A future focus

SUSTAINABILITY REPORT 2016

Supporting healthcare professionals for over 150 years
CARING FOR CUSTOMERS
We focus on providing improved clinical outcomes for our customers.

CARING FOR EMPLOYEES
Our employees are at the centre of everything we achieve at Smith & Nephew.

CARING FOR THE ENVIRONMENT
A healthy environment has a significant positive impact on quality of life. We are committed to optimising the impacts of our business operations on the environment.

CARING FOR SOCIETY
We aim to improve the lives of the people in the communities where we operate through corporate giving and employee volunteering initiatives.

HOW WE MANAGE SUSTAINABILITY
Business success requires sustainable excellence.

SMITH & NEPHEW TODAY
We serve customers in more than 100 countries.

HOW TO USE THIS INTERACTIVE PDF
- Select the navigation tabs at the top of each page to jump to the start of that section
- Select from the contents list here or highlighted text throughout the report, to jump to that page or web link
- Additional buttons:
  - Go to main contents page
  - Go to previous page
  - Go to next page
  - Go to previous view
  - Search document
We are a global medical technology business supporting healthcare professionals in their daily efforts to improve the lives of their patients.

15,584
Employees

100+
Our operations are global, serving customers in more than 100 countries

Revenue

UNITED STATES
The United States is the Group’s largest market. Due to its commercial importance to the Group, its revenue is reported separately. The United States is also home to a number of manufacturing facilities.

Revenue: $2,299m

OTHER ESTABLISHED MARKETS
Other Established Markets comprise commercial operations in Australia, Canada, Europe, Japan and New Zealand, which accounted for 36% of Group revenue in 2016. We have manufacturing facilities in the UK, Germany and Switzerland.

Revenue: $1,679m

EMERGING MARKETS
Emerging Markets include our commercial businesses in China, Asia, India, Russia, Middle East, Africa and Latin America. These generated 15% of Group revenue in 2016. We have manufacturing facilities in China, India, Russia, Costa Rica and Curaçao.

Revenue: $691m
“Our stated mission wholeheartedly embraces the three pillars of sustainability – economic, social and environmental stewardship.”

WHY IS SUSTAINABILITY IMPORTANT FOR SMITH & NEPHEW?
Improving human health is at the heart of our business. Our advanced medical technology helps healthcare professionals to improve patients’ lives by restoring health, enabling productive engagement in society, protecting the environment and improving social wellbeing. Our stated mission – supporting healthcare professionals in their daily efforts to improve the lives of their patients – wholeheartedly embraces social responsibility. But we must continue to make progress on our sustainability journey, as well as making sure that we continue to operate as a profitable business.

YOU HAVE IMPLEMENTED A REFRESHED SUSTAINABILITY STRATEGY IN LATE 2016. WHAT DOES THIS MEAN FOR SMITH & NEPHEW?
We have set a sustainability strategy which is closely aligned to our business strategy, as well as the world’s societal needs.

How did we do this?
Over the years, we have developed an understanding of the challenges ahead, based on our enduring commitment to economic, social and environmental stewardship. Beyond this, we have looked to the United Nations’ Sustainable Development Goals (SDG), also called the ‘Global Goals’ to inform our approach. The Global Goals succinctly state what must be accomplished to ensure a liveable, prosperous planet by 2030. By evaluating these goals against our own business strategy, we derived a set of actions that will help us to drive business success, as well as positively contributing towards the delivery of the Global Goals. These imperatives form the basis of our sustainability strategy. Take a look at the alignment between our strategy and the Global Goals on page 10.

WHAT ARE YOUR NEAR- AND LONG-TERM PRIORITIES FOR SUSTAINABILITY PERFORMANCE?
We have developed a set of ten long-term aspirational goals that paint a vision of Smith & Nephew’s role in a sustainable society. These are made concrete by a set of medium-term targets that clearly define what must be delivered to make credible progress against the goals. We intend to set new and ever more challenging targets as we progress, to maintain our momentum and to make sure we achieve our goals as soon as possible.

ARE YOU PLEASED WITH SMITH & NEPHEW’S SUSTAINABILITY PROGRESS SO FAR?
We have made significant progress since the publication of our first sustainability report 16 years ago. In this time, we have learned much about what it means to operate sustainably, about long-term societal needs, and the alignment with our own culture. We have recognised that sustainability is part of who we are as an organisation – we cannot be successful without a core commitment to societal and environmental wellbeing. Of course, I would have preferred to see more rapid progress. However, I am proud of our track record of learning from both our successes and missed opportunities, which has made our future initiatives more focused and energetic. In fact, our refreshed sustainability strategy is itself a product of such learning; it reflects our successes and shortfalls of the past few years. A common thread was the lack of close alignment between our sustainability targets and our core business strategy. I am confident that this refreshed strategy will focus our efforts and speed our progress towards a sustainable enterprise.

WHAT CAN WE EXPECT TO SEE IN 2017?
We will continue to progress our economic and social responsibility performance. In addition, the full alignment and integration of environmental stewardship to our business strategy will result in rapid progress against environmental targets. By integrating sustainability thinking into our product improvement and new product development processes, we will begin to move towards achieving our sustainability targets, as well as helping our customers achieve their own. This will establish a virtuous cycle which consistently rewards innovation in sustainability performance across the Company, resulting in faster and more efficient attainment of our targets. In 2016, we constructed the launching pad for the next phase of our sustainability journey. Next year in 2017, we will propel ourselves ever more directly and rapidly towards our goal.

Olivier Bohuon
Chief Executive Officer
How we create value

Smith & Nephew aims to bring together the sharpest minds in the industry to create and supply the most exciting and differentiated products and services to our customers, supporting them in the most noble of missions: to improve the lives of patients worldwide.

**OUR PRODUCTS**

We have leadership positions in Orthopaedic Reconstruction, Advanced Wound Management, Sports Medicine and Trauma & Extremities.

**OUR CUSTOMERS**

We service our healthcare professional customers through our dedicated and highly trained global sales force and selected third party sellers.

**OUR RESOURCES**

Research & Development
Ethics & Compliance
Manufacturing & Quality
Training & Education
Sales & Marketing
Our People

**OUR VALUE PROPOSITION**

Our mission is to support healthcare professionals by providing advanced medical devices that they use in their daily efforts to improve the lives of their patients.

**PIONEERING APPROACH**

We take a pioneering approach to the design of our products and services.

**ENSURING WIDER ACCESS**

We strive to secure wider access to our diverse technologies for more customers globally.

**ENABLING BETTER OUTCOMES**

We enable better outcomes for patients and healthcare systems.

**Financial performance**

- Targeting higher revenue growth and a better trading profit margin.
- $4,669m Revenue
- $801m Operating Profit
- $1,020m Trading Profit

**Capital Allocation Framework**

- Prioritising the use of cash and ensuring an appropriate capital structure.
- $279m Dividend
- $300m Share buy-back

**Improved Quality of Patient Lives**

- Providing our advanced medical devices in more than 100 countries.
- 100+
countries

**Training and education**

- Supporting HCPs and ensuring the safe and effective use of our products.
- 40,000
surgeon training
instances

**Great Place to Work**

- Supporting and encouraging employees to live our values.
- 15,000+
employees

**A sustainable business**

- Working in a sustainable, ethical and responsible manner everywhere we operate.
- 160+
years of proud history

**OUR VALUES AND HOW WE ACT**

Our values shape everything that we do as a business and form the basis of our relationships with all our stakeholders.

**PERFORMANCE**

Performance means being responsive to the needs of our customers, setting ourselves clear goals and standards and achieving them.

**INNOVATION**

Innovation means being energetic, creative and passionate about everything we do, anticipating customers’ needs and overcoming barriers and developing opportunities.

**TRUST**

Trust is something we understand that we have to earn and we strive to operate with integrity and take an ethical approach to business.
Smith & Nephew is 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. Sustainability is a journey, and in 2016 we thought deeply about our destination for the longer term.

This year the Board approved a refreshed sustainability strategy which clearly defines our long-term aspirations and goals. It is recognised that companies that implement sustainable business practices will be more successful in the long term and we are already seeing more interest from our existing and prospective customers and employees in our performance and attitudes.

Central to our strategy are 10 long-term aspirational goals. These encompass all aspects of our business and will drive our business strategy for years to come.

1. Zero work-related injuries and illnesses across the value chain
2. Water: Total water impacts of our products and solutions are balanced with local human and ecosystem needs
3. Waste: All materials are either shipped as part of product or returned for beneficial use
4. Carbon: 80% absolute reduction in total life cycle greenhouse gas emissions by 2050
5. Ethical Business Practices: Activities conducted in compliance with applicable ILO conventions
6. Zero product-related and service-related patient injuries
7. Robust social responsibility programmes which contribute to the attraction and retention of top talent
8. Products and services are aligned to market economic, social and environmental expectations and anticipate future market conditions
9. Strategic risks and opportunities are understood and business activities are aligned to risk appetite
10. Environmental, social, and economic impacts are fully understood and appropriately balanced

See our 10 long-term aspirational goals in full on page 10.
A refreshed sustainability strategy

Smith & Nephew’s unrelenting focus on supporting healthcare professionals in their daily efforts to improve the lives of their patients is central to the sustainability strategy, which was developed by our Executive Committee in 2016 and approved by the Board.

Inspired by the United Nations Sustainable Development Goals (SDG), our strategy also reflects the importance of various social, environmental and economic aspects of sustainable development. As a profit-seeking enterprise, our challenge is to focus our efforts on the economic aspects, whilst optimising social and environmental impacts. To achieve this, we have developed a sustainability strategy that is closely aligned to our Group business strategy.

SUSTAINABILITY DRIVERS

United Nations Sustainable Development Goals

The SDG is an internationally agreed framework of 17 goals, each with subsidiary targets, to end poverty, protect the planet and ensure prosperity for all. Following on from the earlier United Nations Millennium Development Goals, the focus is on progressing the most important, leveraged opportunities to accelerate achievement of sustainable human development.

Smith & Nephew can have limited impact on many of these targets; however, we can exert a positive impact in several areas. Whilst our goals and targets are fundamentally derived from Group business strategy, it is important that these align with and support global sustainable development efforts.

Using a structured approach, we have identified the SDG most important to Smith & Nephew and to which we can make the most significant contribution:

3  Good Health and Well-being
8  Decent Work and Economic Growth
10 Reduced Inequalities
12 Responsible Consumption and Production

We then mapped Smith & Nephew’s sustainability goals against these four SDG (and specific subsidiary targets) as we believe long-term focus on them will ensure we select targets which have maximum positive sustainable development impact as we progress towards the achievement of our goals.

