

2010 Sustainability Report

Published August 2011



Our commitment to the business of sustainability



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Message from our CEO

I am pleased to share with you the 2010 Smith & Nephew Sustainability Report. Although this is my first such report as CEO of Smith & Nephew, the foundation of our commitment to sustainability was already established by my predecessor, David Illingworth.

I have learned over the course of my career that sustainable business practices and good corporate citizenship are hallmarks of a successful company. I am proud to lead an organisation that recognises the importance of these practices, and I look forward to supporting and strengthening our commitment.

As a multinational company operating in more than 90 countries, we believe ourselves to be accountable not only to our shareholders but also to our global community. We view sustainability as an integral part of the way that we conduct our business. In doing so, we reinforce our values of Performance, Innovation and Trust by:

- Strengthening our reputation among customers
- Meeting our commitment to regulatory authorities
- Attracting and retaining a diverse and talented workforce
- Improving operating efficiency and reducing unnecessary cost
- Reducing the environmental impact of doing business

Sustainable practices provide clear business benefits, but our commitment goes deeper than that. Operating in a sustainable and responsible way is important to us because, quite simply, it is the right thing to do. As such, we committed to making it an integral part of our culture. This is why, in 2010, Smith & Nephew created a new executive position to lead our efforts. During 2011, Smith & Nephew will work with our customers and stakeholders to develop new sustainability strategies that will further demonstrate our commitment, and yield tangible results which I look forward to sharing with you in next year's report.

Sustainability is not a destination, but a journey. I invite you to read the enclosed report of our progress so far.

Olivier Bohuon

Chief Executive Officer

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Message from our SVP Corporate Sustainability

In the latter half of 2010, I was given the opportunity to join a global business with a successful 150+ year history and a desire to forge an even greater future. Since then, I have been meeting with internal and external stakeholders to build upon our existing sustainability efforts. This work revealed that:

- Our customers are expressing increasing interest in our sustainability commitment especially in the areas of waste reduction and energy efficiency
- Our company is committed to seeking solutions that generate economic efficiencies and at the same time yield environmental and social benefits
- Our innovative new product development teams are exploring ways to ensure products have both great clinical outcomes and sustainable attributes
- Our employees are motivated by our noble mission of restoring and enhancing people's lives and by a work environment that encourages them to balance work, wellness and community involvement

This year my focus will be on leading the development of our long-term sustainability strategy. Thus, the 2010 Sustainability Report, published in 2011, is a transition document between past and future. For this report, we have focused on a sample of sustainability initiatives that represent the spirit of our future strategy. We are proud of our sustainability accomplishments to date. In 2010, we continued our strong ranking in the Dow Jones Sustainability Index ("DJSI"), retained our membership on FTSE4Good, and were invited to join the World Environmental Center as its first representative of the Health and Technology industry. Our future focus will be on instilling sustainability as an integral part of how we conduct our business. Looking ahead, we anticipate setting and achieving ambitious, multi-year objectives that will accelerate our company-wide sustainability journey in the years to come. We welcome your input and participation.

Don Young

SVP Corporate Sustainability

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Smith & Nephew's Code of Conduct and Business Principles governs the way we operate.

Our Corporate Governance and Business Integrity

Smith & Nephew aims to be honest and fair in all aspects of its business and expects the same from those with whom it does business. Smith & Nephew's Code of Conduct and Business Principles governs the way we operate so that we respect stakeholders and seek to build open, honest and constructive relationships. Smith & Nephew takes account of ethical, social, environmental, legal and financial considerations as part of its operating methods. We have an independently operated whistle-blowing service in all jurisdictions in which Smith & Nephew operates where such service is allowed.

A more comprehensive review of Smith & Nephew's governance structures and procedures is available under the Investor Centre tab of our Web Site home page at www.smith-nephew.com.

80%

of our board are Independent non-executive directors

16

translations made available for Code of Conduct

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officers, directors and managers for legal and ethical consultation

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Activities at a local and global level remain key to ensuring our overall Health, Safety and Environmental (“HSE”) and sustainability performance.

Our Environment

Smith & Nephew recognises the importance of minimising the environmental impact arising from all aspects of the business and places emphasis on controlling its waste streams, use of energy, overall carbon emissions and water use. Activities at a local and global level remain key to ensuring our overall HSE and sustainability performance.

Smith & Nephew’s HSE commitment is to:

- Give due regard to the effects of its operations on the environment and community to create a sustainable business
- Provide and maintain a safe and healthy work environment for employees, contractors and visitors
- Require each of Smith & Nephew’s businesses to achieve the HSE standards specified by the HSE policy
- Seek to improve HSE performance through continuous evaluation and development of measures to control risk, conserve resources and minimise waste
- Recognise, promote and reinforce the responsibility of employees, contractors and visitors to work safely and follow procedures

The key parameters reported by the Health, Safety and Environment team are energy, greenhouse gas emissions, waste, water usage and accident statistics. These parameters have been carefully chosen to reflect the principal HSE and sustainability impacts of our business. They reflect our Environmental, Health and Safety Policies which sets out our HSE vision, aims, commitment and operating principles.

Smith & Nephew’s HSE targets for 2010 are included in this Report. They address our principal focus areas for improvements in the field of health, safety and environment. More specifically energy consumption, and therefore CO₂ emissions and material waste.

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Energy, Waste, Emissions and Discharges

Absolute data on key environmental measures has been provided for the sake of consistency with previous reports and to provide an overview of the actual environmental impact of our business. However, the structure of Smith & Nephew and the profile of the business continue to change and therefore comparisons with previous years on an absolute basis can be misleading. Therefore, the same information, normalised as a function of output, has been provided. Normalisation is based on cost of production which is defined as the cost of goods sold adjusted for opening and closing inventory levels.

Global Data (Absolute)	2006	2007	2008	2009	2010
Waste					
Non-hazardous Waste (Tonnes)	4,759	4,016	4,214	4,917	3,297
Hazardous Waste (Tonnes)	256	204	489	517	481
Waste Recycled (Tonnes)	1,189	1,496	2,203	2,334	3,081
Emissions, Energy and Water					
Emissions to Air (CO ₂ Tonnes)	68,662	68,510	74,119	74,603	76,638
Total Energy (GWh)	138	140	154	157	169
Water Usage (1,000 Cubic Metres)	562	542	596	621	629

In many of the measures the absolute data has increased slightly. The data now includes the Advanced Wound Management site in Canada and at the same time, other facilities have become more established, notably Suzhou. This year also represented the first full year of occupancy of the Memphis Orthopaedics Global Distribution Centre. Significantly more data has been collected from the Direct and Emerging Markets compared to previous years.

