

Group information

Business overview and Group history

In 2019, Smith+Nephew's operations were organised into three global franchises (Orthopaedics, Sports Medicine & ENT, and Advanced Wound Management) within the medical technology industry.

The Group has a history dating back 160 years to the family enterprise of Thomas James Smith who opened a small pharmacy in Hull, UK in 1856. Following his death in 1896, his nephew Horatio Nelson Smith took over the management of the business.

By the late 1990s, Smith+Nephew had expanded into being a diverse healthcare company with operations across the globe, producing various medical devices, personal care products and traditional and advanced wound

care treatments. In 1998, Smith+Nephew announced a major restructuring to focus management attention and investment on three global business units – Advanced Wound Management, Endoscopy and Orthopaedics – which offered high growth and margin opportunities. In 2011, the Endoscopy and Orthopaedics businesses were brought together to create an Advanced Surgical Devices division. In 2015, the Advanced Wound Management and Advanced Surgical Devices divisions were brought together to form a global business across nine product franchises, managed as three geographical selling regions with global functions for operations, R&D and corporate support functions.

Smith+Nephew was incorporated and listed on the London Stock Exchange in 1937 and in 1999 the Group was also listed on the New York Stock Exchange. In 2001, Smith+Nephew became a constituent member of the FTSE 100 index in the UK. This means that Smith+Nephew is included in the top 100 companies traded on the London Stock Exchange measured in terms of market capitalisation.

Today, Smith+Nephew is a public limited company incorporated and headquartered in the UK and carries out business around the world.

Properties

The table below summarises the main properties which the Group uses and their approximate areas.

	Approximate area (square feet 000's)
Group head office and surgical training facility in Watford, UK	60
Manufacturing and office facilities in Memphis, Tennessee, US	968
Wound management manufacturing, research and office facility in Hull, UK	473
Manufacturing facility in Suzhou, China	288
Manufacturing facility in Alajuela, Costa Rica	270
Distribution facility in Memphis, Tennessee, US	248
Manufacturing facility in Beijing, China	192
Manufacturing facility in Oklahoma City, Oklahoma, US	155
Office facilities in Andover, Massachusetts, US	144
Office facilities and laboratory space in Fort Worth, Texas, US	139
Research & development and office facility in Austin, Texas, US	136
Manufacturing facility in Aarau, Switzerland	121
Manufacturing facility in Mansfield, Massachusetts, US	98
Business services centre in Pune, India	74
Business services centre in Wroclaw, Poland	74
Distribution facility in Baar, Switzerland	72
Research & development facility in Pittsburgh, Pennsylvania, US	65
Manufacturing facility in Columbia, Maryland, US	61
Manufacturing facility in Tuttlingen, Germany	50

The Group Global Operations strategy includes ongoing assessment of the optimal facility footprint. The Orthopaedics manufacturing facilities in Memphis, Tennessee are largely freehold, a portion of Tuttlingen and the Advanced Wound Management facilities in Hull are freehold while other principal locations are leasehold. The Group has freehold and leasehold interests in real estate in other countries throughout the world, but no other is individually significant to the Group. Where required, the appropriate governmental authorities have approved the facilities.

Group information continued

Off-balance sheet arrangements

Management believes that the Group does not have any off-balance sheet arrangements, as defined by the SEC in item 5E of Form 20-F, that have or are reasonably likely to have a current or future effect on the Group's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Related party transactions

Except for transactions with associates (see Note 23.2 of Notes to the Group accounts), no other related party had material transactions or loans with Smith+Nephew over the last three financial years.

Risk factors

There are known and unknown risks and uncertainties relating to Smith+Nephew's business. The factors listed on pages 194–197 could cause the Group's business, financial position and results of operations to differ materially and adversely from expected and historical levels. In addition, other factors not listed here that Smith+Nephew cannot presently identify or does not believe to be equally significant could also materially adversely affect Smith+Nephew's business, financial position or results of operations.

Highly competitive markets

The Group competes across a diverse range of geographic and product markets. Each market in which the Group operates contains a number of different competitors, including specialised and international corporations. Significant product innovations, technical advances or the intensification of price competition by competitors could adversely affect the Group's operating results. Some of these competitors may have greater financial, marketing and other resources than Smith+Nephew. These competitors may be able to initiate technological advances in the field, deliver products on more attractive terms, more aggressively market their products or invest larger amounts of capital and research and development (R&D) into their businesses. There is a possibility of further consolidation of competitors, which could adversely affect the Group's ability to compete with larger companies due to insufficient financial resources. If any of the Group's businesses were to lose market share or achieve lower than expected revenue growth, there could be

a disproportionate adverse impact on the Group's share price and its strategic options. Competition exists among healthcare providers to gain patients on the basis of quality, service and price. There has been some consolidation in the Group's customer base and this trend is expected to continue. Some customers have joined group purchasing organisations or introduced other cost containment measures that could lead to downward pressure on prices or limit the number of suppliers in certain business areas, which could adversely affect Smith+Nephew's results of operations and hinder its growth potential.

Continual development and introduction of new products

The medical devices industry has a rapid rate of new product introduction. In order to remain competitive, the Group must continue to develop innovative products that satisfy customer needs and preferences or provide cost or other advantages. Developing new products is a costly, lengthy and uncertain process. The Group may fail to innovate due to low R&D investment, a R&D skills gap or poor product development. A potential product may not be brought to market or not succeed in the market for any number of reasons, including failure to work optimally, failure to receive regulatory approval, failure to be cost-competitive, infringement of patents or other intellectual property rights and changes in consumer demand. The Group's products and technologies are also subject to marketing attack by competitors. Furthermore, new products that are developed and marketed by the Group's competitors may affect price levels in the various markets in which the Group operates. If the Group's new products do not remain competitive with those of competitors, the Group's revenue could decline.

The Group maintains reserves for excess and obsolete inventory resulting from the potential inability to sell its products at prices in excess of current carrying costs. Marketplace changes resulting from the introduction of new products or surgical procedures may cause some of the Group's products to become obsolete. The Group makes estimates regarding the future recoverability of the costs of these products and records a provision for excess and obsolete inventories based on historical experience, expiration of sterilisation dates and expected future trends. If actual product life cycles, product demand or acceptance of new product introductions

are less favourable than projected by management, additional inventory write-downs may be required.

Proprietary rights and patents

Due to the technological nature of medical devices and the Group's emphasis on serving its customers with innovative products, the Group has been subject to patent infringement claims and is subject to the potential for additional claims. Claims asserted by third parties regarding infringement of their intellectual property rights, if successful, could require the Group to expend time and significant resources to pay damages, develop non-infringing products or obtain licences to the products which are the subject of such litigation, thereby affecting the Group's growth and profitability. Smith+Nephew attempts to protect its intellectual property and regularly opposes third party patents and trademarks where appropriate in those areas that might conflict with the Group's business interests. If Smith+Nephew fails to protect and enforce its intellectual property rights successfully, its competitive position could suffer, which could harm its results of operations. In addition, intellectual property rights may not be protectable to the same extent in all countries in which the Group operates.

Dependence on government and other funding

In most markets throughout the world, expenditure on medical devices is ultimately controlled to a large extent by governments. Funds may be made available or withdrawn from healthcare budgets depending on government policy. The Group is therefore largely dependent on future governments providing increased funds commensurate with the increased demand arising from demographic trends.

Pricing of the Group's products is largely governed in most markets by governmental reimbursement authorities. Initiatives sponsored by government agencies, legislative bodies and the private sector to limit the growth of healthcare costs, including price regulation, excise taxes and competitive pricing, are ongoing in markets where the Group has operations. This control may be exercised by determining prices for an individual product or for an entire procedure. The Group is exposed to government policies favouring locally sourced products. The Group is also exposed to changes in reimbursement

policy, tax policy and pricing which may have an adverse impact on revenue and operating profit. Provisions in US healthcare legislation which previously imposed significant taxes on medical device manufacturers were permanently repealed effective 1 January 2020. There may be an increased risk of adverse changes to government funding policies arising from deterioration in macro-economic conditions from time to time in the Group's markets.

The Group must adhere to the rules laid down by government agencies that fund or regulate healthcare, including extensive and complex rules in the US. Failure to do so could result in fines or loss of future funding.

World economic conditions

Demand for the Group's products is driven by demographic trends, including the ageing population and the incidence of osteoporosis and obesity. Supply of, use of and payment for the Group's products are also influenced by world economic conditions which could place increased pressure on demand and pricing, adversely impacting the Group's ability to deliver revenue and margin growth. The conditions could favour larger, better capitalised groups, with higher market shares and margins. As a consequence, the Group's prosperity is linked to general economic conditions and there is a risk of deterioration of the Group's performance and finances during adverse macro-economic conditions.

Economic conditions worldwide continue to create several challenges for the Group, including the US Administration's approach to trade policy, heightened pricing pressure, significant declines in capital equipment expenditures at hospitals and increased uncertainty over the collectability of government debt, particularly those in the Emerging Markets. These factors could have an increased impact on growth in the future.

Widespread outbreaks of infectious diseases, such as the coronavirus (COVID-19) outbreak create uncertainty and challenges for the Group. The challenges created by the COVID-19 virus outbreak include, but are not limited to, declines in elective procedures at hospitals, disruptions at manufacturing facilities in China, and disruptions in supply and other commercial activities due to travel restrictions. The length and severity of the outbreak and pace of recovery are not clear and there could be an increased impact on the Group depending on these factors.

Political uncertainties, including Brexit

The Group operates on a worldwide basis and has distribution channels, purchasing agents and buying entities in over 100 countries. Political upheaval in some of those countries or in surrounding regions may impact the Group's results of operations. Political changes in a country could prevent the Group from receiving remittances of profit from a member of the Group located in that country or from selling its products or investments in that country. Furthermore, changes in government policy regarding preference for local suppliers, import quotas, taxation or other matters could adversely affect the Group's revenue and operating profit. War, economic sanctions, terrorist activities or other conflict could also adversely impact the Group. These risks may be greater in Emerging Markets, which account for an increasing portion of the Group's business.

There remain heightened levels of political and regulatory uncertainty in the UK following the result of the referendum in June 2016 to leave the European Union. As of the date of this report, there remains uncertainty as to the UK's future trade and regulatory relationship with the EU. This may adversely impact trading performance across the sector. Regulatory uncertainty forms the most significant risk presently; the ability for us to continue to manufacture and register our products in a compliant manner for global distribution is key. Smith+Nephew has taken steps to prepare for the various Brexit scenarios, including moving certain of its product certifications from UK-based notified bodies to notified bodies based in the EU. The UK accounts for approximately 5% of global Group revenue and the majority of our manufacturing takes place outside the UK and EU. There is also uncertainty around US-China trade relations, which has resulted in tariffs on some medical devices being exported between the two countries.

Currency fluctuations

Smith+Nephew's results of operations are affected by transactional exchange rate movements in that they are subject to exposures arising from revenue in a currency different from the related costs and expenses. The Group's manufacturing cost base is situated principally in the US, the UK, China, Costa Rica and Switzerland, from which finished products are exported to the Group's selling operations worldwide.

Thus, the Group is exposed to fluctuations in exchange rates between the US Dollar, Sterling and Swiss Franc and the currency of the Group's selling operations, particularly the Euro, Chinese Yuan, Australian Dollar and Japanese Yen. If the US Dollar, Sterling or Swiss Franc should strengthen against the Euro, Australian Dollar and the Japanese Yen, the Group's trading margin could be adversely affected. The Group manages the impact of exchange rate movements on revenue and cost of goods sold by a policy of transacting forward foreign currency commitments when firm purchase orders are placed. In addition, the Group's policy is for forecast transactions to be covered between 50% and 90% for up to one year. However, the Group is exposed to medium to long-term adverse movements in the strength of currencies compared to the US Dollar. The Group uses the US Dollar as its reporting currency. The US Dollar is the functional currency of Smith & Nephew plc. The Group's revenues, profits and earnings are also affected by exchange rate movements on the translation of results of operations in foreign subsidiaries for financial reporting purposes. See 'Liquidity and capital resources' on page 39.

