian Barlow</td>
<td>March 2010</td>
<td>8/8</td>
<td>6/6</td>
<td>5/5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Virginia Bottomley</td>
<td>April 2012</td>
<td>8/8</td>
<td>6/6</td>
<td>5/5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Erik Engstrom</td>
<td>1 January 2015</td>
<td>8/8</td>
<td>6/6</td>
<td>5/5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Robin Freestone</td>
<td>1 September 2015</td>
<td>8/8</td>
<td>6/6</td>
<td>5/5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Michael Friedman</td>
<td>April 2013</td>
<td>8/8</td>
<td>6/6</td>
<td>4/4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brian Larcombe</td>
<td>March 2002</td>
<td>8/8</td>
<td>6/6</td>
<td>5/5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joseph Papa</td>
<td>August 2008</td>
<td>8/8</td>
<td>6/6</td>
<td>4/4</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Olivier Bohuon missed two Board meetings due to illness.
2 Vinita Bali missed one Board meeting and one meeting of the Remuneration Committee, on the same day, due to a prior appointment.
3 Brian Larcombe missed one Board meeting, one meeting of the Audit Committee, and one meeting of the Remuneration Committee, all on the same day, due to a prior appointment. He also missed one meeting of the Audit Committee due to a funeral.
BOARD EFFECTIVENESS REVIEW

The last externally facilitated Board Effectiveness Review was carried out in 2015 by Independent Audit. Progress against the areas identified for attention last year are shown in the table below.

The Board Effectiveness Review in 2016 was internally facilitated by Brian Larcombe, Senior Independent Director assisted by the Company Secretary. The 2016 review comprised a questionnaire completed by each member of the Board. This questionnaire focused on the progress made addressing the issues raised in previous Board Evaluations as well as looking into how the Board had handled particular topics throughout the year. Brian Larcombe then conducted individual interviews with each Board member. He also chaired a meeting of the Non-Executive Directors specifically to discuss the performance of the Chairman.

In January 2017, he prepared a report, detailing his findings, which he shared with the Chairman. The report was then discussed by the full Board in February 2017.

In discussion, we concluded that the Board was a committed and engaged Board and that there were good processes in place to enable the directors to fulfil their duties responsibly. We noted that a number of enhancements had been made to some of these processes during the year to enable the Board to perform more effectively and efficiently. Overall, we were satisfied that effective controls were in place.

However, we also observed that the financial performance of the Company had been below our expectations in 2016. This had led us to consider whether the Board was actually as effective as our processes implied. We then considered ways in which we as a Board could better support management to improve performance, help frame future action plans and to hold management more accountable for delivery. The areas for improvement we have identified for 2017 are:

- Gaining a deeper understanding of why our competitors are enjoying superior growth rates compared with us so that we can help management identify, acquire and develop the resources they need to compete more effectively in our chosen markets.
- Gaining a better understanding of the changing market dynamics in our chosen markets, focusing on identifying the different categories of customer and the pricing and reimbursement drivers which are in play, so that we can support and challenge management more effectively when they seek approval for projects to address these changing conditions.
- Playing a more active role in supporting management develop the robust succession plans for senior executive positions.
- Encouraging management to develop metrics and dashboards on a wider range of issues beyond financial metrics, particularly in the areas of Human Resources and R&D and ensuring that we regularly monitor progress against these metrics.

The areas for attention identified in the 2015 review have been addressed as follows:

<table>
<thead>
<tr>
<th>ACTIONS IDENTIFIED</th>
<th>ACTION TAKEN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further opportunities to be identified to enable greater engagement with the Non-Executive Directors for them to provide input on matters brought before the Board.</td>
<td>There have been increased opportunities during the year for Non-Executive Directors to work more closely with management, providing guidance and expertise between Board meetings, particularly in the areas of determining appropriate measures for incentive plans and enhancing the risk management programme. However, both the Board and the executive team recognise that this is an area which could be developed further in 2017.</td>
</tr>
<tr>
<td>The development of a programme for Non-Executive Directors to get to know the business better outside the scheduled Board visits.</td>
<td>During the year, some of the Non-Executive Directors have accompanied our sales representatives on hospital visits, have met with surgeons using our products and observed operations. The Board recognises that this is an area which could be developed further in 2017.</td>
</tr>
<tr>
<td>Continuous review of the Board agenda to ensure sufficient time is devoted to HR and people related matters, risk and mitigations and the innovation pipeline.</td>
<td>A comprehensive review of agenda planning was carried out during the year to ensure that sufficient time was set aside at Board and Committee meetings throughout the year to discuss the matters identified at the previous Board Evaluation. In addition, the Strategy Review in September included sessions on our culture and values, the development of new products and our risk management programme.</td>
</tr>
</tbody>
</table>
RESPONSIBILITY & ACTIVITY CONTINUED

EFFECTIVENESS continued

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

During the course of the year, we receive updates at the Board and Committee meetings on external corporate governance changes likely to impact the Company in the future. In 2016, we particularly focused on the new requirements under the European Market Abuse Regulations.

New Directors receive tailored induction programmes when they join the Board, although there were no new Directors appointed in 2016. All Non-Executive Directors are encouraged to visit our overseas businesses, if they happen to be travelling for other purposes. Our local management teams enjoy welcoming Non-Executive Directors to their business and it emphasises the interest the Board takes in all our operations. The Chairman regularly reviews the development needs of individual Directors and the Board as a whole.

SUCCESSION PLANNING
The Board is responsible for ensuring that there are effective succession plans in place to ensure the orderly appointment of Directors to the Board, as and when vacancies arise. The report from the Nomination & Governance Committee on pages 65 to 66 explains the process the Board and the Nomination & Governance Committee followed in 2016 to build a balanced Board for the future in undertaking the search for new Non-Executive Directors.

Building a successful executive team is the responsibility of the Chief Executive Officer, although this process is also overseen by the Board. The Chief Executive Officer and Chief Human Resources Officer present a report to the Board on Succession Planning on an annual basis, at which the performance and potential of members of the executive team are discussed and considered. The Board is also given a number of opportunities during the course of the year to meet key members of the executive team at the Strategy Review held annually in September and at the site visits held in November each year. Executive Officers and their direct reports also make regular presentations on different aspects of the business. The Board recognises the importance of getting to know the executive team below Board level both for the purpose of understanding the business better but also in order to plan for executive succession.

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

<table>
<thead>
<tr>
<th>APRIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Internal presentation on the competitive landscape facing the Company.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>JULY</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Presentation from our Auditor, KPMG, on External Reporting trends, covering changing accounting standards and updates on financial reporting, the SEC and corporate governance changes relating to Audit Committees and Auditors.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SEPTEMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Presentations from the entire executive team as part of the Board’s Strategy Review.</td>
</tr>
<tr>
<td>– Board discussion on Risk as part of the Board’s Strategy discussions.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NOVEMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Visit to the Company’s site in Andover, Massachusetts and meetings with the US executive team.</td>
</tr>
<tr>
<td>– Series of presentations from our Sports Medicine management team and leading surgeons in the field on developments and innovation in sports medicine and looking at our response to changing demands in this area and the development of new products to address these demands.</td>
</tr>
<tr>
<td>– Presentation on the US Wound business.</td>
</tr>
</tbody>
</table>

By order of the Board, on 22 February 2017

Roberto Quarta
Chairman
ACCOUNTABILITY

Nomination & Governance Committee

CURRENT MEMBERS IN 2016

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

¹ Brian Larcombe will retire from the Board at the Annual General Meeting. He will be replaced as Senior Independent Director and member of the Nomination & Governance Committee by Ian Barlow.

2017 FOCUS

Continue the search for a Non-Executive Director to join the Board during 2017 and to replace Joseph Papa as Chairman of the Remuneration Committee on his retirement from the Board in 2018.

DEAR SHAREHOLDER,

I am pleased to present the 2016 report of the Nomination & Governance Committee.

ROLE OF THE NOMINATION & GOVERNANCE COMMITTEE

Our work falls into the following two areas:

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

Corporate Governance
- Overseeing governance aspects of the Board and its Committees.
- Overseeing the review into the effectiveness of the Board.
- Considering and updating the Schedule of Matters Reserved to the Board and the Terms of Reference of the Board Committees.
- Monitoring external corporate governance activities and keeping the Board updated.
- Overseeing the Board Development Programme and the induction process for new Directors.

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

ACTIVITIES OF THE NOMINATION & GOVERNANCE COMMITTEE IN 2016 AND SINCE THE YEAR END

In 2016, we held three physical meetings and one via voice conference. Each meeting was attended by all members of the Committee. The Company Secretary also attended by invitation. In between each meeting, various discussions were held between members of the Nomination & Governance Committee and the external search agent. Our programme of work in 2016 was as follows:

EARLY FEBRUARY

Activities related to the year end
- Considered and approved the re-appointment of Directors who had completed three or six years’ service and the annual appointment of Directors serving in excess of nine years.
- Reviewed the composition of each committee.
- Reviewed and noted the Schedule of Matters Reserved to the Board and the Terms of Reference of the Board Committees.
- Reviewed the proposed Governance Structure of executive committees.

JULY

Resignation of Julie Brown (via voice conference)
- Received and accepted the resignation of Julie Brown as Chief Financial Officer.
- Agreed to begin a search for a new Chief Financial Officer.

MID NOVEMBER

Appointment of new Chief Financial Officer
- Resolved to recommend to the Board that Graham Baker be offered the position of Chief Financial Officer.
LATE NOVEMBER

Appointment of Chief Financial Officer and Committee Chairs

– Received an update that Graham Baker had accepted the position of Chief Financial Officer, effective 1 March 2017.
– Resolved that Robin Freestone should replace Ian Barlow as Chairman of the Audit Committee effective 1 March 2017.
– Received an update regarding potential replacements for Joseph Papa as Chairman of the Remuneration Committee.
– Received an update from the Chairman regarding the appointment of a new Senior Independent Director in 2017.

Since the year end, we have also discussed the future structure of the Board.

CHIEF FINANCIAL OFFICER

In July 2016, Julie Brown resigned as Chief Financial Officer to take up an alternative position outside the Company, in January 2017. The Nomination & Governance Committee together with Olivier Bohuon (Chief Executive Officer) and Elga Lohler (Chief Human Resources Officer) and, advised by Russell Reynolds, undertook a search for her replacement. A number of candidates were interviewed by the Chief Executive Officer, the Chairman of the Board, the Chairman of the Audit Committee and a number of other Non-Executive Directors. Graham Baker will be joining the Board on 1 March 2017 as Chief Financial Officer. In the interim period, members of the finance team have been carrying out the duties of the Chief Financial Officer. They have been supported in this by Robin Freestone.

NON-EXECUTIVE DIRECTORS

Following a number of appointments in 2015, there were no changes to the Non-Executive Directors in 2016. In February 2016, we asked Brian Larcombe to remain as Senior Independent Director for an additional year in order to support me as Chairman, should I have been required to provide additional executive oversight during the Chief Executive Officer’s period of ill health. Now that Olivier Bohuon has fully returned to work and I will not be called upon to carry out any executive duties, Brian Larcombe will retire from the Board at the Annual General Meeting on 6 April 2017 after 16 years’ service to the Company, a period during which we have all been indebted to him for his wise counsel, advice and insight. Ian Barlow will replace Brian Larcombe as Senior Independent Director on 6 April 2017, subject to his re-election at the Annual General Meeting.

Ian Barlow has served on our Board as Chairman of the Audit Committee since 2010. He knows the Company well and has a sound understanding of the governance and regulatory requirements of the Board. He has also met some of our shareholders in his previous role.

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

In August 2017, Joseph Papa will have served on the Board for nine years, the past six years as Chairman of the Remuneration Committee. We are in the process of conducting a search for his successor. The intention is that we shall appoint a new Non-Executive Director who will join the Board and serve for a period of one year, before taking over from Joseph Papa as Chairman of the Remuneration Committee sometime in 2018, at which point Joseph Papa will retire from the Board. In selecting this new Board member, we are following a similar process as in previous years, advised by Zygos. Candidates will be interviewed by myself and a number of Non-Executive Directors. We will announce the appointment in due course, when a final decision has been made.

