The Interim Results of smith&nephew for 2003: reduced pain, faster recovery, more cost-effective treatments. Sales growth was 11% and we helped thousands of people get back to active lives.
Chris O’Donnell

Chief Executive
Presentation agenda

- Results introduction
- The figures
- Business review
- Summary
- Orthopaedics business report
- Centerpulse transaction update
- Our new corporate brand
- Appendix
Continuing growth in H1 2003

- Strong Orthopaedics growth – on track
- Endoscopy overcoming tough half in US
- Wound Management recovering momentum
- Product launch programme maintained
- Market conditions remain favourable
- Further progress expected in H2
Peter Hooley
Finance Director
Trading highlights H1 2003

- Underlying sales growth 11%
- Margin targets again achieved
- EPS growth up 11%*
- Excellent performance in Orthopaedics

* Before goodwill and exceptional items
## Trading results H1

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongoing</td>
<td>532</td>
<td>577</td>
<td>+ 9%</td>
</tr>
<tr>
<td>Divested</td>
<td>26</td>
<td>-</td>
<td></td>
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<tr>
<td><strong>Total Sales</strong></td>
<td>£558m</td>
<td>£577m</td>
<td></td>
</tr>
<tr>
<td><strong>Profit before exceptionals and amortisation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ongoing</td>
<td>95</td>
<td>103</td>
<td>+ 8%</td>
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<tr>
<td>Divested</td>
<td>2</td>
<td>-</td>
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<tr>
<td>Joint Venture and Associate</td>
<td>11</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>(6)</td>
<td>(4)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>£102m</td>
<td>£112m</td>
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</tr>
<tr>
<td><strong>EPS before exceptionals and amortisation</strong></td>
<td>7.76p</td>
<td>8.59p</td>
<td>+11%</td>
</tr>
<tr>
<td>Dividend</td>
<td>1.80p</td>
<td>1.85p</td>
<td>+ 3%</td>
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<tr>
<td>Exceptional items pre-tax</td>
<td>£2m</td>
<td>£(5)m</td>
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# Sales Growth H1 2003

<table>
<thead>
<tr>
<th>Field</th>
<th>Underlying</th>
<th>Acquisitions</th>
<th>Currency</th>
<th>Reported</th>
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<tbody>
<tr>
<td>Orthopaedics</td>
<td>16</td>
<td>-</td>
<td>(6)</td>
<td>10</td>
</tr>
<tr>
<td>Endoscopy</td>
<td>5</td>
<td>5</td>
<td>(5)</td>
<td>5</td>
</tr>
<tr>
<td>Advanced Wound Management</td>
<td>8</td>
<td>-</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11</strong></td>
<td><strong>1</strong></td>
<td><strong>(3)</strong></td>
<td><strong>9</strong></td>
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</tbody>
</table>
# Geographical underlying sales growth H1 2003

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Growth</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td>Orthopaedics</td>
<td>260</td>
<td>16</td>
</tr>
<tr>
<td>Endoscopy</td>
<td>149</td>
<td>5</td>
</tr>
<tr>
<td>Advanced Wound Management</td>
<td>168</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>577</strong></td>
<td><strong>11</strong></td>
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<table>
<thead>
<tr>
<th></th>
<th>Americas</th>
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<tr>
<td></td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td>Orthopaedics</td>
<td>167</td>
<td>18</td>
</tr>
<tr>
<td>Endoscopy</td>
<td>90</td>
<td>0</td>
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<tr>
<td>Advanced Wound Management</td>
<td>55</td>
<td>13</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>312</strong></td>
<td><strong>12</strong></td>
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<table>
<thead>
<tr>
<th></th>
<th>Europe</th>
<th>Growth</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>£m</td>
<td>%</td>
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<tr>
<td>Orthopaedics</td>
<td>55</td>
<td>10</td>
</tr>
<tr>
<td>Endoscopy</td>
<td>42</td>
<td>17</td>
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<tr>
<td>Advanced Wound Management</td>
<td>85</td>
<td>6</td>
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<td><strong>Total</strong></td>
<td><strong>182</strong></td>
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<table>
<thead>
<tr>
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<th>Growth</th>
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<tr>
<td></td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td>Orthopaedics</td>
<td>38</td>
<td>18</td>
</tr>
<tr>
<td>Endoscopy</td>
<td>17</td>
<td>7</td>
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<tr>
<td>Advanced Wound Management</td>
<td>28</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>83</strong></td>
<td><strong>11</strong></td>
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## EBITA margins H1 2003

