Orthopaedics in Europe
Giorgio Ninzoli, President Orthopaedics Europe
19-20 November 2009
Overview of Orthopaedics global strategy
Orthopaedics global strategic imperatives:

<table>
<thead>
<tr>
<th>Group Scorecard</th>
<th>Ortho Strategic Imperatives</th>
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<tr>
<td>Customer led</td>
<td>Recognised by healthcare professionals as the global leader in medical education and training</td>
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<td>Recognised by industry as the most proficient for sales excellence</td>
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<td>High performance product portfolio that anticipates and uniquely solves clinical and economic customer requirements</td>
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<td>Efficient</td>
<td>Competitively differentiated through operational excellence</td>
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<tr>
<td>Investing for Growth</td>
<td>Established leader in most attractive developing markets</td>
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<td>Aligned</td>
<td>High performance org. that recruits, retains, rewards &amp; develops individuals in a culture of corporate integrity</td>
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Orthopaedics commercial organisation: Regional hubs serve different market needs

- Americas
  - Knee franchise
  - Hip franchise
  - Trauma / Extremities franchise

- Europe

- Asia/Pacific

Global Operations (Manufacturing, Logistics, Procurement)
Global Information Services
2008 Orthopaedics S&N revenues

- **Global regions**
  - USA: $1,127m
  - Europe: $677m
  - Rest of World: $354m

- **Europe by product ($677m)**
  - Hips: 37%
  - Knees: 41%
  - Clinical Therapies: 14%
  - Trauma: 5%
  - Other reconstruction: 3%
Assets after the acquisition of Plus Orthopedics
Assets after the acquisition of Plus Orthopedics

Relevant market size in Europe – subsidiaries in all major markets with a consolidated sales force

Complete and Innovative Product Portfolio in Europe
  - Offering includes full range of Hip, Knee, Trauma and Extremities
  - Only Company with Oxinium and Real Guided Motion Knee
  - Local Design – Development – Manufacturing (Plus Line)

World class medical education to cover training needs of surgeons and other HCPs

Strong relationships to top KOLs in Europe

Big Scientific Footprint in the European Orthopaedic Communities, excellently positioned with European Centre for Knee Research in Leuven and MOM in Warwick

Grown commercial organisations in Japan, China and Australia and manufacturing in China
Cross-country collaboration in product development

Memphis-Warwick-Aarau development programs

- **Knees**
  - Worldwide development and special designs for the European market

- **Hips**
  - Established consistent design standards

- **Trauma & Extremities**
  - European Trauma Advisory Panel in place
  - PROMOS Shoulder System

Memphis-Warwick-Aarau development program

- Hard bearing experts
Smith & Nephew Orthopaedics Europe strategic objectives - winning new customers
Europe 2008 Reconstructive market

$3.7bn market, 5.1% growth (2008-07)

- Zimmer: 23%
- J&J Depuy: 18%
- S&N: 15%
- Stryker: 13%
- Biomet: 10%
- Wright: 2%
- Others: 19%

$3.7bn market, 5.1% growth (2008-07)
Europe 2008 trauma market

- Stryker: 23%
- S&N: 14%
- J&J Depuy: 5%
- Biomet: 3%
- Zimmer: 1%
- Others: 23%

$764m market, 7.6% growth (2008-07)
Summary: key market trends in Europe

Price Pressure:
- Tenders growing feature in EU
- Hospitals have capital and cash-flow constraints

Structural changes:
- Buying groups grow
- Increasing sales to professional buyers
- Intensifying competition from low cost providers
- Demand for cheaper/Fewer-Easier/More Reliable Instruments
- Evidence-based medicine -> need for clinical studies to prove benefits
- Reclassification: more Clinical data Before Launch / longer Approval Process

Market Opportunities:
- Demand for bone preserving and less invasive technologies -> patients want to lead active lifestyle
- Revision Market growing due to increasing elderly population
- Russia & Eastern Europe have underserved populations

Procedure Growth:
- Post WW2 Baby Boom: +65 will grow 16% in EU by 2015
- Obesity fuels OA, diabetes
- Growing no of sports/activity injuries
Orthopaedics Europe – the challenge

A lot of effort went into managing the integration of Plus

- Significant loss of market share, particularly in Greece, because of compliance issues
- Set up and implementation of robust compliance programme

Actions

- **New President** (since April 2009)
- **New business strategy**
- Focus on **winning new customers and increasing our market share**
Leveraging our assets: Orthopaedics Europe strategic objective 1

We are committed to a marketing led organisation which enables us to deliver what our customers want.
Strategic objective 1: aligning franchises and markets to drive key product sales

European franchises drive markets and . . .

