Company registration number 00093994 (England and Wales)

T.J.SMITH AND NEPHEW,LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

T.J.SMITH AND NEPHEW,LIMITED

COMPANY INFORMATION

Directors	S.C.C. Tarry	
	J.R. Mackinnon	
	H Barraclough	(Appointed 1 April 2022)
	S.M. Swabey	(Resigned 1 April 2022)
	I.C. Melling	(Resigned 27 May 2022)
	A. Smith	(Appointed 27 May 2022)
Company number	00093994	
Registered office	PO Box 81 101 Hessle Road Hull HU3 2BN	
Auditor	KPMG LLP 15 Canada Square London United Kingdom E14 5GL	

T.J.SMITH AND NEPHEW,LIMITED

CONTENTS

T.J.SMITH AND NEPHEW,LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present the strategic report and financial statements, for T.J.Smith and Nephew,Limited, (the "Company"), for the year ended 31 December 2022.

Principal activities and review of the business
The profit after taxation for the year amounted to £58,811,000 (2021: £51,288,000).

The principal activity of the Company is the design, development, manufacture and sale of advanced medical devices.

This includes global strategic management, product manufacturing, development and marketing of wound management products; and manufacturing and distribution of knee, hip and other implants, trauma and other clinical therapy devices and distribution of endoscopic and sports medicine (minimally invasive surgery) devices and value-added services for surgeons, mostly within the UK. The Company's primary manufacturing facility of advanced wound management products is based in Hull.

Sales in 2022 were £61,002,000 higher than in 2021, an increase of 12.1% as a result of business starting to improve since COVID. Demand for elective surgeries began to pick up again in the UK, which had significantly impacted Orthopaedic and Sports Medicine Joint Repair revenue streams with a lesser associated impact on the Advanced Wound Management revenue streams in 2021.

Operating profit in 2022 was £65,141,000 including the increase in the provision of estimated costs to resolve UK and Ireland metal-on-metal hip claims, and this represents an increase of £12,477,000 compared with 2021. Net non-trading items amounted to a net expense of £25,731,000 in 2022 compared with a net expense in 2021 of £11,419,000.

During 2021 the Company recognised a net expense of £502,000 relating to metal-on-metal hip claims principally related to a portfolio of modular metal-on-metal hip products which are no longer on the market. On re-measurement of the potential liabilities arising from such claims in 2022, a net expense of £623,000 has been recognised. This movement in the provision represents the difference between the present value of the estimated costs to resolve these known and anticipated metal-on-metal hip claims by UK and Republic of Ireland customers and the provision held in respect of those claims as at 31 December 2022. The legal claims are against Smith & Nephew Orthopaedics Limited, which has been financially indemnified in this regard by the Company.

Net non trading items primarily include £21,364,000 (2021: £6,814,000 (Including £2,097,000 recorded as cost of sales, 2021: £2,206,000) of restructuring costs and £5,435,000 (2021: £7,802,000) of costs incurred in relation to the update of technical documentation and processes to meet the requirements of the new European Union Medical Devices Regulations (EU MDR), of which £624,000 (2021: £2,471,000) is recorded in cost of sales.

Principal risks and uncertainties
The Company is reliant on fellow undertakings in the Smith+Nephew Group for the majority of its sales and for its purchases of inventory. The risks and uncertainties affecting the wider Group are therefore relevant to the Company. The principal risks and uncertainties considered as affecting the Company and to the extent relevant, the Group, are discussed below.

Going Concern
Notwithstanding the current challenging economic environment, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reason.

The Company had net current assets of £115,982,000 and a profit for the year of £58,811,000.The Company has received a letter of support from its parent company, Smith & Nephew plc, indicating that it will receive the financial and other support necessary for the Company to operate and meet its liabilities as and when they become due for a period of at least twelve months from the date of signing of these financial statements.

After making due enquiries and considering the impact of current macro economic environment and the support available from the parent company described above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operation for at least twelve months from the date of the signing of these financial statements. These considerations included the Smith & Nephew group's directors' assessment of going concern (as set out the Annual Report and Accounts 2022 and available at https://www.smith-nephew.com/en/about-us/investors/financial-resources#downloadable-reports). Accordingly, the financial statements have been prepared on a going concern basis.

Development and performance

Highly competitive markets
The Company competes across a diverse range of geographic and product markets. Each market in which the Company operates contains a number of different competitors, including specialised and international corporations. Significant product innovations, technical advances or the intensification of price competition by competitors could adversely affect the Company's operating results.

Some of these competitors may have greater financial, marketing and other resources than Smith+Nephew. These competitors may be able to initiate technological advances in the field, deliver products on more attractive terms, more aggressively market their products or invest larger amounts of capital and research and development (R&D) into their businesses.

There is a possibility of further consolidation of competitors, which could adversely affect the Company's ability to compete with larger companies due to insufficient financial resources.

If any of the Company's businesses were to lose market share or achieve lower than expected revenue growth, there could be a disproportionate adverse impact on the Smith+Nephew Group’s share price and its strategic options. Competition exists among healthcare providers to gain patients on the basis of quality, service and price. There has been some consolidation in the Company's customer base and this trend is expected to continue. Some customers have joined group purchasing organisations or introduced other cost containment measures that could lead to downward pressure on prices or limit the number of suppliers in certain business areas, which could adversely affect Company's results of operations and hinder its growth potential.

Continual development and introduction of new products
The medical devices industry has a rapid rate of new product introduction. In order to remain competitive, the Company must continue to develop innovative products that satisfy customer needs and preferences or provide cost or other advantages. Developing new products is a costly, lengthy and uncertain process. Company may fail to innovate due to low R&D investment, a R&D skills gap or poor product development. A potential product may not be brought to market or not succeed in the market for any number of reasons, including failure to work optimally, failure to receive regulatory approval, failure to be cost-competitive, infringement of patents or other intellectual property rights and changes in consumer demand.

Company’s products and technologies are also subject to marketing attack by competitors. Furthermore, new products that are developed and marketed by the Company's competitors may affect price levels in the various markets in which the Company operates. If the Company's new products do not remain competitive with those of competitors, the Company’s revenue could decline.

The Company maintains reserves for excess and obsolete inventory resulting from the potential inability to sell its products at prices in excess of current carrying costs. Marketplace changes resulting from the introduction of new products or surgical procedures may cause some of the Company’s products to become obsolete. The Company makes estimates regarding the future recoverability of the costs of these products and records a provision for excess and obsolete inventories based on historical experience, expiration of sterilisation dates and expected future trends. If actual product life cycles, product demand or acceptance of new product introductions are less favourable than projected by management, additional inventory write-downs may be required.

Dependence on government and other funding

In most markets throughout the world, expenditure on medical devices is ultimately controlled to a large extent by governments. Funds may be made available or withdrawn from healthcare budgets depending on government policy. The Company is therefore largely dependent on future governments providing increased funds commensurate with the increased demand arising from demographic trends.

Pricing of the Company's products is largely governed in most markets by governmental reimbursement authorities. Initiatives sponsored by government agencies, legislative bodies and the private sector to limit the growth of healthcare costs, including price regulation, excise taxes and competitive pricing, are ongoing in markets where the Group has operations. This control may be exercised by determining prices for an individual product or for an entire procedure. The Company is exposed to government policies favouring locally sourced products. The Company is also exposed to changes in reimbursement policy, tax policy and pricing which may have an adverse impact on revenue and operating profit. There may be an increased risk of adverse changes to government funding policies arising from deterioration in macro economic conditions from time to time.

The Company must adhere to the rules laid down by government agencies that fund or regulate healthcare. Failure to do so could result in fines or loss of future funding.

World economic conditions

Demand for the Company's products is driven by the ageing population and the incidence of osteoporosis and obesity. Supply of, use of and payment for the Company's products are also influenced by world economic conditions, which could place increased pressure on demand and pricing, adversely impacting the Company's ability to deliver revenue and margin growth. The conditions could favour larger, better capitalised groups, with higher market shares and margins. As a consequence, the Company's prosperity is linked to general economic conditions and there is a risk of deterioration of the Company's performance and finances during adverse macro-economic conditions.

Economic conditions worldwide continue to create several challenges for the Company, including the US Administration's approach to trade policy, higher inflation, global shortages of some raw materials and components, heightened pricing pressure, significant declines in capital equipment expenditures at hospitals and increased uncertainty over the collectability of government debt, particularly those in the Emerging Markets. These factors could have an increased impact on growth in the future. Further disruptions which have taken place at manufacturing sites as a result of localised lockdowns in China and the impact of geopolitical events such as the war in Ukraine on the access to and cost of supply channels and supply constraints on raw materials and components have had and may continue to have an adverse effect on the results of operations.