<table>
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<tr>
<th></th>
<th>2003</th>
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<tbody>
<tr>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Previous year (restated)</td>
<td>17.9</td>
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<tr>
<td>Pensions</td>
<td>(0.7)</td>
</tr>
<tr>
<td>Dermagraft</td>
<td>(0.8)</td>
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<tr>
<td>Underlying improvement</td>
<td>1.5</td>
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Total: 17.9
# Business unit profitability H1

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<tr>
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<th>2002</th>
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<td>Sales (£m)</td>
<td>EBITA (£m)</td>
</tr>
<tr>
<td>Orthopaedics</td>
<td>260</td>
<td>58</td>
</tr>
<tr>
<td>Endoscopy</td>
<td>149</td>
<td>28</td>
</tr>
<tr>
<td>Advanced Wound Management</td>
<td>168</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>577</strong></td>
<td><strong>103</strong></td>
</tr>
<tr>
<td>Orthopaedics</td>
<td>236</td>
<td>51</td>
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<tr>
<td>Endoscopy</td>
<td>142</td>
<td>21</td>
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<tr>
<td>Advanced Wound Management</td>
<td>154</td>
<td>23</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>532</strong></td>
<td><strong>95</strong></td>
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# Cash flow H1

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<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>Trading cash flow</td>
<td>47</td>
<td>58</td>
</tr>
<tr>
<td>Rationalisation and integration</td>
<td>(9)</td>
<td>(5)</td>
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<tr>
<td>Operating cash flow</td>
<td>38</td>
<td>53</td>
</tr>
<tr>
<td>Joint venture</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Interest, tax and dividends</td>
<td>(62)</td>
<td>(54)</td>
</tr>
<tr>
<td>Acquisitions less disposals</td>
<td>(119)</td>
<td>(18)</td>
</tr>
<tr>
<td>Net cash flow</td>
<td>(135)</td>
<td>(16)</td>
</tr>
<tr>
<td>Currency</td>
<td>28</td>
<td>4</td>
</tr>
<tr>
<td>Opening debt</td>
<td>(243)</td>
<td>(277)</td>
</tr>
<tr>
<td>Closing debt</td>
<td>(350)</td>
<td>(289)</td>
</tr>
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</table>

| Trading cash to EBITA      | 49%   | 56%   |
Other items H1

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<thead>
<tr>
<th>Item</th>
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<th>2003</th>
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<tr>
<td>Capital expenditure</td>
<td>41</td>
<td>29</td>
</tr>
<tr>
<td>Depreciation</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Goodwill amortisation</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Currency in EBITA - transactional cost</td>
<td>1</td>
<td>(1)</td>
</tr>
<tr>
<td>- transnational cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- translational cost</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>(average rate $1.61)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation</td>
<td>29½%</td>
<td>29%</td>
</tr>
<tr>
<td>Exceptional items net</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disposal gain</td>
<td>19</td>
<td>-</td>
</tr>
<tr>
<td>ATS write down</td>
<td>(9)</td>
<td>-</td>
</tr>
<tr>
<td>Rationalisation &amp; integration</td>
<td>(8)</td>
<td>(5)</td>
</tr>
<tr>
<td>Total</td>
<td>2</td>
<td>(5)</td>
</tr>
<tr>
<td>Average number of shares</td>
<td>926m</td>
<td>929m</td>
</tr>
</tbody>
</table>
Chris O’Donnell

Chief Executive
Sustainable growth drivers

- Continued favourable demographics
- Healthcare spending trends remain positive in our major markets
- Increasing demand for people to regain their lives
- Strong technology platform drives product launches
- Significant margin enhancement opportunity
- Creating value through organic growth and augmenting acquisitions
Orthopaedics