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Energy, Waste, Emissions and Discharges (cont.)

This table provides an index of the key environmental factors using a baseline from 2006. This will be used in future years to clearly show the changing nature of the business.

Global Data (Normalised)	2006	2007	2008	2009	2010
Non-hazardous Waste	100	72	65	77	50
Hazardous Waste	100	71	137	164	146
Waste Recycled	100	108	138	163	217
Emissions to Air	100	82	77	88	89
Total Energy	100	84	81	92	97
Water Usage	100	72	71	86	85

The results are the same as those reported in the 2010 Smith & Nephew Annual Report published in 2011 but may vary slightly from those quoted in the previous Sustainability Report. This is because the database used to collate data for this report is kept live and the most up to date information is used on each occasion. Some sites have updated their information using more accurate data.

Smith & Nephew recognises the importance of the introduction and maintenance of appropriate environmental management systems which are based on international standards, for example ISO 14001 (International Standard on Environmental Management Systems). The decision as to which management systems to adopt is decided by the site management and depends on their complexity and potential environmental impact. We are pleased that our Advanced Wound Management sites at Hull and Suzhou and our Orthopaedic manufacturing sites in Memphis and Tuttlingen retained accreditation to ISO 14001 for their environmental management systems.

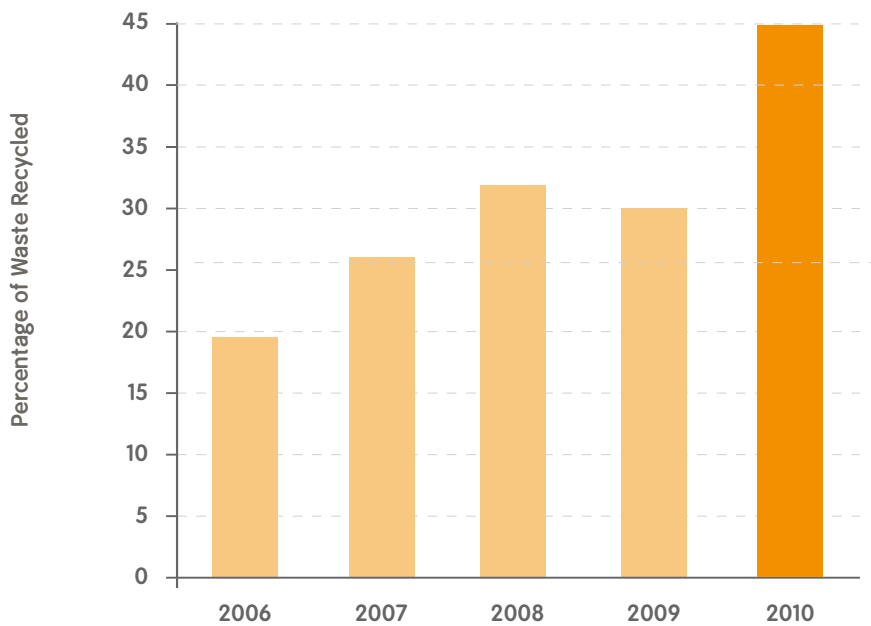
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Waste

The absolute amount of waste we generated in 2010 declined. We have continued efforts to separate waste streams and also find opportunities to recycle more waste. The overall percentage of waste recycled has improved from 30% to 45%.

We produced 3,297 tonnes of non-hazardous waste in 2010, a significant decrease over the previous year. This has been a direct result of concerted efforts throughout Smith & Nephew to divert waste from landfill to recycling and encourage our waste contractors to assist in the segregation and sorting of waste for recycling.



Developing a Recycling Culture

Waste reduction is optimally achieved using multiple strategies but when other steps fall short, recycling is a desired alternative. Smith & Nephew employees understand the value of recycling at home and at work and this thinking helps to develop a business culture that values recycling.

45%
of waste recycled
compared with
30% in 2009

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Waste (cont.)

Everyone Pitches In



Endoscopy employees at our offices and manufacturing facilities in Massachusetts were encouraged on Earth Day to bring to the office from their homes a wide variety of electronic wastes including computers, televisions, telephones and appliances.

The result: approximately 8 tons of electronic equipment were collected and recycled!

Landfills to upholstery



Our Smith & Nephew manufacturing plant in Suzhou, China produces high quality dressings to treat injuries and difficult to heal wounds such as those associated with diabetes.

The wasted foam in the manufacturing of dressings process was previously disposed of in landfills. Using LEAN processes to look for means to improve efficiencies and coupled with some creative thinking, we adjusted manufacturing processes

to minimise waste foam. We compressed the remaining waste into foam blocks which were then recycled into padding for furniture and automobiles and for packing material.

This elegant solution resulted in:

- Eliminating 150 tonnes of waste foam previously disposed in landfills
- All 40 tonnes of remaining waste was recycled
- Raw materials efficiency, landfill cost avoidance and recycling revenue amounted to \$200,000 annually

45%
of waste recycled
compared with
30% in 2009

33%
decrease in
non-hazardous
waste

10%
decrease
in hazardous
waste

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Emissions to Air of CO₂

Energy reduction commitments yield economic and environmental benefits

Energy efficiency continues to be an operational strategy in our manufacturing facilities and we are also applying this commitment in many of our office buildings.

Carbon reporting is becoming a growing requirement throughout Smith & Nephew, particularly in the UK. The mandatory CRC Energy Efficiency Scheme is being introduced to improve energy efficiency and therefore cut CO₂ emissions in large public and private sector UK companies. The scheme features a range of reputational, behavioural and financial drivers which aim to encourage organisations to develop energy management strategies to promote a more efficient use of energy.

