SMITH & NEPHEW PLC
Form 20-F
March 04, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2015

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

or

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-14978

Smith & Nephew plc

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

15 Adam Street, London WC2N 6LA

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name on each exchange on which registered
American Depositary Shares	New York Stock Exchange
Ordinary Shares of 20¢ each	New York Stock Exchange*

*** Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.**

Securities registered or to be registered pursuant to Section 12(g) of the Act: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 915,447,263 Ordinary Shares of 20¢ each

Indicate by check mark if the registrant is a well seasoned issuer, as defined in Rule 405 of the Securities Act Yes x No ¨

If this Report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer:

Large Accelerated Filer x	Accelerated Filer ¨	Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

¨ U.S. GAAP	x International Financial Reporting Standards as issued by the International Accounting Standards Board	¨ Other

If Other has been checked to the previous question indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ¨ Item 18 ¨

If this is an annual report, indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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Smith & Nephew supports healthcare professionals in more than 100 countries in their daily efforts to improve the lives of their patients.

We do this by taking a pioneering approach to the design of our advanced medical products and services, by securing wider access to our diverse technologies for more customers globally, and by enabling better outcomes for patients and healthcare systems.

Front cover image:

The ACCU-PASS˜ DIRECT was designed with size in mind, allowing surgeons to suture through the smallest tissues. To keep

the operative site in focus, our Arthroscopes and VideoArthrocopes utilise wide-angle lens technology for optimal depth of field.

What s in this report

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OUR GLOBAL BUSINESS ON PAGE 8

OUR BUSINESS MODEL CREATES VALUE ON PAGE 10

Strategic report includes pages 2-49

* These sections and pages 49, 113, 115, 117 and 171 to 194 form the Director s Report.

FULL FINANCIAL STATEMENTS CONTENTS ON PAGE 103

CHAIRMAN S STATEMENT

A strong performance, demonstrating our actions are translating into positive outcomes

Dear Shareholder,

I am delighted to present Smith & Nephew s 2015 Annual Report. During the year the Group made good financial and strategic progress. The increase in underlying revenue growth, trading profit margin and adjusted earnings year-on-year reflect management s actions to improve both our commercial performance and operational efficiency.

Revenue was $4.6 billion, up 4% on an underlying basis before adjusting for currency and the benefits from acquisitions. Trading profit was $1.1 billion. The trading profit margin was 23.7%, up 80bps on the previous year. Adjusted earnings per share were 85.1¢, up 2%.

Strategy

We have continued to pursue the same strategy as in previous years, building a strong position in Established Markets, focusing on Emerging Markets, innovating for value, simplifying and improving our operating model and supplementing organic growth with acquisitions. The Board s oversight ensures that management remains focused on these strategic priorities and that investments are made in line with these objectives

In 2015, the Board has continued our programme of understanding the business more deeply. We scheduled a number of sessions at the Board meetings held in 2015 looking at different aspects of our business,

Members of the Board also attend significant management meetings. For instance, during 2015, I attended the Managing Director s meeting and Robin Freestone attended the CEO led meeting for top talent. We also attend investor presentations.

Corporate governance

As a Board, we feel strongly that good corporate governance lies at the heart of a well-run Company. Openness and transparency, accountability and responsibility should run through everything that we do, both as a Board and throughout the business as a whole. The Board and I aim to set the tone at the top which pervades throughout the organisation.

The Board is proposing a final dividend for the year of 19.0¢ per share, giving a total dividend distribution for 2015 of 30.8¢, up 4% year-on-year and slightly ahead of earnings growth, reflecting our confidence in the business.

including reviews of our European business with a focus on Iberia, our Emerging Markets business with a focus on China, and the development of products for the mid-tier. Our Board site visit to Durban, South Africa gave us insights into one of our oldest and fastest growing overseas businesses.

Our annual Strategy Review in September included presentations and discussions on a wide range of different areas of our business. This meeting underpins our confidence in management s strategic priorities and future progress.

Later in this report, as well as the standard corporate governance disclosures we are required to make, you will find reports from Ian Barlow, Michael Friedman, myself and Joseph Papa, the Chairmen of our Board Committees on the activities of these committees throughout the year (pages 68 to 79). These reports explain where we focused our work in 2015 and our plans for 2016.

Risk management and the Viability Statement

During 2015, we spent time considering what work would need to be done to make us feel comfortable in making the new Viability Statement. Both the Board and the Audit Committee received papers from the Group Risk Officer during the year and we discussed risk in depth at our Annual Strategy Meeting in September.

Smith & Nephew s transformation is delivering stronger growth.

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FINANCIAL HIGHLIGHTS

Board succession planning

We continued the work we started in 2014 in refreshing the Board following the retirement of some longer-serving directors. Vinita Bali joined the Board at the end of 2014. She was followed by Erik Engstrom in January 2015 and Robin Freestone in September 2015. After the changes to Board composition made over the past two years, we are confident that we now have a Board with the appropriate balance of skills, experience and diversity to lead Smith & Nephew through the next stage of our history.

Olivier Bohuon

In February we announced that our Chief Executive Officer, Olivier Bohuon, had been diagnosed with a highly treatable form of cancer. Olivier will remain Chief Executive Officer and be actively involved in running the Company through much of his treatment period, which is expected to be completed by late autumn. The Board has approved provisional governance procedures to ensure the effective operation of Smith & Nephew during the treatment period, and I will provide executive oversight if required.

Sir John Buchanan

It is with great sadness that we learnt of the passing of our former Chairman of the Board, Sir John Buchanan, during the year. Sir John was a wise, distinguished and respected colleague who served Smith & Nephew and many other companies with great distinction. His legacy of integrity, strong values and high standards will live on here at Smith & Nephew.

Thank you for placing your trust in us as a Board by holding shares in Smith & Nephew. The Board takes our responsibilities very seriously and look forward to continuing to govern the Company in 2016 and returning good results for you, our shareholders.

Yours sincerely,

Roberto Quarta

Chairman

REVENUE[1]

$4,634m

+4%

TRADING PROFIT[1,2]

$1,099m

+5%

DIVIDEND PER SHARE

30.8¢

+4%

OPERATING PROFIT

$628m

-16%

ADJUSTED EARNINGS PER SHARE

EPSA[2]

85.1¢

+2%

EARNINGS PER SHARE

EPS

45.9¢

-18%

CASH CONVERSION

85%

+15%

R&D EXPENDITURE AS A

PERCENTAGE OF REVENUE

5%

OUR PERFORMANCE

ON PAGES 12 TO 13

DETAIL OF NON-GAAP MEASURES

ON PAGES 177 TO 178

1 The underlying percentage increases/decreases are after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals.
2 These are non-GAAP financial measures. Explanations of these non-GAAP financial measures are provided on pages 177 to 178.

CHIEF EXECUTIVE OFFICER S REVIEW

2015 was a good year

These strong results demonstrate the anticipated positive effects of our actions coming through across the Group. Where we have invested to improve existing businesses we are beginning to reap the benefits.

Dear Shareholder,

Smith & Nephew delivered an improved performance in 2015 through focused innovation, better commercial execution and greater efficiency. We began to reap the benefits of our investments and operational improvements across the Group as we continued to deliver against our strategic priorities.

A stronger commercial performance

Geographically, we drove growth in all of our regions in 2015. In our Established Markets we delivered 5% growth in the United States, our largest market, a significant improvement on the previous year. We successfully stabilised our European business which delivered a better outturn year-on-year, and our Australia, New Zealand and Japan region delivered good growth, led by the Advanced Wound Management businesses.

In the Emerging Markets we delivered 11% revenue growth in 2015 despite the slow-down in China. Whilst we expect growth in China to remain below previous levels in the near term, it remains a very attractive market and we are committed to building our business here. We continued to successfully deliver strong revenue growth across the rest of the Emerging Markets.

Global franchise highlights in 2015 included the performance of Sports Medicine, which was strengthened by the ArthroCare acquisition. The Advanced Wound Management businesses delivered a significantly better outcome following new management initiatives. Orthopaedic Reconstruction grew ahead of the market driven by our Knee Implant franchise.

We are further strengthening our commercial platform by aligning under a newly created role of Chief Commercial Officer tasked with driving commercial excellence across the organisation globally. We are also bringing all of our US Orthopaedic Reconstruction, Sports Medicine, Trauma and Advanced Wound Management businesses under one leader, completing the roll-out of our single managing director model globally.

Focused on innovation

We continue to innovate for value. Through our Research and Development (R&D) strategy we deliver pioneering products and services, and drive innovation across the markets we serve. In 2015, we reiterated our commitment to innovation by announcing a single global R&D organisation, to be led by a new President of Global R&D, reporting to me.

We launched many new products in 2015 and made good progress with our innovative business models, including Syncera¯, our value solution for orthopaedic reconstruction. We have a strong new product line-up for this year. With increased focus on R&D we will apply more resource to the development of disruptive products and services that increasingly define Smith & Nephew and will help drive our success in the future.

Successful acquisition track record

Smith & Nephew has established a successful acquisition track record in recent years. With Healthpoint Biotherapeutics, acquired in 2012, our third year return on capital has exceeded our weighted average cost of capital, despite certain issues we had to address with regard to facilities acquired. ArthroCare, acquired in 2014, is performing in-line with our expectations and we are ahead of our plan to deliver $85 million of synergies by 2017.

In 2015, we continued to invest in acquisitions that provide opportunities to supplement our organic growth, strengthening our technology and product portfolios and our Emerging Markets business. Blue Belt Technologies, announced in October 2015, has given us a leading position in the fast-growing area of robotics-assisted orthopaedic surgery. In Russia we acquired a trauma and orthopaedics distribution business that includes mid-tier manufacturing. In Colombia, one of the largest economies in Latin America, we acquired our distributor for orthopaedic reconstruction, trauma and sports medicine products.

Proud of our heritage

Smith & Nephew is 160 years old. From our roots in Hull, UK, we have become a global business that is proud to support healthcare professionals in their daily efforts to improve their patients lives in more than 100 countries.

Our longevity is due in large part to the excellence of our employees. As I visit our sites and meet our teams I am constantly impressed by their integrity and dedication to our core values of innovation, trust and performance. I thank them all for their work. I know we were all proud when our commitments to act sustainably and responsibly were again recognised by the FTSE4Good and Dow Jones Sustainability indices.

Excited by our prospects

Whilst we are pleased with our progress in 2015, it was just one step on our journey. I am confident that we will continue to build an ever more successful company, a medical device company that is truly like no other.

Yours sincerely,

Olivier Bohuon

Chief Executive Officer

OUR PERFORMANCE

ON PAGES 12 TO 13

1 The underlying percentage increases/decreases are after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals.

2 This is a non-GAAP financial measure. Explanations of non-GAAP financial measures are provided on pages 177 to 178.

CHIEF FINANCIAL OFFICER S REVIEW

Re-invigorating Smith & Nephew

Striving to achieve ever greater efficiencies is an important element of Smith & Nephew s strategy. It liberates resources for investment, and benefits our margin.

Dear Shareholder,

Group revenue in 2015 was $4,634 million (2014 $4,617 million), an increase of 4% on an underlying basis and flat on a reported basis. Foreign exchange movements reduced revenue by 8% partially offset by acquisitions, which added 4% to the reported growth rate.

Revenue growth was 5% in the US, 1% across our Other Established Markets and 11% in the Emerging Markets.

Trading profit was $1,099 million (2014 $1,055 million). The trading profit margin was 23.7% (2014 22.9%), up 80bps, reflecting the benefits from the Group Optimisation programme and synergies from the ArthroCare acquisition.

Reported operating profit of $628 million (2014 $749 million) is after integration and acquisition costs, as well as restructuring and rationalisation costs, amortisation and impairment of acquired intangibles and legal and other items incurred in the full year. The 2015 operating profit was lowered by a $203 million accounting charge relating to a legal settlement and provision explained below.

The tax rate for the full year is 26.8% on trading results (2014 27.7%), a 90bps reduction year-on-year. We expect the tax rate on trading results to be 26.5% or slightly lower for 2016, barring any changes to tax legislation.

Adjusted earnings per share was 85.1¢ (170.2¢ per American Depositary Share (ADS)) compared to 83.2¢ last year, up 2%, which would have been up 9% at constant exchange rates. Basic earnings per share was 45.9¢ (91.8¢ per ADS) (2014 56.1¢), primarily in recognition of the metal-on-metal accounting charge.

Trading cash flow was $936 million in the year. The trading profit to cash conversion ratio was 85% (2014 74%), a year-on-year improvement in working capital management.

Net debt was $1,361 million, down from $1,613 million at the end of Q4 2014. This represents a reported net debt/EBITDA ratio of 1.0x. The Blue Belt acquisition was completed after the year end for $279 million.

1 The underlying percentage increases/decreases are after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals.

2 These are non-GAAP financial measures. Explanations of these non-GAAP financial measures are provided on pages 177 to 178.

Legal settlement and provision

During the fourth quarter of 2015, Smith & Nephew settled the majority of US metal-on-metal hip claims, without admitting liability with the net cash cost after insurance recoveries being $25 million. These claims principally related to Smith & Nephew s portfolio of modular metal-on-metal hip products (such as the R3 metal liner), which are no longer on the market.

We have taken an accounting charge of $203 million to cover both this net cost and also the present value of the estimated costs to resolve all other known and anticipated claims over the coming years. This amount does not include associated legal fees or any possible insurance recovery on these other claims as such recoveries cannot be recognised for accounting purposes until virtually certain. The Group carries considerable product liability insurance and we will continue to defend claims vigorously. The estimate is based on an actuarial model with assumptions relating to the number of claims and outcomes, and is subject to revision as circumstances evolve.

Enhancing Group efficiency

We continue to simplify and improve our operating model, becoming more efficient in 2015. Our programme to realise more than $120 million of annual savings is progressing ahead of plan, and had delivered $100 million of annualised benefits at year end. The suspension of the Medical Device Excise Tax will present us with opportunities to accelerate investment in our quality and regulatory systems and health economics teams, particularly in support of the US market.

Acquisitions

We completed the acquisition of ArthroCare on 29 May 2014, further strengthening our Sports Medicine franchises. This business is performing in-line with our expectations. We are ahead of our plan to deliver $85 million of synergies by 2017 and have achieved almost all our targeted cost savings. Revenue synergies will continue to be delivered over

Outlook

In 2016, we expect to deliver continued good underlying revenue growth as we benefit from our investments in existing businesses, acquisitions and pioneering technologies.

We would have expected our trading profit margin to reach or exceed 24% in 2016, including the 60bps dilution from investing in the Blue Belt Technologies product pipeline. However, our margin will be reduced by a significant 120bps transactional currency headwind based on current exchange rates, as highlighted in our Q3 results.

We have a clear strategy that is re-invigorating Smith & Nephew and I am confident that we will continue to execute successfully in 2016 and beyond.

Yours sincerely,

the coming years.

Capital returns

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

Our commitment, in order of priority, is to:

1. continue to invest in the business to drive organic growth;
2. maintain our progressive dividend policy;
3. realise acquisitions in-line with strategy; and
4. return any excess capital to shareholders.

Just after the year end, on 4 January 2016, we acquired Blue Belt Technologies for $279 million, giving us a leading position in the fast-growing area of orthopaedic robotics-assisted surgery. We expect strong revenue growth from Blue Belt Technologies. Investment in the combined R&D programmes and supportive clinical evidence will dilute Group trading profit margin by around 60bps in 2016, with the BlueBelt Technologies business becoming profitable in 2018.

Julie Brown

Chief Financial Officer

This is underpinned by maintaining leverage ratios commensurate with solid investment grade credit metrics.

Smith & Nephew is a leading global

medical technology business

We continue to invest in acquisitions that provide opportunities to supplement organic growth, strengthen our technology and product portfolios and further establish our business in the Emerging Markets.

TECHNOLOGY ACQUISITION	COLOMBIA ACQUISITION	RUSSIA ACQUISITION
Acquisition of Blue Belt Technologies, securing a leading position in the fast-growing area of orthopaedic robotics-assisted surgery.	Acquisition of EuroCiencia Colombia, Smith & Nephew s sole distributor for orthopaedic reconstruction, trauma and sports medicine products in Colombia since 2006.	Acquisition of the trauma and orthopaedics business of DeOst LLC and DC LLC, a manufacturing company in the DeOst Group which has distributed Smith & Nephew s products in Russia since 2009.

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Products from our nine franchises are used by healthcare professionals in more than 100 countries.

We manage our business through global functions and regional selling businesses, meeting the distinct needs of both our Established and Emerging Markets.

REVENUE

KNEE IMPLANTS
$883m
HIP IMPLANTS
$604m
SPORTS MEDICINE JOINT REPAIR

$606m

ARTHROSCOPIC ENABLING

TECHNOLOGIES

$573m

TRAUMA & EXTREMITIES

$497m

OTHER SURGICAL BUSINESSES

$205m

ADVANCED WOUND CARE

$755m

ADVANCED WOUND DEVICES

$167m

ADVANCED WOUND BIOACTIVES

$344m

SEE MORE ABOUT THE PRODUCTS

WE TAKE TO MARKET ON PAGE 16

UNITED STATES

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

REVENUE	EMPLOYEES
$2,217m	5,868

OTHER ESTABLISHED MARKETS

Other Established Markets comprise commercial operations in Australia, Canada, Europe, Japan and New Zealand, which accounted for 37% of Group revenue in 2015. We have manufacturing facilities in Canada and Europe.

REVENUE	EMPLOYEES
$1,702m	4,706

EMERGING MARKETS

Emerging Markets includes our commercial businesses in China, Asia, India, Russia, Middle East, Africa and Latin America. These generated 15% of Group revenue in 2015. We have manufacturing facilities in China, India and Russia.

REVENUE	EMPLOYEES
$715m	5,070

SEE MORE ABOUT OUR GEOGRAPHIC

MARKET AREAS ON PAGE 40

We support healthcare professionals in their

daily efforts to improve the lives of their patients

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How we performed

BUILD A STRONG POSITION IN ESTABLISHED MARKETS

Established Markets for Smith & Nephew are Australia, Canada, Europe, Japan, New Zealand and the US.

Geographically, we delivered 5% growth in the United States, our largest market, a significant improvement on the previous year. We successfully stabilised our European business, which delivered a better outcome year-on-year, and our Australia, New Zealand and Japan region delivered good growth, led by the

FOCUS ON EMERGING MARKETS

Our Emerging Markets represent those outside of the Established Markets, including the BRIC group of Brazil, Russia, India and China. These countries now represent 15% of Smith & Nephew s revenue, up from 8% in 2010, reflecting our continuing effort to rebalance our business and build share in higher growth markets. The overall percentage of Group revenue in 2015 compared to 2014 has been impacted by the strengthening of the US dollar.

Advanced Wound Management businesses.

Global franchise highlights included good performances from Sports Medicine, strengthened by the ArthroCare acquisition; the Advanced Wound Management businesses, following new management initiatives; and Orthopaedic Reconstruction, which grew ahead of the market driven by our Knee Implant franchise.

We are further strengthening our commercial platform by aligning under a newly created role of Chief Commercial Officer, tasked with driving commercial excellence across the organisation. We are also bringing all of our US Orthopaedic Reconstruction, Sports Medicine, Trauma and Advanced Wound Management franchises under one leader, completing the roll-out of our single managing director model globally.

In the Emerging Markets we delivered 11% revenue growth in 2015 despite the significant slow-down in China. Whilst we expect growth in China to remain below previous levels in the near-term, it remains a very attractive market and we are committed to building our business there.

We continued to deliver strong revenue growth across the rest of the Emerging Markets, led by South Africa, India and the Middle East. Excluding China, Emerging Markets growth would have been in-line with the trend of the last five years.

We enhanced our commercial footprint and product portfolio. In Russia we acquired a trauma and orthopaedics distribution business that includes mid-tier manufacturing. In Colombia, one of the largest economies in Latin America, we acquired our distributor for orthopaedic reconstruction, trauma and sports medicine products.

REVENUE FROM

ESTABLISHED MARKETS[1]

+3%

REVENUE FROM EMERGING

& INTERNATIONAL MARKETS[1]

$715m +11%

$3,919m

AS A PERCENTAGE OF GROUP REVENUE

15%

INNOVATE FOR VALUE

We continued to innovate for value in 2015. Through our Research and Development (R&D) strategy we deliver pioneering products and services, and drive innovation across the markets we serve. Products such as the JOURNEY¯ II Total Knee System and our VERILAST¯ bearing surface provide our customers with unique features and successfully differentiate Smith & Nephew.

We launched many new products in 2015 and have a strong new product line-up for 2016 as the result of our internal programmes and recent acquisitions. We also made good progress with

SIMPLIFY AND IMPROVE OUR OPERATING MODEL

During 2014, we launched a Group Optimisation programme to target $120 million of efficiencies. We identified four main areas of activity:

1) Examining our supporting functions such as Finance, HR, IT and Legal to ensure that we are operating most effectively to support business growth.

2) Driving procurement savings to get the most value from the money we spend.

3) Optimising our footprint

SUPPLEMENT ORGANIC GROWTH WITH ACQUISITIONS

Smith & Nephew has established a successful acquisition track record in recent years. Our two largest acquisitions are performing strongly. With Healthpoint Biotherapeutics, acquired in 2012 for $782 million, our third year return on capital has exceeded our plan and also our weighted average cost of capital, despite certain issues we had to address with regard to facilities acquired. ArthroCare, acquired in 2014 for $1.5 billion, is performing in-line with our expectations in-line with our expectations. We are ahead of our plan to deliver $85 million of synergies by 2017 and have achieved almost all our targeted cost savings.

In 2015, we continued to invest in acquisitions that provide opportunities to supplement our

our innovative business models, including Syncera, our value solution for orthopaedic reconstruction. This completed its US pilot, and we now have a number of trained and fully operational customer sites. We are encouraged by the reception from healthcare providers.

The total investment in R&D in the year was reduced when we stopped the phase 3 programme for HP802-247 (announced 2014).

In 2015, we reiterated our commitment to innovation by announcing a single global R&D organisation to be led by a new President of Global R&D. With increased focus on R&D we will apply more resource to the development of disruptive products and services that increasingly define Smith & Nephew and will help drive our success in the future.

to ensure it matches our strategy and future aspirations.

4) Further simplifying our operating model, including aligning our management structure so that we can make decisions more quickly and effectively.

We have made significant progress delivering this programme, and at the end of 2015 were ahead of plan, having realised $100 million of annualised benefits.

We continue to look at opportunities to improve efficiency, creating global commercial and R&D organisations and implementing our single managing director model in the US at the start of 2016. The suspension of the Medical Device Excise Tax will present us with opportunities to accelerate investment in our quality and regulatory systems and health economics teams, particularly in support of the US market.

organic growth, strengthening our technology and product portfolios and our Emerging Markets business. Blue Belt Technologies announced in October 2015, has given us a leading position in the fast growing area of robotics-assisted orthopaedic surgery. Its NAVIO¯ surgical system provides robotics-assistance in partial knee replacement surgery and we intend to expand it into total knee, bi-cruciate retaining knee and revision knee implants, potentially delivering significant further upside.

We also completed the acquisition of the ZUK¯ partial knee system in the US market during the year. This has given us access to many new customers and is highly complementary to Blue Belt Technologies.

R&D EXPENDITURE[1]	TRADING PROFIT[1,2]	ACQUISITION PERFORMANCE

$222m

$1,099m +5%

Healthpoint
Third year return on capital exceeded our weighted average cost of capital.

AS A PERCENTAGE OF GROUP REVENUE

4.8%

TRADING PROFIT MARGIN[2]

23.7% +80bps

1 The underlying percentage increases/decreases are after adjusting for the effect of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals.

2 Explanations of these non-GAAP financial measures are provided on pages 177 to 178.

Our marketplace is driven by longer-term trends

Ageing populations are placing greater burdens on healthcare systems as chronic diseases become more prevalent.

It is expected that by 2050, the number of people aged 60 or over will total 2 billion. However, although we are living longer, we are not necessarily as healthy. In 2014, the World Health Organisation (WHO) estimated that more than 1.9 billion adults were overweight. Of these, over 600 million were classified as obese. Overweight and obesity are the major risk factors for diseases such as diabetes and musculoskeletal disorders.

Additionally, WHO estimates that by 2020, people aged 60 years and older around the world will outnumber children younger than five years. This changing dynamic will decrease the level of funds available for healthcare raised through taxes.

Therefore, governments and healthcare providers are under pressure to look for ways to reduce their overall healthcare expenditure, while at the same time maintaining the quality of care and treatment provided.

Customers

We market our products largely to healthcare providers.

In certain parts of the world, including the UK, much of Continental Europe, Canada and Japan, healthcare providers are often government organisations funded by tax revenues. In the US, our major customers are public and private hospitals, which receive revenue from private health insurance and government reimbursement programmes. Medicare is the major source of reimbursement in the US for knee and hip reconstruction procedures and for wound treatment regimes. In the Emerging Markets, demand is driven by self-pay patients.

New commercial purchasing models are being adopted by health systems as a solution to improving resource allocation. There is a shift towards payment for performance schemes, where financial incentives are provided to healthcare administrators as well as surgeons to increase better health outcomes and reduce the overall cost of delivery. Healthcare providers are implementing incentives for reduced hospital stay or preventing readmissions.

However, product innovation remains of vital importance with increasing focus on products which simplify and increase the efficiency of procedures as well as robotics which increase precision and enhance procedure outcomes.

With this increased focus on health outcomes, governments are beginning to impose penalties on healthcare facilities holding them accountable for acute patient re-admissions or for infections acquired within the health system.

Pricing pressures also remain pertinent. In many cases, highly regulated markets employ various controls on pricing.

Pricing of products is largely influenced in most developed markets by governmental reimbursement programmes. Initiatives sponsored by government agencies, legislative bodies and the private sector to limit the growth of healthcare costs are ongoing and include price regulation, excise taxes and competitive pricing. Governments and healthcare providers are increasingly requesting health economic data to justify the pricing of products and procedures or reimbursement requests. More collaboration between industry and data research institutions is emerging as a result.

Regulatory standards and compliance in the healthcare industry

Alongside healthcare provision and payment becoming more complex, the regulation of the medical device industry is also intensifying. Regulatory requirements are important in determining whether substances and materials can be developed into effective products in an environmentally sustainable way.

National regulatory authorities administer and enforce a complex series of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. They also review data supporting the safety and efficacy of such products. Of particular importance is the requirement in many countries that products be authorised or registered prior to the placement on market and that such authorisation or registration be subsequently maintained. The industry is focusing its resources on meeting the increased regulatory pressure around the world.

The major regulatory agencies for Smith & Nephew s products include the Food and Drug Administration (FDA) in the US, the Medicines and Healthcare products Regulatory Agency in the UK, the Ministry of Health, Labour and Welfare in Japan, the China Food and Drug Administration and the Australian Therapeutic Goods Administration.

In general, with the aforementioned industry trends, safety standards and regulations in the medical device industry are becoming more stringent. Regulatory agencies are intensifying audits of manufacturing facilities and the approval time for new products has lengthened. Legislation covering corruption and bribery such as the UK Bribery Act and the US Foreign Corrupt Practices Act also apply to all our global operations. We are committed to ensuring a high level of regulatory compliance and to doing business with integrity and we welcome the trend towards higher standards in the healthcare industry. We and other companies in the industry are subject to regular inspections and audits by regulatory agencies and notified bodies, and in some cases, remediation activities have required and will continue to require significant financial and resource investment. See Legal proceedings on page 147.

Seasonality

Orthopaedic and sports medicine procedures tend to be higher in the winter months when accidents and sports related injuries are highest. Conversely, elective procedures tend to slow down in the summer months due to holidays. Due to the nature of our product range, there is little seasonal impact on our advanced wound management franchises.

Competitors

We compete against both local and multinational corporations in the global medical devices market, including some with greater financial, marketing and other resources. Our competitors vary across our franchises as illustrated in the market segment and leadership charts.

HIPS & KNEES

PRODUCT STREAMS	%
A ZIMMER BIOMET	34.9
B DEPUY SYNTHES[2]	20.8
C STRYKER	19.2
D OTHERS	12.8
E SMITH & NEPHEW	10.3
F MICROPORT	1.2
G EXACTECH	0.8

TRAUMA & EXTREMITIES

PRODUCT STREAMS	%
A DEPUY SYNTHES[2]	45.9
B STRYKER	24.7
C ZIMMER BIOMET	11.3

D SMITH & NEPHEW	9.1
E OTHERS	9.0

SPORTS MEDICINE[1]

PRODUCT STREAMS	%
A ARTHREX	30.4
B SMITH & NEPHEW	23.3
C DEPUY MITEK[2]	14.6
D OTHERS	12.9
E STRYKER	10.7
F LINVATEC	4.7
G ZIMMER BIOMET	3.4

ADVANCED WOUND MANAGEMENT

PRODUCT STREAMS	%
A OTHERS	37.0
B ACELITY	21.0
C SMITH & NEPHEW	18.0
D MOLNLYCKE	12.0
E CONVATEC	8.0

F COLOPLAST	4.0

Data: 2015 estimates generated by Smith & Nephew based on publicly available sources and internal analysis.

1 Representing access, resection and repair products.
2 A division of Johnson & Johnson.

The products we take to market

Smith & Nephew has nine global product franchises.

Knee implants

REVENUE BY PRODUCT

GLOBAL PRODUCT FRANCHISES	$4,634m
A KNEE IMPLANTS	$883m
B HIP IMPLANTS	$604m
C SPORTS MEDICINE JOINT REPAIR	$606m
D ARTHROSCOPIC ENABLING TECHNOLOGIES	$573m
E TRAUMA & EXTREMITIES	$497m
F OTHER SURGICAL BUSINESSES	$205m
G ADVANCED WOUND CARE	$755m
H ADVANCED WOUND DEVICES	$167m
I ADVANCED WOUND BIOACTIVES	$344m

Smith & Nephew offers an innovative range of products for specialised knee replacement procedures. Knee replacement surgery involves replacing the worn, damaged or diseased portion of a knee with an artificial joint. It is a routine operation for knee pain most commonly caused by arthritis. Every year more than two million patients receive total, partial or revision knee replacements.

2015	2014	2013
$ million	$ million	$ million

A	KNEE IMPLANTS	883	873	865
B	HIP IMPLANTS	604	654	653
C	SPORTS MEDICINE JOINT REPAIR	606	576	496
D	ARTHROSCOPIC ENABLING TECHNOLOGIES	573	542	441
E	TRAUMA & EXTREMITIES	497	506	486
F	OTHER SURGICAL BUSINESSES	205	147	74
G	ADVANCED WOUND CARE	755	805	843
H	ADVANCED WOUND DEVICES	167	192	213
I	ADVANCED WOUND BIOACTIVES	344	322	280
	Total	4,634	4,617	4,351

Smith & Nephew s knee systems include the LEGION¨/GENESIS¨ II Total Knee System, a comprehensive system designed to allow surgeons to address a wide range of knee procedures from primary to revision and our JOURNEY II Family of Active Knees. JOURNEY II has been engineered to empower patients with a renewed active lifestyle by breaking through traditional knee replacement barriers and delivering function, motion and durability through PHYSIOLOGICAL MATCHING™.

These systems also feature VERILAST Technology, our advanced bearing surface. The LEGION Primary Knee with VERILAST Technology has been laboratory-tested to 30 years of simulated wear.

Our knee systems also utilise our VISIONAIRE¨ Patient-Matched Instrumentation. With VISIONAIRE Instrumentation, a patient s MRI and X-rays are used to create customised cutting guides that allow the surgeon to achieve optimal mechanical axis alignment of the new implant. VISIONAIRE cutting guides also help to save time by reducing the number of procedural steps and instruments used in the operating room.

Our Knee Implant franchise delivered a strong performance in 2015. We grew revenue by 5% globally. In the US, our largest market, revenue growth of 6% was driven by our JOURNEY II Total

Knee System and the benefits of a US marketing campaign for VERILAST Technology, featuring both hips and knees.

1 The underlying percentage increases/decreases are after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals. Explanations of non-GAAP financial measures are provided on pages 177 to 178.

During 2015, we acquired the Zimmer® Unicompartmental High Flex Knee (ZUK) system in the US market. ZUK is a clinically proven uni knee replacement introduced globally in 2004, and expands our access to the attractive area of partial knee joint reconstruction.

In early 2016 we completed the acquisition of Blue Belt Technologies, securing a leading position in the fast-growing area of orthopaedic robotics assisted surgery. Blue Belt Technologies Navio® surgical system provides robotics assistance in partial knee replacement surgery.

For Smith & Nephew, this acquisition is expected to create a strong combined partial knee portfolio from which to accelerate our growth in partial knee replacement surgery. We anticipate significant upside from a range of new product launches that will expand into indications beyond partial knees. These include a total knee system, due to launch in 2017,

Increased value and efficiency to hospitals and ASCs

In August 2014 we announced Syncera, a disruptive orthopaedic supply chain model providing increased value and efficiency to hospitals and ambulatory surgery centres (ASC) performing knee and hip replacement surgeries.

By using Syncera, a hospital performing 400 total hip and knee surgeries over a 3-year period, can realise estimated savings of $4 million.

Since launching our pilot in the

and revision knee and bi-cruciate retaining knee systems.

