

Risk report

Like all businesses, we face risks and uncertainties. Smith+Nephew has developed an enterprise risk management framework, together with supporting policies and procedures, to support risk management and value creation.

Successful identification and management of existing and emerging risks is critical to the achievement of strategic objectives and to the long-term success of any business. Risk management is therefore an integral component of our corporate governance.

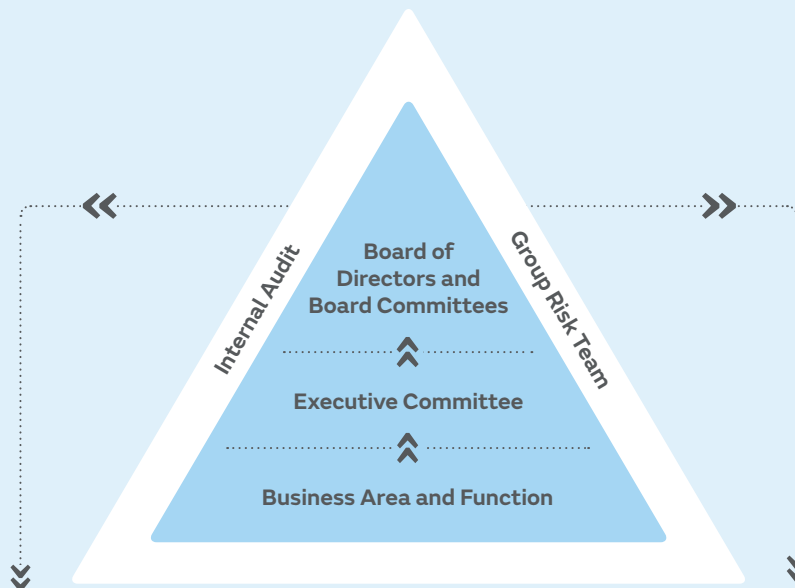
Our risk governance framework

Our Board has responsibility for oversight of risk management, setting risk appetite and monitoring the application of our risk framework including strategy, execution, and outputs of risk reviews by the business and Group Risk team. The Board cascades its approved risk appetite throughout our organization through the Executive Committee, risk owner community and our Group management teams.

The Board assesses the effectiveness of risk management and internal control over financial reporting through the Audit Committee who conduct regular reviews of reporting on principal risks, the risk management framework and internal control processes. Further details of the Audit Committee's work in this area is set out below on pages 81 and 82.

Our Risk Management Policy, endorsed by our Chief Executive Officer, is supported by an Enterprise Risk Management Manual and the Group Risk team providing training to Risk Champions appointed for each of our global business units and relevant functions. Risks continue to be managed through a 'top-down' and 'bottom-up' process, with regular oversight from the Executive Committee, quarterly reports to the Audit Committee and regular reports to the Board on any specific areas of focus.

Our risk management life cycle



Board of Directors and Board Committees

- The Board is responsible for oversight of risk management, for our annual strategic risk review and for determining the risk appetite the organisation is willing to take in achieving its strategic objectives.
- The Board monitors risks through Board processes (Strategy Review, Disclosures, M&A, Investments, Disposals) and Committees (Audit and Compliance & Culture).
- The Audit Committee is responsible for ensuring oversight of the process by which risks relating to the Company and its operations are managed and for reviewing the operating effectiveness of the Group's Risk Management process.

Executive Committee

- Identifies and ensures the management of risks that would prevent the Company from achieving our strategic objectives.
- Appoints Business Area Risk Champions who are accountable for applying the Enterprise Risk Management Policy and Framework to produce the risk deliverables.
- Reviews external/ internal environment for emerging risks.
- Reviews risk register updates from Business Area Risk Champions.
- Identifies significant risks and assesses effectiveness of mitigating actions.

Group Risk team

- Manages all aspects of the Group's approach to Enterprise Risk Management including design and implementation of processes, tools, and systems to identify, assess, measure, manage, monitor, and report risks.
- Facilitates implementation and co-ordination through Business Area Risk Champions.
- Provides resources and training to support process.
- Reports regularly on risk to the Executive Committee.
- Prepares Board and Group Risk Committee reports.

Business area and function risk champions

- Carry out day-to-day risk management activities.
- Identify and assess risk.
- Implement strategy and mitigating actions to treat risk within Business Area.
- Lead regular risk register updates.

Internal Audit

- Provides independent assurance to the Board and Audit Committee on the effectiveness of the Group's Risk Management process.
- Provides annual assessment of effectiveness of Enterprise Risk Management.

Our risk management process

Our Enterprise Risk Management (ERM) framework continues to be based on a holistic approach to risk management. Our belief is that the strategic and operational benefits of proactively managing risk are achieved when ERM is aligned with the strategic and operational goals of the organisation.

What we review and actions we take when assessing our principal risks through the ‘bottom up’ process:



How we assess our principal risks through the ‘top down’ process:

The Executive Committee review monthly trends in operational risk in respect of each of the principal risks. They also conduct a formal ‘top down’ evaluation of risk, consisting of the assessment of ‘grey swan’ scenarios and a round-table discussion of significant and emerging risks. The output of this session is used to ensure that the bottom-up risk registers align to the top-down assessment of risks faced by the Group, identify any required update to gross and net risk scores, mitigation plans and any required overarching changes to the principal and emerging risks.

Emerging risks

We define emerging risks as risks that are perceived to be potentially significant but have not yet been fully understood and/or assessed.

As part of the bottom-up risk management process defined above, the emerging risk identification process requires fresh thinking on what new and emerging risks may be relevant, using a variety of techniques including review of external thought leadership and geopolitical and macroeconomic risk indicators and events, risk identification interviews with key stakeholders, risk identification questionnaires on identified topics relating to emerging risks, group discussion during a risk workshop to determine the likelihood, severity and priority of potential emerging risks and PESTLE (political, economic, social, technological, legal and environmental) analysis. Executive Committee risk owners also scan the horizon for new and emerging risks as part of the ‘top down’ risk management process explained above.