Beyond these four SDG that we have identified as most important, two further SDG align to our aspirational goals and targets, but are not a strategic priority. These are:

6  Clean Water and Sanitation
7  Affordable and Clean Energy

Specific SDG targets

3.8 Achieve universal health coverage, including financial risk protection, access to quality essential healthcare services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.
8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.
8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.
10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.
12.2 By 2030, achieve the sustainable management and efficient use of natural resources.
12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.
12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
A refreshed sustainability strategy continued

SUSTAINABILITY DRIVERS continued

Smith & Nephew Group Business Strategy

Our sustainability goals derive from – and drive – our Group business strategy, so that the entire organisation moves all aspects of sustainability – social, environmental and economic – forward at once. To be truly sustainable, we must deliver our value proposition whilst protecting the environment and invigorating the communities where we operate:

– We take a pioneering approach to design, to create and supply the most innovative and differentiated products and services to our customers.
– We strive to secure wider access to our diverse technologies for more customers globally.
– We seek to enable better outcomes for healthcare providers and healthcare systems, providing high quality products and medical education that improve clinical outcomes and enable healthcare professionals to treat more patients, better, faster, also improving the economic outcome for payers.

Our Values

Our core values of I perform, I innovate and I earn trust are evident in our everyday life as we interact with our customers, our colleagues and the communities where we live and work. We embody Performance by being responsive to the needs of our customers, setting clear goals and standards and achieving them; Innovation by being energetic, creative and passionate about everything we do; and Trust by working in an ethical way, doing what we say, being friendly, approachable and listening to our customers and stakeholders.

Materiality

We choose to apply our limited resources where we can achieve the greatest positive impact. An assessment of our business strategy and our impacts suggests that applying our resources to the following areas will be most beneficial:

– Prevent illness and injury.
– Use water responsibly.
– Reduce waste.
– Reduce carbon emissions.
– Operate ethically.
– Ensure product and service quality.
– Engage communities.
– Develop products with sustainable attributes.
– Manage business risk effectively.
– Understand fully the economic, social and environmental impacts of our actions.

“Our refreshed sustainability strategy applies our limited resources to the areas in which Smith & Nephew can most effectively progress societal performance toward the United Nations Sustainable Development Goals. Sustained progress is assured by taking meaningful targets which are driven by, and help to drive, our core business strategy.”

Elga Lohler, Chief Human Resources Officer

Smith & Nephew

CARING FOR THE ENVIRONMENT
CARING FOR CUSTOMERS
CARING FOR EMPLOYEES
CARING FOR SOCIETY
HOW WE MANAGE SUSTAINABILITY

SMITH & NEPHEW SUSTAINABILITY REPORT 2016 www.smith-nephew.com

8
A refreshed sustainability strategy continued

SUSTAINABILITY COMMITMENTS

Our sustainability drivers lead us to improve lives through the development and deployment of resource efficient, widely accessible, innovative healthcare solutions.

Sustainability Vision and Mission

We envision a world in which healthcare professionals have access to the solutions they need to help patients restore their health, engage in society, enhance the environment and improve their wellbeing.

Our sustainability strategy aims to achieve this vision. It outlines the steps we’ll take with a view to leading our industry in the development and use of products and services that:

– satisfy unmet health needs and promote greater access to treatment;
– offer easier, better, faster and more effective treatment, enabling productive engagement in society;
– prioritise materials that are re-used, re-manufactured, or recycled;
– are manufactured using raw materials sourced from an environmentally and socially sound supply chain;
– use natural resources efficiently;
– are manufactured by processes that are not hazardous to people or the environment; and
– implement the most sustainable product options.

Foundational Elements of Sustainability

Our Foundational Elements are necessary to establish credibility with our stakeholders and reinforce our culture.

Our Health, Safety and Environment (HSE) Performance

Eliminating harm to our employees and the environment is a basis for sustainability.

Our Customers

Our customers require ethical sourcing and fair labour practices throughout our supply chain. Making sure our products are manufactured in safe facilities by workers who are treated well and paid fair wages means we can compete effectively. To remain competitive, we must continually improve in these areas.

Our Stakeholders

We must operate in accordance with the collective expectations of our stakeholders and comply with all applicable legal requirements in the areas of social responsibility and environmental stewardship. These expectations are reflected in the minimum standards of performance set out in our Sustainability Management System. The success of our business relies on the prosperity of the communities where we operate. Therefore, we actively support local communities through engagement, philanthropy and employee volunteering.

Our Employees

Attracting and retaining top talent are necessary to our success. Employee wellbeing and talent management programmes, including wellness, education assistance, employee development, recognition, volunteering, gift matching, diversity and environmental protection reduce employee turnover and improve engagement, which have been shown to improve organisational performance.

Sustainability Imperatives for Competitive Advantage

Our Sustainability Imperatives are integral to the delivery of our Group strategy, which has five key objectives:

- Build a strong position in Established Markets
- Focus on Emerging Markets
- Innovate for value
- Simplify and improve our operating model
- Supplement organic growth with acquisitions

Understanding market direction in all three aspects of sustainability (economic, social and environmental) is crucial. We must understand the potential application of new technologies, transform our business models and develop products and services that offer profitable, differentiated solutions.

Our 10 long-term aspirational goals and their associated 2020 targets

The aspirational goals set out our overall ambition for sustainability. To set us on the path to achieving these goals we have set 2020 targets, and for each target, we implement a range of programmes.

The above strategy drives a comprehensive sustainability programme and the establishment of targets as well as the implementation of programmes to achieve these targets.
A refreshed sustainability strategy continued

Our material issues | Our 10 long-term aspirational goals | Our 2020 targets | Relevant category | Most relevant SDGs | Specific SDG target
--- | --- | --- | --- | --- | ---
Prevent Illness and Injury  
Ensure the health, safety and wellbeing of all Smith & Nephew's employees and contractors | 1. Zero work-related injuries and illnesses across the value chain | – 10% reduction in Total Injury Rate (TIR) from 2016 actual | ![Environmental] | ![Social] | ![Economic] | 8.8

Use water responsibly  
Enhance availability of water for alternative uses, reduce conflict and reduce environmental impact | 2. Water: Total water impacts of our products and solutions are balanced with local human and ecosystem needs | – Water footprint (1) available for products accounting for 75% of turnover and (2) considerations embedded in new product development process  
– Total potable water consumption at S&N sites no higher than 2016 actual | ![Environmental] | ![Social] | ![Economic] | 6.4

Reduce waste  
Improve resource efficiency and reduce environmental impact | 3. Waste: All materials are either shipped as part of product or returned for beneficial use | – Total material efficiency estimated for products accounting for 75% of turnover  
– 80% or more of waste generated reused, recycled or recovered | ![Environmental] | ![Social] | ![Economic] | 12.2

Reduce carbon emissions  
Improve resource efficiency and reduce conflict, while enhancing biodiversity and mitigating climate change | 4. Carbon: 80% absolute reduction in total life cycle greenhouse gas emissions by 2050 | – Estimate total lifecycle greenhouse gas emissions of products accounting for 75% of turnover  
– Total Scope 1 & 2 greenhouse gas emissions reduced by 10% from 2016 actual | ![Environmental] | ![Social] | ![Economic] | Not a strategic priority at Smith & Nephew

Operate ethically  
Enhance trust and promote equal opportunity | 5. Ethical Business Practices: All activities are conducted in compliance with applicable International Labour Organization (ILO) conventions, involve no environmental degradation, and are free from corruption | – Labour practices throughout the supply chain associated with products accounting for 75% of turnover compliant with applicable ILO conventions | ![Environmental] | ![Social] | ![Economic] | 8.7

Ensure product and service quality  

Engage communities  
Promote trust and extend access to care. Enhance our potential pool of talented employees. | 7. Robust social responsibility programmes that contribute to the attraction and retention of top talent | – Social responsibility strategy which aligns philanthropy, employee volunteering and wellness to the business strategy in place | ![Environmental] | ![Social] | ![Economic] | 10.2

Develop products with sustainable attributes  
Increase access to care, improve our environmental impact and reduce costs | 8. Products and services are aligned to market economic, social and environmental expectations and anticipate future market conditions:  
– All products have identified and clearly-described sustainability attributes  
– R&D and NPD processes deliver environmental, social, and healthcare economically-advantaged innovations | – Sustainability attributes described for products accounting for 75% of turnover  
– Robust emphasis on sustainability attributes of new products/services in place | ![Environmental] | ![Social] | ![Economic] | 3.8

Enterprise risk management  
Comprehensively assess and control risks across the entirety of Smith & Nephew, to ensure sustained profitability | 9. Strategic risks and opportunities are understood and business activities are aligned to risk appetite | – Enterprise risk management arrangements are embedded in the routine business decision-making process | ![Environmental] | ![Social] | ![Economic] | –

Consistent focus  
Ensure that all aspects of the business remain aligned to the sustainability imperative and move us steadily towards the achievement of our targets | 10. Environmental, social, and economic 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 are fully understood and appropriately balanced | – 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 | ![Environmental] | ![Social] | ![Economic] | –

Key: ![Environmental] | ![Social] | ![Economic]
INTEGRATING SUSTAINABILITY INTO THE WAY THAT WE WORK

Embedding sustainability into the way that we work – across our entire business – helps us to maintain a competitive position in the marketplace. It’s a mindset that engenders environmental improvements at an operational level, improved healthcare and lower cost of treatment. This integrated approach to sustainability and business is now widely adopted by many companies and the medical device sector is no different.

A GROWING DEMAND

Hospitals and healthcare providers are placing more emphasis on sustainable products for delivering the best level of patient care. Whilst our sector has made progress towards a sustainable product range, more work is required to deliver truly sustainable healthcare around the world for all our markets.

Every year there are stronger signs that sustainability is becoming more and more important among healthcare institutions, especially in their purchasing decisions. Many institutions now have well-developed purchasing programmes in place to guide their decisions and award suppliers who can offer a range of products with sustainability advantages.

With this in mind, we must rethink the materials that are used to make our medical devices, as well as the way they are made. We consider a product’s packaging and materials, its use of energy during manufacture and its final impact on the environment at the end of its life. Such decisions have a positive impact on the quality of healthcare being delivered, whilst also minimising the environmental impact of the treatment cycle.