ANTHEM GLOBAL KNEE

The unique design of the ANTHEM™ Total Knee System creates a knee offering fit for all ethnicities. Based on both intraoperative measurements and the analysis of CT images from patients. ANTHEM utilises the ORTHOMATCH instrumentation platform, reduces weight, footprint and unnecessary cost without compromising on quality or clinical outcomes. Currently in limited market release, ANTHEM will provide an advanced and globally relevant knee implant that is accessible to all orthopaedic surgeons and patients in emerging markets.

Syncera offers a different channel strategy providing attractive economics through clinically proven products and cutting-edge technology solutions within the primary reconstructive hip and knee marketplace. Its innovative business model brings value solutions to the operating room (OR) with pioneering point-of-care technology that links and interfaces with the entire hospital or ASC supply chain systems. Recently acquired Syncera software platforms improve training time for OR staff and drive down cost in instrument sterilisation.

United States, we have secured strong reference sites with hospital and surgeon advocates, now trained and fully operational with Syncera. These sites have purchased instruments and implant inventory and are using our software.

In August 2015 we had Syncera customers with potential to perform more than 3,000 annualised Syncera procedures. Our progress has also given us confidence to move forward with our plans outside of the US, with pilots launched in Europe in 2015.

The products we take to market continued

Hip implants

Smith & Nephew s Hip Implant franchise offers a range of specialist products for reconstruction of the hip joint. This may be necessary due to conditions such as arthritis, causing persistent pain, and/or as a result of hip fracture. Every year more than two million patients undergo total, resurfacing and revision hip replacement procedures.

For Hip Implants, Smith & Nephew has developed a range of primary hip systems. Core systems include the ANTHOLOGY¯ Hip System, SYNERGY¯ Hip System, the SMF¯ Femoral Hip System, POLARSTEM¯ Femoral Hip System, the R3¯ Acetabular System and the POLARCUP¯ Dual Mobility Hip System. This diversity exemplifies our commitment to providing surgeons with implant and

1 The underlying percentage increases/ decreases are after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals. Explanations of non-GAAP financial measures are provided on pages 177 to 178.

instrumentation options that meet the specific demands of their preferred surgical approach, most notably the direct anterior or posterolateral approach.

Smith & Nephew s portfolio includes the REDAPT Revision Femoral System. The need to perform a revision can occur for a variety of reasons including infection, dislocation, or failure of the implants to achieve biologic fixation. REDAPT turns such complex hip revisions into efficient, reproducible surgeries, allowing surgeons to effectively recreate a patient s unique functionality, while quickly and easily addressing issues such as poor bone quality.

In 2015, we announced our decision voluntarily to remove from the market certain smaller sizes of the BIRMINGHAM HIP¯ Resurfacing (BHR) System. This was a decision we made based on our own post-market surveillance and clinical follow-up. Many thousands of patients have benefited from BHR over the years. It continues to demonstrate very good clinical performance in male patients under 65 years of age and remains an important option for surgeons treating these patients.

Our Hip Implants franchise revenue remained flat in 2015. Excluding the headwind from the changes to BHR, performance would have increased by 1%.

This year saw the launch of collared and valgus versions of our popular POLARSTEM Cementless Hip Stem System. These new stem options join the expanding POLARSTEM family of implants which has been in use clinically since 2002.

The products we take to market continued

Shaping the future of surgery with robotics

In 2015, we announced the acquisition of Blue Belt Technologies, securing a leading position in the fast-growing area of robotics-assisted surgery. Robotics is expected to become increasingly mainstream across orthopaedic reconstruction in the foreseeable future.

Blue Belt Technologies Navio® surgical system provides strong combined partial knee portfolio from which to accelerate growth in the attractive area of partial knee replacement surgery, with further opportunities for a range of new products. A total knee variant is due to be launched in 2017, bringing Navio to surgeons performing total knee procedures and supporting Smith & Nephew products such as JOURNEY II. A revision knee version is in the pipeline to bring this technology to this highly

The combination of Blue Belt Technologies with Smith & Nephew s Knee Implant franchise has a powerful rationale. It reinforces our distinctive orthopaedic reconstruction strategy, which combines cutting edge innovation, disruptive business models and a strong Emerging Markets platform to drive outperformance.

robotics-assistance in unicondylar or partial knee replacement surgery through a unique hand-held, robotic bone-shaping device. Navio brings a high degree of implant placement accuracy, combined with attractive economics and ease of use.

The acquisition will complement existing products and R&D programmes, creating a platform from which we can shape this exciting new area of surgery. It creates a complex and fast-growing area currently not served by robotics. A bi-cruciate retaining knee programme will support our existing development work in this potential major new market. Bi-cruciate knee implants are technically demanding, and we expect they will offer patients more natural motion and greater stability by preserving the anterior and posterior cruciate ligaments.

Sports Medicine Joint Repair

Our Sports Medicine Joint Repair franchise offers surgeons a broad array of instruments, technologies and implants necessary to perform minimally invasive surgery of the joints, including the repair of soft tissue injuries and degenerative conditions of the knee, hip and shoulder. Our franchise operates in a large, growing market where unmet clinical needs lend room for procedural and technological innovation. Smith & Nephew is well positioned both to innovate and to reach customers globally.

Our position within the global Sports Medicine Joint Repair market was strengthened significantly in 2014, with the acquisition of ArthroCare Corporation. The transaction added technology and highly complementary products to our existing portfolio, including new shoulder anchor innovation.

Sports Medicine Joint Repair delivered revenue growth of 7% in 2015. We produced double-digit growth in the US, driven by the benefits of our combined portfolio following the acquisition of ArthroCare. Our overall performance was held back by conditions in China, where we saw a slowdown in capital and consumable sales compounded by de-stocking in our distribution channel.

In 2015, Smith & Nephew launched its Q-FIX¨ All-suture anchor for procedures like rotator cuff repair in the shoulder and labral repair in the shoulder and hip, all procedures in which anatomic space is very limited. The new anchor delivers performance characteristics that meet or exceed those of much larger, hard anchors.[2]

ROTATOR CUFF REPAIR

Key products in this franchise include the FAST-FIX¯ family of meniscal repair systems, the ENDOBUTTON¯ family for knee ligament reconstruction, HEALICOIL¯ PK, FOOTPRINT¯ PK and TWINFIX¯ Suture anchors for repairs of the hip and rotator cuff.

2015 also saw the launch of a suite of products for Rotator Cuff Repair (RCR), including ULTRATAPE, a suture (available loose or pre-loaded into Smith & Nephew implants) that provides greater tendon-to-bone contact and may enhance repair; FIRSTPASS¯ ST, a sterile-packaged retrograde suture passer that eliminates the steps of loading and unloading needles and cartridges; and MULTIFIX¯ S, an all-PEEK knotless screw-in anchor that accommodates multiple suture limbs and/or ULTRATAPE. All of these new products can be used together or in conjunction with existing products from the Smith & Nephew portfolio in a single procedure, significantly expanding the breadth of our Rotator Cuff Repair Solutions.

SEE THE FULL RANGE OF PRODUCTS

ONLINE WWW.SMITH-NEPHEW.COM

1 The underlying percentage increases/decreases are after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals. Explanations of non-GAAP financial measures are provided on pages 177 to 178.

2 (P/N 54231-01 Rev. A; P/N 49193-01 Rev. A; P/N 51963-01 Rev. A)

The products we take to market continued

Arthroscopic Enabling Technologies

Trauma & Extremities

Our Arthroscopic Enabling Technologies (AET) franchise offers a high performance array of minimally invasive surgery-enabling systems and devices.

AET platforms work in concert to facilitate access to various joint spaces, visualise the patient s anatomy, resect degenerated or damaged tissue and prepare the joint for a soft tissue repair construct. Products in this franchise are often used in conjunction with products from our Sports Medicine Joint Repair franchise.

Systems include anatomic

repair-aiding limb positioners and holders, high definition endoscopes and image capture systems, Key products include the SPIDER2/T-MAX procedure-enabling limb positioning systems, DYONICS¯ Shaver Blades, single-use blades that provide superior resection due to their sharpness and virtually eliminate clogging with their debris evacuation capabilities, DYONICS large and small bone cordless powered instruments and accessories, ACUFEX¯ Hand Held Instruments, and a wide range of high performance COBLATION¯ Technology radio frequency (RF) probes that ablate, resect and coagulate soft tissue and enable hemostasis of blood vessels.

1 The underlying percentage increases/ decreases areafter adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals. Explanations of non-GAAP financial measures are provided on pages 177 to 178.

COBLATION TECHNOLOGY

In 2015, COBLATION Technology made a strong contribution to AET s overall performance.

The COBLATION process involves the creation and application of an energy field called glow discharge plasma , which acts to ablate molecules in the tissue.

THE EVOS MINI FRAGMENT PLATE

The EVOS Mini Fragment Plate and Screw System is a dedicated Trauma mini fragment system. This is a stainless steel highly versatile system with a multitude of plate geometries and longer screw lengths than standard mini fragment systems

(up to 80 mm).

Complementing this is our VLP MINI-MOD Small Bone Plating System for the fixation of small bones and small bone fragments, specifically designed to match the contour of small bones needed in treating hand, wrist, elbow, foot and ankle fractures.

COBLATION Technology provides advantages to the surgeon by operating at lower temperatures than other RF-based technologies, and allowing for precise removal of soft tissue with minimal damage to untargeted tissue.

Other Surgical Businesses

Our Trauma & Extremities franchise offers both internal and external fixation and tissue repair devices, as well as other products used in the stabilisation of severe fractures and deformity correction procedures. In 2015, the franchise delivered 2% revenue growth.

For extremities and limb restoration, we offer the TAYLOR SPATIAL FRAME¯ Circular Fixation System as well as a range of plates, screws, arthroscopes, instrumentation, resection and suture anchor products for orthopaedic surgeons including foot and ankle and hand and wrist specialists, and trauma surgeons.

For Trauma, the principal internal fixation products are the TRIGEN¯ family of IM nails (TRIGEN META-NAIL System, TRIGEN Humeral Nail System, TRIGEN SURESHOT¯, and TRIGEN INTERTAN¯), EVOS¯ Plating System and the PERI-LOC¯ Plating System.

The Other Surgical Businesses franchise includes our Gynaecology and our Ear, Nose & Throat (ENT) businesses. This franchise delivered revenue growth of 10% in 2015.

Our primary Gynaecology product is the TRUCLEAR¯ System, a first-of-its kind hysteroscopic tissue removal system, providing safe, efficient, effective removal of intra-uterine tissue. Backed by proprietary intellectual property and strong clinical evidence differentiating it from the competition, the TRUCLEAR System has established itself as a leader in hysteroscopic tissue removal. The pioneering solution includes a total hysteroscopy system that allows surgeons to see and treat simultaneously. This approach is designed to enable a shift to in-office treatment, supporting a reduction in total healthcare expenditures.

Within ENT we offer a wide variety of products including our COBLATION

Exclusively for our TAYLOR SPATIAL FRAME¯ device, our new iADJUST¯ was released this year and is an easy-to-use and one-of-a-kind mobile app designed to simplify the frame adjustment process for both physicians and patients.

We introduced the TRIGEN META-TAN¯ Nail System. This expands the clinically proven TRIGEN Nail portfolio with a versatile design that addresses a wide range of femoral fractures ranging from specific hip fractures to mid-shaft fractures and challenging fractures near the knee.

Technology for tissue removal and hemostasis, various articulating instruments and implants for sinus surgery such as balloon sinuplasty, and our RAPIDRHINO¯ Carboxymethylcellulose (CMC) Technology which is featured in both dissolvable and removable nasal and sinus dressings, and epistaxis treatment products.

During 2015, we launched our new NASASTENT¯ Dissolvable Nasal Dressing, a structural intranasal splint used to minimise bleeding and prevent post-operating adhesions after sinus surgery. Unlike other nasal dressings which fragment as they degrade, once the NASATENT dressing absorbs sufficient nasal fluid, it converts into hydrocolloidal gel that simply drains from the cavity as part of the natural outflow.

The Ear, Nose & Throat (ENT) business

we acquired as part of ArthroCare

improved its growth rate under new

management in 2015.

1 The underlying percentage increases/decreases are after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals. Explanations of non-GAAP financial measures are provided on pages 177 to 178.

The products we take to market continued

Advanced Wound Care

The Advanced Wound Care (AWC) franchise consists of several groups of brands, including exudate management, infection management and our Cornerstone range of products. As a whole, this franchise produced revenue growth of 8% in 2015.

Exudate management products focus on effectively locking away wound fluid and thus helping to create an optimal wound healing environment. This will reduce the burden a wound has on the patient and help them to get on with their lives and at the same time diminish costs for materials and nursing time.

Our key growth brand in this space is ALLEVYN¯ Life, an innovative dressing designed to improve the quality of life for patients with chronic wounds, as well as helping

Two core technologies drive our infection management portfolio, namely: silver and iodine.

Our silver-based products (ACTICOAT¯, DURAFIBER¯ Ag and ALLEVYN Ag) continue to gain market share due to their overall ability to reduce wound infection, their rapid onset of action (ACTICOAT) and their ease of use. ACTICOAT is very well positioned to address urgent cases at risk for infection such as burns, which are highly prevalent in developing countries, or acute trauma.

Our iodine based product IODOSORB¯ has a long history of accumulating clinical evidence for its potentially transformative role in combating biofilms (layers of bacteria and other forms of infection) which healthcare professionals reduce the costs of frequent dressing changes.

During 2015, we continued to invest in significant new clinical and health economic evidence with a number of studies being published demonstrating superior outcomes for ALLEVYN LIFE. This includes a UK study showing how ALLEVYN LIFE enabled a reduction in home care nurse visits from three to one per week[2], and a US study showing a 69% reduction in hospital acquired pressure ulcers saving a facility over $1 million per annum[3].

ALLEVYN LIFE

ALLEVYN Life dressing is a multi-layered design incorporating hydrocellular foam, hyper-absorber lock away core and masking layer which has been designed for people and their everyday life. Its unique protection properties also mean it is a powerful tool when used prophylactically to help prevent pressure ulcers which are a preventable condition. In the US, pressure ulcer care is estimated to approach $11 billion annually, with a cost of between $500 and $70,000 per individual pressure ulcer[4].

are cited as impeding the healing of chronic wounds in 60% of cases globally. Through its unique mode of action, IODOSORB has proven to be very effective on addressing the issue of biofilms.

Smith & Nephew s Cornerstone range offers a wide selection of wound care products, which means we have one of the most comprehensive ranges of wound care solutions in the industry. These products include our film and post-operative dressings, skincare products and gels.

OPSITE¨ is one of our most successful and pioneering franchises and has become the global standard of care in post-operative dressings. IV3000, a specialist premium dressing for intravenous lines, continues to perform well. SECURA¨ and PROSHIELD¨ are proven preventative skin care products which help maintain and protect skin integrity.

1 The underlying percentage increases/decreases are after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals. Explanations of non-GAAP financial measures are provided on pages 177 to 178.
2 Joy, H. et al. A collaborative project to enhance efficiency through dressing change practice. Poster presented at Wounds UK 2014.
3 Swafford, K., Culpepper, R. and Dunn, C. Use of a comprehensive pressure ulcer prevention programme to reduce the incidence of hospital-acquired pressure ulcers in an intensive care unit setting. E-Poster presented at EWMA 2015.
4 National Pressure Ulcer Advisory Panel, European Pressure Ulcer Advisory Panel and Pan Pacific Pressure Injury Alliance. Prevention and Treatment of Pressure Ulcers: Clinical Practice Guideline. Emily Haesler (Ed.) Cambridge Media; Osborne Park, Western Australia; 2014.

Wound education and excellence

Smith & Nephew is proud to support its customers in the Emerging Markets through professional education. In this way we ensure the safe and effective use of our products and help healthcare professionals create better outcomes for patients.

In India, we have invested in a Nursing Education and Excellence in Wound Care programme that brings senior nursing Key Opinion Leaders (KOL) together with the aim of expanding knowledge and education in wound care. This supports the evolving trend towards more highly skilled and empowered wound care nurses and tissue viability nurses in hospitals.

Management of wounds is also an increasing area of focus for surgeon customers. In Turkey, our Approaches in General Surgery Training course, run in conjunction with the Turkish Surgery Association, provided a forum to learn about wound healing. Attendees were able to learn about the benefits of Smith & Nephew advanced wound care products.

Improving the skills of burn surgeons is also an important focus for Smith & Nephew. In South Africa, our courses are led by KOL surgeons and cover the entire burn continuum, including burn wound infection, anaesthesia in burns, fluid resuscitation, pain management, inhalational burns and theatre time. We also run a

	bi-annual Burns & Scientific Symposium, providing an academic forum for burn surgeons to congregate and share best practice.	
Through training and education, we seek to ensure the safe and effective use of our products to create better outcomes for patients.		

The products we take to market continued

Advanced Wound Devices

Our Advanced Wound Devices (AWD) franchise is comprised of our Negative Pressure Wound Therapy (NPWT) and surgical debridement businesses. In 2015, revenue from this franchise fell by 3%.

In 2014, our traditional NPWT RENASYS system experienced challenges as a result of the FDA requiring suspension of commercial activity in the US while new product approvals were obtained. During 2015, we made progress securing the required approvals and began supporting existing customers. The impact of the RENASYS distribution hold was a significant headwind to overall performance in this franchise in 2015.

Outside the US, RENASYS maintained its strong presence. The RENASYS product

In Q4, 2015 we launched outside the US the next generation of RENASYS called TOUCH¨ offering touchscreen technology. We expect to launch in 2016 in the US. We are also in the final stages of developing the first NPWT device to communicate continuously through the cloud. This will enable more efficient fleet management for institutions and care providers, lower maintenance costs and the provision of clinically relevant information in real time.

Our PICO¨ system, our single-use, canister-free NPWT solution, performed strongly in 2015. PICO brings the effectiveness of traditional NPWT in a modern, small portable system[2]. It is designed for both open wounds and closed incisions and leverages our leading dressing technology.

offering now includes multiple device options, a choice of foam or gauze dressings, along with a range of drains and specialty kits.

PICO SYSTEM

Easy to use, PICO simplifies the application of NPWT and provides an active intervention to help promote healing, leading to improved outcomes in more wound types. 2015 has seen PICO growth accelerate in markets around the world, driven by strong clinical and health economic evidence.

2015 has seen PICO growth accelerate in markets around the world, driven by strong value proposition that resonates with healthcare payers and providers. PICO reduces the risk of infection and other complications and lowers readmissions for surgical site infections[2]. It also offers simpler logistics and lower cost and may reduce nursing time and complexity[3] as well as increasing patient mobility[4].

The VERSAJET Hydrosurgery system, a mechanical debridement device used by surgeons to excise and evacuate non-viable tissue, bacteria and contaminants from wound, burns and soft tissue injuries, also performed well in 2015.

1 The underlying percentage increases/decreases are after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals. Explanations of non-GAAP financial measures are provided on pages 177 to 178.
2 Bullough L, et al. Reducing C-Section wound complications. Clinical Svcs J 2015 Apr: 43-47.
3 Hurd, T. Evaluating the costs and benefits of innovation in chronic wound care products and practices. Ostomy Wd Mgt June 2013; S2-15.
4 Hurd, T. Use of a portable, single-use negative pressure wound therapy device in home care patients with low to moderately exuding wounds. Ostomy Wd Mgt Mar 2014; 30-36.

Advanced Wound Bioactives

Our Advanced Wound Bioactives (AWB) franchise focuses on the development and commercialisation of novel, cost-effective biopharmaceuticals to provide a unique approach to debridement, dermal repair and tissue regeneration.

The acquisition of Healthpoint Biotherapeutics in 2012 gave us a strong position in this fast growing segment.

Bioactives represent the fastest growing segment of chronic wound care, illustrating how greater understanding of wound biology is driving the development of new biopharmaceuticals designed to stimulate the body s own regenerative processes. The AWB business is well-positioned to benefit from this market growth with its focus on generating clinical evidence, a highly trained specialised sales force, strong performance of best-in-class products and award winning educational resources. AWB revenue growth in 2015 was 7%.

Currently, products on the market include Collagenase SANTYL® Ointment (the only FDA-approved biologic enzymatic debriding agent for chronic dermal ulcers and severe burns), OASIS® Wound Matrix and Ultra

SANTYL®

For some patients living with wounds can be challenging. SANTYL Ointment is an FDA-approved prescription medicine that removes dead tissue from wounds so they can start to heal. Healthcare professionals have prescribed SANTYL Ointment for more than 20 years to help clean many types of wounds, including chronic dermal ulcers (such as pressure ulcers, diabetic ulcers, and venous ulcers) and severely burned areas. SANTYL is available in the US and Canada.

Tri-Layer Matrix (a naturally-derived, extracellular matrix replacement products indicated for the management of both chronic and traumatic wounds) and REGRANEX® (becaplermin) Gel 0.01% (an FDA-approved platelet-derived growth factor for the treatment of Diabetic Foot Ulcers).

The US is the largest market and represents the current focus for our AWB franchise. Smith & Nephew is also committed to advancing the care and treatment of wounds through the development of potential new Bioactives and support of industry-leading continuing education from THE WOUND INSTITUTE®.

1 The underlying percentage increases/decreases are after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals. Explanations of non-GAAP financial measures are provided on pages 177 to 178.

The resources we need to deliver our products

RESEARCH & DEVELOPMENT
Innovation is part of our culture and we invest 5% of our revenue to find new products that will help improve people s lives.
READ MORE ON THIS PAGE

ETHICS & COMPLIANCE
We are focused on doing business the right way and apply strict business principles to the way we deal with our clients and partners.
READ MORE ON THE FOLLOWING PAGE

MANUFACTURING & QUALITY

We operate our global manufacturing efficiently, and the highest possible standards to ensure highest product quality at sensible pricing.

READ MORE ON

PAGES 30 TO 33

TRAINING & EDUCATION

Every year, thousands of healthcare professionals attend our training courses around the world. Education is a fundamental part of our vision.

READ MORE

ON PAGE 34

SALES & MARKETING

We support our clients in over 100 countries. Our sales teams are highly specialised with an in-depth knowledge across the full range of product franchises.

READ MORE

ON PAGE 35

OUR PEOPLE

Engaging, developing and retaining our 15,000 employees is important to us and we work hard to be an employer of choice as well as a responsible corporate citizen.

READ MORE ON

PAGES 36 TO 37

Research & Development

Our Research and Development (R&D) strategy is at the heart of our business model. Through it we deliver pioneering products and services, and drive innovation across the markets we serve.

In 2015, we reiterated our commitment to R&D by announcing a single global organisation to be led by a new President of Global Research and Development, reporting directly to the Chief Executive Officer.

The new global R&D team will focus on delivering a broader portfolio of more meaningfully disruptive products and services, as well as a greater utilisation of digital technologies in medical devices. It will also enable better product life cycle management and alignment and sharing of resources across our franchises.

We are already highly disciplined in project selection. Our R&D experts in the UK, US, Europe, China and India have extensive customer and sector knowledge, which is augmented by ongoing interaction with our marketing teams. Strict criteria are applied to ensure new products fulfil an unmet clinical need, have a strong commercial rationale, and are technologically feasible. The R&D function works closely with the manufacturing and supply chain management teams to ensure we can produce new products to clinical, cost and time specification. Our products undergo clinical and health economic assessments both during their development and post launch.

With increased focus on R&D, we will apply more resource to the development of disruptive products and services that increasingly define Smith & Nephew and will help drive our success in the future.

In 2015, we invested $222 million in R&D, in-line with our commitment, set out in 2011, to increase our investment level to around 5% of revenue. We expect to maintain this proportion going forward, but to realise greater benefit through our new structure. We have a strong new product pipeline for 2016, with many innovations scheduled.

We invest in scouting for new technologies, identifying complementary opportunities in our core and adjacent segments. The acquisition of robotics-assisted surgical business Blue Belt Technologies, announced in 2015, is an example of this activity.

We also invest in small companies developing compelling technologies in our franchise areas through our incubation fund. In addition to funding, we bring our expertise to help the development process, including supporting clinical studies, and typically secure preferred access to technology as it nears market readiness. Recent investments include exciting early-stage but high-potential technologies in sports medicine, extremities and trauma.

Ethics & Compliance

Code of Conduct and

Business Principles

Smith & Nephew earns trust with patients, customers, healthcare professionals, authorities and the public by acting in an honest and fair manner in all aspects of its operations.

We expect the same from those with whom we do business, including distributors and independent agents that sell our products. Our Code of Conduct and Business Principles (Code) governs the way we operate to achieve these objectives.

Smith & Nephew takes into account ethical, social, environmental, legal and financial considerations as part of its operating methods. We have a robust whistle-blowing system in all jurisdictions in which we operate. We are committed to upholding our promise in our Code that we will not retaliate against anyone who makes a report in good faith.

New employees receive training on our Code, and we assign annual compliance training to employees. We also require our distributor and agents or higher-risk vendors and suppliers to complete training on our Code. Finally, we assign role-based training to targeted groups including people managers, distributor or agent relationship managers, members of our Finance team and selected Sales groups.

Global compliance programme

Smith & Nephew has implemented a world-class Global Compliance Programme that helps our businesses comply with laws and regulations. Our comprehensive compliance programme includes global policies and procedures; on-boarding and annual training for employees and managers; monitoring and auditing processes; reporting channels and recognition for demonstrating our values.

Through our global intranet, we provide resources and tools to guide employees to make decisions that comply both with the law and our Code. We conduct advance review and approval for significant interactions with healthcare professionals or government officials. We regularly assess existing and emerging risks in the countries in which we operate.

Managing directors are required to complete an annual certification to the CEO to confirm the implementation of required policies. Managers and employees make an annual compliance certification and conflict of interest disclosure, and executive management, managers and employees have a compliance performance objective customised to their role and seniority.

In order to reinforce our value of trust, in 2015, we implemented a programme where employees nominate their peers for actions that earn trust. Approximately 30 Spotlight on Trust Certificates were awarded to employees from more than 10 countries. Two employees received additional recognition from the CEO.

Secondly, during our annual manager certification this year, managers were required to have an ethics/compliance conversation with some of their direct reports. They were given centrally-created materials focusing on the importance of earning trust and then provided with specific, topic-based scenarios to discuss with their staff actions that would demonstrate this core Smith & Nephew value. This model enhanced dialogue on ethics, compliance and the importance of earning trust with our actions between managers and staff.

Finally, we launched a new face-to-face training programme for managers in the Sales & Marketing functions. The key objectives of this workshop are to teach managers how to build a culture of trust within their department and how to identify and respond appropriately to compliance questions and ethical dilemmas.

New distributors and other higher risk third parties are subject to screening and are contractually obligated to comply with applicable laws and our Code of Conduct. Compliance training and certifications are included in this process. In 2015, we created a Code of Conduct module that was designed specifically to address the needs of our distributors and agents. We also introduced Additional Compliance Standards to provide greater details on Code requirements. We continue our oversight of independent agents and distributors with on-site assessments to review compliance controls and monitor books and records.

The resources we need to deliver our products continued

Manufacturing & Quality

Global Operations

We operate manufacturing facilities in a number of countries across the globe, and a number of central distribution facilities in key geographical areas. Products are shipped to individual country locations which hold small amounts of inventory locally for immediate supply to meet customer requirements. We have a defined manufacturing and facility footprint plan in-line with our commercial strategy, which is reviewed on a regular basis.

We continue to implement improved processes such as Lean Manufacturing throughout our factories, the global supply chain and the supporting operations to improve and sustain the levels of safety, quality, delivery, productivity and efficiency. We have numerous Core Competences including materials technology, precision machining, high volume and automated manufacturing for various products from our franchises.

Our manufacturing facilities

Our largest manufacturing operation is based in Memphis, Tennessee US. The Memphis facilities produce key products and instrumentation in our Knee Implants, Hip Implant and Trauma franchises. These include the JOURNEY II and LEGION¨ knees, the ANTHOLOGY¨ Primary Hip System and key Trauma products such as the PERI-LOC¨ Ankle Fusion Plating System and TRIGEN¨ Intramedullary Nails. In addition to this, Memphis is home to the design and manufacturing process of the VISIONAIRE patient matched instrumentation sets, and OXINIUM¨ Oxidized Zirconium, a patented metal alloy available for many of our knee and hip implant systems.

Our Mansfield, Massachusetts, US facility focuses on sports medicine related products for minimally invasive surgery including the FAST FIX¨ 360 Meniscal Repair System, FOOTPRINT¨ PK Suture Anchor, DYONICS Platinum Shaver Blades, ENDOBUTTON¨ CL Ultra and the HEALICOIL¨ PK suture anchor.

The Aarau, Switzerland; Tuttlingen, Germany; Beijing, China; Warwick, UK and Sangameshwar, India facilities manufacture a number of surgical device products including key reconstruction and trauma products, the PLUS¨ knee and hip range and the BIRMINGHAM¨ Hip Resurfacing System.

Our Oklahoma City, Oklahoma, US facility produces and services electro/mechanical capital equipment as well as single use sterile devices and also assembles our NPWT devices using components which are brought in from third parties. Our Costa Rica facility manufactures COBLATION technology.

The majority of our wound management products are manufactured at our facilities in Hull, UK; Suzhou, China; and

Curaçao.

The products manufactured at our Hull site cover the therapies of exudate management (foam products principally ALLEVYN), burns treatment (ACTICOAT) and wound closure (OPSITE film products). In 2015, we closed our facility in Alberta (Canada) which provided specific expertise in the addition of silver coatings onto the ACTICOAT burns range and transferred the process to our Hull site.

Manufacturing of our Advanced Wound Bioactive products takes place in Curaçao and at various third party facilities in the US.

The products are distributed from a third party logistics facility in San Antonio, Texas US.

The resources we need to deliver our products continued

Manufacturing & Quality continued

Procurement

We procure raw materials, components, finished products and packaging materials from suppliers in various countries. These purchases include metal forgings and castings for orthopaedic products, optical and electronic sub-components for sports medicine products, active ingredients and semi-finished goods for Advanced Wound Management as well as packaging materials across all product ranges.

Suppliers are selected, and standardised contracts negotiated, by a centralised procurement team wherever possible, with a view to ensuring value for money based on the total spend across the Group. On an ongoing basis, we work closely with our key suppliers to ensure high quality, delivery performance and continuity of supply.

We outsource certain parts of our manufacturing processes where necessary to obtain specialised expertise or to lower cost without undue risk to our intellectual property. Suppliers of outsourced products and services are selected based on their ability to deliver products and services to our specification, and adhere to and maintain an appropriate quality system. Our specialist teams work with and monitor suppliers through on-site assessments and performance audits to ensure the required levels of quality, service and delivery.

Global Supply Chain

In 2015, we further centralised and realigned our Global Supply Chain function. We made these enhancements to ensure that our products reach our internal and external customers where and when they are needed, in a compliant and efficient manner. Bringing together people, knowledge and expertise helps us meet our objectives and our customers expectations, driving us to become more competitive, responsive and integrated.

We operate three main holding warehouses, one in each of Memphis (Tennessee, US), Baar (Switzerland) and Singapore. These facilities consolidate and ship to local country and distributor facilities.

Our distribution hubs for advanced wound products are located in Neunkirchen (Germany) and Derby (UK) for international distribution, Bedford (UK) for UK domestic distribution and Lawrenceville (Georgia, US) for US distribution.

Quality Assurance and Regulatory Affairs

Smith & Nephew takes a global approach to managing quality to ensure we have the same high standards everywhere we do business. This includes having strong manufacturing quality management in place at every Smith & Nephew location. With a single organisation and Quality Management System, manufacturing quality processes can be harmonised with quality controls that are applied consistently and to a very high standard across all locations. This ensures ever-improving product quality and a more stable and predictable supply chain for our customers.

The same holds true for our suppliers, who provide a substantial part of our products. A single Supplier Quality Assurance (QA) organisation is being built to harmonise supplier s QA requirements across the globe, while instituting Scorecard-style performance reports to them and working with, or replacing, those that do not meet our quality standards.

We also take a global approach to Regulatory Affairs, coordinating product registration across our geographic markets. With the increased frequency of regulatory visits this global approach and a close working relationship with our Quality team are vital. The suspension of the Medical Device Excise Tax in the US will present us with opportunities to accelerate investment in our quality and regulatory systems and health economics teams, particularly in support of the US market.

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The resources we need to deliver our products continued

Training & Education

Smith & Nephew is dedicated to helping healthcare professionals improve the quality of care for patients. We are proud to support the professional development of surgeons and nurses by providing them with medical education and training on our Advanced Surgical Devices and Advanced Wound Management products.

Every year, thousands of customers attend our state-of-the-art training centres in the US, UK and China and Smith & Nephew courses at multiple hospitals and facilities around the world.

In 2015, we provided training to more than 40,000 surgeons. Working under expert guidance, attendees refine techniques and learn new skills, to ensure the effective use of our products. We also support healthcare professionals

The Wider Scope

of Arthroscopy

Every year, Smith & Nephew hosts a Sports Medicine fellowship meeting, The Wider Scope of Arthroscopy , at its Andover, Massachusetts facility. The meeting unites promising new doctors (fellows) together with renowned orthopaedic

The curriculum focuses on the fundamentals of joint repair but also on forward-looking topics such as Inventive Approach to AC Joint Reconstruction and Alternative Management Options in Instability Surgery .

through our online resources such as the Global Wound Academy, The Wound Institute and, for surgeons, our Education and Evidence website.

surgeons to review, discuss and practice current and forward-looking surgical techniques in the areas of hip, knee and shoulder repair. The forum helps up-and-coming surgeons develop trust and gain the experience and confidence necessary to become experts in their field.