Emerging risks identified through these processes are reported up to the Executive Committee via the Group Risk team and ultimately to the Board as part of its annual review of principal and emerging risks.

The following emerging risks identified in 2023 continue to be assessed as relevant emerging risks in 2024:

- Our customers, investors and other internal and external stakeholders are increasingly focused on our approach to Environmental, Social and Governance (ESG) matters relevant to our business and how we ensure that we consider ESG considerations in all relevant areas of our business.
- We have a formal ESG governance structure (please see Page 69), which flows through to the Board and its Committees to ensure that relevant ESG considerations are taken into account in decision-making processes and are reflected within each of our principal risks as appropriate.
- Advances in Artificial Intelligence (AI), machine learning, robotics, and other technologies create opportunities for the Group when supported by an appropriate governance framework. These technologies can help us to innovate to meet unmet patient needs and earn and retain market share through improved productivity and customer service. The governance framework around the use and implementation of AI technologies is designed to provide clear guidance on usage and risk management in order to mitigate the risk of employees or third parties inadvertently disclosing proprietary information or confidential or sensitive data. As many AI tools are limited by the information within the data sets that they are trained on, human oversight is required in order to manage risk and avoid outputs that are inherently biased or untrue. The Group has an internal AI business use policy that defines the governance and controls required to ensure the use of AI is appropriate, transparent, and properly implemented and monitored and training on this policy was delivered to all employees in 2024. In addition, the AI Governance Working Group has been established to implement appropriate governance frameworks around the use of AI within the organisation in order to create value, mitigate risk and ensure compliance within an increasingly complex regulatory landscape, including the EU AI Act.

- Increased geopolitical uncertainty: A significant number of elections globally during the past 12 months leading to widespread changes in trade policy and approach, together with increasing regional tensions and conflicts in Ukraine and the Middle East have led to significant changes in the geopolitical landscape since our last Annual Report. Our Executive Committee and our Board continue to review and consult as appropriate both internally and externally on changes in the geopolitical landscape in order to ensure that scenario planning and business continuity planning is undertaken to evaluate the risks and opportunities aligned to our strategic objectives and global business operations.

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 global and regional business units.

The main elements of the internal control framework include:

- Clearly defined lines of accountability and delegations of authority in relation to the establishment and monitoring of internal controls.
- Responsibility for internal controls is held by relevant individuals in the Group and local country management who are accountable for establishing and maintaining internal controls in their respective business and functional areas.
- The Group's IT organisation is responsible for the establishment of effective IT controls within the core financial systems and supporting IT infrastructure.
- The Financial Controls & Compliance Group has responsibility for the review of the effectiveness of internal controls over financial reporting including financial, operational, and IT controls. They fulfil this responsibility by either: performing testing directly, reviewing testing performed in-country, or utilising a qualified third party to perform this management testing on its behalf.

- The Group Finance Manual sets out financial and accounting policies, and is updated regularly. The Group's Minimum Acceptable Practices (MAPs) internal control framework is updated annually to adjust to changing business processes or to leverage leading practices. The business is required to self-assess their level of compliance with the MAPs on a monthly basis and remediate any gaps.
- MAPs compliance is validated through spot-checks conducted by the Financial Controls & Compliance Group and Internal Audit, as well as during wider Internal Audit reviews performed throughout the year. We continue to leverage a technology solution to facilitate the real time monitoring of the operation and testing of controls and have established KPIs for control performance.
- The Internal Audit function executes a risk-based annual work plan, as approved by 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 SVP Group Finance and the heads of the Financial Controls & Compliance, Taxation and Treasury functions.
- The Audit Committee reviews regular reports from the Financial Controls & Compliance Group with regard to compliance with the SOX (Sarbanes Oxley) Act.
- Additional complementary elements of our control environment include the following:
 - Business continuity planning, including preventative and contingency measures, back-up capabilities and the purchase of insurance.
 - Risk management policies and procedures including segregation of duties, transaction authorisation, monitoring, financial and managerial review and comprehensive reporting and analysis against approved standards and budgets.

- A treasury operating framework and Group Treasury team, accountable for treasury activities, which establishes policies and manages liquidity and financial risks, including foreign exchange, interest rate and counterparty exposures. Treasury policies, risk limits and monitoring procedures are reviewed regularly by the Audit Committee or the Finance & Banking Committee, on behalf of the Board.
- Our published Group tax strategy which details our approach to tax risk management and governance, tax compliance, tax planning, the level of tax risk we are prepared to accept and how we deal with tax authorities, which is reviewed by the Audit Committee on behalf of the Board.
- The Audit Committee reviews the Group whistle-blower procedures to ensure they are effective.
- We have established a working group to evaluate the Group's material controls for each principal risk aligned to our current ERM framework in preparation to meet requirements under the new reporting obligations set out in the UK Corporate Governance Code 2024.

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 processes of internal controls.

Effectiveness of risk management and internal control

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.

Risk management

Whilst the Board is responsible for ensuring oversight of strategic risks relating to the Group, determining an appropriate level of risk appetite, and monitoring risks through a range of Board and Board Committee processes, the Audit Committee is responsible for ensuring oversight of the processes by which operational risks, relating to the Company and its operations are managed and for reviewing financial risks and the operating effectiveness of the Group's risk management process.

During the year, the Audit Committee reviewed the risk management processes and progress was discussed at its meetings in February, April, July, and December. The Audit Committee approved the risk management programme for 2024 and monitored performance against that programme, reviewing the work undertaken by the risk champions across the Group, identifying the risks which could impact their areas of our business.

Throughout the year, the Audit Committee maintained oversight of our risk management programme, and reviewed the principal risks identified and the heat maps prepared by management showing how these risks were being managed. The Audit Committee discussed the reasons and justifications behind any change in gross or net risk profile and sought to determine the level of comfort of the management team in respect of the effectiveness of the mitigation plans in place.