The use of fossil fuels to produce energy is the primary source of CO₂ emissions to air. The emissions figures quoted in this report include both scope 1 (direct emissions from use of gas etc.) and scope 2 (indirect emissions arising from utility companies generating the electricity we purchase). The location of each site determines the CO₂ emission factors that are used to convert the energy into a measure of CO₂ emissions. In line with our financial reporting in US dollars, we currently use US Department of Energy voluntary reporting of greenhouse gases emission factors.

In 2010, these CO₂ emission levels have risen slightly. This is in line with the overall increase in energy usage throughout.

Switch off Something!



Our Suzhou, China wound product facility adopted a grassroots “Switch off Something” campaign targeted at reducing energy consumption throughout the facility. Initiatives included turning off office equipment, changing thermostat switch points and Heating, Ventilation and Air Conditioning (HVAC) modifications.

The strength of this united approach to energy conservation yielded:

- A 17% (1 million kWh) reduction in energy use in 2010 with an associated 840 fewer tonnes of carbon emissions
- A \$108,000 reduction in energy expenditures

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Emissions to Air of CO₂ (cont.)

Using LEAN to go Green



One of our leading wound management products - the Negative Pressure Wound Therapy Pump is employed to accelerate healing of surgical incisions and difficult to heal wounds.

In our continuing quest to remove “waste” in our manufacturing and business transactional processes, we employ LEAN as a disciplined method to achieve these efficiencies. Using Value Stream Mapping as an essential element of LEAN, we identified opportunities to reduce package size, transportation distance from the manufacturer to our warehouses and cost.

Outcomes included:

- Package redesign eliminated almost 13,000 pounds of plastic pouch material/year
- A 50% reduction in hazardous waste disposal at hospitals
- 50,000 miles reduction in truck transportation and 12 less tonnes of CO₂ emissions/year
- \$300,000 + in savings/year

1%
increase
in CO₂ emissions

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Emissions to Air of CO₂ (cont.)

Reducing CO₂ emissions by optimising travel and transportation

Staff travel is necessary and inevitable in a global business. However, we recognise that travel can be limited by using modern telecommunications such as teleconferencing, live meeting and video conferencing or ensuring that trips are made which combine more than one purpose.

Decisions regarding the modes of transports used for shipping goods are made following careful consideration and paying regard to the nature of the products and the likely environmental impact. For many business areas in which we operate, such as Orthopaedics and Endoscopy, the products are small volume but of high value. They are used in surgical processes and delivered to order for patients and, as they are required without delay, they are usually sent by air. Advanced Wound Management products tend to be larger in volume and are usually sent by sea and truck. We intend to provide additional detail on the impact of transporting our products in the future.

LEANing and Greening our Transportation



Our Endoscopy products including blades and the Dyonics device (pictured) are used to perform arthroscopic surgery on soft and hard tissue of injured joints. This requires sophisticated manufacturing and subsequent sterilisation before entering a surgical operating room.

Using a LEAN process to optimise efficiency, we were able to consolidate the sterilisation process, thereby eliminating a product transportation route and improving transactional time resulting in:

- 5,000 less miles of truck transportation of product with an associated 1 tonne annual reduction of carbon emissions
- A 50 day reduction in personnel time for transactional activities
- A cost saving of \$100,000 annually associated with processing fees and transportation costs

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Total Energy

The total energy consumption reported for 2010 was 168.9 GWh, an increase of 7.3% over 2009. Over the last 5 years (since the beginning of 2006), when normalised for production, Smith & Nephew energy consumption has fallen. However, in absolute terms the energy used has slowly risen. This slow increase is largely due to the expanding business.

Many of the Direct and Emerging Markets reported that their energy consumption is part of the rent of the building and therefore is not visible to the business.

Converting Air to \$



The Hull UK wound product manufacturing facility carried out an assessment of energy efficiency and air quality study related to site air compressors.

Inefficient compressors were replaced by new ones and compressor controllers to match air supply with fluctuating site loads.

The results:

- A 715,000 kWh reduction in electricity annually with an associated reduction of 385 tonnes of carbon emissions
- A \$95,000 annual utility bill saving

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Total Energy (cont.)

Converting Light to \$



At our Andover, Massachusetts facility, we conducted an Energy Initiative Lighting Conservation Programme that included installing more efficient lighting and occupancy sensors.

Outcomes included:

- Reduction in electricity use by 126,847 kWh and an associated carbon emissions reduction of 59 tonnes
- Improved light quality for staff
- An annual \$21,000 saving in electricity, material and maintenance costs

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Water Usage

Smith & Nephew consumed 629,000 tonnes of water in 2010, an increase of 1.4% over the previous year. Normalised for production, water usage decreased by 0.2% over the last year.

The Orthopaedics site in Memphis uses considerable amounts of water for air conditioning and is our greatest consumer of water. Overall our Memphis facilities use 78% of Smith & Nephew's water. Very few Direct and Emerging Markets were able to report complete data for water usage. In line with energy usage and as expected, the manufacturing sites are responsible for the majority of Smith & Nephew's water consumption.

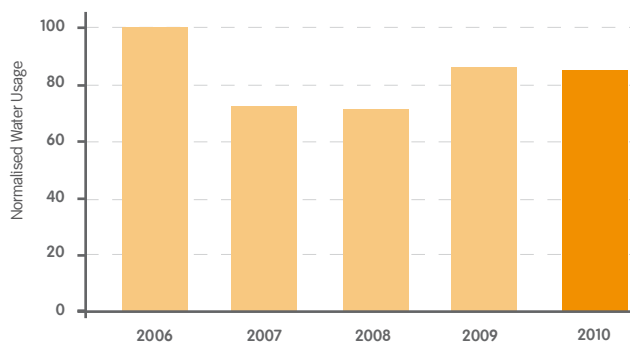
In conclusion, water consumption remained fairly constant despite new facilities coming online.

Cooling without Water



Water is a valuable resource even in an area such as Memphis, Tennessee where water is both abundant and of high quality.

As part of our commitment to protect the long-term viability of the Memphis area watershed, we sought means to reduce our water consumption at our Orthopaedic manufacturing facilities. By replacing water-cooled compressors with high efficiency radiators, we were able to reduce our water consumption at one facility by 60%.



0%
increase
in water
consumption

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In many ways, our long-term success depends upon how we manage our impact on society through our relationships with employees and the communities in which we operate.