DIVERSITY

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

In 2012, we stated that our expectation would be that by 2015, 25% of our Board would be female and we have met this expectation. During 2016, 27% of our Board was female. However, with the departures of Julie Brown and Brian Larcombe from the Board and the upcoming appointment of Graham Baker as the new Chief Financial Officer, this percentage will drop to 20%. We have always recognised that the number of Board members will fluctuate from time to time and that we would not necessarily expect to replace any retiring Director with a new Director of the same gender. We have continued to appoint our Directors on merit, valuing the unique contribution that they will bring to the Board, regardless of gender. We are still committed to the principles of diversity and would aim to meet or exceed the expected target of 25% of the Board being female as future appointments are made. Looking forward, we shall work towards a Board with 33% being female in line with the Hampton-Alexander Review.

GOVERNANCE

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

Roberto Quarta
Chairman of the Nomination & Governance Committee
DEAR SHAREHOLDER,
I am pleased to present the 2016 report of the Ethics & Compliance Committee.

ROLE OF THE ETHICS & COMPLIANCE COMMITTEE
Our work falls into the following two general areas:

Ethics & Compliance
– Overseeing ethics and compliance programmes.
– Monitoring ethics and compliance policies and training programmes.
– Reviewing compliance performance based on monitoring, auditing and internal and external investigations data.
– Reviewing allegations of significant compliance issues.
– Receiving reports from the Group’s Ethics & Compliance Committee meetings and from the Chief Compliance Officer and the Chief Legal Officer.

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

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

ACTIVITIES OF THE ETHICS & COMPLIANCE COMMITTEE IN 2016 AND SINCE THE YEAR END
In 2016, we held four physical meetings. Each meeting was attended by all members of the Committee. The Company Secretary, the Chief Legal Officer, the Chief Compliance Officer, the SVP of Quality and the President of Global Operations also attended all of the meetings by invitation.

Our programme of work in 2016 included the following:

FEBRUARY
– Noted that the Deferred Prosecution Agreement entered into by ArthroCare had expired on 7 January 2016 and the related criminal case was dismissed on 12 January 2016.
– Received an update regarding the QARA function.
– Noted the Compliance Programme performance measures for 2015 and reviewed update on China compliance.

APRIL
– Received a report regarding the compliance programme in India.
– Received a report regarding the Third Party Seller compliance programme.
– Received an updated regarding the QARA function.

JULY
– Received an update regarding the QARA function.
NOVEMBER (IN BOSTON, MASSACHUSETTS)
- Received an update regarding the QARA function.
- Received a report on Product Complaints.
- Received a report reviewing the lessons learned from the Mergers & Acquisitions process.
- Received a report on distributor levels and growth and audit findings.

At each meeting we noted and considered the activities of compliance and enforcement agencies and investigation of possible improprieties. We also reviewed a report on the activities of the Group Ethics & Compliance Committee and reviewed the progress of the Global Compliance Programme.

Since the year end, we have also reviewed the work of the Group Ethics & Compliance Committee meeting held in November 2016, considered the compliance implications of recent acquisitions and continued our oversight of the QARA function.

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

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

We requested an in-depth report from management into our complaint handling process. This report explained our approach to complaint handling, our progress at reducing a backlog of complaints, how we categorised different complaints and how we trained our staff to recognise and escalate complaints received by the business appropriately.

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

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

We continually review our compliance programme as it relates to third party sellers (such as distributors and sales agents), particularly in higher risk markets. This programme includes due diligence, contracts with compliance terms, compliance training, site assessments to check compliance controls and monitoring visits to review books and records. During the year, we undertook a review into our third party sellers in India.

We ensure that comprehensive due diligence is carried out prior to an acquisition and throughout the acquisition process to ensure that new businesses are integrated into the Smith & Nephew compliance culture as soon and as consistently as possible and that all new employees are immediately aware of how we do things at Smith & Nephew. During the year, we received a report from management on the ethics and compliance lessons learned from our mergers and acquisitions process.

We oversee the employee compliance training programme, ensuring that all new employees are trained on our Code of Conduct, which sets out our basic legal and ethical principles for conducting business. We are updated on significant calls made to our whistle-blower line, which enables employees and members of the public to contact us anonymously through an independent provider (where allowed by local law) and are updated on any potentially significant improprieties and the Company’s response. We received reports from management on the number of employees not completing required ethics and compliance training on time.

Michael A. Friedman
Chairman of the Ethics & Compliance Committee
Audit Committee

CURRENT MEMBERS IN 2016

<table>
<thead>
<tr>
<th>Member</th>
<th>Member since</th>
<th>Meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ian Barlow (Chairman)</td>
<td>May 2010</td>
<td>7/7</td>
</tr>
<tr>
<td>Erik Engstrom</td>
<td>January 2015</td>
<td>7/7</td>
</tr>
<tr>
<td>Robin Freestone</td>
<td>September 2015</td>
<td>7/7</td>
</tr>
<tr>
<td>Brian Larcombe</td>
<td>January 2003</td>
<td>5/7</td>
</tr>
<tr>
<td>Joseph Papa</td>
<td>February 2011</td>
<td>7/7</td>
</tr>
</tbody>
</table>

1 Robin Freestone will be appointed Chairman of the Audit Committee on 1 March 2017, succeeding Ian Barlow, who will remain as a member of the Committee.
2 Designated financial expert.
3 Brian Larcombe will be retiring from the Board and the Audit Committee at the Annual General Meeting to be held on 6 April 2017.

2017 FOCUS

- To provide assurance over the next phase of the Group’s ERP implementation across the North American businesses.
- To extend the breadth of the assurance activities to include other risk areas such as product risk linking into the Group’s top risk items.

DEAR SHAREHOLDER,

Your Audit Committee has had another busy year, meeting seven times. Aside from the routine matters that form the backbone of the Committee’s activities, which are detailed in our report, we spent significant time monitoring a number of improvement initiatives summarised below.

We continue to benefit from an experienced set of Committee members comprising Robin Freestone and I, with significant accounting and finance backgrounds and our three other members, Joe Papa and Erik Engstrom, both serving Chief Executive Officers of large listed global companies and Brian Larcombe, a former FTSE 100 Chief Executive Officer and Chief Financial Officer. Brian will be retiring as a Director at this year’s AGM and I would like to thank him for his support over many years on this Committee.

Our Head of Internal Audit, Jenny Morgan, is also leaving us this spring. She had done a great job in improving the capabilities and scope of our Internal Audit function and, on behalf of our Committee, I would like to thank her for her leadership and wish her well in her future career.

With the appointment of a new Chief Financial Officer, Graham Baker, and prospectively of a new Head of Internal Audit, I thought it was the right time after serving for seven years to hand on the Chairmanship of the Committee to Robin Freestone, a former Chief Financial Officer of a large listed company and now Audit Chairman of a listed company. I will remain as a member of the Committee. These changes are effective from 1 March 2017.

Our auditor, KPMG, has completed their second year’s audit and continue to provide robust challenging and to suggest areas where we can improve our internal controls. You will see more detail of their work and conclusions in their audit report.

The main non-routine matters we dealt with during the year were:

- Improvements in our risk management, led by Susan Swabey, Company Secretary, who has assumed leadership for risk management, developing our processes for risk management, our approach to risk appetite and improving alignment between the Board’s assessment of risk and the underlying risk registers generated by management. This work will continue into 2017 with deep dives planned for the Board to examine through the lens of our products and also considering risk from a cross functional perspective.
- Further improvements in our internal controls to ensure Sarbanes-Oxley compliance under robust challenge from our external auditors.
- Monitoring the Company’s Minimum Acceptable Practices (MAPs) for internal control which are most relevant to our smaller markets which are outside the scope of Sarbanes-Oxley. We have set a goal of 100% compliance (currently 95%, as self-assessed by management) with these practices and expect this to be achieved during 2017.
- Monitoring the Finance Transformation project which is planned to deliver significant cost savings and improvements to internal control and be completed by the end of 2018.
- Reviewing correspondence with the US Securities and Exchange Commission (SEC) ensuring any necessary action is reflected in the 2016 Annual Report and 20-F.

Ian Barlow
Chairman of the Audit Committee
ROLE OF THE AUDIT COMMITTEE
Our work falls into the following six areas:

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

Internal controls
- Monitoring the effectiveness of internal controls and compliance with the UK Corporate Governance Code 2016 and the Sarbanes-Oxley Act, specifically sections 302 and 404.
- Reviewing the operation of the Group’s risk management processes and the control environment over financial risks.

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

Fraud and whistle-blowing
- Receiving reports on the processes in place to prevent fraud and to enable whistle-blowing.
- If required, receiving reports of fraud incidents.

Internal audit
- Agreeing Internal Audit plans and reviewing reports of Internal Audit work.
- Monitoring the effectiveness of the Internal Audit function.
- Reviewing the control observations made by the Internal Auditor, the adequacy of management’s response to recommendations and the status of any unremediated actions.

External audit
- Overseeing the Board's relationship with the external auditor.
- Monitoring and reviewing the independence and performance of the external auditor and evaluating their effectiveness.
- Making recommendations to the Board for the appointment or reappointment of the external auditor.

The terms of reference of the Audit Committee describe our role and responsibilities more fully and can be found on our website, www.smith-nephew.com, where further information can be found for permitted non-audit services.

ACTIVITIES OF THE AUDIT COMMITTEE IN 2016 AND SINCE THE YEAR END
In 2016, we held five physical meetings and two meetings via voice conference. Each meeting was attended by all appointed members of the Committee (except Brian Larcombe, who missed two meetings this year). The Chairman, the Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit, the external auditor, and key members of the finance function, the Company Secretary and Deputy Company Secretary also attended by invitation. We also met with the external auditor and the Internal Auditor without management present. Our programme of work in 2016 was as follows:

EARLY FEBRUARY

Approval of Preliminary Announcement
- Reviewed the results for the full year 2015 and the preliminary announcement and recommended them for adoption by the Board.
- Reviewed the effectiveness of financial controls and of the risk management process and identified areas for improvement in 2016.
-Reviewed compliance with UK Corporate Governance and US Corporate Governance.
-Received the Internal Audit Report and approved the Internal Audit progress report for 2016.
-Received a report from Internal Audit regarding operations in China.
-Received the Quality Assurance Report and approved the Quality Assurance work programme for 2016.
-Received the fraud report and reviewed whistle-blowing procedures.
-Received the Viability Statement and confirmed that the Company is a viable entity for the assessed forthcoming three-year period.
-Confirmed the independence of KPMG as external auditor.
-Approved KPMG external audit fees and the policy for approval of KPMG non-audit tax fees and noted fees paid to other major audit firms.

LATE FEBRUARY (VIA VOICE CONFERENCE)

Approval of Financial Statements
- Reviewed and approved the Annual Report and Accounts for 2015, having agreed that they were fair balanced and understandable, and recommended them for adoption by the Board.
- Considered the effectiveness of the external auditor and concluded that their work had been effective.
- Reviewed the implementation process for Minimum Acceptable Practices for the Finance function and other control initiatives.
### APRIL
- Reviewed the control themes and observations of the external auditor and concluded that they had met expectations.
- Approved the Sustainability Report and its verification process.
- Received a corporate governance update for 2017 corporate reporting.

### MAY (VIA VOICE CONFERENCE)
**Approval of Q1 Trading Statement**
- Reviewed the Q1 2016 Trading Report and approved the Q1 announcement.
- Approved the Company’s policy and report on Conflict Minerals for submission to the NYSE.

### JULY
**Approval of H1 results**
- Reviewed the results for the first half 2016 and approved the H1 announcement.
- Reviewed and approved the external auditor’s Integrated Audit Plan for 2016.
- Received an update regarding the progress made on moving UK operations to Croxley Park.
- Reviewed accounting for disposal of Gynaecology business.

### EARLY NOVEMBER (IN BOSTON, MASSACHUSETTS)
**Approval of Q3 Trading Statement**
- Reviewed the Q3 2016 Trading Report and approved the Q3 announcement.
- Reviewed the Progress Reports from the external auditor on Q3 2016 and from Internal Audit on their work.
- Received an update on new reporting, regulatory and governance requirements.
- Approved the risk management process.
- Approved the year-end certification process.
- Received a report regarding Cyber Risk.
- Reviewed the progress of recent transactions against expectations at the time of the acquisition.

### LATE NOVEMBER
**Review of Functional Reports**
- Received and discussed a report on the Finance Transformation project.
- Received a report from the Internal Audit function focusing on instances of fraud.
- Reviewed and approved the layout and design of the Annual Report 2016.
- Received and discussed a report on Group tax strategy and management of risk.
- Reviewed the process being undertaken to support the making of the Viability Statement.
- Considered and approved critical accounting policies and judgements in advance of the 2016 year end.
- Received an update from KPMG on the external audit and preliminary Sarbanes-Oxley findings.

