Contributing to sustainable development in healthcare
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73 Looking Ahead
The very nature of our business contributes to sustainable development in healthcare.

About This Report

This report gives an overview of the actions we are taking to build and operate a company committed to sustainable development.

The scope of the report covers Smith & Nephew’s global business units: Orthopaedic Reconstruction and Trauma, Biologics and Clinical Therapies, Endoscopy and Advanced Wound Management. (see Business Divisions for more information)

The report has grown significantly in scope over the last few years as it is our aim each year to continue to improve our level of disclosure. The report concentrates on providing an update of our sustainability performance in the past year. Our policies and organisation relevant to corporate responsibility appears in a different part of the Corporate Responsibility section on the website under Our Business Practice.
About This Report

Our Performance

Our Performance is split into the three areas: environmental, health and safety, social and economic, it also provides an insight into our products and services and how the very nature of our business contributes to sustainable development in healthcare.

Material contained in the report covers the period up to 31 December 2007. Previous reports are available to download in PDF format.

Our ambition is for Smith & Nephew to continue as a strong and growing business long into the future. In these conditions, we believe that we can contribute to long-term sustainability by demonstrating:

- Health and Safety Responsibility - by regarding the health and safety of all our employees as equally important wherever they work. All Smith & Nephew sites across the world are included in its Audits and Reporting Programme. Third party suppliers are vetted to ensure they subscribe to our values and employment ethics.

- Social responsibility - developing and providing cost-effective products to healthcare systems, advanced treatments and techniques. Providing suitable workplace conditions and ensuring the effective development of our employees and fostering relations with the communities in which we operate. Giving employees the opportunity to let us know how they feel about working for Smith & Nephew - and acting on what they tell us, investing in our people, investing in the communities in which we operate and providing opportunities for continuing professional development of healthcare professionals. In addition, education of healthcare professionals in techniques related to our product range is an integral part of the service we provide.

- Economic responsibility - providing clear economic benefits to shareholders, employees, suppliers and society. We contribute to society through the creation of shareholder value, payment of taxes, capital investment, employment opportunities and procurement, as well as the economic benefits of our products on both healthcare providers/payers and patients. Smith & Nephew's products and treatments offer cost-effective solutions to healthcare professionals and providers and each new product launched aims to provide health economic benefits. Our products seek to reduce patients' time in hospital and return them to health faster.*

Smith & Nephew is measured by three leading organizations that assess sustainable development. In 2007, the group was included in the Dow Jones Sustainability Index (DJSI) for the fifth consecutive year. In France we are assessed by Vigeo used by some of the leading investment banks in Europe. In the UK, Smith & Nephew is a member of FTSE4Good. Although the DJSI covers all three aspects of sustainability, we have included the results from the latest review in the Economic section.

Global Reporting Initiative

The report broadly follows the Global Reporting Initiative (GRI) guidelines for sustainability reporting. GRI is an international multi-stakeholder effort to create a common framework for voluntary reporting of the economic, environmental and social impact of an organisation.
Chief Executive’s Statement

Welcome to our latest sustainability report. I hope you find it useful.
It reflects our commitment to running a sustainable business.

Smith & Nephew is a medical technology company with a focus on helping people live longer, healthier and more active lives by repairing and healing the human body with advanced technology products. We specialise in the business areas of orthopaedic reconstruction and trauma, biologics and clinical therapies, endoscopy and advanced wound management. The company creates innovative cost-effective products and services that make healthcare more affordable and improve standards and patient comfort. We believe that strength, depth and breadth of our product range provides the relevant continuum of care for our customers and we are committed to working closer together so that we may better serve our customers so they can better serve their patients. We are proud that every day our products help improve people’s lives.

Many healthcare systems find it difficult to meet demand for their services and the baby boomer generation has yet to impact all our business areas. Obesity is increasing the need for replacement hips and knees. The higher incidence of diabetes is leading to more diabetic foot ulcers, one of the most difficult of wounds to heal. More active lifestyles put greater strain on joints and increasing age makes us more prone to injury and less able to recover quickly. Patients are better informed about scientific and product developments and as a result there is greater demand for new developments and more expectation.

We offer products that provide surgeons with advanced instrumentation and techniques which save healthcare systems time and deliver improved outcomes to patients. Advances in products and materials technology for some types of reconstructive surgery are enabling better treatment at an earlier age. Less invasive procedures are being used for hip, knee and trauma surgery. Our understanding of the treatment of chronic wounds and our comprehensive range of products are helping the medical profession heal more wounds, faster and with less nursing resource. Through our partnerships with the medical profession, including the development of education and training programmes which are as important as the products themselves, Smith & Nephew seeks to provide support to maximise the chance of success for every treatment.

We recognise that companies have a wide responsibility to the community, the environment and the quality of life enjoyed by society at large. As a leader in our markets, we believe we should also be a leader in setting and meeting standards of sustainable development.

Our annual Sustainability Report is one way of demonstrating this.

David Illingworth
Chief Executive May 2008
Profile of Smith & Nephew

A global medical devices company developing innovative products that help people improve their lives after illness or injury.

Our dedicated global business units -Orthopaedic Reconstruction and Trauma, Biologics and Clinical Therapies, Endoscopy and Advanced Wound Management -specialise in innovative, cost-effective products that meet pressing healthcare needs.

Smith & Nephew is a leader in each of our specialist markets, we operate in 32 countries and generate annual revenue of $3.4 billion. We stay ahead in our markets through substantial investment in our products, research and development and through our close, long-term relationships with customers.

Across the world healthcare budgets are coming under increasing pressure. Improved, faster, more cost-effective treatments make a contribution to the ability of healthcare systems to provide the level and quality of delivery that governments and patients expect. To help achieve this we apply our technical expertise and resources to continually develop new leading-edge solutions.

With the assistance of our products and our support for healthcare professionals, doctors, nurses and surgeons can provide treatment more quickly and economically - and with better results. Patients enjoy improved mobility or flexibility, recover from surgery quicker, and find their conditions easier to manage and see an improved quality of life.
Vision and Values

Smith & Nephew is committed to helping people regain their lives by repairing and healing the human body and believes that this can only be achieved by establishing mutually beneficial relationships with all of our stakeholders including patients, healthcare professionals, investors and employees.

Our values shape everything that we do as a business and form the basis of our relationships with all our stakeholders. Our values also underpin our approach to sustainable development where we continue to set challenging performance targets, particularly with regard to managing our environmental impact and increasingly in the area of social responsibility.

Our values are articulated under the headings of Performance, Innovation and Trust.

Performance

Performance means being responsive to the needs of our customers, setting ourselves clear goals and standards and achieving them. We deliver quality and value in our products and services that provide quantifiable social and economic...

Innovation

Innovation means being energetic, creative and passionate about everything we do. We are forward looking; anticipating customers’ needs, overcoming barriers and developing opportunities. We encourage and support new ideas, and are always seeking to improve the lives of healthcare professionals and the patients they treat with effective and safe product and service innovations.

Trust

Trust is something we understand that we have to earn. We earn it by being friendly, approachable and listening to others. We work hard to build lasting and close relationships with our customers, colleagues and the communities in which we operate. We are honest and straightforward and do what we say. We have integrity and an ethical approach to business. Our Code of Business Principles defines our relationships with all of our stakeholders, and the behaviours and conduct they should expect from us in our dealings with them.

To find out more about the policies that underpin our Vision & Values, view Policies and Organisation, please see our website.
Business Integrity

The Group’s code of business principles governs the way the company operates so that we respect the rights of all our stakeholders and seek to build open, honest and constructive relationships. The Group takes account of ethical, social, environmental, legal and financial considerations in all planning and business decisions.

The code of business principles which was updated in 2007 sets out the standards of behaviour and conduct each of our stakeholders should expect from us, including our distributors and suppliers, in all our business with them. For our employees the code provides the standards to guide their actions and embodies the practical implementation of our values in their daily lives.
Ethics and Compliance

Smith & Nephew is committed to promoting an effective corporate programme and is one of the key cornerstones of the company's commitment to the highest standards of corporate conduct and integrity.

The corporate compliance programme has been designed to act as a guideline for the business units to improve, where appropriate, their existing programmes and maintaining consistency across Smith & Nephew.

The purpose of the programme is to increase the likelihood of preventing, detecting and correcting violations of law or company policy. While the implementation of the programme does not guarantee that improper conduct will be entirely eliminated, it is the Company's expectation that employees and distributors will abide by it.

In 2007 the Group Company Secretary also became the Group Compliance Officer and a Group Compliance Director reporting to the Group Compliance Officer has now been appointed. Each business unit has its own compliance officer and compliance committee who supply regular reports to both the Group Compliance Officer and the Group Compliance Director. The Board receive a regular report from the Group Compliance Officer.

Each business unit has continued to develop policies and procedures to implement these policies, initially for the businesses in the US and plans are being developed to expand the coverage.

The policies include:

- Federal Anti-Kickback Statute Compliance Policy;
- AdvaMed Code of Ethics on Interactions with Healthcare Professionals;
- Physician Consulting Request Procedures;
- Off-Label Promotional Policy;
- Behaviour in Operating Room Environments;
- Awards, Grants and Donations Request Procedures.

Education and training procedures have been put in place to ensure that all employees are aware of and understand the policies and are kept up to date with changes. This is achieved by the use of the business units' intranet sites and other media. All new employees receive the appropriate training on appointment.

Guidelines have been developed in the US to ensure that Smith & Nephew does not knowingly do business with persons and organisations that have been excluded or are ineligible to participate in Federal healthcare programmes and disciplinary procedures have been developed for employees who violate the law or the compliance programme.

In the US a third party "whistleblowing" telephone line has been installed to supplement the Group-wide whistleblowing policy, and all relevant calls on this line are investigated and reported to the board of the Company.
Smith & Nephew recognises the importance of appropriate environmental management systems which are based on international standards.

**HSE Performance**

The data used in this report is gathered by the HSE management teams within each GBU. That data is provided to the Group management teams in accordance with the Group HSE Policy.

The parameters used have been chosen to reflect the principal HSE impacts of our business. We recognise the impact of our business on global warming. It arises primarily from the CO\(_2\) emissions associated with the energy we consume and from the transportation of our goods and travel. We are striving to reduce our energy consumption and have achieved success, particularly when taking into account increased production. We have started to liaise with our service providers so that we can bring the same level of attention to the emissions associated with transport and travel.

The other key parameters included in this Report are waste, water usage and health and safety, accident and occupational ill health rates.

In 12 of the 32 countries in which Smith & Nephew have sales and marketing operations, our businesses operate separately, often from different locations, and are under the direct control of the Global Business Units. These are referred to as direct markets. The remaining indirect markets operate from a single location and are managed as joint operations.

Health and safety data from the Indirect and Direct Markets has been included for the first time so as to build a more complete picture of the Group’s health and safety performance. Environmental data has not been collected from the markets because by far the greatest environmental impact stems from the operation of the manufacturing and research sites.

The normalisation process, which used to adjust environmental impact for the level of production, was modified in 2006 to exclude the contribution to production from third party suppliers. This gives a more accurate picture of the effect of increased production. However, it means that normalised data is only available from 2005.
HSE Performance (continued)

Group targets are recommended to the Board by the HSE Steering Group and are included in this Report. They address the Group’s principal impacts, setting targets for improvements in lost time accident frequency rate, lost time occupational ill health, energy consumption and therefore CO₂ emissions, non hazardous and hazardous waste. A target was also set for an improvement in HSE Audit performance over a two-year cycle.

Smith & Nephew recognises the importance of the introduction and maintenance of appropriate environmental management systems which are based on international standards, for example ISO 14001 (International Standard on Environmental Management Systems). We are pleased that our Wound Management site at Hull and our Orthopaedic manufacturing sites in Memphis and Tuttlingen retained accreditation to ISO 14001 for their environmental management systems.

The Group Environmental and Health and Safety Policies are published as a single document setting out our HSE vision, aims, commitment, and operating principals.

The third two-year cycle of HSE Audits was begun with Audits of the Orthopaedics site at Memphis, the Wound Management sites at Hull and Largo, and the Research site at York.

Audits were carried out against a series of set performance criteria by teams comprising two HSE professionals drawn from elsewhere in the Group or external consultants. The approach reduces subjectivity, encourages improvement and provides consistency in the audit performance. All sites re-audited exceeded the target for improvement. The cycle will be completed in 2008. This will include an Audit of the Group’s new acquisitions in China.