Our Social Responsibility

Our People



Smith & Nephew's employment policies are 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 is committed to providing a healthy and safe working environment and operates a set of policies that ensure flexible, family-friendly practices and non-discrimination. It aims to provide an open environment based on constructive relationships and regular and timely dissemination of Group information and encourages feedback and ideas. Smith & Nephew places a strong emphasis on reciprocal communications with our employees across the business. The purpose of this is to align staff to our global and local strategies, to determine what we, as a business, do well and identify what could be improved. We also take the opportunity to test the effectiveness of Performance, Innovation and Trust as the declared company values.

The legal frameworks governing employee relations vary from country to country, as does custom and practice. Relations with trade unions are nationally determined and managed locally in line with the applicable legal framework and standards of good practice. The well-developed arrangements for interactions with trade union and worker councils provide the forum for productive discussion and collaborations with regard to collective bargaining agreements and other employment issues. It is Smith & Nephew's policy to conform to the nationally determined arrangements. Smith & Nephew does not use any form of forced, compulsory or child labour.

The Human Resources ("HR") Policy Framework provides a framework of key HR policies, values, behaviours and management principles that provide the structure within which the business units and global functions plan and deliver successful results. There is also an HR strategy which provides direction on how we intend to attract, retain and develop the right talent to meet business needs and create a culture that is aligned to Smith & Nephew values and deliver our long term strategic plans.

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Our People (cont.)

We recognise that Smith & Nephew has a role to play in providing health information and supporting health-related campaigns, e.g. no smoking days, breast cancer awareness, allergy awareness and similar initiatives.

Around the globe, we have established programmes to encourage and help employees maintain a healthy lifestyle and ensure that they are not exposed to any unnecessary risks whilst at work. Many of our employees have access to Occupational Health professionals who provide work related health advice and medicals.



Individual sites tailor their health promotion campaigns to the needs of their local employees.

Other examples drawn from programmes and initiatives across our main business sites include:

- Vaccinations (where necessary) offered at no charge to employees
- Health Fair/Wellness Days (vision screen, blood pressure, screening body composition analysis) at no charge to employees
- Fitness classes or discounted gym memberships
- Fitness facilities at some of our locations
- Healthy heart days
- First Aid CPR (cardiopulmonary resuscitation) training
- Employee Assistance programme - service available to employees including counselling and intervention of family, marital, financial, and other work or personal issues
- Health advice and, in some instances, medical kits for travellers
- General health awareness information in line with national programmes

10,000
employees
globally

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Our People (cont.)

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



Employee Engagement Performance Measures

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

1. Employee Communications: we carry out regular two way communications with our employees. The aim is to assess staff views about working for Smith & Nephew, determine what we, as a business, do well and identify what could be improved in our staff communications
2. Employee Development: in which we are measuring the number of internal appointments into vacancies and the number of employees attending training courses
3. Employee Retention: in which we are measuring staff turnover both in general, and employees leaving within two years of appointment

In addition we are now monitoring the gender balance in our management levels in relation to the overall mix within the business and, where we can, we monitor race and gender mix to ensure that we have a workforce that is representative of the locations in which we are situated. At present this is limited to the US where the results are also submitted to the federal government as part of our responsibilities as a government supplier.

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

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Employee Satisfaction

Smith & Nephew is committed to providing a healthy and safe working environment and operates a set of policies that are based on equality of opportunity regardless of colour, creed, race, national origin, sex, age, marital status, sexual orientation, mental or physical disability unrelated to the ability of the person to perform the essential functions of the job. Smith & Nephew is committed to the provision of continuous training and development, open communications and rewards that are appropriate to local markets. This approach is clearly demonstrated in the HR Policy Framework which sets out Smith & Nephew-wide HR policies approach to winning high levels of employee engagement and specific policies governing HR practice in the eight key areas of recruitment, managing performance, remuneration, retirement benefits, talent management, organisation vitality, communications and compliance. In addition the framework clearly articulates our commitment to the values of Performance, Innovation and Trust, our management principles and behaviours.



A specific example of this is the development and implementation of the Management Principles that act as a framework for ensuring that the desired management style and behaviours are promoted and implemented across the whole organisation.

We aim to provide an open environment based on constructive relationships, regular and timely dissemination of information and encourage feedback and ideas. These are used as a catalyst for improvements and plans with all employees and representative bodies. An example of this in 2010 was the Ethics & Compliance survey which Smith & Nephew initiated by asking an independent research organisation (the Compliance and Ethics Leadership Council) to conduct an employee survey of the Company's current culture and practices related to ethics and compliance.

In addition, individual Global Business Units utilise their own employee communications and consultation processes in order to communicate effectively with employees. We respect and fully support the rights of individuals to freedom of association and the right to collective bargaining where this is the desire of the majority of the employees. We have a number of agreements with recognised trades unions and work in partnership with these groups in consulting and negotiating terms, conditions and good working practices. Direct communication and consultation with employees in the workplace is the normal process and this approach is also recognised and fully supported by the local management teams.

The company has worked hard to develop and improve the way it engages employees in taking part in influencing change in the workplace. Individuals and representative bodies are encouraged to provide feedback, influence the content of solutions (e.g. local focus groups), consult on specific projects as they arise. Examples of this important two-way communication process include:

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Employee Satisfaction (cont.)

Enhanced Dialogue with our People



Our Biologics business unit undertook employee focus groups in order to determine ways to improve communications with staff.

In addition to this they also had a sales force survey with the objective of improving communications with sales management and staff, and organised site based surveys to obtain employees views on community and charitable giving. We also employ electronic newsletters such as “Biolife”, “Woundlife”, “Endonet” and “Lifelines” as well as Town Hall meetings to engage employees on business results, project & product developments, benefits, community activities and other news across Smith & Nephew.

Aligning our People



With a broadly dispersed workforce, engaging and aligning our people around business strategies is vital to business execution.

Our Endoscopy team completed a survey in 2010 of leaders in the U.S. and International Markets to determine how their employees related to our business strategy. Additionally we explored the level of engagement among employees and their direct line managers. Lastly, we surveyed employees to assess the effectiveness of wellness programmes.

