## Performance

<table>
<thead>
<tr>
<th>KPI</th>
<th>Value</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group revenue</strong></td>
<td>$5,138m</td>
<td>+4.8%</td>
</tr>
<tr>
<td><strong>Earnings per share (EPS)</strong></td>
<td>68.6¢</td>
<td>-10%</td>
</tr>
<tr>
<td><strong>Adjusted Earnings per share(^1)</strong></td>
<td>102.2¢</td>
<td>+1%</td>
</tr>
<tr>
<td><strong>Dividend per share</strong></td>
<td>37.5¢</td>
<td>+4%</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>$815m</td>
<td>-6%</td>
</tr>
<tr>
<td><strong>Trading profit(^1)</strong></td>
<td>$1,169m</td>
<td>+4%</td>
</tr>
<tr>
<td><strong>Return on invested capital(^1) (ROIC)</strong></td>
<td>10.5%</td>
<td>-200bps</td>
</tr>
<tr>
<td><strong>Operating profit margin</strong></td>
<td>15.9%</td>
<td>-170bps</td>
</tr>
<tr>
<td><strong>Trading profit margin(^1)</strong></td>
<td>22.8%</td>
<td>-10bps</td>
</tr>
<tr>
<td><strong>R&amp;D expenditure</strong></td>
<td>$292m</td>
<td>+19%</td>
</tr>
<tr>
<td><strong>Cash generated from operations</strong></td>
<td>$1,370m</td>
<td>+24%</td>
</tr>
<tr>
<td><strong>Trading cash flow(^1)</strong></td>
<td>$970m</td>
<td>+2%</td>
</tr>
</tbody>
</table>

\(^1\) These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 200–204.

[Smith+Nephew Annual Report 2019](#)
At a glance

We are a leading portfolio medical technology company

Who we are

Our purpose
Life Unlimited. Smith+Nephew exists to restore people’s bodies, and their self-belief.

Our culture
Our culture pillars guide our behaviours and build winning spirit:
» Care
» Collaboration
» Courage

Our strategy
Five strategic imperatives form our value creation plan for the medium term.

1. Achieve the full potential of our portfolio
2. Transform the business through enabling technologies
3. Expand in high-growth segments
4. Strengthen talent and capabilities
5. Become the best owner

17,500+ employees supporting customers in over 100 countries, supporting healthcare professionals for more than 160 years

17,500+ employees supporting customers in over 100 countries, supporting healthcare professionals for more than 160 years

Group revenue

$5,138m

Revenue by franchise
We operate through three global franchises (see pages 18–23).

Advanced Wound Management $1,380m
Orthopaedics $2,222m
Sports Medicine & ENT $1,536m

Revenue by geography
We serve customers in established and emerging markets.

Emerging markets $957m
United States $2,551m
Other established markets $1,630m
We serve our customers through the global franchises

**Orthopaedics**
Orthopaedics includes an innovative range of Hip and Knee Implants used to replace diseased, damaged or worn joints, robotics-assisted enabling technologies that empower surgeons, and Trauma products used to stabilise severe fractures and correct bone deformities.

**Sports Medicine & ENT**
Our Sports Medicine & ENT (Ear, Nose and Throat) businesses offer advanced products and instruments used to repair or remove soft tissue. They operate in growing markets where unmet clinical needs provide opportunities for procedural and technological innovation.

**Advanced Wound Management**
Our Advanced Wound Management portfolio provides a comprehensive set of products to meet broad and complex clinical needs, to help healthcare professionals get CLOSER TO ZERO human and economic consequences of wounds.

**Innovation**
Smith+Nephew delivers innovation that aims to improve quality of life. New products and business models empower healthcare professionals with options to improve patient outcomes. We develop technology through our global R&D programme, and additionally acquire exciting products where we can add value through technical or commercial acumen.

**Manufacturing & quality**
Smith+Nephew takes great pride in its manufacturing expertise and maintains focus on delivering products that are safe and effective for patients. 19% more invested in R&D in 2019
Chair’s statement

Dear Shareholder

In 2019 Smith+Nephew delivered an improved revenue performance whilst embedding an authentic culture and undergoing a leadership change. The Board is pleased with the progress made, and encouraged by the opportunities ahead.

Chief Executive Officer

In October 2019 we announced the appointment of Roland Diggelmann as the Company’s new CEO, effective 1 November 2019. Roland replaced Namal Nawana who left by mutual agreement.

Roland joined Smith+Nephew’s Board as a Non-Executive Director in March 2018. The immediate availability of such a high quality individual, who had recently stood down from his previous executive role as CEO of Roche Diagnostics, enabled a rapid and seamless transition.

Roland is committed to Smith+Nephew’s strategy, purpose and culture pillars, which he fully endorsed as a Non-Executive Director. In his first few months as CEO he has brought both continuity and further improved performance, whilst also delivering on the Company’s strategic imperatives. The Board has welcomed his open and collaborative style and the strong leadership tone he sets, listening to employees and encouraging them to take responsibility and deliver our commitments.

I would also like to say thank you to Namal, who initiated much needed change to the Company during his time as CEO and put Smith+Nephew on an improved growth trajectory.
In-line with corporate governance best practice, the Board has heightened its focus on Smith+Nephew’s new ‘Life Unlimited’ purpose, culture pillars and wider stakeholders. We closely monitor the executive team’s work to embed the new culture, visiting sites and meeting and talking directly to employees as well as reviewing the results of employee engagement surveys. This work is led by our Compliance & Culture Committee.

**Performance**

The Board is acutely aware that financial performance is still the principal metric that determines if a company is delivering shareholder value.

In 2019 Smith+Nephew delivered significantly improved revenue growth over the prior year. At the same time, we continued to invest in the business, and completed and integrated a number of acquisitions. The Board endorses the management team’s stated ambition to sustain positive momentum in 2020 whilst continuing to invest for the medium-term.

The Board is pleased to recommend a Final Dividend of 23.1¢ per share. This, together with an Interim Dividend of 14.4¢ per share, will give a total distribution of 37.5¢ per share for 2019, representing year-on-year growth of 4% in the declared full year dividend. This equates to 28.94p per share. In addition to these distributions, shareholders benefitted from a 28.3% increase in the share price over the course of 2019.

**Remuneration**

We set out our new Remuneration Policy on page 86 of this Annual Report, and will present this for shareholder approval at the Annual General Meeting in April 2020.

The policy is designed to increase strategic alignment to drive top-line profitable and sustained growth, to simplify our remuneration framework and to make it more aspirational to incentivise and drive outstanding performance.

Angie Risley, the Chair of our Remuneration Committee, conducted an extensive shareholder engagement programme, meeting nearly half of our shareholders by value. We are very grateful to all of you who took the time to meet with her and comment on our proposals. We have made some changes reflecting the comments she received and look forward to your support.

**Board changes**

During 2019 Ian Barlow and Michael Friedman retired from the Board. Ian served as our Senior Independent Director and previously as Chair of the Audit Committee. Michael chaired our Compliance & Culture Committee. I thank them both for their leadership and service. Robin Freestone has succeeded Ian and Marc Owen has succeeded Michael.

2019 was a year of good progress and we enter the new decade as a strong and ambitious Company with a clear and unifying purpose. None of this would be possible without the dedication of our employees and the engagement of our shareholders. On behalf of the Board, I thank both groups for their continued support during what we believe is going to be an exciting new phase for Smith+Nephew.

Yours sincerely,

Roberto Quarta
Chair

---

“**In-line with corporate governance best practice, the Board has heightened its focus on Smith+Nephew’s new ‘Life Unlimited’ purpose, culture pillars and wider stakeholders.”**

Roberto Quarta
Chair

---

**Culture**

**Our culture pillars:**

- **Care**
- **Collaboration**
- **Courage**

- **Our people page 24**
- **Financial review page 36**
Chief Executive Officer’s review

Dear Shareholder

I was delighted to be appointed Chief Executive Officer of Smith+Nephew in November, succeeding Namal Nawana. The Company was already well known to me as I was a Non-Executive Director, but since taking on my new role it has become even clearer that this is a great Company with exciting prospects.

People are the backbone of our businesses. I have visited many of our sites around the world and been impressed with the calibre of our employees and their commitment to our business and customers. Their pride in the work we do, the difference we make, and our purpose of Life Unlimited is clear to see. Our culture pillars of Care, Collaboration and Courage are things I believe in strongly, particularly as they relate to valuing diversity and being inclusive. Our new brand identity, evident in this Annual Report, is an outward expression of our renewed purpose and vitality.

As a Non-Executive Director I fully endorsed our strategy and the move to a franchise operating model, changes put in place by Namal. Their impact was important in delivering the improved performance in 2019, they stand us in good stead for 2020 and beyond, and we intend to build on them.
Positive 2019 performance
The Group delivered good growth in 2019, with revenue up 4.8% on a reported basis and 4.4% on an underlying basis. Highlights included the double-digit growth from Sports Medicine Joint Repair and China. I was equally pleased with our progress turning around franchises that have underperformed in the past, such as Arthroscopic Enabling Technologies.

We built momentum across the year, and at the same time were able to continue to invest behind our commercial teams and acquisitions to support sustained success over the medium-term. We launched a number of important new products, and brought new technologies and expertise into the business through acquisitions. You will find more detail on all these areas in this report.

The operating profit margin of 15.9% reflects restructuring and acquisition costs. The trading profit margin of 22.8% reflects savings realised under the Accelerating Performance and Execution (APEX) programme offset by re-investment in the business, including more in R&D, and dilution from acquisitions.

2020 priorities
2019 showed that we are on the right path. In 2020 our emphasis is on sustaining the positive momentum.

Our first priority remains commercial execution. All of our franchises are expected to build on 2019, with additional benefits coming from cross franchise opportunities such as the growing ambulatory surgery segment in the US, our strength in the Emerging Markets, and bringing greater rigour to product launches and portfolio management.

Second, we are renewing our commitment to innovation and to bringing the best technology to customers. This means taking our R&D programmes up a level. There are a number of important launches planned for the year, including a new robotics platform. We will also continue to bring new technologies in through acquisitions, such as Tusker Medical, which completed in January 2020 and which gives us a unique technology in the ENT segment, an important area of opportunity for us. We plan to invest more in R&D, both to accelerate the cadence of launches, and to position us at the forefront of converging surgical technologies in areas such as digital health and regenerative medicine.

Third, we see opportunities to drive excellence across our operational backbone. These include operating an optimal facility footprint, driving lean manufacturing methods across our network, identifying opportunities within our supply chain to deliver world-class service levels, and building an ever-more efficient support infrastructure.

We also believe that we can be more responsive to the challenges facing society in areas where we can make a meaningful difference, and have updated our Sustainability Strategy for 2020 and beyond.

Enhancing stakeholder value
2019 has been one of the most successful years in Smith+Nephew’s history and I congratulate and thank our employees for this. However, I have been clear that it is only the start of our transformation. I want us to consistently deliver to high standards, becoming one of the most innovative and fastest growing companies in our medical technology space.

Achieving this requires us to be more agile so that we can move faster and become easier to do business with from our customers’ perspective. In this way we will enhance our value to all our stakeholders over the medium-term and help transform the quality of life for more patients.

Yours sincerely,

Roland Diggelmann
Chief Executive Officer

“2019 has been one of the most successful years in Smith+Nephew’s history and I congratulate and thank our employees for this.”

Roland Diggelmann
Chief Executive Officer
Review of strategy

Our strategic imperatives

Five strategic imperatives form the basis of our value creation plan for the medium-term. They are designed to help us grow together; not just as a Company, but as a global team, and to do so in an efficient and effective way.

Grow

1. Achieve the full potential of our portfolio
2. Transform the business through enabling technologies
3. Expand in high-growth segments

Together

4. Strengthen talent and capabilities

Effectively

5. Become the best owner
Achieve the full potential of our portfolio

This strategic imperative is focused on improving execution to accelerate organic performance. In 2019 we delivered reported revenue growth of 4.8%, a significant improvement over the previous year (2018: 3%).

At the start of 2019 we introduced a new commercial model organised around three global franchises. This new model provides greater insight into customers’ needs, and allows us to bring the full resources of our franchises to meet these.

We performed strongly in a number of our higher growth segments in 2019. Sports Medicine & ENT was up 7.0% in 2019, led by a stand out performance from Sports Medicine Joint Repair which delivered double-digit growth in every quarter.

Our Emerging Markets business delivered 16.1% revenue growth, and now accounts for 19% of Group revenue.

Our R&D team benefitted from greater investment, and launched multiple new platforms and products (see page 28), supporting improved performance at a franchise level, such as in Arthroscopic Enabling Technologies (see page 20). This, coupled with a renewed focus on driving excellence across Quality and Regulatory Affairs, is allowing us to bring new products to market faster across the globe.

Our second largest market China grew strongly in 2019, up 24% on a reported basis and 30% on an underlying basis, and is now our second largest market behind the US.

Reported revenue growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$5,138m</td>
</tr>
<tr>
<td>2018</td>
<td>$4,904m</td>
</tr>
<tr>
<td>2017</td>
<td>$4,765m</td>
</tr>
</tbody>
</table>

“Our strong Emerging Markets performance is built upon a deep understanding of our customers and markets developed over many years of service.”

Myra Eskes
President of Asia Pacific
Transform the business through enabling technologies

This strategic imperative focuses on acquiring and developing leading enabling technologies to transform procedures.

Smith+Nephew is developing a unique approach to create enabling platforms that are both multi-procedural and multi-franchise.

In 2019 we announced our strategy to bring together advanced technologies in robotics, digital surgery, and machine learning as well as augmented reality to empower surgeons to improve clinical outcomes.

Important steps during the year included the purchase of the Brainlab Orthopaedic Joint Reconstruction business, which will enable us to bring hip navigation to our robotics customers. The two companies are also undertaking an R&D partnership. We launched a new version of our robotics-assisted NAVIO system, NAVIO® 7.0, to improve efficiency. And we announced a new robotics R&D centre in Pittsburgh, US, which will open in the first half of 2020.

Other areas of focus include orthobiologics, where we recognise the synergy with devices and surgical procedures, forming a Biologics and Regenerative Medicine R&D team in 2019 dedicated to development of innovative orthobiologic products.

Reduced the number of steps by

40%

NAVIO 7.0 incorporates improvements that reduce the number of surgical workflow steps by over 40%.

“The potential of computer assisted surgery with robotics is to provide faster, more accurate, reproducible results that enable surgeons to restore quality of life to more patients.”

Skip Kiil
President of Orthopaedics
3

Expand in high-growth segments

This strategic imperative focuses on accelerating portfolio growth, strengthening our established leadership positions, and driving meaningful synergies.

In 2019 we acquired a number of valuable technologies that strengthen our portfolio today, and boost our R&D expertise and programmes.

Our largest acquisition was Osiris Therapeutics, Inc. (Osiris) for $660 million, which completed in April.

Osiris is a fast-growing company delivering regenerative medicine products, including skin, bone-graft and articular cartilage substitutes. The Osiris portfolio has improved the overall growth outlook for Advanced Wound Bioactives.

