2006 American Academy of Orthopaedic Surgeons
Welcome to the Smith & Nephew Analyst Meeting
March 22 2006
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Today’s agenda

• Introduction
  Chris O’Donnell

• Our businesses
  – Endoscopy Review
  David Illingworth
  – Hip arthroscopy
  Dr Marc Philippon

• Orthopaedic Trauma & Clinical Therapies
  Mark Augusti

• Orthopaedic Reconstruction
  Scott Flora

• Wrap up
  David Illingworth

• Q&A
  All

* Trademark of Smith & Nephew. Certain names registered at the US Patent and Trademark Office
Strategic initiatives for growth

Improve market and customer focus
• Separate segment and identity for Reconstruction/Trauma
• Revised business focus for Advanced Wound Management

Provide additional management capacity
• CEO to focus strategy/business development
• COO to drive business growth
Orthopaedic Academy – today’s backcloth

- 2006 Estimated market growth rates
  Reconstruction c. 10%
  Trauma c. 11%
  Arthroscopy c. 8%

- S&N pricing - positive outcome plus health economics drive neutral to slightly positive pricing

- S&N mix - new product slate improves mix

- Strategy - continue to outperform the markets
  - continue to improve our margins
Our businesses
David Illingworth
Chief Operating Officer
New business structure for 2006

- Four business segments
  - Market and business focus
  - Structured for growth
  - Target markets
  - Common science base

Market opportunity: Circa $17 billion

2005 Revenue Growth

- Orthopaedic Reconstruction $829m
- Trauma & Clinical Therapies $438m
- Advanced Wound Management $679m
- Endoscopy $606m

Revenue: $2½ billion
Growth: 11%

Note: All revenue growth is in constant currency and excludes acquisitions
Endoscopy
David Illingworth
Chief Operating Officer
Endoscopy market drivers

- Longer living, more active population
- Patient preference for endoscopic procedures
- Improving payor outlook driven by supporting clinical outcomes
- Increase in surgeon training
- Ambulatory surgery centers
- New soft tissue repair technology

No 1 in arthroscopy - worldwide

- Smith & Nephew 29%
- Mitek (J&J) 19%
- ArthroCare 6%
- Stryker 12%
- Linvatec (Conmed) 12%
- Arthrex 17%
- Others 5%

2005
- Market size: $1.7bn
- Market growth: 8%
- Smith & Nephew growth: 8%
Key strengths

Full line arthroscopy business
Unmatched product portfolio/technical expertise
Largest global selling resource
  - Procedure specific segmentation
  - Surgeon training
Shaping and growing markets
  - Knee, shoulder, hip and spine
Growth drivers

Digital OR and visualization systems
Refocused access, mechanical and RF resection
Hip arthroscopy
Conversion of further shoulder procedures to arthroscopic
Sales force and surgeon education
What’s new at AAOS?
Key products

**Knee**
**CALAXO**°
Osteoconductive Interference Screw
Promotes bone regrowth in ONE year
Resorbable ACL fixation screw

**Access**
**DYONICS**° 25
Fluid Management System
Ease of use
Consistent performance
Variety of tubing options

**Digital OR**
**CONDOR**°
Control System
Medical device control
A/V distribution

Everyday, endoscopic procedures developed by Smith & Nephew help restore people’s mobility. We’re proud of that.
What’s new at AAOS?
Key new products

Join us for a ride on the wave of arthroscopic hip surgery

Hip Arthroscopy
Hip Positioning System
Advanced simplicity for Hip arthro procedures
Attaches to standard OR tables

CLEAR-TRAC° COMPLETE
Disposable Hip Cannula System
Threaded for easy insertion, retention
Allows surgeon to view suture and instruments

BIORAPTOR° 2.9
Suture Anchor
Labral repair anchor
Secure, resorbable fixation
Hip Arthroscopy
Historical Perspective

- Takagi (1939) reported 4 cases
  - 2 Charcot joints
  - 1 TB
  - 1 septic arthritis
Hip Arthroscopy
Personal Experience

• ~ 3000 hip arthroscopies (1995-2006)
• ~ 1/3 in high school, amateur, and professional athletes

• Hip arthroscopy has evolved over this time period from treating isolated soft tissue injuries (labral, chondral, capsular) to treating associated bony pathologies
• Intra-articular Hip Pathologies Commonly Treated with Hip Arthroscopy

• **Acetabular Labral Tears**
Intra-articular Hip Pathologies Commonly Treated with Hip Arthroscopy

- Acetabular Labral Tears
- Femoroacetabular Impingement

Lavigne et al. CORR 2004
Femoroacetabular Impingement

• Results from a bony abnormality of either the proximal femur (cam) or acetabulum (pincer)

• Repetitive bony abutment damages the articular cartilage and labrum

• Patients complain of pain with deep flexion and commonly have decreased flexion and internal rotation
• Intra-articular Hip Pathologies Commonly Treated with Hip Arthroscopy

- Acetabular Labral Tears
- Femoroacetabular Impingement
- Chondral defects

![Acetabulum](image1.png)  ![Femoral Head](image2.png)
Hip Arthroscopy: Modified Supine Approach
Treatment of Labral Tears

• Historically, acetabular labral tears were debrided or resected
• Recent evidence has shown:
  • Repair is technically possible
  • Healing is present 8-12 weeks after repair
  • Clinical outcomes are significantly better in re-fixation patients when compared to resection following rim trimming

Espinosa et al. JBJS (In Press)
Kelly, Philippon, et al. Arthroscopy 2005
Philippon et al. AAOS 2006
When to repair?