Political uncertainties
The Smith+Nephew Group operates on a worldwide basis and has distribution channels, purchasing agents and buying entities in over 100 countries. Political upheaval in some of those countries or in surrounding regions may impact the Company's results of operations. Political changes in a country could prevent the Company from receiving remittances of profit from a member of the Group located in that country or from selling its products or investments in that country. Furthermore, changes in government policy regarding preference for local suppliers, import quotas, taxation or other matters could adversely affect the Company's revenue and operating profit.

War, economic sanctions, terrorist activities or other conflict could also adversely impact the Group whether in terms of increased compliance resources and cost to serve, market exit, disruption to operations and/or reputational damage. There remains a level of political and regulatory uncertainty in the UK following the exit from the European Union and the introduction of new legislation in the UK.

Currency fluctuations
Company's results of operations are affected by transactional exchange rate movements in that they are subject to exposures arising from revenue in a currency different from the related costs and expenses. The Company's manufacturing cost base is situated principally in the UK and China, from which finished products are exported to the Smith+Nephew Group's selling operations worldwide. Thus, the Company is exposed to fluctuations in exchange rates particularly the US Dollar, Sterling, Euro and Chinese Yuan.

The Company manages the impact of exchange rate movements on operating profit by a policy of transacting forward foreign currency contracts when firm commitments exist.

Manufacturing and supply
The Company's manufacturing production is concentrated at three main facilities in Hull and Warwick in the UK and Suzhou in China. If major physical disruption took place at any of these sites, it could adversely affect the results of operations.

Physical loss and consequential loss insurance is carried to cover such risks but is subject to limits and deductibles and may not be sufficient to cover catastrophic loss. Management of orthopaedic inventory is complex, particularly forecasting and production planning. There is a risk that failures in operational execution could lead to excess inventory or individual product shortages.

The Company is reliant on certain key suppliers of raw materials, components, finished products and packaging materials or in some cases on a single supplier. These suppliers must provide the materials in compliance with legal requirements and perform the activities to the Company's standard of quality requirements.

A supplier's failure to comply with legal requirements or otherwise meet expected quality standards could create liability for the Company and adversely affect sales of the Company's related products. The Company may be forced to pay higher prices to obtain raw materials, which it may not be able to pass on to its customers in the form of increased prices for its finished products. In addition, some of the raw materials used may become unavailable, and there can be no assurance that the Company will be able to obtain suitable and cost effective substitutes. Interruption of supply caused by these or other factors has had and may continue to have a negative impact on the Company's revenue and operating profit.

The Company will, from time to time, including as part of the Accelerating Performance and Execution (APEX) programme or operations and commercial excellence programme, outsource or insource the manufacture of components and finished products to or from third parties and will periodically relocate the manufacture of product and/ or processes between existing and/or new facilities. While these are planned activities, with these transfers there is a risk of disruption to supply.

In July 2022, the Group announced a 12-point-plan to improve execution and drive Strategy for Growth. The plan focuses on fixing Orthopaedics, improving productivity, and accelerating growth in Advanced Wound Management and Sports Medicine.

The Smith+Nephew Group’s Quality and Regulatory Affairs team is leading a major Group-wide programme to prepare for implementation of the EU Medical Devices Regulation (MDR). The regulation includes new requirements for the manufacture, supply and sale of all CE marked products sold in Europe (ie those products that conform with health, safety and environmental protection standards within the European Economic Area) and requires the re-registration of all medical devices, regardless of where they are manufactured.

Attracting and retaining key personnel
The Company’s continued development depends on its ability to hire and retain highly-skilled personnel with particular expertise. This is critical, particularly in general management, research, new product development and in the sales forces. If the Company is unable to retain key personnel in general management, research and new product development or if its largest sales forces suffer disruption or upheaval, its revenue and operating profit would be adversely affected. Additionally, if the Company is unable to recruit, hire, develop and retain a talented, competitive workforce, it may not be able to meet its strategic business objectives.

Proprietary rights and patents
Due to the technological nature of medical devices and the Company’s emphasis on serving its customers with innovative products, the Company has been subject to patent infringement claims and is subject to the potential for additional claims. Claims asserted by third parties regarding infringement of their intellectual property rights, if successful, could require the Company to expend time and significant resources to pay damages, develop non-infringing products or obtain licences to the products which are the subject of such litigation, thereby affecting the Company’s growth and profitability. The Company attempts to protect its intellectual property and regularly opposes third party patents and trademarks where appropriate in those areas that might conflict with the Company’s business interests. If the Company fails to protect and enforce its intellectual property rights successfully, its competitive position could suffer, which could harm its results of operations.

Product liability claims and loss of reputation
The development, manufacture and sale of medical devices entail risk of product liability claims or recalls. Design and manufacturing defects with respect to products sold by the Company could damage, or impair the repair of, body functions. The Company may become subject to liability, which could be substantial, because of actual or alleged defects in its products. In addition, product defects could lead to the need to recall from the market existing products, which may be costly and harmful to the Company’s reputation.

There can be no assurance that customers, will not bring product liability or related claims that would have a material adverse effect on the Company’s financial position or results of operations in the future, or that the Company will be able to resolve such claims within insurance limits. As at 31 December 2022, a provision of £3,086,000 is recognised relating to the present value of the estimated costs to resolve all unsettled known and unknown anticipated metal-on-metal hip implant claims for the UK and Republic of Ireland.

Regulatory standards and compliance in the healthcare industry
Business practices in the healthcare industry are subject to regulation and review by various government authorities. In general, the trend in many countries in which the Smith+Nephew Group does business is towards higher expectations and increased enforcement activity by governmental authorities. While the Company is committed to doing business with integrity and welcomes the trend to higher standards in the healthcare industry, the Company and other companies in the industry have been subject to investigations and other enforcement activity that have incurred and may continue to incur significant expense. Under certain circumstances, if the Company was found to have violated the law, its ability to sell its products to certain customers could be restricted.

International regulation

The Company is subject to extensive legislation, including anti-bribery and corruption and data protection. Smith +Nephew Group international operations are governed by the UK Bribery Act and the US Foreign Corrupt Practices Act which prohibit us or our representatives from making or offering improper payments to government officials and other persons or accepting payments for the purpose of obtaining or maintaining business. The Smith+Nephew Group's international operations which operate through distributors increase our Group exposure to these risks.

The Company is also required to comply with the requirements of data privacy laws and regulations in the markets in which it operates which impose additional obligations regarding the handling of personal data. As privacy and data protection have become more sensitive issues for regulators and consumers, new and enhanced privacy and data protection laws and regulations and enforcement frameworks, continue to develop at pace globally. Ensuring compliance with evolving privacy and data protection laws and regulations may require the Company to change or develop its current business models and practices and may increase its cost of doing business. Despite those efforts, there is a risk that the Company may be subject to fines and penalties, litigation and reputational harm in connection with its activities as enforcement of such legislation has increased in recent years on companies and individuals where breaches are found to have occurred. Failure to comply with the requirements of privacy and data protection laws, could adversely affect the Company's business, reputation, financial condition or results of operations.

Regulatory Approval

The international medical device industry is highly regulated. Regulatory requirements are a major factor in determining whether substances and materials can be developed into marketable products and the amount of time and expense that should be allotted to such development.

National regulatory authorities administer and enforce a complex series of laws and regulations that govern the design, development, approval, manufacture, labelling, marketing and sale of healthcare products. They also review data supporting the safety and efficacy of such products. Of particular importance is the requirement in many countries that products be authorised or registered prior to manufacture, marketing or sale and that such authorisation or registration be subsequently maintained. The major regulatory agencies for Company products include the Food and Drug Administration (FDA) in the US, the Medicines and Healthcare products Regulatory Agency in the UK, the Ministry of Health, Labour and Welfare in Japan, the National Medical Products Administration in China and the Australian Therapeutic Goods Administration. At any time, the Company is awaiting a number of regulatory approvals which, if not received, could adversely affect results of operations. In 2017, the EU reached agreement on a new set of Medical Device Regulations which came into force on 25 May 2017 with an initial expected three-year transition period until May 2020. Due to the COVID pandemic, the European Commission published a formal proposal in early April 2020, announcing the delay to the implementation by 12 months, to 26 May 2021. The increase in the time required by Notified Bodies to review product submissions and site quality systems' certification time has had and may continue to have an adverse impact on our ability to meet customer demand.

The trend is towards more stringent regulation and higher standards of technical appraisal and there are increasingly stringent local requirements for clinical data across many of the markets globally in which the Group operates. Such controls have become increasingly demanding to comply with and management believes that this trend will continue. Privacy laws and environmental regulations have also become more stringent, supported by enhanced enforcement frameworks and resources. There is also an increase in regulation relating to labelling and reporting in the markets in which the Company operates which results in increased resourcing and cost to the Company. Regulatory requirements may also entail inspections for compliance with appropriate standards, including those relating to Quality Management Systems or Good Manufacturing Practices regulations.