Since the year end, we have also reviewed the Annual Report and Accounts for 2016 and have concluded that taken as a whole, they are fair, balanced and understandable and have advised the full Board accordingly. In coming to this conclusion, we have considered the description of the Group’s strategy and key risks, the key elements of the business model, which is set out on pages 8 to 9, risks and the key performance indicators and their link to the strategy.
SIGNIFICANT MATTERS RELATED TO THE FINANCIAL STATEMENTS

We considered the following key areas of judgement in relation to the 2016 accounts and at each half-year and quarterly trading report, which we discussed in all cases with management and the external auditor:

Valuation of inventories
A feature of the orthopaedic business model (whose finished goods inventory makes up 79% of the Group total finished goods inventory) is the high level of product inventory required, some of which is located at customer premises and is available for customers’ immediate use. Complete sets of product, including large and small sizes, have to be made available in this way. These sizes are used less frequently than standard sizes and towards the end of the product life cycle are inevitably in excess of requirements. Adjustments to carrying value are therefore required to be made to orthopaedic inventory to anticipate this situation.

Our action
At each quarter end, we received reports from, and discussed with, management the level of provisioning and material areas at risk. The provisioning level was 20% at 31 December 2016 (21% as at 31 December 2015). We challenged the basis of the provisions and concluded that the proposed levels were appropriate and have been consistently estimated.

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

Our action
As members of the Board, we receive regular updates from the Chief Legal Officer. These updates form the basis for the level of provisioning. The Group carries a provision relating to potential liabilities arising on its portfolio of modular metal-on-metal hip products of $163 million as of 31 December 2016. We received detailed reports from management on this position, including the actuarial model used to estimate the provision, and challenged the key assumptions, including the number of claimants and projected value of each settlement. The legal judgements have not moved materially during the year, with some cases having been resolved, and some new matters arising. We have determined that the proposed levels of provisioning at year end of $225 million included within ‘provisions’ in Note 171 in 2016 ($271 million in 2015) were appropriate in the circumstances.

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

Our action
We reviewed management’s reports on the key assumptions with respect to goodwill, acquisition intangible assets and investments in associates – particularly the forecast future cash flows and discount rates used to make these calculations. We noted the impairment charge of $48 million that has been recorded in 2016, the principal component of which related to the Oasis brand. We challenged the key assumptions used in the assessment, especially in light of this being a second impairment charge and concluded that the external facts that had impacted management judgement were appropriately considered. We have also considered the disclosure surrounding these reviews, and concluded that the review and disclosure were appropriate.

Taxation
The Group operates in numerous tax jurisdictions around the world and at any given time the Group has years outstanding and is involved in disputes and tax audits. In estimating the probability and amount of any tax charge, management takes into account the views of internal and external advisers and updates the amount of provision whenever necessary.

Our action
We annually review our processes and approve the principles for management of tax risks. We review quarterly reports from management evaluating existing risks and tax provisions. Based on a thorough report from management of tax liabilities and our challenge of the basis of any tax provisions recorded, we concluded that the levels of provisions and disclosures were appropriate.

Business combinations
The Group has identified ‘growth through acquisitions’ as one of its Strategic Priorities.

Our action
For completed acquisitions, we received a report from management setting out the significant assets and liabilities acquired, details of the provisional fair value adjustments applied, an analysis of the intangible assets acquired, the assumptions behind the valuation of these acquired intangible assets and the proposed useful economic life of each intangible asset class. For material acquisitions, management engage third party specialists to perform a detailed analysis, summaries of which are included in management reports. We reviewed, discussed, challenged and approved these summaries for Blue Belt Technologies. During 2016, we also considered and concurred with management that there had been no changes to the provisional fair values recognised in the 2015 acquisitions in Colombia and Russia.
EXTERNAL AUDITOR

Independence of external auditor
The independence of our external auditor is critical for the integrity of the audit. Following a competitive tender in 2014, KPMG LLP were appointed the Company’s external auditor for the 2015 audit replacing Ernst & Young LLP who had been the Company’s auditor for a number of years. We are satisfied that KPMG LLP are fully independent from the Company’s management and free from conflicts of interest. Our Auditor Independence Policy, which ensures that this independence is maintained, is available on the Company’s website.

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

The Auditor Independence Policy also governs the policy regarding audit partner rotation with the expectation that the audit partner will rotate at least every five years. The Audit Committee confirms it has complied with the provision of the Competition and Markets Authority Order which came into effect from 1 January 2015.

Effectiveness of external auditors
We conducted a review into the effectiveness of the external audit as part of the 2016 year end process, in line with previous years. We sought the views of key members of the finance management team, considered the feedback from this process and shared it with management.

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

Overall therefore, we concluded that KPMG had carried out their audit for 2016 effectively.

Appointment of external auditors at Annual General Meeting
Resolutions will be put to the Annual General Meeting to be held on 6 April 2017 proposing the re-appointment of KPMG LLP as the Company’s auditor and authorising the Board to determine their remuneration, on the recommendation of the Audit Committee.

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

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

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

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

The following reflects the non-audit fees incurred with KPMG in 2016:

Both the below pieces of work were approved by the Chairman of the Audit Committee:

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax compliance services</td>
<td>$0.10</td>
</tr>
<tr>
<td>Assistance with tax compliance in a number of smaller markets, Singapore, Malaysia, Thailand, India and Finland</td>
<td></td>
</tr>
<tr>
<td>Pension advice</td>
<td>$0.50</td>
</tr>
<tr>
<td>Advice on the impact of changes to pension benefits for the UK defined benefit scheme</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>$0.04</td>
</tr>
</tbody>
</table>

Tax compliance services conducted by KPMG will be discontinued in 2017 with the exception of countries where it is required by law for the auditor to conduct these services.

The ratio of non-audit fees to audit fees for the year ended 31 December 2015 was 0.25. The ratio of non-audit fees to audit fees for the year ended 31 December 2016 is 0.25.

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

Audit Fees paid to the Auditor
Fees for professional services provided by KPMG LLP, the Group’s independent auditors in each of the last two fiscal years, in each of the following categories were:

<table>
<thead>
<tr>
<th>Category</th>
<th>2016 $ million</th>
<th>2015 $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Audit-related fees</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

INTERNAL AUDIT
Our Internal Audit function reports directly to the Audit Committee. The Internal Audit function carries out work across the Group acting as a third line of defence. The audit coverage is based on risk with the focus for 2016 being assurance over the Group’s SAP implementation, finance transformation, US inventory processes and core financial controls across the Group. Non-financial reviews included Group Complaints and Compliance in addition to an increased focus on IT audit and post implementation reviews.

During the year, they completed 40 reviews across the business. The Audit Committee receives a quarterly report of the activities of the Internal Audit function and reviews the results of the Internal Audit reports, looking in detail at any reports with unsatisfactory ratings. We also receive a quarterly report detailing any un-remediated and overdue control recommendations and oversee the effective and timely remediation of any recommendations.

Of particular note in 2016 were the Internal Audit reviews conducted in China and the LATAM region. Each review was discussed at the Audit Committee with presentations from Internal Audit and Executive Regional management. Remediation of agreed actions is monitored by the Audit Committee at each Committee meeting. There has been continued focus on Emerging Markets, with reviews of Brazil, Mexico, Saudi Arabia, Turkey and Russia.

In 2017, we will continue to monitor Internal Audit’s scope of work and operational methods to ensure that it continues to play a full role in providing assurance over the Group’s identification and management of risk and its associated controls.

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

During the year, we reviewed our risk management processes at our meetings in February, July and November. We approved the risk management programme for 2016 and monitored performance against that plan specifically reviewing the work undertaken by the risk champions across the Group, identifying the risks which could impact their areas of our business. We also reviewed and evaluated the work undertaken by the executive team in identifying the specific risks which could impact the strategic priorities and the key products in their area.

We also undertook deep dives into key risks impacting our business including the economic conditions impacting our business in China, our plans for addressing IT and Cyber Security risks, our processes for handling of product complaints, and the impact of moving many of our corporate head office roles out of London.

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

We concluded that the risk management process during 2016 and up to the date of approval of this Annual Report was effective. Work will continue in 2017 and beyond to continue to enhance the process.

See pages 42 to 46 for further information on our risk management process.

VIABILITY STATEMENT
We also reviewed management’s work in conducting a robust assessment of those risks which would threaten our business model and the future performance or liquidity of the Company, including its resilience to the threats of viability posed by those risks in severe but plausible scenarios. This assessment included stress and sensitivity analyses of these risks to enable us to evaluate the impact of a severe but plausible combination of risks. We then considered whether additional financing would be required in such eventualities. Based on this analysis, we recommended to the Board that it could approve and make the Viability Statement on page 47.

GOING CONCERN
The Group’s business activities, together with the factors likely to affect its future development, performance and position are set out in the ‘Financial review and principal risks’ section on pages 39 to 46. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described under ‘Commentary on the Group cash flow statement’ section set out on page 114.

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

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

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

Management also believes that the Group has sufficient working capital for its present requirements.
EVALUATION OF INTERNAL CONTROLS

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

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

- The management of each country is responsible for the establishment and review of effective financial controls within their business unit.
- The Group Finance manual sets out financial and accounting policies. The Group’s Minimum Acceptable Practices (MAPs) have been enhanced further to cover financial and operational controls. The business is required to self-assess their level of compliance with the MAPs and remediate any gaps. MAPs compliance is validated by both external audit and Internal Audit visits.
- During the year there has been an exercise to standardise and simplify our core financial controls. In 2017 there will be a focus on the use of data analytics, automation and robotic tools to strengthen controls further.
- The Internal Audit function agrees an annual work plan and scope of work with the Audit Committee.
- The Audit Committee reviews reports from Internal Audit on their findings on internal financial controls, including compliance with MAPs and from the Senior Vice President, Group Finance and the heads of the Financial Controls and Compliance, Taxation and Treasury functions.
- The Audit Committee reviews regular reports from the Financial Controls and Compliance function with regard to compliance with the Sarbanes-Oxley Act including the scope and results of management’s testing and progress regarding any remediation.
- The Audit Committee reviews the Group whistle-blower procedures.
- The Audit Committee received and reviewed a report on the progress of the Finance Transformation during 2016 and the mitigation of the associated risks.

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

We have reviewed the system of internal financial control and satisfied ourselves that we are meeting the required standards both for the year ended 31 December 2016 and up to the date of approval of this Annual Report. No concerns were raised with us in 2016 regarding possible improprieties in matters of financial reporting.

This process complies with the Financial Reporting Council’s ‘Guidance on Risk Management, Internal Control and Related Financial and Business Reporting’ on the UK corporate governance code and additionally contributes to our compliance with the obligations under the Sarbanes-Oxley Act and other internal assurance activities.

There has been no change during the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, the Group’s internal control over financial reporting.

The Board is responsible overall for reviewing and approving the adequacy and effectiveness of the risk management framework and the system of internal controls over financial, operational (including quality management and ethical compliance) processes operated by the Group. The Board has delegated responsibility for this review to the Audit Committee. The Audit Committee, through the Internal Audit function, reviews the adequacy and effectiveness of internal control procedures and identifies any weaknesses and ensures these are remediated within agreed timelines. The latest review covered the financial year to 31 December 2016 and included the period up to the approval of this Annual Report.

The main elements of this annual review are as follows:

- The Chief Executive Officer and the former Chief Financial Officer evaluated the effectiveness of the design and operation of the Group’s disclosure controls and procedures as at 31 December 2016. Based upon this evaluation, the Chief Executive Officer concluded on 22 February 2017 that the disclosure controls were effective as at 31 December 2016.
- Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management assessed the effectiveness of the Group’s internal control over financial reporting as at 31 December 2016 in accordance with the requirements in the US under §404 of the Sarbanes-Oxley Act. In making that assessment, they used the criteria set forth by the Committee of Sponsoring Organisations of the Treadway Commission in Internal Control-Integrated Framework. Based on their assessment, management concluded and reported that, as at 31 December 2016, the Group’s internal control over financial reporting is effective based on those criteria.
- Having received the report from management, the Audit Committee reports to the Board on the effectiveness of controls.
- KPMG LLP, an independent registered public accounting firm issued an audit report on the Group’s internal control over financial reporting as at 31 December 2016.

CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS

We have adopted a Code of Ethics for Senior Financial Officers, which applies to the Chief Executive Officer, the Chief Financial Officer, the Senior Vice President Group Finance and the Group’s senior financial officers. There have been no waivers to any of the Code’s provisions nor have there been any amendments to the Code during 2016 or up until 22 February 2017. A copy of the Code of Ethics for Senior Financial Officers can be found on our website at www.smith-nephew.com.