The GBU sites continued to pursue HSE improvements considered to best suit their needs.

Within Orthopaedic Reconstruction and Trauma

At Memphis, the improved health and safety performance was driven by increased awareness with a stronger focus on prevention, including:

- Senior leadership placing a strong emphasis on lost time incidents and root cause analysis
- Managers having HSE goals tied into individual performance ratings
- Incorporating HSE requirements into Sales Force compliance training
- The HSE Department instituting an HSE Steering Committee, HSE training for Managers, new employee HSE training and an HSE Contractor Management programme
- Bringing the Occupational Health Nurse in-house and under the direction of HSE. This has enabled better control of first aid and medical treatment
- A Return-To-Work programme that defines roles/responsibilities, and addresses bringing employees back to work on modified duties.

Memphis and Tuttlingen were also successfully re-certified in ISO 14001.
HSE Performance (continued)

Within Endoscopy

Closure of the Dascomb Road facility was completed in April 2007. With increased production in Mansfield, however, environmental impacts rose and necessitated a Limited Plan Approval air emission permit for volatile organics. Other areas of environmental impact remain under evaluation as they may affect permit thresholds.

Alcohol recycling equipment was released to production in Mansfield in 2007. The equipment has enabled reuse of alcohol used in sterile pack cleaning.

Endoscopy prepared procedures and implemented a plan to ensure compliance with the People's Republic of China, Marking for the Control of Pollution Caused by Electronic Information Products (China RoHS), by March 2007. Compliance with increasing international environmental regulations, particularly with regard to the use of hazardous materials and electrical/electronic waste, will continue to be a primary focus for Endoscopy in 2008 and beyond.

Reporting of HSE impacts/benefits was initiated in Q1, 2007 for a new Endoscopy facility located in San Antonio, TX, and is now included in this report.

Additional Automated External Defibrillators were installed to ensure appropriate coverage for all Endoscopy facilities and select employee training was updated.

The first Electronics Recycling Collection Day was conducted at the Minuteman and Mansfield sites coincident with Earth Day. Employees recycled nearly 10 tonnes of personal computers, phones, televisions, white goods, etc. Employees were given a free Earth Day t-shirt as a sign of appreciation for their efforts in recycling.

Within Advanced Wound Management

Work continued to enhance the HSE management systems and strengthen the risk assessment process.

Hull scored 90% in its HSE audit led by an external consultant. There was a corresponding decrease in the total number of accidents which fell by 13%. Unfortunately, this improvement was not reflected in the number of lost time accidents which rose sharply.

The waste management project introduced in 2006 continued to deliver a significant reduction in the amount of waste to landfill which fell by a further 35%.

Largo faced a significant challenge from a sharp increase in production whilst, at the same time, preparing for closure. Despite this, the HSE Audit found the employees at Largo to have maintained their morale and enthusiasm and the HSE indicators have held up well.
Energy, Waste, Emissions and Discharges

Our focus continues to be on Energy Efficiency, and therefore CO₂ reduction, Waste Minimisation and better Pollution Control and the introduction of ISO 14001 at our main manufacturing sites. We have measured a number of the key environmental impacts related to manufacturing for a number of years. These are detailed below for the whole company with individual Business Unit data following.

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emissions to Air (CO₂ tonnes)</td>
<td>50,160</td>
<td>48,954</td>
<td>50,212</td>
<td>50,359</td>
<td>50,178</td>
</tr>
<tr>
<td>Non-hazardous Waste (Tonnes)</td>
<td>4,054</td>
<td>3,596</td>
<td>4,685</td>
<td>4,759</td>
<td>4,016</td>
</tr>
<tr>
<td>Hazardous Waste (Tonnes)</td>
<td>275</td>
<td>234</td>
<td>303</td>
<td>256</td>
<td>204</td>
</tr>
<tr>
<td>Waste Recycled (Tonnes)</td>
<td>646</td>
<td>767</td>
<td>1,009</td>
<td>1,189</td>
<td>1,496</td>
</tr>
<tr>
<td>Total Energy (GwH)</td>
<td>145</td>
<td>132</td>
<td>139</td>
<td>138</td>
<td>140</td>
</tr>
<tr>
<td>Water usage (1,000 cubic metres)</td>
<td>457</td>
<td>427</td>
<td>480</td>
<td>562</td>
<td>542</td>
</tr>
</tbody>
</table>

N.B. These totals are for the Company as a whole for the year and will therefore include divested businesses i.e. Rehabilitation which was sold in April 2002. The data does not include figures for Plus Orthopaedics, the Swiss company we acquired in 2007. It is intended to include these figures for 2008.

Normalised for Production (2005 Base)

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emissions to Air (CO₂ tonnes)</td>
<td>50,212</td>
<td>45,855</td>
<td>42,083</td>
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<tr>
<td>Non-hazardous Waste (Tonnes)</td>
<td>4,685</td>
<td>4,469</td>
<td>3,466</td>
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<tr>
<td>Hazardous Waste (Tonnes)</td>
<td>303</td>
<td>240</td>
<td>189</td>
</tr>
<tr>
<td>Total Energy (GwH)</td>
<td>139</td>
<td>128</td>
<td>118</td>
</tr>
<tr>
<td>Water usage (1,000 cubic metres)</td>
<td>480</td>
<td>478</td>
<td>393</td>
</tr>
</tbody>
</table>
Energy, Waste, Emissions and Discharges (continued)

Group Total Energy

Total Energy Normalised for Production

Group energy consumption rose very slightly in 2007. However, normalising for production, energy consumption fell by 8%.
Energy, Waste, Emissions and Discharges (continued)

Emissions of CO$_2$ (Tonnes) - Emissions to Air

CO$_2$ emissions include primary emissions from boiler house operations and secondary emissions from the generation of the electricity consumed. Compared to these, other emissions are insignificant and are not reported. Despite a slight increase in energy usage, CO$_2$ emissions fell as a result of the mix of energy used.
There was a further increase in the amount of waste recycled, largely as a result of specific initiatives within Advanced Wound Management. Measured as a percentage of the total waste produced, recycled waste rose from 19 to 26%.
Energy, Waste, Emissions and Discharges (continued)

Non-Hazardous Waste

There was a 22% reduction in non-hazardous waste to landfill largely as a result of improved waste reduction and recycling within the Advanced Wound Management Business.

Non-Hazardous Waste Normalised for Production
Energy, Waste, Emissions and Discharges (continued)

Hazardous Waste

The 2004 hazardous waste figure excludes a spillage of chrome plating materials which occurred at the Orthopaedic Reconstruction and Trauma manufacturing site in Memphis. Working closely with the state authorities, prompt action was taken resulting in a total of 920 tonnes of affected soil being removed from the site to eliminate any possible contamination.

Hazardous Waste Normalised for Production

Adjusting for production, Group hazardous waste fell by 21% as a result of continued emphasis on recycling.
Energy, Waste, Emissions and Discharges (continued)

Water Usage

Water consumption fell by 4% largely as a result of a decrease in water based products manufactured at the Advanced Wound Management facility in Largo.

Water Usage Normalised for Production

Allowing for production, water consumption fell by 18%.
Business by Business Detail

The detail behind the graphs provided on the Energy, Waste, Emissions and Discharges page for our businesses appear below.

Orthopaedic Reconstruction, Trauma and Clinical Therapies Environmental Performance

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emissions to Air (CO₂ tonnes)</td>
<td>15,090</td>
<td>19,326</td>
<td>19,851</td>
<td>20,522</td>
<td>22,475</td>
<td>23,670</td>
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<tr>
<td>Non-hazardous Waste (Tonnes)</td>
<td>898</td>
<td>936</td>
<td>1,136</td>
<td>1,458</td>
<td>965</td>
<td>1,288</td>
</tr>
<tr>
<td>Hazardous Waste (Tonnes)</td>
<td>23</td>
<td>18</td>
<td>56</td>
<td>76</td>
<td>67</td>
<td>69</td>
</tr>
<tr>
<td>Waste Recycled (Tonnes)</td>
<td>369</td>
<td>359</td>
<td>548</td>
<td>640</td>
<td>732</td>
<td>540</td>
</tr>
<tr>
<td>Total Energy (GwH)</td>
<td>37</td>
<td>47</td>
<td>49</td>
<td>50</td>
<td>55</td>
<td>59</td>
</tr>
<tr>
<td>Water usage (1,000 Cubic Metres)</td>
<td>208</td>
<td>273</td>
<td>293</td>
<td>340</td>
<td>430</td>
<td>449</td>
</tr>
</tbody>
</table>

CO₂ emissions arise from the burning of fossil fuels by energy providers and on site heating. CO₂ emissions are calculated from the energy consumed using standard conversion factors and vary in line with the amount and mix of energy used.

The increase in non hazardous waste reflects better reporting of the recycling residues which are now included in non hazardous waste rather than recycled waste.

The chromium plating plant at Memphis was rebuilt so that the frequent emptying of the plant and subsequent disposal of hazardous waste experience in 2005 was unnecessary. The 2004 hazardous waste figure excludes a spillage of chrome plating materials which occurred at our Memphis manufacturing site.

The decrease in waste recycled is attributable to a decrease in the volume of machined metal waste and the better reporting of recycling residues mentioned above.

Adjusting for increased production, the energy consumption within Orthopaedics fell by 9% in 2007.

Water consumption rose in 2007 because of an increased demand for cooling water.
Business by Business Detail (continued)

Endoscopy Environmental Performance

<table>
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<tbody>
<tr>
<td>Emissions to Air (CO₂ tonnes)</td>
<td>6,021</td>
<td>6,353</td>
<td>6,643</td>
<td>6,261</td>
<td>6,617</td>
<td>5,904</td>
</tr>
<tr>
<td>Waste (Tonnes)</td>
<td>563</td>
<td>565</td>
<td>420</td>
<td>390</td>
<td>432</td>
<td>356</td>
</tr>
<tr>
<td>Hazardous Waste (Tonnes)</td>
<td>37</td>
<td>29</td>
<td>30</td>
<td>31</td>
<td>36</td>
<td>22</td>
</tr>
<tr>
<td>Waste Recycled (Tonnes)</td>
<td>222</td>
<td>173</td>
<td>184</td>
<td>214</td>
<td>209</td>
<td>253</td>
</tr>
<tr>
<td>Total Energy (GwH)</td>
<td>15</td>
<td>16</td>
<td>16</td>
<td>16</td>
<td>16</td>
<td>14</td>
</tr>
<tr>
<td>Water usage (1,000 cubic metres)</td>
<td>26</td>
<td>23</td>
<td>16</td>
<td>18</td>
<td>21</td>
<td>12</td>
</tr>
</tbody>
</table>

CO₂ emissions arise from the burning of fossil fuels by energy providers and on site heating. CO₂ emissions are calculated from the energy consumed using standard conversion factors and vary in line with amount and mix of energy used.

The closure of the Dascomb Road facility in April 2007 led to a reduction in all the environmental impacts.

Advanced Wound Management Environmental Performance

<table>
<thead>
<tr>
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<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emissions to Air (CO₂ tonnes)</td>
<td>15,951</td>
<td>23,841</td>
<td>21,640</td>
<td>22,630</td>
<td>20,511</td>
<td>19,600</td>
</tr>
<tr>
<td>Waste (Tonnes)</td>
<td>2,313</td>
<td>2,553</td>
<td>1,990</td>
<td>2,817</td>
<td>3,341</td>
<td>2,350</td>
</tr>
<tr>
<td>Hazardous Waste (Tonnes)</td>
<td>177</td>
<td>228</td>
<td>95</td>
<td>112</td>
<td>75</td>
<td>43</td>
</tr>
<tr>
<td>Waste Recycled (Tonnes)</td>
<td>159</td>
<td>114</td>
<td>127</td>
<td>151</td>
<td>242</td>
<td>694</td>
</tr>
<tr>
<td>Total Energy (GwH)</td>
<td>85</td>
<td>83</td>
<td>65</td>
<td>71</td>
<td>65</td>
<td>64</td>
</tr>
<tr>
<td>Water usage (1,000 cubic metres)</td>
<td>199</td>
<td>161</td>
<td>114</td>
<td>116</td>
<td>106</td>
<td>75</td>
</tr>
</tbody>
</table>

CO₂ emissions arise from the burning of fossil fuels by energy providers and on site heating. CO₂ emissions are calculated from the energy consumed using standard conversion factors and vary in line with the amount and mix of energy used.