Other acquisitions included Ceterix Orthopaedics, Inc., enhancing our leading position in meniscal repair (see page 20), and the LEAF® Patient Monitoring System, supporting our pressure injury prevention strategy (page 23). The Brainlab Orthopaedic Joint Reconstruction business (OJR) and Atracsys fusionTrack 500 optical tracking camera acquisitions brought core enabling technologies that we are integrating into our next generation robotics-assisted surgical platform.

We are also investing in developing a turnkey service to support healthcare providers seeking to move orthopaedic cases into ambulatory surgery centers (ASCs) and other outpatient settings. Smith+Nephew is well positioned to assist healthcare providers make the transition as our Sports Medicine franchise has been supporting ASC-based procedures since these centers first appeared and we are a leader in orthopaedic implants and enabling technologies, including robotics. The LENS 4K Surgical Imaging System, a new surgical video platform launched in 2019, is designed for use in ASC and multi-surgery settings.

“Our M&A strategy is to pursue growth enhancing acquisitions, both in the segments we already operate in, and in adjacent segments where there is attractive growth and a good strategic fit.”

Phil Cowdy
Chief Business Development and Corporate Affairs Officer
Review of strategy continued

4 Strengthen talent and capabilities

This strategic imperative focuses on developing a winning culture to improve retention and attract talent.

In late 2018 we introduced a new corporate purpose ‘Life Unlimited’ and new culture pillars of Care, Collaboration and Courage. These define who we are as a Company and as employees, and create an environment that sets us up for collective success. A new visual brand identity, launched in 2019, both emphasised and underpinned these changes.

In 2019 we introduced ‘Winning Behaviours’, a new behavioural competency framework directly linked to the culture pillars to help employees understand how they can demonstrate our culture on a daily basis.

We strive to create a working environment that is inclusive and welcomes diversity. New initiatives in 2019 included delivering inclusion training to our top 100 leaders and embedding inclusion in all our leadership development programmes.

A strong and consistent culture engages and motivates employees. 2019 was the first year that we used the Gallup Global Engagement Survey to measure progress, and we were pleased that 84% of employees participated. More details of our people and culture programmes can be found on page 24.

“Our culture pillars are grounded in the service of patients and practitioners and guide employees to work together and encourage continuous learning and improvement.”

Elga Lohler
Chief Human Resources Officer

Life Unlimited
Underpinned by our culture pillars:

**Care**
A culture of empathy and understanding for each other, our customers and patients.

**Collaboration**
A culture of teamwork, based on mutual trust and respect.

**Courage**
A culture of continuous learning, innovation and accountability.

45% of attendees to our Elevate women leadership programme achieved a promotion or changed role in 2019.
Smith+Nephew strives to deliver products of the highest quality at the right cost whilst maintaining high standards in ethics and compliance. We consistently seek to improve our performance in these areas.

Our Accelerating Performance and Execution (APEX) programme, initiated at the end of 2017, is nearing its conclusion and is now expected to deliver annualised benefits of $190 million, $30 million more than originally expected, for a one-off cost of $290 million, $50 million more than originally planned.

In 2019 APEX both helped offset the price erosion that is a natural part of our business, and contributed to our trading profit margin of 22.8%. The 2019 operating profit margin includes APEX and acquisition costs.

Cash generated from operations was $1,370 million and trading cash flow was $970 million with a good 83% trading profit to cash conversion ratio.

In 2020 we expect to sustain the improved performance achieved in 2019, an important step in realising our medium-term ambition to consistently outgrow our markets.

In 2019 we updated our Code of Conduct and Business Principles, which governs the way we operate, and all employees received training on this (see page 26).

Our Quality and Regulatory Affairs function continued to focus on improving overall Company compliance while supporting our growth objectives by delivering multiple new product approvals as well as registering hundreds of existing products in new markets (see page 31).
Our growing markets

Smith+Nephew competes in large and attractive markets

The medical device and supplies segment of the global healthcare industry is worth more than $400 billion per annum. Within this, Smith+Nephew’s product segments are worth around $38 billion, growing at approximately 4% annually.

This growing demand is driven by lifestyle related health conditions, such as diabetes and obesity, becoming ever more prevalent, as well as improvements to life expectancy meaning that there are increasingly more patients in the world. In the emerging markets, these factors are compounded by economic development driving demand, particularly in China and India.

At the same time, governments around the world are trying to reduce the cost of healthcare, especially in hospitals, resulting in a constant downward pressure on pricing. Medical device companies are under pressure to continue to innovate, and also to provide evidence supporting both the clinical and economic benefits of products.

Clinical innovations, financial incentives and patient preferences are also prompting hospitals and health systems to move certain inpatient procedures to outpatient settings. In 2020, nearly 60 percent of US outpatient surgeries will take place in an ambulatory care setting, an increase of 46 percent since 2005.1

The US is expected to continue to lead the medical device industry reaching US$300 billion in annual sales by 2030.2 By this stage, China and India, who are both growing at twice the overall market rate, are expected to be in the top five markets, with over US$200 billion and US$40 billion of sales respectively.2 By 2040, there could be as many as 110 million diabetics in China, and nearly 70 million in India.3 The emerging middle class will also demand more choice over healthcare and have greater expectations of quality of life.

A highly regulated industry

The medical device sector is one of the world’s most heavily regulated industries. Strict business principles govern the way industry interacts with healthcare professionals and government officials globally, including the AdvaMed Code of Ethics and the MedTech Europe Code of Ethical Business Practice.

Anti-bribery and corruption legislation, including the UK Bribery Act and the US Foreign Corrupt Practices Act, also apply to Smith+Nephew’s global business. There is also a strong focus on compliance and cost control in emerging markets, especially in China. For more information on our approach to compliance see page 26.

National regulatory authorities govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. They also review data supporting the products to ensure they are safe and perform as intended.

The majority of countries require products to be authorised or registered prior to entering the market, and such authorisation or registration needs to be subsequently maintained. For example, the US Food and Drug Administration (FDA) continues to conduct increasingly rigorous reviews of technical documentation on the safety and the performance of medical devices for approval. Moreover, the European Union Medical Device Regulations (MDR) came into force in May 2017 with full implementation across Europe from May 2020, imposing tougher requirements of market entry and post-market surveillance of medical devices.

Smith+Nephew’s major regulatory authorities include the US FDA, the Medicines and Healthcare products Regulatory Agency (MHRA) in the UK, the Ministry of Health, Labour and Welfare in Japan, the National Medical Products Administration (NMPA) in China, and the Australian Therapeutic Goods Administration (TGA).

Inspections and audits by these authorities continue to increase year-on-year and involve significant and continued financial and resource investment by Smith+Nephew to respond appropriately.
Geo-political factors
On 31 January 2020, the UK left the European Union (EU), a process known as ‘Brexit’. The UK and EU have entered a transition period which is due to run until 31 December 2020, during which the trading arrangements relating to areas such as tariffs and regulation remain largely the same for the medical technology industry as before the UK’s exit.

During 2020, the UK government and the EU intend to negotiate the future relationship between them. If a new arrangement is agreed, it is expected to take effect at the end of the transition period. Smith+Nephew’s preparations for the UK exiting the EU include transferring certain product registrations from BSI UK to BSI Netherlands and building safety stock. We continue to closely follow the negotiations and have the ability, if required, to make adjustments in our supply chain to protect the Group from the impact of new arrangements after 31 December 2020.

In early 2020, the US and China reached a phase one trade agreement, which alleviates some risk of additional tariffs on exports between the two countries. However, the additional tariffs on some medical devices being exported between the two countries remain in place while both governments begin a second round of negotiations.

In the US, the Medical Device Excise Tax, which had been deferred from 2016 to 2019, was permanently repealed effective 1 January 2020.

The importance of seasonality
There tends to be a higher volume of orthopaedic and sports medicine procedures during the winter months when accidents and sports-related injuries are more frequent. Elective procedures tend to slow down in the summer months due to holidays. Advanced Wound Management is less impacted by seasonality due to the nature of the products.

Competition
Smith+Nephew’s three global franchises have several major competitors which differ with respect to product focus, geographic reach and scale. For example, our main surgical competitors are larger in scale and tend to be more exposed to the US, whereas the majority of our key wound competitors are not US-centric.

In our Orthopaedic franchise we are one of four leading players, competing against US-based companies Stryker, Zimmer Biomet and DePuy Synthes (a Johnson & Johnson company). In Sports Medicine, Smith+Nephew holds a leading position behind Arthrex (US), and also competes against Stryker and DePuy Synthes.

We are the second largest global Advanced Wound Management business. In the Advanced Wound Care sub-segment we compete with Mölnlycke (Sweden) and ConvaTec (UK). In Advanced Wound Devices, we are the primary challenger to Negative Pressure Wound Therapy incumbent Acelity (US), which was acquired by 3M in 2019. In our Advanced Wound Bioactives franchise, we have leadership positions in our respective categories.

<table>
<thead>
<tr>
<th>Market size¹</th>
<th>Orthopaedics</th>
<th>Sports Medicine²</th>
<th>Advanced Wound Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hip and Knee Implants</td>
<td>$14.8bn +3%</td>
<td>$5.3bn +5%</td>
<td>$9.4bn +4%</td>
</tr>
<tr>
<td>Trauma and Extremities</td>
<td>$6.2bn +4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A Smith+Nephew</th>
<th>B Zimmer Biomet</th>
<th>C Stryker</th>
<th>D DePuy Synthes ¹</th>
<th>E Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>12%</td>
<td>32%</td>
<td>22%</td>
<td>19%</td>
<td>15%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A Smith+Nephew</th>
<th>B DePuy Synthes ¹</th>
<th>C Stryker</th>
<th>D Zimmer Biomet</th>
<th>E Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>8%</td>
<td>42%</td>
<td>27%</td>
<td>11%</td>
<td>12%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A Smith+Nephew</th>
<th>B Arthrex</th>
<th>C Stryker</th>
<th>D DePuy Synthes ¹</th>
<th>E Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>26%</td>
<td>33%</td>
<td>11%</td>
<td>13%</td>
<td>17%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>A Smith+Nephew</th>
<th>B 3M²</th>
<th>C Mölnlycke</th>
<th>D ConvaTec</th>
<th>E Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>14%</td>
<td>19%</td>
<td>9%</td>
<td>7%</td>
<td>51%</td>
</tr>
</tbody>
</table>

1 Data used in 2019 estimates generated by Smith+Nephew is based on publicly available sources and internal analysis and represents an indication of market shares and sizes.
2 Representing repair products and arthroscopic enabling technologies, and excluding ENT.
3 A division of Johnson & Johnson.
4 3M acquired Acelity in 2019.

References
1 Becker’s ASC Review: 4 trends driving change in healthcare.
2 KPMG: Medical devices 2030: Making a power play to avoid the commodity trap.
3 TranslateMedia: How China and India are disrupting the global healthcare sector.
Our business model
Value creation is driven by our purpose, culture pillars and strategic imperatives

Our resources

Our people & culture
Attracting, developing and retaining the best employees is important. We strive to build a purpose-driven culture based on strong and authentic values.

Ethics & compliance
Committed to doing business the right way, compliance is embedded in the way we work.

Sales & marketing
Supporting customers through highly specialised sales teams with in-depth technical product knowledge that surgeons and nurses value greatly.

Manufacturing & quality
Operating global manufacturing efficiently and to high standards to ensure quality and competitiveness.

Medical education
Supporting the safe and effective use of our products through medical education.

Research & development
Innovation is part of our culture and we are increasing the amount we invest in new products.

Sustainability
We focus on three aspects of sustainability; economic prosperity, social responsibility and environmental stewardship.

Creating value through

Purpose-driven culture
Having a clear purpose gives employees a sense of belief and determination. This supports a strong culture which improves performance across the business both in terms of financial and non-financial value.

Strategic imperatives
Our five strategic imperatives are fundamental to how we focus the resources of the business to maximise commercial impact in our markets. They form the basis of our value creation plan for the medium term.

» See page 24 for our resources

See page 24 to read about our purpose at work in the business

See page 8 to read about our strategy in action and how it creates value
Strong product portfolio

We have market-leading technology across our broad range of products. We deploy our capital to drive continued innovation from our R&D programmes and invest in product and technology acquisitions which improve outcomes and widen access to life-changing care.

Customer centricity

Serving our customers is at the heart of our business model. We have a global franchise model led by management who are specialists in their areas. This keeps us close to our customers, ensuring we can anticipate and meet their needs.

Value delivered in 2019

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Operating profit</th>
<th>Trading profit¹</th>
<th>Efficiency savings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$5,138m</td>
<td>$815m</td>
<td>$1,169m</td>
<td>$80m</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Dividend</th>
<th>Jobs</th>
<th>Practitioner training instances</th>
<th>Philanthropic donations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$318m</td>
<td>17,637</td>
<td>110,000+</td>
<td>$13m</td>
</tr>
</tbody>
</table>

Shareholders

In 2019 we were pleased to deliver a 4% increase in dividend, in-line with our progressive policy. Shareholders also benefitted from a 28.3% increase in share price over the year.

Patients

Our products are used in more than 100 countries to improve the quality of life of patients. We strive to widen access to such technology, with 19% of revenue now coming from the Emerging Markets.

Customers

We continue to bring new, innovative products to customers, and support these with clinical evidence, as well as delivering professional development training to healthcare professionals around the world.

Employees

In 2019 we improved our employee engagement and promoted diversity and inclusion.

Communities

We aim to work in a sustainable, ethical and responsible manner, supporting local charities, and reducing our environmental footprint.

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

See pages 18–23 to read more about our products at work

See page 24 for our resources

See page 36 for our financial review

Smith+Nephew Annual Report 2019
Our franchises
Orthopaedics

Enhancing quality of life
Smith+Nephew’s Orthopaedics franchise includes an innovative range of Hip and Knee Implants used to replace diseased, damaged or worn joints, robotics-assisted enabling technologies that empower surgeons, and Trauma products used to stabilise fractures and correct bone deformities.

Performance

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchise revenue</td>
<td>$2,222m</td>
<td>$2,168m</td>
</tr>
<tr>
<td>Franchise profit</td>
<td>$666m</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2019</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenue</td>
<td>Underlying</td>
<td>Growth*</td>
</tr>
<tr>
<td>Knee Implants</td>
<td>$1,042m</td>
<td>2.5%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Hip Implants</td>
<td>$613m</td>
<td>0.0%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Other Recon</td>
<td>$79m</td>
<td>279%</td>
<td>12.6%</td>
</tr>
<tr>
<td>Trauma</td>
<td>$488m</td>
<td>2.4%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Knee Implants
Smith+Nephew’s specialised knee replacement systems include leading products for total, partial and patellofemoral joint resurfacing procedures. The JOURNEY II Total Knee Arthroplasty system is demonstrated to replicate normal knee positions, shapes, and motions.1-3 The LEGION/GENESIS II Total Knee System is a comprehensive system which includes the LEGION Revision Knee System, designed to offer surgeons improved options to deal with the complexities associated with revision knee arthroplasty. Both of these systems feature VERILAST Technology, our advanced hard-wearing bearing surface of OXINIUM Oxidized Zirconium with highly cross-linked polyethylene.