Held in mid-September 2015, The Wider Scope of Arthroscopy was attended by nearly 140 fellows and distinguished faculty, making it one of the largest fellowship meetings Smith & Nephew has ever held. Over the years, The Wider Scope of Arthroscopy has earned a reputation as one of the most valuable and admired medical education events in the industry, according to our customers.

Sales & Marketing

Our customers are the providers of medical and surgical treatments and services in over 100 countries worldwide.

We serve our customers through our sales force. Our sales representatives are highly trained and skilled individuals. Becoming a sales representative requires intense training, including passing a strict certification programme, before engaging in discussions with, and ultimately selling products to customers. Depending on their area of specialism, representatives must be able to demonstrate a detailed knowledge of all the surgical instruments used to implant a device, or have specific understanding of the various surgical techniques a customer might use.

Once a sales representative is certified, they typically spend the majority of their time working directly with and supporting customers. They help to provide in-hospital support to aid in the effective use of our implants, instruments and medical products and techniques.

Our US sales forces are specialised by channel. They consist of a mixture of independent contract workers and employees. Sales agents are contractually prohibited from selling products that compete with our products. In most Established Markets outside of the US, country-specific commercial organisations led by the country managing director manage employee sales forces directly. In our Emerging Markets we operate through direct selling and marketing operations led by country managing directors, and/or through distributors.

The largest single customer worldwide is a purchasing group based in the UK that represented less than 5% of our worldwide revenue in 2015.

Increasingly, we are developing opportunities for sales forces to cross sell complementary products from other franchises. An example would be an orthopaedic reconstruction sales representative introducing a surgeon customer to the benefits of PICO, our single use Negative Pressure Wound Therapy device, in the prevention of post-operative infections.

Smith & Nephew utilises a variety of traditional and novel means to market to our customers. For example, congresses (educational conferences or trade shows) represent a traditional and efficient way for Smith & Nephew to reach a large number of healthcare professionals at once, often in terms of both advertising/promotion and education. From an awareness perspective, Smith & Nephew displays its latest, innovative products and from an educational standpoint, may also provide satellite symposia or other forms of medical education around these products.

We also leverage digital media to connect with our customers. Our digital communications activities have been evolving as technologies and user habits evolve. Content and messaging is currently delivered via global market websites, social media channels and mobile applications. One core use of digital technology to communicate and market to our customers has been Education & Evidence, a membership-driven surgeon education website.

Our marketing teams also support product development. For instance, our Advanced Wound Management brand teams provide strategic direction to the brands from development to commercial execution. In addition, the Therapeutic Excellence team drives our portfolio approach across brands to drive our strategy to move from product to integrated solution.

ONE SMITH & NEPHEW

FOR ANZ CUSTOMERS

In Australia and New Zealand we are identifying synergies across our advanced surgical and wound management portfolios to support our customers, grow our business and drive success.

An example of this was a recent Professional Education event at Macquarie University in Sydney, which was attended by over 20 Orthopaedic surgeons from across ANZ. In addition to covering training related to knee arthroscopy products, the attendees also had the opportunity to learn about using PICO¨, Single Use Negative Pressure Wound Therapy in a surgical setting.

The resources we need to deliver our products continued

Our people

Engaging, developing and retaining our 15,000 employees is important to us. During 2015, we made major strides in meeting our commitment to be an employer of choice, as well as a responsible corporate citizen.

On 31 December 2015, Smith & Nephew had the following breakdown of employees:

	NUMBER OF EMPLOYEES[1]
Board of Directors	11
Senior Managers and above[2]	796

Total employees	15,644

1 Number of employees as at 31 December 2015 including part time employees and employees on leave of absence.
2 Senior Managers and above includes all employees classed as Directors, Senior Directors, Vice Presidents and Executive Officers and includes all statutory directors and Directors of our subsidiary companies.

Engaging with employees

Smith & Nephew strives to create a more engaged and productive workforce and focuses on measures to drive employee engagement.

This includes open and transparent communication with employees through regular and timely information and consultation. We clearly communicate our business goals and performance standards and also provide training, information and authority to achieve them. We also listen to our employees, by holding regular surveys and focus groups.

Our annual CEO Award, open to all employees, recognises employees who deliver exceptional results in line with our core values, encouraging innovation and a spirit of continuous improvement at all levels.

Since December 2012, more than 3,100 new employees have joined Smith & Nephew as a result of acquisitions. We attach great importance to the introduction of these new employees to Smith & Nephew, and work hard to achieve successful integration and engagement.

Developing talent

Attracting the best talent and developing our employees is critical to achieving our business objectives.

We are committed to working with employees to develop each individual s talents, skills and abilities. We provide encouragement to learn and continuously improve. Employee advancement is merit-based, reflecting performance as well as demonstration of core competencies which include our values, with an emphasis on ethics and integrity. We prioritise the development and promotion of our existing employees whenever possible.

Each year Smith & Nephew conducts a comprehensive global development and capability review process to identify high-potential employees and ensure they have robust career development plans. Employees are provided with opportunities to develop their skills and career through new assignments and on the job experiences.

In addition, the Board reviews succession plans for key executive roles and succession plans are in place for other critical positions across our business.

Retaining our people

Investing in retaining our people helps ensure the long-term sustainability of our business.

We provide fair recognition and reward based on performance. Our performance management process ensures all employees set objectives which align to our overall business goals and have clear line-of-sight to how their individual contributions benefit the Company. Our performance management system assesses and rewards both performance and behaviour, in line with our Code of Conduct. All employees have a specific annual objective to adhere to the Code of Conduct and to complete training certifying their compliance with this Code.

Smith & Nephew offers a large number of wellness programmes, including annual wellness days, fitness support and healthy eating programmes. These are designed from a perspective that blends health and wellbeing, improving the lives of our employees.

Global Employee Assistance Programs (EAPs) focus on stress and work/life issues and problems, providing counselling, webinars and web tools and other resources across many work/life topics. Counselling can span from traditional EAP counselling to financial, legal and everyday family assistance.

Changing the way change happens

To ensure we have organisation change readiness capability, we recently put in place a structured programme, which deploys a change management model and methodology. This is designed to focus on our employees during the implementation of major strategic initiatives in order to support our employees and reduce the financial and operational risks associated with such organisational changes.

Training is the cornerstone to this success. To ensure effective change throughout Smith & Nephew, we have trained and certified internal methodology masters and change agents. All leaders at an executive level will have participated in a programme specially designed for sponsors of change. The Change Awareness e-lesson for all employees was successfully launched in 2015, to assist them when working in partnership with sponsors and change agents.

Employees will be consistently trained and coached to embed the change management methodology into our culture.

Diversity at Smith & Nephew

We believe that diversity fuels innovation. We are committed to employment practices based on equality of opportunity, regardless of colour, creed, race, national origin, sex, age, marital status, sexual orientation or mental or physical disability unrelated to the ability of the person to perform the essential functions of the job.

Smith & Nephew has a Human Resource Global Standard for diversity and inclusion in the workplace and is committed to creating an inclusive environment that embraces and promotes diversity.

The Board and Executive Officers continue to recognise the importance of diversity. Three of our 11 Board members are female.

We recruit, employ and promote employees on the sole basis of the

Developing & retaining talent

The best and the brightest

We aim to bring together the sharpest minds in the industry. We recognise that to achieve this to identify high potential employees and ensure they have robust career development plans. Talented employees are provided with opportunities to develop their skills and career through new qualifications and abilities needed for the work to be performed. We do not tolerate discrimination on any grounds and provide equal opportunity based on merit.

We are committed to building diversity in a working environment where there is mutual trust and respect and where everyone feels responsible for the performance and reputation of our Company.

We are committed to providing healthy and safe working conditions for all employees. We achieve this by ensuring that health and safety and the working environment are managed as an integral part of the business, and we recognise employee involvement as a key part of that process.

We do not use any form of forced, compulsory or child labour. We support the Universal Declaration of Human Rights of the United Nations. This means we respect the human rights, dignity and privacy of the individual and the right of employees to freedom of association, freedom of expression and the right to be heard.

we need to create an environment where talented people have the opportunity to develop and continue to grow. We have an ongoing focus on keeping our talent and leadership pipeline filled to ensure it is a sustainable, self-reinforcing cycle, creating more opportunities for growth.

Talent development

Our development philosophy is based on the 70:20:10 Model for Learning and Development. This is a form of transformational development that engages people and mirrors how they learn, helping to create change within the individual and infuse change into the organisation.

We have a comprehensive global development and capability review process

assignments and on the job experiences.

In 2015, we ran our CEO Forum for our Top Talent, providing them with the opportunity to work closely with our executive team and work together on strategic challenges. We also launched a modular Managing Director programme to further enhance the skills and career opportunities of key individuals pursuing a career in this critical area.

Our performance management process ensures all employees set objectives which align to our overall business goals and have clear line-of-sight to how their individual performance management system assesses and rewards both performance and behaviour.

Our future focus

We continue to embed sustainability into all our business operations, focusing our efforts on delivering affordable and effective products to our customers. We achieve this by caring for our employees, the society in which we operate and the environment around us.

This is a summary report of our sustainability activities and progress in 2015. Our annual Sustainability Report will be published in April 2016.

We made some great progress on our sustainability journey in 2015 since we laid out aggressive sustainability targets in 2011. Our employee lost time incident frequency rate declined a further 49% through continued implementation of behaviour-based safety and robust incident reporting and investigation systems across the Group. Waste sent to landfill was further reduced, enabled by the thorough understanding of our waste streams delivered by the conduct of detailed waste audits. Sustainability considerations were formalised and extended in our supply chain, ensuring that our vendors are committed to achieving the same high standards of sustainable operation as we are. Engagement with the communities in which we operate was significantly extended through employee volunteering and we have strengthened and deepened employee wellness programmes with a focus on enabling healthy lifestyle choices.

The learnings from the 2012-2015 period provide an opportunity for insight to our sustainability journey. It is clear that we were successful in achieving targets in areas which are closely aligned to the purpose of the Company health and wellbeing, diversity and inclusion, providing wider access to quality healthcare, and building trust. We have fallen short where we have not yet successfully built bridges from our targets to our values and strategy. We commit to fully examining these latter areas in 2016, developing a sustainability strategy which more fully reconciles our purpose, values and strategy to the wider needs of society and the environment.

In 2015, our Lost Time Incident Frequency Rate (LTIFR) reduced by 49% to 0.20. There were no employee or contractor fatalities and our recordable injury rate also fell by 41% to 0.54. Compared to the previous year, total waste decreased by 2% but is 27% higher than in our baseline year, 2011. However, as we identified more recycling opportunities, the amount of waste disposed to landfill has fallen by a further 4% over the last year, a total of 39% reduction since 2011. Energy consumption has increased by 2% over the last year mainly all driven by organic growth, acquisitions, changes in footprint, and limited resource efficiency focus.

The Board has evaluated the social, environmental and ethical risks and have concluded that other than the risk of Bribery and Corruption, which is explained in greater detail in the Group Risk section on page 48, none of these risks is material in the context of the Group as a whole.

OUR DONATIONS

We donated approximately $11.5 million in philanthropic activities, of which $1.4 million was in product donations and charitable gifts. Volunteering programmes were active in most of our locations around the world and employees and local communities were able to benefit from the increased level of involvement.

Safety

Ensuring the safety of our employees and those who work with us is at the forefront of the way we carry out our activities both on the manufacturing sites and also in our commercial activities.

The implementation of our integrated management system, an active internal audit programme and a number of behavioural-based safety campaigns have enabled us to report safety rates which are amongst the best in our sector.

Our headline safety performance includes all employees and supervised contractors and excludes unsupervised contractors. We adopt the industry standard USA Occupational Safety and Health Administration (OSHA) system to record incidents of occupational injury and ill-health.

Lost-time incidents are defined as those which result in a person not being able to report for work on the day or shift following the incident. Performance is expressed as a rate of the number of incidents per 200,000 hours worked.

Waste

As the footprint of the business has expanded, coupled with growth and acquisitions since 2011, our total waste has increased by 27%. The actions raised by our 2014 waste audits are now gaining momentum and we reported a 2% annual decrease in 2015, a trend we aim to continue. Significant improvements were again made by diverting waste away from landfill in 2015 with 75% of our waste streams now being recycled or sent for energy recovery.

Energy and greenhouse gas emissions

Over the past year our energy use has increased by 2% with a corresponding 3% increase in CO_2 emissions all driven by organic growth, acquisitions and changes in footprint. The effect of the recently acquired business (ArthroCare) accounted for 6.4 GWh of the increase, without which energy use would have decreased by 2%.

Methodology, materiality and scope

The data reported relates to areas of largest environmental impact including manufacturing sites, warehouses, research and offices. Smaller locations representing less than 2% of our overall emissions are not included. Acquisitions completed before 2015 are included in the data. Each year we work with an independent partner to verify our sustainability data and gain assurance.

The scope for measuring emissions is in line with the scope of businesses covered in our consolidated financial statement. We have used Greenhouse Gas Protocol to measure our emissions. A Corporate Accounting and Reporting Standard (Revised Edition) is guidance for this process. Primary data from energy suppliers has been used wherever possible. Data from the ArthroCare acquisition is included in 2015 for the first time. Recent acquisitions in 2015 are excluded and this is in line with our established policy for integration of acquired assets.

Our emissions have been calculated by using specific emissions factors for each country outside the USA and regional factors within the USA. We have used the US EPA Emissions & Generation Resource Integrated Database (eGRID) for US regions and the UK Government DEFRA Conversion Factors for Greenhouse Gas Reporting elsewhere. The emissions from 2014 have been recalculated using the most up-to-date factors available in 2015 and may therefore differ slightly from those published previously.

Direct emissions include fugitive emissions from the manufacturing and research locations and arise from the losses of refrigerant gases, they also include the combustion of fuels on-site for the operation of facilities. Indirect emissions include purchased electricity.

	2015	2014
CO_2e Emissions (tonnes) from:		
Direct emissions	11,011	11,208
Indirect emissions	77,191	74,178
Total	88,202	85,386
Intensity ratio		
CO_2e (t) per $m sales revenue	19.2	19.4
CO_2e (t) per full-time employee	6.0	6.9

Revenue 2015 $4.6 billion, 2014 $4.4 billion.

Full-time employee data 2015 14,698, 2014 12,437.

2014 data adjusted to exclude ArthroCare, 2015 data adjusted to exclude recent acquisitions in Russia and Colombia.

Financial review

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

	2015 $ million	2014 $ million	Reported growth in revenue %	Constant currency exchange effect %	Acquisitions/ Disposals effect %	Underlying growth in revenue %
US	2,217	2,012	10		(5)	5
Other Established Markets	1,702	1,928	(12)	15	(2)	1
Emerging Markets	715	677	6	9	(4)	11

Total	4,634	4,617	0	8	(4)	4

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

	2015 $ million	2014 $ million
Operating profit	628	749
Acquisition related costs	12	118
Restructuring and rationalising costs	65	61
Amortisation of acquisition intangible and impairments	204	129
Legal and other	190	(2)
Trading profit	1,099	1,055

Explanations of these non-GAAP financial measures are defined on pages 177 to 178.

1 The underlying percentage increases/decreases are after adjusting for the effects of currency translation and the inclusion of the comparative impact of acquisitions and exclusion of disposals.

Revenue

Group revenue for the full year was $4,634 million, an increase of 4% on an underlying basis and flat on a reported basis from $4,617 million in 2014. Foreign exchange movements reduced revenue by 8% partially offset by acquisitions, primarily the acquisition of ArthroCare in May 2014 which has a full year of sales in 2015 and added 4% to the reported growth rate.

In 2015, we achieved revenue growth in all of our geographical selling regions in 2015. In our Established Markets we delivered 5% growth in the United States, our largest market, a significant improvement on the previous year.

We successfully stabilised our European business which delivered a better outturn year-on-year, and our Australia, New Zealand and Japan region delivered good growth, led by the Advanced Wound Management businesses resulting in a 1% increase across our Other Established Markets.

In the Emerging Markets we delivered 11% revenue growth in 2015 despite the slow-down in China. Whilst we expect growth in China to remain below previous levels in the near-term, it remains a very attractive market and we are committed to building our business here. We continued to successfully deliver strong revenue growth across the rest of the Emerging Markets.

Global franchise highlights in 2015 included the performance of Sports Medicine, which was strengthened by the ArthroCare acquisition. The Advanced Wound Management businesses delivered a significantly better outcome driven by the actions of new management initiatives. Orthopaedic Reconstruction grew ahead of the market driven by our Knee Implant franchise.

We are further strengthening our commercial platform by aligning under a newly-created role of Chief Commercial Officer tasked with driving commercial excellence across the organisation globally. We are also bringing all of our US Orthopaedic Reconstruction, Sports Medicine, Trauma and Advanced Wound Management franchises under one leader, completing the roll-out of our single managing director model globally.

Trading profit

Our gross margin for the full year was 75.3%, 30 basis points down on the prior year. This is a combination of price erosion, currency headwinds and offsetting manufacturing efficiencies. On price, we faced similar overall pressures of between 1% and 2%. This was offset by cost of goods improvement programmes. On currency, we are seeing headwinds as a result of transactional exchange, although in 2015 this was mostly offset by hedging gains.

Our selling, general and administration expenses reduced by 80 basis points to 46.8% of sales, largely due to savings within general and administration. These savings were primarily driven by benefits from the Group Optimisation programme and also synergies from our ArthroCare acquisition. We continue to simplify and improve our operating model, becoming more efficient in 2015. Our Group Optimisation Programme to release at least $120 million of annual savings is progressing ahead of plan, and had delivered $100 million of annualised benefits at year end. Through this programme, we have simplified the organisation through the rollout of Single Managing Director:

- we have realised benefits and improved management information through optimising our enabling functions, including Finance, IT, Legal and HR;
- we have delivered good results from procurement initiatives across the group; and
- we have rationalised our footprint of office locations in a number of major markets including Australia, Germany and the US.

In respect of ArthroCare, when we announced the acquisition we said that we were targeting $85 million of synergies by 2017, of which three quarters would come from cost savings. We are ahead of plan and have now achieved almost all our targeted cost savings. Revenue synergies will continue to be delivered over the coming years.

The suspension of the Medical Device Excise Tax will present us with opportunities to accelerate investment in our quality and regulatory systems and health economics teams, particularly in the US market.

Research and development expenses reduced by $13 million to $222 million in the full year, reducing as a percentage of sales to 4.8%. This is primarily due to the closure of the HP802 programme, as we announced in 2014.

Overall trading profit was $1,099 million in the year, an increase of 5% on an underlying basis and up $44 million from the prior year. Our trading margin for the full year increased 80 basis points delivering on our commitment of margin improvement.

Operating profit

Operating profit was $628 million for the year, a decrease of $121 million from the prior year. Operating profit is the most directly comparable financial measure under IFRS to trading profit and reconciles as indicated on the left hand page.

Acquisition related costs primarily relate to the remainder of integration costs relating to the ArthroCare acquisition which has reduced significantly when compared to the prior year as ArthroCare was acquired in May 2014.

The ongoing restructuring and rationalisation costs relate to the Group Optimisation programme, which was announced in 2014. Costs include redundancy and site rationalisation charges from the simplification of our operating model to establish a single structure under a single managing director as well as consultancy spend in delivering improved systems and processes.

Amortisation and impairment of acquisition intangibles of $204 million in 2015 includes a full year of the ArthroCare intangible assets as well as $51 million relating to the impairments of product related acquisition intangible assets, including a $40 million impairment of Oasis, a brand acquired with Healthpoint in 2012.

Included within Legal and other in 2015 is a total charge of $203 million relating to metal-on-metal hip claim settlements and associated legal costs of $21 million. Following the settlement of the majority of the US claims in late

2015 for net $25 million after insurance recoveries, a provision for the estimated value of current and anticipated claims of $185 million was recognised at 31 December 2015.

Our approach to risk

Our risk appetite

The Group operates in global markets with long-term high growth potential. We are pursuing ambitious growth targets and are prepared to accept a certain level of risk to remain competitive and to continue operating in an ever-changing world. We are very clear about the specific risks our businesses face and the level of risk that we are prepared to accept in each part of our business. We have put in place robust plans for managing those risks, through elimination, avoidance or mitigation.

Our approach to each risk varies depending on the circumstances and we accept that over time, our approach towards each risk might change as our business or the external environment evolves.

During the year, the Board took the opportunity as part of our Strategy Review to review our risk appetite in respect of our principal risks. The results of our deliberations can be summarised in the adjacent table.

CATEGORY OF RISK	RISK PARAMETERS
Strategic	In acquiring and developing new products and business models, moving into adjacent

Moderate to high	markets and technologies, organically or through acquisitions, and implementing innovative pricing strategies, we have a moderate to high tolerance for risk. We are willing to take certain risks in pursuit of innovation and new business.
Operational Low to moderate	In operating our business, managing our suppliers, keeping control of inventory and managing our talent and our facilities, we have a low to moderate tolerance for risk. We aim to be as efficient as possible and adopt a cautious approach, but recognise that we need to take certain risks in order to take full advantage of the opportunities open to us.
Financial Low	We recognise that sound financial controls are necessary in order to manage our business as effectively as possible. We therefore have a low tolerance for risk relating to financial controls and require all our operations to comply with our minimum acceptable practices.
Compliance Extremely low	In complying with laws and regulations and in matters relating to bribery and corruption, product safety and patient and employee safety, we have an extremely low tolerance for risk. Whilst we attempt to eradicate this risk completely, we recognise that, as in any human system, compliance failures may occur. We will respond to issues as they arise and will reassess our business scope where needed, if we judge there to be risk in these areas, which we can t manage.

Risk Management Activities in 2015

FINANCIAL REPORTING COUNCIL CHANGES

We reviewed the Financial Reporting Council changes to the Corporate Governance Code.

In May, Deloitte assisted us in reviewing our risk management programme in light of these changes.

In July 2015, the Audit Committee considered the recommendations from this review and how best to incorporate these changes into the Company s processes.

This work was followed up in October 2015, when the Audit Committee further considered the reporting requirements around risk.

RISK APPETITE

We spent time at the Strategy Review meeting in September re-appraising our risk appetite for each of our principal risks.

We undertook a black swan exercise, thinking about possible, yet unlikely, risks which could have a major impact on the Group were they to occur.

In December 2015, the Board Development Session focused on risk management and we further developed our tolerance for each risk.

DEEP DIVES

In December 2015, the Audit Committee conducted a deep-dive into the processes to manage IT and Cyber Security risks as a follow up to work undertaken in 2014.

The deep dives planned for 2016 are; dependency on single source or single site product supply; product quality and liability; and pricing and reimbursement.

PRINCIPAL RISKS AND RISK MANAGEMENT

We have expanded the annual certification to the Chief Executive Officer on compliance with policies provided by all senior division management to include risk management.

We have agreed to develop Key Risk Indicators (KRI) to provide information on the status of key risks and to assist with tracking on a regular basis.

We have taken further risk specific actions, which are detailed in the risk table on pages 44 to 48.

Since the year end, in February 2016, the Board has reviewed the effectiveness of the risk management process, considering the principal risks, actions taken by management to manage those risks and the Board s risk appetite in respect of each risk. The Board considered that the risk management process was effective. We recognise that this is an ongoing process and work will continue in 2016 and beyond to ensure that this remains the case.

Our risk management process

The following chart shows how our risk management process is an integral part of our business. Individual risk owners within the business areas carry out day-to-day risk management activities within the framework established by the risk management office, including the identification of risks, undertaking risk assessments and implementing mitigating actions. These activities are reviewed by internal audit and other control functions, which provide assurance to the Group Risk Committee chaired by the Chief Executive and then to the Board and its committees.

Our approach to risk continued

The principal risks we have identified

We have developed a detailed risk matrix, which is designed to rate any given risk. We rate our risks according to the likelihood of occurrence and the impact. The potential impact is assessed using the criteria below and others relating to matters such as Legal and other impacts:

Financial	Reputation	Regulatory and environment & safety	Business interruption
HIGH			
Significant profit impact or significant reduction of market value	Extensive US/EU national/ international media scrutiny	Product withdrawal or non-approval of key product; forced closure of critical facilities; material safety or	Interruption to critical activities for long term

		environmental failures	
MEDIUM			
Moderate profit impact or reduction in market value	Short-term national (non US/EU) media coverage and disruption to stakeholder confidence	Key product delayed or withdrawn for intermediate period; short-term environmental damages	Interruption to critical activities in short-term
LOW			
Low impact to revenue profit or market value	Localised annoyance/ concern/ complaints; no media coverage	Regulatory action with fewer issues, smaller products involved; minor injuries or environmental impact	Impact can be absorbed within normal business operations

The following pages provide an overview of what the Board considers to be our principal risks together with the actions management is taking to address them. These are the risks, which could cause the Group s business, financial position and results of operations to differ materially and adversely from expected and historical levels. Additional detail may be found on pages 171 and 174 under Group Risk Factors .

PRODUCT PORTFOLIO DEVELOPMENT

The medical devices industry has rapid new product innovation. The sustainability of our business depends on finding and developing suitable products and solutions to meet the needs of our customers and patients to support long-term growth and securing appropriate protection for and defending our intellectual property.

Underlying risks	**Actions taken by management**
Insufficient innovation due to low R&D investment, R&D skills gap or poor product development execution.	Processes are focused on identifying new products and potentially disruptive technologies and solutions.
Competitors may introduce a disruptive technology or business model.	Increasing prioritisation and allocation of funds for research and development.
Competitors may obtain patents or other intellectual property rights that affect the Group s competitive position.	Pursuing business development opportunities, which augment our portfolio.

Failure to receive regulatory approval to commercialise a pipeline product successfully.	Implementing efficient processes to roll new products out to consumers.
Claims by third parties regarding infringement of their intellectual property rights.	Proactively clearing new products from competitive patents and monitoring pending competitor patent applications.
	Monitoring of external market trends and collation of customer insights to develop product strategies.

Actions during 2015

Acquisitions of Blue Belt technologies and distributorships in Russia and Colombia.

Progressed the implementation of the SYNCERA business model.

ACQUISITIONS AND BUSINESS DEVELOPMENT

Failure to identify appropriate business development opportunities, to deliver value from our acquisitions or to integrate them effectively into the Group will impact our ability to achieve expected financial returns and lead to loss of reputation.

Underlying risks	Actions taken by management
Failure to identify appropriate acquisitions.	Acquisition activity is aligned with corporate strategy and prioritised towards products, franchises and markets identified to have the greatest long-term potential.
Ineffective acquisition due diligence.	Clearly defined investment appraisal process based on return on capital, in accordance with Capital Allocation Framework.
Inflated forecasts or projections leading to over-valuation of transaction.	Undertaking detailed and comprehensive cross-functional due diligence prior to acquisitions.
Failure to embed Group standards, policies and financial controls quickly enough following acquisition.	Implementing consistent integration processes designed to identify and mitigate risks in the early stages post completion.
Integration process may identify practices that need to be ceased to meet Group standards.	Early embedding of our desired standards of
Failure to learn from past actions.	

compliance with laws, internal policies and controls.

Comprehensive post-acquisition review programme.

Actions during 2015

Thorough due diligence undertaken for the acquisitions of Blue Belt Technologies and the distributorships on Colombia and Russia.

Comprehensive Integration programme continued for the acquisition of ArthroCare in 2014.

Post-acquisition review template revised to enable acquisitions to be evaluated on consistent basis.

GOVERNMENT ACTION, PRICING AND REIMBURSEMENT PRESSURE

The success of our business depends on governments providing adequate funding to meet increasing demands arising from demographic trends. The prices we charge are therefore impacted by budgetary constraints, economic and political considerations, fluctuations in exchange rates and our ability to persuade governments of the economic value of our products, based on clinical data, cost, patient outcomes and comparative effectiveness.

Underlying risks	Actions taken by management
Reduced reimbursement levels and increasing pricing pressures. Reduced demand for elective surgery.	Developing innovative economic product and service solutions for both Established and Emerging Markets, such as SYNCERA. Maintaining an appropriate breadth of portfolio and geographic spread to mitigate exposure to localised risks.

Lack of compelling health economics data to support reimbursement requests.

Government policies favouring lower prices and locally sourced products.

Political upheavals prevent selling of products, receiving remittances of profit from a member of the Group or future investments in that country.

Economic downturn impacts demand and collections.

Trading margin will be impacted when the currencies in our manufacturing countries (US, UK, Costa Rica and China) strengthen against the currencies in the rest or the world where our products are exported.

Incorporating health economic components into the design and development of new products.

Emphasising value propositions tailored to specific stakeholders and geographies through strategic investment and marketing programmes.

Optimising cost to serve to protect margins and liberate funds for investment.

Holding prices within acceptable ranges through global pricing corridors.

Transacting forward foreign currency commitments when firm purchase orders are placed to reduce exposure to currency fluctuations.

Actions during 2015

Launch of SYNCERA business model in Established Markets and commenced development of the SYNCERA range of mid-tier products in Emerging Markets.

Established Strategic Marketing programmes to develop the economic proposition to back the clinical data.

Our approach to risk continued

BUSINESS OPERATIONS, SUPPLY CHAIN AND BUSINESS RECOVERY

Our business depends on purchasing materials, efficient manufacturing, controlled inventory management and the timely supply of our products to our customers. Some of our key products are reliant on one production facility or one supplier for raw materials, components, finished products and packaging materials.

Underlying risks	Actions taken by management
Failure or performance issues at a critical/single source facility or supplier of key products or services may impact revenues or profits.	Ensuring emergency and incident management and business recovery plans are in place at major facilities and for key products and key suppliers.
If a key facility were rendered unusable by a catastrophe, or we lost a number of leaders or employees in a catastrophe, business plans and targets may not be met.	Validating second source for critical components or products.

Over production of product inventory and instruments sets may occur due to inadequate portfolio planning.

If we fail to properly manage our inventory and financial controls around inventory we may become overcapitalised or inaccurately forecast and report data.

Undertaking of risk based review programmes for critical suppliers.

Enhancing travel security and protection programme.

Developing improved regional inventory metrics to drive efficiency and harmonise demand signals with factory capacity constraints.

Managing continued reduction in SKUs through product phase outs and formal review of slow moving and obsolete inventory.

Actions during 2015

Appointed new dedicated President of Global Operations and strengthened the supply chain organisation.

IT SYSTEM DISRUPTION AND CYBER CRIME

Our business is heavily dependent on the integrity of our IT systems and the management of information. At the same time, cyber crime is growing exponentially in frequency and sophistication and many IT systems are exposed to these threats.

Underlying risks	Actions taken by management
IT systems which support our business may be disrupted by man-made or natural forces or in the process of upgrades or new process implementation.	Continuously improving the stability and reliability of IT systems and infrastructure.

A severe IT service interruption, a cyber attack, the unauthorised access to or a misuse of sensitive information could disable critical systems and cause loss of sensitive data with major impact for the Company, including substantial revenue or profit loss as well as material reputational damage.

Ensuring IT disaster and data recovery plans are in place to support overall business continuity plans.

Global management framework for the control and reporting of access to our critical IT systems.

Following HMG GCHQ guidance, implementing the Cyber security roadmap with oversight from the Group Cyber Security Steering Committee.

Continuously improving controls relating to mobile device and removable media, network security and monitoring and malware protection and secure configuration.

Policies covering the protection of both business and personal information and the uses of IT systems by our employees.

Comprehensive IT security training programmes in place for employees.

Controls in place around the secure transmission of data.

Actions during 2015

Board undertook a deep dive into IT security and cyber crime in December 2015, reviewing the plans we have in place to tackle cyber crime.

TALENT RETENTION AND ORGANISATIONAL CHANGE

Our people are critical to the success of our business and we need to attract, motivate and retain the best talent we can, not only for our current needs, but also looking ahead to the organisation of the future. We therefore need effective succession planning at all levels and support for employees through periods of organisational change.

Underlying risks	Actions taken by management
Poor retention of high performing and high potential staff could jeopardise achieving objectives.	Operating robust talent systems and processes with focus on identifying key roles and successors.
Failure to ensure proactive talent management is undertaken effectively may result in business disruption.	Operating robust performance management programme, which includes regular performance reviews, underpinned by a common set of values.
Failure to support executives and employees affected through periods of organisational change could result in sub-optimal performance.	Enhancing hiring process with rigorous screening and checks.
	Running annual talent review process the results of which are reported up to the Board to aid discussions on succession planning.

Designing competitive management incentive packages.

Holding annual managing directors meeting and CEO Forum for high potential managers to encourage and develop internal talent.

Actions during 2015

Results of talent management process fed into the organisational changes implemented at the end of 2015.

Coached Senior Executives and managers on how to manage effectively through change.

Comprehensive change management programme rolled-out at multiple levels across the organisation.

Further embedded succession planning of key roles at all levels.