Specific initiatives to segregate waste and enable increased recycling have had great effect with a 30% reduction in waste to landfill and an increase from 7 to 21% in the percentage of waste recycled.

Water consumption fell by 29% as a result in changes in production and water saving initiatives.
### Normalisation

Absolute data on key environmental measures has been provided for the sake of consistency with previous reports and to give the overview of the actual environmental impact of our business. However, the structure of Smith & Nephew and the profile of the business have changed significantly in recent years so that comparisons on an absolute basis can be misleading. Therefore, the same information, normalised as a function of output, has been provided. In previous reports this was achieved by using cost of goods in Quarter 1, 2002 for the base.

However, it has not been possible to separate the volumes produced by third party suppliers within Orthopaedics and Endoscopy. The normalised figures gave an over optimistic view of the environmental impacts. This report provides the percentage change in key environmental indicators based purely on the cost of goods from the sites. It therefore provides a more reliable indication of the change in environmental performance. The availability of data requires that the new baseline for normalisation is 2005. The Group’s environmental impacts normalised for production have been shown elsewhere in this report. The variation by GBU is as follows.

<table>
<thead>
<tr>
<th></th>
<th>Orthopedics Reconstruction Trauma and Clinical Therapies</th>
<th>Endoscopy</th>
<th>Advanced Wound Management</th>
<th>Group</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>-9%</td>
<td>-22%</td>
<td>-2%</td>
<td>-8%</td>
<td>0%</td>
</tr>
<tr>
<td>Waste</td>
<td>+13%</td>
<td>-25%</td>
<td>-31%</td>
<td>-22%</td>
<td>-5%</td>
</tr>
<tr>
<td>Hazardous Waste</td>
<td>+18%</td>
<td>-43%</td>
<td>-53%</td>
<td>-21%</td>
<td>-5%</td>
</tr>
<tr>
<td>Waste Recycled (Tonnes)</td>
<td>-7%</td>
<td>-5%</td>
<td>+55%</td>
<td>+3%</td>
<td>N/A</td>
</tr>
<tr>
<td>Water usage</td>
<td>-12%</td>
<td>-48%</td>
<td>-32%</td>
<td>-18%</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Cost Savings

Good environmental management makes business sense in providing bottom line benefits by reducing the major environmental impacts of our business like energy, water emissions and waste, all of which have high cost. We have estimated over the last nine years that the average savings have been £3m per year. Projects have been included which have some associated environmental benefit, but are not necessarily the main reason for carrying out the project.

Other Environmental Factors

Whilst the principal environmental impact of the GBUs comes from energy, waste, discharges and CO$_2$ emissions, we recognise other ways in which our operations affect the environment.

Biodiversity and Contamination

We are conscious of the effect of planting and landscaping both in making our sites more pleasant places in which to work, and in providing the opportunity in maintaining biodiversity. A thorough survey is undertaken when purchasing new property to establish what contamination exists and we take care to carry out surveys and take any remedial action to ensure that our land is not blighted by concerns about contamination. The most recent example was a ground water contamination survey following a partial demolition of a building at the Wound Management factory at Hull and a survey of ground contamination at the site of a new Advanced Woundcare facility in Suzhou China.

Transport

We recognise that the transport of our products and staff travel may make a significant contribution to our CO$_2$ emissions. Transport and travel are arranged through service providers with whom we continue to work to obtain reliable data on the miles travelled and consequential CO$_2$ emissions.

Some of our transport companies are now able to provide information about the CO$_2$ emissions arising from the transport of goods. However, estimates are currently available only for those shipments within the USA and the model used has not been validated. We will continue to work with service providers so that more complete and validated results can be published in the future.

At a practical level, there is a rationale for the mode of transport used which has regard for the nature of the products and the environmental impact of the mode of transport. Products from Orthopaedic Reconstruction, Trauma and Clinical Therapies and Endoscopy are, in general, small volume, high value. They are used in the surgical trauma arena and delivered to order, being required without delay. They are usually sent by air. Advanced Wound Management products are large volume, lower value and supplied from stock. These products are usually sent by sea and truck. Initiatives have begun to ensure that only full cases are shipped to customers. Some work has been done in providing distribution hubs to improve the efficiency of transport operations.
Other Environmental Factors (continued)

Transport (continued)

Travel is inevitable in a global operation, however, we recognise that this can be limited by using modern telecommunications where we can, or ensuring that trips are made which combine more than one purpose.

We monitor data on air miles travelled by employees from our UK and USA operations (the great majority of journeys made) and estimates have been made for the journeys originating elsewhere.

* Previous year’s figures have been revised in the light of more reliable information from service providers.

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air miles originating from the USA</td>
<td>53,678,603</td>
<td>60,596,845</td>
</tr>
<tr>
<td>Air miles originating from UK</td>
<td>13,834,712*</td>
<td>15,042,112</td>
</tr>
<tr>
<td>Air miles originating elsewhere (est)</td>
<td>6,000,000*</td>
<td>6,500,000</td>
</tr>
<tr>
<td>Total</td>
<td>73,513,315</td>
<td>82,138,957</td>
</tr>
<tr>
<td>Car Rental US</td>
<td>916,171</td>
<td>781,182</td>
</tr>
<tr>
<td>Car Rental UK</td>
<td>41,674</td>
<td>41,115</td>
</tr>
<tr>
<td>Car Rental Est</td>
<td>41,674</td>
<td>41,115</td>
</tr>
</tbody>
</table>
Health and Safety

We have established programmes to give our employees the best possible chance of being healthy and ensure that they are not exposed to risk at work. In addition to work-related health surveillance programmes, we recognise that the Company has a role to play in providing health information and supporting health-related campaigns, e.g. no smoking days, testicular and bowel cancer and diabetes awareness campaigns. Other examples drawn from programmes/initiatives across our main business sites include:

- Vaccinations offered at no charge to employees
- Health Fair/Wellness Days (vision screen, blood pressure, screening body composition analysis)
  at no charge to employees
- Weight watchers programmes
- Executive physicals
- First Aid CPR (cardiopulmonary resuscitation) training
- Employee Assistance programme - service available to all employees including counselling
  and intervention of family, marital, financial, and other work or personal issues
- Health advice and medical kits for travellers
- General health awareness information in line with national programmes.

Our concern for the health of our employees is also addressed in our staff restaurants, where we make a special effort to provide healthy eating options. Regular health screening of employees who may be at special risk is standard practice as is the provision of specialist protective equipment where required.
Health and Safety (continued)

Lost Time Accident Frequency Rate

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orthopaedic Reconstruction and Trauma</td>
<td>1.30</td>
<td>1.00</td>
<td>0.70</td>
<td>0.42</td>
<td>0.44</td>
<td>0.35</td>
</tr>
<tr>
<td>Endoscopy</td>
<td>1.60</td>
<td>0.70</td>
<td>1.70</td>
<td>0.85</td>
<td>0.96</td>
<td>0.31</td>
</tr>
<tr>
<td>Advanced Wound Management</td>
<td>1.40</td>
<td>1.10</td>
<td>1.00</td>
<td>0.70</td>
<td>0.42</td>
<td>0.93</td>
</tr>
<tr>
<td>Research</td>
<td>0.00</td>
<td>0.20</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.67</td>
</tr>
<tr>
<td>Indirect markets</td>
<td></td>
<td></td>
<td></td>
<td>0.40</td>
<td></td>
<td>0.71</td>
</tr>
<tr>
<td>Direct Markets</td>
<td></td>
<td></td>
<td></td>
<td>0.50</td>
<td></td>
<td>0.44</td>
</tr>
<tr>
<td>Group</td>
<td>1.40</td>
<td>0.90</td>
<td>1.00</td>
<td>0.58</td>
<td>0.50</td>
<td>0.54</td>
</tr>
</tbody>
</table>
Health and Safety (continued)

**Lost Time Accident Frequency Rate**

The Group’s lost time accident performance deteriorated largely as a result of a poor performance in Advanced Wound Management. In particular, the facility at Hull suffered three lost time accidents in the first month of 2007. A very strong performance and an independent HSE Audit at that site was taken as an indication that there was no material change in the quality of the underlying HSE management systems. Rather, it was taken as a reminder that focus on HSE performance is needed constantly and particularly during times of great change. This assessment appears to be vindicated by there being no lost time accidents within Advanced Wound Management in the first quarter of 2008.

The sharp rise in the lost time accident frequency rate within Research was caused by having just one lost time accident amongst a relatively small working population.

**Notes**

- Lost Time Accident Frequency Rate (LTAFR) is based on the number of lost time accidents per 200,000 hours worked, the basis commonly used in the USA. Many LTAFR figures quoted in the UK are based on 100,000 hours worked so these figures above should be halved when making comparisons with companies in the UK.

- All parts of the Group are using a common definition of lost time accident which is one in which the injured person is unable to report for work on the day/shift following the accident.
Health and Safety

Accident Severity Rate

*In 2002 and 2003 this was based on workdays lost. In 2004 the measure was changed to calendar days lost to reflect changes in US legislation. A 2004 "work days" column has been included to give a direct comparison with previous years.
Health and Safety

**Accident Severity Rate**

The lost time accident severity rate moved in line with the lost time accident performance. The high figure within Research is a result of a single accident in which an employee slipped, breaking a leg, with an absence of 53 days. The high rate is a reflection of the relatively low number of people employed.

**Notes**

- Accident severity rate is a measure of the seriousness of accidents by the number of days lost through accidents per 1,000 employed.
- The Research figure is the result of a single accident with 53 days lost.
Health and Safety

OSHA Recordable Incidents

Previous reports have included the cases of occupational ill health. Inconsistencies in reporting across the Group made this an unreliable measure and it has now been replaced by the OSHA Recordable Incident Rate. The US Occupational Safety and Health Administration requires companies to maintain records of a variety of incidents which result in lost time, require more than First Aid, or require a person's work to be modified in some way. It is therefore a broader measure than lost time accidents alone and includes cases of occupational ill health. The measure has been adopted across the Group.

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endoscopy</td>
<td>1.5</td>
<td>2.1</td>
<td>1</td>
</tr>
<tr>
<td>Orthopaedics</td>
<td>1.9</td>
<td>1.4</td>
<td>1.9</td>
</tr>
<tr>
<td>Wound Management</td>
<td>2.3</td>
<td>0.6</td>
<td>1.8</td>
</tr>
<tr>
<td>Research</td>
<td>0</td>
<td>0</td>
<td>0.7</td>
</tr>
<tr>
<td>Group</td>
<td>1.9</td>
<td>1.4</td>
<td>1.7</td>
</tr>
</tbody>
</table>
Internal Awards and Standards

We believe that minimising the environmental impact of our business and the risks to health and safety is a part of everyone's job. The ‘Green Leaves’ award scheme was introduced some years ago to make our staff aware of environmental issues and to introduce specific initiatives within the Global Business Units (GBUs), which would reduce our environmental impacts. The awards have continued to be made to those sites meeting the required standards, which do not already hold 14001 accreditation. The Chief Executives Certificate was introduced in 2005 to recognise sites working 1 million hours without a lost time accident. Certificates have now been awarded to the Orthopaedics site at Memphis and the Wound Management sites at Largo and Hull. The Orthopaedic sites at Memphis and Tuttlingen and the Wound Management site at Hull all maintained their ISO 14001 accreditation.

The Advanced Wound Management facility at Hull won the Manufacturer of the Year Award 2007 and was a finalist in the Environmental Section.

It also won the Business in the Community ‘Health Work and Well Being Award’.
Looking Forward

We will continue to strive to improve our health and safety performance and environmental impact.

Whilst each part of the Business will continue to pursue an improvement programme best suited to its needs, there are common themes and direction.

The health and safety performance will be made more robust by increasing staff involvement and, where appropriate, the introduction of behavioural safety programmes.

We will continue to focus on CO$_2$ emissions by energy conservation programmes and improving our measures relating to travel and transport.

The introduction of lean manufacture and six-sigma techniques will contribute to the reduction of waste at source and there will be continued efforts to improve recycling and reduce waste to landfill.

Newly acquired sites will be incorporated into the Group. With this HSE Audit and reporting programmes activity in mind, the following 2008 targets have been recommended to the Board.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lost Time Accident Frequency Rate</td>
<td>-5%</td>
</tr>
<tr>
<td>OSHA Recordable Incidents</td>
<td>-5%</td>
</tr>
<tr>
<td>Energy Consumption</td>
<td>-5% (normalised for production)</td>
</tr>
<tr>
<td>Waste</td>
<td>-10% (normalised for production)</td>
</tr>
</tbody>
</table>
Social Performance

Our long-term success depends upon how we manage our impacts on society and our relationships with employees, supply chain, business partners and the communities in which we operate.