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Other 2010 Measures

The remaining measures are presented in the table below. Each measure has been defined so that data collected across the business will be consistent. The data below relates to Smith & Nephew's US and UK population (approximately 60% of the total employees) as these regions have the most established and robust data collection processes in place.

Comment	Measurements
<p>Internal Appointments</p> <p>We started to measure specifically the percentage of senior management positions currently filled by internal candidates versus external, with a target of 70%. While our target for all positions is 40%, we believe that this is an important measure of our ability to attract and develop talent into our management. We have a policy of open advertising and providing opportunities for existing employees wherever possible.</p>	<p>In 2010, the percentage of vacancies filled by internal applicants averaged 32%. The total for non-management positions was 29% and for management positions was 52%.</p>
<p>Training</p> <p>We continue to capture training data for employees. We have intentionally focused our resources (budget, time, training hours) towards the development of our people managers and in the core business processes around managing the performance of others and developing our talent (eg. single performance management platform, talent review/planning process).</p>	<p>In 2010, we had 631 people managers who attended our range of Management Development programmes offered by our Organisation Development Department. Additionally Smith & Nephew has rolled out a global on-line learning resource and in 2011 will be expanding the programmes available to all employees.</p>
<p>Labour Turnover</p> <p>We measure general labour turnover as a measure of the success in retaining staff and ability to attract new employees as needed. This level of turnover is within expected parameters during a period in which we have carried out some business restructuring, including the closure of some sites and transfer of business activities to others.</p>	<p>The average voluntary labour turnover rate during 2010 was 7.2%, a slight increase from the 2009 equivalent rate of 6.5%. The average involuntary labour turnover rate was 5.1% (2009 – 10.7%), which management believes is indicative of Smith & Nephew's continuing programme of efficiency improvements</p>
<p>Labour Turnover <Two Years</p> <p>We also measure turnover relating specifically to employees who have been with the business less than two years. This measure is an indication of how well we recruit and then retain our employees so that they can make a contribution to the business.</p>	<p>The average voluntary turnover for employees leaving Smith & Nephew within two years of joining was 10.9%, compared to 10.1% in 2009.</p>

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Other 2010 Measures (cont.)

Comment	Measurements
<p>Gender Balance Ratios</p> <p>We measure the ratio of males to females in our management positions compared to the overall male female mix. We recognise that at senior level the ratios are not in line with Smith & Nephew overall and we will continue to encourage more women to fill these positions. This year we have excluded the numbers for our junior level management positions as we believe that focussing on the senior management levels gives a more realistic figure.</p>	<p>At the end of 2010 the ratios were as follows:</p> <p>Overall - Males 61%, Females 39%; Management – Males 72%, Females 28%</p>
<p>Ethnic Background Balance</p> <p>In the US we measure the numbers of each ethnic group within our workforce and compare this with the local population in the areas where we have sites.</p>	<p>In 2010, we completed Affirmative Action Plans at all of our sites in the US. Placement goals were identified for any under utilised category and we intend to make progress towards achieving these goals through our recruiting efforts.</p>

Smith & Nephew is committed to providing training and information so that all employees can make the best contribution possible. To ensure that, we continue to improve in this important area, the central global organisational development team continued their programmes to lead talent management, performance management and learning and development across the whole of the business. Learning and development programmes are used to attract, retain and develop employees. These programmes are linked to formal performance appraisal and development planning. We operate training programmes under the banner of 'Management Excellence'. These provide the key management skills required to be successful managers and leaders, covering the requirements of both new and experienced individuals. Additionally, Smith & Nephew has rolled out a global on-line learning resource and in 2011 will be expanding the programmes available to all employees.

Environmental Management Systems (EMS) Training



With a broadly dispersed workforce, engaging and aligning our people around business strategies is vital to business execution.

Our Tuttlingen, Germany facility produces an array of orthopaedic products that require both high precision engineering and manufacturing. Ensuring that this work is conducted in a manner that meets safety and environmental standards can be facilitated by disciplined Environmental Management Systems. In 2010, we set an objective for training 90% of our personnel on EMS and nearly attained it (87%).

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Accident Prevention

Caring for our employees and enhancing productivity



While our Health & Safety professionals and the company as a whole focus on accident prevention, accidents do happen. Our training programmes include protection of health care providers, patients and our staff in surgical environments. We also run defensive driver training for our sales teams.



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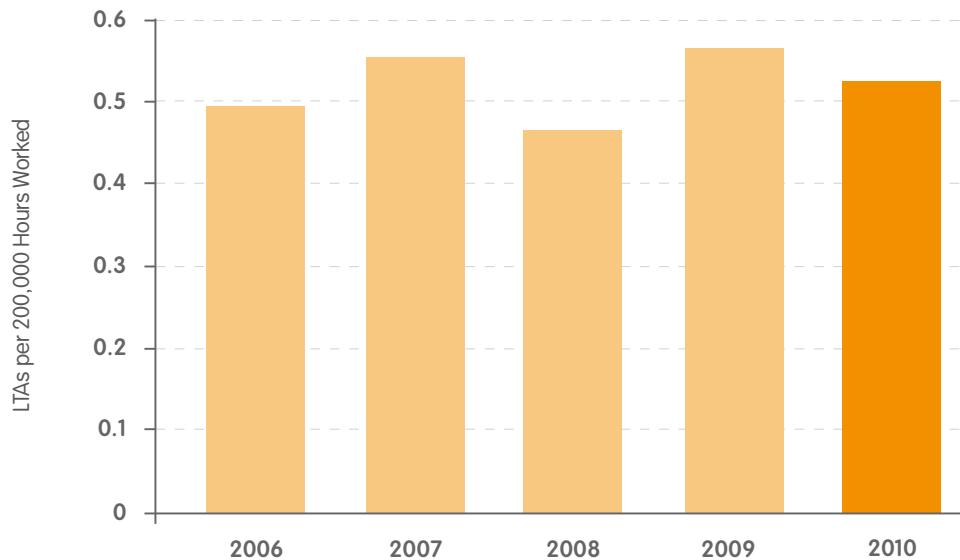
Accident Prevention (cont.)