PRODUCT SAFETY, QUALITY, REGULATION AND LITIGATION

Many of our products are designed to be implanted or used within the human body. Product safety and quality is therefore of critical importance. National regulatory authorities enforce a complex series of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. They also review data supporting the safety and efficacy of such products and may also inspect for compliance with appropriate standards, including those relating to Quality Management Systems or Good Manufacturing practice regulations.

Underlying risks	**Actions taken by management**

Defects in design or manufacturing products sold by the Group could lead to product recalls or product removal or result in loss of life or major injury, with negative financial and reputational impacts.	Ensuring that we have comprehensive product quality processes and controls from design to customer supply.
If there is significant non-compliance with policy, regulations and standards governing products and operations regarding registration, manufacturing, distribution, sales and marketing, then we could suffer fines and impacts to reputation.	Ensuring that design for manufacture is embedded into product development.
Failure in the design or manufacture of products supplied to the Company can impact the quality of products sold by the Company.	Reviewing product safety and complaint data.
Failure to obtain proper approvals for new or changed technologies, products or processes can result in product and registration deficiencies.	Standardising and monitoring compliance with Group quality management and practices through Global Quality Assurance Regulatory Assurance organisation.
Failure to implement programmes and supporting resources to ensure product quality and regulatory compliance.	Incident management teams in place to respond in the event of an incident relating to patient safety.
Failure to manage, process, respond to and analyse customer complaints and adverse event data could lead to further deficiencies and loss of reputation.	**Actions during 2015**
	Appointed new dedicated President of Global Operations and strengthened the quality and regulatory function.
	Improved performance of facilities undergoing audits by Federal Drug Administration.

Our approach to risk continued

REPUTATION, ETHICS, BRIBERY AND CORRUPTION

There is increasing public scrutiny of ethics in business and doing the right thing has become part of our licence to operate. Business practices in the healthcare industry are subject to increasing scrutiny by government authorities in many countries. We are also expected to have in place strong compliance programs under global anti-corruption laws and US healthcare laws.

Underlying risks	Actions taken by management
Failure to act in an ethical manner consistent with our code of conduct can lead to reputational damage.	Leadership from the top with Ethics & Compliance Committee at Board and Executive level overseeing our ethical and compliance practices.
Violation of global anti-corruption and healthcare laws.	All employees globally are required to certify compliance with our Code of Conduct and Global

Cultures in certain geographies and in acquired businesses may not fully support the Group s code of conduct.	Policies and Procedures which provide guidelines for ethical behaviour and controls for significant compliance risks.
Failure to conduct adequate due diligence or to integrate appropriate internal controls into recently acquired businesses.	Training programmes in place for employees and third parties with ethical and compliance responsibilities and monitoring and auditing programmes to verify implementation.
An instance of fraud could severely impact our finances and our reputation.	Independent reporting channels for employees and third parties to report concerns in confidence.
Serious compliance breach by employee or third party in an individual geography could threaten our ability to continue to operate in that geography.	Compliance risks included as part of due diligence reviews, integration plans and reporting for acquisitions.
	Controls in place to detect and prevent fraud.
	Actions during 2015
	Active engagement in due diligence and integration projects for acquisition of Blue Belt technologies, and the distributorships in Russia and Colombia.
	Established spotlight on trust programme to recognise employees.
	Implemented detailed additional compliance standards to distributors and agents.

Our Viability Statement

During the year, the Board has carried out a robust assessment of the principal risks affecting the Company, particularly those which could threaten the business model. These risks and the actions being taken to manage or mitigate them are explained in detail on pages 44 to 48 of this Annual Report.

Having assessed the principal risks, the Board has determined that we have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a period of three years from 1 January 2016. We have chosen a period of three years, as the detailed Strategic Plan, which we approve each year at our Strategy Review in September, is also for a three-year period. We also review longer-term plans for five and ten years, but our detailed review focuses on a three-year period.

In reaching this conclusion, we have undertaken the following process:

The Audit Committee reviewed the risk management process at their meetings in February and July, receiving presentations from the Chief Compliance and Risk Officer, which explained the processes followed by management in identifying and managing risk throughout the business.

As part of the annual Strategy Review in September, the Board considered and discussed the principal risks which could impact the business model over the next three years and discussed with the management team how each of these risks were being managed and mitigated.

We have undertaken a robust assessment of those risks that would threaten our business model, future performance, solvency or liquidity of the Company, including its resilience to the threats to its viability posed by those risks in severe but plausible scenarios. We are satisfied that we have robust mitigating actions in place as detailed on pages 44 to 48 of this Annual Report.

We recognise however that the long-term viability of the Company could also be impacted by other as yet unforeseen risks or that the mitigating actions we have put in place could turn out to be less effective than intended. Therefore where appropriate, stress and sensitivity analysis of these risks was carried out to evaluate the impact of a severe but plausible combination of risks actually occurring and consider whether additional financing would be required. This assessment included quantitative and qualitative analyses.

We have considered and discussed a report from the Chief Financial Officer setting out the terms of our current financing arrangements and potential capacity for additional financing.

Based on this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Our conclusion is based on our current Strategic Plan approved by the Board in September 2015, having regard to longer-term strategic intentions, yet to be formulated in detail. However, we operate in a changing marketplace, which might cause us to adapt our Strategic Plans during the three-year period. In responding to changing external conditions, we will continue to evaluate any additional risks involved which might impact the business model.

By order of the Board, 24 February 2016

Susan Swabey

Company Secretary

Governed by a Board with a wealth of skills

Roberto Quarta (66)

Chairman

Joined the Board in December 2013 and appointed Chairman following election by shareholders at the April 2014 Annual General Meeting. He was also appointed Chairman of the Nomination & Governance Committee and a Member of the Remuneration Committee on that day.

Career and Experience

Roberto is a graduate and a former Trustee of the College of the Holy Cross, Worcester (MA), US. He started his career as a manager trainee at David Gessner Ltd, before moving on to Worcester Controls Corporation and then BTR plc, where he was a divisional Chief Executive. Between 1985 and 1989 he was Executive Vice President of Hitchiner Manufacturing Co. Inc., where he helped the company to expand internationally. He returned to BTR plc in 1989 as Divisional Chief Executive, where he led the expansion in North America and was appointed to the main board. From here he moved to BBA Aviation plc, as CEO from 1993 to 2001 and then as Chairman, until 2007. He has held several board positions, including Non-Executive Director of Powergen plc, Equant N.V., BAE Systems plc and Foster Wheeler AG. His previous Chairmanships include Italtel SpA, Rexel S.A. and IMI plc. He is currently

Chairman of WPP plc. He is a partner at Clayton Dubilier & Rice and a member of the Investment Committee of Fondo Strategico Italiano SpA.

Skills and Competencies

Roberto s career in private equity brings valuable experience to Smith & Nephew, particularly when evaluating acquisitions and new business opportunities. He has an in-depth understanding of differing global governance requirements having served as a director and Chairman of a number of UK and international companies. Since his appointment as Chairman in April 2014, he has conducted a comprehensive review into the composition of the Board and its Committees, and conducted the search for new Non-Executive Directors resulting in the appointment of Vinita Bali in 2014, Erik Engstrom and Robin Freestone during 2015.

Nationality

American/Italian

Olivier Bohuon (57)

Chief Executive Officer

Joined the Board and was appointed Chief Executive Officer in April 2011. He resigned as a Member of the Nomination & Governance Committee on 4 February 2016.

Career and Experience

Olivier has had a highly successful career in the pharmaceutical industry. He holds a doctorate from the University of Paris and an MBA from HEC, Paris. His career has been truly global. He started his career in Morocco with Roussel Uclaf S.A. and then, with the same company, held a number of positions in the Middle East with increasing levels of responsibility. He joined Abbott in Chicago as head of their anti-infective franchise with Abbott International, before becoming Pharmaceutical General Manager in Spain. He subsequently spent 10 years with GlaxoSmithKline, rising to Senior Vice President & Director for European Commercial Operations. He then re-joined Abbott as President for Europe, became President of Abbott International (all countries outside of the US), and then President of their Pharmaceutical Division, which was a $20 billion business, encompassing manufacturing, R&D and commercial operations. He joined Smith & Nephew from Pierre Fabre, where he was Chief Executive.

Skills and Competencies

Olivier has extensive international healthcare leadership experience within a number of significant pharmaceutical and healthcare companies. His global experience provides the skillset required to innovate a FTSE 100 company with a deep heritage and provide inspiring leadership. He is a Non-Executive Director of Virbac group and Shire plc.

Nationality

French

Julie Brown (53)

Chief Financial Officer

Joined the Board as Chief Financial Officer in February 2013.

Career and Experience

Julie is a graduate, Chartered Accountant and Fellow of the Institute of Taxation. She qualified with KPMG before working with AstraZeneca plc, where she served as Vice President Group Finance, and ultimately, as Interim Chief Financial Officer. Prior to that she undertook Commercial and Strategic roles and was Regional Vice President Latin America, Marketing Company President AstraZeneca Portugal, and Vice President Corporate Strategy and R&D Chief Financial Officer. In both Julie s country and regional roles, trading margins increased significantly, improving the efficiency and profitability of the business. Her experience encompasses many areas of the healthcare value chain including Commercial, Operations, R&D and Business Development. She has led multi-billion dollar cost saving and restructuring programmes in Operations, R&D and the Commercial organisations and led major refinancing programmes, including the issuance of $2 billion US bonds. Julie has fulfilled two Non-Executive Directorships with the NHS in the UK and the British Embassy. She is nominated for election as a new member of the Board of Directors of Roche Holding Ltd and Chair of the Audit Committee at the Annual General Meeting on 1 March 2016.

Skills and Competencies

Julie has deep financial expertise and understanding of the healthcare sector, which has enabled her to lead a major transformation project at Smith & Nephew designed to simplify and improve the organisation and deliver margin accretion. She is a recognised leader with a proven ability to build teams. Her commercial experience in Latin America is of particular benefit as we continue to grow in Emerging Markets. She has held a number of senior commercial roles as well as financial positions, making her a versatile Chief Financial Officer.

Nationality

British

Vinita Bali (60)

Independent Non-Executive Director

Appointed Independent Non-Executive Director in December 2014 and Member of the Remuneration Committee and Ethics & Compliance Committee on 1 April 2015.

Career and Experience

Vinita holds an MBA from the Jamnalal Bajaj Institute of Management Studies, University of Bombay and a Bachelor s Degree in Economics from the University of Delhi. She commenced her career in India with the Tata Group, and then joined Cadbury India, subsequently working with Cadbury Schweppes plc in the UK, Nigeria and South Africa. From 1994, she held a number of senior global positions in marketing and general management at The Coca-Cola Company based in the US and South America, becoming President of the Andean Division in 1999 and Vice-President, Corporate Strategy in 2001. In 2003, she joined the consultancy, Zyman Group, LLC as Managing Principal, again based in the US. Vinita was Managing Director and Chief Executive Officer of Britannia Industries Limited, a leading Indian publicly listed food company, from 2005 to March 2014. Currently, Vinita is Non-Executive Director of Syngenta AG, Titan Company Ltd and CRISIL (Credit Rating Information Services of India) Ltd. She is also Chair of the board of GAIN (Global Alliance for Improved Nutrition) and a member of the Advisory Board of PwC India.

Skills and Competencies

Vinita has an impressive track record of achievement with blue-chip global corporations in multiple geographies including India, Africa, South America, the US and UK, all key markets for Smith & Nephew. Additionally, her strong appreciation of customer service and marketing brings deep insight to Smith & Nephew as we continue to develop innovative ways to serve our markets and grow our business.

Nationality

Indian

Ian Barlow (64)

Independent Non-Executive Director

Appointed Independent Non-Executive Director in March 2010, Chairman of the Audit Committee in May 2010 and Member of the Ethics & Compliance Committee in October 2014.

Career and Experience

Ian is a Chartered Accountant with considerable financial experience both internationally and in the UK. He was a Partner at KPMG, latterly Senior Partner, London, until 2008. At KPMG, he was Head of UK tax and legal operations, and acted as Lead Partner for many large international organisations operating extensively in North America, Europe and Asia. Ian s previous appointments include Non-Executive Director and Chairman of the Audit Committee of PA Consulting Group and Non-Executive Director of Candy & Candy. He was Chairman of WSP Group plc, Think London, the inward investment agency and The Racecourse Association Ltd. He is currently Lead Non-Executive Director chairing the Board of Her Majesty s Revenue & Customs, Non-Executive Director of The Brunner Investment Trust PLC, Non-Executive Director of Foxtons Group plc and a Board Member of the China-Britain Business Council.

Skills and Competencies

Ian s longstanding financial and auditing career and extensive board experience add value to his role as Chairman of the Audit Committee. This has been particularly useful during 2015 as KPMG have undertaken their first year as our new external auditor. His appointment as a member of the Ethics & Compliance Committee has proved useful in coordinating the oversight role of both committees. His work for a number of international companies gives added insight when reviewing our global businesses.

Nationality

British

The Rt. Hon Baroness

Virginia Bottomley

of Nettlestone DL (67)

Independent Non-Executive Director

Appointed Independent Non-Executive Director in April 2012 and Member of the Remuneration Committee and Nomination & Governance Committee in April 2014.

Career and Experience

Virginia gained her MSc in Social Administration from the London School of Economics following her first degree. She was appointed a Life Peer in 2005 following her career as a Member of Parliament between 1984 and 2005. She served successively as Secretary of State for Health and then Culture, Media and Sport. Virginia was formerly a director of Bupa and Akzo Nobel NV. She is currently a director of International Resources Group Limited, member of the International Advisory Council of Chugai Pharmaceutical Co., Chancellor of University of Hull and Sheriff of Hull and Trustee of The Economist Newspaper. She is the Chair of Board & CEO Practice at Odgers Berndtson.

Skills and Competencies

Virginia s extensive experience within government, particularly as Secretary of State for Health brings a unique insight into the healthcare system both in the UK and globally, whilst her experience on the Board of Bupa brings an understanding of the private healthcare sector and an insight into the needs of our customers. Her experience running the Board practice at a search firm gives her a valuable skillset as a member of the Nomination & Governance Committee and Remuneration Committee. Her long association with Hull, the home of many of our UK employees also brings an added perspective.

Nationality

British

Erik Engstrom (52)

Independent Non-Executive Director

Appointed Non-Executive Director on 1 January 2015 and Member of the Audit Committee.

Career and Experience

Erik is a graduate of the Stockholm School of Economics (BSc) and of the Royal Institute of Technology in Stockholm (MSc). In 1986, he was awarded a Fulbright scholarship to Harvard Business School, from where he graduated with an MBA in 1988. Erik commenced his career at McKinsey & Company and then worked in publishing, latterly as President and Chief Operating Officer of Random House Inc. and as President and Chief Executive Officer of Bantam Doubleday Dell, North America. In 2001, he moved on to be a partner at General Atlantic Partners, a private equity investment firm focusing on information technology, internet and telecommunications businesses. Between 2004 and 2009 he was Chief Executive of Elsevier, the division specialising in scientific and medical information and then from 2009 Chief Executive of RELX Group.

Skills and Competencies

Erik has successfully reshaped RELX Group s business in terms of portfolio and geographies. He brings a deep understanding of how technology can be used to transform a business and insight into the development of new commercial models that deliver attractive economics. His experience as a CEO of a global company gives him valuable insights as a member of our Audit Committee.

Nationality

Swedish

Robin Freestone (57)

Independent Non-Executive Director

Appointed Independent Non-Executive Director and Member of the Audit Committee and the Remuneration Committee on 1 September 2015.

Career and Experience

Robin graduated with a BA in Economics from The University of Manchester and later qualified and commenced his career as a Chartered Accountant at Deloitte (Touche Ross). He held a number of senior financial positions throughout his career at ICI PLC between 1984 and 1995, then Henkel Ltd from 1995 to 2000 and Amersham plc from 2000 to 2004. Robin was the Deputy Chief Financial Officer and then later the Chief Financial Officer of Pearson PLC between 2006 and August 2015, where he was heavily involved with the transformation and diversification of Pearson. His other Non-Executive Directorships include Moneysupermarket.com Group PLC and Cable and Wireless Communications plc, where he is also Senior Independent Director and Chairman of the Audit Committee. Robin sits on the Board of ICAEW as an Advisory Group Member, Financial Reporting Faculty and is a member of the CBI Economic Growth Board. He was previously Non-Executive Director at eChem Ltd from 2000 to 2014 and Deputy Chairman of the 100 Group until 2015, having been Chair from 2012 to 2014.

Skills and Competencies

Robin has been a well-regarded FTSE 100 Chief Financial Officer who has not only been heavily involved with transformation and diversification, but also the healthcare industry at Amersham, where his acquisition experience will be of value to Smith & Nephew as it continues to grow globally and in different markets. He brings financial expertise and insight to the Audit Committee and an understanding of how to attract and retain talent in a global business to the Remuneration Committee.

Nationality

British

Michael Friedman (72)

Independent Non-Executive Director

Appointed Independent Non-Executive Director in April 2013 and Chairman of the Ethics & Compliance Committee in August 2014.

Career and Experience

Michael graduated with a Bachelor of Arts degree, magna cum laude from Tulane University and a Doctorate in Medicine from the University of Texas Southwestern Medical Center. He completed postdoctoral training at Stanford University and the National Cancer Institute, and is board certified in Internal Medicine and Medical Oncology. In 1983, he joined the Division of Cancer Treatment at the National Cancer Institute and went on to become the Associate Director of the Cancer Therapy Evaluation Program. Michael was most recently Chief Executive Officer of City of Hope, the prestigious cancer research and treatment institution in California. He also served as Director of the institution s cancer centre and held the Irell & Manella Cancer Center Director s Distinguished Chair. He was formerly Senior Vice President of research, medical and public policy for Pharmacia Corporation and also Deputy Commissioner and Acting Commissioner at the US Food and Drug Administration. He has served on a number of Boards in a non-executive capacity, including Rite Aid Corporation. Currently, Michael is a Non-Executive Director of Celgene Corporation, Non-Executive Director of MannKind Corporation and Intuitive Surgical, Inc.

Skills and Competencies

Michael understands the fundamental importance of research, which is part of Smith & Nephew s value creation process. His varied career in both the public and private healthcare sector has given him a deep insight and a highly respected career. In particular his work with the FDA and knowledge relating to US compliance provides the skillset required to Chair the Ethics & Compliance Committee.

Nationality

American

Brian Larcombe (62)

Independent Non-Executive Director

Appointed Independent Non-Executive Director in March 2002, Senior Independent Director in April 2014, Member of the Audit Committee, Nomination & Governance Committee and Remuneration Committee.

Career and Experience

Brian graduated with a Bachelor s of Commerce degree from University of Birmingham. He spent most of his career in private equity with 3i Group plc. After leading the UK investment business for a number of years, he became Finance Director and then Chief Executive of the Group following its flotation. He has held a number of Non-Executive

Joseph Papa (60)

Independent Non-Executive Director

Appointed Independent Non-Executive Director in August 2008 and Chairman of the Remuneration Committee in April 2011, Member of the Audit Committee and Ethics & Compliance Committee.

Career and Experience

Joe graduated with a Bachelor of Science degree in Pharmacy from the University of Connecticut and Master of Business Administration from Northwestern University s Kellogg Graduate School of Management. In 2012, he received an Honorary Doctor of Science degree from the University of Connecticut School of Pharmacy. He began his commercial

Susan Swabey (54)

Company Secretary

Appointed Company Secretary in May 2009.

Skills and Experience

Susan has 30 years experience as a company secretary in a wide range of companies including Prudential plc, Amersham plc and RMC Group plc. Her work has covered Board support, corporate governance, corporate transactions, risk, share registration, listing obligations, corporate social responsibility, pensions, insurance and employee and executive share plans. Susan is joint Vice-Chair of the GC100 Group, a member of the CBI Companies Committee and is a frequent speaker on corporate governance and related matters. She

Directorships. He is currently Non-Executive Director of Kodak Alaris Holdings Limited and Cape plc.

Skills and Competencies

Brian s experience in private equity is particularly useful to Smith & Nephew when evaluating acquisitions and new business opportunities. His long service as a Non-Executive Director has provided continuity throughout a period of change and his corporate memory and wise counsel continues to support our Chairman. As Senior Independent Director and member of the Nomination & Governance Committee, he plays an active role in succession planning and assisted with the search for new Non-Executive Directors in 2014 and 2015.

Nationality

British

career at Novartis International AG as an Assistant Product Manager and eventually rose to Vice President, Marketing, having held senior positions in both Switzerland and the US. He moved on to hold senior positions at Searle Pharmaceuticals and was later President & Chief Operating Officer of DuPont Pharmaceuticals and later Watson Pharma, Inc. Between 2004 and 2006, he was Chairman and Chief Executive Officer of Cardinal Health Inc. Joe is currently Chairman and Chief Executive of Perrigo Company plc, one of the largest over-the-counter pharmaceutical companies in the US.

Skills and Competencies

With over 30 years experience in the global pharmaceutical industry, Joe brings deep insight into the wider global healthcare industry and the regulatory environment. As Chairman and Chief Executive of a significant US Company, Joe has a comprehensive understanding both of how to attract and retain global talent and use remuneration arrangements that incentivise performance, leading to maximum returns for investors.

Nationality

American

is also a Trustee of ShareGift, the share donation charity.

Nationality

British

Supported by a strong leadership team

Julie Brown (53)

Chief Financial Officer

Joined Smith & Nephew in February 2013 as Chief Financial Officer. Julie is a graduate, Fellow of the Institute of Chartered Accountancy and Fellow of the Institute of Taxation. She is based in London.

Skills and Experience

Julie s experience in the healthcare sector includes 25 years with AstraZeneca plc in progressively senior roles and four years with KPMG. Most recently, she served as Interim Chief Financial Officer of AstraZeneca. She has international experience and a deep understanding of the healthcare sector gained through her previously held Vice President Finance positions in all areas of the healthcare value chain including Commercial, Operations, R&D and Business Development. Julie has also led commercial organisations, being Country President and Regional Vice President in AstraZeneca.

Nationality

British

Rodrigo Bianchi (56)

President, Asia Pacific and Emerging Markets

Joined Smith & Nephew in July 2013 with responsibility for Greater China, India, Russia, Asia, Middle East and Africa, focusing on continuing our strong momentum in these regions. He is based in Dubai. With effect from 1 January 2016, Rodrigo became responsible, not only for the IRAMEA markets, but Latin America, Australia, New Zealand and Japan as well.

Skills and Experience

Rodrigo s experience in the healthcare industry includes 26 years with Johnson & Johnson in progressively senior roles. Most recently, he was Regional Vice President for the Medical Devices and Diagnostics division in the Mediterranean region and prior to that President of Mitek and Ethicon. He started his career at Procter & Gamble Italy.

Nationality

Italian

Jack Campo (61)

Chief Legal Officer

Joined Smith & Nephew in June 2008 and heads up the Global Legal function. Initially based in London, he has been based in Andover, Massachusetts since late 2011.

Skills and Experience

Prior to joining Smith & Nephew, Jack held a number of senior legal roles within the General Electric Company, including seven years at GE Healthcare (GE Medical Systems) in the US and Asia. He began his career with Davis

Polk & Wardwell LLP.

Nationality

American

Michael Frazzette (54)

Chief Commercial Officer

Joined Smith & Nephew in July 2006 as President of the Endoscopy Global Business Unit. In July 2011, he was appointed President of the Advanced Surgical Devices Division, with responsibility for the Orthopaedic Reconstructive, Trauma and Endoscopy businesses in the Established Markets. Since 2014, he has had responsibility for our commercial business in Latin America. With effect from 1 January 2016, Mike became the

Chief Commercial Officer with responsibility for oversight of all commercial activities (sales, marketing, market access, and commercial strategy) across the Company for our full line of business. He is currently based in Andover, Massachusetts.

Skills and Experience

Mike has held a number of senior positions within the US medical devices industry. He was President and Chief Executive Officer of MicroGroup, a private US manufacturer of medical devices; and spent 15 years at Tyco Healthcare becoming President of each of the Patient Care and Health Systems divisions.

Nationality

American

Elga Lohler (48)

Chief Human Resources Officer

Joined Smith & Nephew in 2002 and became Chief Human Resources Officer in December 2015. Elga leads the Global Human Resources, Internal Communication and Sustainability Functions. She is based in London.

Skills and Experience

Prior to being appointed as Chief Human Resources Officer, Elga held progressively senior positions in Human Resources at Smith & Nephew in Wound Management, Operations, and Corporate Functions and Group. Elga has more than 25 years Human Resources experience.

Nationality

American/South African

Diogo Moreira-Rato (55)

President, Europe and Canada

Joined Smith & Nephew in May 2014 with responsibility for leading all of our commercial business in Europe and Canada. He is based in Baar, Switzerland.

Skills and Experience

Diogo s experience in the healthcare industry includes 31 years with Johnson & Johnson in progressively senior roles. Most recently, Diogo was President, DePuy Synthes, EMEA, where he led the merger and integration of DePuy and Synthes in EMEA. Prior roles included International Vice President for the Medical Devices and Diagnostics business, President DePuy Orthopaedics and Managing Director of Portugal.

Nationality

Portuguese

Cyrille Petit (45)

Chief Corporate Development Officer and President, Global Business Services

Joined Smith & Nephew in May 2012 and leads the Corporate Development function and from October 2015 the Global Business Services. He is based in London.

Skills and Experience

Cyrille spent the previous 15 years of his career with General Electric Company, where he held progressively senior positions beginning with GE Capital, GE Healthcare and ultimately as the General Manager, Global Business Development of the Transportation Division. Cyrille s career began in investment banking at BNP Paribas and then Goldman Sachs.

Nationality

French

Matthew Stober (48)

President, Global Operations

Joined Smith & Nephew on 1 October 2015 with responsibility for global manufacturing, supply chain, distribution, quality assurance, regulatory affairs, direct procurement, and manufacturing IT optimisation. He is based in Memphis.

Skills and Experience

Matt has more than 25 years experience in healthcare manufacturing operations for global companies including Merck & Co., Inc. and GlaxoSmithKline plc. Most recently, he served as Senior Vice President, Corporate Officer and Member of the Executive Committee at Hospira Pharmaceuticals. As a senior pharmaceutical operations executive with extensive technical and cross functional experience in start-up and complex challenging environments, Matt has led global and multi-company development projects, new product launches, critical quality-related turnarounds, network rationalisations and organisational transformations. He also has extensive experience working directly with external regulatory bodies, such as the US Food and Drug Administration.

Nationality

American

Glenn Warner (53)

President, US

Joined Smith & Nephew in June 2014 with responsibility for Advanced Wound Management s global franchise strategy, marketing and product development, as well as its US commercial business. With effect from 1 January 2016, Glenn became the President of Smith & Nephew s US business responsible for all the US commercial business. He is based in Fort Worth.

Skills and Experience

Glenn has a broad-based background in pharmaceuticals and medical products including extensive international experience, having served most recently as AbbVie Vice President and Corporate Officer, Strategic Initiatives, where he was responsible for the development and execution of pipeline and asset management strategies. Prior to that he was President and Officer, Japan Commercial Operations in Abbott s international pharmaceutical business and

Executive Vice President, TAP Pharmaceutical Products, Inc. Additional senior level roles included international positions in Germany and Singapore for Abbott s Diagnostics business.

Nationality

American

OVERVIEW

Committed to the highest standards of corporate governance.

We maintain these standards through a clear definition of our roles, continuing development and evaluation and accountability through the work of the Board Committees.

LEADERSHIP	EFFECTIVENESS	ACCOUNTABILITY
The Board sets the tone at the top of the Company through:	The Board carries out its duties through:	The Board delegates some of its detailed work to the Board Committees:
A clear definition of the roles of the individual members of the Board	Regular meetings focusing on the oversight of strategy, risk, including viability and succession planning	Each Committee meets regularly and reports back to the Board on its activities
A comprehensive corporate governance framework	An annual review into the effectiveness of the Board	The terms of reference of each Committee may be found on the Company website at www.smith-nephew.com

Defined processes to ensure the independence of Directors and the management of conflicts of interest	A comprehensive programme of development activities throughout the year	A report from the Chairman of each Committee is included in this Annual Report

READ MORE ABOUT OUR BOARD S

LEADERSHIP ON PAGE 60

READ MORE ABOUT OUR BOARD S

EFFECTIVENESS ON PAGE 62

READ MORE ABOUT OUR BOARD S

ACCOUNTABILITY ON PAGE 68

REMUNERATION

Having a formal and transparent procedure for developing policy on remuneration for Executive Directors is crucial. Our remuneration policy aims to attract, retain and motivate by linking reward to performance. In this section you will find information on the remuneration policy approved by shareholders in 2014 and how we implemented it in 2015 and plan to implement it in 2016.

READ MORE ABOUT OUR BOARD S

REMUNERATION ON PAGE 78

The Board is committed to the highest standards of corporate governance and we comply with all the provisions of the UK Corporate Governance Code 2014 (the Code).

The Company s American Depositary Shares are listed on the New York Stock Exchange (NYSE) and we are therefore subject to the rules of the NYSE as well as to the US securities laws and the rules of the Securities Exchange Commission (SEC) applicable to foreign private issuers. We comply with the requirements of the NYSE and SEC. We shall explain in this Corporate Governance Statement and in the reports on the Audit Committee, the Nomination & Governance Committee, the Ethics & Compliance Committee and the Remuneration Committee, how we have applied the provisions and principles of the Financial Conduct Authority s (FCA) Listing Rules, Disclosure & Transparency Rules (DTRs) and the Code throughout the year.

The Directors   Report comprises pages 36 to 39, 49 to 77, 104, 113, 115, 117 and pages 171 to 194 of the Annual Report.

Leadership

We believe the board s composition gives us the necessary diversity, skills and experience to ensure we continue to run the business effectively and deliver sustainable growth.

Diversity

BOARD NATIONALITY

45%	19%	9%	9%	9%	9%
BRITISH	AMERICAN	FRENCH	INDIAN	ITALIAN/ AMERICAN	SWEDISH

EXECUTIVE/NON-EXECUTIVE

GENDER SPLIT

2

8

A EXECUTIVE

A MALE

B NON-EXECUTIVE	8	B FEMALE	3
C CHAIRMAN	1		

Changes to the Board

INDEPENDENT NON-EXECUTIVE DIRECTORS
Joined the Board during 2015
Erik Engstrom (appointed 1 January 2015)
Robin Freestone (appointed 1 September 2015)

Experience

NON-EXECUTIVE TENURE

A LESS THAN ONE YEAR	1
B ONE TO THREE YEARS	3
C THREE TO SIX YEARS	2

D SIX TO NINE YEARS	1
E OVER NINE YEARS	1

Role of Directors

Whilst we all share collective responsibility for the activities of the Board, some of our roles have been defined in greater detail. In particular, the roles of the Chairman and the Chief Executive Officer are clearly defined.

CHAIRMAN

- Building a well-balanced Board.
- Chairing Board meetings and setting Board agendas.
- Ensuring effectiveness of Board and enabling the annual review of effectiveness.
- Encouraging constructive challenge and facilitating effective communication between Board members.
- Promoting effective Board relationships.
- Ensuring appropriate induction and development programmes.
- Ensuring effective two-way communication and debate with shareholders.

Promoting high standards of corporate governance.

Maintaining appropriate balance between stakeholders.

CHIEF EXECUTIVE OFFICER

Developing and implementing Group strategy.

Recommending the annual budget and five-year strategic and financial plan.

Ensuring coherent leadership of the Group.

Managing the Group s risk profile and establishing effective internal controls.

Regularly reviewing organisational structure, developing executive team and planning for succession.

Ensuring the Chairman and Board are kept advised and updated regarding key matters.

Maintaining relationships with shareholders and advising the Board accordingly.

Setting the tone at the top with regard to compliance and sustainability matters.

Day-to-day running of the business.

CHIEF FINANCIAL OFFICER

Supporting the Chief Executive Officer in developing and implementing the Group strategy.

Leading the global finance function, developing key finance talent and planning for succession.

- Ensuring effective financial reporting, processes and controls are in place.
- Recommending the annual budget and five-year strategic and financial plan.
- Maintaining relationships with shareholders.

The roles of the Non-Executive Directors, Senior Independent Director and the Company Secretary are defined as follows:

NON-EXECUTIVE DIRECTORS

- Providing effective challenge to management.
- Assisting in development and approval of strategy.
- Serving on the Board Committees.
- Providing advice to management.

SENIOR INDEPENDENT DIRECTOR

- Chairing meetings in the absence of the Chairman.
- Acting as a sounding board for the Chairman on Board-related matters.

Acting as an intermediary for the other Directors where necessary.

Available to shareholders on matters which cannot otherwise be resolved.

Leading the annual evaluation into the Board s effectiveness.

Leading the search for a new Chairman, if necessary.

COMPANY SECRETARY

Advising the Board on matters of corporate governance.

Supporting the Chairman and Non-Executive Directors.

Point of contact for investors on matters of corporate governance.

Ensuring good governance practices at Board level and throughout the Group.

Leadership continued

Corporate Governance Framework

The Board is responsible to shareholders for approving the strategy of the Group, for overseeing the performance of the Group and evaluating and monitoring the management of risk.

Each member of the Board has access collectively and individually to the Company Secretary and is also entitled to obtain independent professional advice at the Company s expense, should they decide it is necessary in order to fulfil their responsibilities as Directors.