Manufacturing and supply

The Group's manufacturing production is concentrated at main facilities in Memphis, Mansfield, Columbia and Oklahoma City in the US, Hull and Warwick in the UK, Aarau in Switzerland, Tuttlingen in Germany, Suzhou and Beijing in China, Alajuela in Costa Rica and Curaçao, in Dutch Caribbean. If major physical disruption took place at any of these sites, it could adversely affect the results of operations.

Physical loss and consequential loss insurance is carried to cover such risks but is subject to limits and deductibles and may not be sufficient to cover catastrophic loss. Management of orthopaedic inventory is complex, particularly forecasting and production planning. There is a risk that failures in operational execution could lead to excess inventory or individual product shortages.

The Group is reliant on certain key suppliers of raw materials, components, finished products and packaging materials or in some cases on a single supplier. These suppliers must provide the materials in compliance with legal requirements and perform the activities to the Group's standard of quality requirements.

Group information continued

Risk factors continued

A supplier's failure to comply with legal requirements or otherwise meet expected quality standards could create liability for the Group and adversely affect sales of the Group's related products. The Group may be forced to pay higher prices to obtain raw materials, which it may not be able to pass on to its customers in the form of increased prices for its finished products.

In addition, some of the raw materials used may become unavailable, and there can be no assurance that the Group will be able to obtain suitable and cost effective substitutes. Any interruption of supply caused by these or other factors could negatively impact Smith+Nephew's revenue and operating profit.

The Group will, from time to time, including as part of the APEX programme, outsource or insource the manufacture of components and finished products to or from third parties and will periodically relocate the manufacture of product and/or processes between existing and/or new facilities. While these are planned activities, with these transfers there is a risk of disruption to supply.

Natural disasters can also lead to manufacturing and supply delays, product shortages, excess inventory, unanticipated costs, lost revenues and damage to reputation. In addition, new environmental regulation or more aggressive enforcement of existing regulations can impact the Group's ability to manufacture, sterilise and supply product. In addition, our physical assets and supply chains are vulnerable to weather and climate change (eg sea level rise, increased frequency and severity of extreme weather events, and stress on water resources).

Requirements of global regulatory agencies have become more stringent in recent years and we expect them to continue to do so. The Group's Quality and Regulatory Affairs team is leading a major Group-wide programme to prepare for implementation of the EU Medical Devices Regulation (MDR), which came into force in May 2017, with a three-year transition period until May 2020. The regulation includes new requirements for the manufacture, supply and sale of all CE marked products sold in Europe and requires the reregistration of all medical devices, regardless of where they are manufactured.

The Group operates with a global remit and the speed of technological change in an already complex manufacturing

process leads to greater potential for disruption. Additional risks to supply include inadequate sales and operational planning and inadequate supply chain capacity to support customer demand and growth.

Attracting and retaining key personnel

The Group's continued development depends on its ability to hire and retain highly-skilled personnel with particular expertise. This is critical, particularly in general management, research, new product development and in the sales forces. If Smith+Nephew is unable to retain key personnel in general management, research and new product development or if its largest sales forces suffer disruption or upheaval, its revenue and operating profit would be adversely affected. Additionally, if the Group is unable to recruit, hire, develop and retain a talented, competitive workforce, it may not be able to meet its strategic business objectives.

Product liability claims and loss of reputation

The development, manufacture and sale of medical devices entail risk of product liability claims or recalls. Design and manufacturing defects with respect to products sold by the Group or by companies it has acquired could damage, or impair the repair of, body functions. The Group may become subject to liability, which could be substantial, because of actual or alleged defects in its products. In addition, product defects could lead to the need to recall from the market existing products, which may be costly and harmful to the Group's reputation. There can be no assurance that customers, particularly in the US, the Group's largest geographical market, will not bring product liability or related claims that would have a material adverse effect on the Group's financial position or results of operations in the future, or that the Group will be able to resolve such claims within insurance limits. As at 31 December 2019, a provision of \$315m is recognised relating to the present value of the estimated costs to resolve all unsettled known and unknown anticipated metal-on-metal hip implant claims globally. See Note 17 to the Group accounts for further details.

Regulatory standards and compliance in the healthcare industry

Business practices in the healthcare industry are subject to regulation and review by various government authorities. In general, the trend in many countries in which the Group does business is towards higher expectations and increased enforcement

activity by governmental authorities. While the Group is committed to doing business with integrity and welcomes the trend to higher standards in the healthcare industry, the Group and other companies in the industry have been subject to investigations and other enforcement activity that have incurred and may continue to incur significant expense. Under certain circumstances, if the Group were found to have violated the law, its ability to sell its products to certain customers could be restricted.

International regulation

The Group operates across the world and is subject to extensive legislation, including anti-bribery and corruption and data protection, in each country in which the Group operates. Our international operations are governed by the UK Bribery Act and the US Foreign Corrupt Practices Act which prohibit us or our representatives from making or offering improper payments to government officials and other persons or accepting payments for the purpose of obtaining or maintaining business. Our international operations in the Emerging Markets which operate through distributors increase our Group exposure to these risks.

The Group is also required to comply with the requirements of the EU General Data Protection Regulation (GDPR), which imposes additional obligations on companies regarding the handling of personal data and provides certain individual privacy rights to persons whose data is stored and became effective on 25 May 2018. As privacy and data protection have become more sensitive issues for regulators and consumers, new privacy and data protection laws, such as the GDPR, continue to develop in ways we cannot predict. Ensuring compliance with evolving privacy and data protection laws and regulations on a global basis may require us to change or develop our current business models and practices and may increase our cost of doing business. Despite those efforts, there is a risk that we may be subject to fines and penalties, litigation, and reputational harm in connection with our European activities as enforcement of such legislation has increased in recent years on companies and individuals where breaches are found to have occurred. Failure to comply with the requirements of privacy and data protection laws, including GDPR, could adversely affect our business, financial condition or results of operations.

Operating in multiple jurisdictions also subjects the Group to local laws and regulations related to tax, pricing, reimbursement, regulatory requirements, trade policy and varying levels of protection of intellectual property. This exposes the Group to additional risks and potential costs.

Regulatory approval

The international medical device industry is highly regulated. Regulatory requirements are a major factor in determining whether substances and materials can be developed into marketable products and the amount of time and expense that should be allotted to such development.

National regulatory authorities administer and enforce a complex series of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. They also review data supporting the safety and efficacy of such products. Of particular importance is the requirement in many countries that products be authorised or registered prior to manufacture, marketing or sale and that such authorisation or registration be subsequently maintained. The major regulatory agencies for Smith+Nephew's products include the Food and Drug Administration (FDA) in the US, the Medicines and Healthcare products Regulatory Agency in the UK, the Ministry of Health, Labour and Welfare in Japan, the State Food and Drug Administration in China and the Australian Therapeutic Goods Administration. At any time, the Group is awaiting a number of regulatory approvals which, if not received, could adversely affect results of operations. In 2017, the EU reached agreement on a new set of Medical Device Regulations which entered into force on 25 May 2017. These have a three-year transition period and therefore, will apply in EU Member States from 26 May 2020.

The trend is towards more stringent regulation and higher standards of technical appraisal. Such controls have become increasingly demanding to comply with and management believes that this trend will continue. Privacy laws (including HIPAA in the US and GDPR in the UK) and environmental regulations have also become more stringent. Regulatory requirements may also entail inspections for compliance with appropriate standards, including those relating to Quality Management Systems or Good Manufacturing Practices

regulations. All manufacturing and other significant facilities within the Group are subject to regular internal and external audit for compliance with national medical device regulation and Group policies. Payment for medical devices may be governed by reimbursement tariff agencies in a number of countries. Reimbursement rates may be set in response to perceived economic value of the devices, based on clinical and other data relating to cost, patient outcomes and comparative effectiveness. They may also be affected by overall government budgetary considerations. The Group believes that its emphasis on innovative products and services should contribute to success in this environment. Failure to comply with these regulatory requirements could have a number of adverse consequences, including withdrawal of approval to sell a product in a country, temporary closure of a manufacturing facility, fines and potential damage to Company reputation.

Failure to make successful acquisitions

A key element of the Group's strategy for continued growth is to make acquisitions or alliances to complement its existing business. Failure to identify appropriate acquisition targets or failure to conduct adequate due diligence or to integrate them successfully would have an adverse impact on the Group's competitive position and profitability. This could result from the diversion of management resources from the acquisition or integration process, challenges of integrating organisations of different geographic, cultural and ethical backgrounds, as well as the prospect of taking on unexpected or unknown liabilities. In addition, the availability of global capital may make financing less attainable or more expensive and could result in the Group failing in its strategic aim of growth by acquisition or alliance.

Relationships with healthcare professionals

The Group seeks to maintain effective and ethical working relationships with physicians and medical personnel who assist in the research and development of new products or improvements to our existing product range or in product training and medical education. If we are unable to maintain these relationships our ability to meet the demands of our customers could be

diminished and our revenue and profit could be materially adversely affected.

Reliance on sophisticated information technology and cybersecurity

The Group uses a wide variety of information systems, programmes and technology to manage our business. The Group also develops and sells certain products that are or will be digitally enabled including connection to networks and/or the internet. Our systems and the systems of the entities we acquire are vulnerable to a cyber attack, theft of intellectual property, malicious intrusion, loss of data privacy or other significant disruption. Our systems have been and will continue to be the target of such threats. Cybersecurity is a multifaceted discipline covering people, process and technology. It is also an area where more can always be done; it is a continually evolving practice. We have a layered security approach in place to prevent, detect and respond, in order to minimise the risk and disruption of these intrusions and to monitor our systems on an ongoing basis for current or potential threats. There can be no assurance that these measures will prove effective in protecting Smith+Nephew from future interruptions and as a result the performance of the Group could be materially adversely affected.

Financial reporting, compliance and control

Our financial results depend on our ability to comply with financial reporting and disclosure requirements, comply with tax laws, appropriately manage treasury activities and avoid significant transactional errors and customer defaults. Failure to comply with our financial reporting requirements or relevant tax laws can lead to litigation and regulatory activity and ultimately to material loss to the Group. Potential risks include failure to report accurate financial information in compliance with accounting standards and applicable legislation, failure to comply with current tax laws, failure to manage treasury risk effectively and failure to operate adequate financial controls over business operations.

Other risk factors

Smith+Nephew is subject to a number of other risks, which are common to most global medical technology groups and are reviewed as part of the Group's Risk Management process.

Factors affecting Smith+Nephew's results of operations

Government economic, fiscal, monetary and political policies are all factors that materially affect the Group's operation or investments of shareholders. Other factors include sales trends, currency fluctuations and innovation. Each of these factors is discussed further in the 'Our growing markets' on pages 14–15, the financial review on pages 36–39 and 'Taxation information for shareholders' on pages 208–209.