CONSIDERING A PRODUCT’S END-OF-LIFE IMPACTS

Healthcare institutions now consider whether their suppliers offer a product ‘end-of-life’ solution, such as take-back programmes, recycling or reprocessing. Smith & Nephew is aware of the increased demand for environmentally responsible alternatives and we are taking steps to respond, for example consideration of sustainability has become an imperative in our R&D and new product development processes.

A RENEWED FOCUS ON THE ENVIRONMENT

Energy efficiency and the associated emissions remain a primary focus of many of our sustainability initiatives, but we have much room for improvement. Our total energy consumption and resultant greenhouse gas emissions increased slightly in 2016 despite implementation of several energy efficiency improvements. In some cases this was a result of increased manufacturing activity while in others it is a consequence of a temporary increase in conditioned space while operations are moved or consolidated. Our investments made in 2015/16 around water management, particularly in Memphis, USA have returned significant savings and we are expecting investments in other areas to achieve similar levels of success. We fell short of our 2016 waste reduction targets primarily due to a combination of increased activity during transfer or consolidation of operations and the disposal of excess and obsolete materials. Energy, water and waste performance are now higher profile as they are integral parts of our sustainability strategy, ensuring better focus and improved results going forward. In addition, we encourage the identification and development of environmental improvement projects at the site level, review them for wider applicability and promote their wider adoption where appropriate.

PUTTING SAFETY FIRST

Total incident rate for our employees was reduced by a further 4%, maintaining our position in the top quartile for safety performance in our sector. We were disappointed that the lost time incident frequency rate increased, but have applied measures to reverse this trend and saw a positive result in the second half of 2016. We recognise the importance and accept the challenge to achieve an injury-free workplace. Our efforts to ensure the safety and wellbeing of all of our employees whether they are engaged in manufacturing or our commercial organisation continues with new initiatives, shared learning and a robust internal audit programme.

FOCUSING ON OUR SUPPLY CHAIN

Managing our supply chain has remained a focus in 2016. A new supply chain management tool is being deployed into our procurement systems with the relevant Supplier Information Management (SIM) questions. This will allow us to continue building sustainability considerations into our key purchasing decisions.

DRIVING DIVERSITY

The success of our talent development and diversity initiatives has helped us to achieve our target of at least 40% women in our global talent pool. We are confident that this drives diversity and inclusion across our business.
Performance at a glance

Our previous sustainability strategy, which ended in 2016, was presented in four areas – Caring for Customers, Caring for Employees, Caring for the Environment, and Caring for Society. Our 2016 performance highlights within these four areas are shown in the table, and more detail is provided on the pages that follow.

It’s important to us that our data is transparent and comparable. Therefore, the data showing the underlying change between 2015 and 2016 takes account of changes in the structure and sites in the Group by only comparing sites that were present in both years. We also report the absolute change, which represents the complete footprint for each year.

See the appendices on pages 40 to 42 for more information on the data in this dashboard.

### Caring for Customers

<table>
<thead>
<tr>
<th>2016 targets</th>
<th>Progress since 2015</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorporate sustainability-related Supplier Information Management (SIM) score for major suppliers into purchasing decisions</td>
<td>The process put in place in 2015 was modified during 2016 when a new procurement system was implemented. We continue to use the SIM score to inform purchasing decisions</td>
<td>✔</td>
</tr>
<tr>
<td>Establish and document core sustainability criteria for new product development (NPD)</td>
<td>Core sustainability criteria embedded into sustainability strategy, which was approved by the Board in November 2016. Sustainability professional sits on all NPD steering teams and drives consideration of criteria</td>
<td>✔</td>
</tr>
<tr>
<td>Maintain 100% compliance to Code of Conduct and Business Principles training</td>
<td>100% employees trained. We are supplementing on-line training with face-to-face training</td>
<td>✔</td>
</tr>
</tbody>
</table>

### Caring for Employees

<table>
<thead>
<tr>
<th>2016 targets</th>
<th>Progress since 2015</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce Total Injury Rate and Lost Time Injury Rate by 10%</td>
<td>Total Recordable Incident Rate, -4% Lost Time Incident Frequency Rate, +15%</td>
<td>✗</td>
</tr>
<tr>
<td>Maintain top quartile industry safety performance</td>
<td>Top quartile of safety performance maintained within our sector</td>
<td>✔</td>
</tr>
<tr>
<td>Expand and extend worker wellness programmes to more effectively address lifestyle impact awareness and healthy choices</td>
<td>Target exceeded. Most facilities and employees have access</td>
<td>✔</td>
</tr>
<tr>
<td>Achieve at least 40% women in the global talent pool (mid-level and higher)</td>
<td>41% of global talent pool are women</td>
<td>✔</td>
</tr>
</tbody>
</table>

### Caring for the Environment

<table>
<thead>
<tr>
<th>2016 targets</th>
<th>Progress since 2015</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce non-renewable energy use by 3%</td>
<td>Non-renewable energy usage has increased by 4.5% Underlying increase of 4.7%</td>
<td>✗</td>
</tr>
<tr>
<td>Reduce Scope 1 and Scope 2 CO2 emissions by 3%</td>
<td>CO2 emissions have increased by 4.6% Underlying increase of 4.4%</td>
<td>✗</td>
</tr>
<tr>
<td>Reduce water use by 3%</td>
<td>Water usage has decreased by 11.3% Underlying decrease of 14.3%</td>
<td>✔</td>
</tr>
<tr>
<td>Identify opportunities for packaging material reduction and implement where possible</td>
<td>Opportunities were identified and presented to the business areas for prioritisation, at least one was adopted and implemented</td>
<td>✔</td>
</tr>
<tr>
<td>Reduce total waste by 3%</td>
<td>Total waste has increased by 10.8% Underlying increase of 10.1%</td>
<td>✗</td>
</tr>
<tr>
<td>Increase percentage of total waste recycled by 3%</td>
<td>The percentage of waste sent for recycling or energy recovery was 74.2%. This represents a slight reduction on the 74.8% achieved in 2015 Underlying percentage, 74.4%</td>
<td>✗</td>
</tr>
</tbody>
</table>

### Caring for Society

<table>
<thead>
<tr>
<th>2016 targets</th>
<th>Progress since 2015</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliver a higher return to shareholders than our peer group</td>
<td>Total dividend for 2016 was 30.8 US cents per share, the same as in 2015</td>
<td>✗</td>
</tr>
<tr>
<td>Contribute at least 1% of adjusted pre-tax profits toward corporate citizenship/philanthropy</td>
<td>1.5% of adjusted pre-tax profits directed to philanthropy Employee volunteering time increased</td>
<td>✔</td>
</tr>
</tbody>
</table>

Key: ✔ target achieved ✗ target not met
Caring for customers

We focus on providing improved clinical outcomes for our customers.
Building sustainability into new products

We believe it’s critical to consider the social and environmental attributes of our core products, to help drive competitive advantage. With this in mind, these attributes have been embedded into our refreshed sustainability strategy.

For example, we strive to use materials that can be re-used, re-manufactured and recycled. We aim to use raw materials sourced from environmentally and socially sound supply chains. And, we aspire to make sure that all our treatment satisfies unmet health needs through easier, better, faster solutions.

But how do we ensure that these attributes are properly considered during the development phase of a new product? A sustainability professional sits on each franchise NPD steering team. Their role involves raising awareness and providing education about embedding sustainability attributes into the core product, rather than bolting them on as additional benefits.

**SUSTAINABILITY ATTRIBUTES CONSIDERED BY R&D AND NPD**

Sustainability contributes to the achievement of Smith & Nephew’s strategy by holistically addressing our employees’ ethos, elevating societal wellbeing, improving the quality of life in the communities in which we operate, and leading our industry in the deployment of products and services through which:

- unmet health needs are satisfied and greater access to treatment is promoted;
- effective treatment is easier, better, faster, enabling productive engagement in society;
- materials are re-used, re-manufactured, or recycled;
- raw materials are sourced from an environmentally and socially sound supply chain;
- natural resources are used efficiently;
- manufacturing processes are not hazardous to people or the environment; and
- the most sustainable product options are implemented.

**SUPPLY CHAIN MANAGEMENT**

To a large extent, improving the sustainability of our supply chain depends on our ability to understand and influence the areas beyond our direct control. Key among these are the impacts of our suppliers. We have an active initiative to improve all aspects of supplier performance, including their social responsibility and environmental stewardship.

As an example, in the US we evaluate on-site service providers through a supplier evaluation system (Avetta), which includes social responsibility and environmental stewardship performance parameters. As a result of their unfavourable Avetta scores, 18 service providers were disqualified from Smith & Nephew contracting in 2016. We continue to broaden and deepen the application of these schemes with the eventual goal of incentivising social and environmental performance improvement across our entire global supply chain.

In 2016, we launched a new electronic procurement process to better align with our manufacturing operations, and we are now fully integrating key sustainability parameters into the procurement process. In 2017, we will continue to prioritise sustainability considerations across our supply chain management process.
Developing products with our patients’ health in mind

Meeting the needs of healthcare providers and their patients remains our primary focus. Smith & Nephew develops products that provide clinical and economic benefits to our customers. In addition, many of our products and services deliver social and environmental advantages.

More than half of the world’s population suffers from a lack of affordable healthcare. Facilitating access to healthcare in Emerging Markets is therefore a sustainability priority for us. We develop innovative and pioneering solutions to meet these unmet healthcare needs, such as our Syncera range of value solutions, launched in 2014.

Syncera builds on Smith & Nephew’s trusted expertise and offers relevant healthcare solutions for orthopaedics and wound management, by providing greater reach to quality products to meet evolving healthcare needs globally.

A MORE EFFICIENT KNEE TREATMENT PROVIDING WIDER ACCESS

As part of this business, the ANTHEM™ Total Knee System and the ORTHOMATCH™ Universal Instrumentation Platform have been designed to provide a wider market access to affordable knee treatment. We also offer a prosthesis that is tailored to meet the anatomical needs of patients from Asia, the Middle East, Africa and Latin America.