Hip Implants
Smith+Nephew’s range of specialised products for reconstruction of the hip joint include the ANTHOLOGY Hip System, SYNERGY Hip System and the POLAR3 Total Hip Solution. In Q4 2019 we announced OR3O, our new Advanced Dual Mobility system. All these systems feature VERILAST.

The diversity of our portfolio exemplifies our commitment to providing surgeons with implant and instrumentation options that meet the specific demands of their patients and preferred surgical approach. We also market the BIRMINGHAM HIP Resurfacing (BHR) System, an important option for surgeons treating suitable patients.

Smith+Nephew’s portfolio includes the REDAPT Revision Hip System. The REDAPT Fully Porous and Modular Acetabular Cups with CONCELOC Technology is designed to allow ingrowth through an additive, or 3D printing, manufacturing process which produces a porous implant designed to mimic the structure of cancellous bone.

Other Reconstruction
The NAVIO Surgical System utilises real-time imaging (without the need for a pre-operative CT scan), hand-held robotics and a portable cart. NAVIO offers both partial and total knee options that include the first and only robotics-assisted bi-cruciate retaining knee procedure commercially available.

We enhanced our offering in 2019 with the acquisition of Brainlab’s Orthopaedic Joint Reconstruction business. The transaction included the Brainlab hip software, and we expect to introduce a new hip application in early 2020. For more details on our digital surgical robotics ecosystem see page 10.

This franchise also includes Smith+Nephew’s diverse portfolio of bone cement and accessory options.

“With high quality products utilising differentiated materials and backed by strong data, our Orthopaedics franchise is well-positioned for further growth.”

Skip Kiil
President of Orthopaedics
Trauma
In Trauma, the TRIGEN® INTERTAN® hip fracture system allows patients to experience lower risk of implant failure and non-union, reduced post-operative pain, faster time to fracture union, and a proven high return to pre-fracture status.4 The EVOS® SMALL Plating System is an expansive, user friendly system with multiple fixation options including non-locking, locking, variable-angle locking, optimised plate contours and screw trajectories as well as a low profile construct designed to give patients stability and flexibility. For extremities and limb restoration, our range includes the TAYLOR SPATIAL FRAME® External Fixator as well as plating systems and soft tissue repair products.

Our performance in 2019
Our Orthopaedics franchise delivered 4.0% underlying revenue growth* in 2019, an improvement over the 3% growth in 2018.

Knee Implants revenue growth was led by demand for our JOURNEY II and LEGION Revision knee systems and was strongest outside of the US.

Hip Implants revenue growth was led by demand for the POLAR3 total hip solution, with its class-leading survivorship data. The REDAPT Revision Hip System also drove performance in this franchise in 2019.

Other Reconstruction delivered double-digit revenue growth, and benefitted from strong capital sales in the fourth quarter.

Trauma revenue improved on 2018 led by sustained double-digit growth from the INTERTAN Intertrochanteric Antegrade Nail and the roll-out of the EVOS System across the year.

References
4 Data on file with Smith+Nephew. OS036 V2 TRIGEN INTERTAN Claims Brochure 0817.

* These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 200–204.
Innovative technology for minimally invasive surgery

Smith+Nephew’s Sports Medicine & ENT franchise operates in growing markets where unmet clinical needs provide opportunities for procedural and technological innovation.

Performance

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchise revenue</td>
<td>$1,536m</td>
<td>$1,461m</td>
</tr>
<tr>
<td>Franchise profit</td>
<td>$489m</td>
<td>N/A</td>
</tr>
</tbody>
</table>

2019

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Reported</th>
<th>Underlying</th>
<th>growth</th>
<th>growth*</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMJR</td>
<td>$794m</td>
<td>10.8%</td>
<td>12.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AET</td>
<td>$591m</td>
<td>-1.5%</td>
<td>0.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ENT</td>
<td>$151m</td>
<td>4.9%</td>
<td>6.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sports Medicine Joint Repair (SMJR)

In Sports Medicine Joint Repair, our technologies, instruments and implants enable surgeons to perform minimally invasive surgery of the joints, including the repair of soft tissue injuries and degenerative conditions of the shoulder, knee, hip and small joints.

For shoulder repair, we market products primarily for Rotator Cuff Repair (RCR) and instability repair, two of the most common sports medicine procedures. Key shoulder repair products include suture anchors such as the open-architecture HEALICOIL® Suture Anchor, SUTUREFIX® and Q-FIX® All-Suture Anchors. The portfolio also includes suture passers such as FIRSTPASS®. The REGENETEN® Bioinductive Implant enhances the body’s natural healing response to support growth of new tendon-like tissue,1–2 further enhancing our RCR portfolio.

In knee repair, the NOVOSTICH® PRO Meniscal Repair System, acquired in 2019, addresses complex meniscal tear patterns not adequately served by other repair systems, including horizontal cleavage tears affecting approximately one-third of meniscal repair patients.3 It is highly complementary to our FAST-FIX® 360 Meniscal Repair System, which addresses vertical tears, the most commonly repairable meniscal injury. For ligament reconstructions, our portfolio gives surgeons multiple tools to perform single and complex repairs. This includes fixed and adjustable loop devices (ENDOBUTTON® and ULTRABUTTON®), interference screws (BIOSURE®), as well as a reconstruction guide system (ACUFEX® EXTRA-ARTICULAR).

Arthroscopic Enabling Technologies (AET)

AET products facilitate the practice of arthroscopic surgery. These include high definition imaging solutions, industry leading energy-based and mechanical resection platforms, and fluid management and access technologies. Our platforms work in concert to facilitate access to various joint spaces, visualise the patient’s anatomy, resect degenerated or damaged tissue and prepare the joint for a soft tissue repair.

The WEREWOLF® and QUANTUM 2° COBLATION® Controllers enable surgeons to remove soft tissue precisely4 and control bleeding in a variety of arthroscopic procedures. COBLATION Technology, and the FLOW 50° Wand, have demonstrated faster patient recovery5 and better long-term patient outcomes5–7 in knee procedures compared to mechanical debridement. Launched in 2019, the WEREWOLF FLOW 90° Wand with FLOW~IQ® Technology brings this technology to shoulder repair.

Adding to our DYONICS® PLATINUM Blades portfolio in 2019, the BONECUTTER®, 3.5mm PLATINUM INCISOR® PLUS and 3.5mm PLATINUM SYNOVATOR® Blades show significantly faster resection rates and lower to no incidents of clogging compared with competitive blades.8

“We are proud that through our leadership and innovation we are helping to bring the benefits of soft tissue repair to many more patients every year.”

Brad Cannon
President of Sports Medicine & ENT

Smith+Nephew offers implants made from a variety of biocompatible materials, including next-generation anchors made of soft, all-suture material and REGENESORB®, an advanced biocomposite.
Our LENS 4K Surgical Imaging System offers exceptional image quality, connectivity and workflow integration to benefit ambulatory and multi-specialty surgical centres.

**Ear, Nose & Throat (ENT)**

In ENT, our COBLETION Plasma Technology, which has been used to remove tonsils and adenoids for over 15 years, has an ability to remove tissue at low temperatures with minimal damage to surrounding tissue. The technology is also marketed for use in turbinate and laryngeal procedures.

Our ENT portfolio also includes the RAPID RHINO product line which features a wide range of dissolvable and removable postoperative nasal dressings, as well as a comprehensive portfolio of epistaxis solutions.

**Our performance in 2019**

Our Sports Medicine & ENT franchise achieved 7.0% underlying revenue growth* in 2019, an improved performance over the 2% growth in 2018.

Sports Medicine Joint Repair delivered four straight quarters of double-digit growth. Performance was consistent across both our knee and shoulder repair ranges, including growing contributions from the recently acquired REGENETEN Bioinductive Implant for rotator cuff repair and NOVOSTITCH Meniscal Repair System.

Arthroscopic Enabling Technologies finished the year strongly with recent product launches, including the WEREWOLF FLOW 90 Wand with FLOW-IQ Technology, new mechanical resection blades, and the LENS 4K Surgical Imaging System, all contributing to an improved growth profile.

In ENT we continued to successfully convert surgeons conducting tonsil and adenoid procedures with traditional surgery approaches to using our COBLETION technology. In Q1 2020 we acquired Tusker Medical, Inc., developer of Tula, a new system for in-office delivery of ear tubes to treat recurrent or persistent ear infections which is highly complementary to our existing ENT portfolio, with the same customer and patient populations.

---

References

8. Competitive testing report 15007992.
10. 2018 SmartTRAK US Meniscal Repair Fixation market report.

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

---

**NOVOSTITCH PRO**

There are currently more than 1.2 million meniscal tears treated surgically in the US each year with only 15–20% of the cases receiving a meniscal repair, rather than removal. With products like NOVOSTITCH PRO and FAST-FIX 360, we see the opportunity to double this proportion in the medium term.
Reducing the human and economic burden of wounds

Smith+Nephew’s extensive Advanced Wound Management portfolio is designed to meet broad and complex clinical needs, helping healthcare professionals get ‘CLOSER TO ZERO’ human and economic consequences of wounds.

Performance

<table>
<thead>
<tr>
<th>Franchise revenue</th>
<th>2019 ($1,380m)</th>
<th>2018 ($1,275m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Franchise profit</td>
<td>$370m</td>
<td>N/A</td>
</tr>
</tbody>
</table>

2019 Revenue reported and underlying growth

- AWC $714m -3.5% -0.2%
- AWB $424m 32.3% -0.4%
- AWD $242m 12.8% 15.7%

Advanced Wound Management

With the prevalence of chronic wounds in the UK alone growing at around 12% annually and increasing pressure on resources, there is a need for consistent, intuitive clinical practice that promotes both prevention and healing and provides structured and measurable outcomes.

Smith+Nephew promotes best practice guidelines, including the globally recognised T.I.M.E. principles, which were first published in 2003 and later revised as the T.I.M.E. clinical decision support tool (CDST) in 2019, offering a systematic approach to wound healing. T.I.M.E. is an acronym representing the critical barriers to wound healing: Tissue non-viable, Infection/inflammation, Moisture imbalance, and Edge of wound non-advancing.

T.I.M.E. is the most recognised assessment tool in wound care and having supported T.I.M.E. since its inception, Smith+Nephew is uniquely positioned to provide customers with a set of comprehensive products in Advanced Wound Care (AWC), Advanced Wound Bioactives (AWB) and Advanced Wound Devices (AWD) across each T.I.M.E. based clinical need.

Advanced Wound Care (AWC)

Our AWC range covers several segments aimed at helping improve outcomes in the Infection and Moisture balance clinical goals of T.I.M.E.

In infection management, our silver-based ACTICOAT Antimicrobial Barrier Dressings, DURAFIBER Ag Absorbent Gelling Silver Fibrous Dressing, and ALLEVYN Ag Antimicrobial Foam Dressing, provide clinicians with a range of solutions to address individual patient needs in managing wound infection.

In exudate or moisture management, our products are designed to respond to varying levels of wound exudate providing appropriate wound fluid absorption, lock in and evaporation properties to promote an optimal wound healing environment.

Our key growth brand in this space is the ALLEVYN range with two focus variants; ALLEVYN Gentle Border Foam Dressing, a range of versatile foam dressings to suit multiple wound types, and ALLEVYN LIFE Foam Dressing, our most advanced dressing, uniquely differentiated by its distinct quadrilobe shape and with the EXUMASK™ Change Indicator, the dressing last up to 1.9 times longer than other foam dressings.

The AWC range also includes film and post-operative dressings, skincare products and gels. Leading brands include OPSITE Film Dressings, IV3000 Moisture Responsive Intravenous Catheter Dressing, and the PROSHIELD® Skin Care and SECURA® Skin Care ranges.

Advanced Wound Bioactives (AWB)

Our AWB portfolio covers key product segments aimed at helping improve outcomes in the tissue viability and wound edge advancement clinical goals of T.I.M.E.

AWB topical biologics and skin substitutes provide a unique approach to debridement, dermal repair, and tissue regeneration. Our portfolio includes Collagenase SANTYL® Ointment 250 units/gram, our most significant product by sales in this segment, as well as REGRANEX® (becaplermin) gel 0.01%, OASIS® Wound Matrix and OASIS ULTRA Tri-Layer Matrix, a naturally-derived, extracellular matrix replacement product indicated for the management of both chronic and traumatic wounds.

“Our broad portfolio helps healthcare providers prevent and treat wounds as well as conserve resources for healthcare systems.”

Simon Fraser
President of Advanced Wound Management
Expanding our skin substitute product range, GRAFIX◊ Cryopreserved Placental Membrane and STRAVIX◊ Cryopreserved Umbilical Tissue, acquired in 2019 with Osiris, are intended for application directly to acute and chronic wounds and as surgical cover or wrap to support soft tissue repair. For more information on this acquisition see page 11.

Advanced Wound Devices (AWD)

In AWD, our portfolio helps improve outcomes in the tissue viability, moisture balance, and wound edge advancement clinical goals of T.I.M.E.2

The PICO® 7 Single Use Negative Pressure Wound Therapy System (sNPWT) with AIRLOCK® Technology brings the effectiveness of traditional NPWT in a modern, small portable system, and is applicable for both open wounds and closed incisions. We expanded the range in 2019 with the launch of PICO 7Y sNPWT, enabling the utilisation of two dressings concurrently from one pump, in practice allowing for two wounds to be addressed at the same time, as well as with the launch of PICO 14 sNPWT, a variant that can be used to treat a wound for up to 14 days. New 2019 guidance from the UK’s National Institute for Health and Care Excellence (NICE) states that PICO sNPWT should be considered as an option for closed surgical incisions in patients who are at high risk of surgical site infections (SSIs).4

Our AWD portfolio also includes the LEAF◊ Patient Monitoring System, acquired in 2019, a wireless, patient wearable sensor that monitors patient position and orientation to automate and document the management of prescribed patient turn protocols. This is an important tool in a hospital’s pressure injury prevention strategy.

The AWD portfolio also includes our traditional RENASYS® Negative Pressure Wound Therapy System and the VERSAJET® Hydrosurgery System, a surgical debridement device.

Our performance in 2019

Our Advanced Wound Management franchise delivered 2.2% underlying revenue growth* in 2019, an improvement over the flat growth in 2018.

Advanced Wound Care declined in 2019. Whilst we improved performance in Europe across the year, this was offset by price pressure in the US.

Advanced Wound Bioactives performance improved over 2018. Reported growth reflects the acquisition of Osiris which has also improved the underlying growth profile from -6% in 2018.

Advanced Wound Devices delivered four quarters of double-digit growth. This reflected continued strong demand for PICO and an increasing contribution from RENASYS across the year.

References

4 NICE Medical Technology Guidance MTG43. PICO Negative Pressure Wound Dressings for closed surgical incisions. May 9th 2019 https://www.nice.org.uk/

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

A new model of care

Throughout 2019 Smith+Nephew and a panel of clinicians in the UK started implementing a new digital clinical decision support tool (CDST), a patient-centric approach to offer a systematic, holistic and multidisciplinary daily practice that aims to improve outcomes.