We view sustainability as a process of continuous improvement and so we will continue to review our measures and modify and add additional measures as we understand more about the areas relevant to Smith & Nephew on which we need to focus to make the most significant impact. In selecting the current measures we investigated a range of indicators commonly used such as the Global Reporting Initiative (GRI).

We are currently concentrating on 3 key measures that we believe give a good indication of employee engagement as we consider that employees who are fully engaged with the business at all levels deliver higher and more focused performance and therefore improved results:

- Employee Opinion Survey: an existing activity which we carry out every two years to measure the level of employee engagement with the company and its vision and values and their view of the effectiveness of the improvement activities actioned in response to scores and comments from the previous surveys
- Employee Development: in which we are measuring the number of internal appointments into vacancies
- Employee Retention: in which we are measuring staff turnover both in general, and employees leaving within 2 years of appointment

The results are shown on the next page.

We continue to investigate other useful measures which once defined and adopted will be introduced.
Performance Measures

Employee Satisfaction - Global Opinion Survey

The most established and effective of our performance measures is the bi-annual Global Opinion Survey, first carried out in 2000 and repeated in 2002, 2004 and 2006. This has been a catalyst for many improvements and will continue to be one of our key measures into the future. Planning for the 2008 survey is well underway and it is expected that some significant changes will be made to further enhance the quality of the data obtained and our ability to take meaningful action as a result.

Below is a brief description of the results from our 2006 survey. The results from our 2000, 2002 and 2004 surveys can be found in the 2005 Sustainability Report and the full results for the 2006 survey can be found in the 2006 Sustainability Report.

The 2006 Global Opinion Survey was completed towards the end of the year and presentations to employees were completed in early 2007. It indicated continued high levels of employee engagement with the values and direction of the Group. 90% of employees said that they were proud to work for Smith & Nephew and 84% believed that they would stay with the Group for the foreseeable future and would recommend the Group to friends and family as a good employer. Our employees also told us that we need to improve our ways of working, speed up decision making and strengthen the link between performance and reward.

This survey used improved methodology providing a wider scope of measurements and the facility to be able to analyse down to individual departments. For the first time, it was conducted on line only and the company was delighted at once again getting such a high participation rate of 86%.

We have continued to implement a number of improvement activities resulting from the results of the 2006 survey. These include the rollout of training in effective managing of performance across the business which will continue into 2008 and the development of on-line talent management and performance review processes with the capacity to enable the linking of objectives at all levels to the delivery of our strategic goals.
Performance Measures (continued)

Global Opinion Survey Results 2006

The 2008 survey has been completely overhauled to provide managers with the information and understanding that they need in order to take action that will deliver a culture in which our employees are aligned to, and actively supportive of being:

- customer focussed and outward looking
- accountable and responsible for their actions
- decisive and action oriented
- focused on performance improvement and delivery of our business goals
- driven by our values and business principles
Performance Measures (continued)

Other Measures 2007

The remaining measures are presented in the table below. Each measure has been defined so that data collected across the business will be consistent.

<table>
<thead>
<tr>
<th>Comment</th>
<th>Measurements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Appointments</strong></td>
<td>In 2007 we have seen a continued improvement in this measure. We have started to measure specifically the percentage of management positions filled internally with a target of 70%. We believe that this is an important measure of our ability to attract and develop talent into our management.</td>
</tr>
<tr>
<td><strong>Labour Turnover</strong></td>
<td>We measure general voluntary labour turnover as a measure of the success in retaining staff. We have investigated the increased turnover and believe that this is mainly due to the significant changes in the Group operations during 2007. The key factors are the continued implementation of the Earning Improvements Programme, the integration of the Plus business and the transition of many countries from indirect, full line market to direct market operations and our continued focus on performance improvement. This has clearly had the effect of unsettling some individuals and also makes year on year comparisons more difficult. This increase was anticipated and we believe that this has been successfully managed to ensure that we have retained our key talent.</td>
</tr>
<tr>
<td><strong>Labour turnover &lt; 2 Years</strong></td>
<td>We also measure turnover relating specifically to employees who have been with the business less than 2 years. This measure is an indication of how well we recruit and then retain our employees, so that they can make a contribution to the business. There has been an increase since 2006, but we believe that the same factors indicated in the section on general voluntary turnover are relevant for this group and that we have retained the key talent through good management practice.</td>
</tr>
<tr>
<td><strong>Global Opinion Survey</strong></td>
<td>See section above for details.</td>
</tr>
</tbody>
</table>
Customer Relationships

Our relationship with our customers is key to Smith & Nephew’s success. Our sales teams play a vital role in this, extending the contact with our customers and the level and quality of service we offer. Our sales force numbers have increased considerably in the last few years. In the US, we have introduced specialised sales teams in all four of our businesses to drive service quality to higher levels.

Smith & Nephew is committed to delivering innovative, cost-effective healthcare solutions to benefit healthcare professionals and their patients through improved treatment, ease and speed of product use and reduced healthcare costs. We will continue to provide education and training support for healthcare professionals and maintain investment in research and development.

Many of our products address the diseases of old age. In some cases it may not be possible for the patient to be actually “cured” but our products seek to improve the quality of life for all patients treated and this is an important aspect built into our research and development programmes.

To help us to achieve this goal, each of Smith & Nephew’s businesses works closely with their customers and key clinical opinion leaders to gain a greater appreciation of their clinical needs. This allows us to be both more responsive to their current requirements and better able to anticipate and shape the future direction of clinical practice.

The Orthopaedic Reconstruction and Trauma businesses operate MOBILAB, a state of the art mobile training center in the US. MOBILAB takes the group’s advanced training facilities direct to hospitals enabling surgeons to train with their operating team on their own hospital site.

This is in addition to the training facilities available at our Reconstruction and Trauma headquarters in Memphis, Tennessee, and the training unit in the UK at Warwick which was specifically developed to train surgeons on the BIRMINGHAM HIP\(^\circ\) Resurfacing system. Smith & Nephew also pioneers new techniques and products - often in conjunction with leading physicians and scientists - which need to be introduced to the medical community. An example of this process in action is the InVentures BioSkills Lab at our Endoscopy facilities in Massachusetts, where our engineers worked with more than 150 surgeons on new product ideas. This helps accelerate the progress of knee and shoulder surgery by enabling surgeons who have an idea or a new technique to develop the concept in our state-of-the-art facility.

During 2007 our Advanced Wound Management business trained over 100,000 nurses and clinicians around the world.
Community Relationships

We recognise a strong obligation to contribute to the communities in which we operate. We encourage and support employees at all levels who undertake community work, providing resources and paid time off, when business needs allow, to participate in projects. We support a range of charitable causes, mainly at local level, by donations of money, gifts in kind and employee time.

In 2007 our direct donations to charitable and community activities totalled $1,603,000, of which $500,000 went to the Smith & Nephew Foundation to fund research by individual nurses. Smith & Nephew made no political contributions in 2007.

Our major manufacturing sites have significant community programmes, which operate throughout the year, targeted in their local area. A number of examples of these activities are covered in the following pages.
Orthopaedic Reconstruction and Trauma

Smith & Nephew is dedicated to helping improve people's lives. Whether through innovative products that get patients moving again or through contributions in local communities where we work and live, we are proud to make a difference in the lives of others.

Corporate citizenship is a social responsibility as well as good business policy. The Company demonstrates its commitment to the community in many forms, from cash and in-kind contributions, to employee volunteerism, to management's participation on local non-profit boards.

This report highlights the Orthopaedic Reconstruction & Trauma GBU's 2007 social responsibility under the charitable/community relations definition.

<table>
<thead>
<tr>
<th>Cash support to charitable and community organizations</th>
<th>$43,49</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health &amp; Human Services</td>
<td>$263,207 (48%)</td>
</tr>
<tr>
<td>Education</td>
<td>$232,559 (43%)</td>
</tr>
<tr>
<td>Civic/Community</td>
<td>$27,617 (5%)</td>
</tr>
<tr>
<td>Arts/Culture</td>
<td>$19,766 (4%)</td>
</tr>
<tr>
<td>Total Cash Contributions</td>
<td>$543,149</td>
</tr>
</tbody>
</table>

The Orthopaedic Reconstruction and Trauma business units outside the United States have community relations programs tailored specifically to address the social and cultural needs of their respective countries and cultures.

| Staff time spent on volunteering on company time | Not available |
| Social responsibility program costs: Administration / Project Apollo | $39,000 |
| Inventory Assets: Machinery & Equipment Products | Not available $569,232 (at cost) |
Orthopaedic, Reconstruction and Trauma (continued)

Leadership by Example

Through the Company’s Project Apollo program and in collaboration with international relief organizations such as Mercy Ships, Hope Children’s Medical Missions, Samaritan’s Purse, and Orthopaedics Overseas, Smith & Nephew donates products, provides healthcare information, medical and technical consulting, and textbooks for students in underdeveloped countries throughout the world. In 2007, we teamed up with a number of such organizations to address better medical care around the world and particularly in developing countries.

For example, we worked with Dr. Goran Bekhtyar, an ethnic Kurd who fled Iraq in 1974 and is now president of Improved Health System for Iraq, a non-profit organization based in Franklin, Tennessee (USA). This group’s mission is to expand access and enhance the quality of medical services to the Iraqi people. Along with surgical instruments and other medical equipment, we provided enough screws and plates to treat at least 5,000 patients. In Dr. Bekhtyar words, “We appreciate Smith & Nephew’s generosity and the interest of the Company’s key executives in our mission of improving the quality of health care in our country. Every product donated is important especially to surgeons who are using products from 40 years ago. But the surgical instruments will perhaps have the greatest impact as they will be available to the surgeons long after the last of the donated plates and screws have been placed in patients.”

Employee Support for the Community ($300,000)

While corporate dollars will always be critical in helping communities meet their social needs, of equal importance is our ability to motivate and energize employees throughout the organization to become social advocates within their respective cultures. At Smith & Nephew we are very fortunate to have a workforce that embraces and energetically participates in community outreach programs.

In 2007, the Company’s Memphis-based employees personally contributed/raised over $300,000 through company-endorsed fundraisers for such organizations as the Arthritis Foundation Walk, the Church Health Center’s Race for Grace, Komen Breast Cancer Race for the Cure, ArtsMemphis Employee Campaign, and the United Way Employee Campaign just to name a few. The cumulative impact that our employees have on community programs goes far beyond the company-endorsed activities captured here. Our employees’ social interests are diverse and wide-ranging and they participate in numerous community endeavors that are not captured by our tracking system.

Also, many of our employees share their time and professional expertise serving on local and national non-profit boards and committees such as the Arthritis Foundation, Alzheimer’s Day Services, Memphis BioWorks Foundation, Memphis Tomorrow, Orthopaedic Surgical Manufacturers Association, InMotion Musculoskeletal Institute, American Academy of Orthopaedic Surgeons, Memphis Academy of Science and Engineering, and the United Way of the Mid-South.
Orthopaedic, Reconstruction and Trauma (continued)

Community Outreach Through Education
During 2007 we established the Smith & Nephew/Dr. Robert R. Tooms Endowed Nursing Scholarship at the Baptist College of Health Sciences in Memphis, Tennessee (USA). We also established the Smith & Nephew Excellence in Engineering Scholarship at the University of Memphis Herff College of Engineering. The first scholarships from these two programs will be awarded in 2008 and 2009, respectively. Education is second only to health and human services in our community outreach focus and consequently we view these scholarships as excellent ways to support higher education and the community while furthering our interest in these focus areas.

In late 2007, we partnered with the Bone and Joint Decade (2002-USA-2011) to pilot a special educational program, Protect your Bones & Joints (PB&J). This is an exciting educational program designed to improve high school students’ knowledge about musculoskeletal disorders such as arthritis, osteoporosis, sports and road-related trauma and give them ways to lower the occurrence of these disorders. In spring of 2008, the PB&J program was taken into several city and county schools including our two Adopt-a-Schools, Memphis Academy of Science & Engineering and Central High School.

Campbell’s Clinic partnered with us by providing staff professionals to teach the classes. In all, we did 43 classes for a total of 1,117 students. The feedback from both students and teachers has been very positive, and we are currently reviewing this program to determine if it should be offered to the local school system for inclusion in its class curriculum.