All manufacturing and other significant facilities within the Company are subject to regular internal and external audit for compliance with national medical device regulation and Group policies. Payment for medical devices may be governed by reimbursement tariff agencies in a number of countries. Reimbursement rates may be set in response to perceived economic value of the devices, based on clinical and other data relating to cost, patient outcomes and comparative effectiveness. They may also be affected by overall government budgetary considerations. The Company believes that its emphasis on innovative products and services should contribute to success in this environment.
Failure to comply with these regulatory requirements could have a number of adverse consequences, including withdrawal of approval to sell a product in a country, temporary closure of a manufacturing facility, fines and potential damage to Company reputation.

Relationships with healthcare professionals
The Company seeks to maintain effective and ethical working relationships with physicians and medical personnel who assist in the research and development of new products or improvements to our existing product range or in product training and medical education. If we are unable to maintain these relationships our ability to meet the demands of our customers could be diminished and our revenue and profit could be materially adversely affected.

Reliance on sophisticated information technology
The Company uses a wide variety of information systems, programmes and technology to manage our business. The Company also develops and sells certain products that are or will be digitally enabled including connection to networks and/or the internet. Our systems and the systems of the entities we acquire are vulnerable to a cyber attack, theft of intellectual property, malicious intrusion, loss of data privacy or other significant disruption. Our systems have been and will continue to be the target of such threats. Cybersecurity is a multifaceted discipline covering people, process and technology. It is also an area where more can always be done; it is a continually evolving practice. We have a layered security approach in place to prevent, detect and respond, in order to minimise the risk and disruption of these intrusions and to monitor our systems on an ongoing basis for current or potential threats. There can be no assurance that these measures will prove effective in protecting Smith+Nephew from future interruptions and as a result the performance of the Company could be materially adversely affected.

S.172 Companies Act 2006 Statement
At Group level, Smith+Nephew's key stakeholders have been identified and their interests taken into consideration, in accordance with the Directors' section 172 duties of the Companies Act 2006 and the UK Corporate Governance Code 2018. This is noted in detail on pages 112 to 115 within Smith & Nephew plc's Annual Report and Accounts for the year ended 31 December 2022. As the Company forms part of the Group, the framework adopted by the ultimate parent has been disseminated and applied by the subsidiary Company. Beyond this, Smith+Nephew's Subsidiary Corporate Governance Code, adopted by the Company, provides an additional codified framework for the Directors to work within to promote the success of the Company whilst having regard to its stakeholders. The relevant issues, factors and stakeholders, with whom the Directors have had regard to during the year, are reported in detail on pages 8 to 12.

On behalf of the Board

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H. Barraclough
Director
Date: 7 September 2023

T.J.SMITH AND NEPHEW,LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present their annual report and financial statements for the year ended 31 December 2022.

Principal activities
The principal activity of the Company is the design, development, manufacture and sale of advanced medical devices.

Results and dividends
The results for the year are set out on page 18. The Directors have not declared or paid any dividends for the year ended 31 December 2022 (2021: £nil).

Directors
The Directors who held office during the year and up to the date of signature of the financial statements were as follows:

S.M. Swabey	(Resigned 1 April 2022)
I.C. Melling	(Resigned 27 May 2022)
S.C.C. Tarry	
J.R. Mackinnon	
H Barraclough	(Appointed 1 April 2022)
A. Smith	(Appointed 27 May 2022)

Indemnity
The Company's ultimate parent company, Smith & Nephew plc, has made qualifying third party indemnity provision for the benefit of the Company's Directors which were in place throughout the year and which remain in place at the date of approval of this report.

Political donations
No political contributions were made during the year (2021: £nil).

Stakeholders and Employee Engagement
The Board is aware of the overlap between the Group's key stakeholders and the Company's key stakeholders. Given the Company forms part of the Group, the Board acknowledges their duties to the Company and the Group as a whole. It is felt that the actions driven from Smith & Nephew plc for the Group and its approach to certain stakeholders in particular are relevant and therefore should and have been adopted by the Company. The principal stakeholders identified by the Group and Directors and the decisions made with regard for them are discussed in turn below.

Customers and suppliers
The Company’s customers and suppliers are seen as principal stakeholders and integral to the success of the Company and achieving its purpose, aligned with that of the Group, which was defined during 2019 as ‘Life Unlimited’. Customers and suppliers of the Company are not limited to but include other companies within the Smith+Nephew Group.

The Company's current policy concerning the payment of trade creditors is to follow the Prompt Payment Code (PPC).

During 2022, the Board formally considered the Company’s Payment Practices on a number of occasions and within the year, upon review of the data, noted that the Company had continued to remain in compliance with the PPC by meeting and exceeding the threshold of 90% of invoices being paid within 60 days.

The Board continues to keep this under review and the Company’s supplier payment practices data is published every six months in accordance with UK law.

Government and Regulators
The Company operates in a heavily regulated industry and it is imperative to the Company that it continues to act within the scope of all applicable laws and regulations which govern its business and operations.

The Directors and employees of the Company are subject to a comprehensive suite of mandatory trainings throughout the year including the Group’s Code of Conduct and Business Principles, which sets out the legal and ethical principles for the Company in conducting business. The Company also has various tools available to employees and others to raise concerns including a whistle blowing policy and confidential hotline, which enables both employees and third parties to anonymously report any concerns.

During the year, the Board addressed a number of Governance matters. Company specific training was also provided to the Directors, where applicable, to keep them informed and their knowledge up to date on regulatory matters and requirements, for example in respect of Guidelines on Good Distribution Practice as referred to earlier.

Employees

The workforce is defined as ‘Employees’ of the Company. This group is regarded as key and integral stakeholders. We are proud of our employees and in turn want them to be proud of working for the Company. This can only be achieved by having regard to their voice.

Live global Group employee webcasts led by the Group’s Chief Executive Officer and members of the Executive Committee are held. These are open to the Group as a whole including the Company’s employees and take the form of a presentation, providing an update on financial performance, company strategy and non-financial matters, projects or developments of note for the Group, followed by a Q&A session. This supports and enhances employee's awareness of the financial and economic factors affecting the Group and the Company’s performance.

These forums provide employees with a greater understanding not only of the Group’s performance and strategy and the role they play but also serve as an opportunity to interact in an open and informal setting with senior leadership, enabling them to voice their questions and concerns. During the year, much of the focus at these forums included the flexible working framework; information on mental health; leadership and development initiatives and the recently announced 12-point plan.

Further to this, on a Group level, feedback is gathered more formally on an annual basis through a third-party independent employee engagement survey (Gallup). In 2022, the Group saw a strong response rate of 88% and an overall engagement score of 4.12, which is a slight increase from last year of 4.08, putting the Group in the 73rd percentile of Gallup’s database. The survey highlighted overall strengths in employee connection to the Group’s purpose and culture and the feeling that opinions count.

Both employees and Directors have benefited from the insights shared during the webcasts, Town Halls and annual surveys. In particular, the webcasts and Town Halls are discussed and noted by the Directors. These initiatives enable the Directors to consider and note the key issues and interests of employees to be able to have regard to them when making principle decisions on behalf of the Company.

During the year, other employee related items such as the Modern Slavery Statement were considered and adopted by the Board, whilst the Directors had regard to employees interests. In accordance with S.54 of the Modern Slavery Act, the Company's statement on Modern Slavery for the year ended 31 December 2022 is available on the Group's website at www.smith-nephew.com.

We support our own employees’ wellbeing by ensuring their work environment is healthy and safe, and by continuing to build employee wellness programmes that enable healthy life choices.

The Company’s Gender Pay reporting was also considered by the Company and published externally. The Board acknowledges that the ratio is higher than it would want and requires improvement. A number of initiatives are underway by the Group, including for the Company to improve the ratio.

At Group level, we operate two all-employee share plan arrangements depending on the most appropriate arrangement for different geographies. Participation in these Plans (ShareSave Plan for the Company's employees) is encouraged to involve employees in the Group's Performance.

The Company operates in a heavily regulated industry and it is imperative to the Company that it continues to act within the scope of all applicable laws and regulations which govern its business and operations.

The Directors and employees of the Company are subject to a comprehensive suite of mandatory trainings throughout the year including the Group’s Code of Conduct and Business Principles, which sets out the legal and ethical principles for the Company in conducting business. The Company also has various tools available to employees and others to raise concerns including a whistle blowing policy and confidential hotline, which enables both employees and third parties to anonymously report any concerns.

During the year, the Board addressed a number of Governance matters. Company specific training was also provided to the Directors, where applicable, to keep them informed and their knowledge up to date on regulatory matters and requirements, for example in respect of Guidelines on Good Distribution Practice as referred to earlier.