Lost Time Accident Frequency Rate

Lost Time Accident Frequency Rate (LTAFR) is based on the number of lost time accidents per 200,000 hours worked, the basis commonly used in the USA. Our LTAFR performance in 2010 improved slightly and was 0.53 which reflects an overall decrease in the total number of lost time accidents from 58 in 2009 to 46 in 2010. This is in line with previous years' results and with the average figure for the US medical equipment and supplies manufacturing industry of 0.5*. We are focusing attention on improving our performance to be "above average".

Industry-wide, more emphasis is being placed on allowing employees back to work on restricted or transferred duties. In the UK for example, doctors are now able to advise people who are on sick leave for over seven days whether, with extra support from their employer, they could return to work earlier.

Lost time accidents exclude those cases that result in a restriction of certain duties or job transfer. A cumulative figure for Days Away, Restricted or Transferred (DART) is reported in industry benchmarks. This data is now being collected from 2011 onwards and will be reported in future reports.



Notes

- Many LTAFR figures quoted in the UK are based on 100,000 hours worked so these figures above should be halved when making comparisons with companies in the UK.
- Smith & Nephew uses a common definition of lost time accident which is one in which the injured person is unable to report for work on the day/shift following the accident.

* Source: US Bureau of Labor Statistics, Industry and Illness Data 2009

Incidents of cases with days away from work per 100 workers for NAICS code 33911.

<http://www.bls.gov/iif/oshwc/osh/os/ostb2435.pdf>

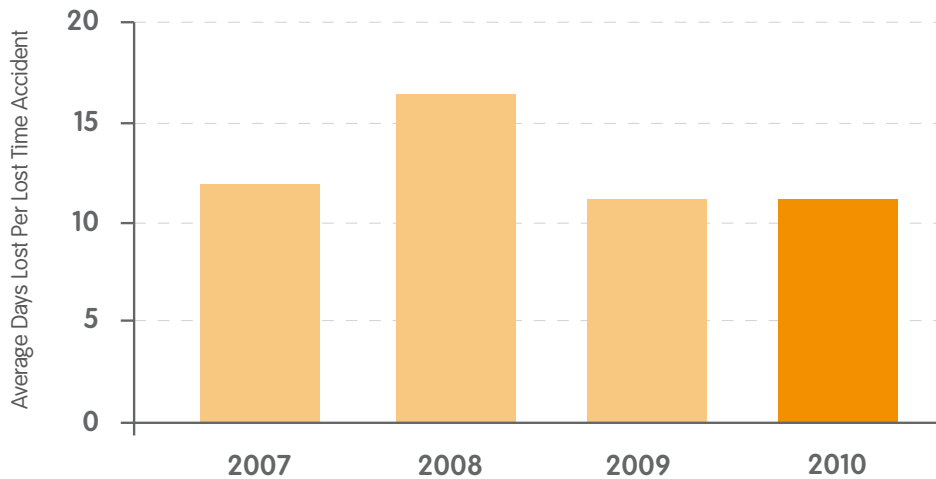
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Accident Prevention (cont.)

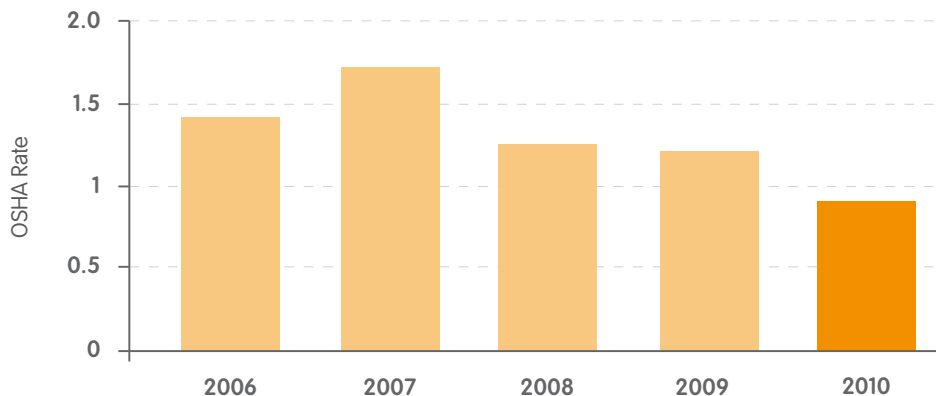
Accident Severity Rate

The Lost Time Accident Severity is measured as the average number of days lost per accident. Smith & Nephew rate has fallen slightly over the last two years from 16 to 11 but remained constant over the last year resulting in an average of 11 days lost per lost time accident.



OSHA Recordable Incidents

For reporting purposes, we have adopted the US OSHA system for recording incidents which result in lost time, those requiring more than first aid on site or necessitating a person's work to be modified in some way to account for their injury. This is considered a broader measure than lost time accidents alone and includes all cases of occupational ill health. Overall the rate decreased by 26% and is in line with the overall decrease in the number of accidents.



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Accident Prevention (cont.)

Optimising accident recovery time and productivity



When our employees are injured, our first priority is their recovery to a healthy condition. Research has illustrated that providing the employee is capable, returning to work expeditiously, even if this entails re-assignment, can contribute to the speed of the individual's recovery.

In 2010, we initiated a programme (Post Injury Management– PIM) to manage injured employees from the moment of injury through return to full duty. A cross-functional staff team met with our insurance company to devise a four phase programme that is used by injured employees and management to:

- Learn from incidents and apply best practices to prevent future injuries
- Develop tools to support the programme
- Accelerate the return of employees to their workplace
- Reduce the cost of worker's compensation

7%
reduction in lost
time accident
frequency rate

26%
reduction in
OSHA recordable
accidents

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Our Communities

In 2010, direct donations to charitable and community activities totalled \$5,644,000 comprised of \$1,736,000 in cash and \$3,908,000 in product donations, primarily for Haiti earthquake relief efforts. This compares with \$1,866,000 of cash donations in 2009 and \$1,498,000 in 2008. In addition in 2010, we provided medical education grants and fellowships to students that amounted to another \$18,600,000 for independent medical education. As a matter of policy, Smith & Nephew makes no political contributions.

Engaging with the communities where we work and live.

Smith & Nephew has a work force distributed around the globe. Our people are committed to high performance in their work place and are also active engaged in the communities where they reside.