Since the year end, the Audit Committee has reviewed a report from Internal Audit into the effectiveness of the risk management programme throughout the year, considered the principal risks and the actions taken by management to review those risks as well as the Board risk appetite in respect of each risk. Due to the internal promotion of the Senior Director of Risk (having responsibility for the operational implementation of the ERM framework within the Group) to Group Head of Internal Audit during 2024, a third party conducted the review of the effectiveness of the risk management programme in 2024 in order to provide independent assurance to the Audit Committee on the effectiveness of the programme. The Audit Committee concluded that there was an effective risk management process in place throughout 2024 and up to the date of approval of this Annual Report.

Internal control

The Audit Committee, reviewing the work undertaken by the Internal Audit function, reviews the adequacy and effectiveness of internal control procedures and identifies any significant weaknesses and ensures these are remediated within agreed timelines.

The latest review covered the financial year to 31 December 2024 and included the period up to the approval of this Annual Report. The main elements of this review are as follows:

- The Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the design and operation of the Group's disclosure controls and procedures as at 31 December 2024. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded on 24 February 2025 that the disclosure controls and procedures were effective as at 31 December 2024.

- Management is responsible for establishing and maintaining an adequate internal control framework. Based on their assessment, management concluded and reported that, as at 31 December 2024, the Group's internal control including financial, operational and compliance controls and risk management processes were effective based on those criteria.

Having received the report from management, the Audit Committee reports to the Board on the effectiveness of controls. Deloitte, an independent registered public accounting firm, audited the financial statements included in the 2024 Annual Report, containing the disclosure required by this item.

Having evaluated the effectiveness of the Company's internal controls, the Audit Committee has satisfied itself that the Group is meeting the required standards and that the Group's internal control are effective both for the year ended 31 December 2024 and up to the date of approval of this Annual Report.

This process complies with the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' under the UK Corporate Governance Code 2018 and additionally contributes to our compliance with the obligations under the SOX Act 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.

2024 Risk management development and 2025 risk management plan

2024 has seen continuous maturing of how we manage risk aligned to the restructuring of the organisation into the global business unit structure.

We reviewed our risk champions and aligned them to our new global business unit structure and provided further training to our new risk champions in addition to the annual training provided to all. We conducted quarterly risk champion workshops focused on topics including business change, product regulation risks, cybersecurity and integration of strategic initiatives.

The output of these workshops was reflected in the bottom-up risk registers.

We continue to benchmark our risk disclosures against peers as one of many inputs into our assessment of principal and emerging risk.

Executive Committee risk owners continued to report and discuss principal risk monthly trends from an operational perspective in Executive Committee meetings which was valuable to evaluate specific occurrences and trends within operational risk profiles aligned to our principal risks. For example, the monthly review would evaluate the impact on the principal risk on pricing and reimbursement of any public announcements from CMS and other regulators.

Our work will continue to evolve in 2025 with a particular focus on:

- AI risks and opportunities aligned to enterprise strategy
- geopolitical risk mapping across the global business
- Cyber incident risk mitigation; and
- Business Continuity global planning.

This will include deep-dive sessions facilitated by internal management team leads and external consultants where appropriate into specific risks with cross-functional teams and our risk champions. The Group Risk team will also continue to influence decision making through effective challenge to risk owners and risk champions in the quarterly review process.

2024 Principal Risks

Impact framework

We assess our principal risks in terms of their potential impact on our ability to deliver our business strategy. We have grouped our principal risks into five categories: Compliance and reputation, External, Financial, Operational and People. The principal risks are presented in alphabetical order according to their grouping below.

Risk Grouping

Compliance and reputation

- Legal and compliance
- Quality and regulatory

External

- Political and economic

Financial

- Financial markets
- Pricing and reimbursement

Operational

- Cybersecurity
- Global supply chain
- Mergers and acquisitions
- New product innovation, design & development including intellectual property
- Strategy and commercial execution

People

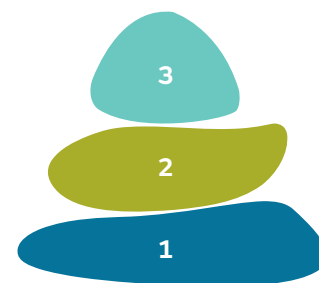
- Talent management

Our Strategy for Growth

1 Strengthen the foundation to serve customers sustainably and simply

2 Accelerate profitable growth through prioritisation and customer focus

3 Transform our business through innovation and acquisition



» See pages 10–13 for further information on our Strategy for Growth

Risk key

Risk oversight

(A) Audit Committee (N) Nomination & Governance Committee (R) Remuneration Committee (C) Compliance & Culture Committee (B) Board

Risk change from 2023

↑ Increased risk ↓ Reduced risk ↔ No change

Compliance and reputation risks

Legal and compliance

We are committed to doing business with integrity and believe that 'doing the right thing' is part of our mandate to operate. We operate in multiple countries and regulatory authorities in each jurisdiction enforce an increasingly complex pattern of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing, sale and operation of both traditional and digital (including connected and AI enabled) healthcare products and services.

Operating across this complex and dynamic legal and compliance environment, which includes regulations on fraud, bribery and corruption, privacy, sustainability and trade compliance, increases the risk of fines, penalties, and reputational damage. We mitigate this through policies, procedures, training and practices designed to prevent and detect violations of law, regulations and industry codes. We conduct risk-based oversight to monitor compliance with our Code of Conduct and associated policies.

Oversight
C

Change from 2023
↑

Link to Strategy

1. Strengthen
2. Accelerate
3. Transform



Examples of risks

- Failure to act in an ethical manner consistent with our Code of Conduct and Business Principles.
- Violation of anti-corruption or healthcare laws, breach by employee or third-party representative.
- Misuse or loss of personal information of patients, employees, research subjects, consumers or customers resulting in violations of data privacy laws and regulations, including the General Data Protection Regulation (GDPR).
- The development, manufacture and sale of medical devices entails risk of product liability claims or recalls.
- Failure to identify new or changes in legal or regulatory and reporting requirements including trade compliance, ESG and AI which result in non-compliance with applicable laws and regulations.
- Failure to meet needs of stakeholders relating to increased focus on and regulation of ESG reporting requirements.
- All employees required to undertake training and certify compliance with our Code of Conduct and Business Principles annually.
- Group Compliance monitoring and auditing programmes in place with reporting to Executive Committee and Board/Committees.
- Established confidential independent reporting channels for employees and third parties to report concerns.
- Global trade compliance programme, policies and procedures and training programme. Global trade compliance function partners with business units in order to diligence commercial models, new/developing regulations and implementation of trade compliance policies and procedures.
- The ESG Steering Committee assesses new and enhanced regulations and reporting requirements and works cross-functionally to ensure compliance.
- The AI Working Group evaluates governance frameworks for AI enterprise strategic projects and regulatory developments.
- Monitoring new regulatory and enforcement trends.