Diversity

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

We recruit, employ and promote employees on the sole basis of the qualifications and abilities needed for the work to be performed. We do not tolerate discrimination on any grounds and provide equal opportunity based on merit. We do not use any form of force, compulsory or child labour. We support the Universal Declaration of Human Rights of the United Nations. This means we respect human rights, dignity and privacy of the individual and the right of employees to freedom of association and freedom of expression and the right to be heard.

Future developments

We believe that our strategy of market led innovation and high customer service levels will position us to achieve above market growth in the future.

Notwithstanding the challenging economic environment and uncertainties, our success in continuing to develop innovative products and deliver our Earnings Improvement Programme in conjunction with maintaining tight cost discipline gives us confidence in our ability to deliver a good outcome for 2023.

Post balance sheet events

On 13 June 2023, the trustees of the Smith & Nephew UK Fund concluded a full buy-in of the UK Defined Benefit Fund. The transaction resulted in a £46m loss being recognised in Other comprehensive income with nil cash impact.

Going Concern

Notwithstanding the current ongoing economic uncertainties, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:

Smith & Nephew plc has also indicated its intention to continue to make available funds as needed by the Company for a period of twelve months from the date of approval of the financial statements. Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Auditor

KPMG LLP has agreed to remain in office in accordance with section 487(2) of the Companies Act 2006.

Statement of disclosure to Auditor

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

On behalf of the Board

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H. Barraclough
Director

Date: 7 September 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF T.J.SMITH AND NEPHEW,LIMITED

Opinion

We have audited the financial statements of T.J.Smith and Nephew,Limited ("the Company") for the year ended 31 December 2022 which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Context of the ability of the audit to detect fraud or breaches of law or regulation

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors as to the Company’s high-level policies and procedures to prevent and detect fraud, including the Company’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management/ directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as provision for inventory impairment and pension assumptions. On this audit we do not believe there is a fraud risk related to revenue recognition because the majority of sales are made to other entities within the Group which provides limited opportunity as the related debtors and creditors are reconciled on a monthly basis and there is no motivation to inflate sales to other Group entities as this would have a £nil impact on the Group as a whole. In addition, the accounting for the majority of the company’s sales outside the Group is non-complex, and subject to limited levels of judgment with limited opportunities for manual intervention in the sales process to fraudulently manipulate revenue. There is also a short time period between order and delivery.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Company-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and Directors' report

The Directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities
As explained more fully in their statement set out on page 13, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Nicholas Willis

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Nicholas Willis (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
United Kingdom
E14 5GL

Date: 8 September 2023

T.J.SMITH AND NEPHEW,LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £000	2021 £000
Turnover	**3**	564,215	503,213
Cost of sales		(321,569)	(299,143)
Gross profit		242,646	204,070
Research and development costs		(31,015)	(32,329)
Marketing, selling and distribution costs		(71,980)	(66,011)
Administrative expenses		(25,741)	(18,822)
Other operating expenses		(23,038)	(22,825)
Other non-trading costs and charges	**4**	(25,731)	(11,419)
Operating profit	**5**	65,141	52,664
Interest receivable and similar income	**8**	466	-
Interest payable and similar expenses	**9**	(960)	(42)
Profit before taxation		64,647	52,622
Tax on profit	**10**	(5,836)	(1,334)
Profit for the financial year		58,811	51,288

The results presented above are generated from continuing operations.

The notes on pages 22 to 48 form an integral part of these financial statements.

T.J.SMITH AND NEPHEW,LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 £000	2021 £000
Profit for the year		58,811	51,288
Other comprehensive income / (loss)			
Actuarial (loss)/gain on defined benefit pension schemes	20	(6,530)	37,114
Fair value (loss)/gain of cash flow hedges		(7,746)	8,791
Cash flow hedges loss/(gain) reclassified to profit or loss		3,220	(6,998)
Tax (charge)/credit relating to other comprehensive income	10	1,977	(12,762)
Other comprehensive (loss) / income for the year		(9,079)	26,145
Total comprehensive income for the year		49,732	77,433

The notes on pages 22 to 48 form an integral part of these financial statements.

T.J.SMITH AND NEPHEW,LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2022

	Notes	2022 £000	2022 £000	2021 £000	2021 £000
Fixed assets					
Goodwill	**11**		8,836		9,580
Other intangible assets	**11**		3,671		13,812
Total intangible assets			12,507		23,392
Tangible assets	**12**		102,214		105,907
Retirement benefit surplus	**20**		93,360		99,444
			208,081		228,743
Current assets					
Stocks	**13**	90,369		63,005	
Debtors	**14**	198,257		152,848	
Cash at bank and in hand		1,988		1,188	
		290,614		217,041	
Creditors: amounts falling due within one year	**15**	(174,632)		(172,083)	
Net current assets			115,982		44,958
Total assets less current liabilities			324,063		273,701
Provisions for liabilities	**18**		(3,476)		(2,463)
Deferred tax liability	**19**		(22,886)		(23,269)
Net assets			297,701		247,969
Capital and reserves					
Called up share capital	**21**		123		123
Share premium account			66,731		66,731
Hedging reserve			(2,362)		1,793
Profit and loss reserves			233,209		179,322
Total equity			297,701		247,969

The notes on pages 22 to 48 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 7 September 2023 and are signed on its behalf by:

H. Barraclough
Director
Company Registration No. 00093994

T.J.SMITH AND NEPHEW,LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital	Share premium account	Hedging reserve	Profit and loss reserves	Total
	£000	£000	£000	£000	£000
Balance at 1 January 2021	123	66,731	(201)	103,883	170,536
Year ended 31 December 2021:					
Profit for the year	-	-	-	51,288	51,288
Other comprehensive income:					
Actuarial gain on defined benefit plans	-	-	-	37,114	37,114
Net movement in fair value of cash flow hedges	-	-	1,793	-	1,793
Tax relating to other comprehensive income	-	-	201	(12,963)	(12,762)
Total comprehensive income for the year	-	-	1,994	75,439	77,433
Balance at 31 December 2021	123	66,731	1,793	179,322	247,969
Year ended 31 December 2022:					
Profit for the year	-	-	-	58,811	58,811
Other comprehensive income:					
Actuarial loss on defined benefit plans	-	-	-	(6,530)	(6,530)
Net movement in fair value of cash flow hedges	-	-	(4,526)	-	(4,526)
Tax relating to other comprehensive income	-	-	371	1,606	1,977
Total comprehensive (loss)/income for the year	-	-	(4,155)	53,887	49,732
Balance at 31 December 2022	123	66,731	(2,362)	233,209	297,701

The total distributable reserves of the Company are £230,869,000 (2021: £181,115,000).

The notes on pages 22 to 48 form an integral part of these financial statements.

1 Accounting policies

Company information

T.J.Smith and Nephew,Limited is a company limited by shares incorporated in England and Wales. The registered office is PO Box 81, 101 Hessle Road, Hull, HU3 2BN.

1.1 Accounting convention

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare Group financial statements. These financial statements present information about the Company as an individual undertaking and not about its Group.

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value.

The Company's ultimate parent undertaking, Smith & Nephew plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Smith & Nephew plc are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) effective as at 31 December 2022 and are available to the public at www.smith-nephew.com.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:
- Cash Flow Statement and related notes
- Financial instrument disclosures conferred by FRS 102.11.39-48A and FRS 102.12.26-29.

The financial statements are prepared in sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £1,000.

The financial statements have been prepared on the historical cost convention, modified to include certain financial instruments at fair value. The principal accounting policies adopted are set out below.

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Interest income/expense and net gains/losses for each category of financial instrument; basis of determining fair values; details of collateral, loan defaults or breaches, details of hedges, hedging fair value changes recognised in profit or loss and in other comprehensive income;
- Section 26 'Share based Payment': Share-based payment expense charged to profit or loss, reconciliation of opening and closing number and weighted average exercise price of share options, how the fair value of options granted was measured, measurement and carrying amount of liabilities for cash-settled share-based payments, explanation of modifications to arrangements;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of Smith & Nephew plc. The consolidated financial statements of the Group are available to the public and may be obtained from Building 5, Croxley Park, Hatters Lane, Watford, Hertfordshire, WD18 8YE or online via www.smith-nephew.com.

1 Accounting policies **(Continued)**

1.2 Going concern

Notwithstanding the ongoing economic uncertainties, the financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons:

Smith & Nephew plc has indicated its intention to continue to make available funds as needed by the Company for a period of twelve months from the date of approval of the financial statements. Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.
As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

1.3 Turnover

Turnover comprises sales of products and services supplied by the Company at amounts invoiced net of trade discounts and rebates, excluding turnover taxes.