Selected financial data

	2019 \$ million	2018 \$ million	2017 \$ million	2016 \$ million	2015 \$ million
Income statement					
Revenue	5,138	4,904	4,765	4,669	4,634
Cost of goods sold	(1,338)	(1,298)	(1,248)	(1,272)	(1,143)
Gross profit	3,800	3,606	3,517	3,397	3,491
Selling, general and administrative expenses	(2,693)	(2,497)	(2,360)	(2,366)	(2,641)
Research and development expenses	(292)	(246)	(223)	(230)	(222)
Operating profit ¹	815	863	934	801	628
Net interest payable	(55)	(51)	(51)	(46)	(38)
Other finance costs	(18)	(20)	(10)	(16)	(15)
Share of results of associates	1	(11)	6	(3)	(16)
Profit on disposal of business	–	–	–	326	–
Profit before taxation	743	781	879	1,062	559
Taxation	(143)	(118)	(112)	(278)	(149)
Attributable profit for the year	600	663	767	784	410
Earnings per ordinary share					
Basic earnings per share	68.6¢	76.0¢	87.8¢	88.1¢	45.9¢
Diluted earnings per share	68.4¢	75.7¢	87.7¢	87.8¢	45.6¢
Average number of shares used in basic earnings per share (millions)	874	873	874	890	894
Average number of shares used in diluted earnings per share (millions)	877	876	875	893	899
Adjusted attributable profit²					
Attributable profit for the year	600	663	767	784	410
Acquisition and disposal related items	34	(7)	(10)	9	25
Restructuring and rationalisation costs	134	120	–	62	65
Legal and other	50	38	(13)	(20)	187
Amortisation and impairment of acquisition intangibles	143	118	140	178	204
Profit on disposal of business	–	–	–	(326)	–
US tax reform	–	–	(32)	–	–
Taxation on excluded items	(68)	(51)	(26)	48	(130)
Adjusted attributable profit	893	881	826	735	761
Adjusted earnings per ordinary share (EPSA) ³	102.2¢	100.9¢	94.5¢	82.6¢	85.1¢

The Group has adopted IFRS 16 Leases from 1 January 2019 using the modified retrospective approach. Under this approach comparative information is not restated.

1 Reconciliation of operating to trading profit is presented below.

2 Non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 200–204.

3 Adjusted earnings per ordinary share is calculated by dividing adjusted attributable profit by the basic weighted number of ordinary shares.

Reconciliation of operating profit to trading profit

	2019 \$ million	2018 \$ million	2017 \$ million	2016 \$ million	2015 \$ million
Operating profit	815	863	934	801	628
Acquisition and disposal related items	32	(7)	(10)	9	12
Restructuring and rationalisation costs	134	120	–	62	65
Amortisation and impairment of acquisition intangibles	143	113	140	178	204
Legal and other	45	34	(16)	(30)	190
Trading profit	1,169	1,123	1,048	1,020	1,099

	2019 \$ million	2018 \$ million	2017 \$ million	2016 \$ million	2015 \$ million
Group balance sheet data					
Non-current assets	6,080	4,982	5,135	4,815	4,692
Current assets	3,219	3,077	2,731	2,529	2,475
Total assets	9,299	8,059	7,866	7,344	7,167
Share capital	177	177	178	180	183
Share premium	610	608	605	600	590
Capital redemption reserve	18	18	17	15	12
Treasury shares	(189)	(214)	(257)	(432)	(294)
Retained earnings and other reserves	4,525	4,285	4,101	3,595	3,475
Total equity	5,141	4,874	4,644	3,958	3,966
Non-current liabilities	2,594	1,720	1,876	2,038	1,857
Current liabilities	1,564	1,465	1,346	1,348	1,344
Total liabilities	4,158	3,185	3,222	3,386	3,201
Total equity and liabilities	9,299	8,059	7,866	7,344	7,167
Group cash flow data and net debt					
Cash generated from operations	1,370	1,108	1,273	1,035	1,203
Net interest paid	(52)	(52)	(48)	(45)	(36)
Income taxes paid	(150)	(125)	(135)	(141)	(137)
Net cash inflow from operating activities	1,168	931	1,090	849	1,030
Capital expenditure (including net trade investments and net of disposals of property, plant and equipment)	(385)	(351)	(384)	(394)	(360)
Acquisitions and disposals	(869)	(29)	(159)	(214)	(44)
Proceeds on disposal of business (net of tax)	–	–	–	225	–
Distribution from/(investment in) associate	3	2	–	–	(25)
Payment of capital element of lease liabilities	(46)	–	–	–	–
Proceeds from own shares	9	10	5	6	5
Equity dividends paid	(318)	(321)	(269)	(279)	(272)
Issue of ordinary capital and treasury shares purchased	(61)	(45)	(47)	(358)	(61)
Net cash flow from operating, investing and financing activities	(499)	197	236	(165)	273
Termination of finance lease	–	–	5	–	–
Exchange adjustments	3	(20)	28	(24)	(21)
Lease liabilities	(170)	–	–	–	–
Opening net debt	(1,104)	(1,281)	(1,550)	(1,361)	(1,613)
Closing net debt (including lease liabilities from 1 January 2019)	(1,770)	(1,104)	(1,281)	(1,550)	(1,361)
Selected financial ratios					
Gearing (closing net debt as a percentage of total equity)	34.4%	22.7%	27.6%	39.2%	34.3%
Dividends per ordinary share	37.5¢ ¹	36.0¢	35.0¢	30.8¢	30.8¢
Research and development costs to revenue	5.7%	5.0%	4.7%	4.9%	4.8%
Capital expenditure (including intangibles but excluding trade investments and assets acquired in a business combination) to revenue	7.9%	7.1%	7.9%	8.4%	7.7%

The Group has adopted IFRS 16 Leases from 1 January 2019 using the modified retrospective approach. Under this approach comparative information is not restated.

1 The Board has proposed a final dividend of 23.1 US cents per share which together with the interim dividend of 14.4 US cents makes a total for 2019 of 37.5 US cents.

Non-IFRS financial information – Adjusted measures

These Financial Statements include financial measures that are not prepared in accordance with International Financial Reporting Standards (IFRS). These measures, which include trading profit, trading profit margin, tax rate on trading results, EPSA, ROIC, trading cash flow, free cash flow, trading profit to trading cash conversion ratio, leverage ratio, and underlying growth, exclude the effect of certain cash and non-cash items that Group management believes are not related to the underlying performance of the Group. These non-IFRS financial measures are also used by management to make operating decisions because they facilitate internal comparisons of performance to historical results.

Non-IFRS financial measures are presented in these Financial Statements as the Group's management believe that they provide investors with a means of evaluating performance of the business segments and the consolidated Group on a consistent basis, similar to the way in which the Group's management evaluates performance, that is not otherwise apparent on an IFRS basis, given that certain non-recurring, infrequent, non-cash and other items that management does not otherwise believe are indicative of the underlying performance of the consolidated Group may not be excluded when preparing financial measures under IFRS. These non-IFRS measures should not be considered in isolation from, as substitutes for, or superior to financial measures prepared in accordance with IFRS.

The Group has adopted IFRS 16 Leases from 1 January 2019 using the modified retrospective approach. Under this approach comparative information is not restated therefore impacting the comparability of the non-financial information presented below between the current year and prior year. In 2019, the Group excluded IFRS 16 lease payments from cash generated from operations when arriving at trading cash flow, and included IFRS 16 right-of-use assets and IFRS 16 lease liabilities in net operating assets in arriving at ROIC.

Underlying revenue growth

'Underlying revenue growth' is used to compare the revenue in a given year to the previous year on a like-for-like basis. This is achieved by adjusting for the impact of sales of products acquired in material business combinations or disposed of and for movements in exchange rates.

Underlying revenue growth is considered by the Group to be an important measure of performance in terms of local functional currency since it excludes those items considered to be outside the influence of local management. The Group's management uses this non-IFRS measure in its internal financial reporting, budgeting and planning to assess performance on both a business and a consolidated Group basis. Revenue growth at constant currency is important in measuring business performance compared to competitors and compared to the growth of the market itself.

The Group considers that revenue from sales of products acquired in material business combinations results in a step-up in growth in revenue in the year of acquisition that cannot be wholly attributed to local management's efforts with respect to the business in the year of acquisition. Depending on the timing of the acquisition, there will usually be a further step change in the following year. A measure of growth excluding the effects of business combinations also allows senior management to evaluate the performance and relative impact of growth from the existing business and growth from acquisitions. The process of making business acquisitions is directed, approved and funded from the Group corporate centre in-line with strategic objectives.

The material limitation of the underlying revenue growth measure is that it excludes certain factors, described above, which ultimately have a significant impact on total revenues. The Group compensates for this limitation by taking into account relative movements in exchange rates in its investment, strategic planning and resource allocation. In addition, as the evaluation and assessment of business acquisitions is not within the control of local management, performance of acquisitions is monitored centrally until the business is integrated.

The Group's management considers that the non-IFRS measure of underlying revenue growth and the IFRS measure of growth in revenue are complementary measures, neither of which management uses exclusively.

Underlying revenue growth reconciles to reported revenue growth, the most directly comparable financial measure calculated in accordance with IFRS, by making two adjustments, the 'constant currency exchange effect' and the 'acquisitions and disposals effect', described below.

The 'constant currency exchange effect' is a measure of the increase/decrease in revenue resulting from currency movements on non-US Dollar sales and is measured as the difference between: 1) the increase/decrease in the current year revenue translated into US Dollars at the current year average exchange rate and the prior revenue translated at the prior year rate; and 2) the increase/decrease being measured by translating current and prior year revenues into US Dollars using the prior year closing rate.

The 'acquisitions and disposals effect' is the measure of the impact on revenue from newly acquired material business combinations and recent material business disposals. This is calculated by comparing the current year, constant currency actual revenue (which includes acquisitions and excludes disposals from the relevant date of completion) with prior year, constant currency actual revenue, adjusted to include the results of acquisitions and exclude disposals for the commensurate period in the prior year. These sales are separately tracked in the Group's internal reporting systems and are readily identifiable.

Reported revenue growth, the most directly comparable financial measure calculated in accordance with IFRS, reconciles to underlying revenue growth as follows:

2019 Consolidated revenue by franchise	Reported growth %	Underlying growth %	Reconciling items	
			Acquisitions/disposals %	Currency impact %
Knee Implants	2.5	4.4	–	(1.9)
Hip Implants	–	2.1	–	(2.1)
Other Reconstruction	27.9	12.6	17.5	(2.2)
Trauma	2.4	4.3	–	(1.9)
Orthopaedics	2.5	4.0	0.5	(2.0)
Sports Medicine Joint Repair	10.8	12.3	0.9	(2.4)
Arthroscopic Enabling Technologies	(1.5)	0.8	–	(2.3)
ENT (Ear, Nose and Throat)	4.9	6.7	–	(1.8)
Sports Medicine & ENT	5.2	7.0	0.5	(2.3)
Advanced Wound Care	(3.5)	(0.2)	–	(3.3)
Advanced Wound Bioactives	32.3	(0.4)	33.0	(0.3)
Advanced Wound Devices	12.8	15.7	0.6	(3.5)
Advanced Wound Management	8.3	2.2	8.7	(2.6)
Total	4.8	4.4	2.6	(2.2)

2018 Consolidated revenue by franchise	Reported growth %	Underlying growth %	Reconciling items	
			Acquisitions/disposals %	Currency impact %
Knee Implants	3	3	–	–
Hip Implants	2	2	–	–
Other Reconstruction	36	36	–	–
Trauma	–	(1)	–	1
Orthopaedics	3	3	–	–
Sports Medicine Joint Repair	10	7	2	1
Arthroscopic Enabling Technologies	(2)	(3)	–	1
ENT (Ear, Nose and Throat)	5	5	–	–
Sports Medicine & ENT	4	2	2	–
Advanced Wound Care	3	1	–	2
Advanced Wound Bioactives	(6)	(6)	–	–
Advanced Wound Devices	10	9	–	1
Advanced Wound Management	2	–	–	2
Total	3	2	–	1

Trading profit, trading profit margin, trading cash flow and trading profit to cash conversion ratio

Trading profit, trading profit margin (trading profit expressed as a percentage of revenue), trading cash flow and trading profit to cash conversion ratio (trading cash flow expressed as a percentage of trading profit) are trend measures, which present the profitability of the Group. The adjustments made exclude the impact of specific transactions that management considers affect the Group's short-term profitability and cash flows, and the comparability of results. The Group has identified the following items, where material, as those to be excluded from operating profit and cash generated from operations when arriving at trading profit and trading cash flow, respectively: acquisition and disposal related items arising in connection with business combinations, including amortisation of acquisition intangible assets, impairments and integration costs; restructuring events; and gains and losses resulting from legal disputes and uninsured losses. In addition to these items, gains and losses that materially impact the Group's profitability or cash flows on a short-term or one-off basis are excluded from operating profit and cash generated from operations when arriving at trading profit and trading cash flow. The cash contribution to fund defined benefit pension schemes that are closed to future accrual and IFRS 16 lease payments are also excluded from cash generated from operations when arriving at trading cash flow.