Actions taken by management

- Board Compliance & Culture Committee oversees ethical and compliance practices and programmes.
- Global compliance programme, policies and procedures in place and regularly updated to reflect changes in global or market-related laws, regulations and industry codes.

Compliance and reputation risks continued

Quality and regulatory

Global regulatory bodies continue to increase their expectations of manufacturers and distributors of medical devices not only in respect of quality and regulation of products but also in respect of sustainability requirements. Our products are used in the human body and therefore patient safety is of paramount importance. The European Medical Device Regulation (EU MDR), and multiple other global regulations and changes in standards have increased the focus on clinical and technical evidence, supplier controls and product performance transparency. Our customers and other stakeholders also require us to explain our approach to and demonstrate compliance with increasing sustainability regulations and reporting requirements.

Examples of risks

- Time required by Notified Bodies to review product submissions and site quality systems' certification time for new products impacts ability to meet customer demand.
- Defects in design or manufacturing of products supplied to, and sold by, the Group could lead to product recalls or product removal or result in loss of life or major injury.
- Significant non-compliance with policy, regulations or standards governing products and operations regarding registration, design, manufacturing, distribution, sales or marketing.
- Failure to obtain proper approvals for products or processes.
- Stringent local requirements for clinical data across various markets globally.
- Failure to meet stakeholder expectations with regard to increasing sustainability regulations and reporting requirements.

Actions taken by management

- The Quality departments within each Business Unit regularly monitor activities to comply with new and amended requirements.
- Regular engagement with Notified Bodies, MHRA and regulatory representatives to monitor regulatory changes and understand interpretation of legislation.
- Comprehensive and documented product quality processes and controls from design to customer distribution in place, with the addition of cybersecurity to new product development projects for relevant products.
- Standardised monitoring and compliance with quality management practices through our Global Quality and Regulatory Affairs organisation.
- Incident management teams in place to provide a timely response in the event of an incident relating to patient safety.
- Governance framework in place for reporting, investigating and responding to instances of product safety and complaints.
- Local clinical evidence requirements are included in global new product development projects.

Oversight

C

Change from 2023



Link to Strategy

1. Strengthen
2. Accelerate



External risks

Political and economic

We operate a global business and are exposed to the effects of political and economic risks, changes in the regulatory and competitive landscape, trade policies and trade compliance requirements, war, political upheaval, changes in government policy regarding healthcare priorities and sustainability expectations, increasing inflationary pressure, preference for local suppliers, import quotas, economic sanctions and terrorist activities.

Examples of risks

- Global political and economic uncertainty and conflict, including in Ukraine and the Middle East.
- Global or regional recession and increasing macroeconomic controls impact on customer financial strength.
- Market access rights and changes in policy which negatively impact multinational participants.
- Failure to pivot on business strategy in light of changes in trade policy, conflicts and sanction programmes globally.
- Failure to implement changes to operating model at pace to address legislation changes in the US and other key markets.
- Increases in import and labour costs.
- Increases in tariffs and restrictions on global trade.
- Inflationary pressures impacting raw materials, freight, salaries and wages.
- Failure to meet sustainability targets and public policy changes.
- Potential for significant tax rate changes and/or base broadening measures in key jurisdictions where we operate including OECD proposals and US tax reform.

Actions taken by management

- The Group tax team continually monitors developments in tax legislation and obtain external advice where relevant.
- Actively horizon scan, monitor and evaluate potential changes in public policy and legislation and develop plans to mitigate potential risk to operating models in each market.
- Actively participate in trade associations to enhance education and advocacy efforts with policymakers.
- Continued engagement with governments, administrations, and regulatory bodies to enhance education and advocacy efforts with policymakers.
- Implement sustainability strategy aligned to our purpose, business strategy, and culture pillars, and track and benchmark targets within the industry.
- Our ESG Operating Committee implements and operationalises ESG strategy and provides data and metrics to monitor implementation.
- Global trade compliance programme, policies and procedures and training programme. Global trade compliance function partners with business units in order to diligence commercial models, new/developing regulations and implementation of trade compliance policies and procedures.
- Business continuity plans in place with alternative source options identified for critical suppliers and increased safety inventory levels for critical products affected by the conflict in Ukraine and disruptions of travel caused by geopolitical and environmental events.
- Ongoing engagement and monitoring/lobbying on localisation initiatives.

Oversight

B

Change from 2023



Link to Strategy

1. Strengthen
2. Accelerate



Financial risks

Financial Markets

We operate a global business and are therefore exposed to a variety of external financial risks in relation to exchange rate, interest rate and access to funding markets. Volatility in rates can impact our results and it may not be possible to fully mitigate against them.

Examples of risks

- Risk of adverse movement to trading profit due to fluctuating foreign currency exchange rates between our main manufacturing operations (the US, UK, Costa Rica, Malaysia and China) and where our products are sold.
- Typically the Group has access to the investment grade funding market, however this can become restricted from time to time for example during periods of financial crisis.
- The Group's credit rating could be downgraded if business underperforms or increases the leverage from capital allocation decisions such as M&A investments. This in turn could reduce access to debt funding.
- The cash and short term investments could reduce in value in the event of an insolvency of a financial counterparty.
- The rate of interest paid on the Group's borrowings could increase as a result of increased central bank rates and also increased credit charges required by investors.