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

EVALUATION OF EFFECTIVENESS OF THE AUDIT COMMITTEE

The effectiveness of the Audit Committee was evaluated as part of the review into the effectiveness of the Board conducted at the end of 2016.

This review found that the Audit Committee was becoming increasingly effective, but recognising the increased responsibilities of the Audit Committee suggested that the time needed for each meeting could be increased.
DEAR SHAREHOLDER,

2016 was a year when we faced challenges including pricing pressures, currency headwinds and disappointing performance in China and the Gulf. In other areas, particularly Sports Medicine and Knee Implants, we maintained a strong momentum and generally made good progress as we continued to execute on our five strategic priorities. The performance on the measures we currently use in our variable plans was as follows:

- Revenue at $4,669 million showed reported growth of 1% (2% underlying);
- Trading profit at $1,020 million showed reported growth of -7%;
- Trading cash flow was $765 million with the year trading profit to cash ratio of 75%;
- Revenues from Emerging Markets were $691 million;
- Share price improved from 1,208p to 1,221p during the year.

As a result of the financial performance in 2016 and over the three-year period ending 31 December 2016, Olivier Bohuon has received a cash bonus of 45.45% of salary, an Equity Incentive award of 50% of salary and the Performance Share Award vested at 8% of maximum. Whilst the Remuneration Committee recognises that Olivier Bohuon met or exceeded his business targets during the year, which would have led to a cash bonus of 50.5%, we are also mindful that the financial targets have not been met. We have therefore exercised our discretion downwards to reduce the total cash bonus by 10%. In aggregate this has resulted in a reduction of Olivier Bohuon’s 2016 total remuneration of over $2 million or 39%, relative to 2015. Further details are set out on page 90.

2016 Annual General Meeting

You will all be aware that we only supported the share of 47% of shareholders on the Remuneration Report vote at the 2016 Annual General Meeting. This was a great disappointment to the Remuneration Committee and the Board as a whole, as we genuinely believed that exercising our discretion was in shareholders’ interest and was the right thing to do, better aligning rewards with the performance of the Company and the shareholder experience for all plan participants. However, 53% of our shareholders disagreed and this led us to critically review our remuneration arrangements during 2017. We undertook an extensive exercise talking to our senior executives to understand their views on our remuneration arrangements and in particular the extent to which they successfully drive performance across the strategic aims we have identified for the future success of the Company.

We also engaged with the holders of over 40% of our shares to talk to them about their views of our remuneration arrangements. We reached out to our top 20 shareholders and to all institutional investors who had contacted us before or around the time of the AGM to talk about our 2016 decisions and the subsequent shareholder vote. We are extremely grateful to the shareholders who engaged with us and shared their views. As a result of these discussions, we are proposing a Remuneration Policy which reflects your comments and views.

Conclusions from our executive and shareholder engagement programme

Our engagement programme showed overwhelming support from executives and from shareholders for our Remuneration Policy, the structure of our remuneration packages and the balance between the various elements of pay. We have therefore chosen to make no substantial changes to the Remuneration Policy you approved in 2014, although following feedback from shareholders in recent years, we have made some minor changes to the operation of the Performance Share Programme (PSP).

For PSP awards made from 2017 onwards, we will apply a two year post-vesting holding period. This will ensure that Executive Directors are aligned with the shareholder experience for five years from the date of each grant and over time will build up a sizeable shareholding in the Company.

Additionally, we have adjusted some of the performance measures used in our short and long term incentive plans and the weighting between these measures. The result of these changes is a greater emphasis on financial measures in our Annual Incentive Programme and a balance of measures more closely linked to our strategic aims. The measures we have chosen are detailed below and on the opposite page.

You will note that we have introduced a new ‘Return on Invested Capital’ (ROIC) measure into our Performance Share Plan. This is a measure which resonated strongly with the shareholders we met and which we believe will help to drive the performance we are aiming for. ROIC was introduced internally as a reporting measure in 2016, given its role in successfully executing our strategic pillars. It incentivises better financial discipline, rewards enhanced operating performance and provides a link to an area that our shareholders have identified as a high priority for improvement. Its introduction as a formal performance metric was the natural next step.

ROIC will be defined as:

\[
\text{Net Operating Profit less Adjusted Taxes} \times 100
\]

\[
\text{Average ROIC over the three year performance period will be compared to the targets set at the beginning of the performance period. You will find further information on this measure on page 95.}
\]

Graham Baker – Chief Financial Officer

We welcome Graham Baker, who will join the Company as Chief Financial Officer on 1 March 2017. During the year, we considered and approved his remuneration package, which we announced on 30 November 2016. These arrangements are in line with the Remuneration Policy approved by shareholders in 2014. You will find further details in the Remuneration Report. No sign-on or buy-out awards have been made in connection with his appointment.
Julie Brown – former Chief Financial Officer
Julie Brown left the Company on 11 January 2017, at which point all outstanding awards lapsed. Further details are set out on page 91.

Shareholding Requirements
We also reviewed and increased our shareholding requirements. The Chief Executive Officer is now required to build up a holding of shares in the Company to the value of three times his annual base salary. The requirement for the Chief Financial Officer remains at two times his annual base salary. These shareholding requirements are normally expected to be met within five years of joining the Company.

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

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

We passionately believe that engagement is important both for the Company and for our shareholders. Engagement is more than just voting. I would therefore like to reinforce my gratitude to those of our shareholders who took the time to provide their thoughts on our Remuneration Policy and the changes we proposed during the course of 2016. Your Remuneration Committee believes that the incremental changes proposed ensure continued alignment to our evolving strategic pillars and will incentivise and reward our Executive Directors, and broader senior executive team, for delivering strong performance for our shareholders in the years ahead.

Joseph Papa
Chairman of the Remuneration Committee

MEASURES IN OUR VARIABLE PAY PLANS

FINANCIAL MEASURES IN ANNUAL INCENTIVE PLAN

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

BUSINESS OBJECTIVES IN ANNUAL INCENTIVE PLAN

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

PERFORMANCE MEASURES IN OUR PERFORMANCE SHARE PLAN

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

Compliance statement
We have prepared this Directors’ Remuneration Report (the Report) in accordance with The Enterprise and Regulatory Reform Act 2013 (clauses 81-84) and The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). The Report also meets the relevant requirements of the Financial Conduct Authority (FCA) Listing Rules.

The first part of the Report (pages 78 to 87) is the Directors’ Remuneration Policy Report (the Policy Report) which will be presented to shareholders for approval at the Annual General Meeting to be held on 6 April 2017. The Policy Report describes our Remuneration Policy as it relates to the Directors of the Company. All payments we make to any Director of the Company will be in accordance with this Remuneration Policy. We intend that this Remuneration Policy will remain in place unchanged for the next three years and will next be put to shareholder vote at the Annual General Meeting to be held in 2020.

The second part of the Report (pages 88 to 101) is the annual report on remuneration (the Implementation Report). The Implementation Report will be put to shareholders for approval as an advisory vote at the Annual General Meeting on 6 April 2017. The Implementation Report explains how the Remuneration Policy was implemented during 2016 and also how it is currently being implemented in 2017. The financial tables on pages 90 to 96, the Directors’ interest table on page 97 and the tables on pages 98 to 99 have been audited by KPMG LLP.
The following table and accompanying notes explain the different elements of remuneration we pay to our Executive Directors:

**BASE SALARY AND BENEFITS**

**BASE SALARY**

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

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

**PAYMENT IN LIEU OF PENSION**

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

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

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

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

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

How the component operates

A wide range of benefits may be provided depending on the benefits provided for comparable roles in the location in which the Executive Director is based. These benefits will include, as a minimum, healthcare cover, life assurance, long-term disability, annual medical examinations, company car or car allowance.

The Committee retains the discretion to provide additional benefits where necessary or relevant in the context of the Executive’s location.

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

Maximum levels of payment

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

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

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

The maximum amount payable in benefits to an Executive Director, in normal circumstances, will not be significantly more than amounts paid in 2016 (or equivalent in local currency).

The Remuneration Committee retains the right to pay more than this should the cost of providing the same underlying benefits increase or in the event of a relocation.

A full explanation will be provided in the Implementation Report should the cost of benefits provided be significantly higher.

Framework in which performance is assessed

The level and cost of benefits provided to Executive Directors is not dependent on performance but on the package of benefits provided to comparable roles within the relevant location.
THE POLICY REPORT

ALL-EMPLOYEES ARRANGEMENTS

ALL-EMPLOYEE SHARE PLANS

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

How the component operates | Maximum levels of payment | Framework in which performance is assessed
--- | --- | ---
Sharesave Plans are operated in the UK and 31 other countries internationally. In the US, an Employee Stock Purchase Plan is operated. These plans enable employees to save on a regular basis and then buy shares in the Company. Executive Directors are able to participate in such plans on a similar basis to other employees, depending on where they are located. | Executive Directors may currently invest up to £500 per month in the UK ShareSave Plan. The Remuneration Committee may exercise its discretion to increase this amount up to the maximum permitted by the HM Revenue & Customs. Similar limits will apply in different locations. | The potential gains from all-employee plans are not based on performance but are linked to growth in the share price.

ANNUAL INCENTIVES

ANNUAL INCENTIVE PLAN – CASH INCENTIVE

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

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

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

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

How the component operates | Maximum levels of payment | Framework in which performance is assessed
--- | --- | ---
The Annual Incentive Plan comprises a cash and an equity component, both based on the achievement of financial and business objectives set at the start of the year. The cash component is paid in full after the end of the performance year. At the end of the year, the Remuneration Committee determines the extent to which performance against these has been achieved and sets the award level. | The total maximum payable under the Annual Incentive Plan is 215% of base salary (150% Cash Incentive and 65% Equity Incentive). In respect of the Cash Incentive: 150% salary awarded for maximum performance. 100% salary awarded for target performance. 50% salary awarded for threshold performance. Performance assessed against individual objectives and Group financial targets. | The cash and share awards are subject to malus and clawback as detailed in the notes following this table. 75% of the cash component is based on financial performance measures, which currently include Revenue (35%), Trading Profit Margin (25%) and Trading Cash Flow (15%). 25% of the cash component is based on other business goals linked to the Company’s strategy, which could include financial and non-financial measures. The Remuneration Committee retains the discretion to adjust the relative weightings of the financial and business components, and to adopt any performance measure that is relevant to the Company.
## ANNUAL INCENTIVE PLAN – EQUITY INCENTIVE

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

<table>
<thead>
<tr>
<th>How the component operates</th>
<th>Maximum levels of payment</th>
<th>Framework in which performance is assessed</th>
</tr>
</thead>
<tbody>
<tr>
<td>The equity component vests conditional share awards (made at the time of the cash award), with vesting phased over the following three years. The equity component vests 1/3, 1/3, 1/3 on successive award anniversaries, only if performance remains satisfactory over each of these three years; otherwise the award will lapse. Participants will receive an additional number of shares equivalent to the amount of dividend payable per vested share during the relevant performance period.</td>
<td>In respect of the Equity Incentive: Performance is assessed against individual performance, which includes an element of Group financial targets. 65% of salary awarded for maximum performance. 50% of salary awarded for target performance. 0% of salary awarded for performance assessed to be below target.</td>
<td>The Remuneration Committee will use its judgement of the individual's performance based both on what has been achieved during the year and how it has been achieved in determining the level of equity award that may be awarded within the range of 0% to 65% of salary. The equity component will vest in three equal tranches over a three-year period, provided that satisfactory performance is sustained.</td>
</tr>
</tbody>
</table>
## PERFORMANCE SHARE PROGRAMME

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

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

<table>
<thead>
<tr>
<th>How the component operates</th>
<th>Maximum levels of payment</th>
<th>Framework in which performance is assessed</th>
</tr>
</thead>
</table>
| The Performance Share Programme comprises conditional share awards which vest after three years, subject to the achievement of stretching performance targets linked to the Company’s strategy. Awards may be subject to clawback in the event of material financial misstatement or misconduct. Participants will receive an additional number of shares equivalent to the amount of dividend payable per vested share during the relevant performance period. On vesting, a number of shares are sold to cover the tax liability. The remaining shares are required to be held by the Executive Director for a further two-year holding period. | Annual awards:  
190% of salary for maximum performance.  
95% of salary for target performance.  
47.5% of salary for threshold performance. | Currently:  
– 25% of the award vests on achievement of a three-year cumulative free cash flow target.  
– 25% of the award vests subject to three-year Total Shareholder Return (TSR) at median performance relative to Global Healthcare companies and to FTSE 100 companies.  
– 25% of the award vests subject to the achievement of return on invested capital targets.  
– 25% of the award vests subject to total sales growth.  
– These measures, the targets and performance against them are described more fully in the Implementation Report.  
– The Performance Share Award will vest on the third anniversary of the date of grant, depending on the extent to which the performance conditions are met over the three-year period commencing in the year the award was made.  
– The Remuneration Committee retains the discretion to change the measures and their respective weightings to ensure continuing alignment with the Company’s strategy.  
– The cash and share awards are subject to malus and clawback as detailed in the notes following this table.  
Awards made prior to 2017 were subject to TSR against a sector peer group, cash flow and revenue in Emerging Markets targets. |
ILLUSTRATIONS OF THE APPLICATION OF THE REMUNERATION POLICY 2017