Non-IFRS financial information – Adjusted measures continued

Adjusted earnings per ordinary share (EPSA)

EPSA is a trend measure, which presents the profitability of the Group excluding the post-tax impact of specific transactions that management considers affect the Group's short-term profitability and comparability of results. The Group presents this measure to assist investors in their understanding of trends. Adjusted attributable profit is the numerator used for this measure and is determined by adjusting attributable profit for the items that are excluded from operating profit when arriving at trading profit and items that are recognised below operating profit that affect the Group's short-term profitability. The most directly comparable financial measure calculated in accordance with IFRS is basic earnings per ordinary share ('EPS').

	Revenue \$ million	Operating profit ¹ \$ million	Profit before tax ² \$ million	Taxation ³ \$ million	Attributable profit ⁴ \$ million	Cash generated from operations ⁵ \$ million	Earnings per share ⁶ ¢
2019 Reported	5,138	815	743	(143)	600	1,370	68.6
Acquisition and disposal related items	–	32	34	(6)	28	36	3.4
Restructuring and rationalisation costs	–	134	134	(25)	109	123	12.5
Amortisation and impairment of acquisition intangibles	–	143	143	(32)	111	–	12.6
Legal and other ⁷	–	45	50	(5)	45	(105)	5.1
Lease liability payments	–	–	–	–	–	(46)	–
Capital expenditure	–	–	–	–	–	(408)	–
2019 Adjusted	5,138	1,169	1,104	(211)	893	970	102.2

Acquisitions and disposal related items: For the year to 31 December 2019 costs primarily relate to the acquisitions of Ceterix, Osiris, Leaf, Brainlab OJR and Atracsys.

Restructuring and rationalisation costs: For the year to 31 December 2019 these costs relate to the implementation of the Accelerating Performance and Execution (APEX) programme that was announced in February 2018.

Amortisation and impairment of acquisition intangibles: For the year to 31 December 2019 charges relate to the amortisation of intangible assets acquired in material business combinations.

Legal and other: For the year ended 31 December 2019 charges primarily relate to legal expenses for ongoing metal-on-metal hip claims and an increase of \$121m in the provision that reflects the present value of the estimated costs to resolve all other known and anticipated metal-on-metal hip claims. The year to 31 December 2019 also includes costs for implementing the requirements of the EU Medical Device Regulations that will apply from May 2020. These charges in the year to 31 December 2019 were partially offset by a credit of \$147m relating to insurance recoveries for ongoing metal-on-metal hip claims. Trading cash flow additionally excludes \$6m of cash funding to closed defined benefit pension schemes and a \$35m receipt (held as a receivable as at 31 December 2018) relating to settlements with insurers related to product liability claims involving macrotextured components withdrawn from the market in 2003.

	Revenue \$ million	Operating profit ¹ \$ million	Profit before tax ² \$ million	Taxation ³ \$ million	Attributable profit ⁴ \$ million	Cash generated from operations ⁵ \$ million	Earnings per share ⁶ ¢
2018 Reported	4,904	863	781	(118)	663	1,108	76.0
Acquisition and disposal related items	–	(7)	(7)	1	(6)	3	(0.7)
Restructuring and rationalisation costs	–	120	120	(24)	96	83	11.0
Amortisation and impairment of acquisition intangibles	–	113	118	(27)	91	–	10.3
Legal and other ⁷	–	34	38	(1)	37	104	4.3
Capital expenditure	–	–	–	–	–	(347)	–
2018 Adjusted	4,904	1,123	1,050	(169)	881	951	100.9

Acquisition and disposal related items: For the year to 31 December 2018 the credit relates to a remeasurement of contingent consideration for a prior year acquisition and adjustments to provisions on disposal of a business, partially offset by costs associated with the acquisition of Rotation Medical, Inc.

Restructuring and rationalisation costs: For the year to 31 December 2018, these costs relate to the implementation of the Accelerating Performance and Execution (APEX) programme that was announced in February 2018.

Amortisation and impairment of acquisition intangibles: For the year to 31 December 2018 the charge relates to the amortisation of intangible assets acquired in material business combinations.

Legal and other: For the year ended 31 December 2018 charges primarily relate to legal expenses for ongoing metal-on-metal hip claims and an increase of \$72m in the provision that reflected the present value of the estimated costs to resolve all other known and anticipated metal-on-metal hip claims globally. The year to 31 December 2018 also includes costs for implementing the requirements of the EU Medical Device Regulations that will apply from May 2020. These charges in the year to 31 December 2018 were partially offset by a credit of \$84m relating to settlements with insurers related to product liability claims involving macrotextured components withdrawn from the market in 2003. Trading cash flow additionally excludes \$35 million of cash funding to closed defined benefit pension schemes.

- 1 Represents a reconciliation of operating profit to trading profit.
- 2 Represents a reconciliation of reported profit before tax to trading profit before tax.
- 3 Represents a reconciliation of reported tax to trading tax.
- 4 Represents a reconciliation of reported attributable profit to adjusted attributable profit.
- 5 Represents a reconciliation of cash generated from operations to trading cash flow.
- 6 Represents a reconciliation of basic earnings per ordinary share to adjusted earnings per ordinary share (EPSA).
- 7 From 1 January 2017, the ongoing funding of defined benefit pension schemes is not included in management's definition of trading cash flow as there is no defined benefit service cost for these schemes.

Free cash flow

Free cash flow is a measure of the cash generated for the Group to use after capital expenditure according to its Capital Allocation Framework, it is defined as the cash generated from operations less: capital expenditure and cash flows from interest and income taxes. A reconciliation from cash generated from operations, the most comparable IFRS measure, to free cash flow is set out below:

	2019 \$ million	2018 \$ million	2017 \$ million
Cash generated from operations	1,370	1,108	1,273
Capital expenditure	(408)	(347)	(376)
Interest received	4	2	2
Interest paid	(56)	(54)	(50)
Payment of lease liabilities	(46)	–	–
Income taxes paid	(150)	(125)	(135)
Free cash flow	714	584	714

Leverage ratio

The leverage ratio is net debt including lease liabilities to adjusted EBITDA. Net debt is reconciled in Note 15 to the Group accounts. Adjusted EBITDA is defined as trading profit before depreciation of property, plant and equipment and amortisation of other intangible assets.

The calculation of the leverage ratio is set out below:

	2019 \$ million
Net debt including lease liabilities	1,770
Trading profit	1,169
Depreciation of property, plant and equipment	292
Amortisation of other intangible assets	61
Adjusted EBITDA	1,522
Leverage ratio (x)	1.2

Non-IFRS financial information – Adjusted measures continued

Return on invested capital (ROIC)

Return on invested capital (ROIC) is a measure of the return generated on capital invested by the Group. It provides a metric for long-term value creation and encourages compounding reinvestment within the business and discipline around acquisitions with low returns and long payback.

ROIC is defined as: Operating Profit less Adjusted Taxes/((Opening Net Operating Assets + Closing Net Operating Assets)/2).

	2019 \$ million	2018 \$ million	2017 \$ million
Operating profit	815	863	934
Taxation	(143)	(118)	(112)
Taxation adjustment ¹	(14)	(14)	(10)
Operating profit less adjusted taxes	658	731	812
Total equity	5,141	4,874	4,644
Retirement benefit assets	(106)	(92)	(62)
Investments	(7)	(34)	(21)
Investments in associates	(103)	(105)	(118)
Right-of-use assets	(156)	–	–
Cash at bank	(277)	(365)	(169)
Long-term borrowings and lease liabilities	1,975	1,301	1,423
Retirement benefit obligations	136	114	131
Bank overdrafts, borrowings, loans and lease liabilities	72	164	27
Net operating assets	6,675	5,857	5,855
Average net operating assets	6,266	5,856	5,695
Return on invested capital	10.5%	12.5%	14.3%

¹ Being the taxation on interest income, interest expense, other finance costs and share of results of associates.

Contractual obligations

Contractual obligations at 31 December 2019 were as follows:

	Payments due by period			
	Less than one year \$ million	One to three years \$ million	Three to five years \$ million	More than five years \$ million
Debt obligations	26	553	298	–
Private placement notes	42	479	605	710
Purchase obligations	358	8	4	2
Lease liabilities	46	69	34	37
Capital expenditure	38	–	–	–
Other	105	81	10	8
	615	1,190	951	757

Other contractual obligations represent \$23m of derivative contracts and \$181m of acquisition consideration. Provisions that do not relate to contractual obligations are not included in the above table.

There are a number of agreements that take effect, alter or terminate upon a change in control of the Company or the Group following a takeover, such as bank loan agreements and Company share plans. None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole. In addition, there are service contracts between the Company and its Executive Directors which provide for the automatic payment of a bonus following loss of office or employment under the circumstances outlined on page 97.

The Company does not have contracts or other arrangements which individually are essential to the business.

Shareholder information

Ordinary shareholders

Registrar

All general enquiries concerning shareholdings, dividends, changes to shareholders' personal details and the Annual General Meeting (the 'AGM') should be addressed to:

Computershare Investor Services plc,
The Pavilions, Bridgwater Road,
Bristol, BS99 6ZZ.

Tel: 0370 703 0047

Tel: +44 (0) 117 378 5450

from outside the UK

www.investorcentre.co.uk

* Lines are open from 8:30 am to 5:30 pm Monday to Friday, excluding public holidays in England and Wales.

Shareholder communications

We make quarterly financial announcements, which are made available through Stock Exchange announcements and on the Group's website (www.smith-nephew.com). Copies of recent Annual Reports, press releases, institutional presentations and audio webcasts are also available on the website.

We send paper copies of the Notice of Annual General Meeting and Annual Report only to those shareholders and ADS holders who have elected to receive shareholder documentation by post. Electronic copies of the Annual Report and Notice of Annual General Meeting are available on the Group's website at www.smith-nephew.com. Both ordinary shareholders and ADS holders can request paper copies of the Annual Report, which the Company provides free of charge. The Company will continue to send to ordinary shareholders by post the Form of Proxy notifying them of the availability of the Annual Report and Notice of Annual General Meeting on the Group's website. If you elect to receive the Annual Report and Notice of Annual General Meeting electronically you are informed by email of the documents' availability on the Group's website. ADS holders receive the Form of Proxy by post, but will not receive a paper copy of the Notice of Annual General Meeting.

Investor communications

The Company maintains regular dialogue with individual institutional shareholders, together with results presentations.