Smith & Nephew supports orthopaedic education with research, fellowship and CME grants through the Grants and Awards Program. In addition, we fund general education through our Matching Gifts to Education Program. This program provides a company match for gifts up to $350 per employee, per calendar year to qualifying institutions of higher learning.
Endoscopy

As an industry leader, Smith & Nephew Endoscopy's commitment to helping people regain their lives goes beyond the arthroscopy tools and techniques we develop.

Our commitment as citizens of a global medical community is part of our corporate culture. As such, we have created an environment where employees and stakeholders can contribute time and resources to fund-raising initiatives and non-profit organizations – both in our own region, and in parts of the world where medical care is less accessible than in developed nations.

On a global scale, Endoscopy provides grants through organizations such as Faith in Practice, The Global Foundation, and the Steadman-Hawkins Research Foundation in the form of medical equipment, medical devices and surgeon training, particularly in developing areas where such medical training isn’t available.

Endoscopy has also established Learning Centers in hospitals around the world, such as the Center of Healing Arts at Paraplegia Hospital in Ahmedabad, India, the No. 3 Hospital of Beijing, China and the National Autonomous University of Mexico in Mexico City. Smith & Nephew provides the medical equipment, surgical instruments and surgeon training at these Centers. As a result, medical professionals and their patients enjoy the benefits of the latest minimally invasive tools and arthroscopy techniques.

We continue to provide various humanitarian medical equipment donations to non-profit organizations such as Prosthetics Outreach Foundation in cooperation with surgeons who devote their time and skills to internationally underserved areas to aid and delivery medical care and education.

In 2007, Endoscopy made two significant contributions to the International Medical Equipment Collaborative (IMEC), a Massachusetts-based non-profit that provides used or surplus inventory to medical centers in undeveloped areas where people would not otherwise have access to facilities that provide basic medical treatment.

At the local level, the business's main community campaigns each year focus on the United Way and Community Health Charities, two organizations that support an array of community agencies. To support and acknowledge staff involvement with these two charities, the division makes an additional lump-sum contribution. In 2007, company donations reached more than $10,000 for United Way and Community Health Charities.

In December, Endoscopy's tradition of collecting holiday toys and other children's gifts for the US Marine Corps' Toys for Tots Campaign, and food items for holiday baskets distributed through the Greater Boston Food Bank. Volunteers from Endoscopy served meals at the Cor Unum (One Heart) Meal Center in Lawrence, Mass.

Throughout the year, Endoscopy employees generated more than $5,000 in smaller donations and sponsorships for community non-profit groups, including the Muscular Dystrophy Association, the Multiple Sclerosis Society, the American Lung Association, the Easter Seals Campaign and the YWCA of Greater Lawrence, in addition to numerous community hospice organizations and scholarship funds.

In 2007, Endoscopy partnered again with the family of former employee and Sept. 11 victim Donald A. DiTullio to award four scholarships in his memory. The program was open to children of Smith & Nephew Endoscopy employees at its US facilities. At the time of his death, DiTullio was completing his studies toward a business degree, and the scholarship is a testament to his commitment to education. In 2007, the program was expanded to award three scholarships.
Advanced Wound Management

Community
Smith & Nephew Advanced Wound Management continues to be committed to its work in the community, sponsoring and partnering organisations and charities that help people regain their lives.

In addition to its formal Corporate Social Responsibility programme, which supports local charities and community organizations, Smith & Nephew in Hull also embraces other opportunities to support the local community.

Wansbeck Primary School
Twelve volunteers from Smith & Nephew Wound Management completed an environmental garden within the school's grounds. This involved completion of a new pond with fencing, a flower bed, herb wheel and vegetable garden, and the children have now grown their own vegetables and sunflowers. The school invited the volunteers to a tea party with HRH The Duchess of Kent, who is school governor.

The ITV Big Clean Up - Foredyke Primary School
The ITV Big Clean Up event was a massive event across the North of England, where volunteers from businesses across the UK visited a local school, for Hull this was Foredyke Primary School, and a collaborative challenge was undertaken. This wilderness is now a fully functioning garden, with seating area, pond, maze and even a ship!!

Rainbow Community Garden
The Rainbow Garden is a community garden in the north of the city. An Operations Management team building day was organised, where the team carried out some heavy work that the usual volunteers cannot do, including clearing and cutting back plants, some painting, weeding and weaving a 26 foot long willow archway.

Thoresby Primary School
The Facilities Management team also went out into the community for a team building day, where they cut and laid a path throughout the school garden and cleared it to enable the pupils to use the garden for their environmental studies. This challenge also included delivery of some composting bins to encourage the school to recycle.

Cares@Christmas

Underprivileged Children's Party
We contributed to the BITC Cares Christmas party again in December 2007 – six employees helped out on the day and the company paid for all food refreshment for all the children and volunteers. This was another collaborative challenge with other businesses in the city contributing, Smith & Nephew being the lead organisation. Children from underprivileged backgrounds were able to attend a Christmas party and the local pantomime. The children were identified by three Hull based organisations DOC (East Hull), SureStart (West Hull) and Unity in the Community (North Hull). By liaising with these three organisations Hull & Humber Cares were able to ensure that their assistance was not focused in just one area of the City. The venue (The Octagon), which is run by The Goodwin Development Trust, was chosen both because of its central location and the fact that it is run as a Social Enterprise for the benefit of local residents.

There were many things for the children to do, including making their own Christmas Cards and gifts boxes. They had their faces painted, a balloon modeller made them gifts and magician, Father Christmas gave them each a gift from his grotto. Lunch was provided with lots if fun party games, then they all went off to the Hull New Theatre to watch the Pantomime.
Research Centre

The Research Centre in York is committed to making a difference in the community.

We work in close partnership with a number of local, regional and national organisations to promote the understanding of science and the contribution it makes to improving our lives.

Education

A key aim of our education programme is to improve awareness, interest and enthusiasm for science among young people, as well as helping them to prepare for the world of work. We provide support for both teachers and students in delivering and meeting the requirements of the UK National Curriculum.

Our scientists are closely involved with the local Science College, Archbishop Holgate’s School, which caters for 11 to 16-year-olds. In addition to providing workplace experience for students from the school, we take part in an annual project directly linking their scientific studies with our work in developing innovative, new technologies for the benefit of clinicians and patients.

We welcome regular visits from teacher delegates to the National Science Learning Centre at the nearby University of York and, in 2007, worked with the BA Festival of Science to host BACkChat, a science debating forum for teenagers.

The Research Centre sponsors a number of PhD students at universities across the UK, giving students financial support and technical guidance, in addition to providing opportunities for workplace secondments.

Business

Recognising the importance to the local economy of a thriving science and technology community, the Research Centre actively takes part in a number of initiatives aimed at supporting efforts to promote inward investment.

We work in partnership with the regional development agency, Yorkshire Forward, and the local business and skills partnership, Science City York, to raise the profile of activities and facilities in the region.

Charities

Each year employees at the Research Centre choose a charity to support. During 2007 they held a range of activities to raise funds for York Mind, including entering a team in the York Dragon Boat Race. This annual event is held on the River Ouse running through the City and raises thousands of pounds for good causes in the local area.

In addition, the Research Centre Charities Committee donates funds to a range of smaller local charities and organisations, including schools, playgroups and community initiatives.
Group Head Office

In our small head office the focus of our community involvement has revolved around the establishment of an ongoing relationship with Connection at St Martins. This organisation provides support to young homeless in the central London area.

Individuals at the Group Head Office have committed to providing interview training and practice in addition to mentoring for young people who are working towards taking up employment.

This has taken the form of developing and running training sessions for groups of people as part of a formal course and providing a work placement for individuals who have been through a competitive interview process. This enables the individuals to experience the interview process, apply their learning and receive useful feedback and tips that they can use in real life work situations. We are now exploring further ways where we can help the Connection in their work.

Early in 2008, we started working with Magic Taxi, an independent charitable organisation responsible for operating an internet search engine. In April we launched the scheme as follows:

- Link installed to the Magic Taxi search engine on the Life Intranet homepage.
- Every time someone at our group head office uses the search engine, a contribution is made to our nominated charities.

The three charities chosen are:

- Connection at St Martins – A charity supporting the homeless in our area which we have helped in the past. They focus on young people and their base is just around the corner from us off the Strand.
- Friends of St Thomas’s Hospital – This is our local hospital and this charity helps patients in need of support.
- Help the Aged – A national charity supporting elderly people in need, a section of the population very relevant to our products.

A number of employees also commit to fund raising activities for charities of their choice, such as sponsored running in the London Marathon. To encourage this activity, the company has a policy of matching sponsorship amounts that these individuals have raised themselves.
Developing World

We not only sell medical device products, but provide the necessary training and ongoing customer support that these products require. A new orthopaedic reconstruction, trauma or endoscopy product often involves a new surgical technique and new instrumentation. A new wound management product normally impacts on the wound healing regime which comprises the use of a number of products that may apply sequentially and/or consecutively. As a result these products make a valuable contribution in developed healthcare systems but would prove a complication to developing countries where the medical training and facilities, supply systems and country infrastructure presently are not at the level needed.

Project Apollo is the charitable and humanitarian service programme of our orthopaedics business and is designed to support the charitable work of surgeons, hospitals and charitable organisations by providing: healthcare information; medical and technical consulting; person-to-person support through employee volunteers; grant programmes covering transportation costs of medical personnel involved in relief efforts; award programmes recognising charitable and humanitarian activities; and medical textbooks for students in developing areas.

In August 2007, Smith & Nephew sent several large boxes of plates, screws and surgical instruments to Iraq to help over 5,000 patients in the Kurd region of Northern Iraq. Dr. Goran J. Bekhtyar, president of a new Franklin, Tennessee-based nonprofit organization, Improved Health System for Iraq arranged the donation and is ensuring that the supplies reach orthopaedic surgeons in five Iraqi hospitals.

The hospitals receiving the supplies had been using products from 40 years ago. Iraqi surgeons often treat fractures with traction, an obsolete method that requires the patient to lie still for weeks. With the Smith & Nephew donation, Iraqi surgeons are able to treat the fractures with internal fixation, leading to a faster and more complete recovery for the patients.

The Iraq shipment contained new devices such as the EXOGEN™ unit, an ultrasound device meant to speed the healing of fractures, as well as older but still serviceable products.

Smith & Nephew realises that technologies and products designed to support the process of healing for physicians and their patients around the world appear at a fast pace and that these advancements do not reach everyone. Project Apollo seeks to link up with physicians and non-profit groups engaged in medical philanthropy to receive donations of Smith & Nephew products, as well as sponsorship and personal assistance from the group’s employees. Teamed with these individuals and organisations, we believe we have found a way of increasing the impact of the charitable work and giving we undertake.
Smith and Nephew's sustainable development depends ultimately on its ability to provide a satisfactory economic return.

Economic Performance

The Group's business policies aim to achieve long-term growth and profits – which in turn bring continued economic benefits to shareholders, employees, suppliers and local communities. Smith & Nephew's sustainable development depends ultimately on its ability to provide a satisfactory economic return.

The Group prides itself on the strength of its relationship with its clinicians and other healthcare professionals with whom it has a reputation for product innovation and high standards of customer service. Healthcare economic considerations are integrated into the product development process to ensure that the benefits from the company’s new products and line extensions not only seek to improve patient outcomes, provide better treatment and procedures for both clinician and patient but also contribute more cost effective solutions for healthcare services.

The Group has built expertise in the area of measuring healthcare economics within its Advanced Wound Management business and has made considerable progress in the last year in introducing a similar system across its other businesses. A description of the principles of healthcare economics and how they relate to Smith & Nephew products can be found in the Healthcare Economics section later in this report. More information on Smith & Nephew’s 2007 performance can be found in our on-line 2007 Annual Report.
### Economic Performance (continued)

**Financial Highlights**

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<th>2005</th>
<th>2006</th>
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<td>Group revenue ($m)</td>
<td>1,939</td>
<td>2,301</td>
<td>2,552</td>
<td>2,779</td>
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<td>Trading profit ($m)</td>
<td>358</td>
<td>452</td>
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<td>Adjusted earnings per ordinary share (¢)*</td>
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<td>37.8</td>
<td>42.3</td>
<td>45.2</td>
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*This is before:
- In 2007 acquisition related costs, restructuring and rationalisation expenses, the legal settlement, amortisation of acquisition intangibles and taxation thereon.
- In 2006, acquisition related costs, amortisation of acquisition intangibles, loss on hedge of the sale proceeds of the joint venture, net profit on disposal of the joint venture and taxation thereon.
- In 2005, restructuring and rationalisation costs, amortisation of acquisition intangibles, gain on hedge of the sale proceeds of the joint venture and taxation thereon.
- In 2004, amortisation of acquisition intangibles, macrotextured claim and taxation thereon.
- In 2003, acquisition related costs, restructuring and acquisition related expenses within the joint venture, net profit on disposal of the associate and taxation thereon.