Designed to help ensure clinical decision making follows best practice, the CDST also helps to ensure product selection is appropriate, reducing waste and optimising clinical outcomes, as well as potentially releasing nurse time.2
A culture of Care, Collaboration and Courage

Smith+Nephew has a proud history of more than 160 years of improving health around the world. Whilst we have grown significantly from our beginnings as a small family pharmacy in Hull, England, our caring spirit has remained the same.

Our culture of Care, Collaboration and Courage defines who we are as a Company and as employees, and creates an environment that sets us up for collective success. A strong and consistent culture engages and motivates employees, creates a community where they understand our strategy and purpose, makes them feel valued for their contributions to it, and drives behaviours that help us realise our business ambitions.

2019 was the first year that we used the Gallup Global Engagement Survey to measure how well our employees are engaged, and to determine where we need to focus and improve the employee experience. This decision to prioritise and measure engagement, rather than satisfaction, was driven by our new culture.

More than 14,300 – or 84% – of our employees gave feedback about the state of engagement at Smith+Nephew. Our scores were highest where we have focused our efforts: sense of purpose, pride, and commitment to quality work, with more to do in the areas of recognition and development. Every manager received a results report for his or her team, and worked with them to set action plans for improvement.

Our resources
Our people & culture

Care

Our culture pillar of Care means that we show empathy and understanding for each other, our customers and patients, and our communities. We anticipate their needs and deliver the highest levels of innovation and service.

Smith+Nephew is committed to caring for its employees, providing benefits such as employee assistance and wellness programmes. In 2019, we increased our focus on promoting mental health awareness, piloting mental health first aid training to volunteer employees in the UK.

We encourage employees to support external community or charity initiatives by providing a full day of paid time for volunteering. In 2019, employees donated more than 10,000 hours to support worthy initiatives outside of work. Some groups use this time for team building activities. For example, our team in South Korea volunteered for Habitat for Humanity during the year, helping low-income people access better housing. Increasing the number of employees using volunteering time is one of the objectives of our new social responsibility strategy, described in more detail in our 2019 Sustainability Report.

Committed to our employees

Smith+Nephew is committed to caring for its employees, providing benefits such as employee assistance and wellness programmes.
Collaboration
Our culture pillar of Collaboration aims to foster successful teamwork based on mutual trust and respect. Through transparent and respectful communication, we are motivated by a shared purpose and understand the impact of our individual contributions on our collective goals.

This commitment to communication starts at the top. On a quarterly basis, the Chief Executive Officer and members of the executive team lead a live global webcast. This includes updates on the business and gives employees around the world the chance to ask questions in real-time.

We encourage networking through various groups and activities as it fosters a strong culture of Collaboration across the business. This includes our Young Professionals (SNYP) network set up by employees in Memphis (US), which has grown into a global initiative scheduling both professional development opportunities and social activities.

Our peer-to-peer recognition programme – called Going the Extra Mile (GEM) – gives employees the opportunity to say ‘thank you’ to colleagues.

We strive for a culture where everyone is working collaboratively, has a voice, is heard and is respectful of other’s needs. Building inclusion and embracing diversity is vital and strengthens our business as the variety of perspectives, experience and work styles enhance creativity and innovation. We are committed to employment practices based on equal opportunities, regardless of race, ethnicity, gender, sexual orientation, socio-economic status, age, physical abilities, religious beliefs, political beliefs, or other ideologies.

In 2019 we recruited through more channels in order to improve diversity across new hires and we are exploring the use of technology to remove bias or subjectivity from our hiring processes. We also delivered inclusion training to our top 100 leaders and in all our leadership development programmes, as well as to our Talent Acquisition and HR teams involved in recruiting. We continued to develop our female leaders in 2019, with up to 200 female employees enrolling in our ‘Elevate’ female leaders programme each month, and 45% of participants achieved a promotion or new role during the year.

Courage
Our culture pillar of Courage encourages continuous learning, innovation and accountability. By staying curious, thinking big and having the humility to challenge our conventional ways of thinking, we push the boundaries of our industry, and we do so ethically and with integrity.

Every year, Smith+Nephew sets out clear and measurable Group objectives based upon our strategic imperatives, which are directly linked to personal objectives of all employees. This enables employees to clearly see how their efforts contribute to the overall success of the business, which drives execution, accountability and engagement.

In 2019 we launched ‘Winning Behaviours’, a behavioural competency framework directly linked to our culture pillars of Care, Courage and Collaboration. It supports employee development by helping employees understand how they can demonstrate our culture on a daily basis.

Our recruitment and assessment approach, and our performance management and talent management processes, all directly align to these Winning Behaviours.

Smith+Nephew’s compensation strategy supports high-performance and accountability across both financial and cultural performance metrics. A robust compensation framework is vital in attracting, retaining, and motivating high calibre people, driving better business results across an equitable work environment. Our UK Gender Pay ratios improved in 2019 (see page 119) and we are Living Wage Accredited in the UK, voluntarily paying above the government required minimum. We also offer an all-employee share plan scheme to the majority of employees globally.

The Board’s Compliance & Culture Committee closely monitors our programmes to embed the new culture, visiting sites and meeting and talking directly to employees, as well as reviewing the Gallup results. More details of the Committee’s 2019 activities can be found on page 80, alongside its 2020 plans to assess the culture and track progress.

Total employees¹

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>17,637</td>
<td>58%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Senior managers²,³ and above

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>947</td>
<td>70%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Board of Directors

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>67%</td>
<td>33%</td>
</tr>
</tbody>
</table>

¹ Number of employees at 31 December 2019 including part time employees and employees on leave of absence.
² Senior managers and above include all employees classed as Directors, Senior Directors, Vice Presidents, Executive Officers and includes all statutory directors and Directors of our subsidiary companies.
³ For 2019 we have updated our definition of senior managers to include employees classed as Director and above but who do not have direct reports.
Smith+Nephew has a strong reputation for integrity and ethical conduct

At Smith+Nephew we are committed to integrity, honesty and professionalism in all aspects of our business.

**Code of Conduct and Business Principles**

We believe that it is a privilege to provide products and services for patients and healthcare professionals. We believe that everyone who works for us – or on our behalf – shares the responsibility for upholding our reputation for integrity and ethical conduct, and that the sustainability of our business depends on doing things the right way.

Our Code of Conduct and Business Principles governs the way we operate, taking into account ethical, social, environmental, legal and financial considerations as part of Smith+Nephew’s operating methods. We have a robust whistle-blowing system in all jurisdictions where we operate, which is benchmarked against industry metrics.

**Global Compliance Programme**

Smith+Nephew has implemented what we believe to be a world-class Global Compliance Programme that helps our businesses comply with applicable laws and regulations.

As part of the programme, we provide resources and tools to guide employees to make decisions that comply with the law, local industry codes and our Code of Conduct. Significant interactions with healthcare professionals and government officials are reviewed and approved in advance, and we regularly assess existing and emerging risks in the countries in which we operate.

Compliance controls at Smith+Nephew are also reviewed regularly, and we conduct audits, supported by data analytics, with central and local monitoring.

We work with third parties who adhere to business principles and health, safety, social and environmental standards consistent with our own. New distributors and other higher-risk third parties are subject to screening, compliance training and certification.

Senior leaders, including all Vice Presidents and above, are required to complete an annual certification to the Chief Executive Officer to confirm the implementation of required policies. Managers and employees complete an annual compliance certification and conflict of interest disclosure.

The programme is reviewed and developed regularly.

**An ethical employer**

At Smith+Nephew, we recruit, employ and promote employees on the sole basis of the qualifications and abilities needed for the work to be performed. We do not tolerate discrimination on any grounds and provide equal opportunity based on merit.

We do not use any form of forced, compulsory or child labour. Smith+Nephew supports the Universal Declaration of Human Rights of the United Nations, respecting the human rights, dignity and privacy of individuals and their right to freedom of association, freedom of expression and the right to be heard.

As a global medical technology business, we recognise our responsibility to take a robust approach to preventing slavery and human trafficking. Smith+Nephew is committed to preventing such activities in all of its corporate operations and in its supply chains. Our full policy on modern slavery is available on our website.
Sales & marketing

Customers are at the heart of our business model

Healthcare professionals are our customers, and they can range from orthopaedic surgeons to wound care nurses, general practitioners and other clinicians, but increasingly also economic stakeholders such as purchasing professionals in hospitals and healthcare insurers.

Smith+Nephew has a global franchise structure with dedicated global presidents of Orthopaedics, Sports Medicine & ENT and Advanced Wound Management leading customer-facing activities. Each president has global upstream marketing responsibility as well as commercial responsibility for the US, our largest market. The franchises share global commercial support teams in the areas of medical education, sales training, marketing services and healthcare economics.

Aligned with and supporting the franchises are presidents and regional commercial organisations for Europe, Middle East and Africa (EMEA), and Asia Pacific (APAC). Under these presidents are country clusters, based on geographic proximity, critical mass of revenue, and similar go-to-market strategies. They are led by managing directors with business unit leads for each franchise.

Our sales representatives are highly trained and skilled individuals. Depending on their area of specialism, representatives in our surgical businesses will not only know the devices that they sell, but also have a detailed knowledge of the surgical instruments used to implant them, and specific understanding of the various surgical techniques a customer might use.

Once a sales representative is trained and certified, they typically spend the majority of their time working directly with and supporting customers to aid in the safe and effective use of our advanced medical technologies, or identifying and contacting new customers.

In Advanced Wound Management, sales representatives have deep knowledge of how clinicians seek to prevent and treat wounds, as well as an understanding of the economic benefits of using our products within treatment protocols.

We pride ourselves on giving customers a high standard of service and invest in developing our sales and marketing organisation. In 2019 we renewed this commitment by introducing a new Global Commercial Training and Education structure, which delivers a more consistent content and curriculum-based approach, coupled with deep commercial training specialisation in key markets.

Award winning training

Our training team has won many awards for its training programmes, especially for its use of digital and mobile technology.
We also invested in evidence demonstrating the clinical and economic benefits of our products. Such evidence was fundamental to the UK’s National Institute for Health and Care Excellence (NICE) 2019 recommendation for PICO sNPWT as an option for closed surgical incisions in patients who are at high risk of surgical site infections.

**Our enterprise R&D operating model**

Smith+Nephew’s R&D model provides governance and simple processes for new product development, starting with front end innovation and research, moving through new product development and launch, and ending with support of released products.

We focus on projects that will make a meaningful difference to our customers and their patients. This includes investing in incremental innovation to improve existing products, but also to transform our business using disruptive technologies, services and business models. Driving greater efficiency through innovation supporting our sustainability strategy, is also a priority for the R&D teams.

Strict criteria are applied to ensure that new products are aimed at fulfilling unmet clinical needs, have a strong commercial rationale, and are technically feasible. Our R&D experts in the US, UK, Europe, Singapore and China have extensive customer and sector knowledge.

The R&D function works closely with the marketing, clinical, quality, regulatory affairs, manufacturing, procurement and supply chain management teams to ensure we produce new products to cost, scope and schedule. We work in partnership with our customers, and welcome new product concepts from healthcare professionals, working collaboratively to bring ideas to reality.

The global R&D function includes our Clinical and Medical Affairs (CMA) team that ensures that, from conception, plans are developed to support product launches with the evidence increasingly required by clinicians, payers and regulators. Our products undergo clinical and health economic assessments both during their development and post-launch.

**A strong pipeline**

For 2020, we have a strong pipeline with a number of important launches planned and also expect to maintain the high cadence of clinical and economic evidence.

One area of focus is surgical robotics, with our next generation platform anticipated to be launched in 2020 following necessary regulatory clearances and approvals. When launched, the new product will reduce the physical device footprint. This, together with its CT-free technology, makes it an ideal solution for all surgical settings, including ambulatory surgery centers (ASCs). In addition, our R&D programme is focused on a number of options to broaden this platform for customers, including innovations intended to incorporate augmented reality, and machine learning technologies.
Game changing innovation in 2019

For 2020, we have a strong pipeline with a number of important launches planned and also expect to maintain the high cadence of clinical and economic evidence.

**LENS 4K Surgical Imaging System** brings exceptional image quality, connectivity and workflow integration benefits to ambulatory and multi-specialty surgical centers.

**WEREWOLF COBLATION** FLOW 90 Wand with FLOW-IQ® Technology expands the unique WEREWOLF COBLATION system into shoulder repair.

**PICO 7Y Single Use Negative Pressure Wound Therapy System** with AIRLOCK Technology brings the effectiveness of traditional NPWT in a modern, small portable system, and is applicable for both open wounds and closed incisions.

**Ultra-versatile EVOS WRIST** Plating System gives surgeons a choice of approach, material, and locking technology.

**OR3O Dual Mobility System** utilising unique OXINUM DH metal alloy – the first advanced bearing material available to support modular dual mobility throughout the entire offering.

**FLOW 90 Wand with FLOW-IQ® Technology** brings exceptional image quality, connectivity and workflow integration benefits to ambulatory and multi-specialty surgical centers.
Smith+Nephew is proud to support the development of surgeons and nurses by providing skills training and education on our products and techniques.

Medical education at Smith+Nephew provides healthcare professionals opportunities to learn about the latest evidence, new skills and techniques, and safe and effective use of our products. We are dedicated to assisting them in their focus to improve outcomes for their patients.

To support that aim, we provided more than 110,000 instances of training in 2019 to surgeons and nurses through Smith+Nephew training centres globally. We had a large training impact in each region with notable instances in the US, UK and APAC, as well as running many courses at third party centres around the world. Additionally, we transformed our Global Medical Education function to increase the strategic focus on content development, delivery and a healthcare professional centric learning approach through educational pathways.

In collaboration with expert healthcare professionals as faculty, Smith+Nephew provides programme attendees the opportunity for peer-to-peer interaction, demonstration and practice of new techniques and to refine skills. Courses are attended by residents, fellows and practicing surgeons who work together to review, discuss and train on current and innovative surgical techniques and our products in their areas of clinical expertise. Our courses support surgeons who gain the experience and confidence necessary to become experts in their field.

Thousands of nurses receive face-to-face training on our products from Smith+Nephew representatives every year, including attending courses at our centres, conference symposium and customised educational programmes at local venues and facilities.

Additionally, we support healthcare professionals with online resources at smith-nephew.com/education and WoundCME.org.

Supporting safe and effective use of products

Working under expert guidance, attendees at Smith+Nephew training courses learn new techniques and refine skills, to ensure the safe and effective use of our products.
Manufacturing & quality

Delivering high quality products efficiently

Smith+Nephew takes great pride in its manufacturing expertise and commitment to distributing innovative, quality products globally.

We operate manufacturing facilities in eight countries across the globe, and have central distribution facilities in the US, Europe and Asia. Our Global Operations team supports the delivery of the Group’s strategic imperatives by ensuring that we respond efficiently to geographical growth, new product development and increasing regulatory requirements. Global Operations is focused on delivering ever-greater efficiency by focusing on operating an optimal facility footprint, driving lean manufacturing methods across our network and identifying opportunities within our supply chain to deliver world-class service levels.

Products for our Orthopaedics franchise are primarily manufactured at our facilities in Memphis (US), Aarau (Switzerland), Tuttlingen (Germany), Beijing (China), and Warwick (UK). In 2019 we announced our decision to build a new high technology manufacturing facility in Penang, Malaysia, primarily to support our Orthopaedics franchise, which has been growing strongly in the Asia Pacific region. First production batches from this facility are expected to ship before the end of 2022.