ANTHEM Total Knee System is an example of our commitment to providing innovative products that expand on existing clinical and cost boundaries, and deliver maximum value to our customers through factors such as:

- **Safe innovation:** the ANTHEM Total Knee System is based upon a trusted design pedigree incorporating clinically advanced technology, such as the tibio-femoral articulation and patello-femoral function equivalent to the GENESIS™ II Total Knee System, which exhibits a 98% survivorship at 15 years;1-2
- **Pioneering approach to customer needs:** to facilitate optimal implant fit, the ANTHEM Total Knee System was designed based on the anatomical measurements of hundreds of patients from the Emerging Markets with the goal to reduce the incidence of implant overhang3 that can occur with Western designed knee systems; and
- **The ANTHEM Total Knee System coupled with the ORTHOMATCH Universal Instrumentation Platform** has been developed in conjunction with leading surgeons from Emerging Markets and Europe providing benefits by creating efficiency through intelligent design which translates into tangible value for surgeons, patients and healthcare providers.

In 2016, Smith & Nephew completed a limited commercial release of the ANTHEM Total Knee System and ORTHOMATCH Universal Instrumentation Platform and in September a full commercial launch started in the UAE, Africa, India, Latin America, Russia, South Korea, and Thailand.

Other advantages include:

- reduction of instrument trays from an industry standard of six core trays down to three trays, providing a 50% reduction in water and energy consumption during sterilisation;
- state of the art, low weight, durable polymers reducing tray weight by up to 50%4 and reducing the occurrence of manual handling injuries;
- modular and multi-purpose instruments reduce the number of instruments in the working space, improving efficiency and patient throughput;
- utilisation of polymers decreases the manufacturing cost and time, enabling wider access;
- the ANTHEM Total Knee System provides a simplified surgical technique that allows knee surgeons to benefit from the anatomical fit provided by ANTHEM, a simple surgical technique combined with the utilisation of digital training methods help reduce travel costs, lower the associated CO2 emissions and further enable wider access without compromising on outcomes.

References
See notes on page 39
Total hip arthroplasty (THA) is a remarkably successful procedure for the treatment of degenerative joint disease, osteoarthritis. This success is reflected in the NICE (National Institute for Health and Care Excellence) guidelines which recommend that devices should have greater than 95% survival at 10 years. The excellent performance of THA is further exemplified by data reported by the national registries and in other publications. For example, in the 2016 report from the Australian Orthopaedic Association National Joint Replacement Registry, 15 year survival was reported to be greater than 85% and in the recent publication by Bayliss et al (2017) greater than 80% survival was reported at 20 years. The excellent long-term performance of THA has led to some declaring that THA is the best orthopaedic procedure.

More than 300,000 total hip replacement surgeries were performed in the US alone in 2015. With the current generation of THA devices based on advanced bearing couples (e.g. highly cross-linked ultra-high molecular weight polyethylene), implant survivorship has been increasing with the risk of revision for patients who received their primary THA over 60 years of age being less than 15%. Thus the majority of patients (the over 60 age group) are increasingly likely to outlive the lifespan of their primary THA implant. The cost of the implants, and patient pain, could both be reduced by improving revision rates of large-joint reconstruction. Surgeons are increasingly opting for products that offer proven clinical outcomes, namely reduced revision rates.

References:
See notes on page 39

Improving clinical outcomes

ADVANCED DESIGN LEADS TO IMPROVED CLINICAL OUTCOMES

The POLARSTEM™ Cementless Stem System has been clinically used since 2002 and is based on a philosophy that has yielded excellent clinical results in the last 25 years. The triple taper, self-locking design with reinforced proximal body allows for excellent proximal stability. The shortened stem length and narrow distal top allows for ease of implantation.

The POLARSTEM Cementless Stem System can be used for all standard femoral morphologies. The range of stems allows the implant to be matched to all bone sizes, thereby reproducing the natural femoral architecture. The simple surgical technique leads to reproducible results and allows implantation using both conventional and minimally invasive techniques.

The POLARSTEM Cementless Stem System, in combination with R3™ cup, has been reported as the best performing cementless hip combination in the UK according to the 5-year results, based on cumulative percentage probability of revision. Patient reported outcomes show better results for success and satisfaction compared to “all other cementless stems in NJR” based on 6,166 procedures performed by 199 implanting surgeons at a mean follow-up of 2.3 years (max. 8.0 years).

References:
See notes on page 39

MAKING GOOD TECHNOLOGY SPECTACULAR

The REDAPT™ Fully Porous Acetabular Cup with CONCELOC™ Technology was launched in 2016. To allow ingrowth, an additive, or 3D printing, manufacturing process is used to produce an entirely porous implant that mimics the structure of cancellous bone. New variable-angle locking screws can be used to enhance implant stability and minimise micromotion after surgery, which when coupled with placement of hole patterns, optimises surgical flexibility and access, particularly in difficult to reach areas of revision cases.

The 3D printing method allows for complex design geometries that would be difficult, expensive or impossible to achieve with traditional manufacturing methods. For example, solid reinforcements can be built directly into the porous structure to provide extra strength in precise locations.

In general, additive processes such as 3D printing are significantly more resource efficient than subtractive processes like machining and we intend to evaluate additional applications for additive technologies.
Unplanned readmissions are costly to hospitals, surgeons, and patients. In the US, they can result in significant financial implications under the Comprehensive Care for Joint Replacement Model (CJR) and Bundled Payments for Care Improvement (BPCI) initiative. For patients, an unplanned readmission can complicate and extend the rehabilitation period. For hospitals and surgeons focused on value, unplanned readmissions can negatively influence overall quality scores, which are in part achieved through efficiency.

In response, Smith & Nephew pioneered its Episode of Care Assurance Program (eCAP), an innovation designed to mitigate risk for our customers. It pairs together Smith & Nephew’s entire line of primary total hip and knee reconstructive systems with two of its most innovative wound care products: PICO™ Single Use Negative Pressure Wound Therapy and ACTICOAT™ Flex—7 Silver-coated Antimicrobial Barrier Dressing. Smith & Nephew warrants that the products will perform as expected. If a patient is readmitted within 90 days following a procedure for a surgical site infection or to revise the implant due to a failure of a Smith & Nephew product, we will pay a hospital’s unreimbursed costs for the readmission up to the purchase prices of the implant, PICO and ACTICOAT Flex 7.

At least 78% of chronic wounds have been found to contain a biofilm. These communities of bacteria attach to the wound bed or each other and are protected by a matrix. Their presence in chronic wounds are linked to delayed wound healing. Biofilms provide a complex treatment challenge to wound care clinicians because they are tolerant to antimicrobial treatments and the host immune response. At Smith & Nephew we are leading a pioneering initiative to provide education and practical solutions to this problem in chronic wounds. The Wound Biofilm Expert Panel was formed in late 2015 and it has developed consensus recommendations across the themes of understanding and diagnosing biofilms, and treatment of biofilms. This will provide a strong platform towards a paradigm shift in biofilm treatment of chronic wounds.

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Caring for employees

Our employees are at the centre of everything we achieve at Smith & Nephew.

- Maintained top quartile safety performance in our sector
- Further extended our talent development initiatives
- Launched a women's leadership development programme
- Extended employee wellness programmes to address lifestyle choices
Keeping our employees safe

Our employees are at the centre of everything we achieve at Smith & Nephew. We expect our teams to show commitment and live our core values, I perform, I innovate and I earn trust. Our employees create safe workplace environments and this helps us attract and retain the industry’s best talent by creating exciting opportunities for individual development.

We encourage our employees to look further than their own roles to identify how we can all improve. This is especially important in health and safety.

SAFETY AND OCCUPATIONAL HEALTH

Our lost time incident frequency rate (LTIFR) has risen since 2015 but we performed in line with other companies in our sector in 2016. Further improvement was made in our total incident rate (TIR) which fell by 4% over the year to 0.52. This performance places us in the top quartile for safety in our sector.

Developing a positive on-site safety culture has helped us to improve our performance. All staff are encouraged to raise safety concerns, suggest improvements, and correct unsafe conditions. We also maintain a rigorous health and safety audit plan across both our manufacturing and commercial operations. These audits serve to identify and correct shortcomings but also learn from, and share, best practices across the Group.

SAFETY SPLASHES

Keeping safety at the forefront of our minds is a daily challenge. To enhance our communications we introduced Safety Splashes. These short, impactful posters cover issues such as safe driving, manual handling, travelling on company business, personal protective equipment, incident reporting and environmental awareness.

DRIVER SAFETY

Managing the safety of those who drive on company business is important to us. In 2016, we reviewed the US car fleet, improved incident reporting and tracking of routine maintenance, and US fleet drivers all received online safe driver training.

DEVELOPING AN HSE BRAND

We have created an HSE ‘brand’ within Smith & Nephew to promote all aspects of health, safety and environment. Positive contributions to any aspect of HSE may be rewarded through our global recognition programme ‘Going the Extra Mile’.

Notes

Our headline safety performance includes all employees and supervised contractors, it excludes unsupervised contractors who are still required to comply with our HSE requirements when on our sites. We adopt the industry standard Occupational Safety and Health Administration (OSHA) system to record incidents of occupational injury and ill-health.

Lost time incidents are defined as those resulting in a person not being able to report for work on the day or shift following the incident. Performance is expressed as a rate of the number of incidents per 200,000 hours worked.
Keeping our employees safe: highlights from 2016

**EMERGENCY MEDICAL RESPONSE**

Automated external defibrillators (AEDs) were deployed across our office and manufacturing environments in 2016. Whilst use is rare, AEDs were successfully applied in two cases with positive outcomes for the affected employees. These experiences prompted us to install AEDs at all Smith & Nephew sites with more than 100 people or more than 10 minutes away from emergency services.

![AED](image1)

**10 minutes**

AEDs have been installed at all Smith & Nephew sites more than 10 minutes away from emergency services.

**RECOGNITION FOR OUR ACHIEVEMENTS**

Beijing celebrates four years of working safely without a recordable injury

The manufacturing site in Beijing achieved four years without a recordable injury. Employees signed a board to celebrate the achievement in safety performance.

**4 years**

without a recordable injury at the manufacturing site in Beijing, China

**Tuttlingen Achieves OHSAS 18001**

Our manufacturing location in Tuttlingen, Germany, earned a Health & Safety Management System certification through the British Standard Occupational Health and Safety Assessment Series (OHSAS). In mid-2015, local management proactively began to implement a Health & Safety Management System that would not only align with our own Health, Safety and Environment Policy requirements, but would demonstrate that their programmes meet with the requirements of the internationally recognised standard.

Our team in Tuttlingen joins their colleagues in Beijing, China, to become the second Smith & Nephew location to achieve this certification. We are examining the potential for extending registration to OHSAS 18001 at other Smith & Nephew locations.
Empowering our talented employees

Our Talent Management Strategy is designed to support Smith & Nephew’s success by creating an environment where employees have the opportunity to develop, learn, and grow. Through a rigorous talent review and development process, we identify key talent, and ensure they have robust career development plans and the support they need to thrive. This results in clear, actionable plans for projects, assignments and opportunities for our most critical talent, strengthens our current leadership, and creates a strong pool of leaders for the future.