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

**Chief Executive Officer**

- **Goal:**
  - Minimum: €1,683,848
  - Target: €4,573,599
  - Maximum: €6,460,783

- **Weight:**
  - Salary: 25%
  - Payment in lieu of pension: 12%
  - Benefits: 27%
  - Annual Incentive (Cash): 12%
  - Annual Incentive (Equity): 15%

**Chief Financial Officer**

- **Goal:**
  - Minimum: €685,244
  - Target: €1,934,744
  - Maximum: €2,750,744

- **Weight:**
  - Salary: 25%
  - Payment in lieu of pension: 13%
  - Benefits: 28%
  - Annual Incentive (Cash): 12%
  - Annual Incentive (Equity): 15%

**Total Remuneration by Performance Scenario for 2017 Financial Year**

<table>
<thead>
<tr>
<th>Performance Scenario</th>
<th>Chief Executive Officer</th>
<th>Chief Financial Officer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>Minimum</td>
<td>Minimum</td>
</tr>
<tr>
<td>Target</td>
<td>Target</td>
<td>Target</td>
</tr>
<tr>
<td>Maximum</td>
<td>Maximum</td>
<td>Maximum</td>
</tr>
</tbody>
</table>

**Malus and Clawback**

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

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

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

**Policy on Recruitment Arrangements**

Our policy on the recruitment of Executive Directors is to pay a fair remuneration package for the role being undertaken and the experience of the Executive Director appointed. In terms of base salary, we will seek to pay a salary comparable, in the opinion of the Committee, to that which would be paid for an equivalent position elsewhere. The Remuneration Committee will determine a base salary in line with the policy and having regard to the parameters set out on in the future policy table.

Incoming Executive Directors will be entitled to pension, benefit and incentive arrangements which are the same as provided to existing Executive Directors. On that basis, incentive awards would not exceed 405% of base salary.

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

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

If we appoint an existing employee as an Executive Director of the Company, pre-existing obligations with respect to remuneration, such as pension, benefits and legacy share awards, will be honoured.

Should these differ materially from current arrangements, these will be disclosed in the next Implementation Report.

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

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**Data for the Chief Executive Officer assumes an exchange rate of €1 = £0.820.**
SERVICE CONTRACTS
We employ Executive Directors on rolling service contracts with notice periods of up to 12 months from the Company and six months from the Executive Director. On termination of the contract, we may require the Executive Director not to work their notice period and pay them an amount equivalent to the base salary and payment in lieu of pension and benefits they would have received if they had been required to work their notice period.

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

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

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

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

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

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

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

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

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

We will supply details via an announcement to the London Stock Exchange of an out-going Executive Director’s remuneration arrangements around the time of leaving.

CHANGES TO POLICY
The 2017 Remuneration Policy makes the following changes to the 2014 Remuneration policy:

– Introduction of a two year holding period for vested Performance shares;
– Flexibility to change measures;
– Increased emphasis on financial objectives in the Annual Incentive Plan, increases from 70% to 75%;
– Increased shareholding requirement to 300% of salary for the Chief Executive Officer.

Further details can be found in the letter from the Chairman of the Remuneration Committee on pages 76 to 77.
POLICY ON SHAREHOLDING REQUIREMENTS

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

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

STATEMENT OF CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY AND DIFFERENCES TO THE EXECUTIVE DIRECTOR POLICY

All employees across the Group have performance-based pay linked to objectives derived from the strategic priorities, which underpin the performance metrics in the Executive Director Incentive Plans.

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

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

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

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

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

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

**FUTURE POLICY TABLE – CHAIRMAN AND NON-EXECUTIVE DIRECTORS**

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

### ANNUAL FEES

**BASIC ANNUAL FEE**

To attract and retain Directors by setting fees at rates comparable to what would be paid in an equivalent position elsewhere.

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

<table>
<thead>
<tr>
<th>How the component operates</th>
<th>Maximum levels of payment</th>
</tr>
</thead>
</table>
| Fees will be reviewed periodically. In future, any increase will be paid in shares until 25% of the total fee is paid in shares. Fees are set in line with market practice for fees paid by similarly sized UK listed companies. Annual fees are set and paid in UK Sterling or US Dollars depending on the location of the Non-Executive Director. If appropriate, fees may be set and paid in alternative currencies. | Annual fees are currently as follows:  
– £63,000 in cash plus £5,135 in shares; or  
– £120,000 in cash plus £9,780 in shares.  
Chairman fee:  
– £309,000 plus £103,000 in shares.  
Whilst it is not expected to increase the fees paid to the Non-Executive Directors and the Chairman by more than the increases paid to employees generally, in exceptional circumstances higher fees might become payable.  
The total maximum aggregate fees payable to the Non-Executive Directors will not exceed £1.5 million as set out in the Company’s Articles of Association. |

**FEE FOR SENIOR INDEPENDENT DIRECTOR AND COMMITTEE CHAIRMEN**

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

<table>
<thead>
<tr>
<th>How the component operates</th>
<th>Maximum levels of payment</th>
</tr>
</thead>
</table>
| A fixed fee is paid, which is reviewed periodically. | – £20,000 in cash; or  
– £35,000 in cash.  
Whilst it is not expected that the fees paid to the Senior Independent Director or Committee Chairmen will exceed the increases paid to employees generally, in exceptional circumstances, higher fees might become payable. |

**INTERCONTINENTAL TRAVEL FEE**

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

<table>
<thead>
<tr>
<th>How the component operates</th>
<th>Maximum levels of payment</th>
</tr>
</thead>
</table>
| A fixed fee is paid, which is reviewed periodically. | – £3,500 in cash; or  
– £7,000 in cash.  
Whilst it is not expected to increase these fees by more than the increases paid to employees generally, in exceptional circumstances, higher fees might become payable. |
The broad outline of our remuneration arrangements have remained largely unchanged since 2012. As our strategy has evolved, we have altered some of the measures we use in our short- and long-term incentive plans, but the overall structure of our remuneration arrangements has remained the same. Shareholders formally approved the Remuneration Policy in respect of our Executive Directors at the Annual General Meeting in 2014. Joseph Papa, Chairman of the Remuneration Committee, has met with shareholders before the policy was approved and every year since, in order to ascertain shareholder views on our remuneration arrangements.

Ahead of the Annual General Meeting in 2016, Mr Papa held meetings and calls with 28 shareholders holding approximately 33% of the Company’s Share Capital. Although the holders of 47% of our shares voted against the Remuneration Report in 2016, our engagement ahead of the 2016 Annual General Meeting had shown us that shareholders were broadly supportive of our Remuneration Policy and those who opposed the Remuneration Report were primarily voting against the use of discretion rather than any aspect of the Remuneration Policy.

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

As a result of these discussions, some updated performance measures have been incorporated into our incentive plans for 2017 and a two-year holding period will now apply on the vesting of performance shares for our Executive Directors.
The Remuneration Committee presents the annual report on remuneration (the Implementation Report), which, together with the annual statement from the Chairman of the Remuneration Committee, will be put to shareholders for an advisory vote at the Annual General Meeting to be held on 6 April 2017.

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

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

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

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

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

ACTIVITIES OF THE REMUNERATION COMMITTEE IN 2016 AND SINCE THE YEAR END
In 2016, we held six meetings and determined three matters by written resolution. Each meeting was attended by all members of the Committee (except Vinita Bali and Brian Larcombe who each missed one meeting this year). The Chief Executive Officer, the Chief Human Resources Officer and the Senior Vice President, Global Reward, key members of the finance function and the Company Secretary also attended all or part of some of the meetings, except when their own remuneration was being discussed. We also met with the independent Remuneration Consultants, Willis Towers Watson, without management present. Our programme of work in 2016 was as follows:
### EARLY FEBRUARY

**Approval of salaries, awards and payouts in 2016**
- Noted the financial results for 2015 against the targets under the short-term and long-term incentive plans.
- Agreed the targets for the short-term and long-term incentive plans for 2016.
- The Audit Committee joined the Remuneration Committee for both the above agenda items to answer any questions regarding audited numbers and provide assurance.
- Approved the quantum of cash payments to Executive Directors and Executive Officers under the Annual Incentive Plan and awards under the Equity Incentive Programme and the Performance Share Programme.
- Approved the vesting of share awards granted in 2013 and reviewed the performance of long-term awards granted in 2013 and 2014. Exercised our discretion to authorise the vesting at threshold of the element of the performance share awards subject to TSR performance.
- Reviewed benchmark data increases to salaries across the Group and approved salary increases for Executive Directors and Executive Officers with effect from 1 April 2016.
- Approved the text of the Remuneration Report.

### LATE FEBRUARY

**Final approval of the Remuneration Report (via voice conference)**
- Approved the final targets for the short-term and long-term incentive plans for 2016.
- Approved the final text of the Remuneration Report.

### JULY

**Mid-year Review of Remuneration Arrangements**
- Reviewed the shareholder response to the Remuneration Report at the Annual General Meeting and noted shareholders’ comments that would be addressed in this report.
- Discussed and planned programme of engagement with institutional investors on remuneration.
- Considered the Executive Director remuneration packages in comparison to our peers.
- Reviewed adherence to shareholding guidelines by Executive Directors, Executive Officers and senior executives.
- Monitored dilution limits and the number of shares available for use in respect of executive and all-employee share plans.
- Discussed preliminary review of senior executive remuneration framework and measures.

### EARLY NOVEMBER

**Review of Remuneration Strategy**
- Reviewed and considered the principles for determining payouts under the long-term plans due to vest in 2017.
- Approved the final Remuneration Strategy for 2017.
- Reviewed market data for the Executive Directors and Executive Officers prepared in accordance with the agreed methodology.

An additional meeting was held in April to consider shareholder views immediately ahead of the Annual General Meeting and additional matters were approved by written resolution.

Since the year end, we have also reviewed the financial results for 2016 against the targets under the short-term and long-term incentive arrangements jointly with the Audit Committee, and have agreed the targets for the short-term and long-term incentive plans for 2017. We have also approved increases to the salaries of Executive Directors and Executive Officers and determined cash payments under the Annual Incentive Plan, awards under the Equity Incentive Programme and the Performance Share Programme, and the vesting of awards under the Performance Share Programme granted in 2014. Finally, we approved the wording of this Directors’ Remuneration Report.

During the year, the Remuneration Committee received information and advice from Willis Towers Watson, an independent executive remuneration consultancy firm appointed by the Remuneration Committee in 2011 following a full tender process. They provided advice on market trends and remuneration issues in general, attended Remuneration Committee meetings, assisted in the review of the Directors’ Remuneration Report, provided market benchmark data on compensation design and levels, undertook calculations relating to the PSP performance conditions and supported a review of the Remuneration Policy. The fees paid to Willis Towers Watson for Remuneration Committee advice during 2016, charged on a time and expense basis was £214,939 in total. Willis Towers Watson also provided other human resources and compensation advice to the Company for the level below the Board. Willis Towers Watson comply with the Code of Conduct in relation to Executive Remuneration Consulting in the United Kingdom and the Remuneration Committee is satisfied that their advice is objective and independent.
SINGLE TOTAL FIGURE ON REMUNERATION

The amounts for 2016 have been converted into US$ for ease of comparability using the exchange rates of £ to US$1.349 and € to US$1.106 (2015: £ to US$1.5281 and € to US$1.1089).