Orthopaedics and Sports Medicine & ENT consists of the following businesses: Knee Implants, Hip Implants, Other Reconstruction, Trauma, Sports Medicine Joint Repair, Arthroscopic Enabling Technologies and ENT. Sales of inventory located at customer premises and available for customers' immediate use are recognised when notification is received that the product has been implanted or used.

Substantially all other revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on dispatch of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from contracts for the provision of professional services is recognised by reference to the stage of completion when the stage of completion, costs incurred and costs to complete can be estimated reliably. The stage of completion is calculated by comparing costs incurred, mainly in relation to contractual hourly staff rates and materials, as a proportion of total costs. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that it is probable will be recovered.

1.4 Intangible fixed assets - goodwill

Goodwill, representing the excess of purchase consideration over fair value of net assets acquired, prior to 31 December 1997 was written off direct to reserves in the year of acquisition. Goodwill acquired since 1 January 1998 is capitalised and amortised on a straight-line basis over the economic life of the business acquired not exceeding 20 years. Some goodwill is amortised over a period greater than 10 years as this reflects management's realistic expectation that the useful life of the benefits from the goodwill acquired will surpass 10 years. Goodwill previously written off to reserves is included in the calculation of profits and losses on disposals.

1 Accounting policies **(Continued)**

1.5 Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

Purchased patents, know-how, trademarks, licences (including computer software) and distribution rights are capitalised at their cost to the Company and amortised over the economic life of the asset concerned, not exceeding 20 years.

The carrying values of intangibles are reviewed for impairment at the end of the first full financial year following an acquisition and in other periods if significant events or changes in circumstances indicate the carrying value may be impaired.

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Trademarks and licences	<20 years
Software	3-7 years

Assets under construction are not amortised.

1.6 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Tangible fixed assets are stated at cost and, except for freehold land, are depreciated over their useful economic lives. Freehold and long-leasehold buildings are depreciated on a straight-line basis over lives ranging between 20 and 50 years. Short-leasehold land and buildings (leases of under 50 years) are depreciated by equal annual instalments over the term of the lease. Plant, equipment and vehicles are depreciated over lives ranging between 3 and 20 years by equal annual instalments to write down the assets to their estimated disposal value at the end of their working lives.

The useful lives and residual values of all property, plant and equipment are reviewed each financial year end, and where adjustments are required these are made prospectively.

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset’s future economic benefits.

The useful economic lives of tangible fixed assets discussed above are summarised below:

Land and buildings	20-50 years
Plant, equipment & vehicles	3-20 years

Assets under construction and freehold land are not depreciated.
The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1 Accounting policies **(Continued)**

1.7 Impairment of fixed assets

At each reporting end date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

1.8 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition.

Stocks held for distribution at no or nominal consideration are measured at cost, adjusted where applicable for any loss of service potential.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

A feature of the orthopaedic business is the high level of product inventory required, some of which is located at customer premises and is available for customers' immediate use (referred to as consignment inventory). Complete sets of product, including large and small sizes, have to be made available in this way. These outer sizes are used less frequently than standard sizes and towards the end of the product life cycle are inevitably in excess of requirements. Adjustments to carrying value are therefore required to be made to orthopaedic inventory to anticipate this situation. These adjustments are calculated in accordance with a formula based on levels of inventory compared with historical or forecast usage. The output of this assessment is that a provision is recognised for this excess.

1.9 Cash and cash equivalents

Cash and cash equivalents are basic financial assets and include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1 Accounting policies **(Continued)**

1.10 Financial instruments

The Company has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (*International Financial Reporting Standards*, *as adopted in the EU*), the disclosure requirements of Sections 11 and 12 (FRS *102 The Financial Reporting Standard applicable in the UK and Republic of Ireland*) and the presentation requirements of paragraphs 11.38A and 12.25B of FRS 102.

Classification of financial instruments issued by the Company

In accordance with FRS 102.22, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. Transaction costs are allocated between the debt component and the equity component on the basis of their relative fair values.

Basic financial instruments

Trade and other debtors / creditors
Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments
Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in preference and ordinary shares
Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognised in profit or loss. Other investments are measured at cost less impairment in profit or loss.

1 Accounting policies **(Continued)**

1.10 Financial instruments **(Continued)**

Investments in subsidiaries
These are separate financial statements of the Company. Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits.

1.11 Taxation
The tax expense for the period comprises current and deferred tax.

Current tax
The current income tax expense is based on taxable profits of the period, after any adjustments for prior periods. It is calculated using taxation rates enacted or substantively enacted by the Balance Sheet date and is measured at the amount expected to be recovered or paid.

Deferred tax
Deferred tax is recognised in respect of all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, except where the deferred tax asset or liability arises from the initial recognition of an asset or a liability which affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is regarded as probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the period in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.12 Provisions
Provisions are recognised when the Company has a legal or constructive present obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting end date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value. When a provision in measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

1.13 Employee benefits
The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee’s services are received.

Termination benefits are recognised immediately as an expense when the Company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1 Accounting policies (Continued)

1.14 Retirement benefits

Contributions to defined contribution schemes are recognised in the profit and loss account in the period in which they become payable.

The Company is a participating employer of the Smith & Nephew UK Pension Fund (the UK Plan). Our accounting policy is to recognise this plan in full within the Company's accounts on the basis that the Company employs or employed the majority of members of this plan.

The UK Plan is a defined benefit pension scheme which is funded by the payment of contributions to, and the assets held by, separate trust funds or insurance companies. For many years, the Company's major pension plans in the UK were of the defined benefit type. These were closed to new employees in 2003 and to future accrual with effect from December 2016 and replaced by defined contribution plans. The Company also operates an unfunded post-retirement healthcare plan for certain former employees.

When a settlement or a curtailment occurs, the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the profit and loss account. Losses are measured at the date that the employer becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

Changes in the net defined benefit liability arising from employee services rendered during the period, net interest on net defined benefit liability, benefit changes, curtailments and settlements during the period are recognised in profit or loss. Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

The defined benefit pension asset or liability in the balance sheet comprises the present value of the defined benefit obligation (using a discount rate based on high-quality corporate bonds that have been rated at AA or equivalent status), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published current bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or refunds from the scheme.

1.15 Share-based payments

The Company operates a number of equity settled executive and employee share schemes. For all grants of share options and awards, the fair value as at the date of grant is calculated using option pricing models and the corresponding expense is recognised over the vesting period.

1.16 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leases asset are consumed.

1.17 Foreign exchange

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities dominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

1 Accounting policies **(Continued)**

1.18 Interest receivable and interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the Company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.19 Non-trading items

The Company classifies significant restructuring events, gains and losses arising from legal disputes, uninsured losses, acquisition and disposal related items, significant one-off items and waivers of group debtors or creditors as non-trading items where these are considered to be material to the financial statements.

2 Judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period.

Key sources of estimation uncertainty

Valuation of inventories

Adjustments to the carrying value of inventory are required to be made every period. These adjustments are calculated in accordance with a formula based on levels of inventory compared with historical usage. This formula is applied on an individual product line basis and is first applied when a product group has been on the market for two years. This method of calculation is considered appropriate based on experience, but it does require management estimate in respect of customer demand, effectiveness of inventory deployment, length of product lives and phase out of old products.

Valuation of pension liabilities

The measurement of the service cost and the liabilities involves judgements about uncertain events including the life expectancy of the members, price inflation and discount rates used to calculate the net present value of the future pension payments. We use estimates for all these uncertain events. Our assumptions reflect historical experience, external advice and our judgement regarding future expectations at the balance sheet date.

3 Turnover

Turnover is attributable to one continuing activity, the manufacture and sale of advanced medical devices.

Geographical market

	2022 £000	2021 £000
United Kingdom	151,040	137,924
Continental Europe	137,225	137,187
America	147,690	129,671
Africa, Asia, Latin America and Australasia	128,259	98,431
	564,215	503,213

4 Non-trading items

	2022 £000	2021 £000
Non-trading costs and charges	25,731	11,419

Non-trading costs in 2022 include £21,364,000 (including £2,097,000 recorded in cost of sales) of restructuring and rationalisation costs associated with the Group's Operational and Commercial Excellence programme, legal expenses of £789,000 related to ongoing metal-on-metal hip claims, £623,000 relates to an increase in the provision that reflects the present value of the estimated costs to resolve all known and anticipated metal-on-metal hip claims in the UK and Ireland and £5,435,000 of costs incurred in relation to the update of technical documentation and processes to meet the requirements of the new European Union Medical Devices Regulations (EU MDR), of which £624,000 is recorded in cost of sales. The remaining non-trading costs related to other non-recurring costs.