A LONG-TERM INVESTMENT IN PEOPLE

Investment in our people is an investment in our future. This philosophy and approach to managing talent at Smith & Nephew supports our aim to be recognised as a Great Place to Work. It empowers our leaders and managers to make better decisions about people, build a sustainable talent pipeline, and operate more effectively and inclusively.

TALENT DEVELOPMENT

We have simplified and improved our performance management process to make sure that all our employees set objectives that align with our business goals, and they have a clear understanding of how their individual objectives contribute to the success of our business.

To accommodate individual learning styles and preferences, we have launched four global Continuous Leadership Journeys which enable employees to learn at their own pace and style. These year-long programmes include short, multidisciplinary modules that fit employees’ diverse schedules and needs while building essential skills and competencies.

We also continued our successful ‘CEO Forum’ programme, which provides our top talent with the opportunity to work closely with our executive team to resolve key challenges within our business. This opportunity is an important way through which we develop our talented individuals to take on future leadership roles.

“...the single most memorable development in my entire career. Having the opportunity to interact with Olivier and his team was truly amazing.”

Participant, CEO Forum, 2016

24 employees participated in the successful ‘CEO Forum’ programme

Our employees have the opportunity to develop, learn and grow
At Smith & Nephew, we are committed to employment practices based on equality of opportunity, regardless of colour, creed, race, national origin, sex, age, marital status, sexual orientation or mental or physical disability unrelated to the ability of the person to perform the essential functions of the job.

In 2016, we intensified our focus on Diversity and Inclusion, launching a new, 12-month women’s leadership programme called ‘Elevate’. 100 employees took part across 15 markets. Initial feedback has been excellent.

Of course, to really effect change and value diversity across the entire organisation, we need to raise awareness among all employees, company-wide. So we developed communication toolkits, which include interactive exercises for managers and their teams, to educate all our employees about the value of difference in the workplace.

As part of our Valuing Difference Programme, local councils, run by passionate and dedicated employees, meet quarterly to assess local needs, execute appropriate actions, and share best practices. As a result, the councils have identified a need for e-learning programmes with a specific focus on Valuing Difference. We have also hired 100 graduate engineers and launched a Young Professionals Group along with formalising our flexible working practices in the US.

In 2016, our top talent pool included 41% women, continuing the steady increase of the past several years, and achieving our target set in 2015 of at least 40%.

Our global talent pool is defined as the tiers of employees two to four levels below the Chief Executive Officer. Our top talent pool is defined as global talent pool individuals that fall into three categories, which includes performance and potential ratings by managers. The three categories are Talented Professionals, Emerging Stars and High Potential employees.

VALUING DIVERSITY AT CROXLEY PARK, UK

At Croxley Park, UK, we are proud to have over 15 languages, several cultures and various religions represented on site. In 2016, we celebrated this diversity through cultural days including Eid, Diwali, Chanukah and Christmas. By leveraging our varied experiences, we can ensure the diversity of our company benefits all of us, our customers, and their patients.

“We launched Elevate in 2016 to provide an on-line development option for females across our managerial and professional groups. Elevate provides practical tips and techniques focusing on Performance, Impact and Exposure. So far we have had great feedback and we are delighted to continue the programme into 2017.”

Nikki West, Senior Vice President, Global Talent
Ensuring employee wellbeing

GREAT PLACE TO WORK
Being recognised as a Great Place to Work is one of our company goals. But what does it take to become a great place to work? We believe it’s about creating a workplace where employees are proud and excited to come to work every day, because they are making a difference for customers and patients.

To earn recognition as a great place to work, employees in each country must complete the Great Place to Work Institute’s Trust Index survey and country management must participate in a Culture Audit. Both evaluate performance on key dimensions of engagement: Credibility, Respect, Fairness, Pride and Camaraderie.

Our last full survey using the Trust Index was in 2014, and we are conducting our current employee survey in two waves: Wave 1 was completed in some countries in 2016 and all other locations will take part in Wave 2 during 2017.

What are the results so far? In 2016, Canada, Denmark and Greater China joined Spain and Italy as countries where we have received recognition from the Great Place to Work Institute. In Canada, a winning attitude, improved communications and celebrating successes have created a team spirit based on trust. In Denmark, initiatives such as ‘30 minutes with management’ and activities focused on day-to-day employee wellbeing and career development have led to a strong culture. Recognition in Greater China was achieved through initiatives such as regular town hall meetings, a People Development Forum, an employee ‘Juice Club’ and communicating via the WeChat platform.

As the Institute does not have an accreditation component in South Africa, we carried out Deloitte’s ‘Best Company to Work for Survey’ here. Our South African team received a Gold Seal from Deloitte reflecting the success of the Family Day, quarterly employee town hall meetings, and leadership team lunches with new starters, along with a successful graduate internship programme and the day-to-day focus on employee wellbeing.

EMPLOYEE WELLNESS
A safe, healthy working environment is vital to ensure the wellbeing of our employees. Our wellness programmes include annual wellness days, fitness support and healthy eating initiatives.

Our Virgin Pulse programme is an example of our commitment to employee wellbeing. Offered to US-based employees, the programme promotes health and wellness by helping to track activity, providing fun wellness challenges and discounting the cost of healthcare. This year we upgraded the programme to include a nutrition component, and a Health Risk Assessment, and we set team step challenges to promote physical activity. Virgin Pulse’s mobile application provides employees easier access via their smart phones.

Employee Assistance Programmes (‘EAPs’) also support wellness by helping our employees to manage stress and other work and lifestyle issues.

Through our EAPs we provide counselling, webinars and web tools, and other resources across many work and life topics. Counselling can extend to financial, legal and everyday family assistance. In 2016, we extended the EAP and Virgin Pulse health engagement platform contracts to allow for global expansion. Costa Rica will be added to the EAP in early 2017.

We also designed and held a vendor integration summit to educate our health and wellness vendors on current employee offerings. Our aim is to better align our wellbeing services to the needs of our employees, for example, stress reduction, nutritional excellence, physical and financial fitness.

5,941
Our Virgin Pulse programme is offered to all US-based employees

Activity trackers encouraged participation in step challenges
Caring for the environment

A healthy environment has a significant positive impact on quality of life. We are committed to optimising the impacts of our business operations on the environment.

- Annual decrease in water consumption of 11%
- Annual increase in greenhouse gas emissions of 5%
- Significant environmental achievements in Costa Rica
- Percentage of total waste sent for recycling or energy recovery: 74%
Our focus on the environment

Environmental issues are considered alongside all our business decisions, from new product design and development, to manufacturing and product distribution.

In 2016, we achieved significant water savings, but challenges still remain to reduce waste, energy and greenhouse gas emissions. These results, typical of our performance against environmental targets in previous years, reflect the fact that until now, environmental targets have not been viewed as core to our business success. Our refreshed sustainability strategy addresses this problem. Driven by our Group business strategy, our sustainability strategy has also been approved by the Board. Within this strategy, we have set ambitious goals to further reduce our climate impact, water use, and waste generation.

The environmental performance numbers presented in this report are absolute and have not been normalised. Our manufacturing facilities and distribution warehouses are responsible for the majority of energy and water consumption, and waste generation across the Group.

“Environmental performance is fundamental to a sustainable business. With the backing of the Smith & Nephew Board, we have connected environmental performance to our core business strategy. This should energise our performance going forward.”

Maurice Bechard, Vice President, Sustainability, Health, Safety and Environment

“We live in a world where commitment to sustainability is an emblem of a company’s integrity & social responsibility. It also has become a critical requirement to attract talent in an increasingly competitive labour market. I’m proud of what we have achieved in Costa Rica, however the journey has just begun.”

Andres E. Salazar, Vice President, Operations, Costa Rica
The process of optimising our facility footprint has resulted in the temporary duplication of some processes and supporting functions. For example, our operations in Costa Rica are relocating to a new facility resulting in the temporary duplication of conditioned manufacturing space. In 2016, our energy use across the Group increased by 5% with a corresponding 5% increase in greenhouse gas emissions.

To reverse this trend and to reduce our immediate environmental impacts, we have implemented a series of short- and medium-term investments. These include transitioning to combined heat and power in Germany and switching to LED lighting.

POWERING SUSTAINABLE TRAVEL

At our site in Croxley Park, UK, we have facilities available for recharging electric cars in order to encourage sustainable commuting.

At our Hull, UK, location we have also recently installed four electric vehicle charge points in the staff car park. We hope to encourage commuters to make the ‘switch’ to environmentally sound travel.

INVESTMENT FOR THE FUTURE

COMBINED HEAT AND POWER IN GERMANY

Our manufacturing location in Tuttlingen, Germany, currently purchases power from the public grid and uses oil for heating. Since reviewing our heating, ventilation and air conditioning provision in 2016, we have invested in a more efficient integrated solution. Two gas-driven combined heat and power (CHP) units generate power and heat simultaneously, and will produce up to 96% of the electricity required on site in the future, with an overall efficiency of 95%.

In addition to these two cogeneration units, we have installed an absorption chiller with fixed indoor air conditioning units attached, which will cool the production floor during the summer. This energy efficient solution will also benefit our employees, as excessive heat on the production floor has been identified as a health and safety risk. We will report back on progress next year.

SWITCHING TO LED LIGHTING

Installing more energy efficient LED lighting at our operations in Hull, UK has saved us 300,000 kWh in 2016. The new lighting has been rolled out through refurbishment projects where our specification requires LED lighting solutions, and has been driven by our policy to replace any failed bulb, tube or fitting with an LED equivalent. Cost savings over the year are estimated at £25,000 with a reduction of more than 120 tonnes of CO$_2$ emissions.
Reducing waste

We always try to use materials more efficiently and reduce the volumes of potentially harmful waste that we generate. Each of our manufacturing locations has targets to reduce waste and improve recycling rates, but only about one-third of our manufacturing sites achieved this waste reduction target. As a result, our waste generation increased by 11% across the Group in 2016.