More details on our financial performance can be found in the Investor Information section on our website: [www.smith-nephew.com/investor_centre](http://www.smith-nephew.com/investor_centre)
Smith & Nephew is growing because of positive market dynamics and the success of our growth strategy.
Smith & Nephew Growth (continued)

Positive market dynamics
- Increasing ageing population with post WW2 baby boomers beginning to enter our target markets
- Lifestyle trends of increasingly active lifestyles leading to increased injuries.
- The increase in obesity resulting in more applications for our products
- Increased pressure for improved outcomes from medical practitioners, healthcare providers and patients
- Technology evolution is leading to expanding treatments into areas or age groups which had not previously been possible
- Consumers are much more aware of healthcare developments with the internet providing a particular boost to knowledge and therefore demand for the latest technologies
- This is all leading to increased healthcare spending particularly where products and treatments can offer sound healthcare economic benefits

Smith & Nephew strategy for continued value growth
- Customer and market focus
  - Innovation to provide clinical benefits and value for healthcare systems
  - Focus on the active informed patients
- Value enhancing acquisitions
  - Unique/additive technologies
  - Improved channels to market
- Earnings improvement
  - Aim for above market revenue growth
  - Continue to invest in R&D/innovation
  - Margin enhancement through the Earnings Improvement Programme
Shareholder Relationships

Smith & Nephew is listed on the London Stock Exchange and on the New York Stock Exchange. As of 31 December 2007 there were 23,855 shareholders on the register. 4.2% of shares were held by individuals and 95.8% by institutions and other companies. Smith & Nephew keeps its shareholders informed of its activities in the following ways:

- The Investor Information section of our website offers information and services to shareholders, including low-cost share dealing, corporate ISA and an ADR purchase/sale plan for ADR investors resident in the US (via the Bank of New York's Global buyDIRECT plan). Through this part of the website, Smith & Nephew provides live and on demand webcasts of key presentations and briefings such as Preliminary Results presentations by senior executives to analysts and shareholders. The investor section also invites shareholders' comments and questions. In 2006 we moved to US dollar reporting.
- Smith & Nephew holds an Annual General Meeting in London, to which all shareholders are invited.
- Smith & Nephew's Annual Report provides a valuable source of in-depth information on the strategy, performance and activities of the company. This can be found on the Smith & Nephew website.

Dow Jones Sustainability Indices 2007-2008

Smith & Nephew has been included for the sixth year in the Dow Jones Sustainability Group indices for both Europe and the world.

The Dow Jones Sustainability Group Indices track the performance of the top 10% of the companies in the Dow Jones Global Index that lead the field in terms of sustainability. This index is based on three evaluations - questionnaire assessment, public information and verification. The assessment itself covers the three Sustainable Development topics; economic, social and environmental impacts with some 33 criteria to be satisfied. Corporate Sustainability creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.

A detailed report showing our sustainability performance against the industry leader and the industry average for every assessed criteria can be accessed by following this link:

Risk Management

Policy Statement
Risk management is the systematic process to positively identify, assess, treat and manage risks - which either threaten the Group's resources or provide beneficial opportunities - in order to enable the Group's business objectives to be achieved.

Risks are owned and managed by the Business Units and Corporate functions where the risk resides. A common Risk Management System and reporting procedures have been implemented to allow overall Group risk to be identified and managed.

The operation of the Risk Management System enables the Group to understand and communicate the risks, which the Group faces and accepts, in order to ensure that these are positively managed at every level.

Principles
- Risk management encompasses the implementation of cost-effective controls and contingency plans with the intent of exceeding goals and objectives, including the minimisation of costs, timescales and liabilities.
- Risk management is the responsibility of all managers, who are responsible for implementing the Group's risk management policies and systems, as appropriate, across the business and ensuring that all employees apply these systems.
- Risk management is a continuous process.
- Pro-active management of risk is an integral part of the normal management and review process - to define future plans and actions, and ensure their satisfactory execution. It also facilitates more cost-effective and efficient purchase of insurance.
- Risk budgets are established to fund risk assessment and treatment.
- Activities that may affect the company’s image or reputation are subject to formal risk management.
Risk Management (continued)

Responsibility Cascade

Board

The Board has overall accountability for the Group's Risk Management Policy and for ensuring that the Risk Management System is effective and complies with the Turnbull Committee Guidance in the Combined Code.

The Board reviews an annual report of the Key Risks facing the Group and the actions put in place to mitigate those risks together with an assessment of the effectiveness of the system of risk management, and reports on these matters in the Annual Report to shareholders.

Risk Committee

The Board has delegated to the Chief Executive responsibility for the implementation of the Group's Risk Management Policy and for submitting the annual Risk Report to the Board.

The Risk Committee is comprised of the executive directors and the executive officers of the Group and is chaired by the Chief Executive.

The Risk Committee reviews the Group Risk Register to assess:

- The nature and extent of the risks.
- The extent and category of risks which it regards as acceptable.
- The impact and likelihood of risks occurring.
- The adequacy of risk treatment.
- Actions and contingency plans.
- The adequacy and cost of controls.
- The progress on the implementation of the Risk Management System.
Risk Management (continued)

**Business Units and Corporate Functions**

By implementing the Risk Management Policy, the Business Units and Corporate functions are responsible for:

- Maintenance and update of risk reporting (registers/presentations).
- Managing risk action implementation plans.
- Maintaining and reviewing risk performance and measurement systems.

Risk Registers are compiled and submitted for review twice a year. Risk assessments are also submitted with acquisitions or divestment proposals and capital expenditure requests for over £2m.

Each Business Unit has appointed a Risk Management Champion to facilitate the Risk Management Policy within their business. A Group Head Office Risk Management Champion fulfils this role for Corporate functions.

**Corporate Risk Function**

The Corporate Risk Function is responsible for:

- Compilation of the Group Risk Register at least half-yearly for submission to the Risk Committee, including:
  - Consolidation of Business Units and Corporate function Key Risks
  - Facilitation of the creation of the Group Risk Register
  - Regular reporting on overall progress in implementing the Risk Management System
  - Significant risk issues and changes in risk
- Facilitation and training support and communication of best practice within the Group.
- Continuous improvement of the Risk Management System
Internal Controls and Risk Management

The Smith & Nephew Board is responsible for the maintenance of the Group’s systems of internal control and risk management and for reviewing their effectiveness. An ongoing process is in place for identifying, evaluating and managing key risks through: the Risk Committee which reports to the Board annually; business reviews by the Board of each of the business units; and the review by the Audit Committee of internal controls over financial reporting and the risk management process. These systems are reviewed annually by the Board. Whilst not providing absolute assurance against material misstatements or loss, these systems are designed to identify and manage those risks that could adversely impact the achievement of the Group’s objectives.

The principal risks are detailed in “Risk Factors” to be found on pages 22 to 26 of the Annual Report.

In 2007, the effectiveness of the business units systems to identify and manage material risk were evaluated and the findings reported to the Board. No material weaknesses were identified in these systems.

As the Group’s shares are quoted on the New York Stock Exchange in the form of American Depositary Shares, in 2007 in accordance with the requirement in the US under S404 of the Sarbanes-Oxley Act management assessed the effectiveness of the Group’s internal control over financial reporting. Based on its assessment management concluded the Group’s internal control over financial reporting was effective based on the criteria set out by the Committee of Sponsoring Organisations of the Treadway Commission in Internal Control – Integrated Frameworks.
Healthcare Economics

Smith & Nephew’s financial performance is not the only way it contributes to the economy of the countries in which we operate. Our products are designed to deliver better outcomes for patients and improve functionality in use for medical practitioners. Importantly, we also aim to deliver overall cost savings through improvements in efficiency, such as reduced frequency of dressing changes, shorter operating theatre times, reduced length of time spent in hospital and faster patient recovery. Health economic benefits are a primary focus in our product development and marketing.

There is a detailed explanation of health economics within the area of wound management in this section. Because of the importance of efficiency and cost-effectiveness in our business, as treatment for chronic wounds can be required over many months, sometimes years, we have a dedicated health economist on our staff, Professor John Posnett, a recognised leader in this field.

Future trends are likely to have both positive and negative impact on the Smith & Nephew business:

• The increase in the numbers of elderly (averaging 40% in the next 20 years in developed economies) should lead to an increase in demand for healthcare, including medical devices.

• Continued growth in per capita GDP will lead to enhanced expectations and to strong pressures from consumers for higher real expenditure on healthcare. Evidence suggests that health expenditure increases more than in proportion to the increase in GDP, so that over time the proportion of GDP spent on healthcare increases.

• Developments in medical technology will create additional pressures for increasing healthcare expenditure by extending the range of treatments available.

• The increase in the number of persons of nonworking age relative to the working population will impose constraints on the ability of governments to raise the overall burden of taxation. This, in turn, will constrain the growth of healthcare funded from public expenditure.

The combination of increased demand, higher expectations and technological development, taken together with constraints on the capacity of governments to fund higher levels of expenditure, will be met by increasing emphasis on cost containment in the healthcare systems in all major economies.

The aim will be to reduce the cost per episode of care for existing treatments and to restrict the introduction of potentially expensive new technologies to those which can be shown to be cost-effective. Many countries already have in place procedures to evaluate the cost-effectiveness of new technologies as a pre-requisite for reimbursement.

Future Scope and Direction

The focus of our strategy is to seek solutions which improve the effectiveness of treatment and in that way reduce the overall costs of patient care. This allows us to command a higher share of current episode costs, whilst at the same time contributing to reducing costs to the healthcare system overall. This is a dominant strategy in the light of expected future trends.
Orthopaedic Reconstruction

From the time of publishing the 2007 Sustainability Report (SR) several initiatives are being pursued and a few have been abandoned. The general trends from 2007 have progressed unabated into 2008. Each will be discussed with recommendations going forward.

Initiatives

• The BHR economic model has been completed. The outputs discussed in the 2007 (SR). The model has been introduced and its messaging evaluated in several health care sectors. It has been determined that the peer reviewed article describing the model and its output will be submitted to the "American Journal of Managed Care". This publication is important because of its readership. All managed care medical directors and most benefits managers from large employers who are self-insured read AJMC. Among several reasons for targeting AJMC is the ability to influence practice patterns, particularly in integrated health systems that employ physicians. The peer reviewed article was completed during May 2008. Smith & Nephew, Inc. had an inside track to the editorial panel of AJMC. It is hopeful that the article will be published by Q4, 2008.

• The initiative to gather information for the purpose of reducing medical malpractice for surgeons who utilize CAS has been abandoned. The cost of gathering and analyzing the information, obtaining buy-in from a majority of malpractice carriers, and the value to CAS sales pull-through were reasons for abandonment.

• The U. S. Health Care Incentive Alignment Model is complete and still being evaluated by several academics. Optimization of the relative scoring remains unresolved. The model has gained acceptance but remains a work in progress until hypothesis testing can be documented.

Trends and planned work

The trend toward capitated pricing and reduction of number of vendors is extremely strong in hospitals. We are finalizing a white paper which will be co-written by an as yet unnamed physician and William Cleverly. Dr. Cleverly is a C.P.A., Ph.D. and widely recognized as highly credible source of health care finance. Dr. Cleverly teaches at Ohio State University. Dr. Cleverly and Smith & Nephew personnel co-authored a white paper in 2001. The theme of the paper will be to highlight the basic economic flaws in considering capitated pricing a good idea against the reality of prospective reimbursement. The white paper will be completed during May 2008. We will have the opportunity to test the message with the supply chain manager at Cleveland Clinic in late May or early June, 2008.

We continue to search for a resource to host an open source analysis of insurance risk pooling, beneficiary churn cost, and asymmetric information cost in the U. S. health care system. The enormity and complexity of the topic requires careful construction and implementation.
Orthopaedic Reconstruction (continued)

Additional trends and planned work not part of the 2007 report

- The trend of integrated health systems buying physician practices in order to control physician preference and practice patterns, etc., is escalating.