To ensure that all members of the Board develop an understanding of the views of major investors, the Executive Directors review significant issues raised by investors with the Board. Non-Executive Directors are sent copies of analysts' and brokers' briefings. There is an opportunity for individual shareholders to put their questions to the Directors at the Annual General Meeting and the Company regularly responds to letters from shareholders on a range of issues.

UK capital gains tax

For the purposes of UK capital gains tax, the price of the Company's ordinary shares on 31 March 1982 was 35.04p.

Smith & Nephew plc share price

The Company's ordinary shares are quoted on the London Stock Exchange under the symbol SN. The Company's share price is available on the Smith+Nephew website www.smith-nephew.com and at www.londonstockexchange.com where the live financial data is updated with a 15-minute delay.

American Depositary Shares ('ADSs') and American Depositary Receipts ('ADRs')

In the US, the Company's ordinary shares are traded in the form of ADSs, evidenced by ADRs, on the New York Stock Exchange under the symbol SNN. Each American Depositary Share represents two ordinary shares. J.P. Morgan Chase Bank N.A. is the authorised depository bank for the Company's ADR programme having taken over from Deutsche Bank from 1 October 2019.

ADS enquiries

All enquiries regarding ADS holder accounts and payment of dividends should be addressed to:

EQ Shareowner Services
P.O. Box 64504
St Paul, MN 55164-0504

US toll free phone: +1-800-990-1135

Online: Visit www.shareowneronline.com and select 'Contact Us'.

www.adr.com

Smith & Nephew plc ADS price

The Company's ADS price can be obtained from the official New York Stock Exchange website at www.nyse.com and the Smith+Nephew website www.smith-nephew.com where the live financial data is updated with a 15-minute delay, and is quoted daily in the Wall Street Journal.

ADS payment information

The Company hereby discloses ADS payment information for the year ended 31 December 2019 in accordance with the Securities and Exchange Commission rules 12.D.3 and 12.D.4 relating to Form 20-F filings by foreign private issuers. The depository collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them.

The depository collects fees for making distributions to investors, including payment of dividends by the Company by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may collect its annual fee for depository services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may generally refuse to provide fee-attracting services until its fee for those services are paid.

Shareholder information continued

Persons depositing or withdrawing shares must pay	For
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	– Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
\$0.05 (or less) per ADS	– Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
	– Any cash distribution to ADS registered holders, including payment of dividend
\$0.05 (or less) per ADS per calendar year	– Depository services
Registration or transfer fees	– Transfer and registration of shares on our share register to or from the name of the depository or its agent when shares are deposited or withdrawn
Taxes and other governmental charges the depository or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	– As necessary
Any charges incurred by the depository or its agents for servicing the deposited securities	– As necessary

During 2019, a fee of 1 US cent per ADS was collected by Deutsche Bank Trust Company Americas on the 2018 final dividend paid in May 2019 and a fee of 1 US cent per ADS was collected by J.P. Morgan Chase on the 2019 interim dividend paid in October 2019. In the period 1 January 2019 to 14 February 2020, the total programme payments paid by Deutsche Bank Trust Company Americas and J.P. Morgan Chase were \$772,562.16.

Dividend history

Smith & Nephew plc has paid dividends on its ordinary shares in every year since 1937. Following the capital restructuring and dividend reduction in 2000, the Group adopted a policy of increasing its dividend cover (the ratio of EPSA, as set out in the 'Selected financial data', to ordinary dividends declared for the year). This was intended to increase the financing capability of the Group for acquisitions and other investments. From 2000 to 2004, the dividend increased in-line with inflation and, in 2004, dividend cover stood at 4.1 times. Having achieved this level of dividend cover the Board changed its policy, from that of increasing dividends in-line with inflation, to that of increasing dividends for 2005 and after by 10%. Following the redenomination of the Company's share capital into US Dollars, the Board reaffirmed its policy of increasing the dividend by 10% a year in US Dollar terms. On 2 August 2012,

the Board announced its intention to pursue a progressive dividend policy, with the aim of increasing the US Dollar value of ordinary dividends over time broadly based on the Group's underlying growth in earnings, while taking into account capital requirements and cash flows.

At the time of the full year results, the Board reviews the appropriate level of total annual dividend each year. The Board intends that the interim dividend will be set by a formula and will be equivalent to 40% of the total dividend for the previous year. Dividends will continue to be declared in US Dollars with an equivalent amount in Sterling payable to those shareholders whose registered address is in the UK, or who have validly elected to receive Sterling dividends.

An interim dividend in respect of each fiscal year is normally declared in July or August and paid in October or November.

A final dividend will be recommended by the Board of Directors and paid subject to approval by shareholders at the Company's Annual General Meeting.

Future dividends of Smith & Nephew plc will be dependent upon: future earnings; the future financial condition of the Group; the Board's dividend policy; and the additional factors that might affect the business of the Group set out in 'Special note regarding forward-looking statements' and 'Risk Factors'.

Dividends per share

The table below sets out the dividends per ordinary share in the last five years.

From 6 April 2018 dividends below £2,000 per tax year became tax free for UK income tax purposes and dividends above £2,000 per tax year became subject to UK personal income tax at the rate of 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. If you need to pay UK tax, how you pay depends on the amount of dividend income you receive in a year. If your dividend income is up to £10,000 you can request HMRC to change your tax code so that the tax will be taken from your wages or pension or you can complete a self-assessment tax return. If your dividend income is over £10,000 in the tax year, you will need to complete a self-assessment tax return. This will apply to both cash and dividend reinvestment plan ('DRIP') dividends, although dividends paid on shares held within pensions and ISAs will be unaffected, remaining tax free.

Between 6 April 2016 and 6 April 2018 dividends below £5,000 per tax year were tax free and dividends above £5,000 per tax year were subject to personal income tax at the rates referred to above.

Dividends per share	Years ended 31 December				
	2019	2018	2017	2016	2015
Pence per share:					
Interim	11.190	10.670	9.340	10.080	7.680
Final	17.750 ¹	16.990	16.240	14.420	13.000
Total	28.940	27.660	25.580	24.500	20.680
US cents per share:					
Interim	14.400	14.000	12.300	12.300	11.800
Final	23.100	22.000	22.700	18.500	19.000
Total	37.500	36.000	35.000	30.800	30.800

¹ Translated at the Bank of England rate on 14 February 2020.

Dividends shown in the table on page 206, prior to 6 April 2016, include the associated UK tax credit of 10%, but exclude the deduction of withholding taxes.

Since the second interim dividend for 2005, all dividends have been declared in US cents per ordinary share.

In respect of the proposed final dividend for the year ended 31 December 2019 of 23.1 US cents per ordinary share, the record date will be 3 April 2020 and the payment date will be 6 May 2020. The Sterling equivalent per ordinary share will be set following the record date.

Shareholders may elect to receive their dividend in either Sterling or US Dollars and the last day for election will be 15 April 2020. The ordinary shares will trade ex-dividend on both the London and New York Stock Exchanges from 2 April 2020.

The proposed final dividend of 23.1 US cents per ordinary share, which together with the interim dividend of 14.4 US cents, makes a total for 2019 of 37.5 US cents.

Share capital

The principal trading market for the ordinary shares is the London Stock Exchange. The ordinary shares were listed on the New York Stock Exchange on 16 November 1999, trading in the form of ADSs evidenced by ADRs. Each ADS represents two ordinary shares from 14 October 2014, before which time one ADS represented five ordinary shares. The ADS facility is sponsored by J.P. Morgan Chase acting as depository.

All the ordinary shares, including those held by Directors and Executive Officers, rank pari passu with each other. On 23 January 2006, the ordinary shares of 12 $\frac{2}{9}$ p were redenominated as ordinary shares of US 20 cents (following approval by shareholders at the Extraordinary General Meeting in December 2005). The new US Dollar ordinary shares carry the same rights as the previous ordinary shares. The share price continues to be quoted in Sterling. In 2006, the Company issued £50,000 of shares in Sterling in order to comply with English law. These were issued as deferred shares, which are not listed on any stock exchange. They have extremely limited rights and therefore effectively have no value. These shares are held by the

Major shareholders

	As at 31 December			
	14 February 2020 %*	2019 %*	2018 %*	2017 %*
BlackRock, Inc.	5.2	5.2	5.2	5.2

	As at 31 December			
	14 February 2020 '000	2019 '000	2018 '000	2017 '000
BlackRock, Inc.	46,427	46,427	46,427	46,427

* Percentage of ordinary shares in issue, excluding Treasury shares.

Company Secretary, although the Board reserves the right to transfer them to a member of the Board should it so wish.

Shareholdings

As at 14 February 2020, to the knowledge of the Group, there were 14,233 registered holders of ordinary shares, of whom 93 had registered addresses in the US and held a total of 160,388 ordinary shares (0.018% of the total issued). Because certain ordinary shares are registered in the names of nominees, the number of shareholders with registered addresses in the US is not representative of the number of beneficial owners of ordinary shares resident in the US.

As at 14 February 2020, 42,027,896 ADSs equivalent to 84,055,792 ordinary shares or approximately 9.6% of the total ordinary shares in issue, were outstanding and were held by 86 registered ADS holders.

Major shareholders

As far as is known to Smith+Nephew, the Group is not directly or indirectly owned or controlled by another corporation or by any Government and the Group has not entered into arrangements, the operation of which may at a subsequent date result in a change in control of the Group.

As at 14 February 2020, the Company is not aware of any person who has a significant direct or indirect holding of

securities in the Company, as defined in the Disclosure and Transparency Rules (DTRs) of the Financial Conduct Authority (FCA), other than as shown above, and is not aware of any persons holding securities which may control the Company. There are no securities in issue which have special rights as to the control of the Company.

The table above shows the last notification(s) received by the Company, in accordance with the FCA's DTRs relating to notifiable interests in the voting rights in the Company's issued share capital.

Purchase of ordinary shares on behalf of the Company

At the AGM, the Company will be seeking a renewal of its current permission from shareholders to purchase up to 10% of its own 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 by the Company.

From 1 January 2019 to 14 February 2020, in the months listed below, the Company has purchased 3,095,156 ordinary shares at a cost of \$63,278,944.

The shares were purchased in the open market by J.P. Morgan Securities plc on behalf of the Company.

Purchase of ordinary shares on behalf of the Company

	Total shares purchased '000's	Average price paid per share pence	Approximate US\$ value of shares purchased under the plan
11–15 February 2019	976	1,465.1940	\$18,387,536
7–14 May 2019	1,156	1,600.5423	\$24,006,466
5 August 2019	258	1,855.0651	\$5,833,465
5–8 November 2019	705	1,659.3105	\$15,051,475

Shareholder information continued

Exchange controls and other limitations affecting security holders

There are no UK governmental laws, decrees or regulations that restrict the export or import of capital or that affect the payment of dividends, interest or other payments to non-resident holders of Smith & Nephew plc's securities, except for certain restrictions imposed from time to time by Her Majesty's Treasury of the United Kingdom pursuant to legislation, such as the United Nations Act 1946 and the Emergency Laws Act 1964, against the Government or residents of certain countries.

There are no limitations, either under the laws of the UK or under the Articles of Association of Smith & Nephew plc, restricting the right of non-UK residents to hold or to exercise voting rights in respect of ordinary shares, except that where any overseas shareholder has not provided to the Company a UK address for the service of notices, the Company is under no obligation to send any notice or other document to an overseas address. It is, however, the current practice of the Company to send every notice or other document to all shareholders regardless of the country recorded in the register of members, with the exception of details of the Company's dividend reinvestment plan, which are not sent to shareholders with recorded addresses in the US and Canada.