Using our products also creates waste for our customers. The majority of our wound management products and many of our orthopaedics and sports medicine products are single-use. As the primary purpose of our products is to heal the human body, most of them are classified as clinical or biohazardous waste after use and are currently incinerated. But we are challenging our NPD teams to find new ways to recycle or re-use our product ranges after use. This ties in with our goals highlighted in the refreshed sustainability strategy.
Conserving water

As a result of investments made in 2016, we have achieved an 11% decrease in the volume of water consumed across the Group. This was largely achieved by improvements made at our Memphis, US manufacturing location.

“Although water is an abundant and inexpensive natural resource in the greater Memphis area, that fact does not abdicate our responsibility to be good stewards of our local resources. Therefore, when we have an opportunity to make a positive contribution to our environment, we must take it.”

Gene Baker, Vice President, Operations, Memphis

WATER SAVING IN MEMPHIS, US

Compressed air is critical to our manufacturing processes. Two of our production buildings previously used four water-cooled compressor systems. They ran 24-hours a day, and non-contact cooling water was constantly discharged into the drains.

To save water, we replaced our water-cooled air compressor units with air-cooled radiator units, saving an estimated 38,000m³ of water per year. This is equivalent to the volume of 15 Olympic-sized swimming pools.

- Two existing water-cooled units were converted to air-cooled by the addition of fan-driven radiators. Cooling fluid is maintained in a closed-loop system while the radiator is pulling in ambient air and expelling heated air outside the building.
- A brand new air-cooled unit (fan-driven radiator) was constructed and installed. This unit took two water-cooled compressors off-line and was fully operational in early 2016.

38,000m³ of water saved per year

Conserving water
SUSTAINABLE PACKAGING SOLUTIONS

Our packaging teams are divided into development teams and process engineering. The development work focuses on new product launches, and a team of engineers have created a ‘sustaining group’ formed of experts tasked with quality initiatives. For example, they work on error prevention technologies, supplier transfers, and some targeted work on specific product ranges.

What has the sustaining group achieved so far? The team in Memphis won the AmeriStar Packaging Award for redesign of the Hip Stem Packaging System. It improves quality and handling as well as an annual estimated cost saving of nearly $162,000 and less waste for the end-user.

A LOOK AT THE HIP PACKAGE IN MORE DETAIL

The new Smith & Nephew Hip Package is a resilient sterile barrier system designed to house metal hip stems of varying lengths and sizes. An inner and outer tray with a lid system allow for aseptic presentation within the sterile field. Within the inner tray, the hip stems are stabilised with a locking mechanism which secures the neck of the stem, and with a rigid insert, which secures the end of the stem. This innovative design ensures that the product is fully seated within the inner tray.

To ensure the product and insert remain well seated throughout distribution, design features were built into the inner tray. These features make sure the product remains sterile upon arrival to the customer, while also making it easier to remove the product from the package.

The rigid insert, made of Santoprene, replaces the previous insert made of foam, as well as a secondary piece of foam that was used for added cushioning within the package. This has reduced the amount of waste being thrown away within the operating room, as well as reducing the amount of foam waste being generated during the manufacturing process.

“...This new design has user friendly features and helps Smith & Nephew reduce waste and cost. We were proud to be recognised with the prestigious AmeriStar Award.”

Kati Gordon Coll, Packaging Sustaining Engineer
LEED SILVER CERTIFICATION IN COSTA RICA

Our new facility in Costa Rica has been awarded a LEED Silver certification. LEED, or Leadership in Energy and Environmental Design, is the most widely used third-party verification for green buildings (www.usgbc.org/LEED). The facility was opened in October 2016 by the President of Costa Rica. As a demonstration of our commitment to the local environment, one native tree was given to each attendee totaling more than 200 new trees to be planted in commemoration of the event.

COSTA RICA BEACH CLEAN UP

Each year employees from Smith & Nephew Costa Rica actively participate in the GreenCare Programme to preserve our planet. Over 50 volunteers cleared Hermosa Beach in Puntarenas of 167kg of waste, facilitating the turtle nesting season and protecting our oceans.

COSTA RICA BLUE FLAG AWARD

For the second consecutive year, our colleagues in Costa Rica won the environmental agency’s Ecological Blue Flag Award. This required progress against several environmental parameters such as water, electricity and fossil fuel reduction, the proper management of waste, an inventory of air pollutants, and the delivery of environmental education and training.
Caring for society

We aim to improve the lives of the people in the communities where we operate through corporate giving and employee volunteering initiatives.

- Donations in educational grants and sponsorships $10.7m
- Charitable causes received cash and product donations $3.3m
- Employee volunteering better aligned to the Company strategy
- UK Modern Slavery Act 2015, statement developed
Caring for society

Providing greater access to healthcare solutions and improving the lives of people in the communities where we operate are important to Smith & Nephew. We support improved access to healthcare solutions through professional medical education, product donation, and support of surgeon-led philanthropic activities. Employee volunteering initiatives, direct donation of funds to qualifying charities, and employee gift matching are the major avenues to improving the lives of people in the communities where we operate. Together these initiatives bring our mission – supporting healthcare professionals in their daily efforts to improve the lives of their patients – to life, whilst fully engaging our employees in the journey.

CORPORATE GIVING
At Smith & Nephew, we believe selection and management of charity recipients is best accomplished at the local level, driven by our guiding principles of pioneering approach, securing wider access, and enabling better outcomes in the following priority areas:

– Health and human services: organisations who increase access to healthcare and human services.
– Education – STEM-focused (Science, Technology, Engineering, Mathematics): organisations providing equal access to education opportunities and programmes, particularly those in STEM subjects.
– Environment: organisations and programmes that protect and provide wider access to local natural resources and promote sustainable initiatives.

Smith & Nephew applies strict criteria to ensure that only charities and other non-profit organisations adhering to appropriate ethical standards are supported.

During 2016, our philanthropy activities totalled $14m, which represents 1.5% of our adjusted pre-tax profits. This total comprised $3.3m in cash and product donations, $10.7m from educational grants and sponsorships and $36,000 from employee gift-matching.

$14m
During 2016, our philanthropy activities totalled $14m

SUPPLY CHAIN
A new supply chain management tool will allow us to continue building sustainability considerations into our purchasing decisions, especially those involving our major suppliers. Introduced at the end of 2016, we are now in the process of rolling out the new tool into our procurement systems, along with the relevant Supplier Information Management (SIM) questions.

CONFLICT MINERALS
In response to the requirements of the 2010 US Dodd Frank Act, we reported our status in accordance with the rules of the US Securities and Exchange Commission in May 2016. We remain committed to sourcing responsibly and will continue to monitor developments and be prepared to respond appropriately. Full details are available at www.smith-nephew.com/sustainability/policies

UK MODERN SLAVERY ACT 2015
In order to comply with the UK Modern Slavery Act, we have published our statement in line with Section 54. This is available at www.smith-nephew.com/sustainability/policies
Employee volunteering

CYCLE CHALLENGE IN CANADA
To celebrate the 160th anniversary of the founding of Smith & Nephew in Hull, our colleagues in Mississauga, Canada, raised a total of $1,300 by taking part in a cycle challenge. The money was donated to the Heart & Stroke Foundation.

TOTAL WARRIOR EVENT FOR LOCAL HULL CHARITIES
In Hull, UK, we presented a cheque for £13,000 to three local charities after employees raised money by taking part in the North Yorkshire Total Warrior challenge.

Over 40 employees took on the 12km course that involved 30 punishing obstacles including an ice bath, a river crossing, and chest-deep mud. The team, appropriately named the ‘Wound Warriors’, collectively represented 16 different functions across the Hull site.

Simon Ansell, Operational Quality Team Leader, who inspired and organised the group, commented “we felt it was important to do this for our chosen charities, but it was also an ideal opportunity to bring employees together that wouldn’t normally mix due to different roles within the business. On the day, the teamwork and camaraderie that was on show between our employees was fantastic and made the pain of the challenge completely worth it!”

Smith & Nephew’s involvement in this challenge reaffirms its commitment to the local region and follows its announcement to support Hull UK City of Culture 2017 as a Major Partner.

HELP FOR LANDMINE VICTIMS
125 prosthetic hands were built by over 500 Hull employees during the ‘Helping Hands’ event

As part of the 160 years celebrations in Hull, the site completed a charity event that had a genuine connection to the Company’s philanthropic roots. Over 500 employees completed the ‘Helping Hands’ event, which involved building 125 prosthetic hands. These have since been delivered to landmine victims all over the world, entirely free of charge to the recipient.

Including a previous visit by the Helping Hands charity to Smith & Nephew in Australia, we have now contributed 171 hands in total, all made by Smith & Nephew employees.

“Our business is focused on increasing access to medical devices and supporting healthcare professionals worldwide. We felt that providing prosthetic hands for people who face a daily struggle to complete the simplest of tasks was the perfect way to mark 160 years in the medical device business,” said Tanya Childs, Corporate Brand Director.

Smith & Nephew is proud to offer each employee eight hours of paid volunteer time-off per year

8
Employee volunteering

YORK SUPPORTS LOCAL AIR AMBULANCE SERVICE IN UK
Through running competitions, quizzes, and sweepstakes on-site, the Charities Committee in York has raised over £1,000 for the Yorkshire Air Ambulance. The air ambulance covers the whole of Yorkshire and requires £12,000 per day to keep running, but in doing so, is ready to help five million people across the county.

GREATER BOSTON FOOD BANK
Ten of our female leaders from Andover and Mansfield, Massachusetts, US, volunteered at the Greater Boston Food Bank (GBFB) for the day. They packed nearly 13,000 pounds of food to be distributed to senior citizens in need. In doing so, they set a record for GBFB, packing more than 1.5 times what a group their size would normally pack in one day.

OPERATION WALK IN LATIN AMERICA
Smith & Nephew is an active supporter of Operation Walk, a not-for-profit, volunteer medical service organisation that provides total joint replacement surgery to patients who live in developing countries. We donate Smith & Nephew products for these life-altering surgeries, and employees also volunteer their personal time to assist in the operating theatre. In April, the organisation went to Cuenca, Ecuador where volunteer surgeons and Smith & Nephew employees were on hand to perform 25 Total Hip Arthroplasties (THAs) in patients with advanced arthritis secondary to hip dysplasia. This was repeated in Antigua and Guatemala.

CARE PACKAGES DURING RAMADAN IN THE UAE
For Muslims, the holy month of Ramadan is a time for spiritual reflection, prayer, doing good deeds, and spending time with family and friends. In collaboration with a local telecommunications company, 27 colleagues from Smith & Nephew’s Dubai office volunteered their time to pack essential food ingredients, into re-usable and eco-friendly boxes. The boxes were subsequently distributed to needy families across the UAE, with the help of a local charity, Tarahum Charity Foundation.