- We plan to stay close to the ongoing process of clinical data transferability; if a protocol for data transferability can be developed it will represent a tremendous economy of scale for our future needs. Many jurisdictions now require data specific to their own population to inform decision analysis. The decision analytics will determine whether or not to purchase product and if so at what price. This initiative is more prevalent in jurisdictions outside the US.

- Health economics and reimbursement requirements for biotechnology and combination device products will require exponentially more effort in terms of pre-launch safety, efficacy, and efficiency, as well as post launch surveillance.

Vision

The Director of Strategic Reimbursement has membership in the International Society of Pharmaceutical Outcomes Research (ISPOR), and American Society of Health Economists (ASHE). Both organizations should provide a wealth of high quality collaboration for the health economic messages coming from Smith & Nephew.

Setting the standard for the quality of health economics and reimbursement information does not necessarily require large expenditures. It does require a thorough understanding of the topography of both disciplines and constant observation.
Trauma and Clinical Therapies

The trauma and clinical therapies groups are committed to providing cost-effective therapies to customers. The U.S. healthcare market is rapidly changing as public and private payers become more cost conscious and increasingly demand that therapies demonstrate cost-effectiveness as well as efficacy. To respond to the current market realities we are integrating health economic analyses as part of the decision tree for all products, through research and development to post-launch. Health economic analyses have various applications. They can demonstrate the value of a therapy or product to payers and providers. They also can inform pricing decisions and can be important to ensure that patients have access to new technologies. Clinical Therapies’ 2008 health economics analyses that are completed, ongoing and planned are briefly described below.

EXOGEN

The EXOGEN Bone Healing System utilizes low-intensity ultrasound to accelerate the healing of fresh fractures up to 38% faster than normal healing. It also is also highly effective for use on non-healing fractures. These fractures are a significant problem and a major cost to healthcare systems around the world. Clearly patients who suffer fractures which will not heal suffer great frustration and anxiety, and treatment from the EXOGEN system provides an improved chance to recover, invaluable for patients who may have previously been largely confined to hospital or their homes.

In Germany, Smith & Nephew have submitted health economic data from the Ulm EXOGEN Clinical Study to the KBV, and we are preparing to build a health economic model using the data.

Going forward, we plan to model the cost-effectiveness of each new indication.

SUPARTZ

SUPARTZ Joint Fluid Therapy is a non-surgical, non-pharmacological pain-relieving therapy for osteoarthritis of the knee. It is made of highly purified, sodium hyaluronate (hyaluronan or HA). Hyaluronan is a natural chemical found in joint tissues and in the fluid that fills the joints (synovial fluid). The body's own hyaluronan acts like a lubricant and shock absorber in synovial fluid of a healthy joint. We currently are conducting a retrospective chart review to assess the cost-effectiveness of repeat therapy through cost saving that result from delaying total knee arthroplasty. Using these data we can negotiate insurer coverage policy changes to allow repeat therapy for patients who are not candidates for surgery or who wish to further delay surgery.

The Smith&Nephew,Inc. government affairs team is working with PharmAccess and SKK developing a health economic model comparing SUPARTZ to other HA products on the market. The model evaluates the comparative effectiveness of the products based on the physician's ability to chose a 3, 4 or 5 injection course of therapy.

We are planning health economic data collection as part of the clinical trials for the shoulder indication. Having these data will greatly facilitate the coverage process for the indication.

SUPARTZ is a trademark of Seikagaku Corporation.
Trauma and Clinical Therapies (continued)

TAYLOR SPATIAL FRAME®

Patients’ access to new and often cost saving technology often depends, in part, on adequate payment. A careful analysis of a product’s economic effects on providers, payers and patients often reveals barriers to widespread acceptance, which can affect patient access to the therapy. Our analysis of the reimbursement environment for the TSF revealed that computer dependent external fixation requires specific resources and physician interventions that are not required for standard, non-computer dependent external fixators. The work for computer-dependent external fixation is not reflected in the codes available to physicians to bill for the application of the TSF. In addition there is no mechanism in place for physicians to bill and receive payment for the TSF struts when the indicated strut changes are performed. We have applied for and received a new CPT code for application of computerized external fixation and for computerized external fixation strut changes. Last month, the AMA CPT RUC, the group that assigns physician payment values to new codes, calculated the weights on which payments for the new TSF codes will be based. Medicare’s new physician fee schedule final rule, which will be published this fall, will contain the final payment amounts for the codes in 2009.

IDET

Intradiscal electrothermal annuloplasty (IDET) is a minimally invasive technique that reduces intradiscally mediated lumbar back pain by modulating nerve fibers in a disrupted disc’s annulus, and stabilizing the collagen of the annulus, thereby reducing pain associated with ongoing degeneration of the disc. It provides a therapeutic option for patients who have exhausted conservative therapies and desire an alternative to spinal fusion. During 2005, approximately 8,500 patients in the United States and 1,500 international patients had IDET procedures.

In the UK, Smith&Nephew, Inc., working with Dr. Michael Grevitt and the York Health Economic Consortium, is preparing a health economic model that demonstrates the cost savings of IDET versus spinal fusion.

The Smith&Nephew, Inc. IDET team participated in the European Spine Summit for development of treatment modules for non-hospital based spine procedures.

DUROLANE®

DUROLANE Hyaluronic Acid is an HA product available in Europe and Canada and under review at the FDA. Its treatment regimen will require just one injection, which is a great advantage compared with current products, where three to five injections are required to achieve equivalent results. For patients and doctors this means that the risk of injection-related infections decreases and that the patient does not need to come back as often. DUROLANE is based on non-animal hyaluronic acid, which eliminates the risk of allergic reactions and the transmission of diseases from animals. DUROLANE will be approved for treatment of osteoarthritis of the knee initially, with an indication for treatment of the hip to follow.

In France, the CEPP has mandated ongoing health economic studies for continued coverage of DUROLANE. Smith&Nephew, Inc. has submitted a health economic data to the CEEP. The CEPD mandates a health economic clinical model to be submitted by 2010. We are initiating that project.

We also are gathering the evidence necessary for coverage the National Health System and Workers Compensation in Australia.

For the US market, evaluations of health economics and patient access issues are ongoing.

Other ongoing initiatives

We are developing mechanisms for reimbursement strategy development in the new biologics division for new products including biologics alone, devices and biologic/device combinations.

We are active in a newly formed stem cell reimbursement advisory group that will work to remove reimbursement barriers currently in place for stem cell technologies.

DUROLANE® is a trademark of Q-Med AB.
Endoscopy

The context of the trend toward minimally invasive procedures is wider than our other three businesses, because its beneficiaries lie with two broad population groups: Active, but aging, people who expect to remain active late into life, and athletes – professional, amateur or recreational – who seek minimally invasive treatment of joint injuries from overuse or trauma.

Global studies provide evidence that arthroscopic procedures deliver quality patient outcomes, and while this is important, economic considerations are gaining importance given the rising costs of healthcare. Studies also show that arthroscopic procedures often cost less than open surgery. Additional studies also illustrate the growing awareness of, confidence in and as a result the demand for such procedures.

Research conducted by Orthopaedic surgeons at the Massachusetts General Hospital and Harvard Medical School, showed that patients who underwent surgery to repair shoulder instability saw comparable results whether they had open or arthroscopic surgery. The arthroscopic procedure took less time, cost less and resulted in fewer recurrent dislocations than open surgery, said the study, which was published in the journal Arthroscopy in October 2005. The key to its reduced cost was the lack of a hospital stay.

A second study, published in the German orthopaedics journal Orthopade in July 2003, showed similar results, based on a randomized study of two groups of 20 patients. This study showed that arthroscopic surgery cost significantly less – 2315 Euros compared with 2741 Euros for the open surgery – as did postoperative treatment – 1630 Euros for arthroscopic surgery compared with 2202 Euros for the open procedure.

A 2006 study, published in Arthroscopy in April 2007, showed that a vast majority of patients perceive multiple advantages of arthroscopic shoulder surgery. The study surveyed 202 shoulder surgery candidates at two orthopedic practices. Eighty-eight percent of the patients at one practice and 96 percent at a second said that they would prefer arthroscopy if asked to choose between open or arthroscopic surgery. An average of 20 percent of those patients said they would forego surgery altogether if an open procedure were the only option.
Endoscopy (continued)

Other healthcare economic factors and considerations related to arthroscopy:

1. The adoption of minimally invasive surgical techniques as an accepted standard of care among both doctors (more efficient, fewer complications, better technology) and patients (reduced trauma, less rehabilitation, increasing media coverage).

Example: Knee Arthroscopy - In the late 1970s and early 1980s, arthroscopic surgery became popular, especially in the sports world, as fiber-optic technology enabled surgeons to see inside the body using a small telescope, called an arthroscope. During knee arthroscopy, the surgeon makes an incision about the width of a straw tip in the knee joint and inserts the arthroscope, which contains both lenses and a light source. A camera outside the joint captures this image and relays it to a monitor, enabling the surgeon to inspect the joint and locate the source of pain or injury, particularly those causes that might have been missed using an X-ray or MRI. Then, using instruments inserted through other small openings, the surgeon repairs the injury.

Thanks to ongoing improvements made by technology leaders like Smith & Nephew, arthroscopic surgery is now accessible to more people than just professional athletes.

2. An increase in the number of surgical sites (including surgery centers and sites dedicated to outpatient procedures) and the number of surgeons trained in minimally invasive techniques. This is particularly so in the United States, where in 2006 there were about 3,700 ambulatory surgical centers (ASCs), compared with 275 in 1980 and 1,450 in 1990.

The Ambulatory Surgery Centers Association forecasts 25 percent growth in orthopaedic ASCs between 2002 and 2025. In the US, increases in reimbursement levels for many arthroscopic procedures between 2008 and 2011 period will make those procedures more profitable for outpatient centers.

3. Product and technique evolution – in materials, product mechanics and operating room equipment – have the potential to increase our current market size.

Example: The FOOTPRINT PK Suture Anchor for rotator cuff repair in the shoulder is designed to allow for suture tension to be adjusted even after the anchors have been implanted. An internal plug on the FOOTPRINT PK Anchor can be tightened or loosened to adjust the tension of suture bridges that result in more attachment points in the joint, resulting in a stronger repair.

This procedure delivers a repair equivalent to an early approach, which involved drilling tunnels through the humeral head and lacing suture through them. Smith & Nephew Endoscopy’s FOOTPRINT PK Suture Anchor delivers a Transosseous Equivalent (TOE) repair without the need for drilling transosseous bone tunnels.
Due to the nature of the Advanced Wound Management business more work has been carried out in the area of health economics than our other businesses. Advanced wound products are typically more expensive than traditional products, but it is important to focus on the total cost of patient care, rather than on the costs of individual components of care. As a result it is essential to look at the overall wound healing programme from initial diagnosis to wound closure to make a strong case for application of our advanced wound healing range.

In wound care the cost of products typically represent no more than 10-15% of total treatment cost. The dominant cost is the cost of labour. Thus, the practical application of our strategic aim requires that we seek solutions which reduce overall costs by substituting the cost of wound care products for the cost of medical and nursing time. In the new paradigm, the cost of products will come to account for a higher share of the total cost of treating patients. The case studies discussed in this section illustrate these principles.
Advanced Wound Management
(continued)

VERSAJET®

It is generally agreed that wound debridement helps to create a wound environment which is conducive to healing. Surgical debridement is quick and effective: sharp instruments such as scalpel, scissors or curette are used to remove devitalised tissue and bacterial contamination from the wound. Surgical debridement is normally carried out in an operating theatre under general anaesthetic.

A new technology (VERSAJET) has recently been approved in the UK and US for the surgical debridement of wounds. It uses a fluid jet under high pressure (up to 15,000 psi) to cut and evacuate necrotic tissue. The new technology is safer and more selective than conventional instruments and offers greater precision. Compared with a scalpel, the fluid jet more completely removes devitalised tissue and at the same time spares collateral healthy tissue. The benefit to the patient is that the wound is expected to close more quickly and the quality of scarring is better.

In the US evaluation, the total cost of debridement was $4,571 per patient with VERSAJET compared with $6,448 with conventional instruments. Despite the fact that the new technology costs more initially, because it saves operating theatre, nurse and surgeon time, the overall cost of treatment was reduced by approximately $1,900 per patient.

Not all of this saving will be in cash, although there will be some cash saving. Most of the saving will be in the form of nursing, surgeon and operating theatre time. All of these resources have alternative uses, and releasing nursing and surgeon time makes it possible to treat more patients with the same capacity.