The day-to-day running of the business is delegated to Olivier Bohuon, the Chief Executive Officer, and his executive team comprising the Executive Officers who are shown on pages 54 to 56.

During 2015, the Executive Officers formed the Commercial and Operations Committee which advised the Chief Executive Officer in decisions relating to the commercial and operational aspects of the business.

The Chief Executive Officer in turn delegates the day-to-day management of the Group functions and regional commercial operations divisions to the Executive Officers, who are assisted in their decision making by their own leadership teams and other committees and councils.

In 2016, the Governance structure below Board level is being revised to reflect the new organisational structure.

BOARD

AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION & GOVERNANCE COMMITTEE	ETHICS & COMPLIANCE COMMITTEE	AD HOC COMMITTEES
Provides independent assessment of the financial affairs of the Company, reviews financial statements and controls, and the risk management process. Manages use of internal and external auditors.	Determines remuneration policy and packages for Executive Directors and Executive Officers.	Reviews size and composition of the Board, succession planning, diversity and governance matters.	Reviews and monitors ethics and compliance matters across the Group. Reviews and oversees quality and regulatory matters.	**Ad hoc committees may be established to review and approve specific matters or projects.**
Read more See page 72	**Read more** See page 78	**Read more** See page 68	**Read more** See page 70	

CHIEF EXECUTIVE OFFICER

Supporting the Business

Various committees and groups relating to the running of the business report to the Chief Executive Officer. These groups have a dual role both advising the Chief Executive Officer and also implementing the strategy throughout the business. A number of these committees also report regularly to the Board or one of its Committees.

Investment in the Strategic Priorities

Investment in our Strategic Priorities, important for our future success, is governed through a number of committees and groups. These groups report either to the Chief Executive Officer or to one of the Executive Officers and are focused on allocating resources to and overseeing investment in the strategic priorities. Regular reports from these groups are submitted to the Board or one of its Committees.

Commercial & Operations Committee Committee of the Executive Officers, advising the Chief Executive Officer on commercial and operational matters

Regional Leadership Teams Implement work of regional presidents

Functional Leadership Teams Implement work of functional presidents

Disclosure Committee Approves all announcements (except routine regulatory matters) released to investors and to UKLA, London and New York Stock Exchanges, SEC and SOx compliance

Finance & Banking Committee Approves banking and treasury matters, corporate structure changes, acquisition details

Group Risk Committee Reviews risk registers and mitigation plans, reports to Board and Audit Committee

Health, Safety and Environment Leadership Team Oversees health, safety and environment matters across Group, reports to Board on sustainability

Diversity & Inclusion Council Implements strategies to promote diversity and inclusion across the Group

Group Benefits Committee Oversees policies and processes relating to pension and employee benefit plans

Research & Development Council Reviews and evaluates R&D projects, determining the allocation of resources, ensuring alignment with corporate strategy, reports regularly to the Board

Mergers & Acquisitions Council Oversees corporate development strategy, monitors status of transactions and approves various stages of acquisition prior to presentation to Board

Capital Governance Board Sets group level targets for capital expenditure priorities and monitors capital expenditure within the parameters set by the Board

IT Governance Board Oversees the IT strategy and investment allocation throughout the Group, monitors IT systems and cyber security, reports regularly to the Audit Committee

Group Optimisation Steering Group Oversees the implementation of the Group Optimisation project, reports regularly to the Board

Group Ethics & Compliance (including Quality) Committee Monitors developments in compliance and quality matters, approves enhanced compliance programme, reports to Board Ethics & Compliance Committee

Independence of Directors

We require our Non-Executive Directors to remain independent from management so that they are able to exercise independent oversight and effectively challenge management. We therefore continually assess the independence of each of our Non-Executive Directors. The Executive Directors have determined that all our Non-Executive Directors are independent in accordance with both UK and US requirements. None of our Non-Executive Directors or their immediate families has ever had a material relationship with the Group. None of them receives additional remuneration apart from Directors fees, nor do they participate in the Group s share plans or pension schemes. None of them serve as directors of any companies or affiliates in which any other Director is a director.

More importantly, each of our Non-Executive Directors is prepared to question and challenge management, to request more information and to ask the difficult question. They insist on robust responses both within the Boardroom and sometimes, between meetings. The Chief Executive Officer is open to challenge from the Non-Executive Directors and uses this positively to provide more detail and to reflect further on issues.

Brian Larcombe served as an independent Non-Executive Director for a period of 13 years, a period of time that some might regard as likely to impact his independence. We do not believe this to have been the case as throughout 2015, Brian Larcombe continued to maintain an independent view within Board discussions and his experience on the Board, wise counsel and corporate memory was valued by the rest of the Board. We have asked Brian Larcombe to remain on the Board for another year to support the Chairman during the time he will be providing additional Executive oversight whilst the Chief Executive Officer is undergoing medical treatment.

Management of Conflicts of Interest

None of our Directors or their connected persons, has any family relationship with any other Director or Officer, nor has a material interest in any contract to which the Company or any of its subsidiaries are, or were, a party during the year or up to 23 February 2016.

Each of us as a Director has a duty under the Companies Act 2006 to avoid a situation in which we have or may have a direct or indirect interest that conflicts or might conflict with the interests of the Company. This duty is in addition to the existing duty owed to the Company to disclose to the Board any interest in a transaction or arrangement under consideration by the Company.

If any Director becomes aware of any situation which might give rise to a conflict of interest, they inform the rest of the Board immediately and the Board is then permitted under the Company s Articles of Association to authorise such conflict. This information is then recorded in the Company s Register of Conflicts, together with the date on which authorisation was given. In addition, each Director certifies on an annual basis that the information contained in the

Register is correct.

When the Board decides whether or not to authorise a conflict, only the Directors who have no interest in the matter are permitted to participate in the discussion and a conflict is only authorised if the Board believes that it would not have an impact on the Board s ability to promote the success of the Company in the long term. Additionally, the Board may determine that certain limits or conditions must be imposed when giving authorisation. No actual conflicts have been identified, which have required approval by the Board. However, four situations have been identified which could potentially give rise to a conflict of interest and these have been duly authorised by the Board and are reviewed on an annual basis.

Outside Directorships

We encourage our Executive Directors to serve as a Non-Executive Director of one external company. We believe that the work they do as Non-Executive Directors of other companies has benefits for their executive roles with the Company, giving them a fresh insight into the role of a Non-Executive Director. Olivier Bohuon is a Non-Executive Director of Shire plc and of Virbac group and Julie Brown is nominated for election as a Non-Executive Director of Roche Holding Limited at its Annual

General Meeting on 1 March 2016. Each Director discussed their external roles with the Chairman, prior to accepting these appointments and the Chairman was satisfied that each Executive Director had the capacity for the time commitment required.

Re-appointment of Directors

In accordance with the Code, all Directors offer themselves to shareholders for re-election annually, except those who are retiring immediately after the Annual General Meeting. Robin Freestone who was appointed to the Board on 1 September 2015, will offer himself for election at the Annual General Meeting. Each Director may be removed at any time by the Board or the shareholders.

Director Indemnity Arrangements

Each Director is covered by appropriate directors and officers liability insurance and there are also Deeds of Indemnity in place between the Company and each Director. These Deeds of Indemnity mean that the Company indemnifies Directors in respect of any proceedings brought by third parties against them personally in their capacity as Directors of the Company. The Company would also fund ongoing costs in defending a legal action as they are incurred rather than after judgement has been given. In the event of an unsuccessful defence in an action against them, individual directors would be liable to repay the Company for any damages and to repay defence costs to the extent funded by the Company.

Liaison with shareholders

The Board meets with retail investors at the Annual General Meeting and responds to many letters and emails from shareholders throughout the year.

The Executive Directors also meet regularly with institutional investors to discuss the Company s business and financial performance both at the time of the announcement of results and at industry investor events. During 2015, the Executive Directors held meetings with institutional investors, including investors representing approximately 43.5% of the share capital as at December 2015.

During 2015, Roberto Quarta met with investors to hear their views of the Company. He held four meetings with investors holding approximately 7.2% of the share capital.

Joseph Papa, the Chairman of the Remuneration Committee also met with key institutional investors towards the end of 2015. He held meetings with 14 investors holding around 18.4% of the share capital. These were useful discussions giving insight into current investor thinking.

Ian Barlow, the Chairman of the Audit Committee also offered to meet with institutional investors to discuss audit related matters. The meetings held with six investors holding around 5.6% of the issued share capital were interesting and useful and we welcomed some insightful comments on possible improvements to the Audit Committee Report.

Michael Friedman, the Chairman of the Ethics & Compliance Committee met with one investor during the year who was interested in understanding more about our global compliance programme and the challenges we face in this area.

Members of the Board are always happy to engage with investors, if they have matters they wish to raise with the Non-Executive team.

A short report on our major shareholders and any significant changes in their holdings since the previous meeting is reviewed at each Board meeting. The Chairman and Non-Executive Directors report back to the Board following their meetings with investors. Olivier Bohuon and Julie Brown routinely report on any concerns or issues that shareholders have raised with them in their meetings. Copies of analyst reports on the Company and its peers are also circulated to Directors.

Purchase of ordinary shares

In order to avoid shareholder dilution, shares allotted to employees through employee share schemes are bought back on a quarterly basis and subsequently cancelled as we stated in Note 19.2 of the accounts on page 155.

Effectiveness

Responsibility of the Board

The work of the Board falls into the following key areas:

STRATEGY

Approving the Group strategy including major changes to corporate and management structure.

Approving acquisitions, mergers, disposals, capital transactions in excess of $50 million.

Setting priorities for capital investment across the Group.

Approving annual budget, financial plan, five-year business plan.

Approving major borrowings and finance and banking arrangements.

Approving changes to the size and structure of the Board and the appointment and removal of Directors and the Company Secretary.

Approving Group policies relating to corporate social responsibility, health and safety, Code of Conduct and Code of Share Dealing and other matters.

Approving the appointment and removal of key professional advisers.

RISK

Overseeing the Group s risk management programme.

Regularly reviewing the risk register.

Overseeing risk management processes (see pages 42 to 48 for further details).

SHAREHOLDER COMMUNICATIONS

Approving preliminary announcement of annual results, the publication of the Annual Report, the half-yearly report, the quarterly financial announcements, the release of price sensitive announcements and any listing particulars, circulars or prospectuses.

Approving the Sustainability Report prior to publication.

Maintaining relationships and continued engagement with shareholders.

PERFORMANCE

Reviewing performance against strategy, budgets and financial and business plans.

Overseeing Group operations and maintaining a sound system of internal control.

Determining the dividend policy and dividend recommendations.

Approving the appointment and removal of the external Auditor on the recommendation of the Audit Committee.

Approving significant changes to accounting policies or practices.

Overseeing succession planning at Board and Executive Officer level.

Approving the use of the Company s shares in relation to employee and executive share incentive plans on the recommendation of the Remuneration Committee.

PROVIDING ADVICE

Using experience gained within other companies and organisations to advise management both within and between Board meetings.

The Schedule of Matters Reserved to the Board describes the role and responsibilities of the Board more fully and can be found on our website at www.smith-nephew.com

Board timetable 2015

FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	D

What we did

EARLY FEBRUARY

Approval of Preliminary Announcement

- Reviewed the results for the full year 2014 and the preliminary announcement and approved the final dividend to be recommended to shareholders for approval.
- Reviewed and approved the annual risk management report.
- Reviewed the Group Optimisation Plan and tracked its progress.
- Approved the Budget for 2015 and the five-year Plan for 2015 to 2020.

Reviewed the results of the review into the effectiveness of the Board in 2014 and agreed action points for 2015.

Reviewed and approved the acquisitions of Eurociencia, the Colombian distributor and DeOst, the Russian distributor.

LATE FEBRUARY

Approval of Financial Statements (by telephone)

Reviewed and approved the Annual Report and Accounts for 2014, having determined that they were fair, balanced and understandable.

Reviewed and approved the Notice of Annual General Meeting and related documentation.

EARLY APRIL

Prepared for the Strategic Review in September.

Reviewed progress of past transactions and acquisitions by management.

Approved the Sustainability Report.

Prepared for the Annual General Meeting to be held later that day.

LATE APRIL

Approval of Q1 Trading Statement (by telephone)

Reviewed the results for the first quarter 2015 and approved the Q1 trading statement announcement.

JULY

Approval of H1 results

Reviewed the results for the first half 2015 and approved the H1 announcement, having considered management s judgement in a number of areas and approved payment of the interim dividend.

Received and considered a report analysing the progress of recent acquisitions against expectations at the time of acquisition.

Received and discussed the annual review of Group Insurances.

Received an update regarding the new UK site at Croxley Green Business Park in Watford, North London.

Received a report from Group Operations on Manufacturing.

Approved the appointment of Robin Freestone as a Non- Executive Director with effect from 1 September 2015.

SEPTEMBER

Strategy Review, Geneva

Approved the Strategic Plan for 2015 to 2020 over a two-day Strategy Review with the executive team.

Approved the renewal of the Directors and Officers Liability insurance.

OCTOBER

Approval of Q3 Trading Statement, Durban, South Africa

Reviewed the results for the third quarter 2015 and approved the Q3 trading statement announcement.

Received and considered the annual report from the executive team on executive Succession Planning.

Received an update on the business in China.

Received an update on our strategy in Emerging Markets.

Received a report on investor perceptions.

DECEMBER

Approval of Budget

Approved the Budget for 2016.

Received a report on the Capital Structure.

Conducted Deep Dive into Cyber Security Risk.

Received reports on Europe region with particular focus on Iberia.

Effectiveness continued

We also agreed to approve the 2015 final budget and dispose of certain trademarks to Smith & Nephew (Overseas) Ltd, a subsidiary entity of Smith & Nephew plc by written resolution.

Since the year end, we have also approved the Annual Report and Accounts for 2015 and have concluded that, taken as a whole, they are fair, balanced and understandable. We have approved the Notice of Annual General Meeting, recommended the final dividend to shareholders and have received and discussed the report on the effectiveness of the Board in 2015.

Each meeting was preceded by a meeting between the Chairman and the Non-Executive Directors without Executive Directors and management in attendance. Unless otherwise stated, meetings are held in London.

At each meeting, we approved the minutes of the previous meetings, reviewed matters arising and received reports and updates from the Chief Executive Officer, the Chief Financial Officer, the Chief Business Development Officer, the Chief Legal Officer and the Company Secretary. We also received reports from the chairmen of the Board Committees on the activities of these Committees since the previous meeting.

Board and Committee Attendance

Director	Board Meetings	Audit	Remuneration	Nomination & Governance	Ethics & C

	(8 meetings)	Committee Meetings (7 meetings)	Committee Meetings (5 meetings)	Committee Meetings (2 meetings)	Committe (4
Roberto Quarta[1]	7/8		5/5	2/2	
Olivier Bohuon	8/8			2/2	
Julie Brown	8/8				
Vinita Bali[2]	7/8		3/3		
Ian Barlow	8/8	7/7			
Virginia Bottomley[3]	7/8		5/5	2/2	
Erik Engstrom[4]	7/8	6/7			
Robin Freestone[5]	3/3	2/2	2/2		
Michael Friedman	8/8				
Brian Larcombe	8/8	7/7	5/5	2/2	
Joseph Papa[6]	6/8	6/7	5/5		

1 Roberto Quarta was unable to attend one Board call due to a prior appointment.
2 Vinita joined the Ethics & Compliance and the Remuneration Committees from 1 April 2015. She was unable to attend one Board meeting due to a meeting arranged prior to being appointed.
3 Virginia Bottomley was unable to attend one Board meeting due to a prior appointment.
4 Erik Engstrom was appointed to the Board and Audit Committee on 1 January 2015. He was unable to attend one Board and one Audit Committee meeting due to a meeting arranged prior to being appointed.
5 Robin Freestone was appointed to the Board and Audit and Remuneration Committees on 1 September 2015.
6 Joseph Papa was unable to attend the April Board and October Board, Audit and Ethics & Compliance Committee meetings due to his company holding emergency meetings.

Board Effectiveness Review

The Board Effectiveness Review in 2015 was externally facilitated by Belinda Hudson of Independent Audit, who had undertaken the previous external review in 2012. Independent Audit has no other business relationship with the Company or any member of the Board. Following an initial planning meeting with the Chairman and Company Secretary, she reviewed the minutes and papers of the Board and Committee meetings over the previous year. She then interviewed each member of the Board, the Company Secretary, the External Auditor and a number of other Senior Executives, who regularly interacted with the Board and its Committees. She also attended and observed the Board meeting in December 2015.

In January 2016, she prepared a report, detailing her findings. This report was shared with the Chairman and the rest of the Board. The Chairman then discussed the findings with each member of the Board and collectively at a meeting with the Non-Executive Directors and the Company Secretary.

She concluded that the Board appears to have a much better understanding of all the issues and challenges that Smith & Nephew faces than in the past. It has remained supportive throughout while providing a good degree of challenge to the thinking of the executives and commented that the Board was on a good trajectory and becoming increasingly effective. She highlighted the benefits of the refreshing of the Board that had taken place over the previous 18 months, noting that this had led to a new level of energy and dynamism as well as fresh thinking and input, a better balanced Board, a better focus on strategy and a stronger focus on exercising oversight of risk, better relationships and better informed discussion on succession planning.

Suggested Improvements

She did however recommend some key ways in which the Board could become more effective. The Board has discussed these recommendations and have agreed the following actions for 2016:

Further opportunities to be identified to enable greater engagement with the Non-Executive Directors for them to provide input on matters brought before the Board.

The development of a programme for Non-Executive Directors to get to know the business better outside the scheduled Board visits.

Continuous review of the Board agenda to ensure sufficient time is devoted to HR and people related matters, risk and mitigations and the innovation pipeline.

The areas for attention identified in the 2014 review have been addressed as follows:

ACTIONS IDENTIFIED	ACTION TAKEN
Make more effective use of the annual Board Planner to ensure that all key strategic issues were timetabled appropriately throughout the year.	The annual Board planner and the format of the Board agendas were redesigned during the year. This has resulted in a more logical flow of matters being discussed at each Board meeting with more time spent on matters of greater strategic importance and less on routine matters.
Encourage the executive team to access the diverse competencies of the Non-Executive Directors more between Board meetings.	Opportunities have been taken by the executives to access the specialist skills of some of the Non-Executive Directors during the year, particularly in the areas of risk management, cyber security and in-country knowledge of certain territories. However, the Board and the executive team recognised that this is an area which could be developed further in 2016.
Continue the practice of inviting members of the executive team to present regularly to the Board.	At each Board meeting during the year, there was a presentation by members of the executive team on relevant topics. This has enabled the Non-Executive Directors to meet and get to know key members of the executive team, which is helping with succession planning.

Effectiveness continued

Board Development Programme

Our Board Development Programme is directed to the specific needs and interests of our Directors. We focus the development sessions on facilitating a greater awareness and understanding of our business rather than formal training in what it is to be a Director. We value our visits to the different Smith & Nephew sites around the world, where we meet with the local managers of our businesses and see the daily operations in action. Meeting our local managers helps us to understand the challenges they face and their plans to meet those challenges. We also take these opportunities to look at our products and in particular the new products being developed by our R&D teams. This direct contact with the business in the locations in which we operate around the world helps us to make investment and strategic decisions. Meeting our local managers also helps us when making succession planning decisions below Board level.

During the course of the year, we receive updates at the Board and Committee meetings on external corporate governance changes likely to impact the Company in the future.

In 2015, we particularly focused on the new reporting requirement to include a Viability Statement and the consequent changes we would make to the way we monitored risks throughout the Group.

New Directors receive tailored induction programmes when they join the Board. In 2015, Vinita Bali continued her induction programme with a series of meetings with key Senior Executives, a visit to our site in Hull and attendance at some orthopaedic operations in India. Erik Engstrom and Robin Freestone also commenced their induction programmes during the year, meeting with key Senior Executives. All Non-Executive Directors are encouraged to visit our overseas businesses, if they happen to be travelling for other purposes. Our local management teams enjoy welcoming Non-Executive Directors to their business and it emphasises the interest the Board takes in all our operations. The Chairman regularly reviews the development needs of individual Directors and the Board as a whole.

Development activities

The following development sessions covering both the Smith & Nephew business and wider market issues were held during the year:

APRIL

Presentation from WPP on innovation trends in the Global Healthcare market.

JULY

Presentation from our Auditor, KPMG on MegaTrends which were likely to impact business in coming years.

SEPTEMBER

Presentation from Boston Consulting Group on trends in healthcare.

Presentations from the entire executive team as part of the Board s Strategy review.

Board discussion on Risk as part of the Board s Strategy discussions.

OCTOBER

Visit to the Company s site in Durban, South Africa and meetings with the South African executive team.

Series of presentations from our South African management team on the challenges faced by the business in South Africa, our strategy and initiatives to meet these challenges and an update on progress made since the previous year.

DECEMBER
Internally facilitated workshop on Risk Management programme focusing on Group s principal risks, the Board s risk appetite and tolerance for each risk, mitigation actions and resultant net risks post mitigation.

Succession Planning

The Board is responsible for ensuring that there are effective succession plans in place to ensure the orderly appointment of directors to the Board, as and when vacancies arise. The report from the Nomination & Governance Committee on pages 68 to 69 explains the process the Board and the Nomination & Governance Committee followed in 2015 to build a balanced board for the future in undertaking the search for new Non-Executive Directors.

Building a successful executive team is the responsibility of the Chief Executive Officer, although this process is also overseen by the Board. The Chief Executive Officer and Chief Human Resources Officer present a report to the Board on Succession Planning on an annual basis, at which the performance and potential of members of the executive team are discussed and considered. The Board is also given a number of opportunities during the course of the year to meet key members of the executive team at the Strategy Review held annually in September and at the site visits held in October each year. Executive Officers and their direct reports also make regular presentations on different aspects of the business. The Board recognises the importance of getting to know the executive team below Board level both for the purpose of understanding the business better but also in order to plan for executive succession.

By order of the Board, on 24 February 2016

Roberto Quarta

Chairman

NOMINATION & GOVERNANCE COMMITTEE REPORT

Accountability

NOMINATION & GOVERNANCE COMMITTEE

CURRENT MEMBERS IN 2015

Roberto Quarta
Committee Chairman

Brian Larcombe
Senior Independent Non-Executive Director

Virginia Bottomley
Independent Non-Executive Director

Olivier Bohuon[1]
Chief Executive Officer

1 Olivier Bohuon has ceased to be a member of this committee with effect from 4 February 2016.

KEY ACTIVITIES

Reviewed the composition of the Board and made recommendations to the Board regarding the appointment of Directors.

Oversaw governance aspects of the Board and its Committees.

Recommended the appointment of Robin Freestone to the Board, Remuneration and Audit Committees.

Recommended the appointment of Independent Audit to conduct external Board evaluation.

2016 FOCUS

Recommend to the Board ways of addressing any issues raised in the external Board evaluation.

Dear Shareholder,

I am pleased to present the 2015 report of the Nomination & Governance Committee.

Role of the Nomination & Governance Committee

Our work falls into the following two areas:

Board Composition

- Reviewing the size and composition of the Board.
- Overseeing Board succession plans.
- Recommending the appointment of Directors.
- Monitoring Board diversity.

Overseeing governance aspects of the Board and its Committees.

Overseeing the review into the effectiveness of the Board.

Considering and updating the Schedule of Matters Reserved to the Board and the Terms of Reference of the Board Committees.

Monitoring external corporate governance activities and keeping the Board updated.

Overseeing the Board Development Programme and the induction process for new Directors.

The terms of reference of the Nomination & Governance Committee describe our role and responsibilities more fully and can be found on our website.

FIND IT ON OUR WEBSITE

WWW.SMITH-NEPHEW.COM

Activities of the Nomination & Governance Committee in 2015 and since the year end

In 2015, we held two physical meetings. Each meeting was attended by all members of the Committee. The Company Secretary also attended by invitation. In between each meeting, various discussions were held between members of the Nomination & Governance Committee and the external search agent. Our programme of work in 2015 was as follows:

EARLY FEBRUARY

Activities related to the year end

Considered and approved the re-appointment of Directors who had completed three or six years service and the annual appointment of Directors serving in excess of nine years.

Reviewed the composition of each committee and approved the appointment of Vinita Bali to the Remuneration and Ethics & Compliance Committees.

Reviewed and noted the Schedule of Matters Reserved to the Board and the Terms of Reference of the Board Committees.

Considered and discussed the results of the annual review into the effectiveness of the Board.

Approved the appointment of The Zygos Partnership recruitment consultant.

JULY

Appointment of Robin Freestone

Reviewed the short list of candidates for the position of Non-Executive Director and discussed the outcome of meetings already held with potential candidates.

Agreed to recommend to the Board that Robin Freestone be appointed Non-Executive Director with effect from 1 September 2015.

Commenced the appointment for the external Board Evaluation process.

Since the year end, we have also discussed the future structure of the Board. In particular, we recommended to the Board that Brian Larcombe remains in place as Senior Independent Director in order to support me as Chairman, should I be required to provide additional executive oversight during the Chief Executive Officer s period of illness.

We also agreed that Olivier Bohuon would cease to be a member of this committee, recognising that some shareholders believe that the Chief Executive Officer should not sit on the Nomination & Governance Committee. He will continue to attend and contribute to discussions at our meetings, as we value his input particularly when discussing succession planning.

Non-Executive Directors

During 2015, Erik Engstrom and Robin Freestone joined the Board on 1 January 2015 and 1 September respectively. In selecting these new Board members, we continued the process we started in 2014, which had identified the skills and experiences we needed on the Board to implement our Strategy over the next five years. The process we followed in 2015 was as follows:

The analysis in 2014 had identified that we needed one more Board member with financial expertise gained as Chief Financial Officer of a FTSE 100 company.

The Nomination & Governance Committee selected Zygos to undertake the search for a new Non-Executive Director with financial expertise.

Zygos prepared a long list of candidates satisfying one or more of the above criteria and Brian Larcombe and I met with them to discuss the long list and select a short list of suitable candidates.

Members of the Nomination & Governance Committee and Ian Barlow, Chairman of the Audit Committee then met individually with a number of candidates.

The Nomination & Governance Committee agreed to recommend that the Board appoint Robin Freestone as Non-Executive Director because of his experience as Chief Financial Officer of Pearson plc and previous experience of the Healthcare industry at Amersham plc.

Zygos does not perform any other services for the Company and we are satisfied that the advice is objective and independent.

Diversity

We aim to have a Board which represents a wide range of backgrounds, skills and experiences. We also value a diversity of outlook, approach and style in our Board members. We believe that a balanced Board is better equipped to consider matters from a broader perspective and therefore come to decisions that have considered a wider range of issues and perspectives than would be the case in a more homogenous Board. Diversity is not simply a matter of gender, ethnicity or other easily measurable characteristic. Diversity of outlook and approach is harder to measure than gender or ethnicity but is equally important. A Board needs a range of skills from technical adherence to governance or regulatory matters to understand the business in which we operate. It needs some members with a long corporate memory and others who bring new insights from other fields. There needs to be both support and challenge on the Board as well as a balance of gender, commercial and international experience. When selecting new members for the Board, we take these considerations into account, as well as professional background. A new Board member needs to fit in with their fellow Board members, but also needs to provide a new way of looking at things.

In 2012, we stated that our expectation would be that by 2015, 25% of our Board would be female and we have met this expectation. 27% of our Board is female. We do not regard this as a fixed percentage as the number of Board members will fluctuate from time to time and we would not necessarily expect to replace any retiring Director with a new Director of the same gender. We will still continue to appoint Directors on merit, valuing the unique contribution that they will bring to the Board, regardless of gender.

Governance

During the year, the Nomination & Governance Committee also addressed a number of governance matters. We also received updates from the Company Secretary on new developments in corporate governance and reporting in both the UK and Europe. We reviewed the independence of our Non-Executive Directors, considered potential conflicts of interest and the diversity of the Board and made recommendations concerning these matters to the Board.

Roberto Quarta

Chairman of the Nomination & Governance Committee

Accountability continued

ETHICS & COMPLIANCE COMMITTEE

CURRENT MEMBERS IN 2015

Michael A. Friedman
Committee Chairman

Ian Barlow
Independent Non-Executive Director

Joseph Papa
Independent Non-Executive Director

Vinita Bali (from 1 April 2015)
Independent Non-Executive Director

KEY ACTIVITIES

Reviewed ethics and compliance processes and practices across the Group.

Oversaw quality and regulatory matters.

Monitored significant compliance, quality and regulatory issues or failures as they arise.

2016 FOCUS

Enhance oversight of quality and regulatory matters, including review of data for trends and patterns and proactively working to minimise associated risks.

Continue to focus on compliance issues within the context of our growth in Emerging Markets organically and through acquisitions.

Continue to enhance the compliance processes and practices of our third party distributors.

Dear Shareholder,

I am pleased to present the 2015 report of the Ethics & Compliance Committee.

Role of the Ethics & Compliance Committee

Our work falls into the following two general areas:

Ethics & Compliance

Overseeing ethics and compliance programmes.

Monitoring ethics and compliance policies and training programmes.

Reviewing compliance performance based on monitoring, auditing and internal and external investigations data.

Reviewing allegations of significant compliance issues.

Overseeing the Group s internal and external communications relating to ethics and compliance matters.

Reviewing external developments and compliance activities.

Receiving reports from the Group s Ethics & Compliance Committee meetings and from the Chief Compliance Officer and the Chief Legal Officer.

Quality Assurance and Regulatory Assurance (QARA)

Overseeing the processes by which regulatory and quality risks relating to the Company and its operations are identified and managed.

Receiving and considering regular functional reports and presentations from the President of Global Operations, SVP of Quality Assurance and other Officers.

The terms of reference of the Ethics & Compliance Committee describe our role and responsibilities more fully and can be found on our website.

FIND IT ON OUR WEBSITE

WWW.SMITH-NEPHEW.COM

Activities of the Ethics & Compliance Committee in 2015 and since the year end

In 2015, we held four physical meetings. Each meeting was attended by all members of the Committee. The Company Secretary, the Chief Legal Officer, the Chief Compliance Officer and the QARA Officers also attended by invitation. Our programme of work in 2015 included the following:

FEBRUARY

Noted that the final self-monitoring report had been filed with the SEC and DOJ together with a certification of compliance.

Received an update regarding the newly-structured Quality Assurance and Regulatory Assurance function. This function now provided a quarterly update to the Committee.

Noted the Culture of Quality survey had been undertaken across all employees to measure employee ownership, peer involvement, message credibility and leadership emphasis.

Noted the implementation of detailed Additional Compliance Standards for distributors and sales agents.

APRIL
Successful completion of performance under the three-year FCPA settlement agreements and closure of matter. Noted expansion of monitoring programme whereby regional compliance officers conducted periodic compliance checks. Noted the US Food and Drug Administration (FDA) inspections undertaken in St Petersburg, Curaçao, Aarau, Tuttlingen and Andover.

JULY
Noted management review of updated compliance risk register. Monitoring of compliance in China and other developing markets and key actions undertaken. Noted the data published under the US Sunshine Act regarding the Company and its competitors.

OCTOBER
Noted the results of annual manager training.

Monitored the compliance integration plan for the Russian acquisition.

Received a report from the SVP Quality Assurance and Regulatory Assurance on the activities of the QARA function, reviewing the quality and regulatory challenges faced across the Company and initiatives to address them.

At each meeting we noted and considered the activities of compliance and enforcement agencies and investigation of possible improprieties. We also reviewed a report on the activities of the Group Ethics & Compliance Committee and reviewed the progress of the Global Compliance Programme.

Since the year end, we have also reviewed the work of the Group Ethics & Compliance Committee meeting held in November 2015, considered the compliance implications of recent acquisitions and continued our oversight of the Quality Assurance and Regulatory Assurance function.

Employee Compliance Programme

New employees are trained on our Code of Conduct, which sets out the basic legal and ethical principles for conducting business. A copy of the Code of Conduct can be found on our website at www.smith-nephew.com

Further support is provided through a comprehensive set of tools and resources located on our global intranet platform. These tools and resources are regularly updated.

The Code of Conduct includes our whistle-blower policy, which enables employees and members of the public to contact us anonymously through an independent provider (where allowed by local law). Individuals can also report any concern to their direct manager or a manager in Compliance, Legal or Human Resources. All calls and contacts are investigated and the appropriate action taken, including reports for senior management or the Board, where warranted. As stated in the Code of Conduct, we also enforce our non-retaliation policy with respect to anyone who makes a report in good faith. The Ethics & Compliance Committee is advised of potentially significant improprieties from time to time, and the Company s response.

In 2015, we continued to work to enhance the employee compliance training programme. New employees receive training on our Code of Conduct (Code), and we assign annual compliance training to

employees. In 2015, we also introduced, developed and piloted a face to face course for new managers, supplementing the on-line manager certification training.

Compliance Programme for Third Parties

We continually review our compliance programme as it relates to third party sellers (such as distributors and sales agents), particularly in higher risk markets. This programme includes due diligence, contracts with compliance terms and compliance training. To increase oversight, we have augmented compliance standards and monitoring programmes in 2015.

Our oversight of third party sellers included site assessments to check compliance controls and monitoring visits to review books and records.