Non-trading costs in 2021 include £6,814,000 (including £2,206,000 recorded in cost of sales) of restructuring and rationalisation costs associated with the Group's Accelerating Performance and Execution (APEX) programme and Operational and Commercial Excellence programme, legal expenses of £887,000 related to ongoing metal-on-metal hip claims, £502,000 relates to an increase in the provision that reflects the present value of the estimated costs to resolve all known and anticipated metal-on-metal hip claims in the UK and Ireland and £7,802,000 of costs incurred in relation to the update of technical documentation and processes to meet the requirements of the new European Union Medical Devices Regulations (EU MDR), of which £2,471,000 is recorded in cost of sales. The remaining non-trading costs related to other non-recurring costs.

5 Operating profit

Operating profit for the year is stated after charging/(crediting):	2022 £000	2021 £000
Exchange gains	(2,126)	(3,824)
Research and development costs	31,015	32,329
Depreciation of owned tangible fixed assets	14,446	14,859
Impairment of owned tangible fixed assets	15,796	-
Amortisation of intangible assets	1,528	5,993
Impairment of intangible assets	-	1,853
Operating lease rentals	1,817	1,729
Fees payable to the Company's auditor for the audit of the Company's annual accounts	337	315

6 Employees

The average monthly number of persons (including one director) employed by the Company during the year was:

	2022	2021
Production	596	564
Marketing, selling and distribution	401	408
Administration	116	122
Research and development	330	340
	1,443	1,434

Their aggregate remuneration comprised:

	2022 £000	2021 £000
Wages and salaries	76,480	70,961
Social security costs	9,310	8,966
Pension costs	7,764	7,618
Share based payments	3,464	3,283
	97,018	90,828

Pension costs in 2022 are comprised of £7,764,000 in relation to defined contribution schemes. Net income associated with defined benefit schemes totals £351,000 and is comprised of net interest income and adminstration costs, which have been excluded above. See note 22 for further details.

7 Directors' remuneration

	2022 £000	2021 £000
Aggregate remuneration in respect of qualifying services	563	481
Aggregate remuneration in respect of the highest paid director	563	481

The remaining Directors are remunerated via fellow Group undertakings.

8 Interest receivable and similar income

	2022 £000	2021 £000
Interest income		
Interest on bank deposits	20	-
Other interest income	446	-
Total income	466	-

9 Interest payable and similar expenses

	2022 £000	2021 £000
Interest payable to group undertakings	830	-
Other finance costs	130	42
	960	42

10 Income tax expense

	2022 £000	2021 £000
Current tax		
Current year taxation	2,439	950
Adjustments in respect of prior periods	1,803	818
Total current tax charge	4,242	1,768
Deferred tax		
Current year taxation	1,992	3,513
Impact of tax rate adjustment	353	(147)
Adjustments in respect of prior periods	(751)	(3,800)
Total deferred tax charge / (credit)	1,594	(434)
Tax charge in income statement	5,836	1,334

10 Income tax expense **(Continued)**

The actual charge for the year can be reconciled to the expected charge for the year based on the profit per the profit or loss account and the standard rate of tax as follows:

	2022 £000	2021 £000
Profit before taxation	64,647	52,622
Expected tax charge based on a corporation tax rate of 19% (2021: 19%)	12,287	9,998
Non-deductible items	3,479	358
Adjustments in respect of prior years	1,052	(2,982)
Impact of changes in tax rate	353	(147)
Effect of group relief/other reliefs	(11,313)	(5,601)
Deemed expense for tax purposes	(22)	(292)
Total tax charge	5,836	1,334

For the year ended 31 December 2022, the corporation tax rate was 19% (2021: 19%).

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2022 £000	2021 £000
Deferred tax in respect of hedging and derivative contacts	(371)	(201)
Tax on defined benefit plans	(1,606)	12,963
Total tax recognised in other comprehensive income	(1,977)	12,762

11 Intangible fixed assets

	Goodwill	Trademarks and licences	Software	Assets under construction	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost					
At 1 January 2022	141,034	19,971	19,332	10,994	191,331
Additions	-	-	916	6,892	7,808
Disposals	-	-	(4,134)	(13,799)	(17,933)
Transfers	-	-	1,429	(1,189)	240
At 31 December 2022	141,034	19,971	17,543	2,898	181,446
Amortisation and impairment					
At 1 January 2022	131,454	19,776	16,709	-	167,939
Amortisation charged for the year	744	175	609	-	1,528
Disposals	-	-	(528)	-	(528)
At 31 December 2022	132,198	19,951	16,790	-	168,939
Carrying amount					
At 31 December 2022	8,836	20	753	2,898	12,507
At 31 December 2021	9,580	195	2,623	10,994	23,392

Impairment for 2022 of £Nil (2021: £1,853,000) is for product related intangibles.

The disposals include the transfer of £17,335,000 to another group entity resulting in no gain or loss on disposal.

12 Tangible fixed assets

	Land and buildings	Assets under construction	Plant, equipment & vehicles	Total
	£000	£000	£000	£000
Cost				
At 1 January 2022	44,290	30,282	200,350	274,922
Additions	-	23,242	3,842	27,084
Disposals	-	(399)	(3,131)	(3,530)
Transfer from assets under construction	-	(6,009)	6,009	-
At 31 December 2022	44,290	47,116	207,070	298,476
Depreciation and impairment				
At 1 January 2022	20,380	-	148,635	169,015
Depreciation charged in the year	2,098	-	12,348	14,446
Impairment	7,625	2,149	6,022	15,796
Eliminated in respect of disposals	-	-	(2,995)	(2,995)
At 31 December 2022	30,103	2,149	164,010	196,262
Carrying amount				
At 31 December 2022	14,187	44,967	43,060	102,214
At 31 December 2021	23,910	30,282	51,715	105,907

13 Stocks

	2022	2021
	£000	£000
Raw materials and consumables	11,060	10,791
Work in progress	14,860	6,877
Finished goods and goods for resale	64,449	45,337
	90,369	63,005

Reserves for excess and obsolete inventories were £18,237,000 (2021: £17,965,000).

The cost of stocks recognised as an expense and included in cost of sales amounted to £320,601,000 (2021: £278,919,000). In addition write downs of inventories recognised as an expense in cost of sales amounted to £2,390,000 (2021: £2,450,000).

No inventory is carried at fair value less cost to sell in either 2022 or 2021.

14 Debtors

Amounts falling due within one year:	2022 £000	2021 £000
Trade debtors	28,693	24,142
Corporation tax recoverable	-	2,264
Amounts due from fellow group undertakings	157,839	117,129
Derivative financial instruments	5,489	5,632
Other debtors	2,899	875
Prepayments and accrued income	3,337	2,806
	198,257	152,848

Trade debtors disclosed above are measured at amortised cost.

Amounts due from fellow group undertakings are repayable on demand and bear no interest.

15 Creditors: amounts falling due within one year

	Notes	2022 £000	2021 £000
Loans and overdrafts	17	-	1,000
Trade creditors		3,408	5,861
Amounts due to fellow group undertakings		116,558	111,942
Corporation tax payable		814	-
Derivative financial instruments		10,175	2,784
Other creditors		11,271	17,032
Accruals and deferred income		32,406	33,464
		174,632	172,083

Amounts due to fellow group undertakings are repayable on demand and bear no interest.

16 Creditors: amounts falling due after more than one year

	2022 £000	2021 £000
Deferred tax liability	22,886	23,269

17 Loans and overdrafts

	2022 £000	2021 £000
Bank overdrafts - payable within one year	-	1,000

18 Provisions for liabilities

	Metal-on-metal £000	Restructuring £000	Total £000
At 1 January 2022	2,463	-	2,463
Net charge to income statement	623	390	1,013
At 31 December 2022	3,086	390	3,476

During the year ended 31 December 2022, £390,000 expensed related to restructuring charges incurred in relation to the Group's Operational & Commercial Excellence programme. The estimated value of the metal-on-metal provision has been updated and determined using an actuarial model. This resulted in a increase to the residual provision of £623,000. The provision of £3,086,000 at 31 December 2022 represents the estimated costs to resolve all known and anticipated metal-on-metal hip claims in the UK and Republic of Ireland. Given the inherent uncertainty in assumptions relating to factors such as the number of claims and outcome the actual costs may differ from this estimate.

The legal obligation in relation to metal-on-metal is that of Smith & Nephew Orthopaedics Limited, who has been indemnified of financial responsibility in this regard by the Company.

19 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company in the current and prior reporting period:

Balances:	Liabilities 2022 £000	Liabilities 2021 £000	Assets 2022 £000	Assets 2021 £000
Accelerated capital allowances	2,816	410	-	-
Pensions	23,112	24,632	-	-
Share based payments	-	-	2,385	1,488
Hedging reserve	-	-	657	285
	25,928	25,042	3,042	1,773

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so.

The UK Government announced on 14 October 2022 that the UK corporation tax rate will increase to 25% from 1 April 2023 as already enacted in the UK Finance Act 2021. The impact of this rate change is reflected in the calculation of the taxation charge and the deferred tax liability.