Smith & Nephew is also a corporate champion of community involvement. Smith & Nephew's principles for charitable giving are based on criteria relevant to its business, with priority given to medical-related areas. Individual company sites support their local communities in a range of charitable causes including cash donations, gifts in kind, matching funds for employee donations, encouragement of employee volunteerism and medical education.

Haiti Earthquake Relief



While Smith & Nephew provided assistance with a number of disaster relief initiatives in 2010, the single-largest effort was directed to the Haiti earthquake tragedy.

In response to this crisis, Smith & Nephew provided over \$3 million in cash and medical products to help meet urgent needs with trauma-related injuries.

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Our Communities (cont.)

Small but Mighty



Our small yet highly effective Group Head Office in London has recognised that despite its size, philanthropic discipline and focus can still yield significant community outcomes.

By supporting the Connection at St. Martins' project, the young homeless people of central London have benefited from training programmes designed to facilitate obtaining employment.

Keep Mansfield Beautiful



Our Mansfield facility near Boston, Massachusetts is our manufacturing centre for Endoscopy products that support our Sports Medicine business.

Our dedicated employees teamed up with over 1,000 volunteers to clean up and recycle refuse from parks and other common areas in the community.

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Our Communities (cont.)

A Global Commitment to Supporting Medical Education



Smith & Nephew is committed to developing the next generation of medical professionals to meet the burgeoning demand for sophisticated clinical solutions.

Providing funding for fellowships at universities and additional medical education is vital to achieving this objective. In 2010, Smith & Nephew donated funding that exceeded \$18 million for medical education at educational research institutions around the globe.

Supporting Education for the younger generation



Developing the next generation of skilled professionals doesn't always begin in universities.

Our Suzhou, China employees collected funds to support the education of young students from poor families in the local community.

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Mutually Beneficial

Smith & Nephew is committed to establishing mutually beneficial relationships with its suppliers, customers and business partners. Smith & Nephew works only with partners it believes adhere to business principles and health, safety, social and environmental standards consistent with its own. Additional work continues each year to improve the monitoring of supplier standards for service quality and activities relevant to their corporate responsibility including a diversity programme to promote long-term relationships with local or small business enterprises and minority-owned and women-owned business enterprises.

A Commitment to the Mid-South Minority Business Community



As a member of the Mid-south (Memphis, TN USA area) Business Continuum, Smith & Nephew renewed its commitment to supplier diversity during construction of its new Orthopaedic Headquarters.

Our Orthopaedics President Joe DeVivo, who is also the Chairman of the Memphis Chamber of Commerce, was actively involved in consultation with minority business leaders. The end result of this leadership was that almost 30% of the project's construction was directed to minority businesses.

\$5.6m
Charitable
donations

\$18.6m
Funding of
medical education

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Our Economic Contribution

Sustainability by definition includes economic success. Smith & Nephew is committed to providing innovative, cost-effective healthcare solutions benefiting patients, healthcare professionals, reimbursement agencies and their patients through improved treatment, ease and speed of product use and reduced healthcare costs.

Our business policies are designed to achieve long-term growth and profits, which in turn bring continued economic benefits to shareholders, employees, suppliers and local communities. Highlights for 2010 included:

Financial Performance

Full details of Smith & Nephew's vision, strategy, the dynamics of the markets we operate in, and financial performance can be found on our corporate website (www.smith-nephew.com) and in our 2010 Annual Report. In summary:

	2005	2006	2007	2008	2009	2010
Financial Highlights						
Group Revenue (\$m)	2,552	2,779	3,369	3,801	3,772	3,962
Research and Development Expenses (\$m)	122	120	142	152	155	151
Trading Profit (\$m)	517	571	706	776	857	969
Adjusted Earnings per Ordinary Share (¢)*	42.3	45.2	52.0	55.6	65.6	73.6
Stakeholder Returns						
Staff Costs (\$m)	680	718	835	959	936	989
Taxation, Current (\$m)	133	125	189	209	208	272
Dividends, Paid (\$m)	91	96	104	109	120	132

\$4bn
Net sales
in 2010

\$1.4bn
in annual
expenditures
with our suppliers
globally

\$151m
in annual R&D
investments

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Healthcare Economics

Smith & Nephew's financial performance is not the only way it contributes to the economy of the countries in which it operates.

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

Many countries are pursuing strategies to evaluate the cost-effectiveness of new technologies. They aim to reduce the cost per episode of care for existing treatments and restrict the introduction of potentially expensive new technologies to those which can be shown to offer value beyond their cost. For example, comparative effectiveness research may provide evidence that enables authorised coverage policy decision makers to make informed decisions such as; identify preferred products, determine which patient groups benefit most and least for an evaluated technology or service, and establish a value comparison among competing technologies. The goal being that comparative effectiveness evaluations improve patient care leading to the concurrent societal benefit of reduced healthcare costs.

A major part of our R&D focus is to seek solutions which improve the effectiveness of treatment and in that way reduce the overall costs of patient care. This allows us to command a higher share of current episode costs, whilst at the same time contributing to reducing overall costs to the healthcare system as measured by per patient lifetime therapy expenditure. Because of the importance of product value to our business, we employ three health economists who collaborate with scientific, reimbursement, pricing and marketing teams throughout our company to generate and publish credible humanistic and economic evidence supporting the value of our products and the therapies in which they are applied.

Healthcare economic considerations are integrated into the product development process to ensure that Smith & Nephew's products not only improve patient outcomes but also create cost effective solutions for healthcare services.

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Innovation and New Product Development

Innovation at Smith & Nephew is focused on designing products, instruments and techniques which provide clinical and cost benefit. Such benefits include reduced frequency of dressing changes, shorter operating room time, reduced infection rates and reduced length of time spent in hospital which contribute to quicker return activity for the patient, which is particularly important to anyone leading an active lifestyle.

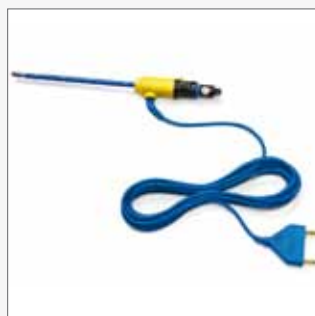
In order for Smith & Nephew to continue growing it is necessary to generate a steady flow of new products and services, which provide clinical and cost-benefits for patients and healthcare providers. We generate new innovations from a variety of sources including our employees, key surgeon opinion leaders and scientists as well as acquiring or licensing new products. This allows us to be both more responsive to their current medical requirements and better able to anticipate and shape the future direction of clinical practice.