<table>
<thead>
<tr>
<th>Director</th>
<th>Base salary</th>
<th>Payment in lieu of pension</th>
<th>Taxable benefits</th>
<th>Annual Incentive Plan – cash</th>
<th>Annual Incentive Plan – equity</th>
<th>Performance Share Plan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivier Bohuon Appointed 1 April 2011</td>
<td>$1,295,017</td>
<td>$388,505</td>
<td>$166,465</td>
<td>$592,902</td>
<td>$652,258</td>
<td>$227,174</td>
<td>$3,322,321</td>
</tr>
<tr>
<td>2015</td>
<td>$1,260,594</td>
<td>$378,178</td>
<td>$228,698</td>
<td>$1,419,192</td>
<td>$825,396</td>
<td>$1,230,319</td>
<td>$5,342,377</td>
</tr>
<tr>
<td>Julie Brown Appointed 4 February 2013</td>
<td>$730,257</td>
<td>$219,078</td>
<td>$30,007</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>$979,342</td>
</tr>
<tr>
<td>(resigned with effect from 11 January 2017)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$803,116</td>
<td>$240,936</td>
<td>$29,862</td>
<td>$843,482</td>
<td>$444,954</td>
<td>$678,497</td>
<td>$3,040,847</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Base salary: the actual salary receivable for the year.
Payment in lieu of pension: the value of the salary supplement paid by the Company in lieu of a pension.
Benefits: the gross value of all taxable benefits (or benefits that would be taxable in the UK) received in the year.
Annual Incentive Plan – cash: the value of the cash incentive payable for performance in respect of the relevant financial year.
Annual Incentive Plan – equity: the value of the equity element awarded in respect of performance in the relevant financial year, but subject to an ongoing performance test as described on pages 91 to 92 of this report.
Performance Share Plan: the value of shares vesting that were subject to performance over the three-year period ending on 31 December in the relevant financial year, based on an estimated share price of 1,167.51p per share, which was the average price of a share over the last quarter of 2016. The value of the 2013 share awards that vested in 2016 have now been restated with the share price on the date of actual vesting being 1,130p per share on 9 March 2016. The value of the 2014 Share Awards that will vest in March 2017 are calculated in the table by using the Q4 average share price of 1,167.51p per share.
Total: the sum of the above elements.

All data is presented in our reporting currency of US$. Amounts for Olivier Bohuon and Julie Brown have been converted from EURO and GBP respectively using average exchange rates. Given currency volatility in 2016, this may give the impression of changes that are misleading. Data is presented in local currency in the subsequent sections in the interests of full transparency.
Resignation of Julie Brown as Chief Financial Officer

Julie Brown resigned as Chief Financial Officer with effect from 11 January 2017 in order to take up a position at another company. She will therefore receive no cash or equity awards under the Annual Incentive Plan in respect of her service during 2016. Her awards under the Equity Incentive Programme and the Performance Share Programme all lapsed with effect from 11 January 2017.

Graham Baker will be appointed Chief Financial Officer on 1 March 2017 and will receive a base salary of £510,000. He will be entitled to participate in the incentive plans as detailed below.

BASE SALARY

With effect from 1 April 2016, Executive Directors were paid the following base salaries, reflecting an increase of 3%:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivier Bohuon</td>
<td>£1,145,135</td>
<td>£1,179,490</td>
</tr>
<tr>
<td>Julie Brown</td>
<td>£529,420</td>
<td>£545,303</td>
</tr>
</tbody>
</table>

In February 2017, we reviewed the base salaries of the Executive Directors, having considered general economic conditions and average salary increases across the rest of the Group, which have averaged at 3.5%. The Remuneration Committee has agreed that there will be no increase to the base salary of the Executive Directors.

PAYMENT IN LIEU OF PENSION

In 2016, both Olivier Bohuon and Julie Brown received a salary supplement of 30% of their basic salary to apply towards their retirement savings, in lieu of membership of one of the Company’s pension schemes. The same arrangement will apply in 2017 for Olivier Bohuon and for Graham Baker, following his appointment on 1 March 2017.

BENEFITS

In 2016, both Olivier Bohuon and Julie Brown received death in service cover of seven times basic salary, of which four times salary is payable as a lump sum with the balance used to provide for any spouse and dependent persons. They also received health cover for themselves and their families, a car allowance and financial consultancy advice. Olivier Bohuon also received assistance with travel costs between London and Paris. The same arrangements will apply in 2017 for Olivier Bohuon and for Graham Baker, following his appointment on 1 March 2017.

ANNUAL INCENTIVE PLAN 2016

During 2016, 70% of the Annual Incentive Plan for Executive Directors was based on the achievement of specific financial objectives and 30% of the award depended on the achievement of specific business objectives.

Financial Objectives

The financial measures on which performance was assessed in 2016 were revenue, trading profit and trading cash. For each of these measures, the Committee determined threshold, target and maximum performance in February 2016. In February 2017, the Committee reviewed performance against each of these objectives and determined the percentage of the award which would vest in respect of each of the objectives, all as detailed in the table below.

<table>
<thead>
<tr>
<th></th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$4,641m</td>
<td>$4,785m</td>
<td>$4,929m</td>
<td>$4,647m</td>
</tr>
<tr>
<td>Trading profit</td>
<td>$1,052m</td>
<td>$1,108m</td>
<td>$1,163m</td>
<td>$1,023m</td>
</tr>
<tr>
<td>Trading cash</td>
<td>$833m</td>
<td>$926m</td>
<td>$1,019m</td>
<td>$779m</td>
</tr>
</tbody>
</table>

1 At constant exchange rates. See page 175.

This resulted in a bonus achievement of 16% of salary in respect of the financial objectives.

<table>
<thead>
<tr>
<th></th>
<th>Weight</th>
<th>Achieved % of target</th>
<th>Award % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>30%</td>
<td>97.1%</td>
<td>16%</td>
</tr>
<tr>
<td>Trading profit</td>
<td>30%</td>
<td>92.3%</td>
<td>0%</td>
</tr>
<tr>
<td>Trading cash</td>
<td>10%</td>
<td>84.1%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Total 16%

1 At constant exchange rates. See page 175.

Accordingly, the following amounts have been earned by Olivier Bohuon under the cash element of the annual incentive plan in respect of his financial objectives.

Olivier Bohuon £188,718

Business Objectives

When setting business objectives for the upcoming year, the Board looks not only at the expected financial performance for the year, but also at the actions it expects the Executive Director to carry out in the year to build a solid foundation for financial performance over the longer term. In reviewing performance against these objectives at the end of the year, the Board is mindful that there is not a necessary correlation between financial performance and the achievement of business objectives and that business objectives may well be achieved in a year when financial performance for that year has not been outstanding.

The table on the following page sets out how Olivier Bohuon has performed against the business objectives of Business Process, People and Customer.
The Remuneration Committee has however considered whether in the context of the Company’s financial performance during 2016, it would be appropriate to make a cash payment at this level, given the lack of alignment with shareholder interests. The Remuneration Committee has therefore determined to exercise its discretion and modify the total payment downwards by 10%. This reduces the total payment to be made under the Cash Incentive Plan to 45.45% of salary (€536,078).

Equity Incentive Award

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

The Remuneration Committee has considered the performance of Olivier Bohuon in exactly the same way as other employees in the Group when determining the level of Equity Award to be made to him. In assessing his performance against the same financial and business objectives used to determine the level of his cash award, the Remuneration Committee has determined that on the first criterion (assessing what he has achieved) Olivier Bohuon has mostly met his objectives throughout the year. On the second criterion (assessing how he has achieved), the Remuneration Committee has determined that he has performed in line with expectations. A rating of ‘in line with expectations’ on both bases results in an Equity Award of 50% of salary.

In summary, as a result of the financial performance described on page 91 and the performance described in the table on this page, the Remuneration Committee determined that the following awards be made under the Annual Incentive Plan in respect of performance in 2016:

<table>
<thead>
<tr>
<th>Executive Director</th>
<th>Cash Component</th>
<th>Equity Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivier Bohuon</td>
<td>45.45% €536,078</td>
<td>50% €589,745</td>
</tr>
<tr>
<td>Julie Brown</td>
<td>0% €0</td>
<td>0% €0</td>
</tr>
</tbody>
</table>

These figures are converted into dollars and included under Annual Incentive Plan (cash and equity) in the single figure table on page 90.

As a result of the 2016 performance assessment for Olivier Bohuon, the first tranche of the Equity Incentive Award made in 2016, the second tranche of the Equity Incentive Award made in 2015 and the third tranche of the Equity Incentive Award made in 2014 will vest.

ANNUAL INCENTIVE PLAN 2017

Cash Element

During the year, the Remuneration Committee reviewed the operation of the Annual Incentive Plan and for 2017 onwards have made changes to the performance measures and weightings which will apply to the cash element of the Annual Incentive Plan. These changes place a greater emphasis on financial goals reflecting the importance we place on achievement of financial measures. The financial measures now comprise 75% of the total award (2016: 70%) and are split between revenue (35%), trading profit margin (25%), and trading cash flow (15%). We have selected these measures because revenue and trading profit margin constitute the key drivers of profit growth, and trading cash flow is a key measure of how efficiently we turn our assets into cash. We have introduced trading profit margin replacing the previous trading profit measure as margin is a critical measure both for the business and our investors and delivering margin improvements is a core commitment under our strategy.

The remaining 25% of the total award are individual business objectives, similar to previous years, tied to our strategic priorities. For 2017, these business objectives fall into the categories of Business process, People and Customer.
The weighting of the performance measures for 2017 can be summarised as follows:

**Financial objectives** 75%
- Revenue 35%
- Trading profit margin 25%
- Trading cash flow 15%

**Business objectives** 25%
- Business process 8.33%
- People 8.33%
- Customer 8.33%

The Board has determined that the disclosure of performance targets at this time is commercially sensitive. These targets are determined within the context of a five-year plan and the disclosure of these targets could give information to our competitors about details of our strategy which would enable them to compete more effectively with us to the detriment of our performance. These targets, together with threshold and maximum will however be disclosed in next year’s Annual Report, when the Committee will discuss performance against the targets. For the financial performance measures, ‘Target’ is set at target performance as approved by the Board in the Budget for 2017. 'Threshold' and 'Maximum' are set at +/-3% from the target for revenue, at +/-0.45 percentage points for the trading profit margin measure and at +/-10% for the trading cash flow measure.

**Equity Award Element**

The Equity Award element will operate in 2017 in exactly the same way as in 2016 and previous years. The Remuneration Committee will assess what has been achieved by the Executive Directors against the same financial and business objectives used to determine the level of their cash awards.

The Remuneration Committee will assess how the Executive Directors in establishing an appropriate culture and set of values throughout the organisation. The level of Equity Incentive Award to be made will be determined according to the following matrix:

<table>
<thead>
<tr>
<th>Assessment of how Executive Directors have achieved</th>
<th>Below expectations</th>
<th>In line with expectations</th>
<th>Above expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below expectations</td>
<td>No Award</td>
<td>No Award</td>
<td>No Award</td>
</tr>
<tr>
<td>In line with expectations</td>
<td>No Award</td>
<td>Award of 50% of Salary</td>
<td>Award of 55% of Salary</td>
</tr>
<tr>
<td>Above expectations</td>
<td>No Award</td>
<td>Award of 55% of Salary</td>
<td>Award of 65% of Salary</td>
</tr>
</tbody>
</table>

The precise awards granted in 2017 to Olivier Bohuon in respect of service in 2016 will be announced when the awards are made and will be disclosed in the 2017 Annual Report. No awards will be made to Julie Brown or to Graham Baker.

Graham Baker will participate in the Annual Incentive Plan (Cash and Equity) from 1 March 2017, the date of his appointment.

### PERFORMANCE SHARE PROGRAMME – 2016 GRANTS

Performance share awards in 2016 were made to Executive Directors under the Global Share Plan 2010 to a maximum value of 190% of salary (95% for target performance). Performance will be measured over the three financial years beginning in 2016 and will vest subject to performance and continued employment in 2019. 50% of the award will vest subject to cumulative free cash flow performance, 25% to revenue in Emerging Markets and 25% to relative TSR.

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

The 50% of the award that will be subject to cumulative free cash flow performance will vest as follows:

<table>
<thead>
<tr>
<th>Cumulative free cash flow</th>
<th>Award vesting as % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below $1.585bn</td>
<td>Nil</td>
</tr>
<tr>
<td>$1.585bn</td>
<td>23.75%</td>
</tr>
<tr>
<td>$1.822bn</td>
<td>47.5%</td>
</tr>
<tr>
<td>$2.059bn or more</td>
<td>95%</td>
</tr>
</tbody>
</table>

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

**DETAILS OF AWARDS MADE UNDER THE EQUITY INCENTIVE PROGRAMME DURING 2016**

Details of conditional awards over shares, granted as part of the Annual Equity Incentive Programme to Executive Directors under the rules of the Global Share Plan 2010 for their 2015 performance (awarded in 2016) are shown below. The performance conditions and performance periods applying to these awards are detailed above.