Actions taken by management

- A foreign exchange hedging programme is operated and is overseen centrally by the Group Treasury team.
- The Finance and Banking Committee monitors movements in financial markets and treasury management.
- Liquidity risk is evaluated through the Going Concern and Viability Statement assessments.
- Group funding comprises a variety of public bonds, private placements, and bank facilities with a balanced maturity profile over the next 10 years. The Group works closely with its relationship banks in the revolving credit facility and maintains relationships with public and private debt markets and investors.
- Maintaining significant undrawn debt facilities, including for example the revolving credit facility and cash to manage liquidity risks.
- Retaining an investment grade credit rating and considering the implications of capital allocation decisions on the ratings.
- Investing surplus funds in bank deposit and money market fund instruments with strong credit rated institutions to manage counterparty credit risk exposure whilst preserving the value of the investments.
- Actively balancing exposure to interest rate movements through the use of fixed rate borrowing and derivatives.

Oversight

A

Link to Strategy

1. Strengthen



Change from 2023
N/A*

* Foreign Exchange Principal Risk expanded to Financial Markets Principal Risk to reflect a broader risk subset.

Financial risks

Pricing and reimbursement

Our success depends on our ability to sell our products profitably, despite increasing inflation and costs associated with improving the sustainability of our products, pricing pressures from customers and the availability of and access to adequate government funding and reimbursement to meet increasing demands for our products arising from patient demographic trends. The prices we charge are therefore impacted by budgetary constraints and our ability to persuade customers and governments of the economic value of our products, based on clinical data, cost, patient outcomes and comparative effectiveness.

Market developments such as China volume-based procurement, consolidation of customers into buying groups, inflation, increasing professionalisation of procurement departments and the commoditisation of entire product groups continue to challenge prices.

We mitigate this through price increases to counteract the impact of inflation where possible, portfolio mix and promotion of differentiated products, including a compelling clinical and economic value proposition.

Examples of risks

- Volume-based procurement in China and other markets.
- Limited ability to pass on increased costs such as raw materials, freight, sustainability improvements and the cost of compliance with regulations to our customers.
- Reduced reimbursement levels and increasing pricing pressures.
- Systemic challenge on number of elective procedures.
- Lack of compelling health economics data to support reimbursement requests.
- Unilateral price controls/reductions imposed on medical devices.
- Price-driven tendering/procurement processes.
- Limited access to non-clinical decision makers.
- Impact of global trade policy changes and implementation of tariffs could impact standard cost and margin on pricing.

Actions taken by management

- Successful 12-Point Plan initiative on pricing strategy and execution resulted in pricing improvement in 2024. Ongoing efforts to mitigate inflationary impact embedded in business-as-usual practices.
- Optimise market and portfolio prioritization and portfolio mix and promote differentiated products.
- Ongoing development of innovative economic product and service solutions for both Established and Emerging Markets.
- Incorporated health economic components into the design and development of new products.
- Sales execution and training to improve capability to communicate the clinical and economic value proposition to non-clinical decision makers.
- Implementation innovative contracting models designed to support adoption and coverage for healthcare providers and payers.
- Ongoing engagement with payer bodies to influence reimbursement mechanisms to reward innovation.
- Scenario planning and deep dive evaluation undertaken for key markets and products with continued horizon scanning to support agile positioning in the event of implementation of proposed tariff schemes.

Oversight

B

Change from 2023



Link to Strategy

1. Strengthen
2. Accelerate



Operational risks

Cybersecurity

We depend on a wide variety of information systems, programmes and technology to run our business effectively. We also develop and sell certain digitally enabled products that connect to proprietary and third-party networks and/or the internet and increasingly may incorporate certain elements of AI functionality.

Our systems and the systems of third parties and the entities we acquire may be vulnerable to a cyber-attack, theft of intellectual property, malicious intrusion, data privacy breaches or other significant disruption. We have a layered security approach in place to prevent, detect and respond, to minimise the risk and disruption of any intrusions and to monitor our systems on an ongoing basis for current or potential threats.

Examples of risks

- Loss or misuse of confidential or sensitive information, intellectual property and/or data privacy breach resulting in both financial and reputational harm.
- Inadequate consideration of cybersecurity in the design of new products, systems and/or processes increasing potential for vulnerabilities.
- Disruption to business operations and resultant financial and reputational negative impact due to a significant cybersecurity incident.
- Enhanced changes in regulatory environment and increased enforcement and reporting obligations.
- Increase in sophistication of bad actors/threat profile due to geopolitical instability.
- Increasing demand for cybersecurity expertise could impact our ability to attract and retain cybersecurity talent.
- Disruption to the business due to critical system infrastructure and applications being unavailable.

Actions taken by management

- Desktop exercises for management on cybersecurity incidents/ ransomware attacks supported by enhanced policies and procedures approved by the Security & Privacy Steering Committee.
- Board awareness session focused on roles and responsibilities and third party consultancy support for cyber incidents.
- Cybersecurity maturity programme monitored by the Audit Committee.
- Development and implementation of enhanced IT Disaster Recovery Plan and reporting framework for disclosure of cyber incidents.
- Ensured every user has access to and is using a secure virtual private network (VPN) when connecting to Smith+Nephew networks to safeguard remote working.
- Enhanced global security training and awareness activities including email communications, intranet posts, visuals, videos and email phishing training activities.
- Multi-factor authentication tools to reduce the likelihood of remote attacks.
- Security information and event management in place to provide real-time analysis of security alerts generated by applications and network hardware.
- Regular penetration testing and frequent vulnerability scanning undertaken.
- Endpoint protection and intrusion detection/prevention implemented.
- Monitor developments from governments/regulators and raise changes and developments with Global IT Security and Security & Privacy Steering Committee.

Oversight

A

Change from 2023



Link to Strategy

1. Strengthen
3. Transform



Operational risks continued

Global supply chain

Our ability to make, distribute and sell medical products to customers in around 100 countries involves complex manufacturing and supply chain processes. Increased outsourcing, sophisticated materials, and the speed of technological change in an already complex manufacturing process leads to greater potential for disruption in our supply chain. Lack of availability of raw materials and components compound supply and business disruption.