“Operation Walk is a project that is very dear to my heart. I think it embodies our company culture and personifies our core values. I look forward to having the opportunity to support this worthwhile initiative for many years to come.”
Joe Iannuccilli, Supply Chain Technician, Canada
The Board and Executive Committee have long been committed to our sustainability programme. The refreshed strategy takes sustainability to the core of the business.

How we manage sustainability

Business success requires sustainable excellence.
We believe that good governance lies at the heart of a well-run company. Openness and transparency, accountability and responsibility should run through everything we do from the top of the Group at Board level and throughout the business as a whole.

The Corporate Governance section of our 2016 Annual Report gives full details of our Corporate Governance Framework and the structures and processes we have in place to ensure that our Group is well governed.

### SUSTAINABILITY GOVERNANCE

| The Board | Formally approves the sustainability strategy and reviews sustainability performance on an annual basis. |
| The Chief Executive Officer | Receives weekly HSE updates from the Chief Human Resources Officer. |
| The Chief Human Resources Officer | Reports to the Chief Executive Officer. Has executive oversight of health, safety, environment (HSE) and sustainability. |
| The Vice President Sustainability and HSE | Provides the leadership and cohesion to deliver the sustainability strategy. |
| Line management | Drives HSE and sustainability performance at a local level, supported by an HSE Leadership Team comprised of senior functional specialists. |

### BOARD

- **AUDIT COMMITTEE**
  - Provides independent assessment of the financial affairs of the Company,
  - Reviews financial statements and controls and the risk management process.
  - Manages use of internal and external auditors.

- **REMUNERATION COMMITTEE**
  - Determines Remuneration Policy and packages for Executive Directors and Executive Officers.

- **NOMINATION & GOVERNANCE COMMITTEE**
  - Reviews size and composition of the Board, succession planning, diversity and governance matters.

- **ETHICS & COMPLIANCE COMMITTEE**
  - Reviews and monitors ethics and compliance, quality and regulatory matters across the Group.

- **AD HOC COMMITTEES**
  - Ad hoc committees may be established to review and approve specific matters or projects.

### EXECUTIVE COMMITTEE

- **COMMERCIAL COMMITTEE**
  - Recommends and implements strategy for global commercial functions and regions, managing sales, marketing, market access and commercial strategy and identifying and executing new processes, systems and practices to improve operational efficiency in commercial regions.

- **CORPORATE FUNCTIONS COMMITTEE**
  - Recommends and implements strategy for corporate functions identifying and executing new processes, systems and practices to improve operational efficiency in corporate regions.

- **PORTFOLIO INNOVATION BOARD**
  - Defines portfolio allocation principles, reviewing and challenging current shape of portfolio, identifying gaps and opportunities and re-prioritising segments and geographies.

- **REGIONAL STAFF MEETINGS**
  - Regional management through committees to drive regional performance.

- **FUNCTIONAL STAFF MEETINGS**
  - Functional leadership teams to drive functional performance.

- **FINANCE & BANKING COMMITTEE**
  - Approves banking and treasury matters, guarantees, Group structure changes, acquisitions and disposals.

- **DISCLOSURES COMMITTEE**
  - Approves release of communications to investors and Stock Exchanges.

- **MERGERS & ACQUISITIONS COUNCIL**
  - Oversees Corporate Development Strategy, monitors status of transactions and approves various stages in acquisition process.

- **GROUP RISK COMMITTEE**
  - Reviews risk registers and risk management programme.

- **GROUP ETHICS & COMPLIANCE COMMITTEE**
  - Reviews compliance matters and country business unit or function compliance reports.

- **DIVERSITY & INCLUSION COUNCIL**
  - Implements strategies to promote diversity and inclusion.

- **GLOBAL BENEFITS COMMITTEE**
  - Oversees all policies and processes relating to pensions and employee benefit plans.

- **HEALTH, SAFETY & ENVIRONMENT COMMITTEE**
  - Oversees health, safety and environmental matters.

- **IT GOVERNANCE BOARD**
  - Oversees IT and cyber security.

- **CAPITAL GOVERNANCE BOARD**
  - Determines and monitors capital expenditure in line with corporate strategy.
Building trust

ROBUST STANDARDS SUPPORTED BY A STRONG CULTURE

Our values – performance, innovation and trust – are defined in Smith & Nephew’s Code of Conduct and Business Principles (Code). We earn trust by performing and innovating in an ethical and compliant manner. Our Code is supported by global policies that specifically define behaviours to ensure that we follow relevant anti-bribery and corruption laws and take actions that protect our reputation in the industry, with healthcare providers, and with their patients. In 2016, we released new controls around pre-clinical and clinical studies, protecting patient privacy and conducting data privacy impact assessments.

We take measures to ensure that our Code is not just words on a page – but instead models our corporate culture. In 2016, we continued to conduct compliance culture assessments and completed workshops in eight countries. As part of the workshops, we reviewed local risks and developed action plans to mitigate risks and strengthen culture. We also launched our Compliance Ambassador programme in four countries to further embed ethical values and compliance standards in the business. In this programme, respected sales managers are nominated to become Compliance Ambassadors and act as mentors to their peers and their teams, providing practical solutions to compliance challenges based on real life experience. We will expand the programme in 2017.

We continue to recognize employees who earn trust with their actions with our Spotlight on Trust Programme.

ETHICS OVERSIGHT

We have multiple levels of ethics oversight at Smith & Nephew to ensure our managers, employees, and business partners act with integrity. These include executive oversight and leadership through our Group Ethics and Compliance Committee, which includes our Chief Executive Officer and business and corporate function heads. We have built what we believe to be a world-class compliance programme supported by a Chief Compliance Officer, reporting to the Chief Executive Officer, and a global Office of Ethics and Compliance.

Accountability is another key component of an ethical culture. Managing Directors complete an annual certification to confirm implementation of required programmes. Managers and employees complete an annual compliance certification, and executive management, managers, and employees have a compliance performance objective customised to their level in the organisation.

We support this sense of ownership with various communication tools, such as compliance articles on our Group intranet, regular communications to Managing Directors, and reporting line posters and face-to-face training.

ENCOURAGING EMPLOYEES TO SPEAK UP

All our employees must feel comfortable to speak up. It’s an important part of a strong compliance culture. But despite our strong non-retaliation policy, we believe that more transparency over the reporting process is needed to help employees to feel more confident when they report concerns. In 2016, we started following-up with internal reporters both during an investigation and after its completion, to reassure employees that their concerns are being actively investigated and to check whether they have feedback on the process. A poster campaign encourages employees to raise their concerns and reminds them of the multiple reporting options available.

We continue to require Sales and Marketing leaders to complete an annual certification to the Chief Executive Officer to confirm the implementation of required policies in their businesses.

TRUST BUT VERIFY

Earning trust with our actions is very important at Smith & Nephew. It’s something that we continually reinforce. But we also know that people can make mistakes, which is why we have multiple ways to verify adherence to our rules and principles.

In 2016, we conducted 33 audits of our internal business units and processes to assess our compliance controls. We re-vamped our programme to require auditors to dig deeper when they encounter potential risks and to provide more detail about their testing process and the results. We also continued with our early warning Local Monitoring Programme, where Regional Compliance Officers test selected activities within the businesses they support. Our pilot for monitoring travel and expenses has been successful and will be conducted every quarter in 2017, across all business units.

We also assess the compliance controls in our third party partners, including distributors, agents, vendors or other service providers. Our checks include compliance audits, which involve reviewing a sample of accounting transactions from the third parties’ books and records. We also assess our distributors’ and agents’ commitment to compliance with laws and our Code of Conduct. Both audits and assessments are performed on-site at a third party’s office and can result in an action plan to address particular areas noted during the review.

EDUCATION AND AWARENESS

Employees receive training on our Code of Conduct when they start working at Smith & Nephew, and they receive annual compliance training. More detailed training for managers, finance professionals, and other key functions is provided based on specific roles.

Scenario-based training was introduced in 2016 to educate employees on conflicts of interest, and we also provide training on effective communications. All employees were required to complete an annual certification stating they understand and follow our rules, and our approach to annual manager certification followed the same model in 2016 as it has in previous years.

In 2016, all managers were required to have an ‘ethics and/or compliance conversation’ with some of their direct reports. They were given centrally-created materials focusing on the importance of earning trust and then provided with specific, topic-based scenarios to discuss. This model has enhanced dialogue around ethics, compliance, and the importance of earning trust with our actions.
MITIGATING THIRD PARTY RISKS

We know that third parties can expose the Company to compliance risks. This is why we have a strong vetting process before we engage with a distributor or agent. We provide training to reinforce our expectations for compliant and ethical behaviour, and clear rules for third parties to follow.

The Additional Compliance Standards, which are a contractual obligation that apply to our distributors and agents outside the US, define specific rules that a distributor or agent must follow. In 2016, we updated these standards to address the varying level of risk in different countries or regions.

We also included Adequate Documentation Standards to educate our smaller business partners about the type of documentation they should maintain. Compliance resources, including customisable templates, are available via the Smith & Nephew external website. Our third parties can use these resources to develop an appropriate compliance programme based on their company's size and risk areas.

Finally, we created guidance to support the Smith & Nephew employees who manage and work with our distributors and agents, including a requirement to conduct a bi-annual report and to include, in 2017, a performance objective specific to effectively managing these third parties and mitigating compliance risks.

Controls around vendors, suppliers and service providers were enhanced in 2016 to make it easier for employees to understand the next steps once the risk level has been identified. In some cases, these steps may include due diligence, training, or adding compliance standards in the contract. We are also working to integrate these controls into the Company’s new purchasing system.

Building trust continued

COMPLIANCE AMBASSADORS

Smith & Nephew seeks to set the tone for compliance from the top, with leadership from the Board and senior executives. We also have an excellent team of global compliance professionals. As we build a sustainable programme, it is essential that we empower every employee to champion compliance at an individual level, too.

8
Culture assessments completed

15
Distributor audits conducted

90
Distributor assessments completed

The Compliance Ambassador programme is a key part of our strategy to embed ethical values, policies, and standards across the organisation by providing peer-to-peer training and communication opportunities at a local level. Compliance Ambassadors will act as mentors to their peers and teams, providing practical solutions to compliance challenges based on real life experience. By working closely with the Ambassadors, our compliance team will also gain a better understanding of the day-to-day challenges faced by our teams.