<table>
<thead>
<tr>
<th>Date granted</th>
<th>Number of shares under award</th>
<th>Date vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>7 March 2016</td>
<td>50,159</td>
<td>1/3 on 7 March 2017 1/3 on 7 March 2018 1/3 on 7 March 2019</td>
</tr>
<tr>
<td>7 March 2016</td>
<td>25,342</td>
<td>This award has lapsed in its entirety on 11 January 2017</td>
</tr>
</tbody>
</table>

Julie Brown

This award has lapsed in its entirety on 11 January 2017
Revenue in Emerging Markets is defined as cumulative revenue over a three-year period beginning 1 January 2016 from our Emerging Markets. The 25% of the award that will be subject to revenue in Emerging Market performance will vest as follows:

<table>
<thead>
<tr>
<th>Revenue in Emerging Markets</th>
<th>Award vesting as % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Threshold</td>
<td>Nil</td>
</tr>
<tr>
<td>Threshold</td>
<td>11.875%</td>
</tr>
<tr>
<td>Target</td>
<td>23.75%</td>
</tr>
<tr>
<td>Maximum or above</td>
<td>47.5%</td>
</tr>
</tbody>
</table>

It is not possible to disclose precise targets for revenue growth in Emerging Markets as this will give commercially sensitive information to our competitors concerning our growth plans in Emerging Markets, which they could use against us to launch new products and enter new markets. This would be detrimental to our business in Emerging Markets, which are key to our success overall. This target however will be disclosed in the 2018 Annual Report, when the Committee will discuss performance against the target.

25% of the award will vest based on the Company’s Total Shareholder Return (TSR) performance relative to a bespoke peer group of companies in the medical devices sector over a three-year period commencing 1 January 2016 as follows:

<table>
<thead>
<tr>
<th>Relative TSR ranking</th>
<th>Award vesting as % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below median</td>
<td>Nil</td>
</tr>
<tr>
<td>Median</td>
<td>11.875%</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>47.5%</td>
</tr>
</tbody>
</table>

Awards will vest on a straight-line basis between these points. If the Company’s TSR performance is below median, none of this part of the award will vest.


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

**PERFORMANCE SHARE PROGRAMME 2017**

A performance share award will be made in 2017 to Olivier Bohuon and Graham Baker under the Global Share Plan 2010 to a maximum value of 190% of salary (95% for target performance).

During 2016, the Remuneration Committee reviewed the operation of the Performance Share Programme and have made changes to the performance measures and weightings which will apply to awards going forward.

Performance will be measured over the three financial years commencing 1 January 2017 and will vest subject to performance and continued employment in 2020. Subject to shareholder approval of the new Remuneration Policy at the Annual General Meeting to be held on 6 April 2017, on vesting, sufficient shares will be sold to cover taxation obligations and the Executive Directors will be required to hold the net shares for a further period of two years.

We have selected four equally weighted performance measures – relative TSR, return on invested capital, sales growth and cumulative free cash flow. We have selected these measures because of their link to our strategic priorities and the alignment with the shareholder experience. The four measures are defined as follows:

**Relative TSR** provides accountability and alignment to shareholders. 25% of the award will vest based on the Company’s TSR performance relative to constituents of two separate indices over a three-year period commencing 1 January 2017 as follows:

<table>
<thead>
<tr>
<th>TSR relative to the peer groups</th>
<th>Award vesting as % of salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below median</td>
<td>Nil</td>
</tr>
<tr>
<td>Median</td>
<td>11.875%</td>
</tr>
<tr>
<td>Upper quartile</td>
<td>47.5%</td>
</tr>
</tbody>
</table>

Awards will vest on a straight-line basis between these points. If the Company’s TSR performance is below median, none of this part of the award will vest.

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

- A sector-based peer group based on those companies classified as the S&P 1200 Global Healthcare subset comprising medical devices, equipment and supplies companies (official industry classifications of ‘Health Care Equipment and Supplies, Life Sciences Tools & Services and Health Care Technology’. This is a broader sector-based peer group than in previous years, so that we maintain a focus on outperforming our broad sector without being impacted by the volatility of a smaller group.

- FTSE 100 constituents excluding financial services and commodities companies. This is in response to shareholders who assess our performance not based on sector, but instead based on the index we operate in.

The Group’s TSR performance and its performance relative to the comparator group is independently monitored and reported to the Remuneration Committee by Willis Towers Watson.
Return on invested capital (ROIC) adds focus on enhancing operating performance and reducing the under-performing asset base. The introduction of ROIC as a performance measure will incentivise better financial discipline, reward enhanced operating performance and provide a link to an area that our shareholders have identified as a high priority for improvement. 25% of the award will be subject to ROIC and will vest as follows:

ROIC will be defined as:

\[
\text{Net Operating Profit} - \text{Adjusted Taxes}^3
\]

\[
\frac{\text{Opening Net Operating Assets} + \text{Closing Net Operating Assets}}{2}
\]

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

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

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

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

Sales growth focuses on growth in both Established Markets and Emerging Markets. This is a broadening of the previous sales growth measure to focus beyond our emerging markets. 25% of the award will be subject to sales growth and will vest as follows:

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

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

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

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

VESTING OF AWARDS MADE IN 2014

Since the end of the year, the Remuneration Committee has reviewed the vesting of conditional awards made to Executive Directors under the Global Share Plan 2010 in 2014. Vesting of the conditional awards made in 2014 was subject to performance conditions based on TSR, revenue in Emerging Markets and cumulative free cash flow measured over a three-year period commencing 1 January 2014.

25% of the award was based on the Company’s TSR relative to a bespoke group of 15 medical devices companies. Against this peer group, the Company’s TSR performance ranked below median meaning that this part of the award therefore vested at 0%.

50% of the award was based on cumulative free cash flow performance. Over the three-year period, the adjusted cumulative free cash flow was $1.624 billion below the threshold required for vesting. These adjustments include items such as Board approved M&A, including the acquisitions of Healthpoint and ArthroCare and Board approved Business Plans such as the Group Optimisation programme, the Regranex inventory and metal-on-metal settlements. This part of the award therefore vested at 0%.

25% of the award was based on revenues in Emerging Markets. The threshold set in 2014 was $2,133 million with a target of $2,510 million. Over the three year period, the adjusted revenues in Emerging Markets were $2,244 million. These adjustments include Board-approved M&A. This part of the award therefore vested at 64% of target (32% of maximum).

Overall therefore, the conditional awards made in 2014 will vest at 8% of maximum (16% of target on 7 March 2017) as follows:

<table>
<thead>
<tr>
<th>Director</th>
<th>Date of grant</th>
<th>Number of shares under award at maximum</th>
<th>Number vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivier Bohuon</td>
<td>7 March 2014</td>
<td>180,304</td>
<td>14,424</td>
</tr>
<tr>
<td>Julie Brown</td>
<td>7 March 2014</td>
<td>100,688</td>
<td>This award has lapsed in its entirety on 11 January 2017</td>
</tr>
</tbody>
</table>
### SUMMARY OF SCHEME INTERESTS AWARDED DURING THE FINANCIAL YEAR

<table>
<thead>
<tr>
<th>Basis on which award is made</th>
<th>Olivier Bohuon</th>
<th>Julie Brown1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of shares</td>
<td>Face value</td>
<td>Number of shares</td>
</tr>
<tr>
<td>Annual Equity Incentive Award (see page 93)</td>
<td>50,159</td>
<td>€744,358</td>
</tr>
<tr>
<td>Performance Share Award at maximum (see page 93)</td>
<td>146,620</td>
<td>€2,175,756</td>
</tr>
<tr>
<td>190% base salary at maximum</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Awards lapsed in full on 11 January 2017 when Julie Brown left the Company.

Please see Policy Table on pages 81 to 82 for details of how the above plans operate. The number of shares is calculated using the closing share price on the day before the grant, which for the awards granted on 7 March 2016 was 1,149p.

### DETAILS OF OUTSTANDING AWARDS MADE UNDER THE PERFORMANCE SHARE PROGRAMME

Details of conditional awards over shares granted to Executive Directors subject to performance conditions are shown below. These awards were granted under the Global Share Plan 2010. The performance conditions and performance periods applying to these awards are detailed on page 93.

<table>
<thead>
<tr>
<th>Date granted</th>
<th>Number of ordinary shares under award at maximum</th>
<th>Date of vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivier Bohuon</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 March 20141</td>
<td>180,304</td>
<td>7 March 2017</td>
</tr>
<tr>
<td>9 March 2015</td>
<td>133,156</td>
<td>9 March 2018</td>
</tr>
<tr>
<td>7 March 2016</td>
<td>146,620</td>
<td>7 March 2019</td>
</tr>
<tr>
<td>Julie Brown</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 March 20142</td>
<td>100,688</td>
<td>7 March 2017</td>
</tr>
<tr>
<td>9 March 20152</td>
<td>85,366</td>
<td>9 March 2018</td>
</tr>
<tr>
<td>7 March 20162</td>
<td>87,544</td>
<td>7 March 2019</td>
</tr>
</tbody>
</table>

1. On 7 February 2017, 92% of the award granted at maximum to Olivier Bohuon lapsed following completion of the performance period.

2. On 11 January 2017, these awards lapsed in their entirety on Julie Brown ceasing to be an employee of the Company.

### DETAILS OF OPTION GRANTS UNDER THE ALL-EMPLOYEE SHARESAVE PLAN

Details of options held by Executive Directors under the Smith & Nephew ShareSave Plan (2012) are shown below.

<table>
<thead>
<tr>
<th>Director</th>
<th>Date granted</th>
<th>Number of shares under option</th>
<th>Date of vesting</th>
<th>Exercise period</th>
<th>Option price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Julie Brown</td>
<td>17 September 2013</td>
<td>2,400 Ordinary Shares</td>
<td>1 November 2018</td>
<td>1 November 2018 – 30 April 2019</td>
<td>£6.25</td>
</tr>
</tbody>
</table>

These options lapsed in their entirety in January 2017, when Julie Brown left the Company.

### SINGLE TOTAL FIGURE ON REMUNERATION

#### Chairman and Non-Executive Directors

<table>
<thead>
<tr>
<th>Director</th>
<th>Basic annual fee1</th>
<th>Non-Executive Director/Committee fee</th>
<th>Intercontinental travel fee</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roberto Quarta</td>
<td>£400,000</td>
<td>£409,750</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Vinita Bali</td>
<td>£63,000</td>
<td>£63,000</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Ian Barlow</td>
<td>£66,150</td>
<td>£68,135</td>
<td>£15,000</td>
<td>£18,750</td>
</tr>
<tr>
<td>Virginia Bottomley</td>
<td>£66,150</td>
<td>£68,135</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Erik Engstrom</td>
<td>£66,150</td>
<td>£68,135</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Robin Freestone</td>
<td>£21,000</td>
<td>£68,135</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Michael Friedman</td>
<td>£126,000</td>
<td>£129,780</td>
<td>£27,000</td>
<td>£33,000</td>
</tr>
<tr>
<td>Brian Larcombe</td>
<td>£66,150</td>
<td>£68,135</td>
<td>£15,000</td>
<td>£18,750</td>
</tr>
<tr>
<td>Joseph Papa</td>
<td>£126,000</td>
<td>£129,780</td>
<td>£27,000</td>
<td>£33,000</td>
</tr>
</tbody>
</table>

1. The basic annual fee includes shares purchased for the Chairman and Non-Executive Directors in lieu of part of the annual fee, details of which can be found on the table on page 86.
Chairman and Non-Executive Director Fees

In February 2016, the Remuneration Committee reviewed the fees paid to the Chairman and the Board reviewed the fees paid to the Non-Executive Directors and determined that with effect from 1 April 2016, the fees paid would be as follows:

- **Annual fee paid to the Chairman**: £412,000 of which £103,000 paid in shares (increase of 3%)
- **Annual fee paid to Non-Executive Directors**: £68,135 of which £5,135 paid in shares (increase of 3%)
  
  Or $129,780 of which $9,780 paid in shares (increase of 3%)
- **Intercontinental travel fee (per meeting)**: £3,500 or $7,000 (unchanged)
- **Fee for Senior Independent Director and Committee Chairman**: £20,000 or $35,000 reflecting increased responsibilities.

In February 2017, the Remuneration Committee reviewed the fees paid to the Chairman and the Board reviewed the fees paid to the Non-Executive Directors and determined that with effect from 1 April 2017, the fees paid would remain unchanged.