- H1 underlying growth of 16%
- High demand for our products continues
  - US growth 18%, outside US 13%
- Hip and knee implants grow 20%
- Divisionalisation creates trauma momentum
- Trauma grows by 11%
- Knee OXINIUM™ components reach 36% of our sales (US)
- Hip OXINIUM femoral heads reach 24% of our sales (US)
- Strong margin performance

*Trademark of Smith & Nephew*
Endoscopy

- H1 underlying growth of 5%
- Strong sales outside US at 14%, US flat
- US sales affected by blade reuse and HealthSouth disruptions
- Repair continues strong growth of 17%
- ORATEC - adds 5% to sales
- New products will benefit H2 sales growth
  - New high definition camera
  - New TRIVEX™ System
- ORATEC integration success and management cost control enhances margin

*Trademark of Smith & Nephew*
Advanced Wound Management

- Underlying sales growth 8% with momentum increasing
- US growth at 16% despite supply side issues
- Europe recovering from slow start
- ALLEVYN° foam dressing sales growing 18%
- ACTICOAT° silver dressing success continues at 50% growth
- DERMAGRAFT° dermal replacement on track – almost 100% reimbursement in US
New products 2003

**Q1**
- OXINIUM™ Femoral Heads (Ortho)
- SURETAC® III System (Endo)
- ALLEVYN® Foam Dressing relaunch plus new variants (WM)
- PROGUIDE™ leg ulcer system (WM)
- TWINFIX™ Ti Quick-T Fixation System (Endo)

**Q2**
- JET X™ Unilateral External Fixation device (Ortho)
- Mini Incision Hip (Technique and instrumentation) (Ortho)
- FASTFIX™ AB Meniscal Repair System (Endo)
- PROGUIDE™ leg ulcer system (WM)
- TWINFIX™ Ti Quick-T Fixation System (Endo)

**Q3**
- Mini Incision Knee (Technique and instrumentation) (Ortho)
- OXINIUM Unicompartmental femoral component (Ortho)
- REFLECTION™ Constrained Liner (Ortho)
- Digital OR - expanded central control capabilities (Endo)
- POWERMAX™ Shaver Handpiece (Endo)

**Q4**
- New TRIVEX™ System (Endo)
- VISITRAK® Wound Assessment Device (WM)
- ACTICOAT® 7 – new size
- New Progressive Scan camera system, heads and control unit (Endo)
- Electro Thermal generator and probes for the spine (Endo)

Note: boxes = major products
*Trademark of Smith & Nephew*
Summary – sustaining momentum

- Continuing strong markets worldwide
- Smith & Nephew fundamental strengths remain
- Orthopaedics sustains strong growth
- Endoscopy new products to impact H2
- Wound Management momentum in H2
- Outlook remains positive
- Confirm underlying mid-teens EPS target
H1 2003 performance highlights

- Industry-leading global sales growth at 16%*
- Sustaining sales growth at or above market rates in all segments
- Continuing to gain market share particularly in Reconstructive segments
- New product momentum: 26% of sales from new products
- Operating profit margin increased from 21.7% to 22.5%

* Constant currency
Smith & Nephew Orthopaedics

- Strong technology and innovation platform
- Focus on delivering implant and instrument launches
- Sales force investment and leverage continues
- Margin improvement programs progressing well
- Creating value through organic growth complemented by acquisitions
H1 2003 global orthopaedics market

- Overall market continues to grow in the mid teens
- Price is still attractive
- Favourable mix shift continues (see US data below)

<table>
<thead>
<tr>
<th></th>
<th>S&amp;N Penetration</th>
<th>Saturation</th>
<th>Avg Competitor Penetration</th>
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</thead>
<tbody>
<tr>
<td>XLPE Hip</td>
<td>75%</td>
<td>90%</td>
<td>85%</td>
</tr>
<tr>
<td>Cementless hips</td>
<td>61%</td>
<td>75%</td>
<td>65%</td>
</tr>
<tr>
<td>Revision Hips</td>
<td>9%</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>Ceramic/Ceramic</td>
<td>n/a</td>
<td>30%</td>
<td>3%</td>
</tr>
<tr>
<td>Metal/Metal</td>
<td>n/a</td>
<td>20%</td>
<td>14%</td>
</tr>
<tr>
<td>OXINIUM* on poly hips</td>
<td>24%</td>
<td>40%</td>
<td>n/a</td>
</tr>
<tr>
<td>XLPE Knee</td>
<td>n/a</td>
<td>50%</td>
<td>9%</td>
</tr>
<tr>
<td>OXINUM on poly knees</td>
<td>36%</td>
<td>50%</td>
<td>n/a</td>
</tr>
<tr>
<td>OXINIUM Uni</td>
<td>&gt;1%</td>
<td>85%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Company Estimates, 6/23 Lehman Brothers report