We also have controls over other third parties engaged by us to provide services other than selling our products, such as customs, registration and travel agents. We have established a policy and process requiring that managers prioritise our oversight of third parties and take appropriate steps, including performing a risk assessment, conducting due diligence and assigning training, based on third party type and risk profile.

Compliance implications around acquisitions

In support of strategic acquisition activity across the Group, we undertake comprehensive due diligence evaluation prior to acquisition and implement compliance integration plans from the point of executing the acquisition. This is to ensure that new businesses are integrated into the Smith & Nephew compliance culture as soon and consistently as possible and that all new employees are immediately made aware of how we do things at Smith & Nephew.

Oversight of Quality Assurance and Regulatory Assurance Function

In 2014, the Committee assumed responsibility for oversight of the Quality Assurance and Regulatory Affairs Function (QARA). Product safety is at the heart of our business and regulatory authorities across the world enforce a complex series of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. The QARA function carries out work in the area of Quality Management systems in our manufacturing activities.

The Committee approved the QARA Three Year Plan and the QARA Audit Plans for 2015 and 2016. During the year, we reviewed the results of the QARA audits undertaken during the year, approved follow up actions and monitored progress made to address these actions.

We also reviewed the results of inspections carried out by the US Food and Drug Administration (FDA) and other regulators and monitored the progress of improvement work required following some of these inspections using a dashboard, which highlighted progress being made against objectives. We also monitored the work being undertaken to help manufacturing sites prepare for future inspections.

We also reviewed the results of a Culture of Quality survey undertaken across all employees measuring the culture of quality against four key drivers employee ownership, peer involvement, message credibility and leadership emphasis.

Michael A. Friedman

Chairman of the Ethics & Compliance Committee

Accountability continued

Dear Shareholder,

It s been a year of positive change for the Audit Committee during 2015. We have welcomed Erik Engstrom and Robin Freestone to the Committee. They both have strong FTSE 100 backgrounds Robin Freestone was previously a Chief Financial Officer and they provide a fresh perspective to the Committee.

Following the audit tender during 2014 and the appointment of KPMG LLP in April 2015, the Committee oversaw a smooth transition from the former auditor. This process included KPMG LLP shadowing EY LLP through the 31 December 2014 year end audit process, along with attendance at Group Audit Committee meetings before their formal appointment.

We undertook a number of non-routine items during the year, which have provided debate and progression for the Company, including:

Discussion of the risk framework as part of the 2015 Strategy Review. This led to further work, which enabled the completion of the first 2015 Viability Statement. This process was also reviewed by the Audit Committee.

A deeper review of SOx work, in particular in our Emerging Markets, and following the implementation of COSO 2013, which was first applicable in 2014.

The Minimum Acceptable Practices (MAPs) were launched in December 2014 and are our minimum control procedures and best practices. They have

This was supplemented by KPMG LLP performing detailed audit planning activities at all the Group s material operating locations throughout the summer and a review of EY LLP audit files at major locations.

This is the first time in Smith & Nephew s history as a listed company that we have changed our audit firm. Bringing in a new firm to conduct our audit has brought fresh energy to the role; risk areas have been reassessed and new questions asked. This has not been without challenge, and has required the Group to invest significantly more resources and time, especially in this first year. However, we are pleased with the way in which the change has been managed and the output of a robust audit.

At our half-year meeting we received a detailed audit plan for the 2015 financial year from KPMG LLP identifying their audit scope, planning materiality and their assessment of key risks. The audit plan for the 2015 financial year provided a different style, with further depth and coverage including 78% of Group s revenue and 95% of adjusted Group profit before tax.

become a standardised process across the Group and additional support has been provided to the team to ensure completion of these by year end.

Monitoring of the Finance Transformation project throughout 2015 to ensure its risks were mitigated and timeline remained on track.

Following the appointment of a new Head of Internal Audit in 2014, the scope and depth of the reviews across the business increased during 2015. This has led to increased oversight by the Audit Committee on issues such as the consequences on the China business and its governance framework of the slow down of the Chinese economy, and internal controls in newly acquired distributors.

Reviewed the development of the process for monitoring the results and performance of acquisitions.

We received a regulatory enquiry during the year. Following explanation from Julie Brown, our Chief Financial Officer and her team, this matter was dealt with to our satisfaction.

Ian Barlow

Chairman of the Audit Committee

AUDIT COMMITTEE

CURRENT MEMBERS IN 2015

Ian Barlow
Committee Chairman and designated financial expert

Erik Engstrom (from 1 January 2015)
Independent Non-Executive Director

Robin Freestone (from 1 September 2015)
Independent Non-Executive Director and financial expert.

Brian Larcombe
Senior Independent Non-Executive Director

Joseph Papa
Independent Non-Executive Director

KEY ACTIVITIES

Undertook independent assessment of the financial affairs of the Company.

Oversaw system of control and risk management throughout the Group.

Undertook detailed work to support the Board s approval of the financial results.

2016 FOCUS

Monitor the roll-out of enhanced SOx controls and MAPs to ensure consistently applied financial controls across the Group, particularly in Emerging Markets.

Continue to develop the process to monitor the results and performance of acquisitions.

Role of the Audit Committee

Our work falls into the following five areas:

Financial Reporting

- Reviewing significant financial reporting judgements and accounting policies and compliance with accounting standards.
- Ensuring the integrity of the financial statements and their compliance with UK and US statutory requirements.
- Ensuring the Annual Report and Accounts are fair, balanced and understandable and recommending their adoption by the Board.
- Monitoring announcements relating to the Group s financial performance.

Internal Controls

Monitoring the effectiveness of internal controls and compliance with the UK Corporate Governance Code 2014 and the Sarbanes Oxley Act, specifically sections 302 and 404.

Reviewing the operation of the Group s risk management processes and the control environment over financial risks.

Risk Management

On behalf of the Board, reviewing and ensuring oversight of the processes by which risks are managed, through regular functional reports and presentations, and report any issues arising out of such reviews to the Board.

Reviewing the process undertaken and deep-dive work required to complete the Viability Statement.

Fraud and Whistle-blowing

Receiving reports on the processes in place to prevent fraud and to enable whistle-blowing.

If required, receiving reports of fraud incidents.

Internal Audit

Agreeing internal audit plans and reviewing reports of internal audit work.

Monitoring the effectiveness of the internal audit function.

Reviewing the control observations made by the internal auditor, the adequacy of management s response to recommendations and the status of any unremediated actions.

External Audit

Overseeing the Board s relationship with the external auditor.

Monitoring and reviewing the independence and performance of the external auditor and evaluating their effectiveness.

Making recommendations to the Board for the appointment or reappointment of the external auditor.

The terms of reference of the Audit Committee describe our role and responsibilities more fully and can be found on our website, where further information can be found for permitted non-audit services.

FIND IT ON OUR WEBSITE

WWW.SMITH-NEPHEW.COM

Accountability continued

Activities of the Audit Committee

in 2015 and since the year end

In 2015, we held five physical meetings and two meeting by telephone. Each meeting was attended by all appointed members of the Committee. The Chairman, the Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit , the external auditor (both the incumbent and also KPMG from the December 2014 meeting, until formal appointment at the Annual General Meeting on 9 April 2015), and key members of the finance function, the Company Secretary and Deputy Company Secretary also attended by invitation. We also met with the external auditor and the internal auditor without management present. Our programme of work in 2015 was as follows:

EARLY FEBRUARY

Approval of Preliminary Announcement

Reviewed the results for the full year 2014 and the preliminary announcement and recommended them for adoption by the Board.

Approved the decision to submit Quarterly Trading Reports instead of full Quarterly Reporting.

Reviewed the effectiveness of financial controls and of the risk management process and concluded they were operating effectively.

Reviewed compliance with UK Corporate Governance and US Corporate Governance.

Received the Internal Audit Report and approved the Internal Audit progress report for 2015.

Received the Quality Assurance Report and approved the Quality Assurance work programme for 2015.

Received the fraud report and reviewed whistle-blowing procedures.

Confirmed the independence of KPMG as external auditor before its formal appointment within professional and regulatory standards, following a rigorous review during the tender process.

Approved EY external audit fees and the policy for approval of KPMG non-audit tax fees and noted fees paid to other major audit firms.

LATE FEBRUARY

Approval of Financial Statements (by telephone)

Reviewed and approved the Annual Report and Accounts for 2014, having agreed that they were fair balanced and understandable, and recommended them for adoption by the Board.

Considered the effectiveness of the external auditor and concluded that their work had been effective.

Reviewed the implementation progress for Minimum Acceptable Practices for the Finance function and other control initiatives.

EARLY APRIL

Private meeting held with the external auditor.

Reviewed the control themes and observations of the external auditor and concluded there was nothing of significance.

Approved the Sustainability Report and its verification process.

Received a corporate governance update for 2015 corporate reporting.

Reviewed the implementation progress for Minimum Acceptable Practices for the business and Finance function and other control initiatives.

Reviewed the Progress Report from Internal Audit which included an update on the status of the 2015 Internal Audit Plan.

LATE APRIL

Approval of Q1 Trading Statement (by telephone)

Reviewed the Q1 2015 Trading Report and approved the Q1 announcement.

Approved the Company s policy and report on Conflict Minerals for submission to the NYSE.

JULY

Approval of H1 results

Private meeting with the internal auditor.

Reviewed the results for the first half 2015 and approved the H1 announcement.

Reviewed the Progress Report from Internal Audit which included an update on the status of the 2015 Internal Audit plan.

Reviewed the implementation progress for Minimum Acceptable Practices for the Finance function and other control initiatives.

Received the fraud report and reviewed whistle-blowing procedures.

Considered the Company s response to the changing reporting requirements on risk following the implementation of the UK Corporate Governance Code 2014.

Reviewed and approved the external auditor s Integrated Audit Plan for 2015.

Received governance updates on the going concern and viability statements for 2015.

Private meeting with the external auditor.

OCTOBER

Approval of Q3 Trading Statement

Reviewed the results for Q3 2015 and approved the Q3 Trading Statement.

Reviewed the Progress Reports from the external auditor on Q3 2015 and from Internal Audit on their work.

Approved the process for ensuring the Board could coordinate the risk management programme and conclude that it was effective.

Reviewed the progress of recent transactions against expectations at the time of the acquisition.

DECEMBER

Review of Functional Reports

Received and discussed a report on the Finance Transformation project and reports from the Group Treasurer and the Chief Information Officer on IT security risk.

Received an update on SOx testing and Minimum Acceptable Practices.

Received a report from the Internal Audit function focusing on China.

Reviewed the Internal Audit Plan for 2016.

Reviewed and approved the layout and design of the Annual Report 2016.

Reviewed the process being undertaken to support the making of the Viability Statement.

Considered and approved critical accounting policies and judgements in advance of the 2015 year end.

Received an update from KPMG on the external audit and preliminary SOx findings.

Since the year end, we have also reviewed the Annual Report and Accounts for 2015 and have concluded that taken as a whole, they are fair balanced and understandable and have advised the full Board accordingly. In coming to this conclusion, we have considered the description of the Group s strategy and key risks, the key elements of the business model, which is set out on pages 10 to 11, risks and the key performance indicators and their link to the strategy.

Significant matters related to the financial statements

We considered the following key areas of judgement in relation to the 2015 accounts and at each half-year and quarterly trading report, which we discussed in all cases with management and the external auditor:

VALUATION OF INVENTORIES

A feature of the orthopaedic business model (whose finished goods inventory makes up 79% of the Group total finished goods inventory) is the high level of product inventory required, some of which is located at customer premises and is available for customers immediate use. Complete sets of product, including large and small sizes have to be made available in this way. These sizes are used less frequently than standard sizes and towards the end of the product life cycle are inevitably in excess of requirements. Adjustments to carrying value are therefore required to be made to orthopaedic inventory to anticipate this situation.

Our action

At each quarter end, we received reports from, and discussed with, management the level of provisioning and material areas at risk. The provisioning level was 21% at 31 December 2015 (21% as at 31 December 2014). We challenged the basis of the provisions and concluded that the proposed levels were appropriate and have been consistently estimated.

LIABILITY PROVISIONING

The recognition of provisions for legal disputes is subject to a significant degree of estimation. Provision is made for loss contingencies when it is considered probable that an adverse outcome will occur, and the amount and timing of the loss can be reasonably estimated. In making its estimates, management takes into account the advice of internal and external legal counsel. Provisions are reviewed regularly and amounts updated where necessary to reflect developments in the disputes. The ultimate liability may differ from the amount provided depending on the outcome of court proceedings or settlement negotiations or if new facts come to light. The level of provisioning for contingent and other liabilities is an issue where management and legal judgements are important.

Our action

As members of the Board, we receive regular updates from the Chief Legal Officer. These updates form the basis for the level of provisioning. As disclosed in Note 3 a charge of $203 million has been recorded in respect of potential liabilities. This arises from the Group s portfolio of modular metal-on-metal hip products. This has resulted in a provision being carried forward of $185 million as of 31 December 2015. We received detailed reports from management on this position, including the actuarial model used to estimate the provision, and challenged the key assumptions, including the number of claimants and projected value of each settlement. Aside from the developments in relation to metal-on-metal, the other legal judgements have not moved materially during the year, with some cases having been resolved, and some new matters arising. We have determined that the proposed levels of provisioning at year end of $74 million included within legal and other provisions in Note 17.1 in 2015 ($74 million in 2014) were appropriate in the circumstances.

IMPAIRMENT

In carrying out impairment reviews of goodwill, intangible assets and property, plant and equipment, a number of significant assumptions have to be made when preparing cash flow projections. These include the future rate of market growth, discount rates, the market demand for the products acquired, the future profitability of acquired businesses or
products, levels of reimbursement and success in obtaining regulatory approvals. If actual results should differ or changes in expectations arise, impairment charges may be required which would adversely impact operating results.

Our action

We reviewed management s reports on the key assumptions with respect to goodwill, acquisition intangible assets and investments in associates particularly the forecast future cash flows and discount rates used to make these calculations. We noted the impairment charge of $51m that has been recorded in 2015 the principal component of which related to the Oasis brand. Based on our challenge of the key assumptions we concurred with management that the amount of impairment is appropriate. We have also considered the disclosure surrounding these reviews, and concluded that the review and disclosure were appropriate.

TAXATION

Provisioning for potential current tax liabilities and the level of deferred tax asset recognition in relation to accumulated tax losses are underpinned by a range of judgements about the future statutory profitability of constituent entities of the Group.

Our action

We annually review our processes and approve the principles for management of tax risks. We review quarterly reports from management evaluating existing risks and tax provisions. Based on a thorough report from management of tax liabilities and our challenge thereof of the basis of any tax provisions recorded we concluded, that the levels of provisions and disclosures were appropriate.

BUSINESS COMBINATIONS

The Group has identified growth through acquisitions as one of its Strategic Priorities.

Our action

For completed acquisitions, we received a report from management setting out the significant assets and liabilities acquired, details of the provisional fair value adjustments applied, an analysis of the intangible assets acquired, the assumptions behind the valuation of these acquired intangible assets and the proposed useful economic life of each intangible asset class. For material acquisitions, management engage third party specialists to perform a detailed analysis, summaries of which are included in management reports. We reviewed, discussed, challenged and approved these summaries for Colombia and Russia. During 2015 we also considered and concurred with management that there had been no changes to the provisional fair values recognised in the 2014 acquisition of ArthroCare.

OPERATING SEGMENTS

Following completion of the Group s transition to a new commercial organisational structure on 1 January 2015 the Group is now engaged in a single business activity, being the development, manufacture and sales of medical technology products and services. As the allocation of the Group s resources are determined on a project by project basis by the Chief Operating Decision Maker (being the Commercial Operations team) the Group now has one operating segment.

Our action

In applying the requirements of the relevant accounting standard, we have reviewed management s analysis on determining that the Group has one operating segment and agreed with the interpretation. Given the level of judgement involved we have determined that it is appropriate to include this as a significant area of judgement in our report.

We note that within the External Audit report there is a principal risk associated with the timing of revenue recognition and measurement of related reserves as required by auditing standards. We have considered this and have concluded that we have appropriate procedures and controls in place not to include this as a significant area of judgement.

Accountability continued

External Auditor

Independence of External Auditor

The independence of our external auditor is critical for the integrity of the audit. Following a competitive tender in 2014, KPMG LLP were appointed the Company s external auditor for the 2015 audit replacing Ernst & Young LLP who had been the Company s auditor for a number of years. We are satisfied that KPMG LLP are fully independent from the Company s management and free from conflicts of interest. Our Auditor Independence Policy, which ensures that this independence is maintained, is available on the Company s website.

We believe that the implementation of this policy helps ensure that auditor objectivity and independence is safeguarded. The policy governs our approach when we require our external auditor to carry out non-audit services, and all such services are strictly governed by this policy. During 2015, fees paid to KPMG LLP, our external auditor, for non-audit work totalled $1 million, representing 25% of total audit fees. Full details are shown in Note 3.2 of the Notes to the Group accounts.

The Auditor Independence Policy also governs the policy regarding audit partner rotation with the expectation that the audit partner will rotate at least every five years. The Audit Committee confirms it has complied with the provision of the Competition and Markets Authority Order which came into effect from 1 January 2015.

Effectiveness of External Auditors

We conducted a review into the effectiveness of the external audit as part of the 2015 year end process, in line with previous years. We sought the views of key members of the finance management team, considered the feedback from this process and shared it with management.

During the year, we also considered the inspection reports from the Audit Oversight Boards in the UK and US and determined that we were satisfied with the audit quality provided by KPMG.

Overall therefore, we concluded that KPMG had carried out their audit for 2015 effectively.

Appointment of External Auditors at Annual General Meeting

Resolutions will be put to the Annual General Meeting to be held on 14 April 2016 proposing the re-appointment of KPMG LLP as the Company s Auditor and authorising the Board to determine their remuneration, on the recommendation of the Audit Committee.

Disclosure of Information to the Auditor

In accordance with Section 418 of the Companies Act 2006, the Directors serving at the time of approving the Directors Report confirm that, to the best of their knowledge and belief, there is no relevant audit information of which the Auditor, KPMG, are unaware and the Directors also confirm that they have taken reasonable steps to be aware of any relevant audit information and, accordingly, to establish that the Auditor is aware of such information.

Audit and Professional Fees paid to the Auditor

Fees for professional services provided by Ernst & Young LLP and KPMG LLP (appointed from 9 April 2015), the Group s independent auditors in each of the last two fiscal years, in each of the following categories were:

	2015 $ million	2014 $ million
Audit	4	3
Audit-related fees		
Tax		2
Other	1	
Total	5	5

Any pre-approved aggregate, individual amounts up to $50,000 may be authorised by the Tax Director/Group Financial Controller respectively and amounts up to $100,000 by the Chief Financial Officer. Any individual amount over $100,000 must be pre-approved by myself as Chairman of the Audit Committee. If we require additional permitted tax services or any which exceed the amounts approved, again pre-approval by the Chairman of the Audit Committee is required.

Internal Audit

Our Internal Audit function reports directly to the Audit Committee and is headed by Jenny Morgan, Senior Vice President Internal Audit. The Internal Audit function carries out work across the Group acting as a third line of defence. The audit coverage is based on risk with the focus for

2015 being Emerging Markets, finance transformation, inventory and core financial controls systems.

During the year, they completed 33 reviews across the business. The Audit Committee receives a quarterly report of the activities of the Internal Audit function and reviews the results of the Internal Audit reports, looking in detail at any reports with unsatisfactory ratings. We also receive a quarterly report detailing any unremediated and overdue control recommendations and oversee the effective and timely remediation of any recommendations.

Of particular note in 2015 were the Internal Audit reviews conducted in China following the slowdown of the Chinese economy. Each review was discussed at The Audit Committee with presentations from Internal Audit and Executive Regional management. Remediation of agreed actions is monitored by the Audit Committee at each Committee meeting. There has been continued focus on Emerging Markets with reviews of Brazil, Mexico, India, South Korea, Malaysia and Thailand. Internal Audit also performed independent validation reviews of the implementation of the Group s MAPs and programme assurance reviews over the Group s SAP implementation as part of the Finance Transformation.

In 2016, we will continue to monitor Internal Audit s scope of work and operational methods to ensure that it continues to play a full role in providing assurance over the Group s identification and management of risk and its associated controls.

Risk Management Programme

During the year, we reviewed the Financial Reporting Council changes to the UK Corporate Governance Code and considered how these changes would impact our risk management processes and the work that we would need to undertake to enable the Board to make the Viability Statement.

We reviewed our risk management processes at our meetings in February, July and October. These reviews included a report from Deloitte, which recommended a number of suggestions for improving our risk management framework, which we shall be implementing over the next six to 12 months. One of these recommendations is the development of Key Risk Indicators to enable us to track progress in the future. We also considered reviews undertaken by our Internal Audit function into specific risks, such as IT Security and Cyber Risk and received regular reports from the Group Finance function on their findings from reviews with regard to compliance with the Sarbanes

Oxley Act.

Since the year end, we reviewed a report from the Internal Audit function into the effectiveness of the risk management programme throughout the year. We considered the principal risks, the actions taken by management to manage those risks and the Board risk appetite in respect of each risk.

We concluded that the risk management process during 2015 and up to the date of approval of this Annual Report was effective. Work will continue in 2016 and beyond to continue to enhance the process.

We have reviewed the system of internal financial control and satisfied ourselves that we are meeting the required standards both for the year ended 31 December 2015 and up to the date of approval of this Annual Report. No concerns were raised with us in 2015 regarding possible improprieties in matters of financial reporting.

See pages 42 to 48 for further information on our risk management process.

Viability Statement

We also reviewed management s work in conducting a robust assessment of those risks which would threaten our business model and the future performance or liquidity of the Company, including its resilience to the threats of viability posed by those risks in severe but plausible scenarios. This assessment included stress and sensitivity analyses of these risks to enable us to evaluate the impact of a severe but plausible combination of risks. We then considered whether additional financing would be required in such eventualities. Based on this analysis, we recommended to the Board that it could approve and make the Viability Statement on page 49.

Evaluation of Internal Controls

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a 15 (f) and 15d 15(f) under the US Securities Exchange Act of 1934.

There is an established system of internal control throughout the Group and our Divisions. The main elements of the internal control framework are:

- The management of each Division is responsible for the establishment and review of effective financial controls within their Division.

- The Group Finance manual sets out, amongst other things, financial and accounting policies and MAPS.

- The Internal Audit function agrees an annual work plan and scope of work with the Audit Committee.

The Audit Committee reviews reports from Internal Audit on their findings on internal financial controls, including compliance with MAPS and from the Senior Vice President, Group Finance and the heads of the Financial Controls and Compliance, Taxation and Treasury functions.

The Audit Committee reviews regular reports from the Financial Controls and Compliance function with regard to compliance with the Sarbanes-Oxley Act including the scope and results of managements testing and progress regarding any remediation.

The Audit Committee reviews the Group whistle-blower procedures.

The Audit Committee received and reviewed a report on the progress of the Finance Transformation during 2015 and the mitigation of the associated risks.

This system of internal control has been designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. Because of inherent limitation, our internal controls over financial reporting may not prevent or detect all misstatements. In addition, our projections of any evaluation of effectiveness in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Entities where the company does not hold a controlling interest have their own process of internal controls similar to that of the Company.

This process complies with the Financial Reporting Council s Internal Control: Revised Guidance for Directors on the UK corporate governance code and additionally contributes to our compliance with the obligations under the Sarbanes-Oxley Act 2002 and other internal assurance activities.

There has been no change during the period covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, the Group s internal control over financial reporting.

The Board is responsible overall for reviewing and approving the adequacy and effectiveness of the risk management framework and the system of internal controls over financial, operational including quality management and ethical compliance processes operated by the Group. The Board has delegated responsibility for this review to the Audit Committee. The Audit Committee, through the Internal Audit function, reviews the adequacy and effectiveness of internal control procedures and identifies any weaknesses and ensures these are remediated within agreed timelines. The latest review covered the financial year to 31 December 2015 and included the period up to the approval of this Annual Report.

The main elements of this annual review are as follows:

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Group s disclosure controls and procedures as at 31 December 2015. Based upon this evaluation, the Chief Executive Officer and Chief Financial Officer concluded on 23 February 2016 that the disclosure controls were effective as at 31 December 2015.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management assessed the effectiveness of the Group s internal control over financial reporting as at 31 December 2015 in accordance with the requirements in the US under s404 of the Sarbanes-Oxley Act. In making that assessment, they used the criteria set forth by the Committee of Sponsoring Organisations of the Treadway Commission in Internal Control-Integrated Framework. Based on their assessment, management concluded and reported that, as at 31 December 2015, the Group s internal control over financial reporting is effective based on those criteria.

Having received the report from management, the Audit Committee reports to the Board on the effectiveness of controls.

KPMG LLP. An independent registered public accounting firm issued an audit report on the Group s internal control over financial reporting as at 31 December 2015. This report appears on pages 106 to 110.

Code of Ethics for Senior Financial Officers

We have adopted a Code of Ethics for Senior Financial Officers, which applies to the Chief Executive Officer, the Chief Financial Officer, the Senior Vice President Group Finance and the Group s senior financial officers. There have been no waivers to any of the Code s provisions nor have there been any amendments to the Code during 2015 or up until 23 February 2016. A copy of the Code of Ethics for Senior Financial Officers can be found on our website at www.smith-nephew.com.

In addition, every individual in the finance function certifies to the Chief Financial Officer that they have complied with the Finance Code of Conduct.

Evaluation of Effectiveness of the Audit Committee

The effectiveness of the Audit Committee was evaluated as part of the review into the effectiveness of the Board conducted at the end of 2015.

This review found that the Audit Committee was becoming increasingly effective, but recognising the increased responsibilities of the Audit Committee suggested that the time needed for each meeting could be increased.

Ian Barlow

Chairman of the Audit Committee

Remuneration

Dear Shareholder,

2015 was a successful year for the Company where we made both financial and strategic progress. The increase in underlying revenue growth, trading profit margin and adjusted earnings year-on-year reflect management s actions to improve both our commercial performance and operational efficiency. Our performance on the measures we use in our variable pay plans was as follows:

Revenue at $4,634 million showed underlying growth of 4%, twice that achieved in 2014;

The other change that you will notice, in direct response to feedback from our shareholders, is the retrospective disclosure of financial targets under the Annual Incentive Plan.

In respect of performance during the year, Executive Directors received cash incentive payments ranging from 104% to 112% of target and Equity Incentive Awards ranging from 55% to 65% of salary. The 2013 Performance Share Awards vested slightly above threshold at 33.5% of maximum.

2013 2015 PSP Awards

Strong trading profit led to an increase of 80bps in trading profit margin;

Trading cash flow was $936 million with the year trading profit to cash ratio of 85% reflecting a return to stronger cash performance levels;

Revenues from Emerging Markets at $715 million showed underlying growth of 11% in spite of the significant slow down in China;

Share price improved from 1060p to 1212p during the year.

On these five financial measures, which are reflected in our Annual Incentive Plan and in our Performance Share Plan, the Company performed well in 2015. It is against this back drop that I should like to present our Remuneration Report for 2015.

Continued Alignment

Throughout 2015, the Remuneration Committee focused on ensuring continued alignment of our remuneration arrangements with the corporate strategy and performance of the Company. The table overleaf summarises how the measures in our incentive arrangements link to our corporate objectives, which remain unchanged from last year.

Changes in 2015

During 2015, changes to the remuneration of the Executive Directors were limited to base salary increases of 3% taking effect in April 2015. These were

For over 10 years the Smith & Nephew incentive plans have included a relative Total Shareholder Return (TSR) measure, reflecting investor preferences, UK market practice and the perceived alignment of shareholder and executive interests. Over this time, the level of vesting has ranged from 0% to 88%.

As noted in my introductory comments, the Company delivered excellent TSR to our shareholders over the last three years, with an investment of £100 at the end of 2012 being worth £180 at the end of 2015. This was significantly ahead of broad market indices, both in the UK and the US, against which many of our investors compare the Company. However, against the small select group of medical devices companies in our peer group, the Company s TSR performance was just below median.

A number of factors have contributed to this result including volatility within the peer group, which reduced to just 14 peer companies over the performance period due to acquisitions; exchange rate movements, which can have a significant impact given all but two of the peer companies are US listed; and a reduced correlation between the peer companies and Smith & Nephew in terms of size and geographic exposure.

The Remuneration Committee is of the view that this outcome does not reflect either the corporate performance delivered over the three-year performance period or the strong absolute returns experienced by shareholders. We have therefore taken the highly unusual step of exercising our discretion to permit the TSR element of the 2013 Performance Share Awards to vest at threshold (25% of the shares granted). When combined with the Free Cash Flow achievement, this gives a combined vesting of 33.5% for all participants. Further details of this decision are set out on page 86.

in line with average increases awarded across the rest of the Group. There were no changes to Annual Incentive or Performance Share Plan award levels or measures, although performance targets were updated to reflect expectations going into 2015.

I wish to assure shareholders that this decision was not taken lightly and the Committee was unanimous in reaching it. We considered many factors and also took the opportunity to seek the views of some of our largest shareholders towards the end of 2015, which was most helpful. Ultimately we have made a decision that we believe to be in the best interests of shareholders, reflecting the corporate performance delivered, while continuing to engage and incentivise the Company s senior management over the longer term.

On page 86 you will see that we have revised and expanded the TSR peer group for the awards to be made in 2016 in an attempt to reduce the risk of this situation arising again in 2019. With the continued consolidation that is expected within our industry over the coming years, this is something that we will consider as part of our review during 2016 which I discuss overleaf.

Other Matters

Measures in our Variable Pay Plans

FINANCIAL MEASURES IN ANNUAL INCENTIVE PLANS

Revenue, trading profit, trading cash

Link to Strategic Priorities

We need to generate cash in our Established Markets to be able to invest in Emerging Markets, innovation, organic growth and acquisitions in order to continue to grow in the future. Cash flow is therefore important and this in turn is derived from increased revenues and healthy trading profits.

BUSINESS OBJECTIVES IN ANNUAL INCENTIVE PLANS

Business process

Other matters we considered in 2015 included the remuneration arrangements for our new Executive Officers Elga Lohler and Matt Stober. We also looked at benchmarking analyses of the remuneration arrangements for our Executive Directors and Executive Officers comparing them against the arrangements in place at other companies for executives undertaking similar roles in comparable organisations.

Looking Forward

During 2016, we shall be undertaking a thorough review of our remuneration arrangements ahead of the shareholder vote in 2017 on our Remuneration Policy. This review will cover all aspects of our remuneration, including the structure of our incentive arrangements and the measures we use within our incentive plans, the length of vesting and holding periods applicable to our long-term share plan and the competitiveness of our remuneration arrangements in attracting global talent.

The Remuneration Committee remains committed to considering and approving remuneration arrangements which link executive reward to the shareholder experience as far as possible. Thank you for your continued support.

Joseph Papa

Chairman of the Remuneration Committee

Link to Strategic Priorities

We need to release resources from the businesses through improved structures, efficiencies and business processes in order to re-invest in our higher growth areas, including Emerging & International Markets, innovation, organic growth and acquisitions.

People

Link to Strategic Priorities

We need to attract and retain the right people to achieve our strategy through improving our operating model.

Customer

Link to Strategic Priorities

Our mission is to deliver advanced medical technologies that help healthcare professionals, our customers, improve the quality of life of their patients.

PERFORMANCE MEASURES IN OUR PERFORMANCE SHARE PLAN

Free cumulative cash flow

Link to Strategic Priorities

Cash flow from our Established Markets is necessary in order to fund growth in Emerging Markets, innovation, organic growth and acquisitions.

Revenue in Emerging Markets

Link to Strategic Priorities

Our long-term strategy depends on our ability to grow in Emerging Markets.

TSR

Link to Strategic Priorities

If we execute our strategy successfully, this will lead to an increased return for our shareholders.

Compliance statement

We have prepared this Directors Remuneration Report (the Report) in accordance with The Enterprise and Regulatory Reform Act 2012-2013 (clauses 81-84) and The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). The Report also meets the relevant requirements of the Financial Conduct Authority (FCA) Listing Rules.

The first part of the Report (pages 80 to 93) is the annual report on remuneration (the Implementation Report). The Implementation Report will be put to shareholders for approval as an advisory vote at the Annual General Meeting on 14 April 2016. The Implementation Report explains how the remuneration policy was implemented during 2015 and also how it is currently being implemented in 2016. Pages 82 to 86 and 93 have been audited by KPMG LLP, including the tables on pages 87 to 90.

The second part of the Report (pages 94 to 102) is the Directors Remuneration Policy Report (the Policy Report) which was approved by shareholders at the Annual General Meeting held in 2014. The Policy Report describes our remuneration policy as it relates to the Directors of the Company. All payments we make to any Director of the Company will be in accordance with this remuneration policy. We intend that this remuneration policy will remain in place unchanged for the next year and will next be put to shareholder vote at the Annual General Meeting to be held in 2017. The level of base salary and benefits paid and performance measures shown in the Policy Report are as at 2014, when the Policy Report was approved by shareholders. Full details of any changes to these details since then, in accordance with the Policy Report are given in the Implementation Report.