Chief Executive Officer’s remuneration compared to employees generally

The percentage change in the remuneration of the Chief Executive Officer between 2015 and 2016 compared to that of employees generally is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Base salary % change 2016</th>
<th>Benefits % change 2016</th>
<th>Annual cash bonus % change 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>2.7%</td>
<td>-27%</td>
<td>-58%</td>
</tr>
<tr>
<td>Average for all employees</td>
<td>3.5%</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The average cost of wages and salaries for employees generally decreased by 3.1% in 2016 (see Note 3.1 to the Group accounts). Figures for annual cash bonuses are included in the numbers.

Payments made to past Directors

No payments were made to former Directors in the year.

Payments for loss of office

No payments were made in respect of a Director’s loss of office in 2016.

Service contracts

Executive Directors are employed on rolling service contracts with notice periods of up to 12 months from the Company and six months from the Executive Director. Further information can be found on page 84 of the Policy Report.

Outside directorships

Olivier Bohuon is a Non-Executive Director of Virbac SA and received €21,000 in respect of this appointment. He is also a Non-Executive Director of Shire Plc and received €160,397 in respect of this appointment. Julie Brown is a Non-Executive Director of Roche Holding Ltd and received a fee of CHF310,000.

Directors’ interests in ordinary shares

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

<table>
<thead>
<tr>
<th></th>
<th>Olivier Bohuon</th>
<th>Julie Brown</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1 January 2016</td>
<td>31 December 2016</td>
</tr>
<tr>
<td>Ordinary shares</td>
<td>338,183</td>
<td>424,288</td>
</tr>
<tr>
<td>Share options</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Performance share awards²</td>
<td>554,388</td>
<td>460,080</td>
</tr>
<tr>
<td>Equity Incentive awards</td>
<td>107,142</td>
<td>96,417</td>
</tr>
<tr>
<td>Other awards</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

1 The latest practicable date for this Annual Report.
2 These share awards are subject to further performance conditions before they may vest, as detailed on pages 91 to 92.
3 The ordinary shares held by Olivier Bohuon on 17 February 2017 represent 527.82% of his base annual salary.

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

<table>
<thead>
<tr>
<th>Director</th>
<th>1 January 2016 (or date of appointment if later)</th>
<th>31 December 2016 (or date of retirement if earlier)</th>
<th>17 February 2017¹</th>
<th>Shareholding as % of annual fee²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roberto Quarta³</td>
<td>19,765</td>
<td>24,156</td>
<td>24,156</td>
<td>70.53</td>
</tr>
<tr>
<td>Vinita Bali⁴</td>
<td>6,186</td>
<td>6,522</td>
<td>6,522</td>
<td>111.69</td>
</tr>
<tr>
<td>Ian Barlow</td>
<td>18,556</td>
<td>18,786</td>
<td>18,786</td>
<td>331.69</td>
</tr>
<tr>
<td>Virginia Bottomley</td>
<td>18,219</td>
<td>18,473</td>
<td>18,473</td>
<td>273.19</td>
</tr>
<tr>
<td>Erik Engstrom</td>
<td>15,140</td>
<td>15,350</td>
<td>15,350</td>
<td>271.02</td>
</tr>
<tr>
<td>Robin Freestone</td>
<td>15,000</td>
<td>15,310</td>
<td>15,310</td>
<td>270.32</td>
</tr>
<tr>
<td>Michael Friedman⁴</td>
<td>9,014</td>
<td>9,476</td>
<td>9,476</td>
<td>118.49</td>
</tr>
<tr>
<td>Brian Larcombe</td>
<td>40,508</td>
<td>40,718</td>
<td>40,718</td>
<td>718.92</td>
</tr>
<tr>
<td>Joseph Papa⁴</td>
<td>13,197</td>
<td>13,547</td>
<td>13,547</td>
<td>169.40</td>
</tr>
</tbody>
</table>

¹ The latest practicable date for this Annual Report.
² Calculated using the closing share price of 1,203p per ordinary share and $30.44 per ADS on 17 February 2017, and an exchange rate of £1/$1.2195.
³ All Non-Executive Directors held the required shareholding during the year except the Chairman.
⁴ Vinita Bali, Michael Friedman and Joseph Papa hold some of their shares in the form of ADS.

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

Relative importance of spend on pay

The following table sets out the total amounts spent in 2016 and 2015 on remuneration, the attributable profit for each year and the dividends declared and paid in each year.

<table>
<thead>
<tr>
<th></th>
<th>For the year to 31 December 2016</th>
<th>For the year to 31 December 2015</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attributable profit for the year</td>
<td>$784m</td>
<td>$410m</td>
<td>91.2%</td>
</tr>
<tr>
<td>Dividends paid during the year</td>
<td>$279m</td>
<td>$272m</td>
<td>2.6%</td>
</tr>
<tr>
<td>Share buyback¹</td>
<td>$368m</td>
<td>$77m</td>
<td>378%</td>
</tr>
<tr>
<td>Total Group spend on remuneration</td>
<td>$1,227m</td>
<td>$1,193m</td>
<td>-2.8%</td>
</tr>
</tbody>
</table>

¹ Shares are bought in the market in respect of shares issued as part of the executive and employee share plans. Following the disposal of the Gynaecology business in August 2016, the Company commenced a $300m share buy-back programme. See Note 19.2 for further information.

Total Shareholder Return

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

Eight-year Total Shareholder Return
(measured in UK Sterling, based on monthly spot values)
However, as we compare the Company’s performance to a tailored sector peer group of medical devices companies (see page 94), when considering TSR performance in the context of the Global Share Plan 2010, we feel that the following graph showing the TSR performance of this peer group is also of interest.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Chief Executive Officer</th>
<th>Single figure of total remuneration $</th>
<th>Annual Cash Incentive payout against maximum %</th>
<th>Performance shares %</th>
<th>Options %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Olivier Bohuon</td>
<td>$3,322,321</td>
<td>30</td>
<td>8</td>
<td>N/A</td>
</tr>
<tr>
<td>2015</td>
<td>Olivier Bohuon</td>
<td>$5,342,377</td>
<td>75</td>
<td>33.5</td>
<td>N/A</td>
</tr>
<tr>
<td>2014</td>
<td>Olivier Bohuon</td>
<td>$6,785,121</td>
<td>43</td>
<td>57</td>
<td>N/A</td>
</tr>
<tr>
<td>2013</td>
<td>Olivier Bohuon</td>
<td>$4,692,858</td>
<td>84</td>
<td>0</td>
<td>N/A</td>
</tr>
<tr>
<td>2012</td>
<td>Olivier Bohuon</td>
<td>$4,956,771</td>
<td>84</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2011</td>
<td>Olivier Bohuon</td>
<td>$7,442,191</td>
<td>68</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2011</td>
<td>David Illingworth</td>
<td>$3,595,787</td>
<td>37</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>2010</td>
<td>David Illingworth</td>
<td>$4,060,707</td>
<td>57</td>
<td>70</td>
<td>61</td>
</tr>
<tr>
<td>2009</td>
<td>David Illingworth</td>
<td>$4,406,485</td>
<td>59</td>
<td>46</td>
<td>59</td>
</tr>
</tbody>
</table>

1 Appointed Chief Executive Officer on 1 April 2011.
2 Includes recruitment award of €1,400,000 cash and a share award over 200,000 ordinary shares with a value of €1,410,000 on grant.
3 Resigned as Chief Executive Officer on 1 April 2011.
4 Prior years are restated to reflect amounts not known at the date of signing the previous Annual Report.
5 Calculated as 45.45% (actual payout) disclosed on page 92 divided by the maximum potential payout of 150%.

Implementation of Remuneration Policy in 2017

Shareholders will be asked to approve the new Remuneration Policy at the Annual General Meeting on 6 April 2017. This policy is detailed on pages 78 to 87. The new Remuneration Policy is broadly the same as the policy approved by shareholders in 2014; the only changes being the measures used for the short and long term incentive programmes and the introduction a holding period for shares vesting under the Performance Share Programme. The main differences therefore to the way that the Remuneration Policy will be implemented in 2017 are as follows:

– The financial measures be used for the Annual Incentive Plan will be Revenue (35%), Trading profit margin (25%) and Trading cash flow (15%).
– The business objective measures be used for the Annual Incentive Plan will be Business process (8.3%), People (8.3%) and Customer (8.3%).
– The performance measures to be used for the Performance Share Plan will be Cumulative cash flow (25%), Relative TSR (25%), Sales growth (25%) and Return on Invested Capital (25%).

There are no changes to salary, pensions or opportunities under the Incentive Plan for 2017. Equally, there are no changes in the provided benefits, although the disclosed value will vary based on the underlying cost of providing them.
**Statement of voting at Annual General Meeting held in 2016**

At the Annual General Meeting held on 14 April 2016, votes cast by proxy and at the meeting and votes withheld in respect of the votes on the Directors’ Remuneration Report were as follows:

<table>
<thead>
<tr>
<th>Resolution</th>
<th>Votes for</th>
<th>% for</th>
<th>Votes against</th>
<th>% against</th>
<th>Total votes validly cast</th>
<th>Votes withheld</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval of the Directors’ Remuneration Report</td>
<td>272,923,229</td>
<td>46.99</td>
<td>307,890,596</td>
<td>53.01</td>
<td>580,913,825</td>
<td>52,488,566</td>
</tr>
</tbody>
</table>

During 2016, Joseph Papa, Chairman of our Remuneration Committee has undertaken an extensive programme of engagement with investors, which is detailed in the Policy Report on page 87.

**Other remuneration matters**

Graham Baker will be appointed Chief Financial Officer on 1 March 2017. He will receive a base salary of £510,000 and will participate in the Annual Incentive Plan for 2017 as detailed above. He will also receive a Performance Share Award as detailed above and a payment in lieu of pension equivalent to 30% of his base salary, as well as standard benefits, including a car allowance, healthcare cover and if applicable financial consultancy advice. His notice period will be 6 months from him and 12 months from the Company. No additional payment will be made on his joining the Company.

**Senior management remuneration**

The Group’s administrative, supervisory and management body (senior management) is comprised for US reporting purposes, of Executive Directors and Executive Officers. Details of the current Executive Directors and Executive Officers are given on pages 52 to 53.

Compensation paid to senior management in respect of 2016, 2015 and 2014 was as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total compensation (excluding pension emoluments, but including cash payments under the performance-related incentive plans)</th>
<th>Total compensation for loss of office</th>
<th>Aggregate increase in accrued pension scheme benefits</th>
<th>Aggregate amounts provided for under supplementary schemes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$12,725,000</td>
<td>$2,664,000</td>
<td>$16,000</td>
<td>$507,000</td>
</tr>
<tr>
<td>2015</td>
<td>$13,971,000</td>
<td>0</td>
<td>0</td>
<td>$698,000</td>
</tr>
<tr>
<td>2016</td>
<td>$12,874,000</td>
<td>0</td>
<td>0</td>
<td>$1,112,000</td>
</tr>
</tbody>
</table>

As at 17 February 2017, the senior management owned 301,797 shares and 57,303 ADSs, constituting less than 0.1% of the share capital of the Company. Details of share awards granted during the year and held as at 17 February 2017 by members of senior management are as follows:

<table>
<thead>
<tr>
<th>Share awards granted during the year</th>
<th>Total share awards held as at 17 February 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Incentive awards</td>
<td>164,526 248,381</td>
</tr>
<tr>
<td>Performance Share awards</td>
<td>152,008 284,505</td>
</tr>
<tr>
<td>Conditional share awards under the Global Share Plan 2010</td>
<td>49,526 59,469</td>
</tr>
<tr>
<td>Options under Employee ShareSave plans</td>
<td>1,009 0</td>
</tr>
<tr>
<td>Options under the Global Share Plan 2010</td>
<td>0 52,577</td>
</tr>
</tbody>
</table>

**Dilution headroom**

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

Over the previous 10 years (2007 to 2016), the number of new shares issued under our share plans has been as follows:

<table>
<thead>
<tr>
<th>Share plans</th>
<th>Number of shares issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>All-employee share plans</td>
<td>7,552,785 (0.86% of issued share capital as at 17 February 2017)</td>
</tr>
<tr>
<td>Discretionary share plans</td>
<td>35,681,391 (4.07% of issued share capital as at 17 February 2017)</td>
</tr>
</tbody>
</table>

By order of the Board, on 22 February 2017

Joseph Papa
Chairman of the Remuneration Committee