Sports Medicine Joint Repair products are primarily manufactured at the Mansfield (US) and Alajuela (Costa Rica) facilities. The majority of Advanced Wound Management products are made in Hull (UK), Fort Worth (US), Columbia, Maryland (US), and Suzhou (China). In 2019 we announced our decision to consolidate manufacture of SANTYL into Fort Worth and shut our site in Curaçao. We also have a facility in Oklahoma City (US), which produces and services electro/mechanical capital equipment and single use sterile devices and assembles some NPWT devices using components from third parties.

We procure raw materials, components, finished products and packaging materials from suppliers globally. These include metal forgings and castings, optical and electronic sub-components, active ingredients and semi-finished goods, as well as packaging materials. Suppliers are contracted to ensure value for money based on total spend across the Group. We work closely with our suppliers to ensure high quality, delivery performance and continuity of supply.

We outsource certain parts of our manufacturing processes where necessary to obtain specialised expertise or to lower cost without undue risk to our intellectual property or quality. We monitor suppliers through on-site assessments and performance audits to ensure the required levels of quality, service and delivery.

Our Global Supply Chain team is responsible for making sure that our products reach internal and external demands in a timely, compliant and efficient manner. We operate main logistics and warehousing facilities for surgical products in Memphis (US), Baar (Switzerland) and Singapore. For wound products, our main facilities are located in Neunkirchen (Germany), Derby (UK) and Lawrenceville (US).

Quality and Regulatory Affairs

A global Quality and Regulatory Affairs function supports full product life-cycle management of Smith+Nephew’s global product portfolio from design and development through manufacturing and post-market surveillance. These functions establish appropriate processes and procedures to facilitate compliance to complex global regulations and laws that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. The Quality and Regulatory Affairs functions directly support expansion of our global portfolio through the registration of new products and existing products in new markets, as well as ensuring compliance with regulatory reporting standards.

Requirements of global regulatory agencies are becoming increasingly stringent and we expect this to continue. The team is leading a major Group-wide programme to prepare for implementation of the European Union (EU) Medical Devices Regulation (MDR), which came into force in May 2017, with a three-year transition period until the date of application in May 2020. The regulation includes new requirements for the manufacture, supply and sale of all CE marked products sold in Europe and requires the re-registration of all medical devices with CE marking, regardless of where the devices are manufactured.
Sustainability

Sustainability is at the core of our business

In 2016, we launched our Group sustainability strategy, setting out aspirational goals and targets. This is a summary report of our activities and progress in 2019.

Our annual Sustainability Report, published at the same time as this Annual Report, describes the Group sustainability strategy and its associated goals in more detail. It specifies targets to move our performance towards these goals, and provides more detail of the progress made during 2019. It is available on our website.

At the end of 2019 we revisited and updated the sustainability strategy for 2025 and beyond. This is summarised below, and described in greater detail in the Sustainability Report.

Sustainability strategy 2016 through 2019

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

At the heart of the sustainability strategy are 10 long-term aspirational goals. These encompassed all aspects of our business, and informed and supported our business strategy. The Board endorsed these and executive management championed them. In 2019, we established a new Sustainability Council to widen executive leadership across the programme.

Employee safety, wellness and volunteering

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

Engagement with the communities in which we operate continues to broaden and deepen through the active attention of site leadership and the empowerment of local camaraderie councils, as well as encouraging the application of company-paid volunteering allowance and matching of employee donations to charity.

We continue to strengthen and deepen employee wellness programmes with a focus on enabling healthy lifestyle choices. For more information see our people & culture report on page 24.

The impact of climate change

One of the United Nations’ Sustainable Development Goals (SDGs), is to ‘take urgent action to combat climate change and its impacts’.

It is widely recognised that continued emission of greenhouse gases will cause further warming of the planet and this warming could lead to damaging social and economic consequences. During 2019, we have continued to consider, and mitigate against, the potential impact of climate change on our business operations.

See more in our Sustainability Report

www.smith-nephew.com/sustainability

Cycling from the UK to Paris to combat liver disease

A team of 34 employees completed a Croxley, UK to Paris three day bike ride, raising over £15,000 for Primary Sclerosing Cholangitis (PSC) support, a cause close to one of our employees. The route took them through the UK South Downs and Northern France, ending 235 miles later with the team riding through the cobbled Parisian streets to finish at the Eiffel Tower.
Our physical assets and supply chains are vulnerable to weather and climate change (e.g. sea level rise, increased frequency and severity of extreme weather events, stress on water resources). In our Orthopaedics business, mineral-based raw materials are dependent upon energy-intensive processes (smelting). Patient populations are vulnerable to a potential rise in infectious disease propagation. Governments and corporations alike are under increasing pressure to mitigate the expected effects of climate change, potentially resulting in infrastructure projects which would require large capital outlays, further increasing the pressure on healthcare payments.

We have for several years rigorously measured our GHG emissions using internationally recognised standards, have set GHG reduction targets, have consistently achieved these targets and have taken a science-based goal going forward aligned with the recommendations of the Intergovernmental Panel on Climate Change to reduce total life cycle greenhouse gas emissions by 80% by 2050. Climate change risk is a component of our business resilience and crisis management programme and we have taken several measures to reduce vulnerability to climate change-exacerbated incidents, such as the improvement of flood defences at Hull (UK). Our new sustainability strategy takes full account of the risks and opportunities presented by climate change, focusing investment on de-carbonising our operations and those of our suppliers and customers. The sustainability strategy is owned by the Sustainability Council, including members of the Executive Committee which ensures that the strategy adequately addresses climate impacts. We understand how important it is to balance environmental initiatives with business activities, and strive to reduce emissions through new technology development, renewable energy use and other measures.

**Future Focus**
We will enhance how we adhere to the principles set out by the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD structured its recommendations around four areas that represent core elements of how organisations operate: governance, strategy, risk management, and metrics and targets. These overarching themes will guide our assessment of climate-related risks and opportunities.

**Governance**
Consideration of short, medium and long term climate-related issues.

**Strategy**
Ensuring that the new sustainability strategy addresses the risks and opportunities of climate change.

**Risk Management**
Full consideration given to climate-based impacts on business continuity and recovery.

**Metrics & Targets**
Commitment to implement 100% renewable electricity at our strategic manufacturing sites by 2025.

---

**CO₂e reporting methodology, materiality and scope**
We report the carbon footprint of our Scope 1 and 2 greenhouse gas (GHG) emissions in tonnes of CO₂ equivalent from our business operations for the calendar year ended 31 December 2019.

Our focus is on the areas of largest environmental impact including manufacturing sites, warehouses, R&D sites and offices. Smaller locations representing less than 2% of our overall emissions are not included. Acquisitions completed before 2019 are included in the data.

Our GHG emissions reporting represents our core business operations and facilities which fall within the scope of our consolidated financial statements. Primary data from energy suppliers has been used wherever possible.

We report our emissions in two scopes:
- Scope 1 figures include: Direct sources of emissions which mainly comprise the fuels we use on-site, such as gas and heating oil and fugitive emissions arising mainly from the losses of refrigerant gases.
- Scope 2 figures include: Indirect sources of emissions such as purchased electricity and steam we use at our sites.

Location-based emissions are calculated in compliance with the WRI/WB CSD GHG Protocol Corporate Accounting and Reporting Standard and have been calculated using carbon conversion factors published by BEIS/DEFRA for 2019. We have applied the emission factors most relevant to the source data, including DEFRA 2019 (for UK locations), IEA 2017 (for overseas locations) and for the US we have used the most recently available US EPA ‘Emissions & Generation Resource Integrated Database’ (eGRID) for the regions in which we operate. All other emission factors for gas, oil, steam and fugitive emissions are taken from DEFRA 2019.

<table>
<thead>
<tr>
<th>CO₂e emissions (tonnes) from:</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct emissions</td>
<td>9,888</td>
<td>9,956</td>
<td>9,451</td>
<td>9,822</td>
</tr>
<tr>
<td>Indirect emissions</td>
<td>67,324</td>
<td>67,886</td>
<td>76,107</td>
<td>82,415</td>
</tr>
<tr>
<td>Total</td>
<td>77,212</td>
<td>77,842</td>
<td>85,558</td>
<td>92,237</td>
</tr>
</tbody>
</table>

Intensity ratio:
- CO₂e (t) per $m sales revenue: 15.1, 15.9, 17.8, 19.6
- CO₂e (t) per full-time employee: 4.3, 4.7, 5.2, 5.9

Sustainability continued

**Our performance**

<table>
<thead>
<tr>
<th>Our 10 long-term aspirational goals</th>
<th>Performance to 31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Zero work-related injuries and illnesses across the value chain</strong></td>
<td>A reduction of 6% since 2016 (in 2016 the TIR was 0.52, in 2019 the TIR is 0.49).</td>
</tr>
<tr>
<td>10% reduction in Total Injury Rate (TIR) from 2016 actual.</td>
<td></td>
</tr>
<tr>
<td><strong>Water: Total water impacts of products and solutions balanced with local human and ecosystem needs</strong></td>
<td>Products accounting for 75% of revenue identified. Water footprint tools identified.</td>
</tr>
<tr>
<td>Water footprint available for products accounting for 75% of revenue and considerations embedded in new product development process. Total potable water consumption no higher than 2016 actual.</td>
<td>Life Cycle Assessment (LCA) not completed.</td>
</tr>
<tr>
<td><strong>Waste: All materials are either shipped as part of product or returned for beneficial use</strong></td>
<td>Products accounting for 75% of revenue identified. Material efficiency tools identified.</td>
</tr>
<tr>
<td>Total material efficiency estimated for products accounting for 75% of revenue and 80% or more of waste generated reused, recycled or recovered.</td>
<td>LCA not completed.</td>
</tr>
<tr>
<td><strong>Carbon: 80% absolute reduction in total life cycle greenhouse gas emissions by 2050</strong></td>
<td>Products accounting for 75% of revenue identified. Total life cycle greenhouse gas emissions tools identified.</td>
</tr>
<tr>
<td>Estimate total life cycle greenhouse gas emissions of products accounting for 75% of revenue.</td>
<td>LCA not completed.</td>
</tr>
<tr>
<td>Total Scope 1 &amp; 2 greenhouse gas emissions reduced by 10% from 2016 actual.</td>
<td>Greenhouse gas emissions reduction of 16% since 2016.</td>
</tr>
<tr>
<td><strong>Ethical Business Practices: All activities conducted in compliance with applicable International Labour Organization (ILO) conventions, involve no environmental degradation, and are free from corruption</strong></td>
<td>Products accounting for 75% of revenue identified. Assessment to applicable ILO conventions completed for internal operations. Engagement with upstream suppliers and downstream distributors and agents under way.</td>
</tr>
<tr>
<td>Labour practices throughout the supply chain associated with products accounting for 75% of revenue compliant with applicable ILO conventions.</td>
<td></td>
</tr>
<tr>
<td><strong>Zero product-related and service-related patient injuries</strong></td>
<td>Systems are in place to detect, record and investigate patient injury incidents. Patterns in the data are being used to craft models which will allow identification of at-risk attributes. The root cause elimination protocols are in place and operational.</td>
</tr>
<tr>
<td>Robust system in place to detect, record, investigate and eliminate root cause of product and service-related patient injuries.</td>
<td></td>
</tr>
<tr>
<td><strong>Robust social responsibility programmes that contribute to the attraction and retention of top talent</strong></td>
<td>Social responsibility strategy in place but requires updating to align with the Group business strategy and the new sustainability strategy.</td>
</tr>
<tr>
<td>Social responsibility strategy which aligns philanthropy, employee volunteering and wellness to the business strategy.</td>
<td></td>
</tr>
<tr>
<td><strong>Products and services are aligned to market economic, social and environmental expectations and anticipate future market conditions</strong></td>
<td>Products accounting for 75% of revenue identified. Product/service sustainability attributes agreed.</td>
</tr>
<tr>
<td>Sustainability attributes described for products accounting for 75% of revenue. Robust emphasis on sustainability attributes of new products/services in place.</td>
<td>New product development (NPD) sustainability focus planning under way.</td>
</tr>
<tr>
<td><strong>Strategic risks and opportunities are understood and business activities are aligned to risk appetite</strong></td>
<td>Enterprise Risk Management processes and supporting manual redeveloped.</td>
</tr>
<tr>
<td>Enterprise Risk Management arrangements are embedded in the routine business decision-making process.</td>
<td>Senior business risk champions appointed and trained in risk management.</td>
</tr>
<tr>
<td></td>
<td>Risk registers refreshed and mitigating actions regularly monitored and updated.</td>
</tr>
<tr>
<td></td>
<td>Principle risks aligned to new organisation structure and strategic imperatives.</td>
</tr>
<tr>
<td><strong>Environmental, social, and economic impacts of business activities fully understood and appropriately balanced</strong></td>
<td>Conducted a number of ‘deep dives’ into several key risks. Tools and standards to address new technologies are being developed to support our NPD work above.</td>
</tr>
<tr>
<td>Formal programmes in place to measure/assess the economic, social and environmental impacts of (1) potential acquisitions, (2) technologies to be extended to Emerging Markets, (3) innovative business models, (4) cost-of-quality reduction initiatives, and (5) manufacturing siting, functional optimisation and site utilisation alternatives.</td>
<td>LCA outputs not available.</td>
</tr>
</tbody>
</table>

See more in the Sustainability Report

Smith+Nephew Annual Report 2019
Looking forward: our new sustainability strategy

Our new sustainability strategy is more responsive to the challenges facing society in areas in which we can make a meaningful difference. It is also more deeply embedded into our Group business strategy, ensuring that sustainability is fully connected to our business success.

To realise the goals in our strategy, we must work towards achieving our medium-term sustainability targets. Delivery against these will be key to the continued success of our Company.

In 2019, we established our Sustainability Council to set and ensure delivery of our sustainability strategy, so that sustainability becomes embedded throughout Smith+Nephew.

Delivering this is critical to achieving our strategic business imperatives, which deliver long-term shareholder value not only through profits, but also by engaging our employees and positively impacting society in the communities in which we operate. Our Council is intentionally set at the executive level to ensure a top down approach to sustainability and that sustainability is visible to the Board through regular updates to the Culture & Compliance Committee. The Sustainability Council is made up of executives from Human Resources, Global Operations, Quality and Regulatory Affairs, Research & Development, Commercial and Procurement.

Our sustainability strategy includes challenging targets in the three areas of People, Planet and Products. More details on these, including the actions we are undertaking to meet our commitments, are contained in our 2019 Sustainability Report. Our new targets are summarised below.

**Enhanced targets**

**People**

- **Creating a lasting positive impact on our communities**
  - Between 2020 and 2030, contribute **1 million** volunteer hours to the communities in which we live and work.
  - Between 2020 and 2030, donate **$125 million** in cash and products to underserved communities.