Taxation information for shareholders

The comments below are of a general and summary nature and are based on the Group's understanding of certain aspects of current UK and US federal income tax law and practice relevant to the ADSs and ordinary shares not in ADS form. The comments address the material US and UK tax consequences generally applicable to a person who is the beneficial owner of ADSs or ordinary shares and who, for US federal income tax purposes, is a citizen or resident of the US, a corporation (or other entity taxable as a corporation) created or organised in or under the laws of the USA (or any State therein or the District of Columbia), or an estate or trust the income of which is included in gross income for US federal income tax purposes regardless of its source (each a US Holder). The comments set out below do not purport to address

all tax consequences of the ownership of ADSs or ordinary shares that may be material to a particular holder and in particular do not deal with the position of shareholders who directly, indirectly or constructively own 10% or more of the Company's issued ordinary shares. This discussion does not apply to (i) persons whose holding of ADSs or ordinary shares is effectively connected with or pertains to either a permanent establishment in the UK through which a US Holder carries on a business in the UK or a fixed base from which a US Holder performs independent personal services in the UK, or (ii) persons whose registered address is inside the UK. This discussion does not apply to certain investors subject to special rules, such as certain financial institutions, tax-exempt entities, insurance companies, broker-dealers and traders in securities that elect to use the mark-to-market method of tax accounting, partnerships or other entities treated as partnerships for US federal income tax purposes, US Holders holding ADSs or ordinary shares as part of a hedging, conversion or other integrated transaction or US Holders whose functional currency for US federal income tax purposes is other than the US Dollar. In addition, the comments below do not address the potential application of the provisions of the United States Internal Revenue Code known as the Medicare Contribution Tax, any alternative minimum tax consequences, any US federal tax other than income tax or any US state, local or non-US (other than UK) taxes. The summary deals only with US Holders who hold ADSs or ordinary shares as capital assets for tax purposes. The summary is based on current UK and US law and practice which is subject to change, possibly with retroactive effect. US Holders are recommended to consult their own tax advisers as to the particular tax consequences to them of the ownership of ADSs or ordinary shares. The Company believes, and this discussion assumes, that the Company was not a passive foreign investment company for its taxable year ended 31 December 2019.

This discussion is based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. For purposes of US federal income tax law, US Holders

of ADSs will generally be treated as owners of the ordinary shares represented by the ADSs. However, the US Treasury has expressed concerns that parties to whom depositary shares are released before shares are delivered to the depositary (pre-released) may be taking actions that are inconsistent with the claiming of foreign tax credits by owners of depositary shares. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate US Holders. Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate US Holders of ADSs could be affected by actions that may be taken by parties to whom ADSs are pre-released.

Taxation of distributions in the UK and the US

The UK does not currently impose a withholding tax on dividends paid by a UK corporation, such as the Company.

Distributions paid by the Company will generally be taxed as foreign source dividends to the extent paid out of the Company's current or accumulated earnings and profits as determined for US federal income tax purposes. Because the Company does not maintain calculations of its earnings and profits under US federal income tax principles, it is expected that distributions generally will be reported to US Holders as dividends. Such dividends will not be eligible for the dividends-received deduction generally allowed to corporate US Holders.

Dividends paid to certain non-corporate US Holders of ordinary shares or ADSs may be subject to US federal income tax at lower rates than those applicable to other types of ordinary income if certain conditions are met. Non-corporate US Holders should consult their own tax advisers to determine whether they are subject to any special rules that limit their ability to be taxed at these favourable rates.

Taxation of capital gains

US Holders, who are not resident for tax purposes in the UK, will not generally be liable for UK capital gains tax on any capital gain realised upon the sale or other disposition of ADSs or ordinary shares unless the ADSs or ordinary shares

are held in connection with a trade carried on in the UK through a permanent establishment (or in the case of individuals, through a branch or agency). Furthermore, UK resident individuals who acquire ADSs or ordinary shares before becoming temporarily non-UK residents may remain subject to UK taxation of capital gains on gains realised while non-resident.

For US federal income tax purposes, gains or losses realised upon a taxable sale or other disposition of ADSs or ordinary shares by US Holders generally will be US source capital gains or losses and will be long-term capital gains or losses if the ADSs or ordinary shares were held for more than one year. The amount of a US Holder's gain or loss will be equal to the difference between the amount realised on the sale or other disposition and such holder's tax basis in the ADSs, or ordinary shares, each determined in US Dollars.

Inheritance and estate taxes

HM Revenue & Customs imposes inheritance tax on capital transfers which occur on death and in the seven years preceding death. HM Revenue & Customs considers that the US/UK Double Taxation Convention on Estate and Gift Tax applies to inheritance tax. Consequently, a US citizen who is domiciled in the USA and is not a UK national or domiciled in the UK will not be subject to UK inheritance tax in respect of ADSs and ordinary shares. A UK national who is domiciled in the US will be subject to UK inheritance tax but will be entitled to a credit for any US federal estate tax charged in respect of ADSs and ordinary shares in computing the liability to UK inheritance tax. Special rules apply where ADSs and ordinary shares are business property of a permanent establishment of an enterprise situated in the UK.

US information reporting and backup withholding

Payments of dividends on, or proceeds from the sale of, ADSs or ordinary shares that are made within the US or through certain US-related financial intermediaries generally will be subject to US information reporting, and may be subject to backup withholding, unless a US Holder is an exempt recipient or, in the case of backup withholding, provides a correct US taxpayer identification number and certain other conditions are met.

Any backup withholding deducted may be credited against the US Holder's US federal income tax liability, and, where the backup withholding exceeds the actual liability, the US Holder may obtain a refund by timely filing the appropriate refund claim with the US Internal Revenue Service.

US Holders who are individuals or certain specified entities may be required to report information relating to securities issued by a non-US person (or foreign accounts through which the securities are held), subject to certain exceptions (including an exception for securities held in accounts maintained by US financial institutions). US Holders should consult their tax advisers regarding their reporting obligations with respect to the ADSs or ordinary shares.

UK stamp duty and stamp duty reserve tax

UK stamp duty is charged on documents and in particular instruments for the transfer of registered ownership of ordinary shares. Transfers of ordinary shares in certificated form will generally be subject to UK stamp duty at the rate of $\frac{1}{2}\%$ of the consideration given for the transfer with the duty rounded up to the nearest £5.

UK stamp duty reserve tax (SDRT) arises when there is an agreement to transfer shares in UK companies 'for consideration in money or money's worth', and so an agreement to transfer ordinary shares for money or other consideration may give rise to a charge to SDRT at the rate of $\frac{1}{2}\%$ (rounded up to the nearest penny). The charge of SDRT will be cancelled, and any SDRT already paid will be refunded, if within six years of the agreement an instrument of transfer is produced to HM Revenue & Customs and the appropriate stamp duty paid.

Transfers of ordinary shares into CREST (an electronic transfer system) are exempt from stamp duty so long as the transferee is a member of CREST who will hold the ordinary shares as a nominee for the transferor and the transfer is in a form that will ensure that the securities become held in uncertificated form within CREST. Paperless transfers of ordinary shares within CREST for consideration in money or money's worth are liable to SDRT rather than stamp duty. SDRT on relevant transactions will be collected by CREST at $\frac{1}{2}\%$, and this will apply whether or not the transfer is effected in the UK

and whether or not the parties to it are resident or situated in the UK.

UK legislation provides for a charge to stamp duty (in the case of transfers) or SDRT to be payable at the rate of 1.5% of the consideration (or, in some cases, the value of the shares concerned) where ordinary shares are issued or transferred to the depositary or to certain persons providing a clearance service (or their nominees or agents) for the conversion into ADRs and will generally be payable by the depositary or person providing clearance service. In accordance with the terms of the Deposit Agreement, any tax or duty payable by the depositary on deposits of ordinary shares will be charged by the depositary to the party to whom ADRs are delivered against such deposits. Following litigation on the subject, HMRC has accepted that it will no longer seek to apply the 1.5% SDRT charge when new shares are issued to a clearance service or depositary receipt system on the basis that the charge is not compatible with EU law. The Government has confirmed that it will not reintroduce the 1.5% charge on the issue of shares (and transfers integral to the raising of capital) into clearance service or depositary receipt systems following the UK's exit from the EU. In HMRC's view, the 1.5% SDRT or stamp duty charge will continue to apply to transfers of shares into a clearance service or depositary receipt system unless they are an integral part of an issue of share capital. Specific professional advice should be sought before paying the 1.5% SDRT or stamp duty charge in any circumstances.

No liability for stamp duty or SDRT will arise on any transfer of, or agreement to transfer, an ADS or beneficial ownership of an ADS, provided that the ADS and any instrument of transfer or written agreement to transfer remains at all times outside the UK, and provided further that any instrument of transfer or written agreement to transfer is not executed in the UK and the transfer does not relate to any matter or thing done or to be done in the UK (the location of the custodian as a holder of ordinary shares not being relevant in this context). In any other case, any transfer of, or agreement to transfer, an ADS or beneficial ownership of an ADS could, depending on all the circumstances of the transfer, give rise to a charge to stamp duty or SDRT.

Shareholder information continued

Articles of Association

The following summarises certain material rights of holders of the Company's ordinary shares under the material provisions of the Company's Articles of Association, being those which were adopted at the 2019 Annual General Meeting and English law. This summary is qualified in its entirety by reference to the Companies Act and the Company's Articles of Association. In the following description, a 'shareholder' is the person registered in the Company's register of members as the holder of an ordinary share.

The Company is incorporated under the name Smith & Nephew plc and is registered in England and Wales with registered number 324357.

The Company's ordinary shares may be held in certificated or uncertificated form. No holder of the Company's shares will be required to make additional contributions of capital in respect of the Company's shares in the future. In accordance with English law, the Company's ordinary shares rank equally.

Directors

Under the Company's Articles of Association, a Director may not vote in respect of any contract, arrangement, transaction or proposal in which he or she, or any person connected with him or her, has any interest which is to his or her knowledge a material interest other than by virtue of his interests in securities of, or otherwise in or through, the Company. This is subject to certain exceptions relating to proposals (a) indemnifying him in respect of obligations incurred on behalf of the Company, (b) indemnifying a third party in respect of obligations of the Company for which the Director has assumed responsibility under an indemnity or guarantee, (c) relating to an offer of securities in which he will be interested as an underwriter, (d) concerning another body corporate in which the Director is beneficially interested in less than 1% of the issued shares of any class of shares of such a body corporate, (e) relating to an employee benefit in which the Director will share equally with other employees and (f) relating to any insurance that the Company is empowered to purchase for the benefit of Directors of the Company in respect of actions undertaken as Directors (and/or officers) of the Company.

A Director shall not vote or be counted in any quorum present at a meeting in relation to a resolution on which he is not entitled to vote.

The Board is empowered to exercise all the powers of the Company to borrow money, subject to the limitation that the aggregate amount of all monies borrowed after deducting cash and current asset investments by the Company and its subsidiaries shall not exceed the sum of \$8,500,000,000.

Any Director who has been appointed by the Board since the previous Annual General Meeting of shareholders, either to fill a casual vacancy or as an additional Director, holds office only until the conclusion of the next Annual General Meeting (notice of which was given after his or her appointment) and then shall be eligible for re-election by the shareholders. The Company's Articles of Association provide that all Directors are subject to annual re-election in accordance with the UK Corporate Governance Code. If not re-appointed, a Director retiring at a meeting shall retain office until the meeting appoints someone in his place, or if it does not do so, until the conclusion of the meeting.

The Directors are subject to removal with or without cause by the Board or the shareholders. Directors are not required to hold any shares of the Company by way of qualification.