During 2010, we invested \$151 million in research and development, 3.8% of our total sales, and reinforcing our reputation for innovative new product development, we launched a stream of new products.

An example of this process in action is the InVentures BioSkills Lab at our Endoscopy facilities in Massachusetts, where our engineers worked with more than 180 surgeons on new product ideas. This helps accelerate the progress of knee, shoulder and hip surgery by enabling surgeons who have an idea or a new technique to develop the concept in our state-of-the-art facility

DYONICS[®] BONECUTTER ELECTROBLADE Resector



This sports medicine product combines technologies to perform the work of three separate resection devices, which can result in shorter procedures.

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Innovation and New Product Development (cont.)

Negative Pressure Wound Therapy (NPWT)



NWPT is a modern wound healing technology which promotes the formation of granulation tissue, improves blood flow and removes infected material from the wound surface.

Appropriate use of NPWT, in conjunction with modern wound dressings, leads to faster healing and a lower incidence of wound complications.

VISIONAIRE



This instrument is used in knee replacements which is specifically designed for an individual patient.

The VISIONAIRE technology removes a number of procedure steps from the traditional surgical technique. For the patient this may reduce time under anaesthesia, reduce blood loss, reduce risk of infection and speed time to recovery. For the surgeon and healthcare provider, a shorter procedural time means the possibility of carrying out more operations in the same amount of time.

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Medical Education

Smith & Nephew is committed to supporting the education and training of healthcare professionals from surgeons to nurses and from researchers to graduates to order to advance medical excellence. We provide a range of support such as courses at our own dedicated training facilities, partnering with world-class learning centres and sponsoring congresses. The medical education training Smith & Nephew offers is both directly related to our products and the wider clinical area.

KLEOS is a Smith & Nephew medical education platform specifically designed to meet the needs of orthopaedic surgeons and medical professionals. During 2010, KLEOS ran over 200 courses providing direct training to nearly 14,000 surgeons. The wide variety of courses ranged from introductory courses for younger surgeons to a one-on-one Visiting Surgeon Programme. KLEOS organises international meetings such as the International Knee Meeting which was held in Berlin, Germany in 2010. KLEOS also ran meetings based on the needs of the surgeons in the Asia-Pacific and Latin America regions during 2010.

Our Biologics and Clinical Therapies team ran a range of programmes; training nearly 670 healthcare professionals in 2010.

Our Advanced Wound Management business trained over 200,000 healthcare professionals around the world. In addition it provides a wide range of education and information about the therapeutic area of wound management through its Global Wound Academy.

The Global Medical Education group is a critical component to Smith & Nephew's Endoscopy business and the goal is to offer customers an unsurpassed and comprehensive training experience. In 2010, Endoscopy ran more than 300 global courses during which, over 4,000 surgeons were trained. We continued to expand our world-class capabilities and programmes in 2010 by opening the Surgical Skills Centre in York, UK. This state-of-the-art facility for innovation and education contains 14 wet-lab stations, an 82 seat lecture auditorium and represents the first lab of its kind for Smith & Nephew in Europe.

Across the countries in our emerging markets business we helped in the training and education of many healthcare professionals, including surgeons, nurses and para-medics. The support was in the form of sponsorship and grants for both Smith & Nephew as well as third party programmes on all product lines.

Independent Assessment of Sustainability

Smith & Nephew's progress is measured by leading organisations that assess sustainable development.

In 2010, Smith & Nephew was included in the Dow Jones Sustainability Group ('DJSI') indices for both Europe and the world for the ninth year. The Dow Jones Sustainability Group Indices track the performance of the top 10% of the companies in the Dow Jones Global Index that lead the field in terms of sustainability. This index is based on three evaluations - questionnaire assessment, public information and verification. The assessment itself covers the three Sustainable Development topics - economic, social and environmental impacts - with some 24 criteria to be satisfied.

In the UK, Smith & Nephew is a member of FTSE4Good index. This is an index created to provide a tool for responsible investors to identify and invest in companies that meet globally recognised corporate responsibility standards and the assessment is performed in association with the Ethical Investment Research Service (EIRIS).

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Smith & Nephew is fulfilling an important role in the healthcare sector.

Looking Ahead

Smith & Nephew is fulfilling an important role in the healthcare sector. Increased demands are being placed on healthcare systems by the demographic trends of an ageing population and as the problems with obesity become more widespread. More active lifestyles and the increased incidence of diabetes and other diseases also increase the demand for Smith & Nephew's products. In addition, developing and newly industrialised countries are increasing their demands for advanced products driven by similar demographic and health issues as developed nations.

As we look toward broader incorporation of sustainability as a vital part of our business, areas of focus will include:

- We will focus on reducing our environmental impact by implementing campaigns to reduce our energy use and CO₂ emissions
- Waste and water use reduction will be a central area of interest in our operations and LEAN manufacturing processes will play a leadership role in this
- Employee health and safety initiatives will focus on both enhanced training to prevent injuries and where our employees are injured, to implement measures to accelerate their recovery and return to the workforce
- A global team of HSE Practitioners and Facilities Management leaders will continue to collaborate to share best practice and further promote a range of initiatives
- New product design will begin to incorporate Life Cycle Analysis to achieve both enhanced product performance and to achieve positive environmental and social outcomes. Packaging optimisation will be a key area of interest
- We will begin to engage our Supply Chain partners in helping each other achieve sustainability objectives
- Wellness programmes will be evaluated for broader application
- Philanthropy and volunteer programmes will continue as key corporate commitments but we will also look to encouraging and optimising those programmes

Smith & Nephew's vision is to be the best in helping people regain their lives by improving and healing the human body. We believe that this can be achieved by efficient marshalling of our resources, setting and meeting ambitious performance targets, by constant innovation in products and services and by earning the trust of our stakeholders. We consider sustainability to be a journey, not an end point and are committed to that journey as an essential part of our long-term business strategy.