- Important pre-operative considerations:
  - Patient activity level
  - Location of tear
  - Morphology of tear
  - Size of tear
  - Associated pathologies
31 y/o professional Hockey player c/o L hip pain

Labral pathology
31 y/o professional Hockey player c/o L hip pain

Labral pathology

Suture anchor repair x2
31 y/o professional Hockey player c/o L hip pain

Labral pathology

Repaired labrum
2nd Look Labral Repair
Personal Experience
September 2002 to March 2006

- ~ 900 labral repairs performed
- Technique has evolved
- No complications specifically related to the labral repair technique
- Now most commonly performed in conjunction with treatment of femoroacetabular impingement
Treatment of FAI

• Goal of arthroscopy is to remove the bony prominence from the femoral neck (osteoplasty) or acetabulum (rim trimming) to create joint clearance during movement

• Labrum is re-attached to acetabular rim if detached during arthroscopy
Outcomes of FAI Treatment

• First surgical technique described to treat FAI involved an open surgical hip dislocation

• Beck et al. reported 68% good to excellent results with this technique

• This invasive technique may not be optimal for highly active patients
Outcomes of FAI Treatment

• Philippon et al.
• (AAOS 2006, AOSSM Specialty Day 2006)
  - Outcome of arthroscopic technique in professional athletes
  - Prior to arthroscopy, the athletes complained of pain and were unable to participate in their sport
  - 93% of the athletes returned to professional sport following this procedure
Treatment of Chondral Defects

- Arthroscopic chondroplasty
- Arthroscopic microfracture
  - Bone marrow stimulating technique for full-thickness articular cartilage defects
  - Knee studies have shown fibrocartilaginous healing and good clinical outcomes


**2nd Look Microfracture**

Acetabular Chondral Defects

- 4 professional athletes
- Initial defect = 200 mm²
- Average time to 2nd look = 65 weeks
- % fill = 98% (95-100%)
- 3 athletes returned to play

Philippon et al. AANA 2006, Miami, FL
The Future of Hip Arthroscopy

- Diagnostic skills and arthroscopic techniques have been evolving over the last 10 years to treat a variety of intra-articular hip pathologies

- Recent focus has been on FAI as a major source of hip pain, soft tissue injury, and joint degeneration

- Early outcome studies of hip arthroscopy have been positive
Thank you!
Orthopaedic Trauma & Clinical Therapies

Mark Augusti
President
Trauma & Clinical Therapies 2005 global market

$4 Billion
- Growth up 12-13%
- Clinical Therapies growth up 8-9%

Drivers
- Population aging
- Active lifestyles
- Technologies
- Surgeon specialization

In Fix 66%
Ex Fix 13%
JFT 14%
Lg Bone Stim 7%
Trauma & Clinical Therapies
2005 performance

- **Strong Revenues**
  - Trauma Implants
  - Long Bone Stimulation
  - Joint Fluid Therapy
  - 20% Growth
  - 14% Growth, (21% US)
  - 39% Growth
  - 37% Growth

- **Sales Force Expansion**
  - Trauma
  - Clinical Therapies
  - 180 US
  - 200 US

- **Expanded Product Portfolio**
  - PERI-LOC\(^\circ\)
  - TRIGEN\(^\circ\) HFN/IMHS-CP
  - Asian IMHS
  - Strong first year sales
  - Builds on #1 nailing system
  - Meeting market demands

- **New Headquarters**
  - Team synergy
  - Trauma & Clinical GBU: all functions co-located
Trauma & Clinical Therapies customer focus

- Continued increase in Trauma and Clinical Therapies sales representatives
- Dedicated Trauma Sales Management implemented
- Increased focus on Medical Education - MOBILAB°
- Focused Sales Channel in Europe & Japan
- Meeting demands for Asia specific products

Continued Significant Industry Support
Trauma & Clinical Therapies introducing 
TRIGEN° INTERTAN Nail