The Implementation Report

REMUNERATION COMMITTEE

CURRENT MEMBERS IN 2015

Joseph Papa

Committee Chairman

Vinita Bali (from 1 April 2015)
Independent Non-Executive Director

Virginia Bottomley
Independent Non-Executive Director

Robin Freestone (from 1 September 2015)

Independent Non-Executive Director

Brian Larcombe

Senior Independent Non-Executive Director

Roberto Quarta

Chairman of the Board

KEY ACTIVITIES

Setting the remuneration policy and packages for Executive Directors and Executive Officers.

Approval of all share plans operating throughout the Group.

2016 FOCUS

Determination of payouts under cash incentive and long-term incentive plans vesting in 2016.

Determine targets to apply to cash incentive and share plan awards in 2016.

Review the overall structure of our remuneration policies to ensure they still support our business strategy in preparation for putting a new remuneration policy to shareholders at the 2017 AGM.

The Remuneration Committee presents the annual report on remuneration (the Implementation Report), which together with the annual statement from the Chairman of the Remuneration Committee will be put to shareholders as an advisory vote at the Annual General Meeting to be held on 14 April 2016.

Role of the Remuneration Committee

Our work falls into the following three areas:

Determination of Remuneration Policy and Packages

- Determination of remuneration policy for Executive Directors and Senior Executives.
- Approval of individual remuneration packages for Executive Directors and Executive Officers at least annually and any major changes to individual packages throughout the year.
- Consideration of remuneration policies and practices across the Group.
- Approval of appropriate performance measures for short-term and long-term incentive plans for Executive Directors and Senior Executives.
- Determination of pay-outs under short-term and long-term incentive plans for Executive Directors and Senior Executives.

Oversight of all Company Share Plans

- Determination of the use of long-term incentive plans and overseeing the use of shares in executive and all-employee plans.

Reporting and Engagement with shareholders on Remuneration Matters

- Approval of the Directors Remuneration Report ensuring compliance with related governance provisions.
- Continuation of constructive engagement on remuneration matters with shareholders.

The terms of reference of the Remuneration Committee describe our role and responsibilities more fully and can be found on our website.

FIND IT ON OUR WEBSITE

WWW.SMITH-NEPHEW.COM

Activities of the Remuneration Committee in 2015 and since the year end

In 2015, we held five physical meetings and determined three matters by written resolution. Each meeting was attended by all members of the Committee. The Chief Executive Officer, the Chief Human Resources Officer and the Senior Vice President, Global Reward, key members of the finance function and the Company Secretary also attended all or part of some of the meetings, except when their own remuneration was being discussed. We also met with the independent Remuneration Consultants, Willis Towers Watson without management present. Our programme of work in 2015 was as follows:

EARLY FEBRUARY

Approval of salaries, awards and payouts in 2015

Noted the financial results for 2014 against the targets under the short-term and long-term incentive plans.

Agreed the targets for the short-term and long-term incentive plans for 2015.

The Audit Committee joined the Remuneration Committee for both the above agenda items to answer any questions regarding audited numbers and provide assurance.

Approved the quantum of cash payments to Executive Directors and Executive Officers under the Annual Incentive Plan and awards under the Equity Incentive Programme and the Performance Share Programme.

Approved the vesting of options and share awards granted in 2012 and reviewed the performance of long-term awards granted in 2013 and 2014.

Reviewed benchmark data increases to salaries across the Group and approved salary increases for Executive Directors and Executive Officers with effect from 1 April 2015.

Approved the text of the Remuneration Report.

LATE FEBRUARY

Final approval of the Remuneration Report (by telephone)

Approved the final targets for the short-term and long-term incentive plans for 2015.

Approved the final text of the Remuneration Report.

LATE JULY

Mid-year Review of Remuneration Arrangements

Reviewed the shareholder response to the Remuneration Report at the Annual General Meeting and noted shareholders comments that would be addressed in this report.

Reviewed the performance of long-term awards granted in 2013, 2014 and 2015.

Agreed to review the basis for calculation of TSR performance given that a number of companies in the peer group had delisted.

Reviewed adherence to shareholding guidelines by Executive Directors, Executive Officers and Senior Executives.

Monitored dilution limits and the number of shares available for use in respect of executive and all-employee share plans.

Reviewed and approved the business plan for the Remuneration Committee for 2015.

Approved the termination arrangements for two departing Executive Officers and the remuneration arrangements for a new Executive Officer.

OCTOBER

Planned the programme of engagement with shareholders on remuneration matters.

Considered the methodology to be used for the benchmarking of base salaries for Executive Directors and Executive Officers.

Reviewed options for addressing the loss of companies from the TSR peer group.

Drafted the Remuneration Report for 2015.

DECEMBER

Review of Remuneration Strategy

Reviewed and considered the principles for determining payouts under the long-term plans due to vest in 2016.

Received a report from the Chairman of the Remuneration Committee on recent engagement with shareholders.

Approved the Remuneration Strategy for 2016.

Considered the timetable for the remuneration review to be conducted in 2016.

Reviewed market data for the Executive Directors and Executive Officers prepared in accordance with the agreed methodology.

Further considered the TSR peer group.

Passed written resolutions approving the shareplan treatment for a deceased Senior Executive and the remuneration packages for one new and three promoted Executive Officers.

Since the year end, we have also reviewed the financial results for 2015 against the targets under the short-term and long-term incentive arrangements jointly with the Audit Committee, and have agreed the targets for the short-term and long-term incentive plans for 2016. We have also approved increases to the salaries of Executive Directors and Executive Officers and determined cash payments under the Annual Incentive Plan, awards under the Equity Incentive Programme and the Performance Share Programme, and the vesting of awards under the Performance Share Programme granted in 2013. Finally, we approved the wording of this Directors Remuneration Report.

During the year, the Remuneration Committee received information and advice from Willis Towers Watson, an independent executive remuneration consultancy firm appointed by the Remuneration Committee in 2011 following a full tender process. They provided advice on market trends and remuneration issues in general, attended Remuneration Committee meetings, assisted in the review of the Directors Remuneration Report, provided market benchmark data, undertook calculations relating to the PSP performance conditions and supported a review of the TSR peer group. The fees paid to Willis Towers Watson for Remuneration Committee advice during 2015, charged on a time and expense basis was £186,683.31 in total. Willis Towers Watson also provided other human resources and compensation advice to the Company for the level below the Board. Willis Towers Watson comply with the Code of Conduct in relation to Executive Remuneration Consulting in the United Kingdom and the Remuneration Committee is satisfied that their advice is objective and independent.

The Implementation Report continued

Single total figure on remuneration

Executive Directors

	Fixed pay			Annual variable pay	Hybrid	Long-term variable pay		
Director	Base salary	Payment in lieu of pension	Taxable benefits	Annual Incentive Plan cash	Annual Incentive Plan equity	Performance Share Plan	Share Option Plan	Total
Olivier Bohuon Appointed 1 April 2011								
2015	$1,260,594	$378,178	$228,698	$1,419,192	$825,396	$1,387,128	$0	$5,499,186
2014	$1,464,515	$439,354	$286,341	$952,318	$811,006	$2,831,587		$6,785,121
Julie Brown Appointed 4 February 2013								
2015	$803,116	$240,936	$29,862	$843,482	$444,954	$764,967	$0	$3,127,317
2014	$840,487	$252,146	$38,494	$470,373	$465,437			$2,066,938

The amounts for 2015 have been converted into US$ for ease of comparability using the exchange rates of £ to US$1.5281 and to US$1.1089, and for the prior years, using exchange rates disclosed in previous years accounts.

Base salary: the actual salary receivable for the year.

Payment in lieu of pension: the value of the salary supplement paid by the Company in lieu of a pension.

Benefits: the gross value of all taxable benefits (or benefits that would be taxable in the UK) received in the year.

Annual Incentive Plan cash: the value of the cash incentive payable for performance in respect of the relevant financial year.

Annual Incentive Plan equity: the value of the equity element awarded in respect of performance in the relevant financial year, but subject to an ongoing performance test as described on pages 83 to 85 of this report.

Performance Share Plan: the value of shares vesting that were subject to performance over the three-year period ending on 31 December in the relevant financial year, based on an estimated share price of 1124.69p per share, which was the average price of a share over the last quarter of 2015. The value of the 2012 share awards that vested in 2015 have now been restated with the share price on the date of actual vesting being 1128.7948p per share on 9 March 2015. The value of the 2013 Share Awards that will vest in March 2016 are calculated in the table by using the Q4 average share price of 1124.69 pence per share.

Other Items in the Nature of Remuneration: could also include All-Employee Share Plans and One-Off Awards.

Total: the sum of the above elements.

Base salary

With effect from 1 April in each year, Executive Directors were paid the following base salaries, reflecting an increase of 3%:

	2014	2015
Olivier Bohuon	1,111,782	1,145,135
Julie Brown	£514,000	£529,420

In February 2016, we reviewed the base salaries of the Executive Directors, having considered general economic conditions and average salary increases across the rest of the Group, which have averaged at 3%. The Remuneration Committee has therefore agreed that the Executive Directors base salaries will increase by 3% with effect from 1 April 2016 to the following:

Olivier Bohuon	1,179,490
Julie Brown	£545,303

Payment in lieu of pension

In 2015, both Olivier Bohuon and Julie Brown received a salary supplement of 30% of their basic salary to apply towards their retirement savings, in lieu of membership of one of the Company s pension schemes. The same arrangement will apply in 2015.

Benefits

In 2015, both Olivier Bohuon and Julie Brown received death in service cover of seven times basic salary, of which four times salary is payable as a lump sum with the balance used to provide for any spouse and dependent persons. They also received health cover for themselves and their families, a car allowance and financial consultancy advice. Olivier Bohuon also received assistance with travel costs between London and Paris. The same arrangements will apply in 2016. The following table summarises the value of benefits on an element-by-element basis in respect of 2014 and 2015.

	Olivier Bohuon	Julie Brown

	2014	2015	2014	2015
Health Cover	£20,642	£15,040	£1,144	£1,144
Car and fuel allowance	18,751	21,344	£14,640	£14,640
Financial consultancy advice	£24,053 101,926	£95,052	£7,597	£3,758
Travel costs	£28,537	£20,961	£0	£0
Subscriptions	£3,473	£3,120	£0	£0

Annual Incentive Plan 2015

During 2015, 70% of the Annual Incentive Plan for Executive Directors was based on the achievement of specific financial objectives and 30% of the award depended on the achievement of specific business objectives.

Financial Objectives

The financial measures on which performance was assessed in 2015 were revenue, trading profit and trading cash. For each of these measures, the Committee determined threshold, target and maximum performance in February 2015. In February 2016, the Committee reviewed performance against each of these objectives and determined the percentage of the award which would vest in respect of each of the objectives, all as detailed in the table below.

	Threshold	Target	Maximum	Actual[1]
Revenue	$4,572m	$4,713m	$4,854m	$4,686m
Trading profit	$1,071m	$1,104m	$1,137m	$1,102m
Trading cash	$815m	$906m	$997m	$915m

1 At constant exchange rates. See page 177.

This resulted in an achievement level of 67 out of a target of 70 in respect of the financial objectives.

	Weight	Award % of target	Award % of salary
Revenue[1]	30%	90%	27%
Trading profit[1]	30%	97%	29%
Trading cash[1]	10%	110%	11%
		Total	67%

1 At constant exchange rates. See page 177.

Accordingly, the following amounts have been earned by the Executive Directors in respect of their financial objectives.

Olivier Bohuon	764,510
Julie Brown	£ 353,449

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Business Objectives

The business objectives on which performance was assessed in 2015 were business process, people and customer. For each of these measures, the Committee determined the level of expected performance in February 2015. In February 2016, the Committee reviewed performance against each of these objectives as explained in the table below. As a result of this review, the Committee determined that 45% of the target award made to Oliver Bohuon would vest in respect of these business objectives and 37.5% of the target award made to Julie Brown would vest.

BUSINESS PROCESS

Olivier Bohuon	Julie Brown
Strengthened leadership team to deliver strong commercial performance including turnaround in AWM and Europe.	Delivered Group Optimisation programme ahead of plan, with $100 million of annualised benefits at year end contributing to trading profit margin improvement.
Improved efficiency and agility through Group Optimisation programme, including establishing Global Business Services.	Further tax improvement, with a 90bps reduction year-on-year in the tax rate on trading results.

Centralised commercial execution under Chief Commercial Officer to drive commercial excellence.	Improved trading profit to cash conversion ratio.
Strengthened platform through distributor acquisitions in Russia and Colombia.	Shielded Group from transactional currency impact through hedging strategy.
PEOPLE	
Olivier Bohuon	Julie Brown
Continued to drive significant change across the Company to focus on new business, growth and efficiency with strong results.	Embedded finance transformation programme through the continued simplification of financial processes, system and tools.
Strong leadership and communication to all employees to drive strategic alignment and performance focus.	Standardised and improved financial controls and processes across operating entities Group-wide through introduction of minimum acceptable practices (MAPs).
Refined leadership structure, including centralising commercial execution under Chief Commercial Officer to drive excellence.	Improved employee development and engagement across Finance with significant moves made to develop top talent, leading training and capability development for Finance business partners and across the finance function, with finance training across the business overall.
Extended Single Managing Director model to the US, completing global roll-out.	
Established leadership forum for new managing directors.	
Invested directly in talent development across the Company through CEO Forum and CEO Awards.	
Contributed to the roll-out of Great Place to Work accreditation, now achieved in Spain and Italy.	
CUSTOMER	
Olivier Bohuon	Julie Brown

Integrated ArthroCare acquisition to strengthen Sports Medicine portfolio, on-track to deliver expected synergies.	Represented the Group with investors and financial analysts at one-to-one meetings and industry conferences in the UK and abroad, receiving strong positive feedback.
Widened access to products through continued strong Emerging Markets growth despite China slow-down.	Delivered improved insight into the profitability by market and customer, facilitating improved resource allocation and margin improvement.
Continued to build innovative ways to anticipate customers changing need (e.g. Syncera).	
Developed mid-tier product portfolio including acquiring trauma manufacturing in Russia.	
Maintained R&D investment, strong product pipeline for 2016, improved focus through creation of R&D global function.	
Acquired Blue Belt Technologies establishing strong position in robotics.	
Olivier Bohuon level of award	Julie Brown level of award
515,310 representing 45% out of the 30% target award subject to business objectives.	£198,532 representing 37.5% out of the 30% target award subject to business objectives.

The Remuneration Committee also considered whether to apply the +/ 10 multiplier to the annual incentive assessment of Olivier Bohuon and Julie Brown and agreed that no multiplier was appropriate in respect of 2015.

In summary, as a result of the financial performance described on page 83 and the performance described in the table on page 84, the Remuneration Committee determined that the following awards be made under the Annual Incentive Plan in respect of performance in 2015:

Executive Director	Cash Component % of salary	Amount	Equity Component % of salary	Amount
Olivier Bohuon	112	1,279,820	65	744,388
Julie Brown	104	£551,981	55	£291,181

These figures are converted into dollars and included under Annual Incentive Plan (cash) and (equity) in the single figure table on page 82.

As a result of the 2015 performance assessment for both Olivier Bohuon and Julie Brown, the first tranche of the Equity Incentive Award made in 2015, the second tranche of the Equity Incentive Award made in 2014 and the third tranche of the Equity Incentive Award made in 2013 (to Olivier Bohuon only) will vest.

Annual Incentive Plan 2016

The Remuneration Committee has also reviewed the Annual Incentive Plan arrangements for 2016 and has determined that the following performance measures and weightings will apply to the financial and business objectives in 2016:

Financial Objectives	70%
Revenue	30%
Trading profit	30%
Trading cash	10%
	30%

Business Objectives	
Business process	10%
People	10%
Customer	10%

The Board has determined that the disclosure of performance targets at this time is commercially sensitive. These targets are determined within the context of a five-year plan and the disclosure of these targets could give information to our competitors about details of our strategy which would enable them to compete more effectively with us to the detriment of our performance. These targets however will be disclosed in next year s Annual Report, when the Committee will discuss performance against the targets. For the financial performance measures, Target is set at target performance as approved by the Board in the Budget for 2016. Threshold and Maximum are set at +/ 3% from the target for revenue, at +/ 5% for the trading profit measure and at +/ 10% for the cash flow measure.

Details of awards made under the Equity Incentive Programme during 2015

Details of conditional awards over shares, granted as part of the Annual Equity Incentive Programme to Executive Directors under the rules of the Global Share Plan 2010 for their 2014 performance (awarded in 2015) are shown below. The performance conditions and performance periods applying to these awards are detailed above.

Date granted	Number of shares under award	Date vesting
Olivier Bohuon		
9 March 2015	38,545	1/3 on 9 March 2016 1/3 on 9 March 2017 1/3 on 9 March 2018
Julie Brown		
9 March 2015	24,711	1/3 on 9 March 2016 1/3 on 9 March 2017 1/3 on 9 March 2018

The precise awards granted in 2016 in respect of service in 2015 will be announced when the awards are made and will be disclosed in the 2016 Annual Report.

Performance Share Programme 2015 grants

Performance share awards in 2015 were made to Executive Directors under the Global Share Plan 2010 to a maximum value of 190% of salary (95% for target performance). Performance will be measured over the three financial years beginning in 2015 and will vest subject to performance and continued employment in 2018. 50% of the award will vest subject to cumulative free cash flow performance, 25% to revenue in Emerging Markets and 25% to relative TSR.

Cumulative free cash flow is defined as net cash inflow from operating activities, less capital expenditure. Free cash flow is the most appropriate measure of cash flow performance because it relates to cash generated to finance additional investments in business opportunities, debt repayments and distribution to shareholders. This measure includes significant elements of operational financial performance and helps to align Executive Director awards with shareholder value creation.

The 50% of the award that will be subject to cumulative free cash flow performance will vest as follows:

Cumulative free cash flow	Award vesting as % of salary
Below $1.578bn	Nil
$1.578bn	23.75%
$1.814bn	47.5%
$2.050bn or more	95%

Awards will vest on a straight-line basis between these points.

Revenue in Emerging Markets is defined as cumulative revenue over a three-year period opening 1 January 2015 from our Emerging Markets. The 25% of the award that will be subject to revenue in Emerging Market performance will vest as follows:

Revenue in Emerging Markets	Award vesting as % of salary
Below Threshold	Nil
Threshold	11.875%
Target	23.75%
Maximum or above	47.5%

It is not possible to disclose precise targets for revenue growth in Emerging Markets as this will give commercially sensitive information to our competitors concerning our growth plans in Emerging Markets, which they could use against us to launch new products and enter new markets. This would be detrimental to our business in Emerging Markets, which are key to our success overall. This target however will be disclosed in the 2018 Annual Report, when the Committee will discuss performance against the target.

25% of the award will vest based on the Company s Total Shareholder Return (TSR) performance relative to a bespoke peer group of companies in the medical devices sector over a three-year period commencing 1 January 2015 as follows:

Relative TSR ranking	Award vesting as % of salary
Below median	Nil
Median	11.875%
Upper quartile	47.5%

Awards will vest on a straight-line basis between these points. If the Company s TSR performance is below median, none of this part of the award will vest.

The bespoke peer group for the 2015 awards comprises the following companies: Baxter International, Becton, Dickinson and Company, Boston Scientific Corporation, C. R. Bard, Coloplast A/S, CONMED Corporation, Edwards Lifesciences Corporation, Medtronic, NuVasive,

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Orthofix, Stryker, St Jude Medical, Wright Medical and Zimmer. Nobel Biocare and Covidien were also part of this peer group when the awards were made, but have since delisted following acquisitions.

The Group s TSR performance and its performance relative to the comparator group is independently monitored and reported to the Remuneration Committee by Willis Towers Watson.

Performance Share Programme 2016

Performance share awards will be made in 2016 to Executive Directors under the Global Share Plan 2010 to a maximum value of 190% of salary (95% for target performance). Performance will be measured over the three financial years commencing 1 January 2016 and will vest subject to performance and continued employment in 2019. Vesting will be subject to the same three performance measures as applies to the awards made in 2015.

50% of the award will vest subject to cumulative free cash flow performance, 25% to revenue in Emerging Markets and 25% to relative TSR.

The 50% of the award that will be subject to cumulative free cash flow performance will vest as follows:

Cumulative free cash flow	Award vesting as % of salary

Below $1,585bn	Nil
$1,585bn	23.75%
$1,822bn	47.5%
$2,059bn or more	95%

25% of the award will vest subject to revenue in Emerging Markets.

As was the case with the awards in 2015, the precise targets for revenue growth in the Emerging Markets are commercially sensitive and will be disclosed on vesting in the 2019 Annual Report.

Target is set at target cumulative revenues from Emerging Markets in the corporate plan approved by the Board for the three years commencing 1 January 2016. Threshold and Maximum are set at +/ 15% from target.

In response to the industry dynamics, the Committee undertook a review of the peer group to be used for the 25% of the awards subject to TSR, having used the same group for a number of years. The Committee considered a combination of factors focused on comparability to Smith & Nephew, in particular absolute size, industry and geographic presence. As a result, six new companies (Essilor International SA, Getinge AB, GN Store Nord A/S, Shire plc, Sonova Holding AG and William Demant) will be added to the peer group for awards made in 2016, with three companies removed (NuVasive, Orthofix and Wright Medical). These changes seek to ensure the peer group remains more robust over the next three years in the face of inevitable consolidation, while focusing on those companies more similar to Smith & Nephew. As part of the broader policy review for 2017, the Committee will undertake a holistic review of the remuneration programmes more generally.

The peer group for the purpose of calculating relative TSR performance will consist of the following companies: Baxter International, Becton, Dickinson and Company, Boston Scientific Corporation, C. R. Bard, Coloplast A/S, CONMED Corporation, Edwards Lifesciences Corporation, Essilor International SA, Getinge AB, GN Store Nord A/S, Medtronic, Stryker, Shire plc, Sonova Holding AG, St Jude Medical, William Demant and Zimmer Biomet.

Vesting of Awards made in 2013

Since the end of the year, the Remuneration Committee has reviewed the vesting of conditional awards made to Executive Directors under the Global Share Plan 2010 in 2013. Vesting of the conditional awards made in 2012 was subject to performance conditions based on TSR and cumulative free cash flow measured over a three-year period commencing 1 January 2013.

50% of the award was based on the Company s TSR relative to a bespoke group of 18 medical devices companies. Our industry is one that is fast-paced and highly-evolving, and this was reflected in further consolidation during the performance period with three of the peer companies delisting due to merger and acquisition activity. This resulted in the peer group reducing to just 15 companies, meaning that relatively small differences in TSR have a significant impact on the level of vesting.

Over the three years ending 31 December 2015, the Company delivered a return of 80%, meaning an investment of £100 would now be worth £180, outperforming both the FTSE 100 (£120) and S&P 500 ($154 on an investment of

$100). Against the peer group however, the Company ranked 10th, just below median.

In light of the strong absolute performance and returns delivered to shareholders coupled with the industry context, the Committee was concerned about the outcome and resolved to undertake a comprehensive review. The Committee is aware of shareholder sensitivity around the use of discretion. At the same time, the Committee recognises the importance of discretion in seeking to ensure any payments, or lack thereof, under our incentive plans align with business performance and the shareholder experience. Having spoken with some of our larger shareholders in December to obtain their views on this matter, the following points were considered:

TSR was clustered around median, and the Company s TSR was just 8.5 percentage points below median, the threshold requirement for vesting.

The majority of companies in the 2013 peer group are listed in the US. By calculating TSR in common currency, the outcome is distorted both by the relative performance of the US Dollar and Sterling, but also the relative performance of the markets more generally, as evidenced by the FTSE 100 and S&P 500 data illustrated on the next page. Neither of these items are within the control of management. On a local (also referred to as constant) currency basis, the Company ranked at median.

The Company significantly out-performed broader market indices. Against the FTSE 100, an index of particular interest to many of our investors, the Company ranked above the upper quartile.

In addition, the Committee took account of the Plan Rules which provide for the replacement of delisted companies with substitutes as the alternative to automatic exclusion. While the use of substitutes is uncommon in the market and some of our shareholders interpreted this to be a retrospective change, concerned by industry consolidation and reduction of the peer group from 18 to 15, the Committee resolved to consider the outcome under this approach. While the Company remained below median, the gap in TSR between the Company and the peer group median reduced to 1.7%.

On balance, the Committee determined that the default outcome under the plan did not reflect the corporate performance delivered over the three-year performance period, nor the shareholder experience of absolute returns exceeding 70%. Applying the discretion permitted to the Committee under the Plan Rules and Remuneration Policy, it was concluded that the element of the awards subject to TSR performance would be deemed to vest at threshold (25%). The Committee recognised that the use of discretion was not something to be taken lightly, but after much debate felt that this was appropriate and fair in the circumstances.

This part of the award therefore vested at 25%.

50% of the award was based on cumulative free cash flow performance. The target set in 2013 was $1,780 billion. Over the three-year period, the adjusted cumulative cash free cash flow was $1,703 billion. These adjustments include items such as Board approved M&A, including the acquisitions of Healthpoint and ArthroCare and Board approved Business Plans such as the Group Optimisation programme, the Regranex hold, the Capex plan and metal-on-metal settlements. This part of the award therefore vested at 42%.

Overall therefore, the conditional awards made in 2013 will vest at 33.5% of maximum on 7 March 2016 as follows:

Director	Date of grant	Number of shares under award at maximum	Number vesting
Olivier Bohuon	7 March 2013	240,928	80,710
Julie Brown	7 March 2013	132,866	44,510

Summary of scheme interests awarded during the financial year

	Olivier Bohuon		Julie Brown	
Basis on which award is made	Number of shares	Face value	Number of shares	Face value

Annual Equity Incentive Award (see page 85)	38,545	611,480	24,711	£282,700
Performance Share Award at maximum (see page 85)	133,156	2,112,386	85,366	£976,600
190% base salary at maximum				

Please see Policy Table on pages 96 to 97 for details of how the above plans operate. The number of shares is calculated using the closing share price on the day before the grant, which for the awards granted on 9 March 2015 was 1144p.

Details of awards made under the Performance Share Programme

Details of conditional awards over shares granted to Executive Directors subject to performance conditions are shown on the next page. These awards were granted under the Global Share Plan 2010. The performance conditions and performance periods applying to these awards are detailed on page 85.

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	Date granted	Number of ordinary shares under award at maximum	Date of vesting
Olivier Bohuon	7 March 2013[1]	240,928	7 March 2016
	7 March 2014	180,304	7 March 2017
	9 March 2015	133,156	9 March 2018
Julie Brown	7 March 2013[1]	132,866	7 March 2016

7 March 2014	100,688	7 March 2017
9 March 2015	85,366	9 March 2018

1 On 2 February 2016, 67% of the award granted at maximum to Olivier Bohuon and Julie Brown lapsed following completion of the performance period.

Details of option grants under the All-Employee ShareSave Plan

Details of options held by Executive Directors under the Smith & Nephew ShareSave Plan (2012) are shown below.

tor	Date granted	Number of shares under option	Date of vesting	Exercise period	Option p
Brown	17 September 2013	2,400 ordinary shares	1 November 2018	1 November 2018 to 30 April 2019	£

Single total figure on remuneration

Chairman and Non-Executive Directors

Director	Basic annual fee[1]		Senior Independent Director/ Committee fee		Intercontinental travel fee		Total	
	2014	2015	2014	2015	2014	2015	2014	2015
Roberto Quarta	£334,673	£400,000	N/A	N/A	£7,000	£3,500	£341,673	£403,500
Vinita Bali	£5,250	£63,000 $6000	N/A	N/A	£3,500	£17,500	£8,750	£80,500 $6000
Ian Barlow	£66,150	£66,150	£15,000	£15,000	£7,000	£3,500	£88,150	£84,650
Virginia Bottomley	£66,150	£66,150	N/A	N/A	£7,000	£3,500	£73,150	£69,650
Erik Engstrom[2]	N/A	£66,150	N/A	N/A	N/A	£3,500	N/A	£69,650
Robin Freestone[3]	N/A	£21,000	N/A	N/A	N/A	£3,500	N/A	£24,500
Michael Friedman	$126,000	$126,000	$11,250	$27,000	$35,000	$42,000	$172,250	$195,000

Brian Larcombe	£66,150	£66,150	£10,865	£15,000	£7,000	£3,500	£84,015	£84,650
Joseph Papa	$126,000	$126,000	$27,000	$27,000	$35,000	$35,000	$188,000	$188,000

1 The basic annual fee includes shares purchased for the Chairman and Non-Executive Directors in lieu of part of the annual fee, details of which can be found on the table on page 101.
2 Appointed to the Board on 1 January 2015.
3 Appointed to the Board on 1 September 2015.

Chairman and Non-Executive Director Fees

The fees paid to the Chairman and the Non-Executive Directors remained unchanged in 2015. In February 2016, the Remuneration Committee reviewed the fees paid to the Chairman and the Board reviewed the fees paid to the Non-Executive Directors and determined that with effect from 1 April, the fees paid would be as follows:

Annual fee paid to the Chairman	£412,000 of which £103,000 paid in shares (increase of 3%)
Annual fee paid to Non-Executive Directors	£68,135 of which £5,135 paid in shares (increase of 3%)
	Or $129,780 of which $9,780 paid in shares (increase of 3%)
Intercontinental travel fee (per meeting)	£3,500 or $7,000 (unchanged)
Fee for Senior Independent Director and Committee Chairman	£20,000 or $35,000 reflecting increased responsibilities.

Chief Executive Officer s remuneration compared to employees generally

The percentage change in the remuneration of the Chief Executive Officer between 2014 and 2015 compared to that of employees generally is as follows:

	Base salary	Benefits	Annual cash bonus
	% change 2015	% change 2015	% change 2015
Chief Executive Officer	3	4.5	78
Average for all employees	5	N/A	N/A

The average cost of wages and salaries for employees generally decreased by 11.6% in 2015 (see Note 3.1 to the Group accounts). Figures for annual cash bonuses are included in the numbers.

Payments made to past directors

No payments were made to former directors in the year.

Payments for loss of office

No payments were made in respect of a Director s loss of office in 2015.

Service Contracts

Executive Directors are employed on rolling service contracts with notice periods of up to 12 months from the Company and six months from the Executive Director. Further information can be found on page 99 of the Policy Report.

Outside Directorships

Olivier Bohuon is a Non-Executive Director of Virbac SA and received 21,000 in respect of this appointment in 2015. He is also a Non-Executive Director of Shire Plc and received 66,491 in respect of this appointment in 2015. Julie Brown is nominated for election as a new member of the Board of Directors of Roche Holding Ltd at the Annual General Meeting on 1 March 2016, for which she will receive a fee.

Directors interests in ordinary shares

Beneficial interests of the Executive Directors in the ordinary shares of the Company are as follows:

	Olivier Bohuon					
	1 January 2015	31 December 2015	23 February 2016[1]	1 January 2015	31 December 2015	23
Ordinary shares	210,974	338,183	338,183[3]	25000	42,945	
Share options	0	0	0	2,400	2,400	
Performance share awards[2]	688,536	554,388	474,880	233,554	318,920	
Equity Incentive awards	147,114	107,142	107,142	26,497	42,377	
Other awards	0	0	0	50,000	25,000	

1 The latest practicable date for this Annual Report.
2 These share awards are subject to further performance conditions before they may vest, as detailed on pages 83 to 84.
3 The ordinary shares held by Olivier Bohuon on 23 February 2016 represent 435.2% of his base annual salary.
4 The ordinary shares held by Julie Brown on 23 February 2016 represent 122.2% of her base annual salary.
5 This option was granted under the Smith & Nephew ShareSave Plan (2012).

The beneficial interest of each Executive Director is less than 1% of the ordinary share capital of the Company. In addition, Olivier Bohuon holds 50,000 deferred shares. Following the redenomination of ordinary shares into US Dollars on 23 January 2006, the Company issued 50,000 deferred shares. These shares are normally held by the Chief Executive Officer and are not listed on any Stock exchange and have extremely limited rights attached to them.

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Beneficial interests of the Chairman and Non-Executive Directors in the ordinary shares of the Company are as follows:

Director	1 January 2015 (or date of appointment) if later	31 December 2015 (or date of retirement if earlier)	23 February 2016[1]	Shareholding as % of annual fee[2]
Roberto Quarta	15,136	19,765	19,765	56.9%
Vinita Bali[3]	0	6,186	6,186	108.2%
Ian Barlow	18,403	18,556	18,556	323.2%
Virginia Bottomley	18,056	18,219	18,219	317.3%
Erik Engstrom	15,000	15,140	15,140	263.7%
Robin Freestone	0	15,000	15,000	261.2%
Michael Friedman[3]	8,822	9,014	9,014	116.5%
Brian Larcombe	40,368	40,508	40,508	705.4%
Joseph Papa[3]	12,997	13,197	13,197	170.5%

1 The latest practicable date for this Annual Report.
2 Calculated using the closing share price of 1152p per ordinary share and $32.57 per ADS on 23 February 2016, and an exchange rate of £1/$1.4078.
3 Vinita Bali, Michael Friedman and Joseph Papa hold some of their shares in the form of ADS.
The beneficial interest of each Non-Executive Director is less than 1% of the ordinary share capital of the Company.

Relative importance of spend on pay

The following table sets out the total amounts spent in 2015 and 2014 on remuneration, the attributable profit for each year and the dividends declared and paid in each year.