“Compliance Ambassadors will provide us with an effective method to embed the compliance programme within the field-based sales staff through their peer-to-peer compliance guidance, as well as to enhance the programme through their real-life input on the standards and training we plan to use with sales staff. We anticipate implementing this process in all major markets.”

Arjun Rajaratnam, Chief Compliance Officer
Notes

PAGE 15
ANTHEM™ TOTAL KNEE SYSTEM
A more efficient knee treatment providing wider access
2. Bourne et al. Survivorship of the Genesis II Total Knee Arthroplasty at a Mean of 15 years. COA poster presentation. 2014
4. Smith & Nephew, Inc. Lab Data (Jan 2017)

PAGE 16
POLARSTEM™
Advanced design leads to improved clinical outcomes
1. NICE guidelines https://www.nice.org.uk/guidance/ta304/chapter/1-Guidance
7. Millennium Research Group, Inc., Large-Joint Reconstructive Implants Europe 2015 Market Analysis
8. 13th Annual Report 2016 of the National Joint Registry for England, Wales, Northern Ireland and the Isle of Man

PAGE 17
IODOSORB™
Leading the way tackling wound biofilms
## 2016 targets

<table>
<thead>
<tr>
<th>2016 targets</th>
<th>Progress since 2015 baseline</th>
</tr>
</thead>
</table>
| Deliver a higher return to shareholders than our peer group                  | Total dividend for 2016 was 30.8 US cents per share, the same as in 2015  
|                                                                               | Total dividend distribution to shareholders was $279m in 2016 compared to $272m in 2015  
|                                                                               | See 2016 Annual Report for peer group information and specifically pages 98-99 for information on total shareholder return |
| Incorporate sustainability-related Supplier Information Management score for major suppliers into purchasing decisions | The process put in place in 2015 was modified during 2016 when a new procurement system was implemented. We continue to use the SIM score to inform purchasing decisions |
| Establish and document core sustainability criteria for new product development | Core sustainability criteria embedded into sustainability strategy, which was approved by the Board in November 2016. Sustainability professional sits on all NPD steering teams and drives consideration of criteria |
| Reduce Total Injury Rate and Lost Time Injury Rate by 10%                    | Zero fatalities  
|                                                                               | Total Recordable Incident Rate (TIR) has decreased by 4% (from 0.54 in 2015 to 0.52 in 2016)  
|                                                                               | Lost Time Incident Frequency Rate (LTIFR) has increased by 15% (from 0.20 in 2015 to 0.23 in 2016) |
| Maintain top quartile industry safety performance                            | 2016 Group TIR = 0.52  
|                                                                               | This maintains the Group's position in the top quartile of safety performance within our sector, as reported in the most recent US Department of Labor, Bureau of Labor Statistics for Injuries, Illnesses and Fatalities in the industry classification of medical equipment and supplies manufacturing, 2015 data |
| Expand and extend worker wellness programmes to more effectively address lifestyle impact awareness and healthy choices | Target achieved, most facilities and employees have access to a wide range of wellness initiatives |
| Achieve at least 40% women in the global talent pool (mid-level and higher)   | 41% of global talent pool (mid-level and higher) are now women |
| Maintain 100% compliance to Code of Conduct and Business Principles training | 100% employees trained. We are supplementing on-line training with face-to-face training |
| Contribute at least 1% of adjusted pre-tax profits toward corporate citizenship/philanthropy | $14$m of philanthropy spend in 2016, of which $3.3$m was in cash and product donations and $10.7$m was in educational grants and sponsorships.  
|                                                                               | This represents 1.5% of adjusted pre-tax profits  
|                                                                               | Volunteering programmes remain active and employee involvement has increased |

For detailed commentary on health and safety performance, see pages 19-20 and for environmental data, see pages 24-30.

Our headline safety performance includes all employees and supervised contractors, it excludes unsupervised contractors who are still required to comply with our HSE requirements when on our sites. We adopt the industry standard Occupational Safety and Health Administration (OSHA) system to record incidents of occupational injury and ill-health. Lost-time incidents are defined as those which result in a person not being able to report for work on the day or shift following the incident. Performance is expressed as a rate of the number of incidents per 200,000 hours worked. All safety performance data reported excludes acquisitions made during 2016.
Performance review against our 2016 targets set in 2015

<table>
<thead>
<tr>
<th>2016 targets</th>
<th>Progress since 2015 baseline</th>
<th>Underlying 2016 progress against 2015 baseline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce non-renewable energy use by 3%</td>
<td>Energy use has increased by 4.5% (9.0GWh)</td>
<td>Energy use increased by 4.7%</td>
</tr>
<tr>
<td>Reduce Scope 1 and Scope 2 CO₂ emissions by 3%</td>
<td>CO₂ emissions have increased by 4.6% (4,035t)</td>
<td>CO₂ emissions have increased by 4.4%</td>
</tr>
<tr>
<td>Reduce water use by 3%</td>
<td>Water usage has decreased by 11.3% (86,759m³)</td>
<td>Water usage has decreased by 14.3%</td>
</tr>
<tr>
<td>Identify opportunities for packaging material reduction and implement where possible</td>
<td>Opportunities were identified and presented to the business areas for prioritisation, at least one was adopted and implemented</td>
<td></td>
</tr>
<tr>
<td>Reduce total waste by 3%</td>
<td>Total waste increased by 10.8% (985t)</td>
<td>Total waste has increased by 10.1%</td>
</tr>
<tr>
<td></td>
<td>Waste to landfill increased by 9.2% (192t)</td>
<td>Waste to landfill has increased by 7.9%</td>
</tr>
<tr>
<td></td>
<td>Amount sent to recycling (including waste sent for energy recovery) has increased by 9.9% (678t)</td>
<td>Amount sent to recycling (including waste sent for energy recovery) has increased by 9.5%</td>
</tr>
<tr>
<td>Increase percentage of total waste recycled by 3%</td>
<td>Including waste sent for energy recovery this declined slightly from 74.8% in 2015 to 74.2% in 2016</td>
<td>Including waste sent for energy recovery this declined slightly from 74.8% in 2015 to 74.4% in 2016</td>
</tr>
</tbody>
</table>

Absolute data for environmental performance is indicated in the table

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-hazardous waste (tonnes)</td>
<td>2,662</td>
<td>2,168</td>
<td>2,089</td>
<td>2,281</td>
</tr>
<tr>
<td>Hazardous waste (tonnes)</td>
<td>426</td>
<td>491</td>
<td>209</td>
<td>327</td>
</tr>
<tr>
<td>Waste recycled for energy recovery (tonnes)</td>
<td>431</td>
<td>2,706</td>
<td>1,946</td>
<td>2,152</td>
</tr>
<tr>
<td>Waste recycled (tonnes)</td>
<td>4,783</td>
<td>4,003</td>
<td>4,891</td>
<td>5,362</td>
</tr>
<tr>
<td>Total waste (tonnes)</td>
<td>8,301</td>
<td>9,368</td>
<td>9,137</td>
<td>10,122</td>
</tr>
</tbody>
</table>

Emissions, Energy and Water

<table>
<thead>
<tr>
<th>Emissions to air (tonnes CO₂e) from:</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combustion of fuel and operation of facilities (process and fugitive)</td>
<td>10,123</td>
<td>11,208</td>
<td>11,011</td>
<td>9,822</td>
</tr>
<tr>
<td>Purchased electricity</td>
<td>67,559</td>
<td>74,178</td>
<td>77,191</td>
<td>82,415</td>
</tr>
<tr>
<td>Total emissions (tonnes CO₂e)</td>
<td>77,682</td>
<td>85,386</td>
<td>88,202</td>
<td>92,237</td>
</tr>
<tr>
<td>Total energy (GWh)</td>
<td>177</td>
<td>194</td>
<td>198</td>
<td>207</td>
</tr>
<tr>
<td>Water usage (1000m³)</td>
<td>752</td>
<td>703</td>
<td>770</td>
<td>683</td>
</tr>
</tbody>
</table>

All emissions have been calculated using the most up-to-date emission factors available for each location, from 2015.

The absolute data includes all significant locations.

The underlying progress takes account of changes in the structure and sites in the Group by only comparing sites that were present in both 2015 and 2016 in order to provide a more transparent comparison. The sites excluded were those sites closed since 2015 and any new acquisitions made since 2015. Site closures included those in Calgary and Fort Saskatchewan, Canada, Lausanne, Switzerland and St Petersburg, US. Acquisitions included Blue Belt Technologies, and DC Manufacturing in Russia.

The underlying change does not make allowance for the approximate 7% increase in cost of production between years 2015 and 2016 that is believed to have significantly impacted the underlying energy, water and waste data.
APPENDICES continued

Assurance update

Smith & Nephew has chosen DNV GL as our independent assurance providers. The summary assurance statement is provided below and we will continue to provide updates on our website and in subsequent Sustainability Reports.

Smith & Nephew commissioned DNV GL Business Assurance Services UK Limited (DNV GL) to undertake independent assurance of Smith & Nephew’s Sustainability Report 2016 (the “Report”) for the year ended 31 December 2016. The performance data associated with Smith & Nephew’s 15 targets was evaluated using the reliability principle together with Smith & Nephew data protocols for how the data are measured, recorded and reported.

The work was performed using DNV GL’s assurance methodology VeriSustain™, which is based on our professional experience, international assurance best practice including the AA1000 Assurance Standard, International Standard on Assurance Engagements 3000 (ISAE 3000), and the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. The Report was evaluated for adherence to the VeriSustain™ Principles of stakeholder inclusiveness, materiality, responsiveness, completeness, neutrality and reliability.

For clarity, the scope of the assurance includes all data and information in the Report except for case studies.

The full assurance statement with DNV GL’s scope of work, findings and conclusions can be found online here:

Independent Assurance Statement

DNV GL Business Assurance Services UK Limited is part of DNV GL – Business Assurance, a global provider of certification, verification, assessment and training services, helping customers to build sustainable business performance.

www.dnvgl.co.uk/BetterAssurance

External recognition

We are proud to have maintained our listing on a number of high profile and prestigious socially responsible investor and sustainability indices including the following:

Go online to find out more about our sustainability practices

Contact us

Vice President of Sustainability & HSE,
Smith & Nephew plc,
15 Adam Street,
London WC2N 6LA,
United Kingdom

sustainability@smith-nephew.com

Product names

The product names referred to in this document are identified by use of capital letters and the ™ symbol (on the first occurrence) and are trademarks owned by or licensed to members of the Group.