**Planet**

- **Having the most positive impact in the MedTech sector**
  - Achieve an 80% absolute reduction in total life cycle greenhouse gas emissions by 2050 beginning by implementing **100% renewable electricity** (eg solar or wind) plans at our facilities in Memphis (US) and Malaysia by 2022 and at all of our strategic manufacturing facilities by 2025.
  - Achieve **zero waste to landfill** at our facilities in Memphis (US) and Malaysia by 2025 and at all of our strategic manufacturing facilities by 2030.

**Products**

- **Innovating sustainably**
  - By 2022, include sustainability review in New Product Development phase reviews for **all** new products and product acquisitions.
  - By 2025, incorporate **at least 30%** post-consumer recycled content into all packaging materials.
  - By 2025, complete supply chain assessment of **all** suppliers and subsequent tier levels to assure compliance with our sustainability requirements.
Chief Financial Officer’s review

Dear Shareholder

In 2019 the Group adopted a new global commercial model built around three specialised global franchises, unveiled a new purpose and culture pillars, and introduced five new strategic imperatives which formed our value creation plan. These important changes underpinned our improved performance in 2019.

2019 Performance

Group revenue in 2019 was $5,138 million, an increase of 4.8% on a reported basis and 4.4% on an underlying basis.1 Our performance accelerated across the year, with revenue growth of 7.7% on a reported basis and 4.9% on an underlying basis1 in the second half.

The reported operating profit for 2019 was $815 million, a 6% reduction from the previous year as the costs associated with recent acquisitions and amortisation of acquired intangibles both rose, reflecting our strategic commitment to sourcing innovation externally as well as from our internal R&D activities, in order to drive mid-term growth. The costs of the Accelerating Performance and Execution (APEX) restructuring programme and legal and other charges were also marginally higher than the prior year.

Trading profit1 for the year was $1,169 million and the trading profit margin1 was 22.8% reflecting savings realised under the APEX programme offset by re-investment in the business, including more in R&D, and dilution from acquisitions (2018: 22.9% including 50bps benefit from one-off legal settlement not repeated in 2019). We took a $121 million charge in the year to increase our provision for metal-on-metal hip claims globally and received $147 million in insurance recoveries relating to the same matter.

“In 2020 we intend to build on the success of 2019, sustaining our improved performance whilst continuing to invest in the business and improve efficiency.”

Graham Baker
Chief Financial Officer
Each of the three global franchises made a good contribution to the Group’s 2019 trading profit. The reported tax rate was 19.2% (2018: 15.1%). The tax rate on trading results1 for the year to 31 December 2019 was 19.1% (2018: 16.1%). This was at the lower end of the guided rate of between 19–21%. The reported tax rate was in-line with the tax rate on trading results as most non-trading items are expected to be tax deductible.

Basic earnings per share (‘EPS’) was down 10% to 68.6¢ reflecting the impact of acquisitions completed during the year and restructuring charges related to the APEX programme. Adjusted earnings per share1 (‘EPSA’) was up 1% at 102.2¢, reflecting improved trading performance but suppressed by the one-off benefit from a tax provision release in the prior year.

I’m pleased to report that trading cash flow2 was $970 million, up from $951 million in 2018, and we had another year of strong cash conversion (as defined on page 201) at 83% (2018: 85%). Return On Invested Capital (ROIC1 – as defined on page 204) was 10.5% (2018: 12.5%), reflecting the reduction in operating profit compared to the prior year, principally as a result of additional costs of acquisitions.

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

Net debt2 including lease liabilities was $1,770 million at year end, an increase of $666 million from $1,104 million at 31 December 2018. The Group transitioned to IFRS 16 on 1 January 2019 resulting in lease liabilities of $170 million at 31 December 2019.

As part of our strategy to expand in higher growth markets, we actively pursued value-enhancing M&A opportunities in 2019, investing $869 million in acquisitions.

Efficiency
The APEX programme, initiated at the end of 2017, incurred restructuring costs of $134 million in 2019, with additional benefits recognised in the 2019 income statement of around $80 million. This programme is nearing its conclusion and is now expected to deliver annualised benefits of $190 million, $30 million more than originally expected, for a one-off cost of $290 million, $50 million more than originally planned.

As part of the APEX programme significant changes have been made to the finance team within Smith+Nephew. We have an integrated team that combines resources across our major markets with significant support and leadership resource now located in our business services centres in India, Poland, Malaysia and Costa Rica. The finance team has undertaken the challenge of making these changes in a positive way. I am proud of what we have already achieved and excited about the next steps toward our target operating model.

Outlook
In 2020 we expect our underlying revenue growth to be in the range of 3.5% to 4.5%. On a reported basis this equates to a range of around 4.0% to 5.0%, with foreign exchange reducing reported growth by around -80bps based on exchange rates prevailing on 14 February 2020, and acquisitions adding 130bps.

We expect to deliver a 2020 trading profit margin1 at or slightly above 2019 levels. This is after absorbing a transactional foreign exchange headwind of around -50bps, dilution from the 2019 acquisitions and Tusker Medical acquired in January 2020, and the planned increase in investment in R&D, offset by the benefits of the APEX programme.

Smith+Nephew is monitoring the COVID-19 outbreak closely, which introduces additional uncertainty. Our full year outlook assumes that the situation normalises in early Q2. China represented 7% of Group revenue in 2019.

The tax rate on trading results for 2020 is expected to be in the range 18.5% to 19.5%, subject to any material changes to tax law or other one-off items.

Yours sincerely,

Graham Baker
Chief Financial Officer

---

1 These non-IFRS financial measures are explained and reconciled to the most directly comparable financial measure prepared in accordance with IFRS on pages 200–204.
2 Net debt is reconciled in Note 15 to the Group accounts.
## Financial review

### Important changes in 2019 underpinned our improved performance

### Group performance

<table>
<thead>
<tr>
<th></th>
<th>2019 $ million</th>
<th>2018 $ million</th>
<th>Change $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>5,138</td>
<td>4,904</td>
<td>234</td>
</tr>
<tr>
<td>Operating profit</td>
<td>815</td>
<td>863</td>
<td>(48)</td>
</tr>
<tr>
<td>Trading profit(^1)</td>
<td>1,169</td>
<td>1,123</td>
<td>46</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>743</td>
<td>781</td>
<td>(38)</td>
</tr>
<tr>
<td>Attributable profit</td>
<td>600</td>
<td>663</td>
<td>(63)</td>
</tr>
<tr>
<td>EPS</td>
<td>68.6¢</td>
<td>76.0¢</td>
<td>(7.4¢)</td>
</tr>
<tr>
<td>EPSA(^1)</td>
<td>102.2¢</td>
<td>100.9¢</td>
<td>1.3¢</td>
</tr>
</tbody>
</table>

### Non-IFRS measures

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

<table>
<thead>
<tr>
<th></th>
<th>2019 $ million</th>
<th>2018 $ million</th>
<th>Reported growth %</th>
<th>Underlying growth %</th>
<th>Acquisitions/Disposals %</th>
<th>Currency impact %</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>2,551</td>
<td>2,354</td>
<td>8.4%</td>
<td>3.3%</td>
<td>5.1%</td>
<td>0%</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Established Markets</td>
<td>1,630</td>
<td>1,693</td>
<td>(3.7%)</td>
<td>0.2%</td>
<td>0.2%</td>
<td>(4.1%)</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>957</td>
<td>857</td>
<td>11.7%</td>
<td>16.1%</td>
<td>0.4%</td>
<td>(4.8%)</td>
</tr>
<tr>
<td>Total</td>
<td>5,138</td>
<td>4,904</td>
<td>4.8%</td>
<td>4.4%</td>
<td>2.6%</td>
<td>(2.2%)</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2019 %</th>
<th>2019 $ million</th>
<th>2018 %</th>
<th>2018 $ million</th>
<th>2018 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>15.9%</td>
<td>815</td>
<td>17.6%</td>
<td>863</td>
<td>(17.6%)</td>
</tr>
<tr>
<td>Acquisition and disposal related items</td>
<td>0.6%</td>
<td>32</td>
<td>(0.1%)</td>
<td>(7)</td>
<td>(0.1%)</td>
</tr>
<tr>
<td>Restructuring and rationalisation costs</td>
<td>2.6%</td>
<td>134</td>
<td>2.4%</td>
<td>120</td>
<td>2.4%</td>
</tr>
<tr>
<td>Amortisation and impairment of acquisition intangibles</td>
<td>2.8%</td>
<td>143</td>
<td>2.3%</td>
<td>113</td>
<td>2.3%</td>
</tr>
<tr>
<td>Legal and other</td>
<td>0.9%</td>
<td>45</td>
<td>0.7%</td>
<td>34</td>
<td>0.7%</td>
</tr>
<tr>
<td>Trading profit</td>
<td>22.8%</td>
<td>1,169</td>
<td>22.9%</td>
<td>1,123</td>
<td>22.9%</td>
</tr>
</tbody>
</table>

### Dividends

The 2018 final dividend of 22.0 US cents per ordinary share totalling $192 million was paid on 8 May 2019. The 2019 interim dividend of 14.4 US cents per ordinary share totalling $126 million was paid on 30 October 2019.

### Return on invested capital

Return On Invested Capital\(^1\) (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 decreased from 12.5% in 2018 to 10.5% in 2019 as a result of the reduction in operating profit.

ROIC is defined as:

\[
\text{ROIC} = \frac{\text{Operating Profit less Adjusted Taxes}}{(\text{Opening Net Operating Assets} + \text{Closing Net Operating Assets})/2}
\]
Balance sheet data and net debt

<table>
<thead>
<tr>
<th></th>
<th>2019 $ million</th>
<th>2018 $ million</th>
<th>Change $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill and intangible assets</td>
<td>4,356</td>
<td>3,547</td>
<td>809</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>1,724</td>
<td>1,435</td>
<td>289</td>
</tr>
<tr>
<td>Current assets</td>
<td>3,219</td>
<td>3,077</td>
<td>142</td>
</tr>
<tr>
<td>Total assets</td>
<td>9,299</td>
<td>8,059</td>
<td>1,240</td>
</tr>
<tr>
<td>Total equity</td>
<td>5,141</td>
<td>4,874</td>
<td>267</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>2,594</td>
<td>1,720</td>
<td>874</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>1,564</td>
<td>1,465</td>
<td>99</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>4,158</td>
<td>3,185</td>
<td>973</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>9,299</td>
<td>8,059</td>
<td>1,240</td>
</tr>
<tr>
<td>Net debt including lease liabilities</td>
<td>1,770</td>
<td>1,104</td>
<td>666</td>
</tr>
</tbody>
</table>

Goodwill increased by $452 million as a result of acquisitions in the year giving rise to goodwill of $441 million and foreign currency movements of $11 million. Intangible assets increased by $357 million primarily because of acquisitions of $515 million and additions of $49 million being partially offset by amortisation of $204 million.

Other non-current assets increased by $289 million primarily due to an increase of $261 million in property, plant and equipment of which $156 million relates to IFRS 16 right-of-use assets. Current assets increased by $142 million primarily as a result of inventories increasing $219 million due to sales growth and new product build which was partially offset by a decrease in cash of $88 million.

Non-current liabilities increased by $874 million primarily due to a $674 million increase in borrowings of which $124 million relates to the non-current portion of IFRS 16 lease liabilities and $553 million relates to new Euro-denominated borrowings. Current liabilities increased by $99 million primarily relating to the $46 million current portion of IFRS 16 lease liabilities and increases in payables and provisions of $171 million which was partially offset by a repayment of borrowings of $125 million.

Cash flow data

<table>
<thead>
<tr>
<th></th>
<th>2019 $ million</th>
<th>2018 $ million</th>
<th>Change $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash generated from operations</td>
<td>1,370</td>
<td>1,108</td>
<td>262</td>
</tr>
<tr>
<td>Trading cash flow&lt;sup&gt;1&lt;/sup&gt;</td>
<td>970</td>
<td>951</td>
<td>19</td>
</tr>
<tr>
<td>Free cash flow&lt;sup&gt;1&lt;/sup&gt;</td>
<td>714</td>
<td>584</td>
<td>130</td>
</tr>
</tbody>
</table>

Cash generated from operations of $1,370 million is after paying out $36 million of acquisition and disposal related items, $123 million of restructuring and rationalisation expenses and a $105 million inflow relating to legal and other items.

Trading cash flow<sup>1</sup> increased by $19 million driven by higher trading profit. Free cash flow<sup>1</sup> increased by $130 million primarily related to insurance recoveries for ongoing metal-on-metal hip claims.

During the year ended 31 December 2019, the Group purchased a total of 3.1 million (2018: 2.7 million) ordinary shares at a cost of $63 million (2018: $48 million) as part of the ongoing programme to buy back an equivalent number of shares to those vesting as part of the employee share plans.

Liquidity and capital resources

The Group’s policy is to ensure that it has sufficient funding and facilities in place to meet foreseeable borrowing requirements.

The Group’s net debt<sup>2</sup> increased from $1,104 million at the beginning of 2019 to $1,770 million at the end of 2019, representing an overall increase of $666 million of which $170 million relates to IFRS 16 lease liabilities.

At 31 December 2019, the Group held $257 million (2018: $333 million) in cash net of bank overdrafts. The Group had committed available facilities of $2,851 million at 31 December 2019 of which $1,851 million was drawn.

The principal variations in the Group’s borrowing requirements result from the timing of dividend payments, acquisitions and disposals of businesses, timing of capital expenditure and working capital fluctuations. Smith+Nephew believes that its capital expenditure needs and its working capital funding for 2020, as well as its other known or expected commitments or liabilities, can be met from its existing resources and facilities.

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

2 Net debt is reconciled in Note 15 to the Group accounts.
Like all businesses, we face a number of risks and uncertainties

Successful management of existing and emerging risks is critical to the achievement of our strategic objectives and to the long-term success of our business. Risk management is therefore an integral component of the Group’s Corporate Governance.

As in previous years our Enterprise Risk Management process is based on a holistic approach to risk management. Our belief is that the strategic and operational benefits of managing risk are achieved when Enterprise Risk Management is aligned with the strategic and operational goals of the organisation, and our process and governance structure achieves this.

The current financial year has seen a further maturing of the risk management framework which is now fully aligned to our structure and integrated into our business processes.

Our risk governance framework is set out above. At the very top of our structure is our Board, setting our risk appetite and monitoring the application of our risk framework including strategy, execution and outputs of risk reviews by the business and Group Risk Team. The Board cascades our risk appetite throughout our organisation through the Executive Committee, risk owner community and our management group. A formal ‘bottom-up’ exercise ensures that risks are escalated back through the process to our Board and form our Principal Risks as appropriate. Providing guidance and rigour across this process is our Executive Committee and the Group Risk Team.

At the third line of defence is our Internal Audit Function, providing an annual opinion on the effectiveness of our Risk Management process to the Executive Committee, chaired by the Chief Executive Officer, and then to the Board and its Committees.