The price of the new instrument is significantly higher than the price of conventional instruments. The price of a disposable VERSAJET handpiece is nearly 40 times the price of a scalpel blade. However, the greater precision of the instrument means that it is possible to prepare a wound for closure with fewer operative procedures. In a recent US evaluation, the median number of surgical debridements required was reduced from two per wound with conventional instruments to one with VERSAJET. This difference was statistically significant¹.
Advanced Wound Management (continued)

PROFORE ◊

A venous leg ulcer is a chronic wound which, if not treated appropriately, can endure for years. The wound can be painful and will often restrict physical and social mobility. Patients are typically treated by a community nurse at home or in a specialist clinic. There are more than 200,000 new venous leg ulcers annually in the UK.

It is well accepted that treatment with multi-layer high compression improves healing compared with no compression or low compression bandaging.² The superior performance of high compression compared with traditional dressings has two positive impacts on efficiency:

• The use of high compression in appropriate patients leads to shorter healing times and lower treatment costs overall.
• Because of the greater durability of high compression bandages compared with traditional products, wear time is longer and costs are reduced by the lower frequency of dressing changes.

These benefits have been demonstrated in a number of studies. One study³ compared clinical outcomes for patients with a venous leg ulcer treated with multi-layer high compression and the usual care provided by community nurses in a typical health authority in England. Usual care involved many different treatments, including traditional non-compression dressings. In this study, after 24 weeks of treatment, 40% more patients were healed with high compression than with usual care. In the high compression group, nurses visited on average just over once a week to change dressings. With the cheaper products in the usual care regime, nurses visited more than twice a week.

An improvement in the efficacy of treatment is expected to lead to a reduction in the overall costs of patient care. Table 1 shows a comparison between the cost of treating a patient with a venous leg ulcer with PROFORE compared with the usual care provided by community nurses in a typical health district in England. Costs are based on the clinical results reported in a study by Morrell³. In this study PROFORE healed almost 40% more patients at 24 weeks and required fewer dressing changes (PROFORE was changed on average once per week compared with twice per week for the usual care regime). The expected saving in cost amounts to a reduction of 45% on the cost of usual care.

In a usual care regime, 80% of the total cost of care is the cost of nurse time. Thus, despite the fact that PROFORE costs more than the typical dressings used in a non-compression regime, overall treatment cost is lower with PROFORE because of the lower frequency of dressing changes and because of its greater efficacy.
Advanced Wound Management
(continued)

Expected costs of venous leg ulcer care (UK Costs)

<table>
<thead>
<tr>
<th>Cost per dressing change</th>
<th>Treatment with PROFORE</th>
<th>%</th>
<th>Treatment with Usual Care</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nurse time</td>
<td>£16.00</td>
<td>60.1</td>
<td>£16.00</td>
<td>80.9</td>
</tr>
<tr>
<td>Dresses</td>
<td>£8.90</td>
<td>33.4</td>
<td>£2.05</td>
<td>110.4</td>
</tr>
<tr>
<td>Other costs</td>
<td>£1.73</td>
<td>6.5</td>
<td>£1.73</td>
<td>8.7</td>
</tr>
<tr>
<td></td>
<td>£26.63</td>
<td></td>
<td>£19.78</td>
<td></td>
</tr>
<tr>
<td>Dressing changes per week</td>
<td>1.1</td>
<td></td>
<td>2.2</td>
<td></td>
</tr>
<tr>
<td>% healed in 52 weeks</td>
<td></td>
<td>71</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Average weeks to heal</td>
<td>15.9 Weeks</td>
<td>19.2 Weeks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost per patient per year</td>
<td>£772.00</td>
<td>1406.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


In order for Smith & Nephew to continue growing we must generate a steady flow of cost-effective and competitive new products and services. During 2007 we invested £142 million in R&D, over 4% of our total sales and continue to earn a reputation for innovative new product development which continues to be in evidence with a stream of new products launched during 2007.

Innovation is carefully focused on development projects that must result in products that provide social and economic benefits, compared with existing alternatives, in terms of patient comfort and speed of recovery, and cost-effectiveness for the healthcare provider. The future direction of Smith & Nephew research and development can be seen on the next page which covers our enabling technologies. For current examples, see the Innovation section on our website.
Enabling Technologies

The Enabling Technologies (ET) Programme is structured to deliver product solutions to meet two major clinical need areas of the Business Units: Fixation and Repair of Fractured Bones and Therapies for Osteoarthritis. The team is working to deliver these distinct project portfolios that are market focused and will deliver projects with compelling customer value propositions. The project teams are structured to support an entrepreneurial culture that will drive the value and progress of the projects.

In order to maximise value creation and increase speed to market, the ET programme is utilising an open innovation approach to product development. The open innovation approach vastly increases the technology options and product concepts available within the ET biologics pipeline. By embracing open innovation principles and effectively implementing these collaborative approaches successfully within the ET culture and organisation, ET will create a stream of innovation that will fuel new sources of growth within the Smith & Nephew business.

The technological solutions being developed with the ET projects are mainly focused around two areas:

- Biomaterials based projects aimed at developing new materials to address the issues of strength, biocompatibility and tissue regeneration;
- Cell based technologies which utilise cell manipulation and delivery for tissue regeneration and repair.
Enabling Technologies (continued)

Biomaterials

The main focus for our Biomaterials programme has been on Bioresorbable Materials. These are materials which, when implanted in the body, breakdown over time to materials that can be eliminated from the body via natural pathways leaving no evidence of the injury or repair. Perhaps the best-known use for bioresorbables is in sutures, but they are also used in a wide range of other medical implants where temporary fixation of tissue is required. Within Smith & Nephew, our Endoscopy business sells a range of suture anchors, meniscal tacks and interference screws made from bioresorbable polymers and our Orthopaedics business sells bioresorbable bone graft substitute materials.

Bioresorbable products offer a number of advantages over their non-resorbable counterparts, for example, they:

• Are eliminated from the body and replaced by host tissue
• Eliminate the need for a second surgical procedure to remove the implant
• Allow transfer of loads to healing bone
• Avoid complications that can occur with some metal implants – e.g. stress shielding, corrosion, release of metal ions
• Are compatible with MRI imaging
• Mean revision surgery is not complicated by presence of an implant
• Can be used to deliver bioactive agents etc.

The use of bioresorbable materials in medical devices is therefore growing rapidly and they represent a great opportunity for Smith & Nephew.
Enabling Technologies (continued)

Cell Based Therapies

The aim of the Cell Based Therapies Programme is to develop treatments that restore tissues when the body’s own repair systems are inadequate or absent. Major target applications are:

- Articular cartilage
- Bone restoration

Our definition for Cell based therapies is:

‘Therapies incorporating viable or non-viable cells for replacement of defective tissue and stimulation of regeneration.’

The research programme aims to develop therapies to address major unmet clinical needs for regeneration of tissues bone and cartilage. For example, defects in the articular cartilage (present in knee and hip joints) are incapable of natural restoration and there is currently no fully effective therapy for the durable correction of this debilitating condition. Left untreated, the joint progressively degenerates and ultimately patients may require total joint replacement. One of our key aims is to be able intervene at an earlier stage and stop the degenerative processes.

A major part of our research is concentrated on Adult Stem Cells, which are immature versions of normal cells and can be encouraged to differentiate into different forms of tissue. These cells have the potential to provide effective biological solutions to resolve debilitating conditions in Orthopaedic Tissues. Much of the basic biology for these cells is now established and our research is now addressing the substantial technical, clinical and commercial challenges that need to be overcome so that these therapies can be made available in the clinic. We are looking at how Smith Nephew can use the patient’s own stem cells to stimulate repair as well as using banks of donated cells. Smith & Nephew does not carry out research using embryonic stem cells.
Electronic and Website Services

To compete effectively in today’s business world we need to be an innovative user of e-business techniques. We recognise that e-business is not only a cost-effective way to do business but can also minimise the use of resources:

• We have been using Electronic Data Interchange (EDI) in parts of the business for many years.
• We work with key customers, mainly in the US and UK, to develop flexible e-business links that can be tailored to meet their individual needs.
• We provide detailed product and educational information on our websites and sponsor a number of external sites in conjunction with professional organisations, providing healthcare information for professionals and patients.
• Smith & Nephew offers on-line, interactive patient education for those who are looking for credible information regarding hip, knee or shoulder surgery. A user can choose the type of surgery they are interested in and watch patient education videos, interactive surgery and anatomy demonstrations, as well as receive information on what to expect in surgery.
• Online surgeon locator. In the US, while a user is viewing one of our patient information websites, they have the facility to seek treatment from an orthopaedic surgeon in their area by simply typing in their zip code into the surgeon locator found on those sites. From there, they will be provided with a choice of surgeons in their area who can help treat their condition. The Smith & Nephew Sales Portal is the primary website for our Recon and Trauma sales force to access information from Orthopaedics Online including their sales data, email and various applications in the Smith & Nephew system. Additional business unit information is included on this site such as Print on Demand, Sales Training and the OrthoMeetings event calendar. We offer this website to our sales force for quick and easy access to the latest business unit information.

  • The Orthopaedics Online extranet is geared primarily toward our sales force. Information is categorized by area: Trauma, Recon, and Biologics & Clinical Therapies. In addition, users can download items including sales sheets, surgical techniques, and product information. This site also includes details about areas such as customer service, convention services as well as comments for the Orthopaedic GBU executives. Multimedia content is available and presented in video format including Town Hall Meetings and Sales Updates. We offer this site to our sales force to give them the upper hand when making a sale.

  • Our Orthopaedics business offers the entire line of products in DXF file format on the eTemplate Digital Archive. Our sales force coordinates registration to this website with product vendors and hospitals to download templates. eTemplating, provides doctors with the ability to template orthopaedic products with the hospital's digital images. For doctors to be able to use digital templating, the hospital must have purchased digital templating software that is compatible with their PACs system. There are many digital templating software vendors in the market. These vendors are responsible for integrating Smith & Nephew's product templates into their system. Smith & Nephew is only responsible for providing templates to these vendors.
Electronic and Website Services (continued)

- Dyonics1.com makes available pre-owned endoscopy equipment on the web; an outlet for used equipment.

- Distance learning - we have invested in sophisticated distance learning programs, allowing us to disseminate information efficiently and on an as-needed basis while reducing travel requirements.

- Email newsletters - in some markets we have replaced paper-based newsletters with e-mail newsletters. This offers benefits to both our customers and the business in terms of speed, access to appropriate information, reduction of costs and reduced usage of natural resources.

- The Global Wound Academy, available at Globalwoundacademy.com, provides worldwide access to education and information about the therapeutic area of wound management. Available in eight languages, this interactive website has up to twelve wound management education modules with case studies and a resources area. We currently have over 18,000 registered users of the site.

The services around the world vary and are subject to availability. Full details should be sourced locally.

Customers need product information they can trust, particularly as we introduce more sophisticated products and techniques. We are using the Internet to provide constantly updated information in unprecedented detail - including appropriate regulatory and product availability information, in the appropriate language, for the country specified by the user.

We are investing heavily in technology to support much higher levels of electronic working within the company. Our businesses are continually developing intranets and using them to disseminate information that would previously have been printed and copied. We handle tens of thousands of emails a day, much of this would previously have been paper based memoranda and reports.
The Group’s aim is to generate innovation to improve treatments and reduce healthcare costs thus contributing to sustainable and better healthcare systems.

Looking Ahead

The Group is fulfilling an important role in its areas of expertise. Increased demands are being made on healthcare systems as the baby boomer generation ages and obesity becomes more widespread. More active lifestyles and the increased incidence of diabetes and other diseases increase also the demand for Smith & Nephew’s products.

Smith & Nephew’s strategy is to build upon its leading technologies, build on its competitive advantage in the continuum of care for patients with osteoarthritis and the wider field of injuries to knee, hip and shoulder and overall bone and skin repair. The Group aims to expand its markets and provide advanced technology to the medical profession. The Group believes that it can achieve this by setting and meeting ambitious performance targets, by constant innovation in products and services and by earning the trust of its stakeholders. In all its business activities the drive towards sustainability is an ongoing process and Smith & Nephew is committed to maintaining a consistent effort to improve. The Group’s aim is to innovate to improve treatments and reduce healthcare costs thus contributing to sustainable and improving healthcare systems.

In reporting sustainability, Smith & Nephew is committed to improved monitoring of its performance in its development as a sustainable business.