Capacity constraints and the regulatory environment, including the increased focus on global regulation of sustainability, increase our exposure to supply chain disturbance. Increasingly frequent climate events increase the likelihood and impact of disruptions to our supply chain.

Increased inflationary pressure on production, freight and warehousing and distribution costs increases our risk of failing to achieve accelerated profitable growth.

Our business depends on our ability to plan for and be resilient in the face of events that threaten one or more of our key locations. Damage caused by environmental and climate change factors, including natural disasters and severe weather, can and do threaten our critical sites.

Examples of risks

- Disruption to manufacturing at a single source facility (lack of manufacturing redundancy), including from natural disaster.
- Manufacturing and supply chain capacity not adequate to support growth.
- Manufacturing and supply chain overcapacity leading to a negative impact on Group profitability.
- Constrained supplier sterilisation capacity due to increased regulation and enforcement.
- Risks associated with the transition of warehouse and distribution activities to external supplier impacting inbound and outbound logistics.
- Supplier failure impacts ability to meet customer demand (single source supplier).
- Inadequate sales and operational planning impacts ability to meet customer demand for product.
- Excess inventory due to incorrect demand forecasts, inaccurate demand signals and unexpected changes in demand.
- Failure of suppliers and distribution partners to achieve and maintain regulatory compliance.
- Increasing costs of raw materials and freight.
- Increasing salary and wage costs for manufacturing and distribution employees and contractors.
- Severe weather patterns, global temperature rise and sea-level rise caused by climate change or natural disaster causes damage to manufacturing or distribution facilities, impacting ability to meet customer demand.
- Disruption to the business due to critical system infrastructure and applications being unavailable.
- Critical material shortages leading to supply challenges.
- Increased freight cycle times due to geopolitical events and conflicts, resulting in disruptions of operations.
- Labour attrition and delays in backfilling.
- Failure to transform to achieve our sustainability targets.

Actions taken by management

- Successful implementation of 12-Point Plan initiatives to improve product availability and inventory, enhance procurement and management of transportation costs and optimisation of our manufacturing network.
- Adoption of S+N Operating System and enhanced focus on lean manufacturing and quality as part of business-as-usual activities.
- Addressing capacity in the network including closure of sites (Tuttlington, BDA, Warwick).
- Ongoing implementation of Global Operations transformation programme to optimise manufacturing and distribution centres and reduce single source limitations.
- Global Operations project management governance and toolkits to support successful execution of transformation programmes aligned to S+N operating system.
- Ongoing risk-based review programmes undertaken for critical suppliers.
- Implementation of global, regional and local business continuity and disaster recovery planning programme to support crisis management.
- Enhancement of Sales Inventory and Operations (SIOP) process to improve demand and supply planning across all business units to ensure executive oversight of sales and operational planning.
- Enhanced co-ordination between commercial, supply chain and logistics to improve forecast accuracy as part of business-as-usual activities.
- Comprehensive product quality processes in place from design to customer supply.
- Supplier contract agreements to achieve and manage regulatory compliance.
- Initiatives ongoing to improve manufacturing efficiency and reduce overhead costs.
- Emergency and incident management and business recovery plans in place at major facilities and for key products and key suppliers.
- An ESG Steering Committee implements and operationalises ESG strategy and provides data and metrics to monitor implementation.
- Investment in flood defences at our operations in Hull and building of a new manufacturing facility for Advanced Wound Management in Melton, UK.

Oversight

B

Link to Strategy

1. Strengthen
2. Accelerate

Change from 2023



Operational risks continued

Mergers and acquisitions

As the Group grows to meet the needs of our customers and patients, we recognise that we are not able to develop all the products and services required using internal resources and therefore need to undertake mergers and acquisitions in order to expand our offering and to complement our existing business. In other areas, we may divest businesses or products which are no longer core to our activities.

It is crucial for our long-term success that we make the right choices around acquisitions and divestments.

Failure to identify appropriate acquisition targets, to conduct adequate due diligence or to integrate them successfully or to deliver on the acquisition business case would have an adverse impact on our competitive position and profitability.

Oversight

B

Link to Strategy

3. Transform

3

Change from 2023



Examples of risks

- Failure to identify appropriate acquisitions.
- Failure to conduct effective acquisition due diligence.
- Failure to integrate newly acquired businesses effectively, including integration with Group standards, policies and financial controls.
- Failure to deliver on plans to achieve the acquisition business case.

Actions taken by management

- Acquisition activity aligned with corporate strategy and prioritised towards products, business units and markets identified to have the greatest long-term potential.
- Clearly defined investment appraisal process based on range of valuation metrics including return on invested capital, in accordance with Capital Allocation Framework and comprehensive post-acquisition review programme.
- Detailed and comprehensive cross-functional due diligence undertaken prior to acquisitions by experienced internal and external experts (including the integration management office).
- Compliance and other risks included as part of due diligence reviews, integration plans and reporting for acquisitions.
- Integration committee review, approval of integration plans and monitoring of ongoing process.
- Board has annual post-deal review session and specific deep dives on acquisitions as appropriate.

New product innovation, design & development including intellectual property

Our product innovation pipeline is becoming broader in scope and increasingly complex, as we focus our efforts on procedure innovation using digital technologies such as connectivity, machine learning, and artificial intelligence. Our focus on high growth and profitable markets requires us to better understand unmet customer needs, drivers of surgical efficiency and patient outcomes, and new country/regional regulations including requirements related to cybersecurity and sustainability. Our innovation pipeline needs to be sufficiently differentiated from our competition in order for us to deliver our commercial ambition.

If Smith+Nephew fails to protect and enforce its intellectual property rights successfully, its competitive position could suffer, which could impact profitable, sustainable growth.

Oversight

B

Link to Strategy

3. Transform

3

Change from 2023



Examples of risks

- Failure to develop, partner or acquire a competitively differentiated innovation at pace with competition in the market.
- Insufficient long-term planning to respond to competitor and disruptive entries into the marketplace.
- Inadequate innovation due to low Research & Development (R&D) investment, R&D skills gap or ineffective product development execution.
- Loss of market share due to critical gaps in product portfolio not filled.
- Loss of proprietary data due to natural disasters or failure of Product Lifecycle Management (PLM) systems.
- Competitors may assert patents or other intellectual property rights against the Group or fail to respect the Group's intellectual property rights.
- Failure to ensure sustainability in new products.