*Trademark of Smith & Nephew
Served Market Growth vs. Competition*

* H1 Constant Currency Company Estimate
Geographic snapshot

*S&N Ortho H1 sales growth* by region

*Constant Currency*
Divisional Strategy

Improved focus
  • Sustain reconstructive momentum
  • Improve trauma performance

Improved customer satisfaction
  • More knowledgeable technical sales force
  • Total attention to customer speciality

Increased speed of doing business
  • Products to market faster
  • More responsive to segmented customers
Reconstructive Division

**Knees**

- The company’s performance in Knees continues to be driven by the rollout of new technology, including OXINIUM° and the ACCURIS° Uni System, as well as the continued growth and improved focus of our sales force.

Estimated market growth: 16%

Our growth: 23%

(3 percentage points related to SUPARTZ°)

New products % knee sales = 24%
Reconstructive Division

Knees – near term drivers

- Continued rollout / placement of OXINIUM° implants
- OXINIUM unicompartmental femoral launch
- ACHIEVECAS° computer-assisted total knee application
- Mini-incision knee technique/training
- Direct-To-Consumer and Practice Enhancement campaigns
Reconstructive Division

**Hips**

- The company’s performance in Hips continues to be driven by the rollout and penetration of new technology, including OXINIUM® femoral heads, XLPE as well as the continued growth and improved focus within our sales force.

Estimated market growth: 13%
Our growth: 14%
New products % hip sales = 29%
Reconstructive Division

Hips – near-term drivers

- OXINIUM° femoral heads – continued rollout
- ACHIEVECAS° computer-assisted hip application (software and instruments)
- Mini-incision hip technique/training
- Additional revision components
- Direct-To-Consumer and Practice Enhancement campaigns
Direct-to-consumer and practice enhancement

- **DTC campaign objectives**
  - Awareness of OXINIUM° and joint replacement
  - Trend toward patient involvement in treatment
  - Drive patients to surgeons using OXINIUM technology
  - Promote DTC as a way to build practice

- **Practice Enhancement**
  - Adjunct to DTC
  - Attract revenue generating patients
  - Build surgeon reputation in community with patients and primary care physicians

- **Featured products:**
  - OXINIUM°
  - ACCURIS°
  - MIS hip/knee
  - SUPARTZ°

*Trademark of Smith & Nephew*
Innovative marketing:
DTC television commercial and local ads

Facing **total hip replacement surgery**?

**Discover the power of Ox!**

Oxinium® hip replacement implants are made from a revolutionary new material that is harder than the most commonly used metal, and 4,900 times more resistant to scratching. It is also smoother than other metals, so there is less friction and wear, which means your replacement hip implant should last significantly longer. And if metal allergy is a concern, an Oxinium joint replacement is made from one of the most biocompatible metals.

**Proven. Long-lasting. And Strong as an Ox! Why wait?**

Brian Rothwell, M.D.
Rothwell Orthopaedics
928 Capital Circle
East Norriton, PA 19401
www.rothwellortho.com

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Trauma Division

- The company’s success in Trauma continues to be driven by growth in the TRIGEN° IM Nailing System, EXOGEN° 3000, Web-based software for the TAYLOR SPATIAL FRAME° and the recent launch of our new JET-X° Unilateral fixator. The division has added 34 sales reps in H1.