20 Retirement benefit schemes

Defined contribution schemes

The Company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in an independently administered fund.

The charge to profit and loss in respect of defined contribution plans was £7,763,801 (2021: £7,618,000).

Defined benefit schemes

Funded plans are funded by the payment of contributions to, and the assets held by, separate trust funds or insurance companies. Employees' retirement benefits are the subject of regular management review. For many years, the Company's major pension plans in the UK were of the defined benefit type. These were closed to new employees in 2003 and replaced by defined contribution plans. In December 2016 the UK defined benefit scheme was closed to future accrual.

Post-closure to further accrual, the level of entitlement is dependent on the years of service of the employee at the time of closure.

The Company is a participating employer in the Smith & Nephew Executive Pension Scheme, responsibility for the funding of this plan was transferred from Smith & Nephew plc to Smith & Nephew UK Limited in January 2006.

The UK Plan operates under trust law and responsibility for its governance lies with a Board of Trustees. This Board is composed of representatives of the Group, plan participants and an independent trustee, who act on behalf of members in accordance with the terms of the Trust Deed and Rules and relevant legislation. The UK Plan's assets are held by the Trust. Annual increases on benefits in payment are dependent on inflation. There is no legislative minimum funding requirement in the UK, however the it has agreed with the Board of Trustees to pay a schedule of supplementary payments. The Trust Deed of the UK Plan states that any surplus is ultimately accessible by the company as a refund. Furthermore, in the ordinary course of business, the UK trustees have no rights to unilaterally wind up, or otherwise augment the benefits due to members of the plans. Based on these rights, any net surplus in the UK Plan is recognised in full.

Valuation

A full valuation is performed by actuaries for the Trustees to determine the level of funding required. Employer contributions rates, based on these full valuations, are agreed between the Trustees of each plan and the Company. The assumptions used in the funding actuarial valuations may differ from those assumptions disclosed below.

The most recent full actuarial valuation of the UK Plan was undertaken at 30 September 2020. Contributions to the UK Plan in 2022 were £Nil (2021: £7m). This included supplementary payments of Nil (2021: £5m).

20 Retirement benefit schemes **(Continued)**

Key assumptions

	2022 %	2021 %
Discount rate	4.8	1.9
Expected rate of increase of pensions in payment	2.3	3.4
Expected rate of salary increases	N/A	N/A
Expected rate of price inflation	3.3	3.4

The average duration of the scheme liabilities is 14.3 years (2021: 18.2 years).

A 50bps increase/decrease in the discount rate would decrease/increase the scheme liabilities by £24m/£26m. A 50bps increase/decrease in the pension increase rate would bear no impact on the scheme liabilities. A 50bps increase/decrease in the rate of salary increases would bear no impact on the scheme liabilities. A 50bps increase/decrease in the rate inflation would increase/decrease the schemes liabilities by £24m/£22m.

Mortality assumptions

The assumed life expectations on retirement at age 60 are:

	2022 Years	2021 Years
Retiring today		
- Males	27.5	27.5
- Females	30.1	30.1
Retiring in 20 years		
- Males	28.9	28.9
- Females	31.5	31.5

A 1 year increase/decrease in assumed life expectations, on retirement at age 60, would increase/decrease the scheme liabilities by £14m/£14m.

Amounts recognised in the profit and loss account

	2022 £000	2021 £000
Net interest on defined benefit liability/(asset)	(2,000)	(800)
Administration costs and taxes	1,600	900
Total (income) / costs	(400)	100

Costs of £49,000 have been recognised in the income statement in relation to the retirement healthcare plan.

20 Retirement benefit schemes (Continued)

Amounts taken to other comprehensive income

	2022 £000	2021 £000
Actual return on scheme assets	(221,300)	20,900
Less: calculated interest element	(13,200)	(9,000)
Return on scheme assets excluding interest income	(234,500)	11,900
Actuarial changes related to obligations	227,231	24,917
Actuarial (losses) / gains	(7,269)	36,817

The retirement healthcare plan recognised a net actuarial loss of £739,000 in 2022 (2021: gain £297,000), of which a £240,000 (2021: £266,000) loss was relating to experience, £nil (2021: £nil) relating to demographic and £499,000 (2021: gain £31,000) loss was relating to a change in financial assumptions.

The amounts included in the balance sheet arising from the Company's obligations in respect of defined benefit plans are as follows:

	2022 £000	2021 £000
Present value of defined benefit obligations	362,906	605,937
Fair value of plan assets	(458,100)	(708,000)
Surplus in scheme	(95,194)	(102,063)
Retirement healthcare plan liability	1,834	2,619
Total asset recognised	(93,360)	(99,444)

Movements in the present value of defined benefit obligations

	2022 £000	2021 £000
Liabilities at 1 January	605,937	645,254
Administration costs and taxes	1,600	900
Benefits paid	(28,600)	(23,500)
Actuarial losses / (gains) due to experience assumption changes	21,463	(3,054)
Actuarial losses / (gains) due to demographic assumption changes	(100)	(5,400)
Actuarial losses / (gains) due to financial assumption changes	(248,594)	(16,463)
Interest cost	11,200	8,200
At 31 December	362,906	605,937

20 Retirement benefit schemes (Continued)

The defined benefit obligations arise from plans funded as follows:

	2022 £000	2021 £000
Wholly unfunded obligations	1,834	2,619
Wholly or partly funded obligations	362,906	605,937
	364,740	608,556

Movements in the fair value of plan assets

	2022 £000	2021 £000
Fair value of assets at 1 January	708,000	705,600
Interest income	13,200	9,000
Return on plan assets losses / (gain)(excluding amounts included in net interest)	(234,500)	11,900
Benefits paid	(28,600)	(23,500)
Contributions by the employer	-	5,000
At 31 December	458,100	708,000

Fair value of plan assets at the reporting period end

	2022 £000	2021 £000
Debt instruments	137,000	196,400
Insurance contract	129,400	172,300
Other quoted securities	2,800	61,900
Other	188,900	277,400
	458,100	708,000

The plan assets do not include any of the entity’s own financial instruments or any property, or other assets, which are used by the entity.

The plan assets include liability matching assets and annuity policies purchased by the trustees, which aim to match the benefits to be paid to certain members from the plan and therefore remove the investment, inflation and demographic risks in relation to those liabilities. The terms of the policy define that the contract value exactly matches the amount and timing of the pensioner obligations covered by the contract. In accordance with IAS19R *Employee Benefits*, the fair value of the insurance contract is deemed to be the present value of the related obligations which is discounted at the AA corporate bond rate.

21 Share capital

	2022 £000	2021 £000
Ordinary share capital		
Issued and fully paid		
122,539 ordinary shares of £1 each (2021: 122,539 shares of £1 each)	123	123

22 Share-based payment transactions

Employee plans

The Smith & Nephew Sharesave Plan (2012) (adopted by shareholders on 12 April 2012) (the Save As You Earn (SAYE) plan) and the Smith & Nephew Sharesave Plan (2022) (the Save As You Earn ("SAYE 2022") plan) (adopted by shareholders on 13 April 2022) are available to all employees in the UK employed by participating group companies, subject to three months service. The plan enable employees to save up to £500 per month from 2015 onwards and give them an option to acquire shares based on the committed amount to be saved. The option price is not less than 80% of the average of middle market quotations of the ordinary shares of Smith and Nephew plc on the three dealing days preceding the date of invitation.

Executive plans

The Smith & Nephew Global Share Plan 2010 (adopted by shareholders on 6 May 2010) and the Smith & Nephew Global Share Plan 2020 (adopted by shareholders on 9 April 2020) are together termed the 'Executive Plans'.

Under the terms of the Executive Plans, the Remuneration Committee, consisting of Non-Executive Directors of Smith & Nephew plc, may at their discretion approve the grant of options to employees of the Group to acquire ordinary shares in the parent company.

For the Global Share Plan adopted in 2010 and 2020 the market value is the closing price of an ordinary share on the last trading day prior to the grant date.

The Global Share Plan 2010 and the Global Share Plan 2020 are open to employees globally.

The maximum term of options granted, under all plans, is 10 years from the date of grant. All share option plans are settled in shares.

From 2012 onwards senior executives were granted share awards instead of share options and from 2013 executives were granted conditional share awards instead of share options. The awards vest 33.3% after one year, 66.7% after two years and the remaining balance after the third year subject to continued employment. There are no performance conditions for executives. Vesting for senior executives is subject to personal performance levels. The market value used to calculate the number of awards is the closing price of an ordinary share on the last day prior to the grant date.

The expense charged to the profit and loss account in respect of share-based payments is £3,464,000 (2021: £3,283,000). Share based payments are paid by the ultimate parent company, Smith & Nephew plc, and then recharged to the Company.