Actions taken by management

- Ongoing delivery of 12-Point Plan initiatives to reposition our knee and hip portfolio at pace.
- Continued product and technology acquisitions and product launches and effective implementation of new product launches.
- Global R&D organisation and governance framework providing strategic direction for allocation of R&D investment across all businesses. Clear stage-gate process to continually evaluate R&D investment decisions and development of new products.
- Cross-functional New Product Design and R&D processes focused on identifying new products and potentially disruptive technologies and solutions.
- Replacing global Product Lifecycle Management systems.
- Monitored external market trends and collated customer insights to develop product strategies.
- Ongoing monitoring of competitor patent portfolios post product launch and enforcement and monetisation of Group rights.
- Ongoing intellectual property training for business counterparts.
- Sustainability criteria built into new product development processes.

Operational risks continued

Strategy and commercial execution

The long-term success of our business depends on developing our vision and strategy and setting the right strategic priorities in our three-year strategic plan following the successful conclusion of the 12-Point Plan and executing on our plans to deliver priority initiatives in highly competitive markets.

This requires effective communication and engagement both internally on a cross-functional basis within our global business unit organisational structure and with our customers, suppliers and other stakeholders. We must also successfully embed the right governance structures, accountability and capabilities across the Group and ensure we adjust and refine strategic priorities and business models when necessary.

The pace and scope of our business change initiatives may increase execution risk for the change programmes as well as for our business-as-usual activities. Failure to execute on priorities will impact our ability to continue to grow our business profitably and sustainably and to serve our customers.

Oversight

B

Change from 2023



Link to Strategy

1. Strengthen
2. Accelerate
3. Transform



Examples of risks

- Failure to execute our strategy adequately from high-level ambition to specific actions to make the ambition a reality.
- Failure to transition from and embed our 12-Point Plan framework, KPIs and metrics in business-as-usual objectives could slow progress in achieving our strategic objectives.
- Inability to keep pace with significant product innovation and technical advances to develop commercially viable products.
- Failure to engage effectively with our key stakeholders to meet their evolving needs leading to loss of customers.
- Failure to manage distributors effectively leading to stocking and compliance issues.
- Inability to satisfy customers' sustainability requirements and expectations.
- Limits on healthcare professional access to medical education.
- Failure to achieve potential from acquisitions due to integration challenges.
- Failure to effectively implement core elements of business change prevents our projects and programmes achieving the intended benefits and disrupts existing business activities.

Actions taken by management

- Changed our commercial operating model from a franchise and regions model to business unit model.
- Continued Executive oversight of changes to our commercial operating model and focus on commercial execution as part of business as usual activities following delivery of the 12-Point Plan.
- Strategic planning process clearly linked to business, operations and Group risk.
- Continued new product launches and monitoring of innovation pipeline.
- Enhanced implementation of Sales Inventory and Operations (SIOP) process to improve demand and supply planning across all business units.
- Enhanced accessible digital sales information and training modules for sales staff.
- Enhanced virtual medical education platforms and enhancement of the education offerings of the Smith+Nephew Academy.
- Continued focus on product and technology acquisitions and product launches and effective implementation of new product launches.
- Enhanced project management governance, toolkits and project steering committee oversight to support successful execution of programme and projects.

People

Talent management

Recruitment and retention of top talent and minimising attrition is a critical risk which requires a strong engagement process. We recognise that people leadership, effective succession planning and the ability to engage, retain and attract talent is a key lever of success for our business. Failure to do so places our ability to execute the Group strategy and to be effective in the chosen market/discipline at risk.

Examples of risks

- Loss of key talent, high attrition and lack of appropriate succession planning in context of required skillsets for future business needs.
- In the event that the Company's remuneration strategies, quantum and structure, particularly in terms of long term incentives for US executives, are not adequately addressed to better align to local market norms, the Company may not be able to effectively compete for, attract and retain talent, which may impact management stability, internal talent pipeline development and the ability for management to drive value creation.
- Loss of competitive advantage due to an inability to attract and retain top talent.
- Loss of intellectual capital due to poor retention of talent.
- Failure to attract talented and capable candidates.
- Increased talent movement globally due to shifting personal work-life balance priorities.
- Failure to align to market salary expectations.

Actions taken by management

- Our 2024 Remuneration Policy included a package of long-term incentive plan adjustments for US Executive Directors to be more closely aligned with norms in the US in terms of structure and quantum.
- Completed a review of our short and long-term incentive plan arrangements for employees and implemented several changes to ensure our arrangements remain market competitive to attract and retain talent.
- Talent planning and people development processes are well established across the Group.
- Talent strategy, management and succession planning is discussed twice yearly by the Board and regularly by the Executive Committee.
- Utilising 'Success Profiles' that have been created for our high value roles to benchmark talent against requirements needed for success in critical roles.
- Focusing on enhancing people leader capabilities, delivered from line leading training.
- Identification of high-value roles and ensuring that these roles are filled with our high-performance individuals with strong succession plans in place.
- Provided employees with access to tools and resources to manage their emotional, physical, and mental wellness.
- Continued focus on inclusion in order to foster culture of belonging within the organisation and promote engagement, attraction and retention of top talent.

Oversight

C

Change from 2023



Link to Strategy

1. Strengthen
2. Accelerate



Our Viability Statement

How we assess our prospects

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 78–93 of this Annual Report.