Board of Directors and Board Committees
- Responsible for regular oversight of risk management, for our annual strategic risk review and for determining the risk appetite the organisation is willing to take in achieving its strategic objectives.
- Monitors risks through Board processes (Strategy Review, Disclosures, M&A, Investments, Disposals) and Committees (Audit and Compliance & Culture).
- The Audit Committee is responsible for ensuring oversight of the process by which risks relating to the Company and its operations are managed and for reviewing the operating effectiveness of the Group’s Risk Management process.
Executive Committee sitting as Group Risk Committee
- Identifies and ensures the management of risks that would prevent us from achieving our objectives.
- Appoints Business Area Risk Champions who are accountable for applying the Enterprise Risk Management Policy and Framework to produce the risk deliverables.
- Reviews external/internal environment for emerging risks.
- Reviews risk register updates from Business Area Risk Champions.
- Identifies significant risks and assesses effectiveness of mitigating actions.

Business Area Risk Champions
- Carry out day-to-day risk management activities.
- Identify and assess risk.
- Implement strategy and mitigating actions to treat risk within Business Area.
- Business Area Risk Champions lead regular risk register updates.

Group Risk Team
- Manages all aspects of the Group’s approach to Enterprise Risk Management including design and implementation of processes, tools and systems to identify, assess, measure, manage, monitor and report risks.
- Facilitates implementation and co-ordination through Business Area Risk Champions.
- Provides resources and training to support process.
- Regular risk reporting to the Executive Committee.
- Prepares Board and Group Risk Committee reports.

Annual assessment of effectiveness – Internal audit
- Provides independent assurance to the Board and Audit Committee on the effectiveness of the Group’s Risk Management process.

Risk management life cycle
Our risk management life cycle was fully refreshed in 2017 and was updated in 2019 to align with strategic imperatives and franchise structure.

Our Risk Management Policy, sponsored by our Chief Executive Officer, is supported by an Enterprise Risk Management Manual and the risk team provide training to all risk champions. As in prior years risks continue to be managed through a ‘top-down’ and ‘bottom-up’ process, with regular oversight from the Executive Committee and quarterly reports to the Board Committees. An overview of our risk management life cycle is illustrated.

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Risk identification</td>
</tr>
<tr>
<td>2.</td>
<td>Gross (inherent) risk assessment</td>
</tr>
<tr>
<td>3.</td>
<td>Current control identification</td>
</tr>
<tr>
<td>4.</td>
<td>Net (residual) risk</td>
</tr>
<tr>
<td>5.</td>
<td>Risk response planning</td>
</tr>
<tr>
<td>6.</td>
<td>Risk reporting</td>
</tr>
<tr>
<td>7.</td>
<td>Monitoring and review</td>
</tr>
</tbody>
</table>

1. Risk identification
Identifying risks associated with the achievement of our objectives by function at the Group level.

2. Gross (inherent) risk assessment
Assessing the level of inherent (gross) risk.

3. Current control identification
Identifying existing controls to mitigate risks.

4. Net (residual) risk
Assessing the level of residual (net) risk after mitigation so that risk levels are managed within tolerance thresholds without being over-controlled or foregoing desirable opportunities.

5. Risk response planning
Identifying additional actions required to meet our expected risk tolerance level and assigning risk owners, timeframes and actions for ongoing management and reporting.

6. Risk reporting
Reporting the status of our most significant risks through the ‘bottom-up’ business area processes and the ‘top-down’ Executive Committee and Board process.

7. Monitoring and review
Monitoring of risks and actions by management, the accountable Executive and Board.
### 2019 principal risks

We assess our Principal Risks in terms of their potential impact on our ability to deliver our Strategic Imperatives. These links are highlighted across the following pages and further information on the Strategic Imperatives is found on page 8. Our Group risk profile has not changed significantly in 2019.

## Business continuity and business change

The need to ensure the continuous operations of key sites and facilities in order to develop, manufacture and sell our products is a key strategic imperative of the organisation. In addition, the pace and scope of our business 'change' initiatives increases the execution risk that benefits may not be fully realised, costs of these changes may increase, or that our business as usual activities may not perform in-line with our plans.

### Examples of risks
- Natural disaster causes disruption to manufacturing at single or sole source facility (lack of manufacturing redundancy).
- Severe weather patterns caused by climate change or natural disaster causes damage to manufacturing or distribution facilities, impacting ability to meet customer demand.
- Significant 'change' prevents our projects and programmes achieving the intended benefits and disrupts existing business activities.
- Disruption to the business due to critical systems unavailability.
- Widespread outbreaks of infectious diseases (such as COVID-19).

### Actions taken by management
- Emergency and incident management and business recovery plans are in place at major facilities and for key products and key suppliers.
- Sustainability Council and policy in place.
- Project management governance and toolkits and project steering committee oversight to support successful execution of programme and projects.
- Executive Committee and Audit Committee oversight of Risks to change programmes.
- IT disaster recovery policy in place.

### Risk tolerance
In managing our facilities and executing our change programmes we have a low to moderate tolerance for this risk.

### Link to strategy
Our Strategic Imperative to 'Become the best owner' requires us to ensure we remain sustainable into the future and to drive meaningful margin expansion through operational transformation and organisation simplification.

## Supply (New risk*)

Operating with a global remit, increased outsourcing, more sophisticated materials and the speed of technological change in an already complex manufacturing process leads to greater potential for disruption in our supply chain.

### Examples of risks
- Failure or significant performance issues experienced at critical/single source facilities.
- Disruption to manufacturing at single or sole source facility (lack of manufacturing redundancy).
- Supplier failure impacts ability to meet customer demand (single source suppliers).
- Inadequate sales and operational planning impacts ability to meet customer demand for product.
- Manufacturing and supply chain capacity not adequate to support growth.

### Actions taken by management
- Comprehensive product quality processes and controls are in place from design to customer supply.
- Undertaking risk-based review programmes for critical suppliers.
- Global Operations transformation programme to optimise manufacturing and distribution centres.
- Executive oversight of sales and operational planning.
- Executive Committee and Audit Committee oversight of risks to change programmes.

### Risk tolerance
In operating our business and managing our supply chain we have a low to moderate tolerance for this risk.

### Link to strategy
Our Strategic Imperative to ‘Achieve the full potential of our portfolio’ requires us to optimise the supply chain to support business growth.

* Previously incorporated into Business Continuity.
### Cybersecurity

High profile incidents coupled with increasing government focus has resulted in raised awareness of the extent and potential impact of cybersecurity breaches. Our increasing business dependence on networked systems and the internet, the design of new products, digital medical devices and the rapidly evolving cybersecurity threat landscape provides a new level of risk exposure. In response to this we have progressed our activities to manage our threats and vulnerabilities to target cybersecurity investment in the right places.

### Examples of risks
- Loss of intellectual property/major data privacy breach or significant impact on business operations.
- Inadequate consideration of cybersecurity in the design of new products.

### Actions taken by management
- Security information and event management (SIEM) in place provides real-time analysis of security alerts generated by applications and network hardware.
- Regular penetration testing and frequent vulnerability scanning. Endpoint protection and Intrusion detection/prevention.
- The adoption of Multi-Factor authentication tools to reduce the likelihood of remote attacks.
- Annual mandatory training and continuous awareness training for end-users.
- Security governance structure in place including a Cybersecurity Steering Committee.
- Further strengthening governance including a programme to monitor cybersecurity capabilities and controls, technical and governance matters.

### Risk tolerance
In managing our cyber risk and the possible disruption and reputational impact we have a low to moderate tolerance for cybersecurity risk.

### Link to strategy
Our Strategic Imperative to ‘Transform the business through enabling technologies’ requires us to deliver technology solutions in compliance with laws and regulations and in a way that protects any vulnerability to cyber risk.

<table>
<thead>
<tr>
<th>Oversight</th>
<th>Audit Committee</th>
</tr>
</thead>
</table>
### Quality and regulatory

Global regulatory bodies continue to increase their expectations of manufacturers and distributors of medical devices. Our products are used in the human body and therefore patient safety is of paramount importance. The European Medical Device Regulations, launch of ISO 13485:2016, the Medical Device Single Audit Programme and the tightening of the Chinese YY standards have increased the focus on clinical and technical evidence, supplier controls and continual product risk reduction.

Uncertainty in terms of the UK’s future trade and regulatory relations between the EU and UK continued in 2019. Like many other companies we have planned for the impact of a range of eventualities, particularly in continuity assessment and how our products will continue to be appropriately registered for trade around the EU.

### Examples of risks

- Changes to Medical Device Regulations effective in May 2020, impact ability to meet customer demand.
- Increase in Notified Body Review product submission and site/system certification time impacting ability to meet customer demand.
- Defects in design or manufacturing of products supplied to, and sold by, the Group could lead to product recalls or product removal or result in loss of life or major injury.
- Significant non-compliance with policy, regulations or standards governing products and operations regarding registration, manufacturing, distribution, sales or marketing.
- Failure to obtain proper approvals for new or changed technologies, products or processes.

### Actions taken by management

- Regular engagement with Notified Body and regulatory representatives to monitor regulatory changes and understand interpretation of legislation.
- Comprehensive and documented product quality processes and controls from design to customer distribution are in place.
- Standardised monitoring and compliance with quality management practices through our Global Quality Assurance and Regulatory Affairs organisation.
- Incident management teams in place to provide timely response in the event of an incident relating to patient safety.
- Governance framework in place for reporting, investigating and responding to instances of product safety and complaints.
- Medical Device Regulation Steering Group regularly monitors preparation activities to comply with new requirements.
- Transition of Medical Device Directive certificates to EU notified body.
- Brexit working group is following their planned mitigations.

### Risk tolerance

Our response to this risk continues to be critical and our ability to align the standards required to ensure safe and compliant products is the key driver for our extremely low tolerance for risk in this area.

### Link to strategy

Our Strategic Imperative to ‘Become the best owner’ requires us to operate effectively and efficiently and to produce compliant products of high quality to provide safe and effective solutions to our customers.
**New product innovation, design & development including intellectual property**

Our new product innovation pipeline is becoming larger and increasingly complex as we start to make our products digital and focused for growth in emerging markets like China. As a result, we need to continue to consider the impact of new standards and regulations such as cybersecurity, and country/region specific standards and requirements. We also need to continue to consider intellectual property matters.

<table>
<thead>
<tr>
<th>Examples of risks</th>
<th>Actions taken by management</th>
<th>Risk tolerance</th>
<th>Link to strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Failure to develop an appropriate pipeline of commercially successful products to meet and anticipate the needs of our customers ahead of the competition.</td>
<td>– Global R&amp;D organisation and governance framework providing strategic direction for allocation of R&amp;D investments across all businesses. Clear stage-gate process to continually evaluate R&amp;D investments decisions and development of new products.</td>
<td>In pursuit of our strategy to be innovative in our product offering we have a moderate to high tolerance for risk.</td>
<td>Our Strategic Imperative to “Transform the business through enabling technologies” depends heavily on our ability to continue to develop new innovative products and bring them to market.</td>
</tr>
<tr>
<td>– Insufficient long-term planning to respond to competitor disruptive entries into marketspace.</td>
<td>– Enhanced relationship with Commercial team to focus on developing products that customers need.</td>
<td>– Strengthened Clinical Affairs programme.</td>
<td></td>
</tr>
<tr>
<td>– Inadequate innovation due to low Research &amp; Development (R&amp;D) investment, R&amp;D skills gap or poor product development execution.</td>
<td>– Cross functional New Product Design and R&amp;D processes focused on identifying new products and potentially disruptive technologies and solutions.</td>
<td>– Project initiated for global PLM systems.</td>
<td></td>
</tr>
<tr>
<td>– Loss of proprietary data due to natural disasters or failure of Product Lifecycle Management (PLM) systems.</td>
<td>– Monitoring of external market trends and collation of customer insights to develop product strategies.</td>
<td>– Careful attention to intellectual property considerations.</td>
<td></td>
</tr>
<tr>
<td>– Competitors may assert patents or other intellectual property rights against the Company, or fail to respect the Company’s intellectual property rights.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Risk tolerance**

We have a moderate tolerance for this risk.

**Link to strategy**

Our Strategic Imperative ‘Strengthen talent and capabilities’ underpins all other strategic imperatives to ensure that we have the right talent within our organisation to deliver in everything we do and to build strong leaders for the future.

**Talent management**

We recognise that people management, effective succession planning and the ability to engage, retain and attract talent is of great importance to the success of our Company. In the current economic environment of strong competition and reduced spending, retention of top talent is a critical risk which requires a strong retention and engagement process. Failure to do so can result in risks in our ability to execute the Group strategy and be effective in the chosen market/discipline.

<table>
<thead>
<tr>
<th>Examples of risks</th>
<th>Actions taken by management</th>
<th>Risk tolerance</th>
<th>Link to strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Loss of key talent, high attrition and lack of appropriate succession planning in context of required skillsets for future business needs.</td>
<td>– Wage and benefit levels are benchmarked against industry averages every six months and adjusted as necessary.</td>
<td>We have a moderate tolerance for this risk.</td>
<td>Our Strategic Imperative ‘Strengthen talent and capabilities’ underpins all other strategic imperatives to ensure that we have the right talent within our organisation to deliver in everything we do and to build strong leaders for the future.</td>
</tr>
<tr>
<td>– Loss of competitive advantage due to an inability to attract and retain top talent.</td>
<td>– Talent planning and people development processes are well established across the Group. Talent and succession planning is discussed annually by the Board and regularly by the Executive Committee and Nomination &amp; Governance Committee.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Loss of intellectual capital due to poor retention of talent.</td>
<td>– Identification of high performing individuals and practices to plan for the succession of key roles.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>– Consistent and robust performance management process.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>– Development of strategic skills resourcing plan by functional areas.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Pricing and reimbursement

Our success depends on our ability to sell our products profitably in spite of increasing pricing pressures from customers, and governments providing adequate funding to meet increasing demands arising from demographic trends. The prices we charge are therefore impacted by budgetary constraints and our ability to persuade customers and governments of the economic value of our products, based on clinical data, cost, patient outcomes and comparative effectiveness. We further face challenging market dynamics, such as consolidation of customers into buying groups, increasing professionalisation of procurement departments and the commoditisation of entire product groups, which continue to challenge prices.

Examples of risks
– Reduced reimbursement levels and increasing pricing pressures.
– Systemic challenge on number of elective procedures.
– Lack of compelling health economics data to support reimbursement requests.
– Risk of adverse trading margins due to fluctuating foreign currency exchange rates across our main manufacturing countries (US, UK, Costa Rica and China) and where our products are sold.

Actions taken by management
– Franchise structure and enhanced franchise reporting to improve visibility of profitability.
– Development of innovative economic product and service solutions for both Established and Emerging Markets.
– Appropriate breadth of portfolio and geographic spread to mitigate exposure to localised risks.
– Incorporating health economic components into the design and development of new products.
– Emphasising value propositions tailored to specific stakeholders and geographies through strategic investment and marketing programmes.

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

Link to strategy
Our Strategic Imperative to ‘Achieve the full potential of our portfolio’ depends on our ability to sell our products profitably in spite of increased pricing pressures from payers.

Mergers and acquisitions

As the Company grows to meet the needs of our customers and patients, we recognise that we are not able to develop all the products and services required using internal resources and therefore need to undertake mergers and acquisitions in order to expand our offering and to complement our existing business. In other areas, we may divest businesses which are no longer core to our activities. It is crucial for our long-term success that we make the right choices around acquisitions and divestments. We have a well-defined cross-functional process for managing risks associated with mergers and acquisitions that is subject to scrutiny from executive management and the Board of Directors.