Under the Company's Articles of Association and English law, a Director may be indemnified out of the assets of the Company against liabilities he may sustain or incur in the execution of his duties.

Rights attaching to ordinary shares

Under English law, dividends are payable on the Company's ordinary shares only out of profits available for distribution, as determined in accordance with accounting principles generally accepted in the UK and by the Companies Act 2006. Holders of the Company's ordinary shares are entitled to receive final dividends as may be declared by the Directors and approved by the shareholders in a general meeting, rateable according to the amounts paid up on such shares, provided that the dividend cannot exceed the amount recommended by the Directors.

The Company's Board of Directors may declare such interim dividends as appear to them to be justified by the Company's financial position.

If authorised by an ordinary resolution of the shareholders, the Board may also make a direct payment of a dividend in whole or in part by the distribution of specific assets (and in particular of paid up shares or debentures of the Company).

Any dividend unclaimed after 12 years from the date the dividend was declared, or became due for payment, will be forfeited and will revert to the Company. Provided that during this 12-year period, at least three dividends whether interim or final on or in respect of the share in question have become payable, and provided further the Company has taken steps which the Board considers reasonable during this 12-year period to trace the shareholder (including, if appropriate, engaging a professional tracing agent) and has sent notice of the Board's intention to sell the shares, the Board can sell the shares and use such proceeds for any purpose that the Board thinks fit.

Other than those adopted by shareholders at the Annual General Meeting in April 2019, there were no material modifications to the rights of shareholders under the Company's Articles of Association during 2019.

Voting rights of ordinary shares

The Company's Articles of Association provide that voting at any general meeting of shareholders is by a show of hands unless a poll, which is a written vote, is duly demanded and held. On a show of hands, every shareholder who is present in person at a general meeting has one vote regardless of the number of shares held. On a poll, every shareholder who is present in person or by proxy has one vote for each ordinary share held by that shareholder. A poll may be demanded by any of the following:

- The chair of the meeting;
- At least five shareholders present or by proxy entitled to vote on the resolution;
- Any shareholder or shareholders representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to vote on the resolution; or

- Any shareholder or shareholders holding shares conferring a right to vote on the resolution on which there have been paid-up sums in aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

A Form of Proxy will be treated as giving the proxy the authority to demand a poll, or to join others in demanding one, as above.

It is the Company's usual practice to vote by poll at Annual General Meetings.

The necessary quorum for a general meeting is two shareholders present in person or by proxy carrying the right to vote upon the business to be transacted.

Matters are transacted at general meetings of the Company by the processing and passing of resolutions of which there are two kinds; ordinary and special resolutions:

- Ordinary resolutions include resolutions for the re-election of Directors, the approval of financial statements, the declaration of dividends (other than interim dividends), the appointment and re-appointment of auditors or the grant of authority to allot shares. An ordinary resolution requires the affirmative vote of a majority of the votes of those persons voting at the meetings at which there is a quorum.
- Special resolutions include resolutions amending the Company's Articles of Association, dis-applying statutory pre-emption rights or changing the Company's name; modifying the rights of any class of the Company's shares at a meeting of the holders of such class or relating to certain matters concerning the Company's winding up. A special resolution requires the affirmative vote of not less than three-quarters of the votes of the persons voting at the meeting at which there is a quorum.

Annual General Meetings must be convened upon advance written notice of 21 days. Other general meetings must be convened upon advance written notice of at least 14 clear days. The days of delivery or receipt of notice are not included.

The notice must specify the nature of the business to be transacted. Meetings are convened by the Board. Members with 5% of the ordinary share capital of the Company may requisition the Board to convene a meeting. Any two Members may call a general meeting in order to appoint one or more additional Directors in the

event that there are insufficient Directors to be able to call a general meeting, or where they are unwilling to do so.

Variation of rights

If, at any time, the Company's share capital is divided into different classes of shares, the rights attached to any class may be varied, subject to the provisions of the Companies Act, with the consent in writing of holders of three-quarters in nominal value of the issued shares of that class or upon the adoption of a special resolution passed at a separate meeting of the holders of the shares of that class. At every such separate meeting, all the provisions of the Articles of Association relating to proceedings at a general meeting apply, except that the quorum is to be the number of persons (which must be two or more) who hold or represent by proxy not less than one-third in nominal value of the issued shares of the class and at any such meeting a poll may be demanded in writing by any person or their proxy who hold shares of that class. Where a person is present by proxy or proxies, he is treated as holding only the shares in respect of which the proxies are authorised to exercise voting rights.

Rights in a winding up

Except as the Company's shareholders have agreed or may otherwise agree, upon the Company's winding up, the balance of assets available for distribution:

- After the payment of all creditors including certain preferential creditors, whether statutorily preferred creditors or normal creditors;
- Subject to any special rights attaching to any other class of shares; and
- Is to be distributed among the holders of ordinary shares according to the amounts paid-up on the shares held by them. This distribution is generally to be made in US Dollars. A liquidator may, however, upon the adoption of any extraordinary resolution of the shareholders and any other sanction required by law, divide among the shareholders the whole or any part of the Company's assets in kind.

Limitations on voting and shareholding

There are no limitations imposed by English law or the Company's Articles of Association on the right of non-residents or foreign persons to hold or vote the Company's ordinary shares or ADSs, other than the limitations that would generally apply to all of the Company's shareholders.

Transfers of shares

The Board may refuse to register the transfer of shares held in certificated form which:

- Are not fully paid (provided that it shall not exercise this discretion in such a way as to prevent stock market dealings in the shares of that class from taking place on an open and proper basis);
- Are not duly stamped or duly certified or otherwise shown to the satisfaction of the Board to be exempt from stamp duty, lodged at the Transfer Office or at such other place as the Board may appoint and (save in the case of a transfer by a person to whom no certificate was issued in respect of the shares in question) accompanied by the certificate for the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do;
- Are in respect of more than one class of shares; or
- Are in favour of more than four transferees.

Deferred shares

Following the re-denomination of share capital on 23 January 2006, the ordinary shares' nominal value became 20 US cents each. There were no changes to the rights or obligations of the ordinary shares. In order to comply with the Companies Act 2006, a new class of Sterling shares was created, deferred shares, of which 50,000 shares of £1 each were issued and allotted in 2006 as fully paid to the Chief Executive Officer. These shares were subsequently transferred and are now held by the Company Secretary, although the Board reserves the right to transfer them to a member of the Board should it so wish. These deferred shares have no voting or dividend rights and on winding up are only entitled to repayment at nominal value only if all ordinary shareholders have received the nominal value of their shares plus an additional US\$1,000 each.

Amendments

The Company does not have any special rules about amendments to its Articles of Association beyond those imposed by law.

Cross reference to Form 20-F

This table provides a cross reference from the information included in this Annual Report to the requirements of Form 20-F.

Part I	Page	Part I	Page
Item 1 Identity of Directors, Senior Management and Advisers	n/a	D – Trend Information	14–15, 38–39, 193–197
Item 2 Offer Statistics and Expected Timetable	n/a	E – Off Balance Sheet Arrangements	194
Item 3 Key Information		F – Tabular Disclosure of Contractual Obligations	204
A – Selected Financial Data	198–204	G – Safe Harbor	215
B – Capitalization and Indebtedness	n/a	Item 6 Directors, Senior Management and Employees	
C – Reason for the Offer and Use of Proceeds	n/a	A – Directors and Senior Management	53–61
D – Risk Factors	194–197	B – Compensation	86–120
Item 4 Information on the Company		C – Board Practices	53–85
A – History and Development of the Company	187, 193, 214, 215	D – Employees	24–25, 142
B – Business Overview	2–49, 138–139,	E – Share Ownership	114–116, 184
C – Organizational Structure	154–155, 189–192	Item 7 Major Shareholders and Related Party Transactions	
D – Property, Plant and Equipment	148–149, 193	A – Major shareholders	207
Item 4A Unresolved Staff Comments	None	B – Related Party Transactions	184, 194
Item 5 Operating and Financial Review and Prospects		C – Interests of Experts and Counsel	n/a
A – Operating results	1, 2, 36–39, 194–197	Item 8 Financial information	
B – Liquidity and Capital Resources	39, 158–160, 179–180	A – Consolidated Statements and Other Financial Information	130–184
C – Research and Development, Patents and Licences, etc.	1, 28–29, 141	Legal Proceedings	169–170
		Dividends	206–207
		B – Significant Changes	None

Glossary of terms

Unless the context indicates otherwise, the following terms have the meanings shown below:

Term	Meaning	Term	Meaning
ACL	The anterior cruciate ligament (ACL) is one of the four major ligaments in the human knee.	Emerging Markets	Emerging Markets include Latin America, Asia (excluding Japan), Africa and Russia.
ADR	In the US, the Company's ordinary shares are traded in the form of American Depositary Shares evidenced by American Depositary Receipts (ADRs).	EPSA	EPSA (Adjusted earnings per ordinary share) is a trend measure, which presents the profitability of the Group excluding the post-tax impact of specific transactions that management considers affects the Group's short-term profitability and comparability of results. The Group presents this measure to assist investors in their understanding of trends. Adjusted attributable profit is the numerator used for this measure and is determined by adjusting attributable profit for the items that are excluded from operating profit when arriving at trading profit and items that are recognised below operating profit that affect the Group's short-term profitability.
ADS	In the US, the Company's ordinary shares are traded in the form of American Depositary Shares (ADSs).	Endoscopy	Through a small incision, surgeons are able to see inside the body using a monitor and identify and repair defects.
Arthroscopic Enabling Technologies	A product group which includes a variety of technologies such as fluid management equipment for surgical access, high definition cameras, digital image capture, scopes, light sources and monitors to assist with visualisation inside the joints, radio frequency, electromechanical and mechanical tissue resection devices, and hand instruments for removing damaged tissue.	Established Markets	Established Markets are United States of America, Europe, Australia, New Zealand, Canada and Japan.
Advanced Wound Bioactives	A product group which includes biologics and other bioactive technologies that provide unique approaches to debridement and dermal repair/regeneration, and regenerative medicine products including skin, bone graft and articular cartilage substitutes.	Euro or €	References to the common currency used in the majority of the countries of the European Union.
Advanced Wound Care	A product group which includes products for the treatment and prevention of acute and chronic wounds, including leg, diabetic and pressure ulcers, burns and post-operative wounds.	FDA	US Food and Drug Administration.
Advanced Wound Devices	A product group which includes traditional and single-use Negative Pressure Wound Therapy, a patient monitoring system for pressure injury prevention and patient mobility monitoring, and hydrosurgery systems.	Financial statements	Refers to the consolidated Group Accounts of Smith & Nephew plc.
AGM	Annual General Meeting of the Company.	FTSE 100	Index of the largest 100 listed companies on the London Stock Exchange by market capitalisation.
Arthroscopy	Endoscopy of the joints is termed 'arthroscopy', with the principal applications being the knee and shoulder.	Group or Smith+Nephew	Used for convenience to refer to the Company and its consolidated subsidiaries, unless the context otherwise requires.
Basis Point	One hundredth of one percentage point.	Health economics	A branch of economics concerned with issues related to efficiency, effectiveness, value and behaviour in the production and consumption of health and healthcare.
Chronic wounds	Chronic wounds are those with long or unknown healing times including leg ulcers, pressure sores and diabetic foot ulcers.	Hip Implants	A product group which includes specialist products for reconstruction of the hip joint.
Company	Smith & Nephew plc or, where appropriate, the Company's Board of Directors, unless the context otherwise requires.	IFRIC	International Financial Reporting Interpretations as adopted by the EU and as issued by the International Accounting Standards Board.
Companies Act	Companies Act 2006, as amended, of England and Wales.	IFRS	International Financial Reporting Standards as adopted by the EU and as issued by the International Accounting Standards Board.