- Define key products based on competitive strength of products and see-through profit
- Develop sales plan for 5 key products and execute through markets
- Allocate resources based on best return
- Improve forecasting process

Profitable growth

- Balance between top-line growth and profit margin
- Consideration of trade-offs
- Operational discipline
Leveraging our assets: Orthopaedics Europe strategic objective 2
Strategic objective 2: drive sales excellence

**SKILLS DEVELOPMENT**

- **Sales management training**
  - Train sales force management on Coaching, Plan and Review and on other sales management tools
  - Before end 2009

- **Sales force training**
  - Implement European Training Program for sales force on technical and sales skills
  - Implementation during 2010

**TOOLS**

- **Conversion template**
  - Follow up quarterly on the conversion status of 3 New Customers per rep
  - Until the end of 2010

- **Customers at risk**
  - Regularly create action plans to protect and prevent losing revenue from actual customers
  - Until the end of 2010

**Plan and Review**

- Implement P&R as the key tool in all European countries
- During 2010
- Increase revenue: 3 New Customers per sales rep before end of 2010
We are passionate to offer our customers world-class Medical Education

Leveraging our assets: Orthopaedics Europe strategic objective 3

Execution

→ One Company

Medical Education

Sales Excellence

Trust/Ethics

Customer Needs

Surgeon Needs

Innovation

Performance

Aligned & Marketing led

Changes in Market Place
Strategic objective 3: medical education

- Global platform for S&N Orthopaedic medical education and knowledge sharing, with a global curriculum, over 2,000 members registered @www.kleos.md and rapid growth

- Wide range of education courses and services structured around topics in orthopaedic surgery to a global network of orthopaedic professionals

- Builds value for S&N by creating a semi-independent community which people feel a part of, and associating this community with S&N and its products
KLEOS services

**Regionalization:** Customized education material

**Community:** Keep the KLEOS community informed

**Reports:** Track worldwide user behavior

**Faculty support:** Clip service—advanced online service for key faculty

**Face to face:** Courses, events, VSPs, Observership, Fellowships

**Live surgeries:** Live Webcast over the Website

**Literature service:** Reduction of information overload

**Multimedia:** Clinical and lecture videos
New: Smith & Nephew training academy

- Core Partner of AMTS Academy for Medical Training and Simulation in Lucerne
- Flagship for Medical Education for S&N Europe
  - Surgeon education
  - Sales training
- Trainings planned for 2010:
  - Around 50 courses with 1,800 slots
- Outstanding facility:
  - Lecture-based training
  - Hands-on training
  - Medical simulation center
  - Satellite transmission installed
Country example: Italy
Brief overview of Italian healthcare system

Public healthcare system gives responsibilities to regions

Orthopaedics sales:
- 60% from public hospitals
- 40% from private hospitals

Increasing price pressure:
- In the last decade public healthcare expenditures decreased circa 5% per year
- Strong trend to tender based business:
  - 70% of public hospitals work with tenders that fix a “maximum price” per product
- Private business is growing in volume but price pressure is high
Italian Orthopaedics market

• Market value: circa US$800m

• Growth drivers
  – Innovation (most important achievement factor), price, service and education

• Growth limiters
  – Tenders (many hospitals, for many years), maximum price set by government and price pressure

• Market growth last 4 years:

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<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<td>Growth</td>
<td>7%</td>
<td>9%</td>
<td>7%</td>
<td>3%</td>
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• S&N 2008 market position
  – Recon : 3rd; Trauma : 4th
Implementing Orthopaedics Europe strategy in Italy

Aligning with European marketing team:
• Drive key product sales

Sales excellence:
• Trainings, new sales managers and sales reps
• More effective collaboration with sales agents
• Aggressively targeting new customers

Medical education:
• Positioning Smith & Nephew as partner of institutions
• Establishing service excellence programs
• Training for OR personnel
• Top level international training for surgeons
Conclusion: getting back to growth through Excellence and Execution

We are committed to a marketing led organisation which enables us to deliver what our customers want.

We are passionate to offer our customers world-class Medical Education.

We aim for Excellence in Sales.
We are smith&nephew
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