22 Share-based payment transactions **(Continued)**

At 31 December 2022, 1,430,000 (2021: 1,226,000) options were outstanding under share option plans as follows:

	Number of options (Thousand)	Range of exercise price (Pence)	Weighted average exercise price (Pence)
Employee schemes:			
Outstanding at 1 January 2021	1,086	949.0 - 1541.0	1224.6
Granted	423	1110.0	1110.0
Forfeited	(164)	1092.0 - 1541.0	1312.3
Exercised	(279)	949.0 - 1541.0	1083.7
Outstanding at 31 December 2021	1,066	1026 - 1541.0	1198.4
Granted	830	843.0	843.0
Forfeited	(579)	1092.0 - 1541.0	1196.7
Exercised	(54)	1026.0 - 1235.0	1091.1
Outstanding at 31 December 2022	1,263	843.0 - 1541.0	970.1
Options exerciseable:			
31 December 2022	80	1026.0 - 1541.0	1398.6
31 December 2021	50	1026.0 - 1097.0	1087.5
Executive schemes:			
Outstanding at 1 January 2021	23	599.0 - 650.0	640.2
Transfers out	(5)	599.0 - 650.0	639.8
Exercised	(6)	599.0 - 599.0	599.0
Outstanding at 31 December 2021	12	650.0 - 650.0	650.0
Exercised	(12)	650.0 - 650.0	650.0
Outstanding at 31 December 2022	-	0.0 - 0.0	-

22 Share-based payment transactions **(Continued)**

Options exerciseable:			
31 December 2022	-	0.0 - 0.0	-
31 December 2021	12	650.0 - 650.0	650.0

22 Share-based payment transactions **(Continued)**

	Employee		Executive	
	2022	**2021**	**2022**	**2021**
Weighted average remaining contractual life of options outstanding	3.3	2.9	0	0.6
Weighted average remaining contractual life of options exerciseable	0.3	0.3	0	0.6

Options granted during the year were as follows:

	Options granted (Thousand)	Weighted average fair value per option at grant date (Pence)	Weighted average share price at grant (Pence)	Weighted average exercise price (Pence)	Weighted average options life (Years)
Employee schemes	951	350.24	1093	843	4.30

Weighted average fair value of options granted under employee plans during 2022 was 350.24p.

Options granted under employee plans are valued using the Black-Scholes option model as management considered that options granted under these plans are exercised within a short period of time after the vesting date.

For all plans the inputs to the option pricing models are reassessed for each grant. The following assumptions were used in calculating the fair value of options granted:

	Employee schemes			Executive schemes		
	2022	**2021**	**2020**	**2022**	**2021**	**2020**
			(%, except expected life in years)			
Dividend yield	2.0	2.0	2.0	n/a	n/a	n/a
Expected volatility (i)	25.0	25.0	25.0	n/a	n/a	n/a
Risk-free interest rate (ii)	4.3	2.7	1.9	n/a	n/a	n/a
Expected life in years	4.3	4.1	4.1	n/a	n/a	n/a

(i) Volatility is assessed on a historic basis primarily based on past share price movements over the expected life of the options.
(ii) The risk-free interest rate reflects the yields available on zero coupon government bonds over the option term and currency.

22 Share-based payment transactions (Continued)

Share based-payments - long-term incentive plans

In 2004, a share-based incentive plan was introduced for Executive Directors, Executive Officers and the next level of Senior Executives. The plan included a Performance Share Plan (PSP) and a Bonus Co-Investment Plan (CIP).

Vesting of the PSP awards are dependent upon performance relative to the FTSE 100 and an index based on major international companies in the medical devices industry.

Under the CIP, participants could elect to use up to a maximum of one-half of their annual bonus to purchase shares. If the shares are held for three years and the group's EPSA growth targets are achieved participants receive an award of matching shares for each share purchased.

From 2009, the CIP was replaced by a Deferred Bonus Plan (DBP). This plan was designed to encourage Executives to build up and maintain a significant shareholding in the Group. Under the plan, up to one-third of any bonus earned at target level or above by an eligible employee was compulsorily deferred into shares which vested, subject to continued employment, in equal annual tranches over three years (i.e. one-third each year). No further performance conditions applied to the deferred shares.

From 2010, Performance Share awards were granted under the Global Share Plan 2010 (GSP 2010) for all Executives over than Executive Directors. Awards granted under both plans are combined to provide the figures below.

From 2012, Deferred Bonus Plan and GSP 2010 options for Executive Directors, Executive Officers and the next level of Senior Executives were replaced by the Equity Incentive Awards ("EIA"). EIA are designed to encourage Executives to build up and maintain a significant shareholding in the Group. EIA will vest, in equal annual tranches over three years (i.e. one third each year), subject to continued employment and personal performance. No further performance conditions apply to the EIA.

The fair values of awards granted under long-term incentive plans are calculated using a binomial model. Performance Share awards under both the PSP and Global Share Plan 2010 contain vesting conditions based on TSR versus a comparator group which represent market-based performance conditions for valuation purposes and an assessment of vesting probability is therefore factored into the award date calculations. The assumptions include the volatilities for the comparator groups. A correlation of 35% (2014: 40%, 2013: 40%) has been assumed for the companies in the medical devices sector as they are impacted by similar factors. The Performance Target for the Global Share Plan 2010 is a combination of free cash flow growth, revenue in emerging and international markets and the Group's TSR performance over the three-year performance period.

22 Share-based payment transactions (Continued)

At 31 December 2022 the maximum number of shares that could be awarded under the Group's long-term incentive plans were:

(Numbers of shares in thousands)	Other awards	PSP	EIA	Total
Outstanding at 1 January 2021	146	187	66	399
Awarded	83	14	28	125
Vested	(60)	(6)	(14)	(80)
Lapsed	(50)	(60)	(32)	(142)
Transfers	(25)	(97)	(34)	(156)
Outstanding at 31 December 2021	94	38	14	146
Awarded	67	27	-	94
Vested	(46)	-	(3)	(49)
Lapse	(7)	(12)	(6)	(25)
Transfers				
Outstanding at 31 December 2022	108	53	5	166

The weighted average remaining contractual life of awards outstanding at 31 December 2022 was 1.7 years (2021: 1.4 years) for the PSP, 0.7 years for the EIA (2021: 0.9) and 1.3 years for the other awards (2021 – 1.3).

23 Financial commitments, guarantees and contingent liabilities

The Company, together with Smith & Nephew plc and certain fellow subsidiary undertakings, has entered into guarantees with the National Westminister Bank plc and HSBC Bank plc. The arrangement with National Westminister Bank is in respect of the net overdrafts of the other parties to the guarantee. The maximum exposure under this guarantee amounts to £10,000,000 (2021: £10,000,000). The arrangement with HSBC Bank plc is in respect of gross overdrafts in the guarantee. The maximum exposure under this guarantee is £41,485,000 ($50,000,000) (2021: £37,025,000).

24 Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	Land and Buildings		Other	
	2022	2021	2022	2021
	£000	£000	£000	£000
Within one year	411	411	1,248	1,271
Between two and five years inclusive	1,019	1,286	1,375	1,351
In over five years	389	574	-	-
	1,819	2,271	2,623	2,622

During the year £1,817,000 was recognised as an expense in the profit and loss account in respect of operating leases (2021: £1,729,000).

25 Related party transactions

The companies has taken advantage of the exemption conferred by FRS102 paragraph 33.1A in not disclosing details of transactions with fellow Group undertakings. Amounts due from and to fellow Group undertakings are disclosed in notes 14 and 15 respectively.

26 Ultimate parent company & parent company of larger group

The Company is a subsidiary undertaking of Smith & Nephew Trading Group Limited (122,538 shares, equivalent to 99.999%) and Smith & Nephew Nominee Services Limited (1 share, equivalent to 0.001%), which are the immediate parent companies incorporated in England and Wales. The ultimate parent undertaking of the Company is Smith & Nephew plc. The smallest and largest group in which the results of the Company are consolidated is that headed by Smith & Nephew plc. The consolidated financial statements of the Group are available to the public and may be obtained from Building 5, Croxley Park, Hatters Lane, Watford, Hertfordshire, WD18 8YE or online via www.smith-nephew.com.

27 Subsidiaries and other undertakings

Details of the company's subsidiaries and other undertakings at 31 December 2022 are as follows:

Name of undertaking	Country of incorporation	Registered Office	Class of Shareholding	% of ownership
Michelson Diagnostics Ltd	United Kingdom	Ground Floor, Eclipse House Eclipse Park, Sittingbourne Road, Maidstone, Kent, ME14 3EN	ordinary shares	6.40

28 Post balance sheet events

On 13 June 2023, the trustees concluded a full buy-in of the UK Defined Benefit Fund. The transaction resulted in a £46m loss being recognised in Other comprehensive income with nil cash impact.