- $300+m high growth market
- Recognition that as Dr. Toney Russell says, “the gold standard for outcomes has room for improvement.”
  - Only 25% of hip fracture patients will make a full recovery
  - 40% will require nursing home care
  - 50% will need a cane or walker
  - 24% of those over age 50 will die within 12 months.
- The TRIGEN° INTERTAN nail has a remarkable worm screw mechanism provides rotational and translational stability
- Russell, TA, Summy SA, and Whitten SA., “Evaluation of cyclic cut-out failure in intramedullary nails using a single lag screw or two integrated interlocking screws,” 52nd ORS, Poster # 1711
Trauma & Clinical Therapies
New products

- Additional minimally invasive PERI-LOC™ instrumentation
- PERI-LOC Plating System for the Upper Extremity
- New cannulated Screws
- TRIGEN™ Nail innovations - INTERTAN
- EXOGEN 4000+™ System*
- SUPARTZ™ Joint Fluid Therapy 3-4-5 Labeling

* Not FDA approved for use in the U.S.
Impacting lives: custom PERI-LOC™ plate makes surgery possible

- Dr. Cynthia Kelly, Denver Colorado
- Patient with malignant bone tumor
- Express Implants Group creates custom plate
- Procedure called for Allograft and a plate
- “The plate fit perfectly – like a dream come true.”
- Successful outcome – patient walking again
Trauma & Clinical Therapies summary

- Strong industry fundamentals
- Well positioned & driven
  - Sales force specialization
  - Focused structure
  - Superior products and technology
Reconstruction
2005 global market

Market = $9 billion, Up 11% CC

- Hips 46%
- Knees 48%
- Cement 4%
- Shoulders 2%

Market drivers
- Demographics
  - Doubles age +55 by 2020
- Obesity
- Active people
  - Treatment alternatives/new technology
    - Consumer awareness
- Price/Mix varies by
  - Geography
  - Procedure type
  - Economic benefits
Reconstruction
2005 performance

Driven by advanced technology
– OXINUM° technology
– MIS hip and knees

Sales force
– Growth
– Improved focus

BIRMINGHAM HIP° Resurfacing momentum

**Market growth:** 11%

Smith & Nephew: WW Knee growth: 15%
US Knee growth: 15%
WW Hip growth: 13%
US Hip growth: 10%

Not FDA approved for use in U.S.
Reconstruction

What’s next

- Specialized sales and service for customers on a global basis
- New products
- Leverage unique portfolio

Minimally Invasive Hip Instruments
EMPERION® Modular Hip
ANTHOLOGY® Flat Hip System
Reconstruction
Global sales and service coverage

US: Dedicated sales structure
  – Specialized services
  – MOBILAB°/training

Europe: Steve Couldwell
  – Dedicated sales structure
  – Metal-on-metal center of excellence
  – Training

Japan: Shuichi Matsunaga
  – Leading Medical
  – Dedicated sales team

Specialized services for our customers
Reconstruction
Continued out-performance

New Products

• LEGION° Revision Knee System
• JOURNEY° Anatomical Knee System
• ANTHOLOGY° Flat Hip System
• EMPERION° Modular Hip
• BIRMINGHAM HIP° Resurfacing
  (Subject to FDA approval for use in U.S.)
Reconstruction
LEGION™ Revision Knee

- First revision entry for Smith & Nephew in fast growing revision market
  - Innovative design provides unprecedented access to competitive accounts.

- Designed by revision surgeons for revision surgery

- Meets surgeon needs
  - Reduced operating time
  - Revision specific instruments

- Utilizes OXINIUM™ technology

Dedicated to every contingency
Reconstruction
Journey® Anatomical Knee

- First to restore normal knee function
- Design based on natural anatomy
  - Bi-Cruciate Stabilized
  - “Gender Optimized” Sizing
- Innovative, Proprietary design tools
  - Unrivaled Biomechanical Analysis
  - Design goal of providing Normal Kinetics/Kinematics
- Utilizes OXINIUM® technology

Designed by nature, shaped by technology
Reconstruction
BIRMINGHAM HIP™ Resurfacing

• Alternative for the young, active patient
• Patient demand
• Proven low wear, range of motion, highly stable
• #1 Hip resurfacing in the world
• 50,000 surgeries globally
• FDA approval request filed

Excellence driven by experience
Reconstruction
Unique bearing portfolio
Reconstruction Summary

- Strong market fundamentals
- Great products, unique technology
- Sales force specialized
- Momentum in 2006 and beyond
Wrap up
Dave Illingworth
Chief Operating Officer
Smith & Nephew strategy

• Exploit positive market dynamics
• Build on technology leadership to expand markets
• Organic growth
  – Innovative product pipeline
  – Sales force development
• Pursue synergistic technology acquisitions
• Build on Smith & Nephew brand

Strategy continuing to drive growth and value
Smith & Nephew at AAOS

• Orthopaedic Reconstructive, Trauma & Clinical Therapies
  – Booth Number: 400

• Endoscopy
  – Booth Number: 616

• MOBILAB Mobile Training Center
  – Booth Number: 5247
We are smith&nephew