In reaching our Viability Statement conclusion, we have undertaken the following process:

- The Audit Committee reviewed the Risk Management process at their meetings in February, April, July and December, receiving presentations from the Group Risk team, explaining the processes followed by management in identifying and managing risk throughout the business.
- In July and November 2024, the Executive Committee met to review the 2024 Principal Risks (the top-down risk review process). The Executive Committee was asked to consider the significant risks which they believed could seriously impact the profitability and prospects of the Group and the Principal Risks that would threaten its business model, future performance, solvency or liquidity.
- All Executive Committee members nominated the Risk Champions and have worked with them to prepare and maintain risk registers. The Risk Champions nominated by the Executive Committee are senior employees and sufficiently tenured with the organisation to adequately identify and manage risk.
- Using the outputs from the Business Area ‘bottom-up’ risk identification completed quarterly throughout the year and following ‘top-down’ discussions with the Executive Committee, the most significant risks affecting our organisation were presented to the Executive Committee for approval in November as the draft 2024 Principal Risks facing the Company and again in January 2025 as final disclosures.

- In assessing our TCFD risks we concluded that climate-related risks are not significant in our viability horizon of three years. Nonetheless, the impact of extreme weather events have been considered in our operational risk scenarios.
- All relevant executives have attested alignment to the Group’s Enterprise Risk Management process as part of the annual certification on governance, risk, and compliance.
- The Board debated and agreed the risk appetite for each of the Principal Risks in February 2024.
- Final Principal Risks were presented to the Audit Committee and the Board in February 2024 for their consideration and approval.
- Throughout the year, a number of reviews into different risks were conducted by the Board, the Audit Committee and the Compliance & Culture Committee looking into the nature of the risks and how they were mitigated.

Assessment period

The Board have determined that the three-year period to December 2027 is an appropriate period over which to provide its Viability Statement.

This period is aligned to the Group’s Strategic Planning process and reflects the Board’s best estimate of the future viability of the business.

Scenario testing

To test the viability of the Company, we have undertaken a robust scenario assessment of the Principal Risks, which could threaten the viability or existence of the Group.

These have been modelled as follows:

- In carrying out scenario modelling of the Principal Risks on the following page we have also evaluated the impact of a severe but plausible combination of these risks occurring over the three-year period. We have considered and discussed a report setting out the terms of our current financing arrangements and potential capacity for additional financing should this be required in the event of one of the scenarios modelled occurring.
- We are satisfied that we have robust mitigating actions in place as detailed on pages 78-93 of this Annual Report. We recognise, however, that the long-term viability of the Group 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.

Viability Statement

Having assessed the Principal and Emerging Risks, the Board has determined that we have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of three years from 1 January 2025. In our long-term planning we consider horizons of between five and 10 years. However, as most of our efforts are focused on the coming three years, we have chosen this period when considering our viability.

Our conclusion is based on the Strategic Plan reviewed and approved by the Board in December 2024. We will continue to evaluate any additional risks which might impact the business model.

By order of the Board, on 24 February 2025.



Helen Barraclough
Company Secretary

2024 Scenarios modelled

Scenario 1: Global economic downturn, operational risk and mergers and acquisitions

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|---|---|
| Significant global economic recession, leading to sustained lower healthcare spending across both public and private systems. | Action taken: We have modelled 10% lower revenue throughout 2025 and 5% lower revenue throughout 2026. |
| Reduced reimbursement levels and increasing pricing pressures. | Action taken: We have modelled annual price erosion of 1% impacting all product lines, along with a full drop through impact on profit in each of the periods 2025–2027. |
| Inability to keep pace with significant product, innovation, and technical advances to develop commercially viable products, losing significant market share to the competition. | Action taken: We have modelled 1% lower growth than planned for a key product range in the US, along with a full drop through impact on profit in each of the periods 2025–2027. |
| Key supplier disruption – resulting in our inability to manufacture and supply a few key products for a full year. | Action taken: We have modelled an interruption to receiving goods from a key supplier for a period of one year in 2026. |
| Increases in raw materials, freight and labour costs. | Action taken: We have modelled an increase in our input costs by an additional 5% in each of the periods 2025–2027, due to continued inflationary pressures. |
| Risk of adverse trading margins due to fluctuating foreign currency exchange rates across our markets. | Action taken: We have modelled a reduction in profitability in 2026 and 2027 due to a weakening in other currencies relative to the US Dollar by 5%. |
| Failure to integrate newly acquired business effectively to achieve expected growth. | Action taken: We have modelled a scenario of 12 months of revenue loss due to delay in getting FDA approvals on CartiHeal in 2026. |
| Link to strategy <ul style="list-style-type: none"> – Strengthen the foundation to serve customers sustainably and simply. – Transform our business through innovation and acquisition. – Accelerate profitable growth through prioritisation and customer focus. | Link to Principal Risks <ul style="list-style-type: none"> – Strategy and commercial execution. – New product innovation, design & development including intellectual property. – Global supply chain. – Legal and compliance. – Political and economic. – Talent management. – Pricing and reimbursement. – Mergers and acquisitions. |

Scenario 2: Financial Markets, global supply chain, legal, regulatory and compliance risks and cybersecurity

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| Data privacy failure – giving rise to a significant fine or loss. | Action taken: We have modelled a one-off significant fine from regulator of 2% of revenue or loss resulting from a data privacy issue in 2025. |
| Failure to obtain proper regulatory approvals for products or processes impacting our ability to sell products. | Action taken: We have modelled the complete loss of revenue from a key product effective in mid-2025 for two years, and returning to lower volumes in mid-2027. |
| Disruption to a Global Distribution Centre (GDC) preventing our ability to supply our customers with all products from the applicable GDC for one quarter. | Action taken: We have modelled an inability to supply products from one of our GDCs for one quarter of 2026. |
| Product liability claim. | Action taken: We have modelled a group of product liability claims resulting in a settlement agreement requiring cash payment in each of the periods 2025–2027, without any insurance coverage. |
| Disruption to business operations due to a significant cybersecurity incident. | Action taken: We have modelled one of our key regions being unable to invoice also affecting shipping and tracking of deliveries for one month due to a disruption to our IT infrastructure in 2025. |
| Link to strategy <ul style="list-style-type: none"> – Strengthen the foundation to serve customers sustainably and simply. | Link to Principal Risks <ul style="list-style-type: none"> – Legal and compliance. – Quality and regulatory. – Global supply chain. – Foreign exchange. – Cybersecurity. |