Examples of risks
– Failure to identify appropriate acquisitions.
– Failure to conduct effective acquisition due diligence.
– Failure to integrate newly acquired businesses effectively, including integration with Company standards, policies and financial controls.

Actions taken by management
– Acquisition activity is aligned with corporate strategy and prioritised towards products, franchises and markets identified to have the greatest long-term potential.
– Clearly defined investment appraisal process based on range of valuation metrics including return on capital, in accordance with Capital Allocation Framework and comprehensive post-acquisition review programme.
– Undertaking detailed and comprehensive cross-functional due diligence prior to acquisitions.
– Compliance risks included as part of due diligence reviews, integration plans and reporting for acquisitions.

Risk tolerance
In acquiring new businesses and business models, we have a moderate to high tolerance for risk and are willing to accept certain risks in pursuit of new business.

Link to strategy
Our Strategic Imperatives to ‘Expand in high-growth segments’ and ‘Transform the business through enabling technologies’ depend on our ability to identify the right acquisitions, to conduct thorough due diligence and to integrate acquisitions effectively.
Legal and compliance risks

Our global remit results in heavy regulation across multiple jurisdictions. There is increasing public scrutiny of ethics in business and ‘doing the right thing’ is part of our licence to operate. National regulatory authorities enforce a complex pattern of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. Operating across this increasingly complex and dynamic legal and compliance environment, including regulations on bribery and corruption, with poor legal and compliance practices can lead to fines, penalties, reputational risk and competitive disadvantage. We have adopted a proactive, holistic approach, which guides the Company towards a culture of compliance and turns the resolution of legal and compliance issues into a source of competitive advantage.

Examples of risks
- Failure to act in an ethical manner consistent with our Code of Conduct.
- Violation of anti-corruption or healthcare laws, breach by employee or third party representative.
- Misuse or loss of personal information of patients, employees, research subjects, consumers or customers results in violations of data privacy laws, including General Data Protection Regulations.

Actions taken by management
- Group Executive Compliance Committee oversees our ethical and compliance practices.
- Global compliance programme, policies and procedures.
- All employees are required to undertake annual training and to certify compliance on an annual basis with our Code of Conduct and Business Principles.
- Group monitoring and auditing programmes in place.
- Confidential independent reporting channels for employees and third parties to report concerns.

Risk tolerance
In fulfilling legal and compliance requirements, we have an extremely low tolerance for this risk.

Link to strategy
Our Strategic Imperative to ‘Become the best owner’ requires us to comply with applicable laws and regulations and do the right thing as part of our licence to operate.

Commercial execution

We continue to make good and strong progress delivering our priorities and are proud of the pace with which our strategic and operational decisions are quickly translated into actions. Effective communication and engagement with our customers are critical to the long-term success of our business. We are confident that we have the right priorities, structures and capabilities across the Group and we acknowledge that only strong and continued execution will keep us ahead of our competitors and best placed to serve our customers. Failure to execute our priorities will impact our ability to continue to grow our business and serve our customers.

Examples of risks
- Failure to execute our strategy adequately from high-level ambition to specific actions to make the ambition a reality.
- Inability to keep pace with significant product innovation and technical advances to develop commercially viable products.
- Failure to adapt our priorities and execution appropriately when conditions change meaning that transformational programmes do not deliver the expected outcomes.
- Failure to engage effectively with our key stakeholders to meet their evolving needs leading to loss of customers.
- Failure to manage distributors effectively leading to stocking and compliance issues.

Actions taken by management
- Franchise structure and enhanced franchise reporting to improve visibility of profitability.
- Global R&D organisation and supporting governance framework.
- Improved market development and launch execution – commitment to win profitably in our target markets.
- Strategic planning process clearly linked to business and Group risk.
- Policies and procedures to enhance channel management implemented.

Risk tolerance
We have a low to moderate tolerance level for commercial execution risk.

Link to strategy
Our Strategic Imperatives to ‘Achieve the full potential of our portfolio’, ‘Transform the business through enabling technologies’ and ‘Expand in high-growth segments’ requires excellent commercial execution.
## Political and economic

Across our business we are exposed to the effects of political and economic risks from the impact of Brexit to changes in the regulatory and competitive landscape to the impact of the US Trade Policy. Turning to Brexit, there remain heightened levels of political and regulatory uncertainty in the UK following the referendum vote to leave the EU in June 2016. This uncertainty is expected to continue for the foreseeable future until alternative trade deals have been put in place. This situation may adversely impact trading performance across the sector.

### Examples of risks
- Regulatory and supply chain risk if alternative trade arrangements are not in place at the end of the post-Brexit transition period.
- Global political and economic uncertainty and conflict.
- Implementation of healthcare reforms and/or protectionist measures and regulation or legislation in local markets.
- The availability of markets and market access rights.
- Increases in import and labour costs.
- Increases in tariffs and restrictions on global trade.

### Actions taken by management
- Continued engagement with governments, administrations and regulatory bodies.
- The Group has a Brexit committee which meets regularly and addresses all affected areas including Regulation, Supply Chain, HR and Finance.
- Ongoing engagement and monitoring/lobbying on localisation initiatives.

### Risk tolerance
In managing risk arising from changes to our political economic environment, we have a low to moderate tolerance.

### Link to strategy
Our Strategic Imperative to ‘Become the best owner’ requires us to operate effectively within different global political situations, which change constantly. Further, the Strategic Imperative to ‘Expand in high-growth segments’ includes an Emerging Market focus.

## Finance (New risk*)

Our financial results depend on our ability to comply with financial reporting and disclosure requirements, comply with tax laws, appropriately manage treasury risks 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.

### Examples of risks
- Failure to report accurate financial information in compliance with accounting standards and applicable legislation.
- Failure to comply with current tax laws or to manage treasury risks effectively.
- Failure to operate adequate financial controls over business operations leading to material financial loss to the Group.

### Actions taken by management
- Comprehensive financial controls framework ensuring compliance with Sarbanes-Oxley legislation including Minimum Acceptable Practices.
- Experienced Finance team.
- Internal Audit and Audit Committee oversight.
- Financial systems implementations and cybersecurity programme.

### Risk tolerance
In financial reporting and disclosure, tax compliance and managing treasury and transaction processing we have a low to moderate tolerance for this risk.

### Link to strategy
Our Strategic Imperative to ‘Become the best owner’ requires us to comply with financial reporting and tax obligations and manage our financial risks appropriately.

* Aspects of which were previously incorporated in Legal and Compliance, Commercial Execution and Political and Economic risks.
2020 Risk Management Plan

Our work will continue to evolve in 2020 and we will strengthen our approach to managing risks across the organisation.

We will continue to ensure a truly collaborative approach to risk management with risk accountability sitting squarely with management and a proactive Group Risk function influencing decision-making through effective challenge and timely consultation.

2020 Risk Management timeline

<table>
<thead>
<tr>
<th>Q1 2020</th>
<th>Q2 2020</th>
<th>Q3 2020</th>
<th>Q4 2020</th>
<th>Q1 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group Risk Team</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Facilitate ‘top-down’ review process.</td>
<td>– Report to Audit Committee.</td>
<td>– Prepare Review of Principal Risks.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Facilitate ‘top-down’ review process.</td>
<td>– Facilitate ‘top-down’ review process.</td>
<td>– Report to Audit Committee.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business Risk Areas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Quarterly Risk Review by leadership teams.</td>
<td>– Quarterly Risk Review by leadership teams.</td>
<td>– Quarterly Risk Review by leadership teams.</td>
<td>– Quarterly Risk Review by leadership teams.</td>
<td></td>
</tr>
<tr>
<td>– Review Principal Risks and map to Strategic Imperatives.</td>
<td>– Risk Register refresh and submission to Group Risk Team.</td>
<td>– Risk Register refresh and submission to Group Risk Team.</td>
<td>– Risk Register refresh and submission to Group Risk Team.</td>
<td></td>
</tr>
<tr>
<td><strong>Executive Committee</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Review reports from Group Risk Team.</td>
<td>– Review reports from Group Risk Team.</td>
<td>– ‘Top-Down’ review of Principal Risks.</td>
<td>– Approve Principal Risks.</td>
<td>– Review reports from Group Risk Team.</td>
</tr>
<tr>
<td>– ‘Top-Down’ review of Principal Risks.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Internal Audit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– 2021 Risk-Based Internal Audit Plan Preparation.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Compliance &amp; Culture Committee</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Receive reports from Chief Legal and Compliance Officer and Chief Quality and Regulatory Officer including Risk Updates.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Audit Committee</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Receive report from the Group Risk Team and review Enterprise Risk Management process.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Board</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Approve Principal Risks.</td>
<td></td>
<td></td>
<td></td>
<td>– Approve Principal Risks.</td>
</tr>
</tbody>
</table>

Smith+Nephew Annual Report 2019
Our Viability Statement

How we assess our prospects
During the year, the Board has carried out a robust assessment of the principal risks affecting the Company, particularly those which could threaten the business model. These risks and the actions being taken to manage or mitigate them are explained in detail on pages 41–49 of this Annual Report.

In reaching our Viability Statement conclusion, we have undertaken the following process:
– The Audit Committee reviewed the Risk Management process at their meetings in February, July and November, receiving presentations from the Group Risk function, explaining the processes followed by management in identifying and managing risk throughout the business.
– In June 2019, the Executive Committee (‘ExCo’) met as a Risk Committee to:
  (1) review the 2019 principal risks (the top down risk review process),
  (2) discuss the importance of assessing risk at the Enterprise level, and (3) to discuss emerging risks. The Executives were asked to consider the significant risks which they believed could seriously impact the profitability and future prospects of the Company and the principal risks that would threaten its business model, future performance, solvency or liquidity.
– All ExCo members nominated the Risk Champions and have worked with them to prepare risk registers. The Risk Champions nominated by the ExCo are senior, trained in risk management and the majority of the team have at least two years of experience in the Company.
– Using the outputs from the Business Area ‘bottom-up’ risk identification completed in September 2019 and following ‘top-down’ discussions with ExCo, the most significant risks affecting our organisation were presented to ExCo for approval in November as the draft 2019 Principal Risks facing the Company.
– Principal risks have been realigned to our Strategic Imperatives. 12 Principal Group Risks have been identified building on 10 identified in 2018. Supply and Finance are new in 2019.
– All Accountable Executives have attested alignment to the Group’s Enterprise Risk Management Process as part of the annual certification on governance, risks and compliance.
– Final principal risks were presented to the Audit Committee and the Board in February 2020 for their consideration and approval.
– As part of the strategy business updates in November, the Board considered and discussed the principal risks which could impact the business model over the next three years and discussed with the management team how these risks were being managed and mitigated.
– Throughout the year, a number of reviews into different risks were conducted by the Board, the Audit Committee and the Compliance & Culture Committee looking into the nature of the risks and how they were mitigated.

Assessment period
The Board have determined that the three-year period to December 2022 is an appropriate period over which to provide its Viability Statement. This period is aligned to the Group’s Strategic Planning process and reflects the Board’s best estimate of the future viability of the business.

Scenario testing
For the purpose of testing the viability of the Company, we have undertaken a robust scenario assessment of the principal risks, which could threaten the viability or existence of the Company. These have been modelled as follows:
– In carrying out scenario modelling of the principal and significant risks on the following page we have also evaluated the impact of a severe but plausible combination of these risks actually occurring over the three-year period. We have considered and discussed a report setting out the terms of our current financing arrangements and potential capacity for additional financing should this be required in the event of one of the scenarios modelled occurring.
– We are satisfied that we have robust mitigating actions in place as detailed on pages 42–48 of this Annual Report. We recognise, however, that the long-term viability of the Company could also be impacted by other, as yet unforeseen, risks or that the mitigating actions we have put in place could turn out to be less effective than intended.
2019 Scenarios modelled

Scenario 1 – Pricing and reimbursement pressures

Pricing and reimbursement pressures (Principal Risk) – leading to a major loss of revenues and profits.

Action taken: We have modelled additional annual price erosion of 1% from 2020.

Link to strategy
– Achieve the full potential of our portfolio

Link to principal risks
– Pricing and Reimbursement

Scenario 2 – Operational risk

Execution risk – our inability to launch new products losing significant market share to the competition.

Key supplier disruption – resulting in our inability to manufacture or supply a few key products for a full year.

Temporary loss of key production capability – resulting in our inability to manufacture several key products for two years.

Product liability claim – giving rise to significant claim or loss.

Action taken: We have modelled revenue growth for China at 50% of the plan over the three-year period.

Action taken: We have modelled an interruption to receiving goods from a key supplier for a period of one year.

Action taken: We have modelled the loss of strategic production machinery, resulting in the loss of production and sales of several key products for two years from 2021.

Action taken: One-off significant loss occurring due to a new product defect.

Link to strategy
– Become the best owner.
– Transform the business through enabling technologies.
– Achieve the full potential of our portfolio.

Link to principal risks
– Supply
– Commercial Execution.
– Business Continuity and Business Change.

Scenario 3 – Finance, legal regulatory and compliance risks

Regulatory measures – impacting our ability to continue to sell key products.

Action taken: We have modelled the complete loss of revenue from a key product effective beginning of 2020 for two years and returning back in lower volumes in 2022.

Tax or treasury failure – giving rise to a significant fine or loss.

Action taken: We have assumed a one-off significant fine or loss resulting from a tax compliance or treasury operations issue in 2021.

Link to strategy
– Become the best owner.

Link to principal risks
– Legal and Compliance.
– Quality and Regulatory.
– Finance.

Scenario 4 – Cybersecurity

Inability to issue invoices or collect money for a period of time.

Action taken: We have modelled one of our key regions being unable to invoice for a month in 2021 due to an IT disruption.

Link to strategy
– Transform the business through enabling technologies.

Link to principal risks
– Cybersecurity.

Scenario 5 – Mergers and acquisitions

Failure to integrate newly acquired business effectively to achieve expected growth.

Action taken: We have modelled a scenario of zero growth in a recently acquired business.

Link to strategy
– Achieve the full potential of our portfolio.

Link to principal risks
– Mergers and Acquisitions.

Scenario 6 – Political and economic

Political and economic risk – for example, political upheaval, which could cause us to withdraw from a major market for a period of time.

Action taken: We have modelled a loss of revenue in our Middle East markets due to global conflict for twelve months.

Link to strategy
– Become the best owner.

Link to principal risks
– Political and Economic.

Viability Statement

Having assessed the principal risks, the Board has determined that we have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a period of three years from 1 January 2020. In our long-term planning we consider horizons of both five and ten years. However, as most of our efforts are focused on the coming three years, we have chosen this period when considering our viability.

Our conclusion is based on our current Strategic Plan approved by the Board in February 2020, having regard to longer-term strategic intentions, yet to be formulated in detail. However, we operate in a changing marketplace, which might cause us to adapt our strategic plan. In responding to changing external conditions, we will continue to evaluate any additional risks involved which might impact the business model.

By order of the Board, on 20 February 2020.

Susan Swabey
Company Secretary