Estimated market growth: 10%
Our growth: 11%

New products % sales = 25%
Trauma Division

Near-term drivers

- Continued rollout of the JET-X° Unilateral Fixator platform
  - Including variations
- Asian specific IMHS
- TRIGEN° line additions
- HA coated pins
- Productivity gains for new reps
  - Advanced training
- Continued sales force growth

*Trademark of Smith & Nephew*
Summary:

FOCUSED GROWTH

TECHNOLOGY

SUPERIOR FINANCIALS
Summary:

FOCUSED GROWTH

TECHNOLOGY

SUPERIOR FINANCIALS

• **Fastest growing company**
  Divisionalization
  Sales force specialization
  Specialized service for customers
  Geographic market targets
  Speed of Innovation
Summary:

FOCUSED GROWTH

TECHNOLOGY

• ¼ of revenue from new products
  Provides competitive differentiation
  Innovation expanding market base
  Active acquisition search

SUPERIOR FINANCIALS
Summary:

FOCUSED GROWTH

TECHNOLOGY

SUPERIOR FINANCIALS

• +1 Point Margin Improvement
  Volume and Cost Productivity
  Logistics to improve asset turns
  Margin expansion over 3 years – 25% pre-amortisation goal
Chris O’Donnell

Chief Executive
Centerpulse transaction update

- Smith & Nephew – the right partner for Centerpulse
- Significant value enhancing combination
- Considering options
Smith & Nephew brand

- Modernises more than 20 year old brand
- Out of date for our transformed company
- Market research – not perceived as cohesive brand in marketplace
- Strong business benefits
  - Leverage scale
  - Improve visibility & presence in markets
  - Increase brand value of Smith & Nephew name
We are **smith&nephew**

Our purpose: Helping people regain their lives
Our vision: To be the best in helping people regain their lives by repairing and healing the human body
We are *smith&nephew*

Our values -
- Performance
- Innovation
- Trust

Our personality -
- Responsive
- Confident
- Energetic
- Honest
- Personable
Appendix
The shape of Smith & Nephew H1 2003

**Businesses**
- Wound Management
  - £168m
  - Advanced treatments for hard to heal wounds
- Endoscopy
  - £149m
  - Products for minimally invasive surgery
- Orthopaedics
  - £260m
  - Hip & knee implants and trauma products

**Geography**
- Europe
  - £182m
- America
  - £312m
- Africa, Asia & Australasia
  - £83m
- Japan
  - 14%
- UK
  - 32%
- Other
  - 45%

Note: Sales of ongoing operations post ORATEC
## Sales Growth H1 2003

<table>
<thead>
<tr>
<th></th>
<th><strong>US</strong></th>
<th></th>
<th><strong>ROW</strong></th>
<th></th>
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<tbody>
<tr>
<td></td>
<td><strong>Underlying</strong></td>
<td><strong>Acquisitions</strong></td>
<td><strong>Total</strong></td>
<td><strong>Underlying</strong></td>
<td><strong>Acquisitions</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>Orthopaedics</td>
<td>18%</td>
<td>-%</td>
<td>18%</td>
<td>13%</td>
<td>-%</td>
<td>13%</td>
</tr>
<tr>
<td>Endoscopy</td>
<td>-%</td>
<td>7%</td>
<td>7%</td>
<td>14%</td>
<td>-%</td>
<td>14%</td>
</tr>
<tr>
<td>Advanced Wound Management</td>
<td>16%</td>
<td>-%</td>
<td>16%</td>
<td>7%</td>
<td>-%</td>
<td>7%</td>
</tr>
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<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td></td>
<td>2%</td>
<td>-%</td>
</tr>
<tr>
<td></td>
<td>14%</td>
<td>11%</td>
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</tbody>
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Market Analysis

**Orthopaedics**

- Market (ex spine) £5.2bn + 13%
- Smith & Nephew
  - +16% H1 underlying sales growth
  - Market position No 6

Note: 2002 market value and share data

**Advanced Wound Management**

- Market £1.5bn + 12%
- Smith & Nephew
  - +8% H1 underlying sales growth
  - Market position No 1
Market Analysis - Endoscopy

- The total Endoscopy market is £3bn and growing at 6%
- Arthroscopy is a major segment of the total Endoscopy market with a value of £650m and growing at 8%
- In H1 Smith & Nephew
  - +5% H1 underlying sales growth
  - +10% including acquisitions
  - Market position No 1 (Arthroscopy)

Note: 2002 market value and share data
Disclaimer

United States of America

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