Part I	Page
Item 9 The Offer and Listing	
A – Offer and Listing Details	205–207
B – Plan of Distribution	n/a
C – Markets	205–206
D – Selling shareholders	n/a
E – Dilution	n/a
F – Expenses of the Issue	n/a
Item 10 Additional Information	
A – Share Capital	n/a
B – Memorandum and Articles of Association	210–211
C – Material Contracts	None
D – Exchange Controls	208
E – Taxation	208–209
F – Dividends and Paying Agents	n/a
G – Statement by Experts	n/a
H – Documents on Display	215
I – Subsidiary Information	189–192
Item 11 Quantitative and Qualitative Disclosure about Market Risk	161–167, 194–197
Item 12 Description of Securities other than Equity Securities	
A – Debt Securities	n/a
B – Warrants and Rights	n/a

Part I	Page
C – Other Securities	n/a
D – American Depositary Shares	205–206
Part II	Page
Item 13 Defaults, Dividend Arrearages and Delinquencies	None
Item 14 Material Modifications to the Rights of Security Holders and Use of Proceeds	None
Item 15 Controls and Procedures	78–79
Item 16 (Reserved)	n/a
A – Audit Committee Financial Expert	72
B – Code of Ethics	79
C – Principal Accountant Fees and Services	74–75, 142
D – Exemptions from the Listing Standards for Audit Committees	n/a
E – Purchases of Equity Securities by the Issuer and Affiliated Purchasers	178, 207
F – Change in Registrant’s Certifying Accountant	n/a
G – Corporate Governance	52
H – Mine Safety Disclosure	n/a
Part III	Page
Item 17 Financial Statements	n/a
Item 18 Financial Statements	122, 130–184, 200–204
Item 19 Exhibits	

Term	Meaning
Knee implants	A product group which includes an innovative range of products for specialised knee replacement procedures.
LSE	London Stock Exchange.
MHRA	The Medicines and Healthcare products Regulatory Agency in the UK.
Negative Pressure Wound Therapy	A technology used to treat chronic wounds such as diabetic ulcers, pressure sores and post-operative wounds through the application of sub-atmospheric pressure to an open wound.
NHS	The UK National Health Service.
NYSE	New York Stock Exchange.
Orthopaedic products	Orthopaedic reconstruction products include joint replacement systems for knees, hips and shoulders and support products such as computer-assisted surgery and minimally invasive surgery techniques. Orthopaedic trauma devices are used in the treatment of bone fractures including rods, pins, screws, plates and external frames.
Other Reconstruction	A product group which includes robotics-assisted surgery, bone cement and accessory products.
OXINIUM	OXINIUM material is an advanced load bearing technology. It is created through a proprietary manufacturing process that enables zirconium to absorb oxygen and transform to a ceramic on the surface, resulting in a material that incorporates the features of ceramic and metal. Management believes that OXINIUM material used in the production of components of knee and hip implants exhibits unique performance characteristics due to its hardness, low-friction and resistance to roughening and abrasion.
Parent Company	Smith & Nephew plc.
Pound Sterling, Sterling, £, pence or p	References to UK currency. 1p is equivalent to one hundredth of £1.
SEC	US Securities and Exchange Commission.

Term	Meaning
Sports Medicine Joint Repair	The Sports Medicine Joint Repair franchise includes instruments, technologies and implants necessary to perform minimally invasive surgery of joints.
Trading results	Trading profit, trading profit margin (trading profit expressed as a percentage of revenue), trading cash flow and trading profit to cash conversion ratio (trading cash flow expressed as a percentage of trading profit) are trend measures, which present the profitability of the Group. The adjustments made exclude the impact of specific transactions that management considers affect the Group’s short-term profitability and cash flows, and comparability of results. The Group has identified the following items, where material, as those to be excluded from operating profit and cash generated from operations when arriving at trading profit and trading cash flow, respectively: acquisition and disposal related items arising in connection with business combinations, including amortisation of acquisition intangible assets, impairments and integration costs; restructuring events; and gains and losses resulting from legal disputes and uninsured losses. In addition to these items, gains and losses that materially impact the Group’s profitability or cash flows on a short-term or one-off basis are excluded from operating profit and cash generated from operations when arriving at trading profit and trading cash flow. The cash contribution to fund defined benefit pension schemes that are closed to future accrual and IFRS 16 lease payments are also excluded from cash generated from operations when arriving at trading cash flow.
Trauma & Extremities	A product group which includes internal and external devices used in the stabilisation of severe fractures and deformity correction procedures.
UK	United Kingdom of Great Britain and Northern Ireland.
Underlying growth	Growth after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals.
US	United States of America.
US Dollars, \$ or cents or ¢	References to US currency. 1 cent is equivalent to one hundredth of US\$1.

Iran notice

Section 13(r) of the Exchange Act requires issuers to make specific disclosure in their annual reports of certain types of dealings with Iran, including transactions or dealings with Iranian government-owned entities, as well as dealings with entities sanctioned for activities related to terrorism or proliferation of weapons of mass destruction, even when those activities are not prohibited by US law and do not involve US persons.

The Group does not have a legal entity based in Iran, but in 2019 it exported certain medical devices to Iran, via sales by non-US entities, to a privately owned Iranian distributor for sale in Iran. Sales by the distributor were made to hospitals that we understand are owned or controlled by the Government of Iran.

The Group's direct and indirect sales of US origin medical devices into Iran are permitted pursuant to section 560.530(a)(3)(i) of the Iranian Transactions and Sanctions Regulations, and its indirect sales of non-US origin medical devices into Iran are made in accordance with applicable law. The Group also provides training to its distributor(s) and surgeons in Iran as necessary and ordinarily incident to the safe and effective use of the medical devices, which is also permitted by applicable law.

In 2019, Smith+Nephew's gross revenues from sales to Iran were approximately US\$6.2m and net losses were approximately US\$1.0m.

The Group is reporting the entire gross revenues and net losses for the activities described above, which figures include sales of US origin medical devices. Although the Group is not required to disclose the sales of US origin medical devices because such sales to Iran are licensed under US law, the Group is including sales of these devices in its total gross revenue and net profit figures as it does not separately break out revenues and profits by country of origin.

About Smith+Nephew

The Smith+Nephew Group (the Group) is a portfolio medical technology business with leadership positions in Orthopaedics, Advanced Wound Management and Sports Medicine, and revenue of approximately \$5.1bn in 2019. Smith & Nephew plc (the Company) is the Parent Company of the Group. It is an English public limited company with its shares listed on the premium list of the UK Listing Authority and traded on the London Stock Exchange. Shares are also traded on the New York Stock Exchange in the form of American Depositary Shares (ADSs).

This is the Annual Report of Smith & Nephew plc for the year ended 31 December 2019. It comprises, in a single document, the Annual Report and Accounts of the Company in accordance with UK requirements and the Annual Report on Form 20-F in accordance with the regulations of the United States Securities and Exchange Commission (SEC).

Smith+Nephew operates on a worldwide basis and has distribution channels in over 100 countries. The Group is engaged in a single business activity, being the development, manufacture and sale of medical technology products and services. In 2019, Smith+Nephew's operations were organised into three global franchises (Orthopaedics, Sports Medicine & ENT, and Advanced Wound Management) within the medical technology industry.

Smith+Nephew's corporate website, www.smith-nephew.com, gives additional information on the Group, including an electronic version of this Annual Report. Information made available on this website, or other websites mentioned in this Annual Report, are not and should not be regarded as being part of, or incorporated into, this Annual Report.

The terms 'Group' and 'Smith+Nephew' are used to refer to Smith & Nephew plc and its consolidated subsidiaries, unless the context requires otherwise.

For the convenience of the reader, a Glossary of terms used in this document is included on pages 212–213. The product names referred to in this document are identified by use of capital letters and the \diamond symbol (on first occurrence) and are trademarks owned by or licensed to members of the Group.

Presentation

The Group's fiscal year end is 31 December. References to a particular year in this Annual Report are to the fiscal year, unless otherwise indicated. Except as the context otherwise requires, 'ordinary share' or 'share' refer to the ordinary shares of Smith & Nephew plc of 20 US cents each.

The Group Accounts of Smith & Nephew plc in this Annual Report are presented in US Dollars. Solely for the convenience of the reader, certain parts of this Annual Report contain translations of amounts in US Dollars into Sterling at specified rates. These translations should not be construed as representations that the US Dollar amounts actually represent such Sterling amounts or could be converted into Sterling at the rate indicated.

Unless stated otherwise, the translation of US Dollars and cents to Sterling and pence in this Annual Report has been made at the Bank of England exchange rate on the date indicated. On 14 February 2020, the latest practicable date for this Annual Report, the Bank of England rate was US\$1.3015 per £1.00.

The results of the Group, as reported in US Dollars, are affected by movements in exchange rates between US Dollars and other currencies.

The Group applied the average exchange rates prevailing during the year to translate the results of companies with functional currency other than US Dollars. The currencies which most influenced these translations in the years covered by this report were Sterling, Swiss Franc and the Euro.

The Accounts of the Group in this Annual Report are presented in millions (m) unless otherwise indicated.

Special note regarding forward-looking statements

The Group's reports filed with, or furnished to, the US Securities and Exchange Commission (SEC), including this document and written information released, or oral statements made, to the public in the future by or on behalf of the Group, contain 'forward-looking statements' within the meaning of the US Private Securities Litigation Reform Act of 1995, that may or may not prove accurate. For example, statements regarding expected revenue growth and trading profit margins discussed under 'Outlook' and 'Strategic Priorities', market trends and our product pipeline are forward-looking statements.

Phrases such as 'aim', 'plan', 'intend', 'anticipate', 'well-placed', 'believe', 'estimate', 'expect', 'target', 'consider' and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results, to differ materially from what is expressed or implied by the statements.

For Smith+Nephew, these factors include: economic and financial conditions in the markets we serve, especially those affecting healthcare providers, payers and customers; price levels for established and innovative medical devices; developments in medical technology; regulatory approvals, reimbursement decisions or other government actions; manufacturing and supply related risk; product defects or recalls; litigation relating to patent or other claims; legal compliance risks and related investigative, remedial or enforcement actions; strategic actions, including acquisitions and dispositions and our success in performing due diligence, valuing and integrating acquired businesses; disruption that may result from transactions or other changes we make in our business plans or organisation to adapt to market developments and numerous other matters that affect

us or our markets, including those of a political, economic, business, competitive or reputational nature; relationships with healthcare professionals; reliance on information technology and cybersecurity. Specific risks faced by the Group are described under 'Risk factors' on pages 194–197 of this Annual Report. Any forward-looking statement is based on information available to Smith+Nephew as of the date of the statement. All written or oral forward-looking statements attributable to Smith+Nephew are qualified by this caution. Smith+Nephew does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances or in Smith+Nephew's expectations.

Product data

Product data and product share estimates throughout this report are derived from a variety of sources including publicly available competitors' information, internal management information and independent market research reports.

Documents on display

It is possible to read and copy documents referred to in this Annual Report at the Registered Office of the Company. Documents referred to in this Annual Report that have been filed with the Securities and Exchange Commission in the US may be read and copied at the SEC's public reference room located at 450 Fifth Street, NW, Washington DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a website at www.sec.gov that contains reports and other information regarding registrants that file electronically with the SEC. This Annual Report and some of the other information submitted by the Group to the SEC may be accessed through the SEC website.

Corporate headquarters and registered office

The corporate headquarters is in the UK and the registered office address is:

Smith & Nephew plc,
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