	For the year to 31 December 2015	For the year to 31 December 2014	% change
Attributable profit for the year	$410m	$501m	-18.2%
Dividends paid during the year	$272m	$250m	8.8%
Share buyback[1]	$77m	$75m	2.7%
Total Group spend on remuneration	$1,193m	$1,237m	3.6%

1 Share buy-back programme ceased during 2014 following the acquisition of Arthrocare. Shares are bought in the market in respect of shares issued as part of the executive and employee share plans. See Note 19.2 for further information.

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Total Shareholder Return

A graph of the Company s TSR performance compared to that of the FTSE 100 index is shown below in accordance with Schedule 8 to the Regulations.

Seven-year Total Shareholder Return

(measured in UK Sterling, based on monthly spot values)

However, as we compare the Company s performance to a tailored sector peer group of medical devices companies (see page 88), when considering TSR performance in the context of the Global Share Plan 2010, we feel that the following graph showing the TSR performance of this peer group is also of interest.

Seven-year Total Shareholder Return

(measured in US Dollars, based on monthly spot values)

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Table of historic data

The following table details information about the pay of the Chief Executive Officer in the previous seven years:

Year	Chief Executive Officer	Single figure of total remuneration $	Annual Cash Incentive payout against maximum %	Long-term incentive vesting rates against maximum opportunity: Performance shares %	Long-term incentive vesting rates against maximum opportunity: Options %
2015	Olivier Bohuon	$5,499,186	75[5]	33.5	N/A
2014	Olivier Bohuon	$6,785,121[4]	43[6]	57	N/A
2013	Olivier Bohuon	$4,692,858	84	0	N/A
2012	Olivier Bohuon	$4,956,771	84	N/A	N/A
2011	Olivier Bohuon[1,3]	$7,442,191	68	N/A	N/A
2011	David Illingworth[2]	$3,595,787	37	27	27
2010	David Illingworth	$4,060,707	57	70	61
2009	David Illingworth	$4,406,485	59	46	59

1 Appointed Chief Executive Officer on 1 April 2011.
2 Resigned as Chief Executive Officer on 1 April 2011.

3 Includes recruitment award of 1,400,000 cash and a share award over 200,000 ordinary shares with a value of 1,410,000 on grant.
4 Prior years are restated to reflect amounts not known at the date of signing the previous Annual Report.
5 Calculated as 112% (actual payout) disclosed on page 85 divided by the maximum potential payout of 150%.
6 This has been restated such that it is calculated consistently to the amounts disclosed in the current year.

Implementation of remuneration policy in 2016

The Remuneration Committee proposes to make no changes to the way that the remuneration policy is implemented in 2016 from how it was implemented in 2015, other than increasing base salaries in line with salary increases across the Group, as explained on pages 83 and 88 and setting new targets for the Annual Incentive Plan and the Performance Share Programme, as explained on page 86.

Statement of voting at Annual General Meeting held in 2015

At the Annual General Meeting held on 9 April 2015, votes cast by proxy and at the meeting and votes withheld in respect of the votes on the Directors Remuneration Report were as follows:

Resolution	Votes for	% for	Votes against	% against	Total votes validly cast	Votes withheld
Approval of the Directors Remuneration Report	533,724,308	92.09	45,839,876	7.91	579,564,184	18,275,546

Joseph Papa, Chairman of the Remuneration Committee has met with a number of shareholders in previous years to discuss remuneration matters. In December 2015, he met with shareholders holding around 18.4% of the Company s shares to discuss the following issues:

Previously, the Board felt that the disclosure of the financial targets used in our Annual Incentive Plan would be commercially sensitive. However, following discussions with shareholders, we agreed to look at ways of disclosing these targets retrospectively without causing us commercial concerns. The financial targets we used in our Annual Incentive Plan for 2015 are therefore disclosed on page 83.

We also discussed with shareholders whether the vesting period relating to our long-term share plans should be extended from three to five years, by requiring Directors to retain and hold vested shares for a two-year period after vesting. Whilst this is exactly what our Executive Directors do, out of choice, this is not something that is currently a condition of the Performance Share Awards. The Committee has considered this further and have agreed that this is a matter, which we would prefer to address in the context of a full review of our remuneration policy, which we shall be undertaking during 2016 ahead of putting the remuneration policy to shareholders for approval in 2017.

Other remuneration matters

Senior Management remuneration

The Group s administrative, supervisory and management body (the Senior Management) is comprised for US reporting purposes, of Executive Directors and Executive Officers. Details of the current Executive Directors and Executive Officers are given on pages 54 to 56.

Compensation paid to Senior Management in respect of 2015, 2014 and 2013 was as follows:

	2013	2014	2015
Total compensation (excluding pension emoluments, but including cash payments under the performance-related incentive plans)	$14,186,000	$12,725,000	$13,971,000
Total compensation for loss of office	$0	$2,664,000	0
Aggregate increase in accrued pension scheme benefits	$257,000	$16,000	0
Aggregate amounts provided for under supplementary schemes	$414,000	$507,000	$698,000

As at 23 February 2016, the Senior Management owned 528,367 shares and 56,970 ADSs, constituting less than 0.1% of the share capital of the Company.

Details of share awards granted during the year and held as at 23 February 2016 by members of Senior Management are as follows:

	Share awards granted during the year	Total share awards held as at 23 February 2016
Equity Incentive awards	198,497	332,925
Performance Share awards	508,650	1,271,834
Conditional share awards under the Global Share Plan 2010	9,115	38,514
Options under Employee ShareSave plans	2,675	8,940
Options under the Global Share Plan 2010	0	110,193

Dilution headroom

The Remuneration Committee ensures that at all times the number of new shares which may be issued under any share-based plans, including all-employee plans, does not exceed 10% of the Company s issued share capital over any rolling ten-year period (of which up to 5% may be issued to satisfy awards under the Company s discretionary plans). The Company monitors headroom closely when granting awards over shares taking into account the number of options or shares that might be expected to lapse or be forfeited before vesting or exercise. In the event that insufficient new shares are available, there are processes in place to purchase shares in the market to satisfy vesting awards and to net-settle option exercises.

Over the previous 10 years (2006 to 2015), the number of new shares issued under our share plans has been as follows:

All-employee share plans	7,530,287 (0.84% of issued share capital as at 23 February 2016)
Discretionary share plans	36,408,270(4.07% of issued share capital as at 23 February 2016)

By order of the Board, on 24 February 2016

Joseph Papa
Chairman of the Remuneration Committee

The Policy Report

Future policy table

Executive Directors

The following table and accompanying notes explain the different elements of remuneration we pay to our Executive Directors:

How the component supports the short- and long-term strategy of the Company	How the component operates
BASE SALARY AND BENEFITS	
BASE SALARY	

We are a FTSE 50 listed company, operating in over 100 countries around the world. Our strategy to generate cash from Established Markets in order to invest for growth in Emerging Markets means that we are competing for international talent and our base salaries therefore need to reflect what our Executive Directors would receive if they were to work in another international company of a similar size, complexity and geographical scope.

Salaries are normally reviewed annually, with any increase applying from 1 April.

Salary levels and increases take account of:

- market movements within a peer group of similarly sized UK listed companies
- scope and responsibility of the position
- skill/experience and performance of the individual Director
- general economic conditions in the relevant geographic market, and
- average increases awarded across the Company, with particular regard to increases in the market in which the Executive is based.

PAYMENT IN LIEU OF PENSION

In order to attract and retain Executive Directors with the capability of driving our corporate strategy, we need to provide market-competitive retirement benefits similar to the benefits they would receive if they were to work for one of our competitors.

At the same time, we seek to avoid exposing the Company to defined benefit pension risks, and where possible will make payments in lieu of providing a pension.

Current Executive Directors receive an allowance in lieu of membership of a Company-run pension scheme.

Base salary is the only component of remuneration that is pensionable.

BENEFITS

In order to attract and retain Executive Directors with the capability of driving our corporate strategy, we need to provide a range of market-competitive benefits similar to the benefits they would receive if they were to work for one of our competitors.

It is important that our Executive Directors are free to focus on the Company s business without being diverted by concerns about medical provision, risk benefit cover or, if required, relocation issues.

A wide range of benefits may be provided depending on the benefits provided for comparable roles in the location in which the Executive Director is based. These benefits will include, as a minimum, healthcare cover, life assurance, long-term disability, annual medical examinations, company car or car allowance. The Committee retains the discretion to provide additional benefits where necessary or relevant in the context of the Executive s location.

Where applicable, relocation costs may be provided in line with Company s relocation policy for employees, which may include removal costs, assistance with accommodation, living expenses for self and family and financial consultancy advice. In some cases such payments may be grossed up.

ALL-EMPLOYEE ARRANGEMENTS

ALL-EMPLOYEE SHARE PLANS

To enable Executive Directors to participate in all-employee share plans on the same basis as other employees.

ShareSave Plans are operated in the UK and 27 other countries internationally. In the US, an Employee Stock Purchase Plan is operated. These plans enable employees to save on a regular basis and then buy shares in the Company. Executive Directors are able to participate in such plans on a similar basis to other employees, depending on where they are located.

Maximum levels of payment	Framework in which performance is assessed
The base salary of the Executive Directors with effect from 1 April 2014 will be as follows: Olivier Bohuon 1,111,782 Julie Brown £514,000 The factors noted in the previous column will be taken into consideration when making increases to base salary and when appointing a new Director. In normal circumstances, base salary increases for Executive Directors will relate to the geographic market and peer group. In addition, the average increases for employees across the Group will be taken into account. The Remuneration Committee retains the right to approve higher increases when there is a substantial change in the scope of the Executive Director s role. A full explanation will be provided in the Implementation Report should higher increases be approved in exceptional cases.	Performance in the prior year is one of the factors taken into account and poor performance is likely to lead to a zero salary increase.
Up to 30% of base salary.	The level of payment in lieu of a pension paid to Executive Directors is not dependent on

performance.

The policy is framed by the nature of the benefits that the Remuneration Committee is willing to provide to Executive Directors. The maximum amount payable will depend on the cost of providing such benefits to an employee in the location at which the Executive Director is based. Shareholders should note that the cost of providing comparable benefits in different jurisdictions may vary widely.

The level and cost of benefits provided to Executive Directors is not dependent on performance but on the package of benefits provided to comparable roles within the relevant location.

As an indication, the cost of such benefits provided in 2013 was as follows:

Olivier Bohuon	80,705
Julie Brown	£14,400

The maximum amount payable in benefits to an Executive Director, in normal circumstances, will not be significantly more than amounts paid in 2013 (or equivalent in local currency). The Remuneration Committee retains the right to pay more than this should the cost of providing the same underlying benefits increase or in the event of a relocation. A full explanation will be provided in the Implementation Report should the cost of benefits provided be significantly higher.

Executive Directors may currently invest up to £250 per month in the UK ShareSave Plan. The Remuneration Committee may exercise its discretion to increase this amount up to the maximum permitted by the HM Revenue & Customs. Similar limits will apply in different locations.

The potential gains from all-employee plans are not based on performance but are linked to growth in the share price.

Future policy table

Executive Directors continued

How the component supports the short- and long-term strategy of the Company	How the component operates

ANNUAL INCENTIVES

ANNUAL INCENTIVE PLAN CASH INCENTIVE

To motivate and reward the achievement of specific annual financial and business objectives related to the Company s strategy and sustained through a clawback mechanism explained more fully in the notes.

The objectives which determine the payment of the annual cash incentive and the level of the annual equity award are linked closely to the Group strategy.

The financial measures of revenue, trading profit and cash flow underlie our strategy for growth and the need to generate cash to fund future growth.

The business objectives are also linked to the Group strategy. These change from year to year to reflect the evolving strategy, but will typically be linked to the Strategic Priorities set out in this Annual Report. The Implementation Report each year will explain how each objective is linked to a specific strategic priority.

For example, a Reinvestment objective links to the priority of improving the efficiency of the business model and investment in higher growth segments and geographies and Processes and People objectives link to developing the right organisation.

The Annual Incentive Plan comprises a cash and an equity component, both based on the achievement of financial and business objectives set at the start of the year.

The cash component is paid in full after the end of the performance year.

At the end of the year, the Remuneration Committee determines the extent to which performance against these has been achieved and sets the award level.

ANNUAL INCENTIVE PLAN EQUITY INCENTIVE

To drive share ownership and encourage sustained high standards through the application of a malus provision over three years, explained more fully in the notes.

The equity award component comprises conditional share awards (made at the time of the cash award), with vesting phased over the following three years.

The equity component vests 1/3, 1/3, 1/3 on successive award anniversaries, only if performance remains satisfactory over each of these three years; otherwise the award will lapse.

Participants will receive an additional number of shares equivalent to the amount of dividend payable per vested share during the relevant performance period.

LONG-TERM INCENTIVES (AWARDS ACTIVELY BEING MADE)

PERFORMANCE SHARE PROGRAMME

To motivate and reward longer-term performance linked to the long-term strategy and share price of the Company.

The performance measures which determine the level of vesting of the Performance Share Awards are linked to our corporate strategy.

Our strategy requires the generation of cash in order to invest for growth. Cash flow is therefore a key performance measure in our performance share plan.

Growth in our Emerging & International Markets is a key part of our strategy. Revenue in our Emerging & International Markets is therefore included as one of our performance share plan measures.

If our strategy succeeds, the total return to our shareholders will also increase and therefore we include a relative TSR measure in our long-term share plan.

The Performance Share Programme comprises conditional share awards which vest after three years, subject to the achievement of stretching performance targets linked to the Company s strategy.

Awards may be subject to clawback in the event of material financial misstatement or misconduct.

Participants will receive an additional number of shares equivalent to the amount of dividend payable per vested share during the relevant performance period.

ONE-OFF SHARE AWARDS

In order to implement our Group strategy, we recognise that it is not always possible to promote from within the Company. In the event that we recruit an Executive Director who is currently employed by another company, we recognise that we might be required to compensate that Executive Director for cash or share awards, they may forfeit on leaving their former employer. Our policy regarding such awards is detailed in the notes.

One-off share awards may be made under the provisions of Listing Rule 9.4.2 to facilitate the appointment of a new Executive Director. Such awards will be made on a case-by-case basis depending on the circumstances at the time to take account of amounts forfeited elsewhere on accepting appointment.

Maximum levels of payment	Framework in which performance is assessed
The total maximum payable under the Annual Incentive Plan is 215% of base salary (150% Cash Incentive and 65% Equity Incentive).	The cash and share awards are subject to malus and clawback as detailed in the notes following this table.
50% salary awarded for threshold performance. 100% salary awarded for target performance. 150% salary awarded for maximum performance.	70% of the cash component is based on financial performance measures, which currently include revenue, trading profit and trading cash. The Remuneration Committee retains the discretion to adopt any financial performance measure that is relevant to the Company.
Performance assessed against individual objectives and Group financial targets.	30% of the cash component is based on other business goals linked to the Company s strategy, which could include financial and non-financial measures.
	The Remuneration Committee has the discretion to apply a multiplier, adjusting the outcome up or down by 10% to reward or penalise conduct in respect of leadership, corporate reputation, ethics, organisational behaviours and representing the Company both internally and externally.

	The maximum opportunity shown to the left cannot be exceeded through the application of the multiplier.
0% of salary awarded for performance below target. 50% of salary awarded for target performance. 65% of salary awarded for maximum performance. Performance assessed against individual performance which includes an element of Group financial targets.	The Remuneration Committee will use their judgement of the individual s performance in determining the level of equity award that may be awarded within the range of 50% to 65% of salary. The equity component will vest in three equal tranches over a three-year period, provided that the annual performance conditions set at the beginning of each year continue to be met.
Annual awards: 47.5% of salary for threshold performance. 95% of salary for target performance. 190% of salary for maximum performance.	Currently: 50% of the award vests on achievement of a three-year cumulative free cash flow target. 25% of the award vests subject to three-year Total Shareholder Return (TSR) at median performance relative to industry peers. 25% of the award vests subject to the achievement of revenue targets in Emerging & International Markets. These measures are described in more detail in the notes and the targets and performance against them will be disclosed in the Implementation Report if appropriate.

	The Performance Share Award will vest on the third anniversary of the date of grant, depending on the extent to which the performance conditions are met over the three-year period commencing in the year the award was made.
	The Remuneration Committee retains the discretion to change the measures and their respective weightings to ensure continuing alignment with the Company s strategy.
	The cash and share awards are subject to malus and clawback as detailed in the notes following this table.
	Awards made prior to 2014 were subject to TSR and cash flow targets.
Each award will be determined on a case-by-case basis. In normal circumstances such awards will be no more beneficial than the value of amounts forfeited by the Executive Director on leaving a previous company to join the Board.	The Remuneration Committee has the discretion to apply performance conditions to one-off awards if appropriate. However, if it is impossible to replicate the vesting conditions applicable to awards granted by other companies, awards may be made without performance conditions.

The Policy Report continued

Notes to Future policy table

Executive Directors

Changes to remuneration policy

The remuneration policy described in the future policy table Executive Directors is the same remuneration policy in respect of Executive Directors that has been in force since the beginning of 2012. It is anticipated that this policy will apply at least until the Annual General Meeting in 2017. The only changes made have been to introduce a third performance measure to our Performance Share Programme and to increase the maximum monthly contribution under the UK ShareSave Plan to £500 in line with the maximum permitted by HM Customs & Excise.

Performance measures Annual Incentive Plan

The performance measures which apply to the Annual Incentive Plan for Executive Directors comprise 70% financial measures and 30% business goals linked to the Company s strategy, which could include financial and non-financial measures.

The financial measures may differ from year to year to provide continued alignment with the Company strategy. Measures to be used in 2014 are detailed in the Implementation Report. Each year the measures are chosen in order to relate to our Strategic Priorities and in turn to our key performance indicators, which are set out in this Annual Report. The performance targets are set by taking into account the strategy of the Company and are designed to be realistic yet stretching.

The business measures will differ from year to year as the evolving corporate strategy means that we will wish to set Executive Directors different business objectives in order to meet the current corporate needs. The business objectives are personal to each Executive Director, and are tailored to reflect their role and responsibilities during the year. These are set at the start of the year and reflect the most important areas of strategic focus for the Company. The Remuneration Committee sets annual measurement criteria (performance targets) that are appropriate to motivate and measure an Executive Director s performance in any one year. The factors taken into consideration include the three-year strategic plan, prior years delivered performance and budgeted performance. In the past, measures have included R&D investment, succession planning, employee engagement, compliance, development of product portfolio, M&A activity and shared services implementation.

Performance measures Performance Share Programme

The performance measures which apply to the Performance Share Programme awards made in 2014 relate to cumulative free cash flow, revenue in Emerging & International Markets and Total Shareholder Return. We have chosen three measures which are relevant for the long-term success of the Company.

The free cash flow measure is important for us in a period of growth, when we need to generate cash to fund both organic and inorganic investment.

Revenue in Emerging & International Markets is important for us when we are seeking to generate profitable revenue in new markets and from new products.

The Total Shareholder Return measure, which compares our long-term performance against that of our peers, seeks to align the payout of the Performance Share Programme with the experience of our shareholders. This helps Executive Directors relate to the shareholder experience and ensure that vesting is aligned to the out-performance of our sector.

The Remuneration Committee will keep these performance measures under review and retains the discretion to alter the measures or their respective weightings to ensure continuing alignment to the corporate strategy.

Malus and clawback

The Remuneration Committee may determine that an unvested award or part of an award may not vest (regardless of whether or not the performance conditions have been met) or may determine that any cash bonus, vested shares, or their equivalent value in cash be returned to the Company in the event that any of the following matters is discovered:

- A material misstatement of the Company s financial results; or
- A material error in determining the extent to which any performance condition has been satisfied; or
- A significant adverse change in the financial performance of the Company, or a significant loss at a general level or at the division or function in which a participant worked; or
- Inappropriate conduct (for example reputational issues), capability or performance by a participant, or within a team business area or profit centre.

These provisions apply to share awards under the Global Share Plan 2010 and cash amounts under the Annual Cash Incentive Plan.

Illustrations of the application of the remuneration policy

The following charts show the potential split between the different elements of the Executive Directors remuneration under three different performance scenarios:

Figures as at salary levels in 2014, when the Policy Report was approved by shareholders

TOTAL REMUNERATION BY PERFORMANCE SCENARIO FOR 2014 FINANCIAL YEAR

Data for the Chief Executive Officer assumes an exchange rate of 1 = £0.8494.

Policy on recruitment arrangements

Our policy on the recruitment of Executive Directors is to pay a fair remuneration package for the role being undertaken and the experience of the Executive Director appointed. In terms of base salary, we will seek to pay a salary comparable, in the opinion of the Committee, to that which would be paid for an equivalent position elsewhere. The Remuneration Committee will determine a base salary in line with the policy and having regard to the parameters set out on in the future policy table. Incoming Executive Directors will be entitled to pension, benefit and incentive arrangements which are the same as provided to existing Executive Directors. On that basis, awards would not exceed 405% of base salary.

We recognise that in the event that we require a new Executive Director to relocate to take up a position with the Company, we will also pay relocation and related costs as described in the future policy table, which is in line with the relocation arrangements we operate across the Group.

We also recognise that in many cases, an external appointee may forfeit sizeable cash bonuses and share awards if they choose to leave their former employer and join us. The Remuneration Committee therefore believes that we need the ability to compensate new hires for incentive awards they give up on joining us. The Committee will use its discretion in setting any such compensation, which will be decided on a case-by-case basis. We will only provide compensation which is no more beneficial than that given up by the new appointee and we will seek evidence from the previous employer to confirm the full details of bonus or share awards being forfeited. As far as possible, we will seek to replicate forfeited share awards using Smith & Nephew incentive plans or through reliance on 9.4.2 in the Listing Rules, whilst at the same time aiming for simplicity.

If we appoint an existing employee as an Executive Director of the Company, pre-existing obligations with respect to remuneration, such as pension, benefits and legacy share awards, will be honoured. Should these differ materially from current arrangements, these will be disclosed in the next Implementation Report.

We will supply details via an announcement to the London Stock Exchange of an incoming Executive Director s remuneration arrangements at the time of their appointment.

Service contracts

We employ Executive Directors on rolling service contracts with notice periods of up to 12 months from the Company and six months from the Executive Director. On termination of the contract, we may require the Executive Director not to work their notice period and pay them an amount equivalent to the base salary and payment in lieu of pension and benefits they would have received if they had been required to work their notice period.

Under the terms of the Executive Director s service contract, Executive Directors are restricted for a period of 12 months after leaving the employment of the Company from working for a competitor, soliciting orders from customers and offering employment to employees of Smith & Nephew. The Company retains the right to waive these provisions in certain circumstances. In the event that these provisions are waived and the former Executive Director commences employment earlier than at the end of the notice period, no further payments shall be made in respect of the portion of notice period not worked. Directors service contracts are available for inspection at the Company s registered office: 15 Adam Street, London WC2N 6LA.

The Policy Report continued

Policy on payment for loss of office

Our policy regarding termination payments to departing Executive Directors is to limit severance payments to pre-established contractual arrangements. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the Executive Director, as well as the rules of any incentive plans.

Under normal circumstances (excluding termination for gross misconduct) all leavers are entitled to receive termination payments in lieu of notice equal to base salary, payment in lieu of pension, and benefits. In some circumstances additional benefits may become payable to cover reimbursement of untaken holiday leave, repatriation and outplacement fees, legal and financial advice.

In addition, we may also in exceptional circumstances exercise our discretion to pay the Executive Director a proportion of the annual cash incentive they would have received had they been required to work their notice period. Any entitlement or discretionary payment may be reduced in line with the Executive Director s duty to mitigate losses, subject to applying our non-compete clause.

We will supply details via an announcement to the London Stock Exchange of a departing Executive Director s termination arrangements at the time of departure.

In the case of a change of control which results in the termination of an Executive Director or a material alteration to their responsibilities or duties, within 12 months of the event, the Executive Director would be entitled to receive 12 months base salary plus payment in lieu of pension and benefits. In addition, the Remuneration Committee has discretion to pay an Executive Director in these circumstances an annual cash incentive. For Directors appointed prior to 1 November 2012, an automatic annual cash incentive is payable at target.

In the event that an Executive Director leaves for reasons of ill-health, death, redundancy or retirement in agreement with the Company, then the vesting of any outstanding annual cash incentive and equity incentive awards will generally depend on the Remuneration Committee s assessment of performance to date. Performance share awards will be pro-rated for the time worked during the relevant performance period, and will remain subject to performance over the full performance period.

For all other leavers, the annual cash incentive will generally be forfeited and outstanding equity incentive awards and performance share awards will lapse.

One-off awards granted on appointment will normally lapse on leaving except in cases of death, retirement, redundancy, or ill-health. The Remuneration Committee has discretion to permit such awards to vest in other circumstances and will be subject to satisfactorily meeting performance conditions if applicable.

The Remuneration Committee retains discretion to alter these provisions on a case-by-case basis following a review of circumstances and to ensure fairness for both shareholders and Executive Directors.

We will supply details via an announcement to the London Stock Exchange of an out-going Executive Director s remuneration arrangements around the time of leaving.

Policy on shareholding requirements

The Remuneration Committee believes that one of the best ways our Executive Directors can have a greater alignment with shareholders is for them to hold a significant number of shares in the Company. Executive Directors are therefore expected to build up a holding of Smith & Nephew shares worth two times their base salary. In order to reinforce this expectation, we require them to retain 50% of all shares vesting under the Company share plans (after tax) until this holding has been met recognising that differing international tax regimes affect the pace at which an Executive Director may fulfil the shareholding requirement. When calculating whether or not this requirement has been met, we will include ordinary shares or ADRs held by the Executive Director and their immediate family and the intrinsic value of any vested but unexercised options.

Statement of consideration of employment conditions elsewhere in the Company and differences to the Executive Director Policy

All employees across the Group including the Executive Directors are incentivised in a similar manner. Although the salary levels and maximum opportunities under bonus and share plans differ, generally speaking the same targets and performance conditions relating to the Company s strategy apply throughout the organisation.

Executive Director base salaries will generally increase at a rate in line with the average salary increases awarded across the Company. Given the diverse geographic markets within which the Company operates, the Committee will generally be informed by the average salary increase in both the market local to the Executive and the UK, recognising the Company s place of listing, and will also consider market data periodically.

A range of different pension arrangements operate across the Group depending on location and/or length of service. Executive Directors and Executive Officers either participate in the legacy pension arrangements relevant to their local market or receive a cash payment of 30% of salary in lieu of a pension. Senior Executives who do not participate in a local Company pension plan receive a cash payment of 20% of salary in lieu of pension. Differing amounts apply for lower levels within the Company.

The Company has established a benefits framework under which the nature of benefits varies by geography. Executive Directors participate in benefit arrangements similar to those applied for employees within the applicable location.

All employees are set objectives at the beginning of each year, which link through to the objectives set for the Executive Directors. Annual cash incentives payable to employees across the Company depend on the satisfactory completion of these objectives as well as performance against relevant Group and divisional financial targets relating to revenue, trading profit and trading cash, similar to the financial targets set for the Executive Directors.

Executive Officers and Senior Executives (72 as at 2014) participate in the annual Equity Incentive Programme and the Performance Share Programme. The maximum amounts payable are lower, but the performance conditions are the same as those that apply to the Executive Directors.

No specific consultation with employees has been undertaken relating to Director remuneration. However, regular employee surveys are conducted across the Group, which cover a wide range of issues relating to local employment conditions and an understanding of Group-wide strategic matters. As at 2014, over 4,500 employees in 32 countries participate in one or more of our global share plans.

Future policy table

Chairman and Non-Executive Directors

The following table and accompanying notes explain the different elements of remuneration we pay to our Chairman and Non-Executive Directors. No element of their remuneration is subject to performance. All payments made to the Chairman are determined by the Remuneration Committee, whilst payments made to the Non-Executive Directors are determined by the Directors who are not themselves Non-Executive Directors, currently the Chairman, the Chief Executive Officer and the Chief Financial Officer.

How the component supports the short- and long-term strategy of the Company	How the component operates	Maximum levels of payment
ANNUAL FEES		
BASIC ANNUAL FEE		
To attract and retain Directors by setting fees at rates comparable to what would be paid in an equivalent position elsewhere.	Fees will be reviewed periodically. In future, any increase will be paid in shares until 25% of the total fee is paid in shares.	Annual fees are currently as follows: £63,000 in cash plus £3,150 in shares; or
A proportion of the fees are paid in shares in the third quarter of each year in order to align Non-Executive Directors fees with the interest of shareholders.	Fees are set in line with market practice for fees paid by similarly sized UK listed companies.	$120,000 in cash plus $6,000 in shares.

	Annual fees are set and paid in UK Sterling or US Dollars depending on the location of the Non-Executive Director. If appropriate, fees may be set and paid in alternative currencies.	Chairman fee: £400,000 plus £20,000 in shares (to April 2014). £300,000 plus £100,000 in shares (from April 2014). Whilst it is not expected to increase the fees paid to the Non-Executive Directors and the Chairman by more than the increases paid to employees generally, in exceptional circumstances, higher fees might become payable. The total maximum aggregate fees payable to the Non-Executive Directors will not exceed £1.5 million as set out in the Company s articles of association.
FEE FOR SENIOR INDEPENDENT DIRECTOR AND COMMITTEE CHAIRMEN		
To compensate Non-Executive Directors for the additional time spent as Committee Chairmen or as the Senior Independent Director.	A fixed fee is paid, which is reviewed periodically.	£15,000 in cash; or $27,000 in cash. Whilst it is not expected that the fees paid to the Senior Independent Director or Committee Chairmen will exceed the increases paid to employees generally, in exceptional circumstances, higher fees might

become payable.

INTERCONTINENTAL TRAVEL FEE		
To compensate Non-Executive Directors for the time spent travelling to attend meetings in another continent.	A fixed fee is paid, which is reviewed periodically.	£3,500 in cash; or $7,000 in cash. Whilst it is not expected to increase these fees by more than the increases paid to employees generally, in exceptional circumstances, higher fees might become payable.

Figures as at fee levels in 2014, when the Policy Report was approved by shareholders.

The Policy Report continued

Notes to Future policy table

Non-Executive Directors

Changes to remuneration policy

The Board has altered the policy regarding the payment of Non-Executive Directors and to the Chairman in one respect in 2013, by introducing the payment of a proportion of the fees in the form of shares. The fees paid to the Non-Executive Directors and to the Chairman were reviewed in July 2013 and it was agreed that the basic fee should be increased by 5% (there having been no increase to these fees since August 2011) and that the increase be paid in the form of shares. The amount of the increase less applicable taxes was used to purchase shares in the market on 15 August 2013. Going forward, any increase in the level of fees paid to a Non-Executive Director will be paid in the form of shares until 25% of the Non-Executive Director s fee is paid in the form of shares. We have made this change in order to align the fees paid to Non-Executive Directors with the experience of our shareholders. With the appointment of Roberto Quarta as Chairman of the Company with effect from the Annual General Meeting, we have taken the opportunity to pay 25% of his fees in the form of shares immediately.

Policy on recruitment arrangements

Any new Non-Executive Director shall be paid in accordance with the current fee levels on appointment, in line with the policy set out above. With respect to the appointment of a new Chairman, fee levels will take into account market rates, the individual s profile and experience, the time required to undertake the role and general business conditions. In addition, the Remuneration Committee retains the right to authorise the payment of relocation assistance or an accommodation allowance in the event of the appointment of a Chairman not based within the UK.

Letters of appointment

The Chairman and Non-Executive Directors have letters of appointment which set out the terms under which they provide their services to the Company and are available for inspection at the Company s registered office: 15 Adam Street, London WC2N 6LA. The appointment of Non-Executive Directors is not subject to a notice period, nor is there any compensation payable on loss of office, for example, should they not be re-elected at an Annual General Meeting. The appointment of the Chairman is subject to a notice period of six months.

The Chairman and Non-Executive Directors are required to acquire a shareholding in the Company equivalent in value to one times their basic fee within two years of their appointment to the Board.

Statement of consideration of shareholder views

This Policy Report sets out the remuneration policy in relation to Executive Directors, which has been in place since 2012. As this policy evolved at the end of 2011 and during 2012, we engaged actively with shareholders to explain our remuneration arrangements and to discuss their views on our proposals. At the time, Joseph Papa, the Chairman of the Remuneration Committee and members of the Senior Executive Team met with the holders of around 30% of our shares, including collectively with a number of smaller engaged investors, as well as shareholder advisory bodies. We discussed the structure of our remuneration package, our policies on termination, recruitment, shareholding requirements and the operation of Annual Incentive Plan. The Directors Remuneration Report was approved by 96% of shareholders who voted at the Annual General Meeting in 2013 and we received feedback from shareholders around the time of this meeting that they understood and approved of our remuneration arrangements. Although the remuneration policy has remained essentially unchanged as in previous years, given the changes in remuneration reporting, we also conducted an engagement programme with our larger shareholders in 2013. Joseph Papa met with the holders of around 20% of our shares, and with a number of shareholder advisory bodies. He has also been available to discuss any aspect of our remuneration programme with shareholders throughout the year. The shareholders who have engaged with us have all been supportive of our approach to remuneration, recognising the link between the corporate strategy and executive reward.

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